

103
SBA DISASTER ASSISTANCE PROGRAMS

Y 4. SM 1: 103-60

SBA Disaster Assistance Programs, S... 1

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

WASHINGTON, DC, NOVEMBER 19, 1993

Printed for the use of the Committee on Small Business

Serial No. 103-60



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SBA DISASTER ASSISTANCE PROGRAMS

FRIDAY, NOVEMBER 19, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 10:38 a.m., in room 2359-A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The committee will come to order.

This morning our committee will conduct an oversight hearing on the U.S. Small Business Administration's Disaster Assistance Program. SBA is the Federal Government's primary source of long-term financial assistance to help individuals, businesses, and non-profit institutions recover from the effects of natural and other disasters.

The SBA Disaster Loan Program has been one of the agency's primary responsibilities since its inception in 1953. Through fiscal 1993, SBA had approved 1,133,450 disaster loans for more than \$17.8 billion. Virtually no State or possession of the United States has been without significant disaster activity at one time or another. In fiscal 1993 alone, the agency approved almost 59,000 loans for almost \$2 billion, consequent to 162 separate disaster designations.

From 1977 to 1982, this committee worked closely with SBA to restructure the agency's disaster program delivery system and personnel authorities. As a result of those efforts, since 1982, the Disaster Loan Program has been administered by a separate division in SBA, distinct from and independent of the agency's regular district and regional office structure.

Four Area Offices are responsible for all disaster field operations and for nothing else. Each office is staffed by a core group of disaster specialists with civil service standing under a special personnel authority negotiated with the Office of Personnel Management, reflecting the unusual and demanding requirements of the disaster program. This disaster cadre of approximately 200 employees is supplemented by temporary employees when and where needed. During the peak of disaster activity last year, almost 2,000 temporary employees worked side by side with SBA's disaster cadre.

Under this area-based delivery system, responsibility for SBA's disaster program is basically vested in only five individuals: An Assistant Administrator for Disaster Assistance, and four area directors who report directly to him. After more than 10 years of intensive experience, I believe that this streamlined system has proven far superior to the program's prior implementation through SBA's

more than 100 field offices which are responsible for the delivery of most other agency programs.

Today's disaster personnel are better trained and have opportunities for career advancement; policy is implemented uniformly from disaster to disaster and area to area; employees are interchangeable from office to office and highly mobile, providing great flexibility in coping with the unpredictable staffing demands inherent in the disaster program. SBA district offices and the many other SBA programs they are responsible for are no longer disrupted by disasters in their jurisdictions; and most importantly, disaster victims are better served under the delivery system now used by SBA.

With that said, I also believe that there are always ways to improve disaster program operations and services to disaster victims. This is particularly true when SBA is involved as a part of a multi-agency Federal response effort in major disasters declared by the President. Such efforts are necessarily more complex than those in which SBA responds unilaterally using its own statutory authorities.

Of the 162 instances during fiscal 1993 in which SBA's disaster programs were triggered under one of four statutory authorities, 31 were major disasters declared by the President involving a multi-agency response coordinated by the Federal Emergency Management Agency (FEMA). In such presidential disasters, SBA provides personnel to serve in on-site disaster assistance centers established by FEMA to provide disaster victims with convenient access to representatives of all agencies with disaster responsibilities.

SBA must also coordinate with FEMA on eligibility determinations for individual and family grant assistance, on flood insurance requirements, on the prevention of duplication of benefits prohibited by law, on hazard mitigation and buyout plans, on filing deadlines, and on public information.

Although the committee's legislative jurisdiction extends only to SBA's disaster program, our committee is naturally interested in how SBA's mission is affected when it is working in a multiagency effort coordinated by FEMA. Accordingly, I invited FEMA to participate in today's hearing and am pleased that its new director, James Lee Witt, agreed to my request.

I am sure that I speak for the committee in assuring him that we will continue to work closely with SBA to improve disaster services under our jurisdiction as part of the overall Federal disaster assistance effort.

I am pleased that we have with us today Mr. Bernard Kulik, SBA's Assistant Administrator for Disaster Assistance, and Mr. Richard Krimm, FEMA's Acting Associate Director for State and Local Programs. Also testifying today will be a second panel of representatives from State governments with recent major disaster activity who will share with us their experiences with the Federal response effort.

We are fortunate to have with us Brigadier General Harold M. Thompson, Deputy Adjutant General of Iowa and Mr. Jeff Mitchell, State director of the Illinois Small Business Development Center.

We had also planned to have with us witnesses representing Missouri and California, but, unfortunately, emergencies arose in both

States during the last week requiring the full attention of their disaster authorities, including new flooding in Missouri and arson legislation in California. We will include in the record written testimony submitted by these or other States.

Mrs. Meyers.

[Chairman LaFalce's statement may be found in the appendix.]

Mrs. MEYERS. I would like to say thank you for calling the hearing. This past summer, Kansas, Iowa, Missouri, Illinois, and Nebraska were devastated by massive flooding. My own district exceeded \$15 million in losses and we were not as severely affected as some other States. In response to this tragedy, Congress approved over \$5 billion in emergency appropriations to aid for the cleanup and the restoration of our States.

A large part of that money was for Small Business Administration disaster loans and Federal Emergency Management Agency Assistance efforts. Over the course of the summer, I watched those disaster relief efforts carefully, and I wish to applaud both the Small Business Administration and the Federal Emergency Management Agency for their efforts. I believe they did an outstanding job in the face of incredible and unprecedented devastation. My evidence for this is simple: I received very few complaints from my constituents.

Today we will be examining those efforts more closely: In particular, the cooperation between the Federal authorities, SBA, FEMA, and the State agencies involved. I hope this hearing will provide us with some ways to improve that cooperation and the future assistance to disaster victims. In particular, I would like to explore going beyond the traditional financial assistance that is provided.

I am glad that the representative from Iowa, General Thompson, and the representative from Illinois, Mr. Mitchell, could attend; and I appreciate your invitation to them, Mr. Chairman. I am sure that they and our other witness, Mr. Kulik from SBA and Mr. Krimm from FEMA, will be able to offer us suggestions for better coordination between the Federal and the State agencies.

I thank them for coming and I look forward to their testimony.

Chairman LAFALCE. Any other members of the committee?

Mr. Smith?

Mr. SMITH. You gave a good summary, but I just want to add a little bit to it. Before 1977, whenever there was a disaster, Members from that area would rush to the floor with bills to create benefits for that particular disaster.

There is no way to stop a disaster bill or to make it more sensible. In some instances, there were 1 percent loans, give-aways of \$5,000 and all kinds of problems. So finally, in 1977, we agreed on a uniform national program and made SBA the primary agency.

In addition to that reason for doing it, another reason was that, before, there would be a dozen agencies going out there, and they would shuffle disaster victims from FMHA to SBA, to some other agency, to some other agency, to some other agency. It was obvious that we needed one lead agency to handle individuals as well as another agency to handle governments, and that is the reason our current system was set up.

I think the structure has been sound, but there is always—as you indicated, there is always room to improve. I do want to stress that the loans have been sound. I know in 1977, after the regulations went in effect for a big disaster in Iowa, a drought, \$325 million was loaned and I believe that 97 percent or something like that was repaid. The program permitted disaster victims to pay back over an average of 8 years the amount of money that they lost in 1 year and that was good for the communities. Disaster loans are not just for the individual disaster victims. They also make the community sound again.

But I do have to say, though, that I am very disappointed that at the 1990 meetings at Andrews Air Force Base, the so-called “budget summit,” they agreed to eliminate SBA’s old disaster loan revolving fund. They didn’t save a dime. In fact, the illusion that not having a reserve saves money actually costs money. Before that budget summit agreement, we had this reserve when a disaster was triggered whether we were in session or not in session. The framework was set up, and everybody knew what the rules were, and they went to work and administered it.

The other thing I do want to mention concerns the disaster cadre. It has been very, very successful, I think. Just having a basic cadre and then using temporaries—ex-bankers, ex-school teachers, whoever they may be who don’t want permanent jobs but do want temporary jobs, and they want to help people—this has been, I think, very, very successful.

So I want to compliment you for holding these hearings and say that you can always improve. I have attended these. I have gone out to these disasters ever since, I guess, about 1970. Each one, I think it is an improvement over the previous one because we learn something from every single disaster.

I think that the last one, the flooding in the Midwest, in Iowa and Missouri, were the best administered of any that we have had. But I know there is always room for improvement.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much. I think it was important that we have the perspective of the Chairman of SBA’s Appropriations Subcommittee which is responsible for disasters who has done such great work as Chairman of that Appropriations Subcommittee.

In brief consultation with Republican Members, they have expressed some anxiety about hearing the witnesses and have therefore waived their opening statements.

Does anybody here on our side have any opening statements they wish to make.

Ms. DANNER. I do.

Chairman LAFALCE. Congresswoman Danner.

Ms. DANNER. Inasmuch as there is probably no district in the United States which was more disastrously affected by the floods than was the Sixth District of Missouri, I just want to briefly say that although I think most particularly I would like to address this to FEMA, I think their personnel acted in an exemplary fashion and very expeditious in some areas. Still there is much room for improvement.

There is a saying, "I am from the Government and I am here to help you," and people laugh. An then there is another saying, "The check is in the mail." Many of my constituents are facing both of those. They are being told by FEMA that the check is in the mail again and again and again and they are not getting the check.

My office in Kansas City in particular is getting a number of telephone calls. I have spoken with James Lee Witt about this and he told me that he would see that it was taken care of. It is terrible to experience the flood damage that these people have experienced, but to be told repeatedly that the check is in the mail and never get it is most unfortunate.

I would hope that you would look into that for us and see if there is some way to be sure that these checks are indeed expedited in as rapid a fashion as is possible. That would be very helpful to us.

Mr. KRIMM. I would be very glad to.

Ms. DANNER. The other problem you may or you may not realize, it is with the disposition of trailers. People are told the trailers are on their way again and again and again, and the trailers didn't arrive. It was because of my constant attendance at meetings that I was able to ultimately expedite them.

But that is another problem that you all have that you really need to look into.

Mr. KRIMM. On the——

Chairman LAFALCE. We will defer the comments until such time as there are questions.

Ms. DANNER. Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much Congresswoman Danner.

Now we will hear from both Mr. Kulik and Mr. Krimm, in that order.

Mr. Kulik.

TESTIMONY OF BERNARD KULIK, ASSISTANT ADMINISTRATOR FOR DISASTER ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION

Mr. KULIK. Thank you, Mr. Chairman. I am Bernard Kulik. I am the Assistant Administrator for Disaster Assistance at the Small Business Administration, and with me in the audience on my right is my Deputy, Al Judd.

It is a pleasure to appear before the committee this morning to discuss SBA's Disaster Loan Program. Mr. Chairman, I would like to submit our entire statement for the record and just summarize here if that meets with your approval.

Chairman LAFALCE. That would be great.

Mr. KULIK. SBA's disaster role is part of the larger Federal disaster response. In the Midwest flood disasters, the personal involvement and leadership of President Clinton brought a new spirit of cooperation and dedication to the entire Federal effort, helping to facilitate the delivery of assistance from SBA and other agencies.

As you stated, sir, we are the primary form of Federal assistance for nonfarm, private sector disaster losses. As such, we are the only SBA form of assistance not limited to small business. We help fund rebuilding for homeowners, renters, businesses of all sizes and non-profit organizations. This assistance is a critical source of economic

stimulation in disaster-ravaged communities, spurring employment and stabilizing tax bases.

The need for SBA disaster loans is as unpredictable as the weather. In fiscal year 1993, as a result of Hurricanes Andrew and Iniki, Typhoon Omar, the winter coastal storms on the East coast, the Midwest floods and other disasters, we approved over 58,600 disaster loans for over \$1.67 billion, the highest comparable amount in our history.

Since fiscal year 1990, we have approved over 146,000 loans for more than \$4.1 billion, an average of nearly 37,000 disaster loans for more than a billion dollars annually. Compare that with the fact that since 1953, since our inception, we approved 1.1 million disaster loans for more than \$17 billion.

During the early 1980's, with the strong support of this committee, we reorganized our disaster loan making system into four disaster area offices. Professional management and staff dedicated solely to making disaster loans report directly to a single program head in the central office in Washington.

This new structure has evolved and matured since the reorganization. The quality of our work, especially performing thorough analysis and adhering to sound credit practices, has been one of our priorities. We have placed strong emphasis on national uniformity which is not only important to the quality of our disaster lending, but also to our ability to shift employees and resources among offices to meet sudden changes in workload.

We are also pleased that the permanent professional staff in our disaster offices has allowed our regular field offices to continue the agency's vital work with small businesses with minimal disruption.

The Midwest flood, of course, affected nine States—Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin. SBA loan application activity has been heavy as is shown in Table A, which is part of my written statement. At this time, however, the rate of application returns is abnormally low. Generally, about 40 percent of applications issued are returned to SBA's loan processing offices.

Through close of business in the Midwest floods, November 14th, only 23.2 percent of these applications had been returned. We have made extensive efforts to contact and offer help to those who have not filed applications.

In some cases, we have even been accused of pestering people who have not yet filed applications. The primary reasons that have been given to us for not filing are listed in Table B of my statement. They include such reasons as: Many flood victims had only minor damage such as basement flooding and decided they didn't need Federal help; The population in this nine-State area is generally fiscally conservative and reluctant to incur additional debt; indecision about whether to rebuild or repair in the flood zone or whether to move, especially to a site out of the flood zone; and the fact that many levees had not yet been rebuilt leading to fears of future flooding in the same area. However, as of November 14th, we had approved over 13,000 disaster loans for \$387 million in the nine-State area.

I might add that this goes up daily, and, as of last night, we had already exceeded \$395 million and probably will top \$400 million before the weekend.

This total so far exceeds that for the Los Angeles civil disorder and for Hurricane Iniki, but is not yet as large as Hurricane Andrew or Hurricane Hugo or the Loma Prieta Earthquake.

Table D shows the average loan size by State. In responding to the Midwest flood disaster, both Congress and the SBA made some changes to address its unique needs.

SBA disaster loans are crucial to businesses recovering from a disaster. Jobs in these companies usually depend on SBA assistance. We found in the past that physical disaster loan business borrowers average about 10.5 employees. Applying that average to the Midwest floods, the 1,734 physical disaster business borrowers with loans approved through COB November 14th would have over 18,000 employees.

Congress increased the limit on disaster business loans from \$500,000 to \$1.5 million. Through November 15th, SBA had approved 79 disaster loans to businesses for more than the previous \$500,000 ceiling. These loans total \$71.9 million, or an average of over \$900,000 per borrower.

Table D details these larger business loans by State. Clearly, congressional action to increase the disaster business loan limit, obviously has benefited significant numbers of businesses, helped preserve the economic bases of numerous communities, and saved thousands of jobs.

Our initiatives to respond to the victims of the Midwest flooding are an important part of this story. First, to assist victims, SBA Administrator Erskine Bowles, gave us the goal of completing processing most loan applications within 7 to 20 days, with home loans being processed more quickly than business loans. We have processed home loan applications in an average of 7 days, with 72 percent of the home loans completed within 7 days. For business physical loan applications, from receipt to decision, we have averaged 14 days, with 86 percent completed within 21 days.

We have met those goals. From receipt to decision, we have processed home loan applications in an average of 7 days, with 72 percent of the home loans actually being completed within 7 days.

For business physical loan applications, from receipt to decision, we have averaged 14 days with 86 percent actually being completed within 21 days.

We are also grateful—and I must mention it here—to the Internal Revenue Service for their invaluable assistance. Instead of SBA asking victims to locate copies of their tax returns for SBA, we have given the victims the alternative of authorizing the IRS to provide the tax return information directly to SBA by signing a simple IRS form. The IRS has been extremely cooperative in providing rapid turnaround to our requests so we can expedite processing.

Next, in response to feedback we received that some businesses were encountering difficulty in meeting all of our application filing requirements, Administrator Bowles asked us quickly to complete an intensive review of our process. We did, and we have adopted a substantially simplified disaster business loan application form.

A copy of the simplified form we now use is also attached to my written statement. The simplified application was made available to all flood victims who had not already submitted an application. The response has been extremely positive.

Also in response to the Midwest floods, SBA expanded its loan eligibility, giving property owners in flood hazard areas more assistance for relocation. This option helps avoid future flood devastation by making relocation to a safer site possible.

SBA had 899 disaster employees working on the Midwest flood response at its peak. As of November 1st, 536 disaster employees were still working on these disasters. The State-by-State figures are contained in Tables F and G.

In fulfilling our key disaster assistance role, we work in partnership with FEMA. Immediately after a disaster declaration by the President, FEMA establishes disaster application centers (DAC's) in disaster communities. Victims first register with FEMA and are then referred to the agencies and programs which best address their needs. FEMA established DAC's in 179 locations throughout the 545 declared counties in the nine-State flood area. SBA staffed all of these disaster assistance centers for the full duration. Those are detailed in table H.

Additionally, FEMA seeks to register disaster victims by telephone. During the Midwest floods, FEMA concentrated heavily on this tele-registration. For the first time, SBA located staff at the tele-registration to take calls from victims referred to SBA for possible assistance. Our staff spent about 648 person days at the FEMA center in Denton, Texas.

After SBA disaster loan applications are issued, many people need help to complete them. To address this need, we established workshops throughout the disaster area. Our staff and volunteers at the workshops assist victims in completing the applications, explaining how to get missing information and answering questions and calling victims who have not returned their applications. We also attend local meetings to discuss available assistance from SBA and take other proactive steps to ease access to assistance.

SBA begins operating workshops where FEMA is running the disaster application centers, and we continue the workshops after the disaster application center is closed. Additionally, we establish workshops in some communities where there were no disaster application centers.

During the Midwest floods, SBA operated 95 workshops devoting 6,818 person days to these operations through November 1st, an average of 72 person days per workshop. These workshops are detailed on Table I.

In the past few years, there have been problems caused by inaccurate communications to the public, particularly concerning the relationship between loans and grants and whether the victim had the option to choose between the two. However, the new leadership at FEMA, headed by director James Lee Witt, has been working very hard to improve interagency coordination and communication. I must particularly mention, in that regard, the efforts of Dick Krimm. At both the headquarters and field levels, SBA and FEMA have met regularly and cooperated to an unprecedented degree.

In the Midwest floods, this tone of improved cooperation was established from the outset when both the President and Vice President traveled several times to the flooded area in the Midwest. President Clinton's flood summit in St. Louis with all affected States and all involved Federal agencies facilitated communication and encouraged partnerships to solve problems.

The President designated Agriculture Secretary Espy to coordinate the Federal role in long-term recovery. Under Secretary Espy's leadership, a variety of task forces have been meeting, coordinating, and planning the next step. These interagency efforts have contributed to improved program delivery.

Secretary Espy's leadership is helping us keep our focus on the reality that Midwest flood recovery requires a commitment long after the story fades from the immediate news.

Mr. Chairman, I appreciate the opportunity to testify this morning on behalf of SBA, and I would be happy to answer any questions you or other Members may have.

Thank you.

Chairman LAFALCE. Thank you very much Mr. Kulik.

[Mr. Kulik's statement may be found in the appendix.]

TESTIMONY OF RICHARD W. KRIMM, ACTING ASSOCIATE DIRECTOR FOR STATE AND LOCAL PROGRAMS, FEDERAL EMERGENCY MANAGEMENT AGENCY, ACCOMPANIED BY DENNIS H. KWIATKOWSKI, ASSISTANT ASSOCIATE DIRECTOR, AND DONALD COLLINS, ACTING FEDERAL INSURANCE ADMINISTRATOR

Mr. KRIMM. Thank you very much, Mr. Chairman.

First of all, I would like to introduce two people who are with me today. Dennis Kwiatkowski, who is the Assistant Associate Director for the Disaster Assistance Program and Mr. Donald Collins, who is the Deputy Federal Insurance Administrator.

Director Witt is very sorry not to be here today. He had to be out of town. But I am very pleased to have the opportunity to testify on his behalf. I want to mention that I feel FEMA has done a good job in these disasters in the 14 years of our history. Director Witt is the first professional emergency manager we have ever had as a director of FEMA. I think that has proved a lot and has shown a lot.

Emergency management is based on one fundamental principle: People helping people. When FEMA's director, James Lee Witt, first took office, he issued a challenge to all FEMA employees and to the Federal Government to strengthen that principle by working toward a national partnership in emergency management.

There are two key elements to that challenge. The first was that at those times of highest stress, visibility, and tremendous human suffering, it is both the expectation and obligation of the Federal Government to respond quickly when our State and local partners need us and to effectively meet their needs.

Second, was that our success in providing assistance following a disaster is measured by each individual, family, community, and State who turns to us in their time of need and by our ability to meet those needs in cooperation with our partners.

I am very proud of the way that FEMA, the Small Business Administration, and the rest of the Federal Government responded to the floods and the degree to which we demonstrated not only what "people helping people" really means, but that partnership and teamwork deliver results. Together, we have brought needed assistance to tens of thousands of disaster victims, provided them shelter, assisted their businesses and fostered their immediate and long-term recovery.

This has been no easy task. With over 500 counties designated to receive Federal assistance in the nine affected States, FEMA alone has provided nearly \$200 million to help flood victims in the form of disaster housing assistance, disaster unemployment assistance, and individual and family grants.

Over 130,000 people in the Midwest have registered for Federal assistance. More than 5,600 jurisdictions sustained damage and are seeking grants for the repair and restoration of public facilities and infrastructure. We are in the process of following up with hundreds of communities which have expressed their interest in property acquisition and relocation projects to permit them to move out of the flood plain, out of harm's way. These figures represent primarily FEMA's contribution to this effort. They do not include much of the assistance provided by other Federal agencies, which totals well into the hundreds of millions of dollars.

Much of the reason that we have had such success in these disasters is because we have been proactive. Unlike in the past, we did not wait to be called upon. We initiated contact, established plans, placed personnel, and worked hand in hand with our State counterparts. In doing so, we were able to continually monitor the situation in the Midwest, identify needs and potential trouble spots before they became real problems, and deliver the required assistance to disaster victims.

As part of the coordinated Federal effort, the Small Business Administration played a tremendous role in this success. Since the flood disasters were declared this past summer, the Small Business Administration has distributed millions of dollars, as Mr. Kulik referred to in his testimony, in low interest loans to disaster victims, families, and businesses to spur their immediate and long-term recovery. This assistance has been a tremendous boost to those who lost their homes and livelihoods to the flood waters.

FEMA's primary relationship with the Small Business Administration is through the Individual and Family Grant Program. In order to be eligible for individual and family grants, a disaster victim must first apply for a Small Business Administration low interest loan.

An individual and family grant can only be offered if a disaster victim is turned down by the Small Business Administration because their income is not sufficient to qualify for a loan, or if the victim still has necessary expenses and serious needs after the Small Business Administration makes the maximum possible loan given the applicant's repayment ability. Because of this relationship, FEMA and the Small Business Administration work very closely throughout the recovery operation.

In the Midwest flood, one of the clearest examples of this teamwork was in the taking of disaster assistance applications. To re-

ceive Federal assistance, individuals apply through either Disaster Application Centers or through the National Teleregistration Center. Disaster Application Centers are centers established in the disaster area to provide victims on-site access to Federal, State, and local government assistance, as well as voluntary agency assistance programs and services for which they may be eligible. These centers act somewhat like a one-stop shopping centers for disaster assistance.

The Disaster Application Center locations are coordinated with the State and local officials to ensure that they meet the needs of the affected area. To accommodate applicants who are unable to visit a Disaster Application Center or who would find it easier to apply by phone, we also have the national teleregistration center in Denton, Texas. The national teleregistration center allows the victim to phone toll free to apply for individual Federal assistance available under a presidential disaster declaration.

The National Teleregistration Center has proven to be not only a convenience, but also an effective means to speed the provision of assistance during the first few days of a disaster. The moment that a disaster is declared by the President, the center's 1-800 phone bank becomes available to accept phone calls from disaster victims and take applications immediately for disaster assistance. If the center were not available, disaster victims would have to wait anywhere from 2 to 4 days until FEMA works with the State to identify the best site for the center, and moves the needed supplies, equipment, and personnel to the site to operate the facility. Sometimes if have you a very serious situation like we had in Hurricane Andrew down in Florida, it is very difficult for the State to find a convenient Disaster Application Center because all the buildings have been destroyed. As a result the teleregistration center has really served very well in helping victims immediately request the Federal assistance they need.

As we have done in the past, FEMA and the Small Business Administration worked together from the very early days in these disasters in order to ensure that the Small Business Administration disaster loan specialists were on-site at FEMA's Disaster Application Centers throughout the flood area. These officials worked alongside disaster assistance personnel from FEMA, other Federal agencies, and the impacted States, making themselves available to meet with and answer questions of disaster victims.

As Mr. Kulik pointed out, for the first time, the Small Business Administration provided loan officers to help FEMA's National Teleregistration Center. This was a very successful operation and, hopefully, we will be able to continue it in the future.

Working side by side, both in the Disaster Application Centers and at the National Teleregistration Center, we all benefited from having this information available. This close working relationship permitted better and more reliable information exchange regarding the status of FEMA, and Small Business Administration Programs. This not only assisted us in being responsive to the particular needs of disaster victims in the Midwest, but also improved the flow of accurate and timely information to flood victims while they applied for disaster assistance.

As in every disaster, FEMA, the Small Business Administration, and the other Federal and State personnel worked very closely in the field to ensure that operations proceed both smoothly and efficiently. In each disaster field office and Disaster Application Center, Federal personnel operate in close coordination to review the standard operating procedures for protection against duplication of benefits by the various funding agencies.

In addition, FEMA and the Small Business Administration met daily in the Federal-State meetings held by each disaster's Federal coordinating officer.

I thank you for the opportunity to appear before you today and will be happy to accept any questions that you may have.

Thank you very much.

[Mr. Krimm's statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much. I am going to defer my questions until the end. I will first call upon Congressman Smith and then Mrs. Meyers.

Congressman Smith.

Mr. SMITH. I think those are very good presentations. I do want to call attention to a point to which I had made a reference earlier—the 1977 drought disaster in Iowa where we had about a 97 percent repayment rate. I now have been furnished by counsel a sheet here that shows about 4 percent losses in Iowa to date. Is that right, Mr. Kulik?

Mr. KULIK. That is our currency rate at the moment, sir.

Mr. SMITH. I just point out that, for only a 4 percent loss, we were able to get communities back on their feet by making loans to individuals—only those individuals who will stay in business and only those individuals who have a good chance of paying the loan—and that the repayment rate is very good. I think the communities have certainly benefited by that.

That is all I have, Mr. Chairman.

Chairman LAFALCE. Mrs. Meyers.

Mrs. MEYERS. Thank you. I would like to look to the future a bit and ask both of you a question. I, too, thought these presentations were excellent and helped with our understanding of the process. I would like to ask Mr. Krimm, what will FEMA be doing now after the flooding to help communities stay compliant with Federal flood insurance regulations?

Then I would like to ask Mr. Kulik, now that the financial assistance has been mostly disbursed and cleanup efforts are well under way, what other kinds of assistance will the SBA be offering to small business to help them get back on their feet, and what sort of advice and assistance will you provide to minimize possible future damage.

Maybe we could start with Mr. Krimm. How are we going to help communities stay compliant with Federal flood insurance regulation?

Mr. KRIMM. Mrs. Meyers, Mr. Collins is here with me, who is the deputy for the Federal Insurance Administration and, with your permission, I would like him to answer the question.

Mrs. MEYERS. Yes.

Mr. COLLINS. Well, we normally conduct community assistance visits and visit communities, pre-flood and post-flood, to assure

that compliance is in order and is ongoing. We also have a biennial report that has to be filed by communities which is reviewed in our regional offices. Irregularities or problems are brought to our attention which bring about another visit to straighten things out, if needs be.

In addition, our claims files and the flood loss reports furnished by our adjusters sometimes point to the need to go out to see if a building was rebuilt properly after a loss. We also have senior general adjusters, and they suggest visits in which we work with the community to straighten things out.

Mrs. MEYERS. Do you make suggestions to either the individuals or to the communities that the facility or the business place or whatever not be rebuilt in that particular location?

Mr. COLLINS. Well, no, we don't quite do that, because that really isn't in our charter as it were. What we do though, particularly in conjunction with the visits by the insurance adjusters is monitor whether the 50 percent rule is being enforced. Some communities enforce that very well and sometimes it may not be enforced when buildings damaged to 50 percent of their market value are not elevated above the 100-year flood when repaired.

So if an adjuster were to bring to our attention that there was a damaged building or a series of buildings which should have been elevated in the reconstruction but was not elevated, then, again, we would work with the community to see that the compliance was brought about as to those particular buildings.

On the insurance side of the program, too, we would also re-rate the structures. If a building was not elevated properly, the rate would then have to be revised to be commensurate with the risk.

Mrs. MEYERS. Thank you.

Mr. KRIMM. Excuse me, Mrs. Meyers. I just want to mention one thing in reference to when you asked if we recommend that a building not be rebuilt. Under the Disaster Assistance Program, after a disaster, we send out what we call hazard mitigation teams. These are interagency teams composed of FEMA and other Federal agencies, and they do make recommendations to the communities whether or not a building should be rebuilt. We are doing a great deal of this work right now as a result of Midwest floods.

A number of communities have come to us about trying to relocate their entire community or portions of their community and we are working very closely with them, combining not only FEMA funds, but HUD funds and even Small Business Administration loans, and so forth, to move them out of the flood plain, out of harm's way. So we are quite aware of the need to advise communities that certain buildings should not be rebuilt and that land should be used for open space.

One of the advantages of moving damaged structures out of the flood plain and using the vacated land for open space purposes—and this was very clear in the recent flooding of the Mississippi River and its tributaries—is that it offers a place where water can overflow and “pond” during a flood. By relocating structures and increasing open land in flood hazard areas, flood levels downstream can be reduced in the future.

Mrs. MEYERS. I think a couple of the areas in my cities that were most heavily hit were in trailer courts, and those are frequently located in flood plains and they suffer so badly because—

Mr. KRIMM. It is terrible.

Mrs. MEYERS. [Continuing.] the people there frequently don't have a lot to lose, and they lose it all. Are we recommending to cities that they—is that although these may not be totally permanent structures in many cases, that is not a good idea.

Mr. KRIMM. We certainly do. In all disasters, the mobile home or trailer parks suffer the greatest damage, whether it is a tornado, a flood, hurricane, or whatever it may be, and we do recommend that they be moved out of harm's way. This is something that is very, very important.

Mrs. MEYERS. Mr. Kulik, to remind you of my question: Now that the financial assistance has been disbursed, what other kinds of assistance is the SBA offering to small business in terms of advice and assistance, possibly to minimize future damage?

Mr. KULIK. First, Mrs. Meyers, although we have thus far approved \$395 million, that is not over. That figure goes up every day and the filing period for loan applications will not end for fiscal loss until December 15th, and for economic injury, sometime in April. That number will increase substantially.

Above that, all of the agency's programs, its financial programs, its economic development programs, procurement, particularly management and business assistance, are involved in the Midwest and will be involved in the disaster situation.

You will hear later from Mr. Mitchell, who is the director of the Illinois Small Business Development Center, and I am sure that he will tell you quite a bit about how the development centers have been involved in helping businesses overcome the results of the disaster in other than a financial manner.

As far as advice to small businesses is concerned, the primary advice we give is unfortunately, too often overlooked. Our advice is, to stress the need for and the value of insurance, particularly, as Mr. Krimm and Mr. Collins have pointed out, flood insurance, if you are in a flood zone, and hazard insurance for all other matters.

You can't anticipate a tornado, you can't anticipate an earthquake, but you can anticipate floods. If you are in a special flood hazard area, the availability of flood insurance is something that just should not be overlooked by businesses or homeowners.

Mrs. MEYERS. Thank you very much, Mr. Chairman.

Chairman LAFALCE. Mr. Bilbray.

Mr. BILBRAY. Thank you, Mr. Chairman.

May I point out to my colleagues, at least in my district, if you ever call them trailers, you are in real trouble. It has to be manufactured housing.

My area, of course, is not prone to the types of disaster—either earthquakes or flooding—in the Sierra-Nevada that you do have in the Midwest or in Florida. What is the policy in the future if a homeowner or a business decides to relocate in a very dangerous flood area after this present flooding. I understand, I read in the paper the other day, NASA has warned that the present El Nino is still in the same pattern, in fact, has dropped a little bit and we

anticipate heavy snow in the Sierra-Nevada and Rockies and probably heavy flooding or heavy rains in the Midwest again next year.

If a person decides after having Federal assistance and Federal loans and whatever programs that they are able to grab to rebuild in this flood area, or if they were in Florida in a heavy, hurricane area, and the same disaster hits again, how many bites of the apple do they get before finally Government says, hey, listen.

You said you are not prepared to give advice to an owner to say, don't rebuild in this area or don't do it. Do they continue to get bites at the apple and bites of the apple, or at some point does somebody say, hey, if you don't—if you rebuild here, don't look to us for help in the future. You are going to have to rebuild in some other place, or if it is a manufactured housing development, don't relocate it here, put it up on higher ground or in some other area.

Mr. KULIK. Mr. Bilbray let me start the answer from the SBA's point of view. When we make a loan to anybody in a special flood hazard area, a flood-prone area, we require, before we can disburse the first dollar, that that victim—who is the borrower, have flood insurance.

Mr. BILBRAY. How do you follow up to make sure? In my State, for instance, it used to be—and when I lived in Virginia when I was going to law school—if a person canceled their car insurance, the car insurance company would then notify the Motor Vehicle Department that the person had dropped and not paid their premium. Is that the same with you? If they drop their flood insurance, do you get notification?

Mr. KULIK. In most cases, we do get notification. But even before that, sir, in the loan agreement there is a very specific agreement. It is in capital letters and bold type that, if you fail to maintain your flood insurance, you are no longer eligible for any Federal assistance in a disaster situation.

So in answer to your question, how many bites of the apple do you get. That limits it.

Mr. BILBRAY. I see.

Mr. KRIMM. I would like to mention two things. First is that in order to receive an Individual and Family Grant, we do require the victim to obtain flood insurance. However, these victims are mostly low-income people. What we try to do is pay the first year premium. We don't have a very good follow-up procedure on the maintenance of this insurance over time, however. This is something we are looking into, and we are working with Mr. Collins and the Federal Insurance Administration to develop a 3-year policy which would take care of most of these problems.

Interestingly enough, we have not found that many of the people who have received Individual and Family Grants have had much repetitive flooding. It is a very low percentage. But it is at least in part due to the existence of the interagency hazard mitigation teams that go out and we encourage relocation of structures.

In addition, as Mr. Collins will surely expand upon in a moment, communities that participate in the National Flood Insurance Program, are required to elevate substantially damaged structures in the flood plain so that the lowest occupied floor is above the level of the 100-year flood.

Finally, we are trying to guide structures out of harm's way as much as possible. For example, in FEMA's Hurricane Program, we are developing property standards that local communities can adopt to minimize damage from high winds and flooding that often accompany these violent storms. We have also been working with the U.S. Geological Society and the National Institute of Building Standards. We have developed and provided to communities in earthquake areas certain building standards which are now being adopted through the building code congresses, and eventually by local communities.

Encouraging such sound building codes and practices has proven effective. For example, in San Francisco during the Loma Prieta Earthquake there was substantially less damage than there could have been because of their good building codes. Other than a few notable cases, such as the collapse of a highway overpass, very few people died in the quake and damage was not that expensive. As a comparison, the same magnitude earthquake occurred in Armenia where building codes are nonexistent. In that event, over 25,000 people were left dead and whole communities were destroyed.

Don, would you like to address the subject of structural elevation requirements in the National Flood Insurance Program?

Mr. COLLINS. Yes. On the subject of repetitively damaged properties, we know there are about 30,000 such buildings which, over a 10-year period have been damaged to 25 percent of their value on the average. Twice. Twice they have been damaged. We also have a number of the substantially damaged buildings that we have been discussing which need to be elevated to elevation of the 100-year flood because they sustained damage amounting to 50 percent of their market value before the flood occurred.

As I suggested to Mrs. Meyers, the Flood Insurance Program doesn't have the authority to require these buildings to be removed from the flood plain. However, under the buyout program that FEMA has, as Mr. Krimm described it, FEMA offers an encouragement to relocate a building, and we can get that done.

I guess the trail on the "50-percent damage" rule leads this way: If the person does not elevate properly, we raise the rates, as I said earlier. We can also go to the community and suggest "if you will declare this building in violation of your building permit and codes system, because it was required to be elevated, but was not, then we can get off the risk by obtaining a determination from the community which would enable us to not renew the policy."

That nonrenewable property address then goes in a log of similar property addresses. It is distributed to all of our insurers so that the owner cannot get insurance again unless the owner comply with the local flood plain management requirements that the building be elevated so that its lowest floor is at or above the 100-year flood plain.

Mr. BILBRAY. Because—

Mr. COLLINS. We can't require them to move.

Mr. BILBRAY. What I am getting at, people think they have the 100-year flood, that we are safe for a 100 years, yet that is an average of 10 floods of that magnitude every 1,000 years in investigating this, it could happen back to back. You could have 2 of them

year after year. You could have three of them. Then maybe you could go 300 years before you had another one.

Mr. COLLINS. Yes.

Mr. BILBRAY. What I was getting at is the fact is I certainly want to help people who have a disaster of this magnitude, but at the same time, if the people say, well, I won't have to worry, my loan is paid off and I have got my assistance, it has been 6 years and I have paid off my loan or 8 years, I will drop my insurance, and then we have another flood of this magnitude, then they come back again for assistance from the Federal Government.

Do we then continue to supply this type of aid to these people? In other words, you can lead a horse to water but can you make him drink?

But it is one thing to get—subsidize the loans one time or maybe even twice, but how many times did you get the bite of the apple? From what you told me, you have a limited ability to enforce this.

Mr. KRIMM. This is mainly for the Individual and Family Grants which are primarily provided to lower income people. But it is something we are going to be working on again with the Federal Insurance Administration in developing a 3-year policy which I think will help to a great extent.

Mr. BILBRAY. I think you ought to really encourage some sort of notification from insurance companies or from the Government, whatever it is, for notification to the organizations, they have not paid their premium. I think if they know that notification is coming in, it would at least give some incentive for them to continue to be covered.

Mr. COLLINS. We send flood insurance renewal notices that are computer generated annually, and they do get their notices. But the problem is, sometimes, as you point out, they are not renewed. The 3-year policy will be an Individual and Family Grant group policy. We have talked about it, and the regulatory requirement is that—correct me, Dick, if I am wrong—the IFG Program requires 3 years of insurance to meet the useful life of the project requirement under our statute, which requires that flood insurance be purchased as a condition for the IFG assistance.

Mr. BILBRAY. One last question and maybe—what is the 50 percent rule you referred to?

Mr. COLLINS. The 50 percent rule provides that when “damage of any origin is sustained by a structure whereby the cost of restoring the structure to its before damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred.” In this situation, the building is considered to be substantially damaged, and its lowest floor, in the reconstruction process, must be elevated to or above the 100-year flood level.

The regulation was established as part of the community-government agreement for NFIP benefits. The regulations recognize that when a community enters the NFIP all of the existing structures in the community which are not built to flood code will nevertheless receive the benefits of the program. Therefore, when these older buildings become substantially damaged they are brought into compliance with the same codes as the new construction which occurred after the community's eligibility.

In the beginning, the program was subsidized. It was intended that way by the Congress, and that is fine. But when those older buildings sustain damage from a flood or any peril—in Hurricane Andrew it was wind that caused the damage—when they sustain damage and the damage equals 50 percent of the building's preflood market value, then that building has to have its lowest floor elevated to the 100-year flood level.

The rule is taken from the nonconforming use statutes in many States and local communities, with which I am sure you are all familiar.

Mr. BILBRAY. Thank you.

Mr. SMITH. Mr. Chairman, if I could develop this just a little bit, too. My experience in going to these disasters is that, in many cases, flood victims did what they were supposed to do, but they can't control what somebody upstream does. Cities upstream put in storm sewers, and they get that water downstream just as fast as they can get it down there. They build on to the city upstream, and people downstream don't have control over that.

You don't have any way when you make these decisions to know what is going to happen upstream, do you? There is no coordination, is there?

Mr. COLLINS. We revise our flood maps when it comes to our attention that that kind of condition exists which creates, in effect, a new flood plain. We will revise the maps.

Mr. SMITH. But you have no way of knowing if the city fathers in that area are going to grant more applications for building upstream, or that they are going to put in more storm sewers.

Mr. COLLINS. In the biennial reports, we are supposed to get reports of new permits that are issued for new construction and unusual community-wide projects of that sort.

Mr. SMITH. But at the time you helped these individuals, you didn't know what was going to happen 10 years hence.

Mr. COLLINS. That is correct, sir, yes.

Mr. SMITH. That is one of the reasons for the bill that went through the House the other day. We need for the Corps of Engineers and FEMA and others to somehow coordinate better with local cities and suburbs on planning so they know how much more damage will be done by new development.

These are victims, in large measure, who are being flooded the second time, the third time, they are victims of people upstream having put this water down on top of them.

Mr. KRIMM. Mr. Smith, FEMA is paying the U.S. Geological Service \$2 million, to work with the Corps of Engineers, the U.S. Geological Service, FEMA, and other Federal agencies to do a study of the upper Mississippi River to look at this situation, and what the Federal Government, the States, and locals should do together to reduce the flood hazard. In this study, we hope to identify what are the economic and ecological effects as well, and take these elements into consideration.

Upstream development which then increases the flooding farther down the river is a very serious problem. In the Midwest, we noted that levees that were built to protect against the flood that has a 1-percent chance of annual occurrence, otherwise known as the

100-year flood were over topped because the 100-year level now is a much higher flood than it was 20 years ago.

Mr. SMITH. I think if they had a way to coordinate, the cities themselves could do a lot. For example, in any one of them that has an airport, just the water that falls on that airport, if it could be held back until the Corps says the river will take it, that alone would make some contribution. But instead of that, on all these airports, they get that water off fast as they can get it down to the river.

Mr. KRIMM. I think that a lot of States are now working very closely together on this, looking at the overall effects of a river basin flooding and trying to look at what happens upstream and downstream. I think there are improvements.

Mr. SMITH. I hope as a result of this bill that we hope is going to pass that the Corps does coordinate. They know upstream when an inch of rain falls and can estimate when it gets to a downstream city, but there is no coordination between them and the various cities that are on the river so that they could share that information so that the cities themselves could do their part.

Mr. KRIMM. Right.

Chairman LAFALCE. Any more questions? We will reserve the right to submit some written questions that you may respond to in writing.

[The information may be found in the appendix.]

Chairman LAFALCE. We are anxious to get to the second panel. I thank you very much.

Mr. KRIMM. Thank you very much.

Mr. KULIK. Thank you.

Chairman LAFALCE. Would the second panel please come to the table.

We will first hear from General Thompson.

TESTIMONY OF BRIGADIER GENERAL HAROLD M. THOMPSON, DEPUTY ADJUTANT GENERAL, STATE OF IOWA

General THOMPSON. Thank you, Mr. Chairman.

First, let me express my pleasure for being asked to appear in front of this committee and to comment on our Iowa Small Business Disaster Program.

As you are well aware, the floods of 1993 brought the worst disaster in our State's history. This disaster devastated over 3,700 businesses across the State. The damage ranged from minor to major and severely impacted on many businesses from an economic injury standpoint.

Our relationship with the Small Business Administration has been outstanding throughout the disaster process. We have found the SBA to be helpful, open to recommendations, and caring in the administration of the disaster relief. Our ability to interact with the Assistant Administrator for Disaster Assistance and his staff at the national and regional level and the area levels was key to reacting to problems as they were encountered.

The revision of the business disaster application process stands as a model in this problem solving process. There are issues which need to be evaluated in the future to enhance the effectiveness of the Small Business Disaster Relief Program.

Our first goal was to keep businesses in operation if possible. This goal was hampered by a number of factors. First, delays in receiving the national flood insurance settlements. Second, lack of available grant programs for relocating businesses in a rapid manner. Third, rules discouraging businesses from relocation versus just getting their repair costs. Fourth, the lack of cash-flow to pay for immediate disaster recovery needs, temporary relocation costs, and replacement of supplies for continued operations.

As we evaluate the impact on the Federal program, it appears that keeping businesses in operation is a cheaper option than paying unemployment and associated unemployment benefits.

The problem businesses are facing when hit by a flood is twofold. This is probably the most important thing I will bring in front of this committee today. There is a major draw on available cash for recovery costs and, second, there is a loss of credit from the suppliers. Loans, even with deferred payments and interest, do not offset the loss of cash-flow and the loss of credit.

A program that mirrors the emergency program for a homeowner would greatly benefit small businesses. A grant program for temporary relocation costs to include 4 to 6 months of rent followed by an SBA loan or grant or a combination of the two that keeps a business in a solid credit situation.

Perhaps even the Government guarantee on supplies might be an answer to this issue. When a business loses credit on their supplies, they have to go into cash reserves to resupply and that just kills the business.

Please understand, we are not talking about propping up businesses that do not have a successful track record.

Interest rates are also a concern. In a time when interest rates are low, a 4 to 8 percent loan rate by SBA is less attractive than when interest rates are high. Consideration should be given to revising the formula for determining the interest rate and basing it on the variable factor which relates to the current interest rate movement.

Small Business Development Centers were key to us in educating and in assisting our affected small businesses. Automation of the entire system in a common data base will greatly facilitate the process. What we found is everything is on individual paper, and FEMA is not connected to SBA, and as a result, we were not able to access the applicants.

We had over 23,000 applications of individuals and businesses interacting with each other and we could not communicate effectively with our affected businesses. We feel that this shortfall needs to be addressed. A common data base that can be used by FEMA, SBA, and the State is necessary for effective communications and tracking of applicants.

In summary, the simplified SBA application has been very positive in causing businesses to take advantage of SBA loan programs. We have great concern over the agricultural economic injury which will occur in Iowa in the next several months due to the impact of the short grain crop in Iowa.

I appreciate this opportunity to share my thoughts with you here today. I would ask that this testimony, along with two letters that I carried in and have in front of the committee, one from our SBDC

office in Iowa and one from our State flood recovery team to SBA making recommendations for changes in the application process be entered into the record of these proceedings.

In addition, we are preparing a detailed after-action report to the State which contains lessons learned, recommendations for Federal and State regulatory changes and finally recommendations for congressional legislative change that should be considered, and we will have that report completed in about 60 days and we will forward this report upon completion to this committee for review.

Thank you very much.

Chairman LAFALCE. Thank you very much.

[General Thompson's statement may be found in the appendix.]

Chairman LAFALCE. Mr. Mitchell.

TESTIMONY OF JEFF MITCHELL, STATE DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER AND FLOOD COORDINATOR, DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS, STATE OF ILLINOIS, ACCOMPANIED BY BRENDA LEE YAGER, DEPUTY DIRECTOR

Mr. MITCHELL. Chairman LaFalce, ladies and gentlemen, thank you for the opportunity to appear here today and address these issues. With me is Brenda Yager, Deputy Director for the Department of Commerce and Community Affairs.

The great flood of 1992 so far resulted in over 16,000 citizens being forced from their homes in Illinois. Some 872,000 acres of farm land had been flooded, entire communities were inundated. Thousands of our small businesses were either damaged or destroyed and, overall, millions of dollars in personal and business property were lost.

The State of Illinois shares an excellent partnership with the SBA and with FEMA in helping to recover from this devastation.

Our Small Business Development Center in Illinois plays a key-stone role in providing the assistance to small businesses as they recover from this devastation. In previous disasters, the State of Illinois through the Department of Commerce and Community Affairs and the Small Business Development Center has provided direct support to SBA in aiding the hundreds of small businesses with completing their necessary application forms, understanding their rights and entitlements, and to provide additional State and local resources to help them recover.

This direct localized assistance has brought a much-needed comfort level to those smaller businesses, such as our drycleaners or hair dressers, those small companies that have no staff and no funding, to be able to react with a consultant to help them in these efforts.

There still are gaps that remain unfilled which would make the recovery process even more streamlined and more effective in helping our small businesses. The following summarizes a few of these. Point number one: The improvement of the SBA disaster outreach and education. First, let me say that, SBA has been tremendous in this process and we have received training from SBA in the loan processing and we work hand in hand with them in the DACS.

SBA appears to be excelling very well in the application process. Once the application has been received, we are getting a quick

turnaround. The problem is with the businesses that have not submitted applications.

As of November 14, 2,927 businesses in Illinois have registered for SBA assistance. Unfortunately only 592 businesses or 20 percent have submitted physical disaster or economic injury loan applications to SBA. That is 80 percent remaining that have not yet looked at what their entitlements are.

Based upon follow-up surveys and personal interviews and workshops that have been held, it is overwhelmingly apparent that the vast majority of these smaller companies are confused and intimidated by the materials they received from the SBA disaster offices.

I would be pleased to provide some quotes at a future date, but we are also preparing a report which you will be given a copy when completed in a few months.

I would like to make a couple of recommendations. First, when a disaster loan application is provided to any small business by SBA, the name and address of the nearest Small Business Development Center should be provided to that company so they know exactly who they can go to locally and receive the assistance that they need. This will give them a resource they can turn to immediately on a local level. Technical assistance by our trained staff would be of great value to these smaller businesses.

Second, special operational funding should be allocated to each SBDC through the normal FEMA process. We have requested \$350,000 from SBA to provide loans and financial restructuring assistance to small companies. SBA doesn't have the dollars. EDA is sitting with \$200 million in flood recovery funding. We are preparing an application to EDA requesting these funds. If this funding were made up front, that 20 percent return on applications may and probably would be a lot higher.

Third, the registration process collects too little information. As General Thompson indicated, the creation of a data base is extremely critical. We were forced to go into the Alton DAC office with a temporary clerical service to take handwritten addresses and put them on a mailing list processing system so we could get out notification of our workshops and of our resources. Had this information been on a data base up front, we would have had that information out in a much more expedient basis.

Further, when a registration form is taken, more information should be gathered which would help the States and the Federal Government see a much earlier picture of the extent of damages. For example, when a business applies we should know what type of a business that is, their annual sales. It gives us a much better picture so we can mobilize the type of help that is necessary, particularly in the area of additional services.

We have volunteers through the Illinois CPA society and we have a number of other private companies that have volunteered support that would be able to be provided more quickly if we have a better picture early on what the type of business damages were.

Fourth, we believe that SBA needs additional flexibility in determining dates and parameters and waivers regarding the application process. While we understand the need to go to FEMA to get an extension as was granted last week on the application process, this is an SBA application process and the SBA Administrator

should have the right to make these judgments. We should be permitted to deal directly with SBA to request that extension we received, but 30 days is not enough.

Fifth, is to continue to examine the collateralization and financial aspects of the loan process. Rather than go into any lengthy detail, General Thompson pointed out the problems that are experienced both in the way of access to capital, credit issues, the collateral issue. Many of our businesses lost their business collateral and their personal collateral in this flood. They have no collateral. Their cash-flow is going to be limited early on, even from a cash-flow-financing perspective. We need to look at how we can better improve our ability to provide financial assistance to those companies.

We thank you for this opportunity to be here. We will be glad to answer any questions. We, too, are preparing a final report based upon a survey of all of those 2,972 businesses. But, I will state that three things have come up: Businesses need more help in understanding how to insure themselves; they would like assistance in preparing a business disaster plan; and they would also like to look at how to increase their markets and deal with lost suppliers and customers. We are going to be reacting to those needs in the next few months.

Thank you.

[Mr. Mitchell's statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Mr. Mitchell.

Just a brief question. How unusual is it for the head of a State SBDC to also be the chief disaster coordinator for the State?

Mr. MITCHELL. In 1986 in the Northeastern Illinois floods where we had a number of small businesses that were impacted, we mobilized our Small Business Development Centers and in providing assistance to those companies, and after the Plainfield, tornado hit, similar assistance was developed.

We used our experienced staff within the mobilization through the Department of Commerce and Community Affairs SBDC office. Our office does coordinate the overall economic development flood recovery for individual business assistance. We have three other non-SBDC program offices which deal with the individuals and local governments. Our primary role is dealing with the small companies. But I think that shows the prominence in the placement of the SBDC in the State of Illinois' Economic Development Program.

Chairman LAFALCE. I was just wondering when dealing with the disaster impinges unduly on the other activities of the SBDC.

Mr. MITCHELL. At the local level, in the areas where our Small Business Development Subcenters are located, we have normal clients whose scheduled help are being extended in terms of their visitation to as SBDC. The impact that is occurring at this time at happening at the subcenter level in the flooded areas.

I will note that there is not one congressional district in the State of Illinois that does not have applications for assistance within it.

Chairman LAFALCE. Mr. Smith?

Mr. SMITH. I think you made some good suggestions. We need more management assistance available to applicants and potential applicants. Up until very recently, not all States had SBDC's. This

year it is anticipated that \$71.4 million out of the possible \$75 million will be requested. That means that all but two or three States will be in.

We are probably at the stage now where SBDC's could be relied upon as a primary source for providing management assistance, and recently counsel here determined that under the present disaster assistance legislation or statutes that are on the books, the Administrator could provide out of disaster assistance some extra help for SBDC's, so they don't draw down on their regular responsibility like the Chairman was concerned about.

The Administrator got this in his lap while we were in the middle of a disaster, and I do think that he needs to develop rather carefully policies under what circumstances can disaster assistance money be given to SBDC's to provide management assistance. Apparently that hasn't been developed yet. But I think that is a way to look at it.

Now, I noticed that in one of your statements you mentioned that maybe we should hire additional private help in disaster situations. I myself would rather have SBDC's decide whether or not they could hire private sector help or needed to hire private people in addition to their resources, instead of the Small Business Administration having separate authority to go hire or contract with somebody. But I think that this needs to be looked at, Mr. Chairman, as we consider new legislation.

The only other point I want to mention is that on the interest rates, at the time they were set at 4 to 8 percent, the debate was whether it should be 5 or 4 percent, and virtually nobody thought we were going to see 2 and 3 percent interest rates.

However, whenever we say that, that you can have a lower interest rate than that, we have to factor, it seems to me, whether or not those with the highest risk are going to also get those kinds of rates. After all, there are some risks, although the record has proven that they are very low. Anyway, that has to be factored in, but I just want to say on the interest rates that we need to take a look at them because, at the time they were set at 4 and 8 percent, that was a subsidized interest rate.

Chairman LAFALCE. Thank you.

Mr. Bilbray.

Mr. BILBRAY. I am going to go back a little bit to what I was discussing earlier. What have you done planning for next year if in case we do have mass flooding again, if NASA is right and that the—you are going to have the problem again. Are a lot of the things you are talking about, are you moving forward working with the SBA in trying to, make sure that we correct some of the problems where we failed in 1993?

Mr. MITCHELL. We are working with SBA. In fact, we are now in the process of preparing an application to the Economic Development Administration to gain those funds to provide to our SBDC subcenters to hire the kind of support they need to provide assistance, not only to those current businesses because we are going to be seeing those businesses for a long time, but also in anticipation of additional damage next spring. Hopefully it won't be, but it would be another problem time for us.

Mr. BILBRAY. Out of curiosity, are the communities or the States preparing for a problem this coming year? I mean, are they doing things so that it won't be of the magnitude that it was this year.

General THOMPSON. Well, I will answer that for Iowa. Right now, we have turned almost our total attention to how do we mitigate next spring and in future flooding situations. We are working very closely right now with the Corps of Engineers and FEMA to do studies of the river basins to determine how do we mitigate the high water levels that will be coming at us, and how do we react in an earlier manner to build up the levee systems and actions that will allow us to be able to hopefully counter some of the damages that we would otherwise incur.

Now, from a business standpoint, I will be very frank: There are a lot of businesses that are holding back right now and not going out and becoming very aggressive in applying for their SBA loans because they are confused about what to do. They don't want to go back and rebuild right now if in fact they are going to be threatened with another flood in the spring.

Of course the National Weather Service has been coming up saying that next spring's floods in Iowa are predicted to be worse than this year's spring floods. That doesn't mean that the summer will go the same way, but at least the spring floods are predicted to be worse, so we have a great level of anxiety, not only for the businesses, but for the individual homeowners that were affected as well.

We are trying to find out how do we mitigate. We are working very closely with Iowa State University in modeling some of these communities to try to determine what are the retention ponds or retention things that we can do to try to cut down on the flow of water, if it does come, so we can take the crest off of some of these extremely high crests that hit us this year.

Mr. BILBRAY. I would wish you could build a pipeline to Nevada. We would love to have some of that water.

General THOMPSON. We would too.

Mr. MITCHELL. Congressman, we are doing similar things in Illinois. On the business side, we are working with the city of Quincy. We have a State-supported incubator that has a great capacity in it, and we are looking at that for a placement of our businesses that are presently dislocated as well as looking to the long term to make sure that it could additionally support, at least on a temporary basis, any businesses which were displaced later in the recovery.

If you go down in Monroe County to Valmeyer, Illinois, which is the first city to have voted to move, they are going to be moving 400 feet up on the bluff. Those businesses there are now committed to that move and we are assisting them in the development of their planning for moving. Also, we are providing site location and building location assistance to any company that needs to look at alternative locations.

Mr. BILBRAY. Thank you.

General THOMPSON. I would like to just follow up on a question that you asked earlier, and that is related to relocation of a business. SBA comes in and, in this case, only pays for repair of the flood damage that was actually suffered by the business, and if

they relocate and move out of that flood plain, the only money that they are going to get from SBA is going to be the cost of repair of that existing facility that was damaged.

Now, the problem then that we are running into with a lot of businesses is that some still have loans under the 503 Program which requires this incredibly high penalty payment to get out of the loan. They can't get their loans consolidated and, as a result, what happens to them is they lose all their credit and they get so debt-loaded that even if we extended interest and principal payments, it doesn't get them clean on the creditor sheet.

Chairman LAFALCE. General, that is a problem that the committee is keenly aware of. Indeed, we have reported out legislation to provide relief in the past and obtained passage by both bodies and then had it vetoed, but that has been in a prior administration and we do have a commitment from the administration to deal with that 503 problem.

We were going to have a hearing on it this Monday morning, but because of the fact that Congress is in such extraordinary session right now through the weekend, we have postponed that.

But we will be reporting a bill out in early 1994 dealing with the prepayment difficulties of 503. I am not sure exactly what formula we will come up with yet. It is a function of fiscal constraint. I think we anticipate the possibility of around \$30 million we can use in some way.

But we will do our best to deal with that problem. It is a very real problem.

General THOMPSON. Yes.

Mr. SMITH. Mr. Chairman, I had one more thing to develop. You asked the question, but it is interesting to me that the governor of Iowa appointed General Thompson to be the coordinator of this flood.

General THOMPSON. Yes, sir.

Mr. SMITH. If there were another one next year, are you still going to be coordinator?

General THOMPSON. I am not sure at this point.

Mr. SMITH. In other words, in each disaster, the Governor will determine who is going to coordinate.

General THOMPSON. That is right.

Mr. SMITH. And you have been a good coordinator. I want to say that on the record.

General THOMPSON. Thank you.

Mr. SMITH. I think that is a good relationship. The National Guard had such an important part to play in this. In your case, Mr. Mitchell, you are the head of SBDC's in Illinois, but do you have another permanent arrangement if there is another disaster next year or the next year after that?

Mr. MITCHELL. I am the coordinator of the Economic Development and SBDC efforts. Allen Grosboll, special assistant to the Governor, is State-wide flood coordinator.

Mr. SMITH. Is that on a more permanent basis that you are assigned to those duties.

Mr. MITCHELL. We have provided that function in the North-eastern Illinois floods and the Plainfield tornado, and it was our ex-

perience in providing assistance that makes our responsibilities important.

Mr. SMITH. If there is a disaster the next year, would you be the small business coordinator?

Mr. MITCHELL. I would assume, yes. Annually, after these events, we have updated our disaster recovery response plans so that we should be able to respond without any problem.

Mr. SMITH. I don't know if that is Congress' function to tell States who they don't have, but it does seem to me that there is some advantage in a State knowing who the coordinator is before the next disaster strikes.

Chairman LAFALCE. Don't most States have a person or an office specifically designated for that purpose.

General THOMPSON. Yes. In every State, they have an emergency management office. Most of them are called emergency management agencies, and they are funded by FEMA to a large degree together with some staff of State employees. We handle all of the nuclear power plants and emergency responses underneath that agency, and they are the first response agency for a disaster.

The problem that the Governor had in our case, in this instance, is that our Emergency Management Division primarily administers to all emergency situations, but when we looked at Iowa, in this case, we had agricultural impacts. We had volunteerism and donations, we had so many areas that virtually fell outside of their umbrella, that the governor brought oversight up one notch higher.

Emergency Management is a very key part of my staff in dealing with these many things, and every State has that kind of an organization. In a lot of cases they went to that leader, to that person to lead the effort, but it doesn't cover the entire waterfront, I guess is the issue.

Mr. MITCHELL. Similarly, we have the Illinois Emergency Management Agency that responds to the same degree. We have established through the Governor's office an interagency ongoing flood recovery planning process which there are five teams that deal with various aspects of the State recovery, the business development team recovery team as led by the Department of Commerce and Community Affairs and one of my staff members.

Chairman LAFALCE. Mr. Mitchell, we have been joined by the Congressman from Illinois, Congressman Poshard. Mr. Mitchell headed up the disaster program recently. Mr. Poshard, I know you had other things which precluded your attendance. You had advised me of that.

Are there any questions that you might have at this time?

Mr. POSHARD. Mr. Chairman, thank you, and let me apologize for not being here. I had a meeting with the Corps of Engineers this morning on a large lock and dam project in my district and I just couldn't get here. But, Jeff, I am well aware of the work that you folks have done in Illinois with respect to the flood situation.

I did have a chance to read your statement with respect to your recommendations on how the administration might change some things. But, overall, I think your assessment that SBA has done a good job in this whole area is well received.

I am not going to ask you a lot of questions now. We have always had a good working relationship with your agency, and what I

would like to do is submit questions to you in writing. If you could return those in due course, I would really appreciate that.

Mr. MITCHELL. We would be pleased to, Glenn.

[The information may be found in the appendix.]

Mr. POSHARD. Thank you very much.

Thanks, Mr. Chairman.

Chairman LAFALCE. Thank you.

General Thompson, Mr. Mitchell, thank you very, very much.

This committee meeting is adjourned.

[Whereupon, at 12:10 p.m., the committee was adjourned, subject to the call of the Chair.]

OPENING STATEMENT OF THE HONORABLE JOHN J. LaFALCE
CHAIRMAN, COMMITTEE ON SMALL BUSINESS

Hearing on SBA's Disaster Assistance Program

November 19, 1993

This morning the Committee will conduct an oversight hearing on the U.S. Small Business Administration's disaster assistance program. SBA is the federal government's primary source of long-term financial assistance to help individuals, businesses and non-profit institutions recover from the effects of natural and other disasters.

SBA's disaster loan program has been one of the agency's primary responsibilities since its inception in 1953. Through fiscal 1993, SBA had approved 1,133,450 disaster loans for more than \$17.8 billion. Virtually no state or possession of the United States has been without significant disaster activity at one time or another. In fiscal 1993 alone, the agency approved 58,644 loans for more than \$ 1.67 billion, consequent to 162 separate disaster designations.

From 1977 to 1982, this Committee worked closely with SBA to restructure the agency's disaster program delivery system and personnel authorities. As a result of our efforts, since 1982 the disaster loan program has been administered by a separate division in SBA, distinct from and independent of the agency's regular district and regional office structure. Four "Area" offices are responsible for all disaster field operations and for nothing else. Each office is staffed by a core group of disaster specialists with civil service standing under a special personnel authority negotiated with the Office of Personnel Management, reflecting the unusual and demanding requirements of the disaster program. This disaster "cadre" of approximately 200 employees is supplemented by temporary employees when and where needed. During the peak of disaster activity last year, almost 2,000 temporary employees worked side by side with SBA's disaster cadre.

Under this area-based delivery system, responsibility for SBA's disaster program is basically vested in only five individuals: an Assistant Administrator for Disaster Assistance and four Area Directors who report directly to him. After more than ten years of intensive experience, I believe that this streamlined system has proven far superior to the program's prior implementation through SBA's more than 100 field offices which are responsible for the delivery of most other agency programs.

Today's disaster personnel are better trained and have opportunities for career advancement; policy is implemented uniformly from disaster to disaster and area to area; employees are interchangeable from office to office and highly mobile, providing great flexibility in coping with the unpredictable staffing demands

inherent in the disaster program; SBA district offices, and the many other SBA programs they are responsible for, are no longer disrupted by disasters in their jurisdictions; and, most importantly, disaster victims are better served under the delivery system now used by SBA.

With that said, I also believe that there are always ways to improve disaster program operations and services to disaster victims. This is particularly true when SBA is involved as part of a multi-agency Federal response effort in major disasters declared by the President. Such efforts are necessarily more complex than those in which SBA responds unilaterally using its own statutory authorities.

Of the 162 instances during fiscal 1993 in which SBA's disaster programs were triggered under one of four statutory authorities, 31 were major disasters declared by the President involving a multi-agency response coordinated by the Federal Emergency Management Agency (FEMA). In such presidential disasters, SBA provides personnel to serve in on-site Disaster Assistance Centers (DACs) established by FEMA to provide disaster victims with convenient access to representatives of all agencies with disaster responsibilities. SBA must also coordinate with FEMA on eligibility determinations for Individual and Family Grant (IFG) assistance; on flood insurance requirements, on the prevention of duplication of benefits prohibited by law, on hazard mitigation and buy out plans, on filing deadlines, and on public information.

Although the Committee's legislative jurisdiction extends only to SBA's disaster program, the Committee is naturally interested in how SBA's mission is affected when it is working in a multi-agency effort coordinated by FEMA. Accordingly, I invited FEMA to participate in today's hearing and am pleased that its new Director, James Lee Witt, agreed to my request. I am sure that I speak for the Committee in assuring him that we will continue to work closely with SBA to improve disaster services under our jurisdiction as part of the overall federal disaster assistance effort.

I am pleased that we have with us today Mr. Bernard Kulik, SBA's Assistant Administrator for Disaster Assistance and Mr. Richard W. Krimm, FEMA's Acting Associate Director for State and Local Programs. Also testifying today will be a second panel of representatives from state governments with recent major disaster activity who will share with us their experiences with the federal response effort. We are fortunate to have with us Brig Gen. Harold M. Thompson, Deputy Adjutant General of Iowa and Mr. Jeff Mitchell, State Director of the Illinois Small Business Development Center. We had also planned to have with us witnesses representing Missouri and California, but unfortunately emergencies arose in both states during the last week requiring the full attention of their disaster authorities, including new flooding in Missouri and arson legislation in California. We will include in the record written testimony submitted by these or other states.

OPENING REMARKS OF THE HON. GLENN POSHARD
COMMITTEE ON SMALL BUSINESS
November 19, 1993

Mr. Chairman and members of the Committee, I am pleased to be here this morning to hear testimony from Jeff Mitchell, State Director and Flood Coordinator of the State of Illinois.

Illinois was greatly affected by the flood of 1993. I am pleased that Mr. Mitchell is available to provide his perspective on the role of the Small Business Administration in providing assistance to those impacted by this disaster.

I look forward to hearing from the other members of the panel as well so the Committee can have a better understanding of the role the Small Business Administration can play in disaster relief.

Thank you, Mr. Chairman.



STATEMENT OF**BERNARD KULIK****ASSISTANT ADMINISTRATOR****FOR DISASTER ASSISTANCE****U. S. SMALL BUSINESS ADMINISTRATION****BEFORE THE COMMITTEE ON SMALL BUSINESS****U. S. HOUSE OF REPRESENTATIVES****NOVEMBER 19, 1993**

Good morning. I am Bernard Kulik, Assistant Administrator for Disaster Assistance at the Small Business Administration (SBA). It's a pleasure to appear before the Committee this morning to discuss SBA's disaster loan program. SBA's response to the Midwest floods, the most recent major catastrophe we have confronted, is a good opportunity to reflect on the current status of SBA's disaster program. SBA's disaster role is part of the larger Federal disaster response. In the Midwest flood disasters, the personal involvement and leadership of President Clinton brought a new spirit of cooperation and dedication to the entire Federal effort, helping to facilitate the delivery of assistance from SBA and other agencies.

SBA's disaster loans are the primary form of federal assistance for nonfarm, private sector disaster losses. They are the only SBA assistance not limited to small businesses: they help fund rebuilding for homeowners, renters, businesses of all sizes and nonprofit organizations. This assistance is a critical source of economic stimulation in disaster-ravaged communities, spurring employment and stabilizing tax bases.

When disaster victims borrow to repair uninsured damages, the low interest rates and long terms available from SBA make recovery affordable. SBA loans are tailored to the borrower's ability to repay, thereby minimizing interest subsidies. And these loans are repaid to the Treasury, reducing federal disaster costs compared to other forms of assistance, such as grants. Moreover, providing loans instead of grants eliminates an incentive for property owners to underinsure against risk. Disaster loans require borrowers to maintain appropriate hazard and flood insurance coverage.

The need for SBA disaster loans is as unpredictable as the weather. In Fiscal Year (FY) 1990, after Hurricane Hugo and the Loma Prieta earthquake in the San Francisco bay area, SBA approved 51,970 disaster loans for \$1.32 billion. In FY 1991, total disaster loan approvals fell to 12,451 for \$356 million. After the Oakland fire, the Los Angeles civil disorder and the start of the response to Hurricane Andrew and Typhoon Omar, FY 1992 disaster lending increased to 23,417 loan approvals for over \$794 million. In FY 1993, as a result of Hurricanes Andrew and Iniki, Typhoon Omar, the winter coastal storms on the East Coast, the Midwest floods and other disasters, SBA approved 58,644 disaster loans for \$1.67 billion, the highest amount in our history.

Since FY 1990, SBA has approved 146,482 disaster loans for more than \$4.1 billion, an average of nearly 37,000 disaster loans for more than \$1 billion annually. Since 1953, SBA has approved more than 1,133,000 disaster loans for more than \$17.8 billion.

During the early 1980s, and with the strong support of this Committee, SBA reorganized its disaster loan making system into four Disaster Area Offices. Professional management and staff dedicated solely to making disaster loans report directly to a single program head in Central Office in Washington, D.C. The supervisory and technical leadership responsibilities are performed by a disaster "cadre," a group of about 200 employees with full competitive civil service status which is guaranteed employment only six months of each year.

To attract and retain outstanding employees, we have kept the total number of cadre level down to a level we expect to employ full time all year. The cadre leadership is supplemented by temporary employees, the number of which fluctuates widely in accordance with workload needs. The number of disaster temporary employees reached a peak of about 1,900 during this past fiscal year. Currently, the number of disaster temporary employees is down to about 860.

The new program structure has evolved and matured since the reorganization. We have refined our internal procedures, developed key computer support and information systems, trained our core staff and strengthened the organization in a variety of ways. The quality of our work, especially performing thorough analysis and adhering to sound credit practices, has been one of our priorities. The technical skills of the disaster staff have been upgraded, and we have concentrated on recruiting outstanding employees. Additionally, we have placed strong emphasis on national uniformity, which is not only important to the quality of our disaster lending, but also to our ability to shift employees and resources among offices to meet sudden changes in

workload. This interchangeability has been instrumental in achieving a very fast response time while maintaining high quality.

We are exceedingly proud of our organization which has helped us respond so successfully to the unusual number of disasters during the past four years. We are also pleased that the permanent, professional staff in our disaster offices has allowed our regular field offices to continue the Agency's vital work with small businesses with minimal disruption.

Great Midwest Flood of 1993

The Great Midwest Flood of 1993 affected nine states (Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin). All were declared major disaster areas by the President. The total declared area is vast, covering 524 counties. This area presented a logistical challenge in providing direct service; the flood area extended to three of the four Disaster Area Offices (Atlanta, Ft. Worth and Sacramento). The fourth office, in Niagara Falls, provided substantial support to the others, so all of the Disaster Area Offices played a significant role in the response to the Midwest floods.

SBA disaster loan application activity has been heavy, as shown in Table A. It is apparent that the rate of application returns (applications filed with SBA as a share of applications issued) is abnormally low. Generally, about 40 percent of applications issued are returned to SBA as loan requests. The remaining victims usually sustained minor damage and do not seek government assistance.

In the Midwest floods through close of business November 14, only 23.2 percent of the applications issued had been returned to SBA. The application filing deadline for home and business physical losses was set by the Federal Emergency Management Agency (FEMA) as November 15, and it has just been extended to December 15. Nevertheless, it is already apparent that the application return rate will be abnormally low. SBA has made extensive efforts to contact and offer help to those who have not filed loan applications. Based on our contacts with the nonfilers, we believe several factors account for the low application rate. Table B lists the primary reasons. Following are several of the reasons given to the SBA:

1. Many flood victims had only minor damage, such as basement flooding, and decided they do not need federal help;

2. The population is fiscally conservative and reluctant to incur debt; and
3. Indecision about whether to rebuild or repair in the flood zone, or whether to move, especially to a site out of the flood zone.

As of November 14, SBA had approved 13,148 disaster loans for \$387.1 million (see Table C for a detailed breakdown by state and loan type). This total continues to climb daily and already exceeds that for the Los Angeles civil disorder (5,562 disaster loans for \$332.4 million) and for Hurricane Iniki (5,872 disaster loans for \$203.4 million). In terms of SBA disaster lending, the Midwest floods are not as large as Hurricane Andrew (25,833 disaster loans for \$676.6 million), Hurricane Hugo (26,938 disaster loans for \$473.4 million) or the Loma Prieta earthquake (16,033 disaster loans for \$592.6 million).

In many respects, the Midwest floods are typical of other disasters. About 80 percent of SBA's disaster loans are to homeowners and renters, with the remaining 20 percent to businesses. Of the disaster loan dollars, generally about half are to homeowners and renters and about half are to businesses. The Midwest floods closely parallel these norms. Additionally, the average disaster home loan size for the Midwest floods (\$18,171) is close to the national average for FY 1993 (\$20,231).

However, the average business physical disaster loan size in the Midwest (\$71,787) is significantly greater than the national average for FY 1993 (\$51,653). This reflects more severe business damage than that inflicted by average disasters. Flood damage was concentrated along waterways and transportation routes. As could be expected, the average physical disaster business loan size is especially large in the areas of the most severe damage (\$99,615 in Missouri, \$71,702 in Iowa and \$52,606 in Illinois). Table D shows the average loan size by state and loan type.

Both the Congress and the SBA made some changes to address the unique needs of the Midwest floods.

Congress increased the limit on disaster business loans from \$500,000 to \$1,500,000, for all disasters commencing on or after April 1, 1993. This statutory limit applies to all disaster loans to a borrower (including its affiliates) from any single disaster. The law retains SBA's discretion to waive this statutory limit for businesses which are major sources of employment. Through November 15, SBA has approved 79 disaster loans to businesses for more than the previous \$500,000 ceiling. These loans total \$71.9 million, or an average of \$909,504 per borrower. Table E lists the number and total amount of

businesses with disaster loans over the previous \$500,000 limit by state.

SBA disaster loans are crucial to businesses recovering from a disaster. Jobs in these companies usually depend on SBA disaster assistance. We found in the past that each physical disaster business loan borrower averages about 10.5 employees. Applying that average to the Midwest floods, the 1,734 physical business borrowers with loans approved through COB November 14 would have about 18,207 employees. And that estimate does not include the employees of the share of the 1,068 economic injury disaster loan borrowers which are not also physical loan borrowers. While SBA has not collected employment data on businesses borrowing more than \$500,000, we know that the businesses receiving loans for more than the previous \$500,000 limit employ substantially more workers than the average disaster business loan borrower. Clearly, the Congressional action to increase the disaster business loan limit has benefited significant numbers of businesses, helped preserve the economic bases of numerous communities, and saved thousands of jobs. Our experience to date indicates that the proportion of disaster business loans over the old \$500,000 limit is abnormally high in the Midwest floods.

SBA's initiatives to respond to the victims of the Midwest flooding are an important part of this story.

1. Expedited Processing. To assist victims of the Midwest floods, SBA Administrator Erskine Bowles asked the disaster loan program to reduce its application processing times. He gave us the goal of completing processing most loan applications within seven to 20 days, with home loans being processed more quickly than business loans.

We have met those goals -- an impressive achievement. From receipt to decision, we have processed home loan applications in an average of 7 days, with 72 percent of the home loans completed within 7 days. The preparation and issuance of loan closing documents took about one additional day.

For business physical loan applications, from receipt to decision, we have averaged 14 days, with 86 percent completed within 21 days. The preparation and issuance of loan closing documents averaged about three additional days.

And for rental property loans and economic injury disaster loans, the average processing times have been even faster than for the physical business loans.

We are very pleased to have achieved this record of prompt service. We are also grateful to the Internal Revenue Service for their invaluable assistance. Instead of the SBA asking victims to locate copies of their tax returns for SBA, we have given the victims the alternative of authorizing the IRS to provide the tax return information directly to SBA by signing a simple IRS form. Thousands of victims have avoided the burden and delay of obtaining copies of their own returns by using this procedure. The IRS has been extremely cooperative in providing rapid turnaround to our requests so we can expedite processing.

2. Simplified Disaster Business Loan Application. Before the Midwest floods, SBA had started working on a revised and simplified disaster business loan application. In response to feedback we received that some businesses were encountering difficulty in meeting all of SBA's application filing requirements, Administrator Bowles asked us to quickly complete an intensive review of our process. We did, and we have adopted a substantially simplified disaster business loan application. A copy of the simplified form now in use is attached to my written statement.

The simplified application was made available to all flood victims who had not already submitted an application. The response has been extremely positive. Additionally, we are now developing a new set of instructions and program information, which we plan to issue together with a new business loan application format. We have also started making similar improvements to the disaster home loan application as well.

3. Increased Eligibility to Relocate out of Flood Zone. SBA expanded its loan eligibility giving property owners in flood hazard areas more assistance for relocation. In cases of substantial flood damage, as defined by the National Flood Insurance Program, SBA increased eligibility for owners of property in flood hazard areas to an amount sufficient to build or buy a replacement property outside the flood hazard area. This replacement cost alternative is especially beneficial to those whose cost of repairs (which was the previous eligibility limit) is not sufficient to fund the building or purchase of a replacement property outside a flood hazard area.

This option helps avoid future flood devastation by making relocation to a safer site possible. The initiative complements the efforts of other federal agencies, as well as state and local officials.

SBA had 899 disaster employees working at the peak of the Midwest flood response. As of November 1, 536 SBA disaster employees were working on these disasters. Tables F and G attached to my written statement present a breakdown of these totals by each state and SBA Disaster Area Office location. As the loan processing phase winds down, substantial SBA staff will still be required to close loans, disburse funds, monitor construction progress, modify loan terms, and provide a variety of services and assistance to the borrowers. In total, SBA estimates that salary and expense funds expended to assist victims of the Midwest floods will be about \$45 million.

SBA Partnership with the Federal Emergency Management Agency

In fulfilling our key disaster assistance role, SBA works in partnership with the Federal Emergency Management Agency (FEMA). FEMA is the federal coordinator in Presidentially declared disasters. Immediately after a disaster declaration by the President, FEMA establishes Disaster Application Centers (DACs) in disaster communities. DACs are one-stop centers where all involved federal, state, local and private disaster agencies are available. Victims first register with FEMA, and are then referred to the agencies and programs which best address their needs. SBA is an active participant in all DACs.

Additionally, FEMA seeks to register disaster victims by telephone. FEMA's primary tele-registration center is in Denton, Texas. During the Midwest floods, FEMA concentrated heavily on tele-registration. For the first time, SBA located staff at the registration center to take calls from victims referred to SBA for possible assistance. With FEMA's help, SBA disaster loan applications were mailed directly to victims who registered by telephone. SBA staff spent about 648 person days at the FEMA center in Denton.

FEMA established DACs in 179 locations throughout the 545 declared counties in the 9 state flood area. SBA staffed all the DACs for their full duration. We devoted 2,101 person days to DAC staffing, or an average of nearly 12 person days per DAC location. Table H attached to my written statement details this activity by state.

After SBA disaster loan applications are issued, many people need help to complete the application. To address this need, SBA establishes workshops throughout the disaster area. SBA staff and volunteers at the workshops assist victims to complete applications; they explain how to get missing information; answer questions; call victims who have not returned applications; attend local meetings to discuss available assistance from SBA, and take other proactive steps to ease access to assistance.

SBA begins operating workshops while FEMA is running DACs, and we continue the workshops after the DACs close. Additionally, SBA establishes workshops in communities where there were no DACs.

As applications are received and loans are approved, SBA workshops take on a new mission. Staff helps borrowers close loans and obtain disbursements, answering questions and initiating the inevitable changes to loan terms and conditions which arise from the dynamic and unpredictable course of disaster recovery.

During the Midwest floods, SBA operated 95 workshops, devoting 6,818 person days to these operations through November 1, an average of 72 person days per workshop. Table I attached to my written statement details this workshop activity by state.

The new leadership at FEMA, headed by Director James Lee Witt, has been working very hard to improve interagency coordination and communication. FEMA gave SBA substantial input into newsletters circulated in the Midwest flood area and invited SBA to participate regularly in a FEMA satellite broadcast in the Midwest. At both the headquarters and field levels, SBA and FEMA have met regularly and cooperated to an unprecedented degree.

Although the programs administered by FEMA and SBA are very different, a close working relationship is important to the effective delivery of all forms of disaster assistance. At SBA, we are pleased with the direction Director Witt is taking to improve the delivery of disaster assistance.

In the Midwest floods, this tone of improved cooperation was established from the outset, when both the President and Vice President travelled several times to the flooded area in the Midwest. President Clinton's "Flood Summit" in St. Louis, with all affected states and all involved federal agencies, facilitated communication and encouraged partnerships to solve problems. The President designated Agriculture Secretary Espy to coordinate the federal role in the long term recovery. Under Secretary Espy's leadership, a variety of task forces have been meeting, coordinating and planning the next steps. SBA has been an active participant in those task forces affecting potential SBA disaster loan applicants. These interagency efforts contribute to improved program delivery and Secretary Espy's leadership is helping keep the focus on the reality that the Midwest flood recovery requires a commitment long after the story fades from the news.

Thank you. I appreciate the opportunity to testify this morning. I am happy to answer any questions you may have.

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Table A:**SBA Disaster Loan Application Activity for Midwest Floods**

(all data through COB November 14, 1993)

Disaster Loan Applications Issued	98,324
Disaster Loan Applications Received	22,804
Applications Verified (physical only)	18,637
(less applications withdrawn)	(745)
Processing Decisions Completed:	20,000
Loans approved	13,148 (66% approval rate)
amount approved	\$387.2 million
Applications declined	6,852
Applications Pending:	2,059

Table B:**Primary Reasons for Low Rate of Loan Application Filing In the Midwest Floods**

- Many victims had only minor damage, such as basement flooding, and decide they do not need federal help,
- A fiscally conservative population reluctant to incur debt,
- Victims with financial capability to fund the flood repairs without federal assistance,
- Indecision about whether to rebuild or repair, or whether to move, especially to a site out of a flood zone,
- Property owners exposed to more flooding until levees are rebuilt and unwilling to make repairs until the property is again protected by a levee,
- Businesses with economic injury often wait for the need to become clear before filing,
- Concern about the health of local economy, especially in agricultural areas,
- Some unknown number of victims obtained multiple applications, one by mail after registering by telephone with FEMA and another directly from SBA at a visit to a Disaster Application Center (DAC),
- A high proportion of elderly residents who are often reluctant to take out long term loans for which they are eligible,
- Hope that news reports about "buy-outs" will replace a need for a loan, and
- Victims who responded to press reports about grants, registered by telephone, and were not interested when referred for loan assistance.

Table C:

SBA Disaster Loan Approvals for Midwest Floods

(data through COB November 14, 1993)

State	Total		Home		Business Physical		EIDL	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Illinois	2,737	\$ 78,989,700	2,428	\$ 62,914,700	223	\$ 11,731,200	86	\$ 4,343,800
Iowa	2,839	77,225,800	2,071	23,086,000	440	31,548,800	328	22,591,000
Kansas	961	21,401,800	776	12,161,300	114	5,015,400	71	4,225,100
Minnesota	633	10,970,500	540	6,457,900	60	2,333,000	33	2,179,600
Missouri	3,807	159,128,900	2,729	60,970,400	681	67,837,800	397	30,320,700
Nebraska	252	8,151,200	198	1,841,000	26	1,229,800	28	5,080,400
North Dakota	922	10,938,600	807	8,051,200	79	1,424,300	36	1,463,100
South Dakota	531	11,481,300	409	7,579,700	58	1,248,600	64	2,653,000
Wisconsin	466	8,898,100	388	5,198,500	53	2,109,400	25	1,590,200
TOTAL	13,148	387,185,900	10,346	188,260,700	1,734	124,478,300	1,068	74,446,900

Table D:

SBA Disaster Loan Average Size for Midwest Floods

(data through COB November 14, 1993)

State	Total	Home	Business Physical	EIDL
Illinois	28,860	25,912	52,606	50,509
Iowa	27,202	11,147	71,702	68,875
Kansas	22,270	15,672	43,995	59,508
Minnesota	17,331	11,959	38,833	66,048
Missouri	41,799	22,342	99,615	76,375
Nebraska	32,346	9,298	47,300	181,443
North Dakota	11,864	9,977	18,029	40,642
South Dakota	21,622	18,532	21,528	41,453
Wisconsin	19,095	13,398	39,800	63,608
Total for Midwest Floods	29,448	18,196	71,787	69,707
Comparison: FY 1993 National Total	28,530	20,231	51,653	48,254

Table E:**SBA Disaster Business Borrowers with Loan Approvals over \$500,000
(for disasters commencing 4/1/93 or after)**

(all data through November 15, 1993)

<u>State</u>	<u>Number of Business Borrowers</u>	<u>Total Amount of Disaster Loans</u>
Midwest Flood Disasters		
Illinois	3	\$ 2,648,500
Iowa	21	17,662,300
Kansas	3	2,048,000
Kentucky*	3	2,306,600
Minnesota	2	1,124,100
Missouri	42	41,657,900
Nebraska	2	1,792,700
Other Disasters		
California	1	623,900
Guam	2	1,357,500
Louisiana	1	629,300
<u>TOTAL</u>	<u>79</u>	<u>\$71,850,800</u>

* economic injury disaster loans approved in counties contiguous to Illinois counties included in Presidential flood declaration

Table F:
Peak SBA Staffing for Midwest Floods

<u>Place</u>	<u>No. of SBA Disaster Employees</u>
Illinois	57
Iowa	113
Minnesota	10
Missouri	93
Kansas	37
Nebraska	27
North Dakota	69
South Dakota	42
Wisconsin	9
Disaster Area 2, Atlanta, GA	129
Disaster Area 3, Ft. Worth, TX	195
Disaster Area 4, Sacramento, CA	118
<u>TOTAL</u>	<u>899</u>

Table G:
Current* SBA Staffing for Midwest Floods

<u>Place</u>	<u>No. of SBA Disaster Employees</u>
Illinois	46
Iowa	35
Minnesota	5
Missouri	50
Kansas	10
Nebraska	1
North Dakota	16
South Dakota	11
Wisconsin	9
Disaster Area 2, Atlanta, GA	104
Disaster Area 3, Ft. Worth, TX	185
Disaster Area 4, Sacramento, CA	64
<u>TOTAL</u>	<u>536</u>

* as of November 1, 1993

Table H:

SBA Staffing at Disaster Application Centers (DACs) for Midwest Floods

Note: Disaster Application Centers (DACs) are temporary field locations established by the Federal Emergency Management Agency (FEMA) and the states. DACs are one-stop centers where representatives of all Federal, state, local and private disaster programs and services provide direct service to disaster victims. SBA actively participates in all DACs as long as FEMA keeps them open. The number of SBA person days at DACs is a function of both the number of DACs and the duration of the DACs. Some DACs are mobile and very short-lived.

<u>State</u>	<u>Number of DACs</u>	<u>SBA Person Days at DACs*</u>
Illinois	19	381
Iowa	39	466
Kansas	24	201
Minnesota	10	78
Missouri	56	522
Nebraska	3	12
North Dakota	10	293
South Dakota	7	110
Wisconsin	11	38
<u>TOTAL</u>	<u>179</u>	<u>2,101</u>

* as of November 1, 1993

Table I:**SBA Workshops and Staffing for Midwest Floods**

Note: SBA establishes workshops in communities with significant numbers of disaster victims. SBA workshops are usually located near DACs, and are the places where SBA offers direct assistance to victims in completing loan applications, answering questions, etc. When FEMA closes DACs, SBA operates the workshops as long as the need for direct services to the victims continues. As SBA loans are approved, SBA also uses the workshops to assist borrowers in closing the loans, executing required loan documents, and answering questions which arise during the recovery.

<u>State</u>	<u>No. of Workshops</u>	<u>SBA Person Days*</u>
Illinois	20	1243
Iowa	10	1530
Kansas	10	297
Minnesota	11	167
Missouri	12	1713
Nebraska	3	99
North Dakota	10	1081
South Dakota	7	530
Wisconsin	12	158
<u>TOTAL</u>	<u>95</u>	<u>6.818</u>

* as of November 1, 1993

SBA DISASTER BUSINESS LOAN APPLICATION

OMB No. 3245-0017

U.S. Small Business Administration

Physical Injury Filing Deadline

Economic Injury Filing Deadline

NOTE:

 Physical Injury

 Economic Injury

1. APPLICANT'S LEGAL NAME		2. TELEPHONE NUMBER (including area code)	
3. TRADE NAME (if different from legal name)		4. FEDERAL EMPLOYER'S TAX I.D. NUMBER (if applicable)	
5. MAILING ADDRESS number, street, and/or P.O. Box No. City state zip			
6. DAMAGED PROPERTY ADDRESS number, street, or rural route City county state zip			
7. BUSINESS LOCATED ON <input type="checkbox"/> Owned Property <input type="checkbox"/> Leased Property		8. DATE BUSINESS ESTABLISHED:	
9. ORGANIZATION TYPE. <input type="checkbox"/> sole proprietorship <input type="checkbox"/> partnership <input type="checkbox"/> limited partnership <input type="checkbox"/> corporation <input type="checkbox"/> nonprofit organization			

10. AMOUNT OF LOAN REQUEST If unknown enter a question mark	PHYSICAL DAMAGE	ECONOMIC INJURY	11. UNDER CURRENT MGMT. SINCE
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12. MANAGEMENT Complete for each proprietor, each limited partner who owns 20% or more interest and each general partner, or each stockholder owning 20% or more voting stock						
Name	Title/Office	% Owned	Social Security No.	(Area Code) Telephone Number	Race*	Sex*
Name	Title/Office	% Owned	Social Security No.	(Area Code) Telephone Number	Race*	Sex*
Name	Title/Office	% Owned	Social Security No.	(Area Code) Telephone Number	Race*	Sex*
Name	Title/Office	% Owned	Social Security No.	(Area Code) Telephone Number	Race*	Sex*
Name	Title/Office	% Owned	Social Security No.	(Area Code) Telephone Number	Race*	Sex*

* This data is collected for statistical purposes only. It has no bearing on the decision to approve or decline this loan application.

13. Are any of the above individuals (a) presently under indictment, on parole or probation, or have they ever been (b) charged with or arrested for any criminal offense other than a minor motor vehicle violation, or (c) convicted, placed on pretrial diversion, or placed on any form of probation including adjudication withheld pending probation for any criminal offense other than a minor motor vehicle violation?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
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14. I have not paid a representative (attorney, accountant, etc.) to assist me with this application except	
name and address of representative (please print)	fee charged or agreed upon
If anyone completes this application on your behalf, whether there is any charge or not, that person must sign in this space below	
signature of representative	date signed

Parts 103, 104, and 122 of Title 13 of the Code of Federal Regulations contain provisions covering appearances and compensation of persons representing SBA applicants. Section 103.13-5 authorizes the suspension or revocation of the privilege of any such person to appear before SBA for charging a fee deemed unreasonable by SBA for the services actually performed, charging of unreasonable expenses, or violation of any applicable regulation. In addition, whoever commits any fraud, by false or misleading statement of representation, or by conspiracy, shall be subject to the penalty of any Federal or state statute.

If your application is approved, you may be eligible for additional funds to cover the cost of mitigating measures. It is not necessary for the description and cost estimates to be submitted with the application. SBA approval of the mitigating measures will be required before any loan increase. If you are interested in having SBA consider this increase, please check this box

IF YOUR LOAN IS APPROVED, ADDITIONAL INFORMATION WILL BE REQUIRED PRIOR TO LOAN CLOSING. YOU WILL BE ADVISED BY WRITING WHAT DOCUMENTS WILL BE NEEDED TO OBTAIN YOUR FUNDS.

CONTINUE ON REVERSE SIDE

OTHER INFORMATION		
15. The applicant or its owners have never been involved in bankruptcy or insolvency proceedings except:	Provide dates and details	
16. The applicant or its owners have no outstanding judgements, tax liens, or pending lawsuits against them except:	Provide dates and details	
17. No owner, owner's spouse or household member work for SBA, Small Business Advisory Council, SCORE, ACE, or any other Federal Agency except:	Provide names and organizations	
18. Within the past 1 year, no owner with 20% or more interest or general partner has been convicted of a criminal offense committed during and in connection with a riot or civil disorder except:	Provide dates and details	
19. The Applicant or its owners have never had any Federal loans except:	Provide dates and details	
FILING REQUIREMENTS (please submit)		
20. Copies of the 3 most recent, complete Federal Income Tax Returns including all schedules. If these are not readily available, complete and sign the attached IRS Form 8821 to meet this requirement. If this is a new business that has not filed 3 Federal Tax Returns, submit the ones you have. SBA will contact you if any additional information is needed (i.e., forecasts, etc.).		
21. A current (dated within 90 days of application) business balance sheet (SBA Form 413 may be used for sole proprietorships), a current profit and loss statement, and a current schedule of liabilities. (Sample format for schedule of liabilities attached for your convenience).		
22. For each owner having a 20% or more interest and each general partner, a current (dated within 90 days of application) personal financial statement (SBA Form 413 may be used for this purpose) and a complete copy, including all schedules, of the most recent Federal Income Tax Return. If tax returns are not readily available, complete and sign the attached IRS Form 8821 to meet this requirement.		
23. A complete copy, including all schedules, of the latest Federal Income Tax Return for any affiliate. Affiliates include business parents, subsidiaries or other businesses with common ownership or management. If these tax returns are not available, have an authorized individual complete and sign the attached IRS Form 8821 to meet the requirement.		
24. If your application includes physical injury, complete and sign the attached SBA Form 739A, "Verification of Business Disaster Loss."		
25. If your insurance covers this loss (regardless of the current status of your claim), please provide the name and telephone number of your agent and/or claims adjuster.		
26. If your application includes economic injury please submit the attached SBA Form 1368, "Additional Filing Requirements - Economic Injury Disaster Loan (EIDL) "		
AUTHORIZATIONS		
Unless I check this box, I authorize my insurance company to release to SBA all records and information pertaining to losses caused by this disaster.		
<input type="checkbox"/> NO		
Unless I check this box, you have my permission, to release information to other local, private, or State disaster relief services		
<input type="checkbox"/> NO		
AGREEMENTS AND CERTIFICATIONS		
APPLICANT CERTIFIES AND AGREES THAT:		
Applicant agrees that SBA may release information contained in this application to other Federal agencies for disaster related purposes		
No Person shall, on grounds of age, color, handicap, marital status, national origin, race, religion or sex, be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under any program or activity for which applicant receives Federal financial assistance from SBA		
Applicant will report to the SBA Office of the Inspector General, Washington, D C 20416, any Federal employee who offers, in return for compensation of any kind, to help get this loan approved. Applicant has not paid anyone connected with the Federal government for help in getting this loan		
All information in this application is true and complete to the best of my knowledge. All financial statements submitted with the application fully and accurately present the financial position of the business. No disclosures have been omitted in these financial statements. This certification also applies to any financial statements submitted subsequent to this date. Applicant understands that false statements may result in the forfeiture of benefits and possible prosecution by the U.S. Attorney General (reference 18 U.S.C. 1001 and/or 15 U.S.C. 645)		
SIGNATURE	TITLE	DATE

NOTE: PLEASE READ, DETACH AND RETAIN FOR YOUR RECORDS

STATEMENTS REQUIRED BY LAWS AND EXECUTIVE ORDERS

Federal executive agencies, including the Small Business Administration (SBA), are required to withhold or limit financial assistance and to provide special notices to applicants in order to comply with legislation passed by the Congress and Executive Orders issued by the President. SBA has issued regulations implementing these laws and executive orders and they are contained in Parts 112, 113 and 116, Title 13, Code of Federal Regulations (CFR), Chapter 1, or Standard Operating Procedures (SOP's). This form contains a brief summary of the various laws and executive orders that affect SBA's disaster loan program and gives applicants the notices required by law or otherwise.

**Right to Financial Privacy Act of 1978
(12 U.S.C. 3401)**

This is notice to you, as required by the Right to Financial Privacy act of 1978, of SBA's access rights to financial records held by financial institutions that are or have been doing business with you or your business, including a financial institution participating in a loan or loan guaranty. The law provides that SBA shall have a right of access to your financial records in connection with its consideration or administration of assistance to you in the form of a Government loan or loan guaranty agreement. SBA is required to provide a certificate of its compliance with the Act to a financial institution in connection with its first request for access to your financial records, after which no further certification is required for subsequent access. The law also provides that SBA's access rights continue for the term of any approved loan or loan guaranty. No further notice to you of SBA's access rights is required during the term of such agreement. The law also authorizes SBA to transfer to another Government authority any financial records included in an application for a loan, or concerning an approved loan or loan guaranty, as necessary to process, service or foreclose a loan or loan guaranty or to collect on a defaulted loan or loan guaranty. No further transfer of your financial records to another Government authority will be permitted by SBA except as required by or permitted by law.

**Freedom of Information Act
(5 U.S.C. 552a)**

This law provides, with some exceptions, that SBA must supply information reflected in Agency files and records to a person requesting it. Information about approved loans that will be automatically released includes, among other things, statistics on our loan programs (individual borrowers are not identified in the statistics) and other information such as the names of the borrowers (and their officers, directors, stockholders or partners), the collateral pledged to secure the loan, the amount of the loan, its purpose in general terms and the maturity. Proprietary data on a borrower would not routinely be made available to third parties. All requests under this Act are to be addressed to the appropriate SBA office and be identified as a Freedom of Information request. Any person concerned with requesting information under the Freedom of Information Act may contact the Director, Freedom of Information/Privacy Acts Division, Small Business Administration, Washington, DC 20416, for more information about the Agency's procedures.

**Occupational Safety and Health Act
(15 U.S.C. 651 et seq.)**

This legislation authorizes the Occupational Safety and Health Administration in the Department of Labor to require businesses to modify facilities and procedures to protect employees or pay penalty fees. In some instances the business can be forced to cease operations or be prevented from starting operations in a new facility. Therefore, in some instances, SBA may require additional information from an applicant to determine whether the business will be in compliance with OSHA regulations and allowed to operate its facility after the loan is approved or disbursed. All borrowers must certify to SBA that OSHA requirements that apply to the borrower's business have been determined and that the borrower is, to the best of its knowledge, in compliance.

Debt Collection Act of 1982 and Deficit Reduction Act of 1984
(31 U.S.C. 3701 et seq. and other titles)

These laws require SBA to aggressively collect any loan payments which become delinquent. SBA must obtain your taxpayer identification number when you apply for a loan. If you receive a loan and do not make payments when they become due, SBA may take one or more of the following actions:

- Report the delinquency to credit bureaus
- Offset your income tax refunds or other amounts due you from the Federal Government
- Refer the account to a private collection agency
- Suspend or disbar the firm from doing business with the Federal Government
- Refer your loan to the Department of Justice
- Foreclose on collateral or take other actions permitted in the loan instruments

Policy Concerning Representatives and Their Fees

An applicant for a loan from SBA may obtain the assistance of any attorney, accountant, engineer, appraiser or other representative to aid in the preparation and presentation of the application to SBA; however, such representation is not mandatory. In the event a loan is approved, the services of an attorney may be necessary to assist in the preparation of closing documents, title abstracts, etc. SBA will allow the payment of reasonable fees or other compensation for services performed by such representatives on behalf of the applicant.

There are no "authorized representatives" of SBA, other than our regular salaried employees. Payment of any fee or gratuity to SBA employees is illegal and will subject the parties to such a transaction to prosecution.

SBA Regulations (Part 103, Sec. 103.13-5(c)) prohibit representatives from charging or proposing to charge any contingent fee for services performed in connection with an SBA loan unless the amount of such fee bears a necessary and reasonable relationship to the services actually performed; or to charge for any expenses which are not deemed by SBA to have been necessary in connection with the application. The Regulations (Part 120, Sec.120.104-2) also prohibit the payment of any bonus, brokerage fee or commission in connection with SBA loans.

In line with these Regulations, SBA will not approve placement or finder's fees for the use or attempted use of influence in obtaining or trying to obtain an SBA loan, or fees based solely upon a percentage of the approved loan or any part thereof.

Fees which will be approved will be limited to reasonable sums of services actually rendered in connection with the application or the closing, based upon the time and effort required, the qualifications of the representative and the nature and extent of the services rendered by such representatives. Representatives of the loan applicants will be required to execute an agreement as to their compensation for services rendered in connection with said loan.

It is the responsibility of the applicant to set forth in the appropriate section of the application the names of all persons engaged by or on behalf of the applicant. Applicants are required to advise the SBA disaster office in writing the names and fees of any representative engaged by the applicant subsequent to the filing of the application. This reporting requirement is approved under OMB Approval Number 2345-0016.

Any loan applicant having any question concerning the payments of fees, or the reasonableness of fees, should communicate with the Field Office where the application is filed.

Statement of
Richard W. Krimm
Acting Associate Director
State and Local Programs and Support Directorate
Federal Emergency Management Agency
Before the
Committee on Small Business
U.S. House of Representatives
November 19, 1993

I am pleased to have the opportunity to appear before the Committee today to discuss the participation of the Small Business Administration (SBA) in the coordinated Federal response to the recent flooding in the Midwest. I will also be speaking about how FEMA enforces floodplain management requirements, and how mandatory purchase requirements for flood insurance are managed in our nation.

Emergency management is based on one fundamental principle -- people helping people. When FEMA's Director James Lee Witt first took office, he issued a challenge to all FEMA employees and to the Federal government to strengthen that principle by working toward a national partnership in emergency management. There were two key elements to that challenge. The first was that at those times of highest stress, visibility, and tremendous human suffering, it is both the expectation and obligation of the Federal government to respond quickly when our State and local partners need us, and to effectively meet their needs. The second was that our success in providing assistance following a disaster is measured by each individual, family, community, and State who turns to us in their time of need, and by our ability to meet those needs in cooperation with our partners.

I am very proud of the way that FEMA, the SBA, and the rest of the Federal government responded to the floods and the degree to which we demonstrated not only what *people helping people* really means, but that partnership and teamwork deliver results. Together, we have brought needed assistance to tens of thousands of disaster victims, provided them shelter, assisted their businesses, and fostered their immediate and long-term recovery.

This has been no easy task. With over 500 counties designated to receive Federal assistance in the nine affected States, FEMA alone has provided nearly \$200 million to help flood victims in the form of disaster housing assistance, disaster unemployment assistance, and Individual and Family Grants. Over 130,000 people in the Midwest have registered for Federal assistance. More than 5,600 jurisdictions sustained damage and are seeking grants for the repair and restoration of public facilities and infrastructure. We are in the process of following up with hundreds of communities which have expressed their interest in property acquisition and relocation projects to permit them to move out of the floodplain, out of harm's way. And these figures represent primarily FEMA's contribution to this effort -- they do not include much of the assistance provided by other Federal agencies, which totals well into the hundreds of millions of dollars.

Much of the reason that we have had such success in these disasters is because we have been *proactive*. Unlike in the past, we did not wait to be called upon -- we initiated contact, established plans, placed personnel, and worked hand-in-hand with our State counterparts. In doing so, we were able to continually monitor the situation in the Midwest, identify needs and potential trouble spots before they became real problems, and deliver the required assistance to disaster victims.

FEMA AND SBA: THE COORDINATED FEDERAL EFFORT

As part of the coordinated Federal effort, the Small Business Administration played a tremendous role in this success. Since the flood disasters were declared this past summer, SBA has disbursed well over \$350 million in low-interest loans to disaster victims, families, and businesses to spur their immediate and long-term recovery. This assistance has been a tremendous boost to those who lost their homes and livelihoods to the flood waters. SBA should take pride in what they have done to help rebuild the lives of these victims.

FEMA's primary relationship with the SBA is through the Individual and Family Grant program. In order to be eligible for an Individual and Family Grant, a disaster victim must first apply for a SBA low-interest loan. An Individual and Family Grant can only be offered if a disaster victim is turned down by the Small Business Administration, or if the victim still has necessary expenses or serious needs after the SBA makes the maximum possible loan given the applicant's repayment ability. Because of this relationship, FEMA and the SBA work very closely throughout the recovery operation.

In the Midwest floods, one of the clearest examples of this teamwork was in the taking of disaster assistance applications. To receive Federal assistance, individuals apply through either Disaster Application Centers (DACs) or through the National Teleregistration Center (NTC). DACs are centers established in the disaster area to provide disaster victims on-site access to Federal, State and local government assistance, as well as voluntary agency assistance programs and services, for which they may be eligible. DAC locations are coordinated with State and local officials to ensure that they meet the needs of the affected area. To accommodate applicants who are unable or unwilling to visit a DAC, victims may apply for assistance through FEMA's full-service National Teleregistration Center in Denton, Texas. The NTC allows victims to phone, toll-free, to apply for the full spectrum of Federal assistance available under a Presidential disaster declaration.

As we have done in the past, FEMA and the Small Business Administration worked together from the very early days in these disasters in order to ensure that SBA disaster loan specialists were on-site at FEMA's Disaster Application Centers throughout the flood area. These officials worked alongside disaster assistance personnel from FEMA, other Federal agencies, and the impacted States, making themselves available to meet with and answer questions of disaster victims. In addition, for the first time ever SBA provided loan officers to help staff FEMA's National Teleregistration Center. By providing loan officers for these activities, disaster victims were able to speak directly with Small Business Administration personnel while registering for assistance. Based on these preliminary interviews, SBA was able to determine whether the applicants should be referred directly to the Individual and Family Grant Program, or whether they should be sent an SBA loan package or directed to an SBA workshop. This significantly reduced the amount of time required to process an application, and allowed for expeditious service to disaster victims.

Working side-by-side both in the DACs and at the NTC also benefitted FEMA's and

SBA's public information activities. This close working relationship permitted better and more reliable information exchange regarding the status of FEMA and SBA programs. This not only assisted us in being responsive to the particular needs of disaster victims in the Midwest, but also improved the flow of accurate and timely information to flood victims while they applied for disaster assistance.

As in every disaster, FEMA, SBA, and other Federal and State personnel work very closely in the field to ensure that operations proceed both smoothly and efficiently. In each Disaster Field Office and DAC, FEMA and the Small Business Administration personnel operate in close coordination to review the standard operating procedures for protection against duplication of benefits by the various funding agencies. In addition, FEMA and SBA also meet daily in the Federal/State meetings held by each disaster's Federal Coordinating Officer.

And this coordination has not been limited to the immediate disaster area. From the early days of these disasters, Director Witt held daily conference calls with the State Emergency Management Directors of each of the nine affected States, the Federal Coordinating Officers, FEMA Regional Directors, and key management of other Federal agencies, including the Small Business Administration. We used these conference calls as a means for States to identify issues early and to give us a chance to resolve them before they became major problems. As a result, the Federal government was able to forestall difficulties in resources or funding and, more importantly, make sure that critical assistance was delivered where it was needed most.

In these and many other ways, FEMA, the Small Business Administration, and the entire Federal government pulled together as they had never done before to work with our State and local counterparts and the private sector in these floods. The success we have had is a product of doing things differently from that done in the past, and a true commitment to the principles of emergency management. Under the Federal Response Plan, and with a renewed partnership with each other and with those at the State and local levels, we operated with a true sense of teamwork and brought the principal of **people helping people** into practice.

ENFORCEMENT OF FLOOD HAZARD REQUIREMENTS WITHIN FLOOD HAZARD ZONES

This Committee has also asked that FEMA address how flood hazard requirements for those in identified hazard zones are enforced both prior to and in the wake of flood disasters.

The National Flood Insurance Program (NFIP), which is administered by FEMA, contains provisions affecting those in Special Flood Hazard Areas (SFHA's) in two ways. There are requirements to purchase flood insurance coverage and requirements to mitigate damage to property from future flooding events.

The Flood Disaster Protection Act of 1973 states that Federal agencies must require the purchase of flood insurance in conjunction with providing financial assistance to purchase or build a structure within a SFHA. It also requires Federal instrumentalities to impose similar requirements on the private lending industry on loans secured by real property in these areas. These requirements, however, have not proven to be a fully effective means of bringing about compliance. The General Accounting Office has concluded that compliance with mandatory purchase requirements is relatively poor for a number of reasons, including: lenders not requiring flood insurance in conjunction with loan originations; lenders not monitoring the renewal of their policies; disaster victims not having flood insurance because they do not have outstanding mortgages on their properties; mortgages being obtained from unregulated lenders; and lenders having difficulties reading flood insurance maps.

Because FEMA is not a regulatory agency of lending institutions and can not audit or examine lenders, FEMA can only estimate the overall level of compliance with flood insurance requirements. Our experience under the National Flood Insurance Program, however, leads us to believe that the compliance level may be somewhere between 25 percent and 35 percent. If accurate, this level of compliance is much too low in order to address the mitigation needs in our nation's floodplains. More needs to be done to bring this level of compliance in line with our country's flood risks.

When it comes to the flood hazard mitigation provision of the NFIP, however, the picture is altogether different. As you may already know, communities must first agree to participate in the NFIP and adhere by its regulations in order to purchase flood insurance. The objective of NFIP floodplain management regulations is to reduce the exposure to future flood damages through the use of minimum standards for the placement and design of structures located in the flood hazard areas. It also serves to protect the Federal investment in flood damaged communities.

Although communities have the responsibility for implementing their floodplain management ordinances, FEMA is responsible for providing technical assistance and ensuring that communities adequately enforce those ordinances through the Community Assistance Program (CAP). Through this program, FEMA conducts on-site community assistance visits to communities, screens their technical needs and conducts reviews to identify possible floodplain management issues and resolve problems before they become serious. FEMA has also established a Community Compliance Program (CCP) to address floodplain management deficiencies and violations that are encountered during community assistance visits which are not easily resolved. The CCP provides an orderly sequence of enforcement options compatible with the nature and magnitude of the violation.

When deficiencies of a community floodplain management program are identified, FEMA has two primary sets of enforcement options, one directed at the community and the other at the individual structures. Communities can be placed on probation for up to one year, during which time remedial actions must be taken to correct any deficiencies, or the community can be suspended from participation in the National Flood Insurance Program.

For individual structures, flood insurance rates generally provide a disincentive for violating the local floodplain management ordinance because rates are substantially higher for structures built below the Base Flood Elevation. However, when a structure is found not to be in compliance, the structure can be re-rated to make insurance premiums commensurate with the actual risk to which it is exposed. Flood insurance can also be denied altogether in extreme cases. This latter option is admittedly severe, and is not often used. It is intended to be used primarily as a back-up for local enforcement mechanisms, and is not meant to remove bad risks from the policy base.

While these enforcement options are available to us, it is important to note that the more than 18,000 communities participating in the NFIP generally do a good job in ensuring that structures are built in compliance with Federal regulations. Over the years, we have built a strong partnership with the States and participating communities, and together we have found that floodplain management works. Our studies have shown that buildings built in compliance with NFIP guidelines are 77 percent less likely to suffer damage than those constructed prior to the adoption of the floodplain management regulations. And when flood damage does occur to compliant structures, they experience 83 percent less damage than existing construction. This produces an annual savings estimated at \$569 million for the approximately 2 million new buildings constructed since 1975 in the Special Flood Hazard Area. Because the cost and damage of flood-related disasters can be so dramatically reduced with compliance with the minimum NFIP floodplain management requirements, FEMA and the National Flood Insurance Program are committed to continuing our work with the States and communities to lessen our nation's risk from flood hazards.

I thank you for the opportunity to appear before you today, and will be happy to answer any questions that you may have.

Opening Comments
Small Business Administration
Disaster Relief Program
by
BG Harold M. Thompson
Iowa Flood Recovery Officer
Telephone (515) 252-4211
FAX (515) 252-4656

First, let me express my pleasure for being asked to appear in front of this committee and comment on our Iowa Small Business Disaster Program.

As you are well aware, the floods of 1993 brought the worse disaster in the State's history. This disaster devastated over 3700 businesses across the State. The damage ranged from minor to major and severely impacted on many businesses from an economic injury standpoint.

Our relationship with the Small Business Administration has been outstanding throughout the disaster process. We have found the SBA to be helpful, open to recommendations, and caring in the administration of the disaster relief. Our ability to interact with the Assistant Administrator for Disaster Assistance and his staff at the National and Regional level was key in reacting to problems as they were encountered. The revision of the business disaster application process stands as a model in this problem solving process.

There are issues which need to be evaluated in the future to enhance the effectiveness of the Small Business disaster relief program.

- Our first goal was to keep businesses in operation if possible. This goal was hampered by a number of factors:

- Delays in receiving National Flood Insurance settlements.
- Lack of available grant programs for relocating businesses in a rapid manner.
- Rules discouraging business relocation versus repair costs.
- Lack of cash flow to pay for immediate disaster recovery needs, temporary relocation costs, and replacement of supplies for continued operations.

As we evaluate the impact on the Federal program, it appears that keeping businesses in operation is a cheaper option than paying unemployment and associated unemployment benefits.

The problem businesses are faced with when hit by a flood is twofold. First, there is a major draw on available cash for recovery costs and, second, there is the loss of credit from suppliers.

Loans even with deferred payments and interest do not offset the loss of cash flow and the loss of credit.

A program which mirrors the emergency program for a home owner would greatly benefit a small business. A grant program for temporary relocation costs to include four to six months of rent followed by an SBA loan or grant or a combination of the two that keeps a business in a solid credit situation.

Please understand that we are not talking about a business that does not show a successful track record.

Interest rates are also a concern. In a time when interest rates are low, a 4% and an 8% loan rate by SBA is less attractive than when interest rates are high. Consideration should be given to revising the formula for determining the interest rate and basing it on the variable factor which relates to the current interest rate movement.

Small Business Development Centers were key to us in educating and assisting in the education of our affected small businesses.

Automation of the entire system in a common data base will greatly facilitate the process. A common data base that can be used by FEMA, SBA and the State is necessary for effective communication and tracking of the applicants.

In summary, the simplified SBA application has been very positive in causing businesses to take advantage of the SBA loan programs. We have great concern over the agricultural economic injury which will occur in the next several months, due to the impact of the short grain crop in Iowa. I appreciate this opportunity to share my thoughts with you today.



Iowa

Flood Recovery Coordination Team

October 18, 1993

Mr. Erskine B. Bowles
 Administrator
 U.S. Small Business Administration
 409 Third Street SW
 Suite 7000
 Washington, DC 20416

Dear Mr. Bowles,

The Iowa Flood Recovery Coordination Team was established by the Governor of Iowa this past July in the wake of the worst natural disaster in our State's history. The charter of our Team is to expedite the economic recovery from this disaster. This is being done by providing our citizens with an immediate and sustained response to assist their families and businesses return to normal activities. Your agency and staff have played a key role in our efforts to date, and we thank you for the enthusiastic support.

As a by-product of our recovery initiatives, we want to ensure we provide appropriate recommendations to the service oriented agencies we are working with in this process. It is in our State spirit of continuous quality improvement, and to assist others when they must deal with a natural disaster, that we offer the following recommendations for your consideration.

The focus of our recommendations are aimed at the small business application process. This proved to be a timely topic, as your recent initiative to revise your application (SBA Form 5) was right on target. Our recommendations are based on the revised application program.

Recommendation 1:

Recommend the application process be identified in a "phased" manner. Presenting this process in this manner will provide a clear, systematic sequence to the actions required to complete the total process. This would provide the potential applicant an improved perspective of what both the requirements and expectations will be. This will save time and energy by requiring only the minimum work to establish eligibility in Phase I, and then causes personal contact to occur between the applicant and SBA prior to beginning Phase II. This will eliminate any confusion which may exist in the early stages of the application process. We recommend the following phases:

- Phase I - Determination of eligibility
- Phase II - Completion/Identification of required documentation
- Phase III - Closing process

Recommendation 2:

Recommend inclusion of appropriate comment in regard to Item 7 of revised application form as to any future requirement to provide documentation of lease or deed to property. We also feel this will assist in accelerating the closing procedures by informing the applicant of this requirement as early as possible.

Recommendation 3:

The amount of the loan request will generally be unknown at the time of initial application. Recommend a cover letter or instruction booklet be prepared to be used by the applicant to complete SBA Form 739A (parts one and three) for physical injury. Instructions as to the additional information requirements which may be needed for an Economic Injury Disaster Loan should also be noted.

Recommendation 4:

The following comments and recommendations are in reference to Item 14 of the SBA Form 5 (9-93). This appears to replace the SBA Form 159. We feel there may be situations based upon the complexity of the individual business where external assistance should actually be encouraged. When these circumstances exist, we further recommend that your agency or the Federal Emergency Management Agency (FEMA), be given authority to provide financial assistance to the business to obtain the professional services.

We recommend making the applicant aware of public services which also may be available on a regional basis. For example, the Iowa Small Business Development Center operates regional offices throughout Iowa to assist and consult with small business. We have enclosed a copy of an assistance workbook they developed as an aid to the application process. Their services are available free of charge.

We recommend further clarification as to what constitutes "assisting" and "completing on your behalf". The application implies that if assistance does not involve payment of a fee, no disclosure is required.

Another option worthy of consideration may be to investigate the feasibility of contracting private consultants to assist the applicants in the preparation process. This cost could be authorized by the Federal Emergency Management Agency (FEMA) under special circumstances. This is particularly important in the closing phase and can be done through the banking or other financial institutions with a small amount of training. This would provide the personal contact necessary to explain what the various forms mean, as is the normal practice for other loans.

Recommendation 5:

The information requested in Item 18 of the revised SBA Form 5 (9-93) should have been disclosed in Item 13, and again could be consolidated from the information from the SBA Form 912.

Recommendation 6:

Possibly too many of the additional filing requirements for an Economic Injury Disaster Loan (EIDL) have been eliminated. Recommend the instructions encourage businesses to include any exhibits shown as optional if they would reflect favorably upon the eligibility for disaster assistance. [SBA Form 1368 (9/93)]

We applaud your initiative to streamline this process, but you may have eliminated too much of the information required to allow a sound eligibility decision.

Recommendation 7:

Strongly recommend an evaluation of the qualification interest rates of 4% and 8%. Our team recognizes these rates are Congressionally established, but must be competitive with other loan institution rates.

Recommendation 8:

Recommend the development and adoption of the application packet using the Internal Revenue Service Income Tax Return "booklet" as a model. The step-by-step instructions and self contained packet of information would be of tremendous assistance to the applicant.

Recommendation 9:

We strongly recommend the earliest possible establishment of program eligibility for the applicant.

Your agency initiative to revise the SBA Form 5 was not only timely to our review, but demonstrates our shared commitment to continuous improvement of the services we provide to our citizens in a time of need. We would like to acknowledge the positive support we received from members of your Ft. Worth, Texas office, primarily Mr. Rick Schulze.

Our Process Action Team was comprised of business leaders representing all levels of the application process. We sincerely feel our recommendations will assist your agency, and most importantly, other citizens who may have to deal with future natural disasters.

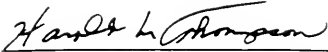
The Iowa Flood Recovery Coordination Team will make further recommendations to other State and Federal agencies as we continue our efforts to expedite our return to economic prosperity.

Respectfully,

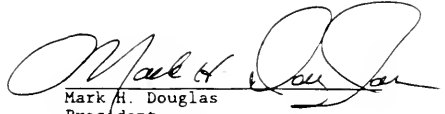
Process Action Team Members

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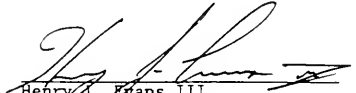
Brigadier General Harold M. Thompson
Project Officer
Iowa Flood Recovery Coordination Team



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Neil Milner
Executive Vice President & CEO
Iowa Bankers Association



Henry S. Evans III
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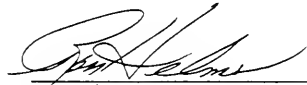
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Iowa Small Business Development Center



November 4, 1993

State Director
Iowa State University
131 Lynn Avenue
Ames, Iowa 50010
(515) 292-6351

Mr. Wilbur Hawkins
U.S. Economic Development Administration
Office of Public Affairs
14th & Constitution Ave, NW
Washington, D.C. 20230

Dear Mr. Hawkins:

I met you briefly at the November 2nd Midwest Business Recovery Workshop in Ames, Iowa and gave you some background material on a funding request made by the Governor to the President, and directly by me to the SBA via several channels. I am sorry we did not have the opportunity to discuss the subject in Ames in more detail, but I would like to explain what was requested and why. It is my hope that you can help the SBDC secure additional resources to help pay for resources already spent, as well as for building upon a strong state resource that is experienced and able.

Throughout the summer and fall, the Iowa SBDC has been working diligently with business disaster victims and with many of the other federal, state and local agencies. We have spent resources to do what has been needed and will continue to do so, at the expense of other pre-disaster plans and commitments. Our state wide staff has:

- participated in the Governor's Iowa Flood Recovery Coordination Committee,
- assisted several hundred businesses so far in preparing the disaster loan applications,
- shifted personnel from one SBDC location to another to help in areas of high need,
- developed and published a Disaster Loan Workbook to compliment and support the SBA application process,
- published a special SBDC Recovery newspaper and, with the help of two private businesses, mailed it to over 9,000 small businesses,
- initiated special training for SBDC counselors on disaster assistance, with special attention given to the expected needs involving economic injury,
- counseled many clients related to the disaster, whether or not they applied for federal funds,
- participated in many community meetings and planning sessions.

These efforts have consumed a very substantial part of our time and funds. We are also:

- cooperating with state and federal agencies to make damage assessment surveys,
- designing public service announcements on disaster assistance,
- aiding to improve the SBA disaster loan forms and process,
- assisting with state assessments of the technical assistance needs of small businesses.



Mr. Wilbur Hawkins
Page 2
November 4, 1993

Although much of the above is a continuing process, there are several future needs that must be addressed. You are well versed on the situation in Iowa, so I will not attempt to convince you of the urgency of it. It is my belief that the most demanding future need for Iowa's small business is to assess the economic damage and determine alternatives for the business. Many cannot, or should not, accept additional debt as the only solution, other than bankruptcy. We will need to increase our ability to educate and coordinate in this whole arena of economic injury. We also need to prepare to do a lot more mentoring than normal, due to the precarious situation of many of the businesses. And finally, financial support for the businesses and for those of us who are trying to help them must be found.

Our requests for additional funds have not been approved because of a technicality. Every state's SBDC share of the Federal dollars is based upon a formula, which is primarily driven by the 1990 population of the state. Iowa's share is \$871,008, which we receive annually. The matching requirement is 100% non-federal dollars, and 50% of this (\$435,504) must be in cash. The state of Iowa has consistently exceeded the match requirement. FY94's appropriation is \$1,035,000. Since our SBDC is at the statutory cap, additional funds (even supplementary appropriations) cannot be given through SBA processes. A request for a waiver has been made through channels, but approval has not been granted. We are, however, in a position to use this overmatch for other sources of federal funds, if that can be arranged.

I'm sure that you can help. We are "in the trenches," with approximately 6,000 small businesses every year. They desperately need help with the lingering effects of the Flood of '93. Thank you for coming to Iowa this week.

Sincerely,



Ron Manning, State Director
Iowa Small Business Development Center

RAM/dd

cc: Bob Cecil (US EDA, Iowa)
Governor Terry Branstad
General Harold Thompson

bcc

Statement of

JEFF MITCHELL
 STATEWIDE DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER
 FLOOD COORDINATOR
 DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS
 STATE OF ILLINOIS

Committee on Small Business
 United States House of Representatives
 November 19, 1993

Chairman LaFalce and ladies and gentlemen, thank you for the opportunity to appear here today and address issues related to the Great Flood of 1993. On behalf of Governor Jim Edgar and the citizens and small businesses of Illinois, I wish to give special attention to the central issue -- the disaster assistance programs of the United States Small Business Administration (SBA).

The Great Flood of 1993 has so far resulted in over 16,000 citizens being forced from their homes, 872,000 acres of farm land were flooded, entire communities were inundated, thousands of small businesses were damaged or destroyed, and overall, millions of dollars in personal property were lost.

The State of Illinois shares an excellent partnership with the SBA. Our Small Business Development Center Network (SBDC), funded in part by SBA, serves as the keystone for the state's flood recovery response efforts for businesses.

In previous disasters the State of Illinois through the Department of Commerce and Community Affairs and the SBDC, provided direct support to SBA in aiding hundreds of small businesses with completing the necessary application forms, which to them were both foreign and very intimidating. This direct localized assistance brought a needed comfort level to the small businesses affected by these disasters. Today, we are again providing similar assistance as well as conducting workshops for businesses which bring to them the federal, state and local agencies for face to face help.

However, gaps remain unfilled which would make the process even more streamlined and effective. The following recommendations are provided for your use in evaluating the effectiveness of the SBA Disaster programs.

POINT #1: Improvement of SBA Disaster Outreach and Education

While SBA seems to excel at processing loan applications and related paperwork, there is an apparent lack of staff or resources to technically advise many would be applicants. In Illinois, as of November 14, 2,927 businesses have registered for SBA assistance. Unfortunately, only 592 businesses (20%) have submitted physical disaster or economic injury loan applications to SBA.

Based upon follow-up surveys and personal interviews, it is overwhelmingly apparent that a vast majority of the small businesses are confused and intimidated by the materials they received from the SBA disaster offices.

Quotes from businesses surveyed:

"Forms intensive...last three years of audited business statements should be enough, it is for banks!"

"Too much paperwork and hassle for \$10,000!"

"The original forms were too long and complicated...haven't looked at new forms yet. The person who gave me the first forms acted like I had no chance."

Recommendations:

- 1) When a disaster loan package is provided to any small business, the name and address of the nearest state Small Business Development Center should be given to the requestor. This will give them a local resource they can turn to immediately to help them deal with the process that they perceive as intimidating, confusing and bureaucratic. Simple technical assistance by a trained SBDC staff person would be of great value to these smaller businesses who have neither the staff nor the dollars to hire professional consultants. However, to make this effective, the state and the federal governments must work together in advance of any disaster to develop a coordinated disaster mobilization plan.
- 2) Special operational funding should be allocated to each SBDC through the normal FEMA funding process to help in this effort. While in Illinois, we are today helping a number of affected small businesses within our existing resources, we are not and cannot serve the total population needing this help. We are delaying help to our normal client base in order to do this. Efforts to receive additional funding support have been fruitless. Still, we continue to stretch our limited SBDC resources and staff to meet as much of the demand as possible.

POINT #2: Registration Process Collects Too Little Information and Field Automation is Lacking

First, the toll free telephone registration system is a major plus in getting the affected individuals and businesses in contact with the appropriate FEMA and SBA resources. However, pertinent information needed to formulate recovery plans is not included in the initial interview.

The SBA Disaster Field Office in Illinois has been very accommodating throughout the recovery effort. However, they were unable to provide a mailing list of registered businesses due to a lack of automation. The Illinois SBDC provided a technician to input the data which has been used by SBA and the SBDC for on-going correspondence.

Recommendation:

When a registration is taken, more information should be gathered which would aid the states and the federal government in seeing a more concise "early" picture of the extent of damages. For instance, the number of household members, type of business, number of employees and annual sales should be recorded on a relational data base which would enable all parties to better assess initial damages. This enhanced advance information would enable a more refined estimate of needs in such program areas as JTPA and Community Services as well as in preparing for the number of small businesses which will be in need of help. Additionally, this information must be on some form of automated system to enable the state and federal governments to effectively market the disaster assistance to registered clients.

POINT #3: Increasing Flexibility For SBA

At present, the SBA lacks the flexibility to waive program requirements in a disaster of this type. For example, application deadlines for registering with FEMA and for applying to SBA for physical disaster loans are interlocked. It is clear that FEMA registration does not need to linger on, however, the time necessary for registering with FEMA and the time needed to filling out extensive loan applications are in no way related. Due to the nature of small businesses and their "fear" of the application process, many eligible Illinois small businesses may not receive the SBA loans they are entitled to because of arbitrarily established FEMA deadlines.

Recommendation:

In order for SBA to provide quality assistance -- which they are sincerely trying to do -- the SBA Administrator needs program flexibility, rule waivers and the ability to make favorable interpretations of procedures. For example, allow the SBA Administrator to establish separate deadlines for physical disaster loan applications which is not tied to the FEMA deadline.

Page 4
State of Illinois

POINT #4: Examining Collateral And Other Aspects Of The Loan Process

Many of the effected businesses which have sought SBA Loan relief have found collateral requirements too stringent or over aggressive. SBA will always require personal real estate to collateralize a business loan, if less than desired business assets are available. Many potential applicants are very reluctant to pledge personal assets, including their homes.

Recommendation:

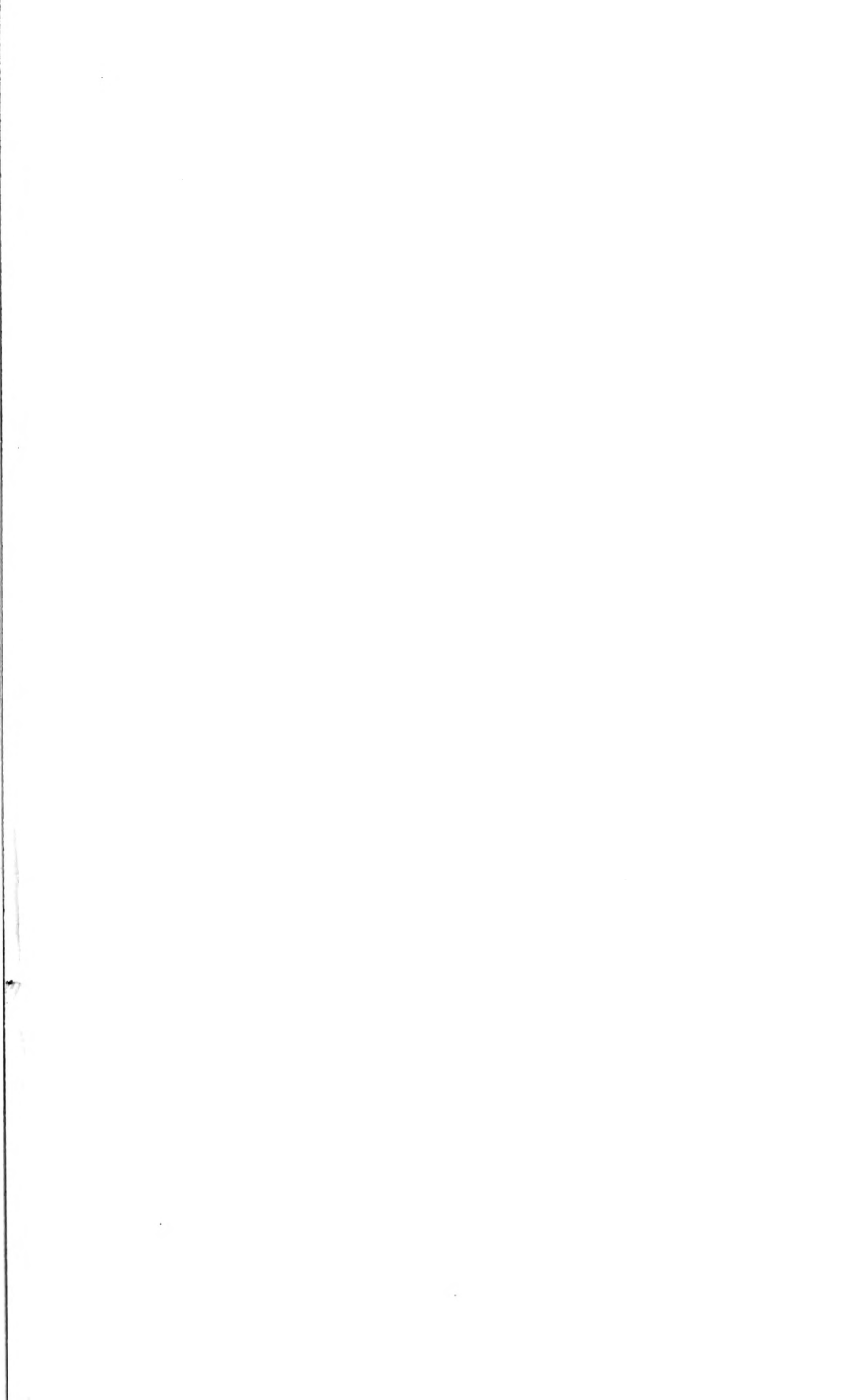
We recommend that SBA review loan making criteria, collateral requirements and in cases where past records have been destroyed, consider making exceptions in hardship cases. This will enable more small businesses to apply for and receive loans.

I thank the Committee for this opportunity to bring forth these recommendations. I will be pleased to answer any questions you may have.

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