

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-0515

**Memorandum**

To: Members, Committee on Small Business  
From: Committee Staff  
Date: September 4, 2018  
Re: Hearing: “Surveying Storms: A Deeper Dive into SBA’s Disaster Response”

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On Wednesday, September 5, 2018 at 11:00 a.m., the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining the United States Small Business Administration’s (SBA) disaster response. The hearing will allow Members of the Committee the opportunity to hear directly from the SBA regarding the agency’s actions during the 2017 storm season and SBA’s disaster response moving forward.

**I. Introduction**

The 2017 storm season proved challenging and damaging to the United States. From devastating wildfires to extreme winter weather, the country faced storms coast to coast. However, the 2017 season will be known for the many major hurricanes that hit southern and southeastern portions of the country in late summer and early fall. In total, there were ten named hurricanes in 2017, with six that developed into major hurricanes.<sup>1</sup> Of the six, the three major hurricanes that made landfall<sup>2</sup> will come to define the 2017 storm season. The first was Hurricane Harvey, which made landfall on the Texas coast on August 25<sup>th</sup>.<sup>3</sup> Hurricane Irma was next and made landfall in the Florida Keys and the Florida coast on September 10<sup>th</sup>.<sup>4</sup> A mere ten days later, Hurricane Maria made landfall on the U.S. Virgin Islands and Puerto Rico.<sup>5</sup> Combined, these three storms made the 2017 storm season historic and “furious”<sup>6</sup> according to the National Oceanic and Atmospheric Administration.

**II. SBA’s Disaster Assistance**

When disasters strike the United States, recovery and response efforts are managed by numerous levels of government and an array of agencies. For long-term recovery needs, SBA plays an active role in providing disaster assistance. In any given year, SBA is involved in dozens of

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<sup>1</sup> NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, EXTREMELY ACTIVE 2017 ATLANTIC HURRICANE SEASON FINALLY ENDS (2017), available at <http://www.noaa.gov/media-release/extremely-active-2017-atlantic-hurricane-season-finally-ends>.

<sup>2</sup> *Id.*

<sup>3</sup> [https://www.weather.gov/crp/hurricane\\_harvey](https://www.weather.gov/crp/hurricane_harvey).

<sup>4</sup> <https://www.weather.gov/tae/Irma2017>.

<sup>5</sup> <https://www.weather.gov/sju/maria2017>.

<sup>6</sup> *Supra* note 1.

ongoing disaster responses.<sup>7</sup> Outlined in the Small Business Act, SBA has the authority to provide direct loans to victims.<sup>8</sup> Through its Office of Disaster Assistance,<sup>9</sup> SBA administers the Disaster Loan Program whereby loans are made available to businesses and homeowners<sup>10</sup> for damages that are not covered by insurance.<sup>11</sup> If the disaster is declared and the victim qualifies,<sup>12</sup> low-interest and fixed-rates loans become available.<sup>13</sup>

There are four main loan products available through SBA.<sup>14</sup> Businesses of any size can apply for a Business Physical Disaster Loan with a loan limit of \$2 million to cover numerous repairs and replacements, including real property and equipment.<sup>15</sup> Homeowners can apply for Home and Personal Property Loans of up to \$200,000 for primary residence repairs and replacements and \$40,000 for personal property damages.<sup>16</sup> Small businesses that are not physically damaged, but have experienced economic loss due to being located in a declared disaster zone, can apply for an Economic Injury Disaster Loan of up to \$2 million.<sup>17</sup> Small businesses that employ military reservists who are activated<sup>18</sup> may also qualify for a Military Reservists Economic Injury Loan of up to \$2 million.<sup>19</sup>

With any SBA disaster loan, a comprehensive and laborious application process is required to ensure the protection of taxpayer money and to guard against fraudulent activities. Once SBA receives an application, the victim's credit is checked, as "there must be reasonable assurance that you can repay your loan based on SBA's analysis of your credit or your personal or business cash flow."<sup>20</sup> After a credit check, a loss verification process is commenced to confirm and determine damages.<sup>21</sup> The application then moves through processing, on to a legal review, and then finally the disbursement of money.<sup>22</sup>

### III. SBA's Past Disaster Response

Before the 2017 storm season, SBA's modern day disaster response has regularly been judged on two major disasters: Hurricane Katrina in 2005 and Hurricane Sandy in 2012. While there are many factors that help determine and evaluate SBA's overall disaster response, a characteristic that is prominent is the average time it takes SBA to process a loan application. According to testimony provided to Congress in 2009, processing times for Hurricane Katrina were

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<sup>7</sup> <https://www.sba.gov/node/11426>.

<sup>8</sup> 15 U.S.C. § 636(b).

<sup>9</sup> <https://www.sba.gov/offices/headquarters/oda>.

<sup>10</sup> 15 U.S.C. § 636(b)(1).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at (2).

<sup>13</sup> 13 C.F.R. § 123.2.

<sup>14</sup> *Id.* at § 123.5.

<sup>15</sup> <https://disasterloan.sba.gov/ela/Information/BusinessPhysicalLoans>.

<sup>16</sup> <https://disasterloan.sba.gov/ela/Information/HomePersonalPropertyLoans>.

<sup>17</sup> <https://disasterloan.sba.gov/ela/Information/EIDLLoans>.

<sup>18</sup> Beyond being activated for disaster declarations, military reservists can be activated for numerous reasons, including in times of war. 13 C.F.R. § 123.500.

<sup>19</sup> <https://disasterloan.sba.gov/ela/Information/MREIDLLoans>.

<sup>20</sup> 13 C.F.R. § 123.6.

<sup>21</sup> SBA OFFICE OF INSPECTOR GENERAL, INSPECTION OF SBA'S INITIAL DISASTER ASSISTANCE RESPONSE TO HURRICANE HARVEY 2 (January 19, 2018).

<sup>22</sup> *Id.*

66 days for disaster business loans and 74 days for disaster home loans.<sup>23</sup> Although many improvements were made from 2005 to 2012, processing times for Hurricane Sandy ranged from 45 days for physical disaster loans and 38 days for economic injury loans.<sup>24</sup> Beyond loan processing times, SBA's disaster loan performance can be evaluated on the prevalence of fraud and the role SBA plays in communicating to victims after a disaster.<sup>25</sup>

#### **IV. SBA's 2017 Disaster Response**

With the 2017 storm season being destructive and historic in nature, SBA's overall performance will be examined closely. In time, SBA's 2017 response will be used as a barometer, similar to SBA's response to Hurricane Katrina and Hurricane Sandy.

##### **a. Hurricane Harvey**

As described above, Hurricane Harvey impacted Texas and surrounding states in late August, affecting roughly 13 million individuals over five different states.<sup>26</sup> By the end of November 2017, SBA received nearly 100,000 applications and approved approximately \$2.7 billion in loans.<sup>27</sup> From a staffing perspective, by the end of October, or nearly 2 months after Harvey made landfall, SBA had over 4,000 disaster staff activated as compared to its regular and full-time disaster staff of 800.<sup>28</sup> Of the 4,000 workers assigned to help Harvey disaster victims, more than half were assigned to loan processing and disbursement activities.<sup>29</sup> Staff totals include staff for all three hurricanes. Also by the end of October, SBA manned over 80 recovery centers<sup>30</sup> and answered over 50,000 disaster phone calls.<sup>31</sup> Although a heavy backlog of loan applications was created due to multiple disaster responses happening at once, by the end of October, SBA's loan processing times were in the low to high teens.<sup>32</sup> The processing time average excluded all loans in backlog which stood at 31 percent of applications by the end of October.<sup>33</sup>

##### **b. Hurricane Irma**

Similar to Hurricane Harvey, Hurricane Irma resulted in an increased response effort by SBA in 2017. At the conclusion of 2017, SBA received over 100,000 loan applications that totaled

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<sup>23</sup> *A Year Later: Lessons Learned and Progress Made After Hurricane Ike: Hearing Before the Sen. Comm. on Small Bus. and Entrepreneurship*, 111th Cong. (Sept. 25, 2009) (Testimony of Manual Gonzalez, District Director, Houston District Office).

<sup>24</sup> U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-14-760, ADDITIONAL STEPS NEEDED TO HELP ENSURE MORE TIMELY DISASTER ASSISTANCE 16 (2014).

<sup>25</sup> For a more thorough discussion of fraud and post disaster communication, please see the Committee's hearing memorandum on *Storm Watch: Making Sure SBA's Disaster Loan Program is Prepared* Hearing Before the H. Comm. on Small Business, 114th Cong. (Apr. 26, 2017), available at [https://smallbusiness.house.gov/uploadedfiles/4-26-17\\_hearing\\_memo.pdf](https://smallbusiness.house.gov/uploadedfiles/4-26-17_hearing_memo.pdf).

<sup>26</sup> *Supra* note 20 at 1.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 4.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 5.

<sup>31</sup> *Id.* at 6.

<sup>32</sup> *Id.* at 10.

<sup>33</sup> *Id.*

approximately \$1.2 billion in loans solely for Hurricane Irma victims.<sup>34</sup> As mentioned above, over 4,000 disaster staff were dedicated to assisting victims across all three major hurricanes. As for recovery centers, by the end of 2017, SBA had opened and manned 134 centers<sup>35</sup> and had a loan processing average ranging from the mid-teens to the low 20s.<sup>36</sup>

### **c. Hurricane Maria**

As SBA responded to both Hurricane Harvey and Hurricane Irma, Hurricane Maria made landfall during the same time frame in 2017, primarily impacting the U.S. Virgin Islands and Puerto Rico. Through March of 2018, SBA received over 90,000 loan applications that resulted in roughly \$1.5 billion in loans.<sup>37</sup> Also by the end of March 2018, SBA established a total of 15 recovery centers in the U.S. Virgin Islands and over 150 in Puerto Rico.<sup>38</sup> With regard to loan processing times for Hurricane Maria, SBA averaged from the high 20s to the low 30s.<sup>39</sup>

## **V. Conclusion**

SBA plays a major role in responding and helping the United States of America rebuild after a major disaster. It is important to note, SBA was simultaneously responding to three different historic disasters at the same time in 2017. While data continues to emerge on SBA's performance, early indications suggest SBA continues to make improvements with its Disaster Loan Program. This hearing will allow Committee Members to hear directly from SBA regarding its 2017 performance. Additionally, the hearing will allow SBA to report to Congress on how they are preparing to respond to future disasters in 2018 and beyond. Continuous oversight helps ensure taxpayer money is protected, while also helping refine the effectiveness and efficiency of any government program.

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<sup>34</sup> SBA OFFICE OF INSPECTOR GENERAL, INSPECTION OF SBA'S INITIAL DISASTER ASSISTANCE RESPONSE TO HURRICANE IRMA 1 (April 26, 2018).

<sup>35</sup> *Id.* at 4.

<sup>36</sup> *Id.* at 7.

<sup>37</sup> SBA OFFICE OF INSPECTOR GENERAL, INSPECTION OF SBA'S INITIAL DISASTER ASSISTANCE RESPONSE TO HURRICANE MARIA 1 (July 19, 2018).

<sup>38</sup> *Id.* at 6.

<sup>39</sup> *Id.* at 8.