GAO

Highlights

Highlights of GAO 15-727T, a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

With an estimated $67 billion in damage, Hurricane Sandy (October 2012) was the costliest Atlantic storm since Katrina in 2005. SBA administers the Disaster Loan Program, which provides physical disaster loans (to rebuild or replace damaged property) and economic injury loans (for working capital until normal operations resume) to help businesses and homeowners recover from disasters.

This testimony discusses (1) the timeliness of SBA's disaster loans, (2) loan approval, withdrawal, and cancellation rates for selected previous disasters; and (3) the extent to which SBA implemented loan programs mandated by the Small Business Disaster Response and Loan Improvements Act of 2008. This testimony is based on GAO's September 2014 report (GAO-14-760) on SBA assistance to small businesses after Sandy. For that report, GAO analyzed SBA data on application processing, reviewed documentation related to SBA's planning, reviewed relevant legislation and regulations, and interviewed SBA officials. GAO provides updates on steps SBA has taken to implement GAO's recommendations.

What GAO Recommends

In September 2014, GAO recommended that SBA revise its disaster planning documents, conduct a formal documented evaluation of lenders' feedback on IDAP, and report to Congress on challenges to implementing the program. SBA has since taken steps to revise its planning documents and received and documented some lender feedback, but has not reported to Congress.

View GAO-15-727T. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Help Ensure More Timely Disaster Assistance

What GAO Found

Following Hurricane Sandy, the Small Business Administration (SBA) did not meet its timeliness goal (21 days) for processing business loan applications. From receipt to loan decision, SBA averaged 45 days to process physical disaster loans and 38 days for economic injury loans. SBA did not expect early receipt of a high volume of loan applications, and delayed increasing staffing—which in turn increased processing times. As of September 2014, SBA had not revised its disaster planning documents to reflect the effects that application volume and timing could have on staffing, resources, and forecasting models for future disasters. Federal internal control standards state that management should identify risks and take action to manage them. Without taking its post-Sandy experience with application submissions into account in its disaster planning documents and analyzing the potential risks posed for timely response, SBA might be unprepared for similar situations in future disasters, which could delay getting loan funds to disaster victims. In June 2015, SBA provided GAO with an updated version of one disaster planning document—the Disaster Playbook—which includes discussion of early application volume and references to updated staffing models. GAO's review of these changes is ongoing.

In comparison with the five disasters that generated the most SBA disaster loan applications since 2005, the loan approval rate after Sandy was not consistently higher or lower, but the application withdrawal and loan cancellation rates (32 percent and 38 percent, respectively) were consistently higher than other disasters. SBA approved 42 percent of business loan applications after Sandy, a rate lower than for Katrina, Rita, and Wilma, higher than for Ike, and comparable with that for Irene. For Hurricane Sandy and for previous disasters, SBA primarily declined business loan applications because of applicants' lack of repayment ability and credit history.

As of June 2015, SBA had not implemented the guaranteed disaster loan programs Congress mandated in 2008, including the Immediate Disaster Assistance Program (IDAP)—a bridge loan program in which private-sector lenders would provide disaster victims with up to $25,000 and an SBA decision within 36 hours of a lender's application on behalf of a borrower. In 2014, SBA officials told GAO they were trying to implement IDAP but had received some feedback from lenders that some program requirements—such as a statutory minimum 10-year loan term under certain circumstances—might discourage lender participation. SBA had not conducted a formal documented evaluation of lender feedback to establish what implementation challenges the agency might face and to determine what, if any, statutory changes Congress could consider. Without an appropriately documented evaluation of lender feedback, SBA might not have reliable information with which to inform its own actions and its reporting to Congress about challenges with implementing the programs. In June 2015, SBA provided GAO with documentation of additional outreach performed in October 2014, where lenders provided specific feedback regarding current statutory requirements and proposed program requirements. SBA has yet to adopt a plan for how and whether it will proceed with IDAP implementation or document the challenges it would face in implementing the program. Therefore, SBA has not reported to Congress on these issues.