Testimony

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SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Help Ensure More Timely Disaster Assistance

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Accessible Version

GAO
Highlights

SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Help Ensure More Timely Disaster Assistance

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.

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.

United States Government Accountability Office

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee:

I am pleased to be here today to discuss the Small Business Administration's (SBA) response to Hurricane Sandy, the costliest Atlantic storm since Hurricane Katrina in 2005. Sandy made landfall in the United States on the New Jersey shore on October 29, 2012, and estimated damage totaled approximately $67 billion. Although 24 states were affected, New Jersey and New York (particularly the New York City metropolitan area) were the most impacted states. While SBA is known primarily for its financial support of small businesses, the agency also plays a critical role in assisting victims of natural and other disasters through its Disaster Loan Program, which assists businesses of all sizes, homeowners, and renters affected by federally declared disasters.

Following Hurricane Sandy, SBA received disaster loan applications from nine states and Puerto Rico, with the majority of the business disaster loan applications generated by businesses in New Jersey and New York. Concerns were raised regarding the timeliness of the financial assistance business owners received. In particular, there were questions about the extent to which the program improved since Hurricane Katrina, and whether previously identified deficiencies, such as delays in processing loan applications, had been addressed.

My testimony today is based on information in our September 2014 report on SBA's response to Hurricane Sandy, and includes updates on steps SBA has taken to address two recommendations from that report. One recommendation related to better planning for high volumes of loan applications and another related to evaluating lender feedback to inform SBA and Congress about challenges to implementing a new loan program and determining if statutory changes might be necessary to aid implementation, and then reporting to Congress about any such challenges or changes.[1] Specifically, this testimony discusses (1) the timeliness of SBA's disaster assistance to small businesses and factors affecting timeliness, (2) comparative loan approval, withdrawal, and cancellation rates after selected disasters; and (3) the extent to which

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[1]GAO, *Small Business Administration: Additional Steps Needed to Ensure More Timely Disaster Assistance*, GAO-14-760 (Washington D.C.: Sep. 29, 2014).

SBA implemented loan programs mandated by the Small Business Disaster Response and Loan Improvements Act of 2008.

For our September 2014 report, to evaluate the timeliness of SBA's disaster assistance to small businesses after Sandy, we obtained and analyzed data on application processing from SBA's Disaster Credit Management System (DCMS), reviewed documentation on SBA's loan processing procedures and its internal assessment of its response to Sandy, and interviewed knowledgeable SBA officials. We spoke with six Small Business Development Centers and eight local business organizations in New Jersey and New York to identify challenges businesses faced in receiving timely disaster assistance.[2] We obtained and analyzed DCMS data for the largest disasters from 2005 to 2012 as measured by loan application volume (Hurricanes Katrina, Rita, Wilma, Ike, Irene, and Sandy) to compare approval, withdrawal, and cancellation rates. We also performed comparisons on the DCMS data we received to ensure its accuracy and completeness and interviewed SBA officials responsible for maintaining the data. We concluded that SBA's data were sufficiently reliable for the purposes of our report.

To assess the extent to which SBA implemented programs mandated by the Small Business Disaster Response and Loan Improvements Act, we reviewed relevant legislation and regulations, and interviewed officials knowledgeable about these matters. The work on which this statement is based was conducted from August 2013 through September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To update the status of our recommendations, in June 2015 we spoke with SBA officials about steps SBA had taken to address our recommendations, and reviewed updated documentation related to SBA's disaster planning and lender outreach.

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[2]Small Business Development Centers are hosted by universities and state economic development agencies, and funded in part through a partnership with SBA. They provide aspiring and current small business owners with free or low-cost services such as business plan development, financial packaging and lending assistance, exporting and importing support, disaster recovery assistance, and procurement and contracting aid.

Background

Administered by SBA's Office of Disaster Assistance (ODA), the Disaster Loan Program is the primary federal program for funding long-range recovery for nonfarm businesses that are victims of disasters and is the only form of SBA assistance not limited to small businesses.

SBA can make available several types of disaster loans, including two types of direct loans: physical disaster loans and economic injury disaster loans.

- **Physical disaster loans** are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. They are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. These loans are intended to repair or replace the disaster victims' damaged property to its predisaster condition up to a certain capped amount.

- **Economic injury disaster loans** provide small businesses that are not able to obtain credit elsewhere with necessary working capital until normal operations resume after a disaster declaration. The loans cover operating expenses the business could have paid had the disaster not occurred.

Not all businesses are eligible for both types of loans. Businesses of all sizes may apply for physical disaster loans, but only small businesses are eligible for economic injury loans.[3]

Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008 to expand steps taken by SBA after Hurricane Katrina and require new measures to help ensure that SBA would be prepared for future disasters. The act includes three provisions requiring SBA to issue regulations to establish new guaranteed disaster programs using private-sector lenders:[4]

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[3]Businesses of all sizes are eligible for physical disaster loans, and SBA does not maintain data on business size for these types of loans. Therefore, information specifically on small businesses that received a physical disaster loan is unavailable. Data on physical disaster loan applications or total business disaster loan applications presented in this testimony include information about businesses of all sizes.

[4]Pub. L. No.110-246, §§ 12083 -12085.

- **Expedited Disaster Assistance Loan Program (EDALP)** would provide small businesses with expedited access to short-term guaranteed loans of up to $150,000.

- **Immediate Disaster Assistance Program (IDAP)** would provide small businesses with guaranteed bridge loans of up to $25,000 from private-sector lenders, with an SBA decision within 36 hours of a lender's application on behalf of a borrower.

- **Private Disaster Assistance Program (PDAP)** would make guaranteed loans available to homeowners and small businesses in an amount up to $2 million.

Timeliness of Disaster Assistance and Challenges to Address

The following section discusses the extent to which SBA met goals for timely processing of business loan applications and factors affecting timeliness; changes SBA made to address processing issues; and challenges that business organizations identified to timely receipt of assistance.

### SBA Did Not Meet Its Timeliness Goal for Application Processing and Backlog Grew Rapidly

Following Hurricane Sandy, SBA did not meet its goal to process business loan applications within 21 days from receipt to loan decision. SBA took an average of 45 days for physical disaster loan applications and 38 days for economic injury applications.[5]

The average processing time for business loans peaked in March 2013 (5 months after the storm); business loans for which SBA reached a decision in March 2013 had spent nearly 60 days being processed, on average. One year after the storm, processing times for business loan applications still exceeded 21 days.

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[5]In a June 2014 report, the SBA Office of Inspector General (OIG) found that the methodology that SBA used to calculate average loan processing times incorporated the times for automatically declined applications. The OIG also found that SBA's time goals for disaster loan processing—particularly those reported in the agency's Congressional Budget Justification—were established without considering potential increases in application volumes. The OIG's recommendations included that SBA establish processing time standards for different application volumes based on historical performance. SBA agreed to establish such standards and included the standards in the most recent updates to ODA's *Disaster Playbook* and the agency's Disaster Preparedness and Recovery Plan. See SBA, Office of Inspector General, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations*, No. 14-14 (Washington, D.C.: June 30, 2014).

A backlog of applications that were "in processing" (meaning SBA had not yet made a loan decision) grew rapidly over the course of SBA's response to the disaster (see fig. 1).

Figure 1: Number of Hurricane Sandy Business Disaster Loan Applications Received and in Processing, October 2012-January 2014

Number of applications
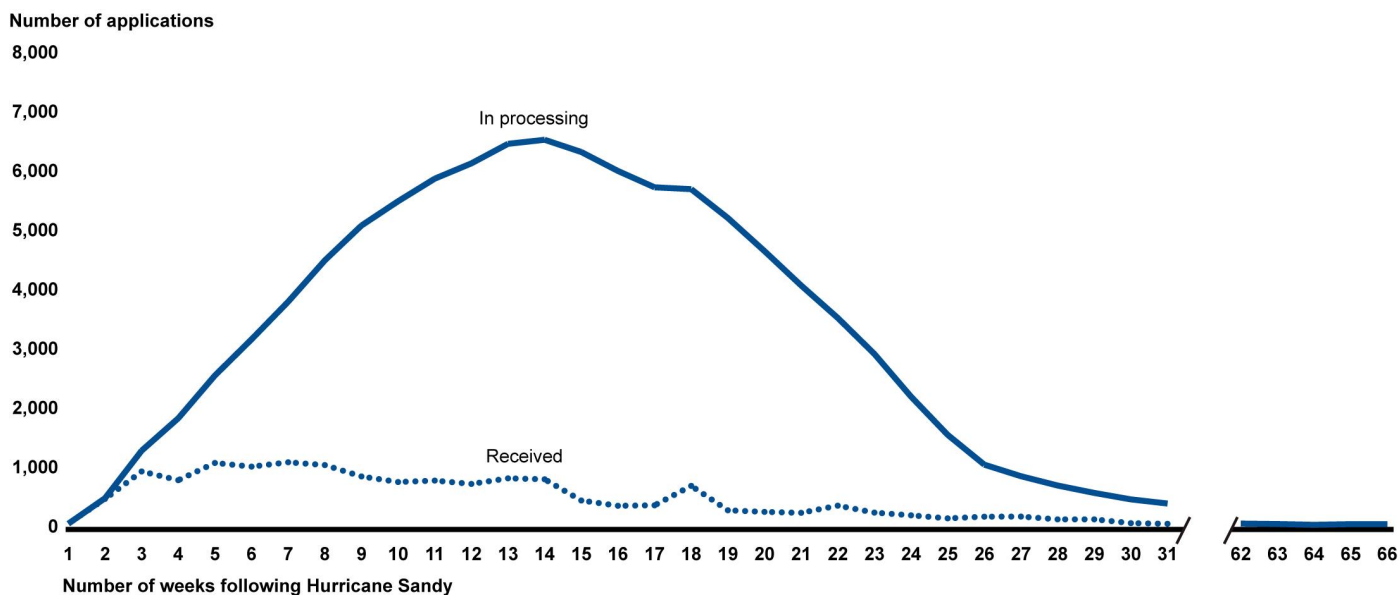
Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: Hurricane Sandy made landfall on October 29, 2012. The final week spans from January 27, 2014, to February 2, 2014. Business applications "received" represent the number of applications submitted to SBA during the week. Business applications "in processing" are the cumulative total of applications on which SBA had not yet made a decision (to approve or decline) and represent the backlog for business disaster loan applications.

SBA Did Not Anticipate Early Timing and High Volume of Applications

SBA said that in the aftermath of Hurricane Sandy, it was challenged by a high volume of loan applications submitted at a faster rate than it had experienced in previous disasters. SBA's initial estimates of when it would receive applications differed from when it actually received them.

To prepare for a disaster, SBA uses assumptions about the volume and timing of the applications it expects to receive based on historical data—known as the "application intake curve." These assumptions serve as inputs to forecasting models that predict the staff levels necessary to meet processing needs.

According to the application intake curve for Hurricane Sandy, SBA estimated that application submission would peak about 7–9 weeks after Sandy. However, as shown in figure 2, SBA began receiving business applications earlier. According to SBA, the early spike in applications occurred because a majority of applications were submitted electronically rather than on paper, which resulted in a large volume of applications within a few days of the disaster. SBA stated that the earlier receipt of electronic submissions was caused by the convenience and speed of the Internet-based application as well as the elimination of postal handling time. While SBA created web-based loan applications to simplify and expedite the application process and encouraged electronic submissions, SBA noted that it did not anticipate receiving such a large volume of electronic loan applications early in its response to Hurricane Sandy.

Figure 2: Number of Hurricane Sandy Business Disaster Loan Applications SBA Received, October 2012-January 2014
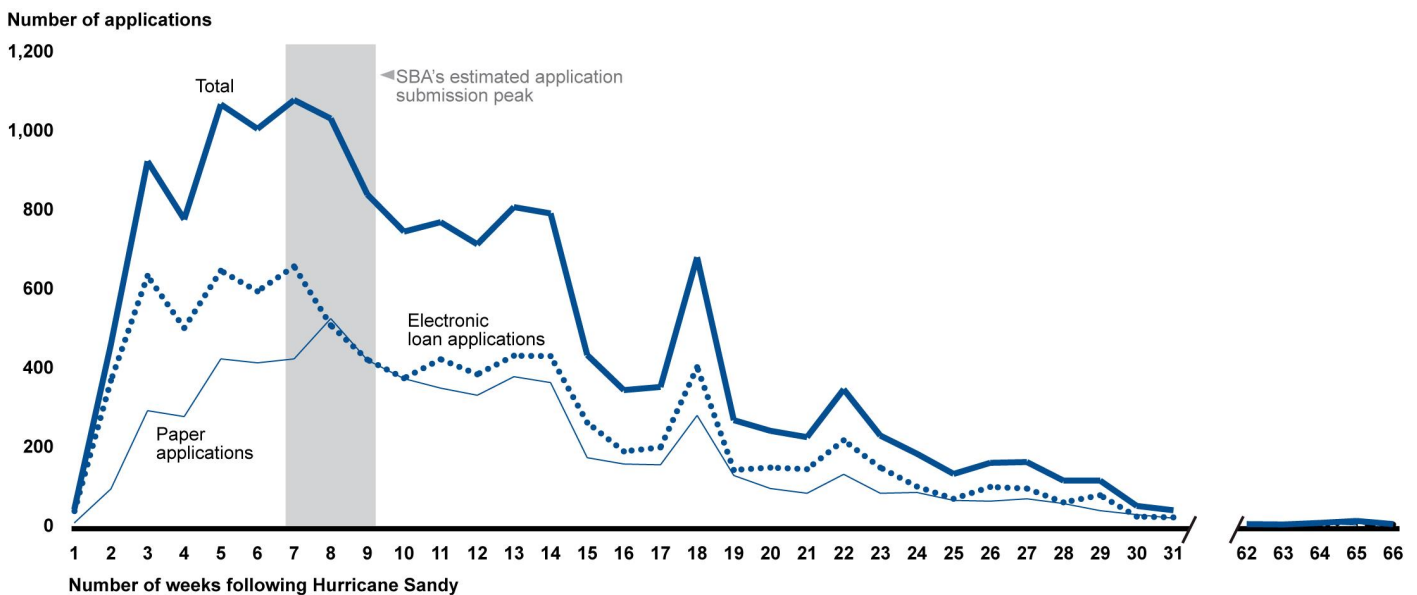
Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: Hurricane Sandy made landfall on October 29, 2012. The final week spans from January 27, 2014, to February 2, 2014.

Based on its experience in fiscal year 2012, SBA initially estimated that it would receive between 11,000 and 21,600 business disaster loan applications after Sandy and 36 percent of all applications would be

submitted electronically. Following Sandy, SBA received 15,745 business disaster loan applications, and 55 percent of all applications were submitted electronically.[6]

At the time of our report, SBA had not updated its key disaster planning documents—the Disaster Preparedness and Recovery Plan and the Disaster Playbook—to adjust for the effects that a Sandy-like surge in early applications could have on staffing, resources, and forecasting models for future disasters.[7] Federal internal control standards state that management should identify risk (with methods that can include forecasting and strategic planning) and then analyze the risks for their possible effect.[8] According to SBA's Preparedness and Recovery Plan, the primary goals of forecasting and modeling are to predict as accurately as possible the application volume that will result from a disaster and the timing of application receipt. Without taking its experience with early application submissions after Hurricane Sandy into account, SBA risked being unprepared for such a situation in future disaster responses, potentially resulting in delays in disbursing loan funds to disaster victims. We therefore recommended that SBA revise its disaster planning documents to anticipate the potential impact of early application submissions on staffing and resources for future disasters, as well as the risk this impact might pose for timely disaster response.

In response to our recommendation, SBA has updated its Disaster Playbook. The changes SBA made include explicit recognition of the effects that high volumes of loan applications early in the response period could have on staffing and loan processing. Our review to determine if these changes addressed our recommendation remains ongoing.

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[6]The total number of business disaster loan applications includes "reconsiderations"—applications declined upon first submission and resubmitted for a second review—and "appeals"—reconsidered applications that are declined and resubmitted for a third review.

[7]While the plan is an agency-wide document intended to ensure a broad scope of coordination, awareness, and support throughout the organization, the Disaster Playbook is an ODA document that describes steps that the office will take to respond to a declared disaster. It outlines the roles and responsibilities of ODA departments, resource partners, and other partners in the private sector at each major phase of the disaster recovery process.

[8]See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

Inaccurate Processing Expectations Also Delayed Decision to Increase Staff

Another factor that affected the timeliness of disaster assistance was inaccurate expectations for application processing rates, which caused SBA to delay its decision to increase staff levels. ODA officials said the agency's processing and disbursement center communicated inaccurate production estimates to ODA headquarters, which led to delays in increasing staff levels to respond to the early influx of applications. ODA officials said that the center's management projected a loan officer could process an average of 3 home loan applications and 1.5 business loan applications per day, for a combined average of 2.25 disaster loan applications. However, this expectation was not met over the course of the response. Because the estimates were based on production benchmarks established after Hurricane Katrina, ODA officials noted that they relied on the estimates and delayed their decision to increase staff. ODA officials said they later recognized the past rate was not an appropriate indicator of production for Sandy due to factors including differences in the types of businesses affected and the larger number of approved applications.

As shown in figure 3, ODA ultimately added loan officers to two agency locations (Buffalo and Sacramento) after the peak months of receipts.[9]

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[9]While the processing and disbursement center is dedicated to loan application processing, SBA maintains space for additional loan officers in its Sacramento office, known as the Disaster Assistance Field Operations Center—West. Following Hurricane Sandy, ODA also added loan officers in the Disaster Assistance Customer Service Center in Buffalo.

Figure 3: Number of Active Loan Officers and Hurricane Sandy Business Disaster Loan Applications Received by Week, October 2012–May 2013

Number of applications/officers
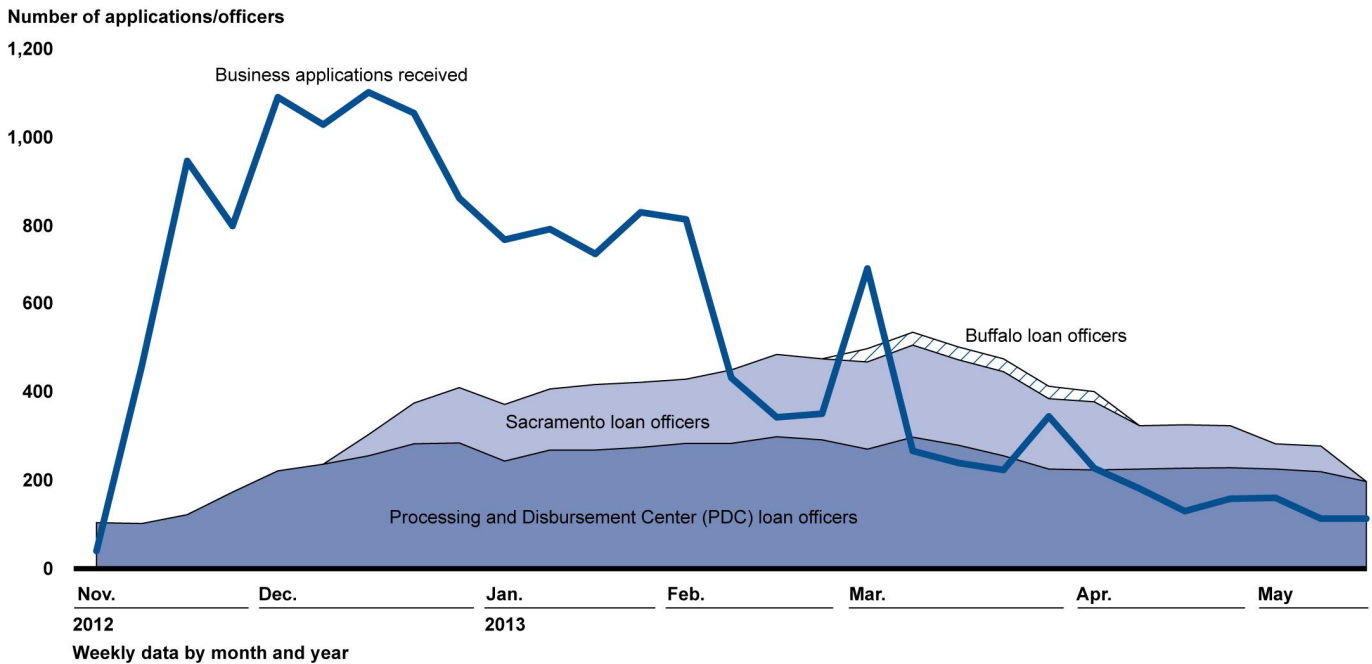
Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: The weekly data for loan officers and business applications received differ by 1 day. For example, the final week of data for loan officers ends on May 18, 2013, and the final week of data for business applications ends on May 19, 2013.

We reported in September 2014 that ODA told us it subsequently made several changes regarding communication with the processing and disbursement center and staffing increases. The center was required to produce a new series of daily reports for ODA headquarters to improve communication during future disasters. Specifically, these reports include more detailed information on production rates, number of applications submitted, and size of the application backlog. ODA also created a standard template for requesting and justifying additional staff that included information such as current and expected performance. At the time of our report, SBA also was determining whether it needed to add permanent loan processing staff to offices other than the processing and disbursement center to respond to disasters.

SBA Took Actions to Address Other Processing Challenges

To address challenges with providing timely assistance following Hurricane Sandy, SBA made various changes to its loan processing approach, DCMS, and loan officer training. However, as we stated in 2014, because SBA has not received a large volume of applications since Hurricane Sandy, it is too early to determine whether these changes will improve the timeliness of SBA's response for future disasters similar in magnitude to Sandy.

- **Loan processing approach:** SBA used to process loans in the order in which they were received, regardless of whether the applicant was a business or homeowner. After Sandy, SBA received more than four times as many home loan applications as business applications, and these home loan applications were received earlier. As a result, business owners faced delays due to the large number of home loan applications submitted ahead of them. In October 2013, SBA put in place two separate application tracks for home and business loans.[10]

- **DCMS challenges:** Over the course of its response, SBA encountered various challenges with DCMS, including server hardware crashes and periods of system latency (slowness and freezing), which added to some delays faced by business owners in receiving disaster assistance. In 2014, we reported that according to SBA, the agency was taking steps to improve DCMS for future disasters. For example, SBA planned to institute a process for updating system equipment (including conducting a baseline inventory and implementing a plan to replace outdated hardware). SBA officials said the inventory had been validated and the plan completed. In addition, SBA officials said the agency made improvements to its DCMS Help Desk, which responds to loan officers who experience system issues.

- **Loan officer training:** Most of the additional processing staff, particularly in Sacramento, were new hires, but SBA found that the new officers were not effectively trained to quickly respond to the

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[10]SBA made the changes in response to a recommendation by the Hurricane Sandy Rebuilding Task Force. The Task Force was created in December 2012 by President Obama to ensure cabinet-level, government-wide coordination to help communities affected by Hurricane Sandy. The Task Force was chaired by the Department of Housing and Urban Development, and SBA participated as a member. In August 2013, the Task Force released the Hurricane Sandy Rebuilding Strategy report, which included 69 recommendations designed to eliminate barriers to recovery. See Hurricane Sandy Rebuilding Task Force, *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region* (Washington, D.C.: August 2013).

backlog of business applications. In 2014, we reported that SBA revised its loan officer training for future disasters. For instance, all loan officers had to complete a revised training course for processing business loans. SBA officials also noted that the agency reorganized loan officers into two groups that specialize in processing home and business loans based on the previously mentioned changes to the loan processing approach.

Organizations Identified Challenges Businesses Faced in Receiving Timely Assistance

Select Small Business Development Centers and local business organizations in New York and New Jersey with which we met in 2014 identified two main challenges (from the perspective of small businesses) that affected the timeliness of assistance: time-consuming loan documentation requirements and lack of SBA follow-up. We reported on steps SBA said it would take to address these two challenges.

Nearly all 14 development centers and local business organizations noted that meeting documentation requirements for applications was time-consuming and onerous to business owners. SBA officials said that the agency was taking several steps to streamline the documentation requirements for applicants. Specifically, SBA examined the entire loan application process to identify and eliminate documents that did not help loan officers make a decision on an application. According to SBA officials, the proposed changes to the required documentation were drafted and would be incorporated by the end of 2014 in the disaster loan program's standard operating procedures. Furthermore, SBA took steps to reduce documentation requirements for applicants with strong credit scores by amending regulations to allow the agency to rely on credit scoring rather than cash flow when determining an applicant's ability to repay.[11]

More than half of the entities with which we met said that business owners noted a lack of SBA contact after submitting their applications, and many owners were unaware of the status of their application

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[11]Prior to its amendment, 13 C.F.R. § 123.6 required SBA to analyze every applicant's personal and business cash flow, a time-consuming process that included debt reconciliation and a repayment analysis to determine if funds were available for both loan payments and day-to-day living expenses. SBA amended 13 C.F.R. § 123.6 to allow the agency to base repayment ability determinations on either cash flow or credit, including credit score. The repayment analysis still includes verification of income/employment through federal income tax returns.

throughout the process, including whether or not it had been received at the processing center. Additionally, five entities noted a lack of continuity with loan officers or case managers over the course of the application process.[12] Two of these five entities said that some business owners had had up to eight different loan officers or case managers. In addition, these five entities reported that submitted documentation and information were lost when loan officers and case managers changed.

According to SBA officials, due to the physical damage caused by Hurricane Sandy, it was difficult for loan officers and case managers to contact applicants by telephone or e-mail despite their efforts. SBA officials told us that an applicant might have more than one loan officer or case manager for several reasons, such as when application numbers increased or if current loan officers or case managers had to supervise newer staff. SBA officials also told us that some documents could be misplaced due to the multiple ways applicants could submit information to the processing and disbursement center. In addition, some documents may not have been misplaced; rather, they may not yet have been entered into DCMS and thus were unavailable for loan officers to view.

According to SBA officials in 2014, efforts to process electronic application submissions more effectively would address these issues. The officials said SBA expected to create an electronic portal that would share information with applicants on the status of their applications and documents received, thus increasing transparency and communication during the loan application process.

Loan Approval, Withdrawal, and Cancellation Rates in Selected Disasters

As explained previously, for our 2014 report we compared SBA's approval, withdrawal, and cancellation rates for business loans after selected disasters. In comparison with the other disasters, the approval rate after Sandy was not consistently higher or lower, but withdrawal and cancellation rates were consistently higher.

Approval rates. The approval rate for business loan applications for Hurricane Sandy (42 percent) was lower than for Hurricanes Katrina, Rita, and Wilma, higher than for Hurricane Ike, and comparable to the rate for

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[12]According to SBA, a loan officer is responsible for making loan application decisions and a case manager is responsible for closing and disbursing the loan.

Hurricane Irene. However, when taking home loan applications into account, Sandy resulted in the highest total approval rate (53 percent) in comparison to the five other disasters.[13]

The primary reasons for which SBA declined business loan applications after each of the disasters remained the same: lack of repayment ability and unsatisfactory credit history. Following Hurricane Sandy, SBA received 14,938 business loan applications and declined 5,663 as of January 31, 2014. Of the declined applications, SBA cited lack of repayment ability as at least one of the reasons on 2,644 applications (47 percent), and unsatisfactory credit history as at least one of the reasons on 2,317 applications (41 percent).[14]

Withdrawals. Application withdrawal rates were higher after Sandy than after the other disasters. Of the 14,558 original business loan applications that had reached a decision status by January 31, 2014, 4,715 (approximately 32 percent) had been withdrawn by SBA or the applicant.[15] The withdrawal rates for the previous disasters ranged from approximately 18 percent (Ike) to approximately 23 percent (Katrina and Wilma). For Hurricane Sandy, SBA withdrew approximately 60 percent of the 4,715 applications, while applicants requested withdrawal for the remaining 40 percent. The 60 percent figure for SBA-initiated withdrawals was higher than for two of the other disasters and lower for three. The leading reason for withdrawals after Sandy was the applicant's failure to provide SBA with all requested information (1,542 withdrawals or approximately 33 percent of all withdrawn applications).

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[13]Approximately 83 percent of the original loan applications SBA received after Hurricane Sandy were for homes. The "original" category excludes resubmissions after reconsiderations or appeals. SBA received 85,456 original disaster loan applications— 70,518 for home loans and 14,938 for business loans. The total approval rates for the previous disasters, in reverse chronological order, were Hurricane Irene, 37 percent; Hurricane Ike, 22 percent; Hurricane Wilma, 49 percent; Hurricane Rita, 37 percent; and Hurricane Katrina, 46 percent.

[14]SBA can cite more than one reason for declining an application. Of the 5,663 Hurricane Sandy applications that SBA denied, 1,020 (18 percent) had two or more decline codes.

[15]A withdrawn application is one that is removed from consideration before SBA decides to approve or decline. Either SBA or an applicant can withdraw a business loan application. The 14,558 figure for total applications omits 380 applications that remained in various stages of processing as of January 31, 2014.

Cancellations. Of the 4,180 business loan applications SBA approved for Hurricane Sandy, 1,578 (38 percent) had been cancelled as of January 31, 2014—a rate higher than for the other disasters.[16] The other cancellation rates ranged from approximately 22 percent (Wilma) to approximately 30 percent (Ike and Katrina). Of the business loans cancelled after Hurricane Sandy, borrowers requested cancellation of 1,171 loans (74 percent), while SBA cancelled 407 (26 percent). The most common reason for SBA-initiated cancellations was "failure to complete and return all loan closing documents," representing 336 cancellations (21 percent).

According to SBA, factors affecting the withdrawal and cancellation rates for Hurricane Sandy included higher rates of insurance coverage in the footprint of the disaster area and the availability of alternative sources of recovery aid (such as grants). Officials told us that the rollout of programs funded by the Department of Housing and Urban Development's Community Development Block Grant program began earlier than in past disasters, and that state grantees—specifically New Jersey and New York—obtained those funds and accepted applications for their respective state grant programs shortly after the disaster struck.

Half of the entities with which we spoke—selected business development centers and local business organizations in New Jersey and New York—provided perspectives on the most common reasons why applications were withdrawn after Sandy. For instance, business owners commonly withdrew applications because they had changed their plans for funding their recovery (for example, they may have received insurance claim proceeds or state grants). Entities also noted other reasons, such as frustration with waiting times for loan processing and a desire not to incur additional debt.

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[16]SBA disaster loans can be cancelled after approval. A cancellation does not affect the calculation of SBA's approval rate—approved loans are recorded as approvals even if subsequently cancelled. Either SBA or the borrower can initiate a cancellation.

SBA Has Not Implemented Three Guaranteed Disaster Loan Programs Required by Law

In 2014 we reported that 6 years after Congress passed the Small Business Disaster Response and Loan Improvements Act of 2008, SBA had not piloted or implemented three guaranteed disaster loan programs, which therefore had not been available after Hurricane Sandy. As previously discussed, the act mandated the creation of the Immediate Disaster Assistance Program (IDAP), the Expedited Disaster Assistance Loan Program (EDALP), and the Private Disaster Assistance Program (PDAP). According to SBA officials, the agency opted to implement IDAP first, because the loan limit was lower than in the other two programs and SBA received appropriations to pilot this program.

We had examined SBA's implementation plans before 2014. In a July 2009 report, we noted that SBA was planning to implement requirements of the 2008 act, including pilot programs for IDAP and EDALP.[17] SBA requested funding to carry out requirements for the two programs in the President's budget for fiscal year 2010 and received subsidy and administrative cost funding of $3 million in the 2010 appropriation, which would have allowed the agency to pilot about 600 loans under IDAP. The agency issued regulations for IDAP in October 2010. In May 2010, SBA told us that its goal was to have the pilot for IDAP in place by September 2010.[18] We concluded that because the implementation process already was behind schedule, it would be important for SBA to ensure it had a plan to implement remaining requirements of the 2008 act and report on its progress to Congress. We therefore recommended that SBA develop an implementation plan and report to Congress on progress in addressing all requirements within the act and include milestone dates for completing implementation and any major program, resource, or other challenges the agency faced.[19]

However, as of August 2014, the pilot program for IDAP had not yet started. According to SBA officials, the program had not been implemented for two primary reasons: (1) information technology

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[17]GAO, *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, GAO-09-755 (Washington D.C.: July 29, 2009).

[18]GAO, *Small Business Administration: Progress Continues in Addressing Reforms to the Disaster Loan Program*, GAO-12-253T (Washington D.C.: Nov. 30, 2011).

[19]GAO-09-755.

challenges and (2) feedback from lenders indicating that program requirements might hinder lender participation.

First, the electronic systems that would be used to process IDAP applications did not interface smoothly. According to SBA officials, IDAP's readiness was in part based on the ability of E-Tran, the loan processing system for the 7(a) program, to interface with DCMS, the loan processing system for the Disaster Loan Program.[20] Officials said that a new information technology system was being developed—SBA One. They also said that for IDAP application processing, it would be more efficient to make DCMS interoperable with the new system than to enhance E-Tran.[21] At the time of our 2014 report, SBA anticipated that SBA One would be operational by early 2015.

Second, SBA told us that it received feedback from lenders on challenges that could discourage lenders from participating in the program, but documentation of the feedback was limited. In March 2010, SBA organized a forum with 11 lenders in the Gulf Coast to obtain their views on IDAP. Lenders stated the program had to have a simple eligibility determination and confirmation that a potential borrower had applied for an SBA disaster loan before the lender would approve an IDAP loan.[22] Lenders also expressed concerns about the possibility of guarantee

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[20]Section 7(a) of the Small Business Act, as amended, codified at 15 U.S.C. § 636(a). The 7(a) program is intended to serve creditworthy small business borrowers who cannot obtain credit through a conventional lender at reasonable terms and do not have the personal resources to provide financing themselves. Under the 7(a) program, SBA guarantees loans made by commercial lenders to small businesses for working capital and other general business purposes.

[21]SBA One is described as an improved lending platform that will use one set of forms for all 7(a) loans; serve as a one-stop shop for all steps of the loan process, from determining eligibility through closing; and provide one data management system to measure and evaluate loan trends and performance.

[22]If an applicant receives a direct disaster loan, the applicant must use the proceeds to repay the IDAP loan before using the proceeds for any other purpose. 15 U.S.C. § 657c(n).

denials if an applicant did not take out an SBA disaster loan.[23] According to SBA, in 2010 the agency also conducted conference calls with Iowa lenders who expressed similar concerns about IDAP. However, SBA did not document either the Gulf Coast forum or the conference calls at the time of the events. Instead, SBA officials relied on the memory of staff present for these discussions. In response to our request for information on these efforts, in July 2014 SBA provided a one-page summary. The summary included a list of the Gulf Coast lenders but not of Iowa lenders, and the discussion of lenders' concerns was minimal.

In addition, according to SBA officials, in November 2012 the agency solicited informal feedback from lenders in Hurricane Sandy-affected areas about the usefulness of IDAP and its features. According to SBA officials, lenders were concerned about the statutory requirement that provides an applicant a minimum of 10 years to repay the IDAP loan if a loan through the Disaster Loan Program was not approved.[24] Lenders expressed disinterest in servicing a small loan amount (up to $25,000) for a term that long. SBA officials noted that lenders typically did not offer small-dollar loans such as those made under IDAP. SBA's IDAP regulations allow a lender to charge a borrower an optional application fee to recoup some of the loan processing costs, but the one-time fee may not exceed $250 and an IDAP lender generally may not charge a borrower any additional fees.[25] According to SBA officials, they also did not document lender feedback from this outreach effort. SBA officials told us that they obtained feedback on IDAP requirements from three banks, although officials could recall the identity of only one bank.

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[23]If an SBA-guaranteed loan defaults, the lender must enter the guarantee purchase process by requesting that SBA honor the guarantee. During this process, SBA reviews whether the lender complied with the SBA loan authorization, SBA requirements, and prudent lending practices before making a decision to honor the guarantee. For more information on the guarantee purchase process, see SBA's website, http://www.sba.gov/category/lender-navigation/steps-sba-lending/7a-loans/guaranty-purch ase, accessed on June 29, 2015.

[24]If an applicant received an IDAP loan before being declined for a direct disaster loan (through the Disaster Loan Program), the applicant would be required to repay the loan not earlier than 10 years after the date of final disbursement. 15 U.S.C. § 657n(d)(2). SBA regulations state that the maturity of an IDAP loan must be at least 10 years from the date of final disbursement, but no more than 25 years. 13 C.F.R. § 123.703(d)(2).

[25]Lenders may charge a late payment fee not to exceed 5 percent of the scheduled IDAP loan payment, and reasonable direct costs for liquidation.

In July 2014, SBA officials told us that the agency was still trying to conduct the IDAP pilot by attempting to identify solutions to increase lender participation. However, officials noted that the lenders with which they met were not willing to participate in IDAP (or an IDAP pilot) without changes to the statutory servicing term and the SBA regulatory fee. Based on lender feedback, SBA officials said that the current statutory requirements, such as the 10-year loan term, made a product like IDAP undesirable and that lenders were not likely to participate in IDAP unless the loan term were decreased to 5 or 7 years, for example. Congressional action would be required to revise statutory requirements, but SBA officials said they had not discussed the lender feedback with Congress. SBA officials also told us the agency planned to use IDAP as a guide to develop EDALP and PDAP, and until challenges with IDAP were resolved, did not plan to implement these two programs.

As a result of not documenting, analyzing, or communicating lender feedback, SBA might have lacked reliable information to guide its own actions and to share with Congress about what requirements should be revised to encourage lender participation. Such information could be obtained by conducting further outreach to lenders and documenting this outreach in accordance with federal internal control standards, which state that all transactions and other significant events should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.[26] We concluded that not sharing information with Congress on challenges to implementing IDAP might perpetuate the difficulties SBA faced in implementing programs intended to provide assistance to disaster victims. Therefore, in September 2014, we recommended that SBA conduct a formal documented evaluation of lenders' feedback to inform both itself and Congress about implementation challenges and about statutory changes that might be necessary to encourage lenders' participation in IDAP, and then report to Congress on the challenges SBA faced in implementing IDAP and on statutory changes that might be necessary to facilitate implementation.[27]

SBA officials recently provided us with a two-page summary of a discussion conducted with 23 lender and service provider participants in

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[26]GAO/AIMD-00-21.3.1

[27]GAO-14-760

SBA's 7(a) program—17 bank lenders, 3 certified development companies, and 3 lender service providers—at a National Association of Government Guaranteed Lenders conference in October 2014.[28] Participants were provided general information on IDAP, and were asked to comment on specific statutory and regulatory requirements related to loan terms, maximum allowable interest rates, and restrictions on lender-imposed application fees. According to SBA's summary, participants expressed unwillingness to participate in a program with these requirements. While SBA thus has taken one step to solicit and document lender feedback, it has not adopted a plan for the steps the agency will take to implement IDAP (and by implication, the other two loan programs) or to reach a determination on whether IDAP or the other loan programs should be implemented.

Chairman Chabot and Ranking Member Velázquez, this concludes my prepared statement. I would be happy to answer any questions at this time.

GAO Contacts and Staff Acknowledgments

For further information on this testimony, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Marshall Hamlett (Assistant Director), Vaughn Baltzly (analyst-in-charge), John McGrail, and Barbara Roesmann.

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[28]The association serves the needs of and represents the interests of the small business lenders that participate in SBA's 7(a) loan program.

Appendix I: Accessible Data

Data Table for Figure 1: Number of Hurricane Sandy Business Disaster Loan Applications Received and in Processing, October 2012-January 2014

Week	Total	Total applications received
11/04/2012	40	40
11/11/2012	470	458
11/18/2012	1,272	921
11/25/2012	1,819	774
12/02/2012	2,541	1,065
12/09/2012	3,151	1,003
12/16/2012	3,786	1,076
12/23/2012	4,483	1,029
12/30/2012	5,071	837
01/06/2013	5,481	743
01/13/2013	5,862	767
01/20/2013	6,120	711
01/27/2013	6,450	805
02/03/2013	6,518	789
02/10/2013	6,312	431
02/17/2013	5,992	342
02/24/2013	5,716	350
03/03/2013	5,685	678
03/10/2013	5,199	266
03/17/2013	4,640	239
03/24/2013	4,060	223
03/31/2013	3,512	344
04/07/2013	2,904	227
04/14/2013	2,184	181
04/21/2013	1,539	130
04/28/2013	1,036	158
05/05/2013	841	160
05/12/2013	684	113
05/19/2013	559	113
05/26/2013	450	49
06/02/2013	380	38
06/09/2013	335	37
06/16/2013	312	43
06/23/2013	305	34
06/30/2013	284	32

Week	Total	Total applications received
07/07/2013	272	20
07/14/2013	245	32
07/21/2013	227	29
07/28/2013	218	46
08/04/2013	266	92
08/11/2013	224	37
08/18/2013	179	34
08/25/2013	160	24
09/01/2013	143	36
09/08/2013	132	15
09/15/2013	129	18
09/22/2013	123	16
09/29/2013	98	7
10/06/2013	93	10
10/13/2013	89	15
10/20/2013	76	6
10/27/2013	75	11
11/03/2013	69	10
11/10/2013	64	11
11/17/2013	81	8
11/24/2013	68	4
12/01/2013	73	17
12/08/2013	67	4
12/15/2013	52	2
12/22/2013	52	8
12/29/2013	49	2
01/05/2014	42	3
01/12/2014	34	2
01/19/2014	21	6
01/26/2014	32	11
02/02/2014	31	3

Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Data Table for Figure 2: Number of Hurricane Sandy Business Disaster Loan Applications SBA Received, October 2012-January 2014

Number of weeks following Hurricane Sandy	Total applications received	Total electronic loan applications received	Total paper applications received
1	40	34	6
2	458	366	92
3	921	631	290
4	774	499	275
5	1,065	644	421
6	1,003	592	411
7	1,076	655	421
8	1,029	506	523
9	837	419	418
10	743	372	371
11	767	420	347
12	711	382	329
13	805	429	376
14	789	428	361
15	431	260	171
16	342	187	155
17	350	197	153
18	678	400	278
19	266	140	126
20	239	146	93
21	223	142	81
22	344	215	129
23	227	146	81
24	181	98	83
25	130	67	63
26	158	97	61
27	160	93	67
28	113	58	55
29	113	76	37
30	49	22	27
31	38	20	18
32	37	21	16
33	43	24	19

Number of weeks following Hurricane Sandy	Total applications received	Total electronic loan applications received	Total paper applications received
34	34	21	13
35	32	17	15
36	20	7	13
37	32	22	10
38	29	25	4
39	46	27	19
40	92	63	29
41	37	15	22
42	34	22	12
43	24	12	12
44	36	13	23
45	15	4	11
46	18	11	7
47	16	4	12
48	7	2	5
49	10	3	7
50	15	5	10
51	6	4	2
52	11	4	7
53	10	6	4
54	11	4	7
55	8	1	7
56	4	2	2
57	17	5	12
58	4	2	2
59	2	0	2
60	8	3	5
61	2	1	1
62	3	1	2
63	2	0	2
64	6	5	1
65	11	1	10
66	3	1	2

Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: Hurricane Sandy made landfall on October 29, 2012. The final week spans from January 27, 2014, to February 2, 2014.

Data Table for Figure 3: Number of Active Loan Officers and Hurricane Sandy Business Disaster Loan Applications Received by Week, October 2012–May 2013

Week Ending	Processing and Disbursement Center (PDC) loan officers	Sacramento loan officers	Buffalo loan officers	Total business applications received
11/3/2012	104	0	0	40
11/10/2012	102	0	0	458
11/17/2012	122	0	0	921
11/24/2012	173	0	0	774
12/1/2012	221	0	0	1,065
12/8/2012	236	0	0	1,003
12/15/2012	255	48	0	1,076
12/22/2012	282	92	0	1,029
12/29/2012	284	125	0	837
1/5/2013	243	128	0	743
1/12/2013	268	138	0	767
1/19/2013	268	148	0	711
1/26/2013	274	147	0	805
2/2/2013	283	145	0	789
2/9/2013	283	166	0	431
2/16/2013	298	186	0	342
2/23/2013	291	183	0	350
3/2/2013	270	197	30	678
3/9/2013	297	208	29	266
3/16/2013	279	193	29	239
3/23/2013	255	190	29	223
3/30/2013	225	159	28	344
4/6/2013	223	154	23	227
4/13/2013	225	98	0	181
4/20/2013	227	98	0	130
4/27/2013	228	95	0	158
5/4/2013	225	57	0	160
5/11/2013	219	58	0	113
5/18/2013	197	0	0	113

Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: The weekly data for loan officers and business applications received differ by 1 day. For example, the final week of data for loan officers ends on May 18, 2013, and the final week of data for business applications ends on May 19, 2013.

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