

**DISASTER ASSISTANCE: IS SBA MEETING THE
RECOVERY NEEDS OF DISASTER VICTIMS?**

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DISASTER ASSISTANCE: IS SBA MEETING THE RECOVERY NEEDS OF DISASTER VICTIMS?

WEDNESDAY, NOVEMBER 30, 2011

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

The Committee met, pursuant to call, at 1 p.m., in room 2360, Rayburn House Office Building, Hon. Roscoe G. Bartlett (Member of the Committee) presiding.

Present: Representatives Bartlett, Mulvaney, Tipton, West, Barletta, Schilling, Velázquez, Chu, Cicilline, Richmond, and Owens.

Mr. BARTLETT. Good afternoon. In the absence of the chairman, it is my privilege to call this meeting to order.

After disaster strikes, victims want to know that they will have the financial resources to recover. Immediate disaster assistance is led by State governments, along with assistance from the Federal Emergency Management Agency, or FEMA. However, long-term recovery is the responsibility of the Small Business Administration. Disaster assistance offered by the SBA helps homeowners, renters, businesses, and nonprofit organizations by offering long-term recovery loans.

When working properly, SBA programs help people rebuild their homes and businesses after they have been destroyed. SBA loans also help businesses that suffer economic losses resulting from a community struggling to get back on its feet.

What victims do not need is endless paperwork, misinformation, and delays. It is essential that SBA maintain the capacity to get money quickly into the hands of people who need the funds to rebuild. By properly planning and continually reassessing how it offers assistance, SBA can be better prepared to respond in times of emergency. Our role is to oversee SBA's implementation of statutory changes to the disaster loan program and to ensure that it is meeting the needs of disaster victims.

I find it troubling that in 2009, almost 4 years after Hurricane Katrina, GAO reported that they were not comfortable that SBA could meet the challenges of another disaster on the scale of Katrina. Today GAO continues to report that laws passed in 2008 are not fully implemented. While I appreciate the progress that has been made, SBA needs to make disaster recovery a higher priority. There are too many people relying on SBA for assistance to rebuild their homes and their businesses for us not to get this right.

With that, I look forward to receiving an update on SBA's implementation of statutory changes and how those changes have helped

SBA respond to recent disasters. I am also interested in hearing what else can be done to make sure SBA is prepared to respond to any disaster we might face in the future.

I would now like to yield to my good friend and ranking member, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman, thank you for yielding. With so much of the national attention focused today on the holiday season, it is easy for Americans to lose sight of the risks posed by Mother Nature, but the reality is that natural disasters can occur in times and places where they are least expected. From fires in Texas to an earthquake in Virginia and a hurricane in the Northeast, the events of the past summer have shown the need for disaster readiness in every part of the country.

Today we will examine whether the SBA's disaster assistance program is prepared to meet this challenge and whether reforms enacted in the 110th Congress have been fully implemented by the agency.

Since the agency's creation in 1953, the SBA has performed its disaster assistance mission. Today the SBA's disaster loans are the primary form of Federal assistance for the repair and rebuilding of private sector losses and are not limited to small businesses. SBA loans help homeowners rebuild their homes and can help every disaster victim replace damaged personal possessions. SBA loans can even help businesses cover the economic losses they experience as a result of a disaster.

For those of us who have been on the committee for some time know that SBA also has a history of struggles with its disaster assistance programs. Nowhere was this more apparent than under the disaster loan program which faced significant challenges following Hurricane Katrina. At the time we asked GAO to take a look at the program and evaluate the agency's response to the hurricane. The resulting reports led to the passage of the Disaster Response and Loan Improvements Act. That law laid the foundation for important reforms to the disaster assistance program. It fixed the shortcomings uncovered by Katrina and gave the agency new tools to better leverage its resources and coordinate with the private sector.

In 2009, a full year after the passage of the Disaster Response and Loan Improvements Act, the committee held hearings to evaluate the agency's progress in making reforms. At that time the SBA had yet to fully implement 13 out of 26 provisions contained in the act. In the 2 years since then, some progress has been made toward full compliance with the law, but as we will hear today, a great deal of work remains to be done.

In addition to obstacles in effective disaster planning, SBA has struggled to meet deadlines on critical reports. Additionally, the agency has chosen to implement new bridge loan initiatives on a trial basis, even pilot programs that were not called for, and perhaps most notably, the agency has made very little progress in implementing its private disaster assistance program. It is important that these issues be resolved. Should another major disaster strike, it will be critical that the agency have a framework in place to deliver bridge assistance and private loans to victims.

In examining the current state of the disaster assistance program, it is clear that there is still significant work to be done. And the stakes could not be higher. It is estimated that between 40 and 60 percent of businesses fail to recover from a natural disaster. This is why it is so important that the agency get it right. Our economy is counting on small firms to drive growth and create jobs. We simply cannot afford to lose these engines of growth. In making sure they are able to do that, we need an SBA that can step up to the plate and meet its mission to deliver disaster assistance where it is needed most.

I would like to thank both Mr. Rivera and Mr. Shear for being here for this discussion, and I know we all look forward to hearing what they have to say. Thank you, Mr. Chairman.

Mr. BARTLETT. Thank you very much. Our first witness is James Rivera, Associate Administrator of the Office of Disaster Assistance at the Small Business Administration. In this role Mr. Rivera is responsible for all aspects of the SBA disaster loan-making programs. During this time Mr. Rivera has worked at modernizing the disaster relief applications process, including the implementation of the electronic loan application. Mr. Rivera, welcome to our committee, and we look forward to your testimony.

STATEMENTS OF JAMES RIVERA, ASSOCIATE ADMINISTRATOR, OFFICE OF DISASTER ASSISTANCE, UNITED STATES SMALL BUSINESS ADMINISTRATION; AND WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF JAMES RIVERA

Mr. RIVERA. Good afternoon, Congressman Bartlett, Ranking Member Velázquez, and Chairman Graves, and the distinguished members of the committee. Thank you for inviting me to discuss SBA's disaster assistance programs.

SBA's Office of Disaster Assistance provides financial assistance in the form of low-interest loans. Earlier last week SBA reached a milestone in providing more than \$50 billion in disaster loans. We are proud to help homeowners and businesses get back on their feet after a disaster.

Although SBA is not a first responder agency, we are on the ground immediately following a disaster. SBA's primary focus is providing low-interest, long-term loans as part of the recovery efforts in coordination with other government partners at the Federal, State, and local levels. Additionally, SBA offers economic injury disaster loans to small businesses, small agricultural cooperatives, and most private nonprofit organizations who have suffered economic injury caused by a disaster. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

Since the 2005 Gulf Coast hurricanes, SBA has made dramatic improvements in our operation, and we see a great deal of success because of that. SBA is now better prepared to process loans faster, provide a better quality of service, and be more helpful to disaster survivors. To ensure overall preparedness, the disaster program

has increased the number of work stations from 366 to 1,750 in our Fort Worth, Texas, operation, and we have added a surge center in Sacramento, California, with 350 additional work stations, our core staff of 850 regardless of activity, and we have a pool of over 2,000 disaster reservists who we can draw from.

During Hurricane Irene and Tropical Storm Lee we peaked at 1,750 staff. On top of this, we have increased the disaster credit management systems capacity from 800 to 10,000 concurrent users. Throughout the year we have invested in staff to increase their skills, streamlined the loan process, improved technology, reduced contracting costs, and implemented a new staffing strategy for ODA.

Under the newly implemented staffing strategy we were able to increase staff, train and deploy an additional 900 employees within 3 weeks in many of your congressional districts during the response to Hurricane Irene and Tropical Storm Lee. From a loan processing perspective, we are currently exceeding our processing goals by approving or declining loan application requests within 8 days for homeowners and 10 days for business owners during fiscal year 2011. Our goal is 14 days for homeowners and 18 days for businesses. In response to Irene and Lee, SBA is processing loan applications in less than 10 days on average.

To put this in perspective, the average processing time during the Gulf Coast hurricanes was 74 days for disaster home loans and 66 days for disaster business loans. Additionally, in August of 2008, SBA introduced an electronic loan application which allows disaster survivors to apply for assistance online.

SBA has also revamped the post-approval process and improved processes and tools for loan closing and funding disbursements. To ensure coordination and collaboration across the board, SBA also works closely with our sister agencies. For instance, SBA and FEMA have consistently worked together in order to effectively provide assistance to disaster survivors, including implementing internal agency agreements for continual electronic data exchange.

Since the beginning of Hurricane Irene and Tropical Storm Lee, SBA has approved more than \$355 million in disaster loans to help more than 9,200 homeowners, renters, businesses and nonprofit organizations recover and rebuild from the devastation caused by Irene and Lee.

Additionally, SBA has responded to the needs of residences and business owners by deploying 600 SBA disaster staff workers and field inspectors to staff 163 disaster recovery centers located throughout the East Coast to assess damage to homes and businesses in 12 States and Puerto Rico. At these centers SBA representatives are providing one-on-one service to disaster survivors and have personally met with more than 16,000 disaster survivors to answer questions, explain SBA's disaster program, help complete loan applications, and close disaster loans. In addition, homeowners and businesses can call our disaster call center in Buffalo, New York, which has handled over 61,000 calls relating to Hurricane Irene and Tropical Storm Lee.

In closing, we appreciate the opportunity to share with the committee the role SBA plays in the small business disaster recovery efforts, and we believe that the reforms we have instituted and the

new tools Congress has provided to us will allow us to effectively and efficiently respond to the needs of our Nation's citizens. I look forward to further describing these efforts and answering your questions. Thank you.

[The statement of Mr. Rivera follows on page 26.]

Mr. BARTLETT. Thank you very much. Our second witness is Bill Shear, who is Director of the Financial Markets and Community Investment team at the U.S. Government Accountability Office. Mr. Shear is a frequent guest before this committee, providing testimony on a broad range of SBA oversight issues. Mr. Shear, welcome back to the committee, and we look forward to your testimony.

STATEMENT OF WILLIAM B. SHEAR

Mr. SHEAR. Mr. Chairman, Ranking Member Velázquez, and members of the committee, it is really a pleasure to be here today to discuss our work on reforms made to the Small Business Administration's disaster loan program. After the 2005 Gulf Coast hurricanes, many deficiencies were exposed in the program and demonstrated the need for reform. Since then SBA has taken several steps to reform its program, which includes creating an online loan application and increasing the capacity of its disaster credit management system.

In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvement Act, which places new requirements on SBA to ensure that it is prepared for future catastrophic disasters. We first reported to this committee in July 2009 on SBA's actions to address the act's requirements, and in our report we made five recommendations to SBA to facilitate progress in meeting and complying with these requirements and improve the disaster loan program. My statement today provides updated information on SBA's actions.

SBA has continued to make progress in addressing provisions of the act, although continued attention to certain provisions will be important for sustained progress. SBA has met requirements for 16 of 26 provisions of the act and partially addressed six. Four provisions do not require any action at this time.

For example, in terms of progress made, SBA updated its disaster recovery plan annually, most recently in June 2011. SBA also has taken steps to address the act's requirements for region-specific marketing and outreach. The agency has begun a dialogue with the State directors of small business development centers in the Gulf Coast about disseminating disaster planning information in the five most hurricane-prone States before the hurricane season.

Additionally, SBA officials told us that the agency has issued some public service announcements in disaster-prone areas. SBA has issued annual reports to Congress on disaster assistance in 2009, 2010, and 2011, as required by the act.

As we have reported in the past, the biggest challenges SBA appears to have experienced in its attempt to fully address the act's requirements involve making extensive changes to current programs or implementing new programs. In particular, SBA still plans to implement pilots before finalizing regulations for two pro-

grams that would involve private lenders making short-term loans to applicants awaiting assistance.

With respect to recommendations we made in our 2009 report, SBA has taken steps to implement three of the five recommendations. These three recommendations address fulfilling the act's region-specific marketing and outreach requirements; completing its annual report to Congress; and issuing an updated disaster recovery plan. Beginning 12 days ago, on November 18th, SBA has been providing us information responsive to these recommendations, and we have continued to receive information since my written statement was completed and provided for this hearing.

Our final two recommendations were for the agency to, first, develop an implementation plan and report to Congress on its progress in addressing all of the act's requirements; and, second, to develop and implement a formal process to identify problems in the disaster loan application process and make improvements for future applicants. Here SBA officials and we have agreed to continue a dialogue on actions that could lead to improvements in the disaster loan program.

Mr. Chairman, Ranking Member Velázquez, and members of the committee, it is really a pleasure to be here, and I look forward to your questions.

[The statement of Mr. Shear follows on page 29.]

Mr. BARTLETT. Thank you very much, both of you, for your testimony. As is usually my practice when I chair a committee, I reserve my questions until the end, hoping that they will have been asked by my colleagues, so I yield now to our ranking member, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you. Mr. Shear, given everything that you have reviewed in your past reports, are you today, are you comfortable that the SBA is prepared for another disaster on the scale of Hurricane Katrina or a major earthquake on the West Coast?

Mr. SHEAR. Two years ago when I was here before this committee, you asked that question, and my answer at that time, I think, was more negative than the answer you will hear from me today, but let me divide it into three pieces.

First, I say it is relative. I think SBA is better prepared than it has ever been to deal with any disaster, including one of the scale of Katrina. I think they have made improvements in their program.

The second part of this is that when we looked at the 2008 floods, again at your request for this committee, even though those were on a much smaller scale, we did see that the responsiveness of the agency to those disasters was much greater than we had seen in the past, so, again, it is consistent with improvements in the program.

The third part of this is what causes me to say we are still uncertain, so I will say I hope SBA is prepared for another Katrina. But the third part of this, which is part of what was passed in the act, which is to perform simulation exercises, and the simulation exercises and the after-action reports were not completed at the time we reported to you 2 years ago. We have had interactions with SBA since then, but we still have not seen the results of those simulation exercises, and given that you haven't had another Katrina

since then, the results of those exercises, at least in principle, should allow SBA to address your question and to really give a good answer because that is the part of the evidence that is missing for us.

Ms. VELÁZQUEZ. So what are the reasons given to you since you finalized your report for not doing the exercise of the simulation?

Mr. SHEAR. I think the agency has done simulation exercises. We have never actually explicitly asked for the results of them because we haven't had ongoing audits of those programs. We are certainly—we would be glad to look at them either at the initiative of SBA or this committee, we would be glad to look at them and to have discussions about what is ready for public consumption and things of that nature, but we haven't explicitly asked for them because we haven't had an ongoing audit where the results were necessary for us to complete our work.

Ms. VELÁZQUEZ. Okay. SBA, Mr. Shear, failed to make use of its authority to defer or refinance loans for businesses affected by Hurricane Katrina, Rita, or Wilma. My question to you is, if they had, do you believe that the Gulf Coast region would have recovered more quickly?

Mr. SHEAR. I can't answer the question explicitly and directly, but these are the things I would point to. SBA disaster loans have certain requirements, certain underwriting requirements, collateral requirements, and one of our experiences from our work we have done in the Gulf Coast over the years is that there was felt a need such as in Louisiana to have State-run programs. So I would say that to fill part of the void there were State loan programs and grant programs that were run to try to address the needs that SBA could not address, and then there were community development block grant funds provided by HUD that were used to support some of that State activity.

So it is clear that the SBA disaster loans did not fulfill what was considered necessary for the recovery of the Gulf Coast, but given that those State programs are there, I don't know how much extra would have resulted from an additional Federal program. So, again, something more than SBA disaster loans seem to be needed, but to some degree it was addressed by the State-run programs.

Ms. VELÁZQUEZ. In your testimony you noted difficulties that the SBA has had in making its annual report to Congress in a timely fashion as is required by the statute. What is causing the agency to repeatedly miss these deadlines? Is it a lack of staff or a failure to prioritize?

Mr. SHEAR. I want to put that in relation to our experience with open recommendations. We are not quite sure whether it is due to communication problems within the agency in terms of the liaison function, the congressional relations function or more substantively with the program functions. So those are things that, based on personal experience, I can point to, but it does seem like there is a lack of prioritization in terms of saying what is necessary and what is required and make sure that we are—that the agency is meeting those requirements.

Ms. VELÁZQUEZ. Okay, thank you. Mr. Rivera, with the economic recovery still at an early stage, the effects of a natural disaster can be especially challenging. Section 12068 of the Disaster Response

and Loan Improvements Act gave victims of the most severe disaster the option of longer payment deferrals. With many people still struggling, will your agency make use of this authority?

Mr. RIVERA. Congresswoman Velázquez, we currently have the authority to grant deferments, and we do on a case-by-case basis.

Ms. VELÁZQUEZ. So you have done it?

Mr. RIVERA. Yes, ma'am. A good example is the BP oil spill. We provided many deferments to existing SBA homeowners and businesses in the impacted area.

Ms. VELÁZQUEZ. Okay. I have more questions, so in the second round I will be making those questions. Thank you.

Mr. BARTLETT. Thank you. Mr. Schilling.

Mr. SCHILLING. Thank you, Chairman. Welcome, fellows. I guess I will start out with Mr. Rivera. The SBA covers losses not covered by insurance, and how closely does the SBA work with insurance companies to make sure the costs are allocated properly?

Mr. RIVERA. Congressman Schilling, what we actually do is we send out a field inspector, and the field inspector goes to the property and they come up with an estimate of what it is going to cost to repair or replace the damaged property. We encourage disaster survivors to go ahead and apply first and not wait for an insurance recovery. That way we can go ahead and get the funds and the rebuilding process through quicker, and then we can work with the insurance companies once the settlement is made. The difference between when we do an inspection and when an insurance company does an inspection is we do it based on fair market value, where most insurance companies will take a depreciated value approach, so there is a gap, and usually that is what our loan entails.

Mr. SCHILLING. Oh, very good. And then also disaster victims still report that there are numerous paperwork burdens between, related to the IRS paperwork. How closely do you guys work to improve that gap?

Mr. RIVERA. Yes, sir, that is something that we also hear. We have worked closely with the Internal Revenue Service. We actually have a one-page form, not to get technical here, but it is called an IRS Form 8821. What it does is once a disaster survivor signs that one-page form, it enables us to go directly to the Internal Revenue Service, and we get copies of their tax transcripts, certain items, so we have streamlined that process. Where in the old days we used to ask for, you know, 3 years of Federal tax returns, paper copies, bring that in, we currently have that as part of our streamlined process where they fill out that one page, they sign it, and we can provide that to the Internal Revenue Service, and they can provide us with copies of their tax transcripts.

Mr. SCHILLING. Very good, that is streamlining. Awesome.

Mr. RIVERA. Thank you.

Mr. SCHILLING. Mr. Shear, just a couple questions. Has the SBA developed a system to make improvements based on customer services, you know, from surveys that you might be getting back?

Mr. SHEAR. SBA has taken—they have some good tools, they have taken some actions in that there is an annual survey of customers where they receive information. Mr. Rivera and others state that when they are out in the field, they do listen to people. What we are looking for is more of a formal process. Whether it is the

resource partners like the small business development centers and others involved in the process, when we conduct our audit work, we hear of certain pain points. Some of them have to do with the topic you just brought up, having to do particularly with the business loans, but we think that it would be useful for the agency to have more of a formal process to try to deal with these pain points, whether it comes from the annual survey or whether it comes from other sources, and to have a formal process to act on it.

Mr. SCHILLING. Very good. And then lastly, since most disaster victims first must apply for FEMA assistance, are the applications you feel falling through the cracks when being transferred between the two agencies or is that something we have got a pretty good grip on also?

Mr. SHEAR. You are asking me? Okay. We saw that this process was very badly broken after Hurricane Katrina, and that was the one time we looked really in depth at that process, and part of the problem was when FEMA referred to SBA that SBA took so much time to reach a decision, and especially if it was a declined decision, it was hurting the recipient or the victim. It was harming them by not getting a rejection to be able to go back to FEMA. So that process was broken. We have not looked at that process since our work following Hurricane Katrina.

Mr. SCHILLING. So would you say that since Katrina have we had any disasters that would really help us test the system out to see how tuned up it is?

Mr. SHEAR. We have, and this, I will refer to my answer to Ranking Member Velázquez that we have some windows, including the report we did for this committee when we looked at the 2008 disasters. It gives a window as far as how responsive is SBA, how are things working, coming up with certain recommendations having to do with loan application process and things of that nature. So we have a certain window, but we do not quite see the extent of a disaster anywhere of the magnitude of Katrina. But we have seen, for example, looking at the act that there have been certain regulations for working with FEMA, so we haven't gone out and tested those regulations, but we do observe that there is regulations in place to address that problem.

Mr. SCHILLING. Okay, very good. I yield back my time. Thank you.

Mr. BARTLETT. Thank you. Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman. I have a couple of questions on the interest rate calculation. You indicate in your testimony or maybe in the report that interest rates are determined based upon the availability of credit from other sources. Can you describe for me exactly how that formula works? Either one who would like to take a stab at it.

Mr. RIVERA. Sure, I will take that one. The interest rate calculation, it is a credit elsewhere test is what we do. It is a very simplified test. Basically it looks at the available cash flow and the available assets of an individual or of a business, so in I would say 90—85, 90 percent of the time the individuals get the lower rate. In the case of Hurricane Irene and Tropical Storm Lee, that is 2½ percent for homeowners and 4 percent for businesses, and the

credit elsewhere rate is 5 percent for homeowners and 6 percent for businesses.

Mr. OWENS. Is that in any way tied to, if you will, the cost of funds to the government for these loans?

Mr. RIVERA. The substantive calculation does have a connection with the, you know, the credit elsewhere determination or actually the number of loans that are made.

Mr. OWENS. Really what I am asking is the—currently borrowing rates for the government are 1 percent or less in general, and I am asking whether or not the interest rate calculation is based upon the cost of funds to the government.

Mr. RIVERA. Right. The interest rate calculation is statutorily, I mean it is a formula that we follow, and it is basically, the home rate is based on treasuries, and the business rate is based basically like the 7(a) loan, it is based on prime plus the spread that we get on a 7(a) loan.

Mr. OWENS. All right, thanks. The other issue that the testimony and report raised was the issue of collateralization of these loans. How do you make that determination if someone's home has essentially been destroyed or their business has been destroyed? What is the collateral that they can offer or is that collateralization determined based upon the anticipated rebuild?

Mr. RIVERA. In collateral, it is a real simple calculation, I mean, it is a real simple approach. Basically what we do is we take the best available collateral. So if you have a home that has been damaged, and let's say you had, and it is worth \$100,000 and we make—you know, you have a \$50,000 mortgage and we make \$100,000 worth of repairs, we will take a second lien position. The homeowner will be upside down, but that is why we enable, you know, the loan to be for 30 years, but we don't have to be in a first lien position, we don't have any loan-to-value collateral, I mean loan-to-value ratios. We take whatever is best available from the applicant.

Mr. OWENS. So, in effect, you could have a piece of property that currently has a fair market value of \$25,000 had a cost of \$100,000, and you would give a loan based upon the cost?

Mr. RIVERA. We would give a loan based on what it costs to repair or replace the damage, and then we would attach a lien on the amount of that loan, whether it is \$50,000 or \$200,000.

Mr. OWENS. Okay. Good. Thank you. I yield back.

Mr. RIVERA. Thank you.

Mr. BARTLETT. Thank you. Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman and Ranking Member. Mr. Shear, Mr. Rivera, thanks for being here. Mr. Shear, could you maybe give me a little more background. I apologize if I missed it. The GAO report came out with 26 items that they had listed. You were alluding to five that you had been working on, but I believe there were another six provisions that they had suggested, and one of immediate interest to me right now is establishing immediate disaster assistance program for getting dollars back to small businesses. Can you tell me how that is progressing?

Mr. SHEAR. Our understanding on that program was when we were before this committee in the past that SBA wanted to pilot that program, and we are very sympathetic with pilots when you

don't quite understand how a program is going to work and what the risks are of a particular program. As of the information we have just gotten for this hearing, the regulations are in place, but the pilot hasn't occurred yet, and I think that is related to its operation by the Office of Capital Access at SBA, and they have been quite busy, our understanding is, with the Recovery Act provisions. So that pilot has not occurred as of yet, and it seems these other private loan programs are to some degree—those not being implemented are to some degree related to the pilot on the immediate disaster assistance loans not being used yet. That is our understanding of it.

Mr. TIPTON. It is a work in progress. Mr. Rivera, disaster loans are made directly to, by the SBA, not through the network of lending partners, and I would just like to get your thoughts. Do you think that is a good idea, bad idea?

Mr. RIVERA. Well, we have been doing it this way since 1953, and we feel we have the capacity and the ability to provide this service to the disaster victims. We cut out having to go through, you know, a guaranteed loan, for example, like on the 7(a) side, so we deal directly with the disaster victims because it is a unique situation. It is not a working capital loan, it is not an expansion loan, it is usually debt on top of debt, and so we have established this relationship, and we feel like we are prepared, and we feel like we can do it comfortably.

Mr. TIPTON. Okay. You know where you get a little bit of crossover, I would like to just maybe have your thoughts on it between SBA loans, some of the private loans particularly, and disaster relief. Dodd-Frank has obviously helped free some of the credit markets that are out there. Are you seeing some real impacts when we are talking about seeing recovery and response after a disaster?

Mr. RIVERA. We have seen a weakness in the economy in 2008 and 2009, no doubt about that. But we continue to, you know, provide assistance to the individuals based on, you know, their available cash flow from that perspective and inadequate credit. We are the most aggressive lender in town, we will make the loans that the lenders won't make. From the perspective of a lender providing the service, if there is a lender out there that is providing bridge loans, we will definitely look at taking out that bridge loan. So I mean, we work with some lenders across the country that have that bandwidth.

Mr. TIPTON. Is it your thought, since you first have to apply to FEMA and then ultimately to the SBA, is there a way to be able to bridge that or is that creating more problems?

Mr. RIVERA. Well, it is actually a seamless process. The reason we want disaster survivors to apply first with FEMA is that we want them to be available for all types of resources that are available on behalf of the Federal Government. There is crisis counseling, there is medical, dental, funeral, there is all kinds of available immediate assistance that is available to help them with minimal repairs to their home, you know, from that perspective. So once they go through that, there is a minimum income test, and if they are below that threshold, the individual disaster survivor, they stay with FEMA and they move over to the grant program.

Mr. TIPTON. Where you say that is seamless, I guess what I am curious about is just some of the time frame.

Mr. RIVERA. So somebody will register with FEMA today, you will call the 1-800 FEMA phone number, and you will register today with FEMA, they will take some preliminary information, and then they will turn around and they will send us the referral that same day. Our computers are linked up. That is something that we have done since KRW. We have a computer matching agreement where we get several dumps throughout the day, if I can use a computer term, where they actually provide us this information.

Once we get this information, we mail out an application, and we are looking at ways of being a little bit more proactive. For example, we can call them, you know, these are some of the process improvements we are currently looking at, as far as like maybe giving them a call and saying, you know, you just registered with FEMA, we are with SBA and we provide the loan program, and you need to provide an application with us, and then we go through that process. Once we actually get the application back, we are processing in 10 days. Unfortunately, you know, Katrina wasn't our best day from a disaster perspective. We were doing, you know, 60 to 70 days just to decline or approve a loan. What we have done is we have reengineered that process where we don't take an applicant through the entire process. We can tell pretty much upfront who is an obvious decline, and we go and refer those individuals back to FEMA.

Mr. TIPTON. Thank you, sir.

Mr. RIVERA. Thank you.

Mr. TIPTON. Yield back, Mr. Chairman.

Mr. BARTLETT. Thank you. Ms. Chu.

Ms. CHU. Thank you. Mr. Rivera, I was in New Orleans at the beginning of November at a hearing pertaining to the BP oil spill. There were many Asian-American, particularly Vietnamese fisherman there, and they shared many of their stories about the aftermath. Of course, they have had a hard time getting back on their feet, and they did not seem to know much about SBA disaster loans and were unclear about whether or not they could still apply for it.

As you may know, the literacy rate in the community is very low, as well as their understanding of English for many of the fishermen. How do you ensure that small businesses like this are aware of your loan program and that they can actually understand the language on it as well?

Mr. RIVERA. Thank you, Congresswoman Chu. We actually work closely with FEMA on presidential declarations. I know the BP oil spill, from an administration's perspective, we did an SBA declaration based on the Governor's certification that there were five businesses which sustained substantial economic injury, but in the case of the BP oil spill, we actually went into communities, and if we found a pocket, for example, if there was a Vietnamese language or whatever the language was, we often have the skill set within our existing staff, and if we don't, we will pick up an interpreter there locally that can help us communicate. We have—usually an interview takes anywhere from 5 to 10 minutes, explaining the pro-

gram with the disaster victim or face to face, but if it takes us an hour, if it takes us longer than that, we have the time and we spend the time to get that application back with the information that we need and to communicate that. We also do town hall meetings, and we will also meet with the local small business development centers, the resource partners on the ground, who in the BP oil spill were very instrumental in helping us with businesses that may not have had the financial aptitude to be able to provide us with the information, so we had an SBDC partner right next to us, and they were able to help us with, okay, this is what we mean when we want a financial statement, this is what we need from a balance sheet, this is what we need from an income statement, and they were able to really help us provide that, bridge the communication gap from that perspective.

Ms. CHU. And if they were monolingual in another language or primarily spoke some other language, what happened there?

Mr. RIVERA. We also have the ability, we have a service, a national call line service where when those individuals talk with our call agents up in Buffalo, New York, at the call center or at our processing center in Fort Worth where we have a call service where we can actually have an interpreter walk us through or explain, you know, interpreter—from disaster survivor to interpreter to us, and we are very sensitive to the language requirements in different parts of the country, but we go in, and from a FEMA perspective, they also assist us because they will go in with community relations group, and they will hit the different pockets, and they will go door to door, and we usually assist them there, too.

Ms. CHU. Do you have translated documents?

Mr. RIVERA. No, ma'am. What we do is our forms are currently in English and Spanish, but in the event that a local, you know, there is the Vietnamese community, they will also assist us in translating the documents for us, so we don't have—because the dialects change. I mean, I am from Texas, I am a Mexican American, my Spanish is different than, you know, somebody from New York or the dialects are different from, you know, across the different parts of the country, so we rely on the local community to help us with the translation services, and they are usually pretty receptive to providing that help to us.

Ms. CHU. Do you know how many fishermen applied for the economic injury disaster loans?

Mr. RIVERA. I don't have that information with me in my book here, but I will be glad to get that information back to you.

Ms. CHU. Yeah, I would like to know what that is, and I would also like to know, many of the fishermen on the Gulf operate on a cash basis, and they lost documents during Hurricane Katrina, and some then lost whole livelihoods based on the oil spill, and they might not have the documentation required for typical loans. What kind of flexibility do you have there?

Mr. RIVERA. And if I can go back, we approved about \$41 million in bridge loans for the BP oil spill, and obviously, you know, the Gulf Coast claims facility was the facility that was in place to help BP, and I think they provided like \$5 or \$6 billion worth of service. But how do we deal with individuals? We deal with a lot of businesses, and we in the old days, we used to require individuals to

bring in copies of their tax returns, and as I mentioned earlier, what we do now is we actually have them sign an IRS Form 8821, and we can get copies of their tax transcripts. Being a Federal agency, we give them credit for whatever they report to the Federal Government, and then that kind of allays any issues as far as, you know, being a cash business or whatever type of business they are. Whatever they report to the Federal Government, to the IRS is what we give them credit for.

Ms. CHU. And that would be adequate for the loan then?

Mr. RIVERA. Yes, ma'am, that is what we use for repayment ability or for part of our repayment analysis.

Ms. CHU. Thank you. I yield back.

Mr. RIVERA. Thank you.

Mr. BARTLETT. Thank you. Mr. Barletta.

Mr. BARLETTA. Thank you, Mr. Chair. Mr. Shear, after the combination of Hurricane Irene and Tropical Storm Lee hit northeastern Pennsylvania, my district experienced the worst flooding in its history, and they are still dealing with it as we speak. I just came back with Chairman John Mica who came to see the damages, Speaker John Boehner was there as well, and many of the businesses in our area are making decisions of whether or not they even want to go back in business again. I traveled throughout the district and talked to many of the business owners, and I told them what the United States will do through the Small Business Administration is if you can get credit elsewhere, we will provide you with a 6 percent loan. I could tell you the reception was not very warm when I told them this is the help we have to offer, especially when a business is trying to decide whether or not they are even going to stay in business again.

The United States gave Pakistan for flood disaster relief \$215 million in the last 2 years. The interest rate that we charged the flood disaster victims in Pakistan was 0, with no payback. Do you believe a 6 percent loan is meeting the needs of disaster victims here in the United States?

Mr. SHEAR. I don't have a basis to answer your question. I have to rule out not knowing what our assistance to Pakistan was. I will make the—

Mr. BARLETTA. Well, how about just the 6 percent loan?

Mr. SHEAR. Just the 6 percent loan, I will make the observation that SBA is part of our recovery framework, so there are other Federal programs involved, as I alluded to in work in the Gulf Coast, so I can't comment on it directly. I would say there it is a question for the Congress. At GAO, we don't make value judgments when we evaluate programs as far as how much assistance should be provided and at what cost, so the question really is—

Mr. BARLETTA. How is the interest rate determined?

Mr. SHEAR. The interest rate, and Mr. Rivera can speak to the interest rate much better than I can, the credit elsewhere requirement I think is intended to make it a lower cost program than it would be, and the 6 percent interest rate makes it a lower cost program than if a lower interest rate were offered. So it is—there are certainly trade-offs there, and but except for observing that, we don't have audit work that would let me respond directly.

The one thing that I will say that does relate to our audit work is that, and it gets to these pain points that many times the victims of disasters feel is that SBA is saying apply to us and apply to us, and it is good that SBA is out there and reaching out in these disaster recovery centers and the like, but it is important to know what the pain points are and to make sure that SBA is being very transparent about what is being offered and not offered, so that gets to our audit work.

Mr. BARLETTA. See I am very concerned, especially with unemployment over 9 percent, and we are trying to create jobs and keep jobs here in America, and when a disaster strikes, and I have said this here in this committee before, and I am going to say it again, when disaster strikes, America is the first country to come to the aid of other countries around the world, and I am very proud of that, I am very proud of that fact, but when you see disasters strike the people in your neighborhood and your friends and relatives and you know that we are sometimes doing more for people we don't even know, sometimes countries that don't even like us than we are for Americans, I just believe that we should take care of Americans first.

I am hoping to change the way America deals with disasters. I am introducing a bill that would give a 1 percent loan for 30 years. It would cover the administrative costs, but let's get Americans back up on their feet again, and hopefully they will stay in business and create those jobs that we are trying to do here every day.

Mr. SHEAR. I think you raise a very good point, and I hope you just understand that we are a fact-based agency and we can only comment, I can only comment based on the facts from the audit which we have conducted.

Mr. BARLETTA. I am not upset with you, Mr. Shear, I am just frustrated after spending so much time with these people and seeing how hard they have worked and knowing that we can do more for Americans, and I hope I will find many colleagues here that will agree with me. Thank you.

Mr. SHEAR. Thank you.

Mr. BARTLETT. Thank you. Mr. West.

Mr. WEST. Thank you, Mr. Chairman, and our ranking member, and gentlemen, good to see you today.

Mr. Shear, a question. I saw back in 2009 that GAO did a report, and they had some provisions that had to be worked out, I think it was about 14 of the 26. Have we gone back and recertified to make sure that those provisions, as far as this program, have been worked out and been rectified?

Mr. SHEAR. Well, in the statement submitted for today, we have 16 of the 26 provisions have been addressed by SBA. There are five provisions still left. I hope I am remembering the number right. It is, and partially addressed six of them. So there are still six provisions that have not been fully addressed.

Mr. WEST. So is there a plan to make sure we can close that out? Because one of the things, we just come out of hurricane season down in our neck of the woods, and so I would want to hope that we can rectify these things before we go into the next hurricane season.

Mr. SHEAR. Just over the last couple of weeks we have had some interactions with Mr. Rivera and his team, and we think that SBA is getting close on some of the provisions, and the ones that seem to be, remain the biggest challenges have to do with loan programs involving private lenders.

Mr. WEST. Okay. Mr. Rivera, Hurricane Wilma, pretty important to us down there, and that was the last major storm that we had in the southeast Florida area. Do you have any information that we could get later from you as far as what were the relief that you gave to small businesses as a result of Hurricane Wilma, and maybe we can go back and track and see how those businesses are doing today?

Mr. RIVERA. Oh, absolutely, we can get you that information.

Mr. WEST. Okay, I appreciate it. The other thing, you know, being from military, I saw that a major disaster response plan is to conduct a disaster simulation exercise at least once every 2 years. Can you kind of give us an idea of what that simulation exercise is like, and have you kept on par doing it every 2 years, and what did you learn from it?

Mr. RIVERA. Yes, Congressman. We actually do more than one every 2 years. We partner with FEMA, and they have a national level exercise every year. But, for example, as a requirement of the farm bill we do a biennial exercise. There is a peer of mine, his name is Steve Smith, he is with the Office of Disaster Planning. He actually creates the simulations. So if we go back to 2008, at the time FEMA had done the Chesapeake Bay hurricane, it was a mock hurricane that came through the National Capital Area here. We simulated the exact same type of disaster. So the test goes like this, you know, it is a 1-day exercise, but in the morning what we will do is we will look at the track of the hurricane, the impact, and we have, for example, we have models, FEMA has these models that tell us the number of businesses, the number of units, structures impacted in the path of disaster. Then we go through a scalability model internally where we know pretty precisely how many field inspectors we need, how many customer service reps we need on the ground, how many loan officers we need, how many case managers we need, so we go through that whole process. We bring in all my staff, my senior management staff from all my centers, and then the office of field operations brings in the district directors and regional administrators from the impacted area, and then we have the administrator, the deputy administrator, and the senior team that is there who has dealt with this.

For example, for Hurricane Irene and Tropical Storm Lee, we were watching both of these storms, and actually we had Tropical Storm Marie that also hit Puerto Rico. We are actually watching these storms days before they come out. That is one nice thing about a hurricane, it gives you plenty of warning time. So we were positioning, prepositioning, calling up reservists, and we were going through that whole process. So the simulation is a kind of a scope from that perspective. So what happens after this is that there is, they call it a hot wash. I am not sure why they use that term.

Mr. WEST. Yes, I know what a hot wash is.

Mr. RIVERA. So we had a hot wash, and they actually explained you could do this better, you could do that better. We have actually

had several of these simulations. I am not sure why. I was a little bit surprised that a lot of these requirements have not been closed out because we thought we had closed out all but three, but we are committed to work with GAO and Mr. Shear on getting these finally resolved because in our mind we have really actually gone through the process, but the simulation, it is a good exercise. It tests us, and there is independence between the Office of Disaster Planning and the Office of Disaster Assistance.

Mr. WEST. Last question. Did you find out, you know, when I talk about my colleague Congressman Barletta, did things work smoothly in rectifying a lot of the situations that he had in his area?

Mr. RIVERA. Well, we actually had an early-on conversation with Congressman Barletta. He was gracious enough to let us know where the pockets of businesses that we could possibly set up a business recovery center, so we were early into the conversation with him, and we set up a couple of business recovery centers in the disaster impacted area, you know, and FEMA helps us with disaster, the Governor's office in the States help us with disaster recovery centers between the State, FEMA, and SBA, but we also, when we have situations like we had in Congressman Barletta's backyard, where there is businesses, there is a pocket of businesses that we can help, so we set up a couple of business recovery centers to try to see what we could do from that perspective.

Mr. WEST. Thank you very much. I yield back, Mr. Chairman.

Mr. BARTLETT. Thank you. Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman; thank you, Ranking Member.

Mr. Rivera, I am a member from, born and raised and live in New Orleans, and I don't have to tell you about the Katrina experience, but I say that to say that I have seen the agency probably at its worst, and I see it now at a different place, and I would just urge you to be as candid and honest with us as possible to tell us what you need to get up to full compliance with where you need to be with our 2008 act, but we need to make sure that we have a functioning SBA after tragedies, and to that extent I can follow up on Mr. West's question about your reserves. Do you think you have an adequate workforce, and I won't use Katrina because that may be a little overwhelming, but let's use Rita or Gustav or Ike. Do you think you have an adequate workforce if those were to happen next hurricane season, that you could ramp up and be there?

Mr. RIVERA. Congressman, we are prepared. There is no doubt about it in my mind. When you look back at Katrina and you look at today, there is several key differences that we have. One is I mentioned the infrastructure. You know, we only had 366 seats for individuals to process loans. Now we have 2,100. We only had, we could only get people on our staff on our computer only 800 at a time. Now we can get 10,000 people on the system at a time, and we didn't have a reserve force. We had 866 employees when Katrina hit, so we had to go out and we had to hire all of this, these employees, local hires, schedule As. It was a very ad hoc approach. Now we have an ODA staffing strategy that actually has 850 core employees, and we have 2,000 reservists that we have

that we can call on, and they are ready, they are readily available within 24, 48 hours.

The Hurricanes Gustav and Ike, we processed about 100,000 applications, a little bit short of 100,000 applications, and we approved about a billion dollars worth of loan activity. I need to go back and double check, but my recollection from 2008 is we had about 2,500 employees. We weren't as efficient back then as we are today with all the process improvements, so we feel that we have a very comfortable bandwidth from 0 to 3,000 employees; as we go in to surge and surge-plus week, we have the capability of pulling in contracts, talking to private lenders, and working through that process. So we feel that, as Mr. Shear said earlier, we are as prepared as we have ever been, from an agency perspective.

Mr. RICHMOND. The other question, in looking at going all the way back really to Andrew and when Katrina first happened they said it would be a 10-year recovery period, which I truly now know that it is a true 10-year recovery period, but for those small business programs that have time periods in which people or businesses can participate in them, do you think it would be wise to give the administration discretion that when we have a federally declared disaster that that time period is tolled or frozen?

For example, let's consider the 8(a) program where in Louisiana those businesses were shut down for 2 years. They lose those 2 years in the 8(a) program, and they still graduate out on schedule. Do you think it would be wise to give the Administrator the ability in any federally declared disaster where recovery is over a certain number of years to extend a person's length of participation in the program?

Mr. RIVERA. In reference to the 8(a) program, Congressman?

Mr. RICHMOND. Yes, or any other program that there is a specific time period.

Mr. RIVERA. I would have to go back and have a discussion with the associate administrators over those different divisions. I mean, as you know, I have been with the disaster program for 22 years, so I wouldn't feel comfortable making a statement on behalf of, you know, of the 8(a) program as far as the certification process.

Mr. RICHMOND. Okay. Let's shift to BP, the Deep Water Horizon oil spill. How are things going with the loan process for the fishermen and the oystermen down there as they still wait on the claims center to process claims, which is slow if not, just not moving at all?

Mr. RIVERA. The BP oil spill we provided, I recall, about \$40, \$41 million in disaster assistance. It was bridge loans for economic injury disaster loans. So the application period is a little bit longer. We were actually on the ground helping disaster, businesses actually fill out BP or Gulf Coast claims facility applications. Our declaration period for applying for assistance is closed, but we still get reports from BP, and I will be glad to, you know, put you in touch with somebody with the Gulf Coast claims facility.

Mr. RICHMOND. Well, I am in touch with them all the time, and in closing, Mr. Chairman, I would just advocate that the claims center is not working as it is designed, and that facility and that process is really on BP because it is a private actor, and they are doing it, but I think we have a role as government to make sure

that we are still there with the process for people to borrow money from the SBA, waiting for those BP claims because here is what is happening in reality: The interim payments are so slow that they don't get them at all, and then BP comes or the claims center comes, and they offer them little or nothing for a final claim, but they will offer the final claim without offering any interim, so people are so desperate right now that they are taking really pennies on the dollar in terms of their final claim, and I just think that if they had the ability to rely on an SBA to back them up in the meantime while they are waiting on it, then they wouldn't be at such an unfair playing field to take those claims. I mean, we had a field hearing down there, and people who were owed \$150- and \$200,000 were settling for \$5,000 simply because they had bills they had to pay right then and there.

So if we could look at opening that up and creating some program that would offer them the ability to stay on their feet awaiting the Gulf claims center and the BP process, that would be very, very helpful, and I think it would change the lives of a lot of the fishermen in that entire Gulf Coast area.

Thank you, Mr. Chairman, and I will yield back.

Mr. BARTLETT. Thank you. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. Mr. Rivera, I believe—down here, sir. I believe I may be unique on this committee, at least I hope that I am because it is not something I would wish on anybody, but I have actually participated in the disaster assistance relief program. I showed up at work about 6 months after I had started my own business one morning to find my office furniture floating in the front yard. We had been through a flood, and I was able to get a disaster relief loan from the SBA, and my experience was actually quite good. It was extraordinarily helpful. That was one of the reasons I was interested in participating in this committee when I got here was because it was a pretty good experience for me, but as I was going over preparing for this hearing, I tried to remember how I found out about the program, and it occurred to me that I found out through my insurance agent, and one of the things Ms. Chu and I in her district, on our subcommittee, one of the things we heard when we were out in California was the lack of information about SBA programs. Few people knew what the SBA had to offer. If it hadn't been for that particularly astute insurance agent that I had, I probably never would have found out about the program.

So tell me, sir, what it is that you all are doing generally, what are you doing specifically, how are you making information about disaster relief programs and assistance available to the public?

Mr. RIVERA. Thank you, Congressman. We have taken a very aggressive marketing and outreach program. I mean, internally, you know, within the SBA, SBA has the opportunity, we have an online disaster tool kit for all the SBA employees, so when a disaster strikes, we make sure that all of our employees in the district offices, in the centers know what they need to do. We have also provided media training for all regional administrators, district directors, public information officers. Externally, though, what we have done is we have worked with the National League of Cities on emergency training, we actually partnered in 40-plus courses

across the country for a crisis leadership for local officials, and we have actually set up some really awesome partnerships. For example, we have agility recovery solutions, we have had 15 monthly webinars over the last 15 months, that provides an educational tool for small businesses, preparemybusiness.org is the web site. We have also partnered with the American Red Cross and started talking about their ready rating system to homeowners and to businesses, and we also partner with FEMA and provide the, you know, the information as far as what SBA does.

Branding is a challenge. I mean, there is no doubt about it. When we get into a disaster area, we actually go and we meet with the State officials, the local officials, the congressional delegation, and we try to get as much information out as we possibly can. We do public service PSAs in all the disaster-impacted areas. So we continue to send public information officers into the different areas and try to get the word out as best we can.

Mr. MULVANEY. Tell me about these partnerships because one of the things that one of the subcommittees of this committee deal with, the one that I chair, deals a lot with outsourcing versus insourcing, opportunities that the government has to outsource things. You mentioned the webinars, you mentioned the web site, my understanding that is a partnership with a private entity?

Mr. RIVERA. Yes, Agility Recovery Solutions is a small business.

Mr. MULVANEY. Tell me how that is working out, how you measure success. Do you consider it to be a success? What are the metrics? How many visits are you getting? Do you get the impression that it is actually having an impact?

Mr. RIVERA. I really do think we are having a pretty significant impact. On the monthly webinars, I did one not too long ago, the title is a little bit interesting, my mom was really excited about it. It was about the Ten Commandments of disaster preparedness, I am not sure how we came up with the Ten Commandments, but anyway, we had about 800 people that actually got on the webinar and participated in the webinar, so it is 800 more businesses, I hope, that hear about SBA, and that is a big challenge that we have been discussing with GAO and Bill Shear over the years is how do we get, you know, how do we get as much information out as we possibly can. You know, I go to a lot of lending conferences, I go to a lot of, you know, different types of conferences. Most individuals really don't want to hear about disaster until they have had one, and they really get it once they are in a disaster, what do I need to do now. And that is why the ready rating system and the Agility Recovery Solutions, those are just fabulous partners because they are talking about what you need to do to prepare. You may still have that disaster, but if you have the ability to be prepared, it makes that disaster process, you can go back to your muscle memory and figure out this is what I need to do instead of being in panic stage and not being able to help yourself through the disaster.

Mr. MULVANEY. Well, I am going to commend your group, the administration, because we have actually done a good bit of work in South Carolina, the local office has reached out to me. We have toured my district to put on presentations on how to not only start your small business, but after you have started it, what you need

to do, and actually I have a list of things that you can do or you should do when things are pretty good because the time to prepare for a disaster obviously is not the day after that you experience one.

So to the extent sometimes it is no fun to come down and testify before these committees, I want to thank you for what you folks are doing in this particular area, and with that I yield back. Thank you, Mr. Chairman.

Mr. BARTLETT. Thank you very much. Before we go to our second round, let me make a little comment and ask a question. Mr. Barletta mentioned the funds that we vote to give to other countries or to send to other countries for flood relief; for instance, some disaster relief. Are those loans, do we expect to get that money back?

Mr. RIVERA. Congressman, I am not familiar with this foreign loan program. I apologize. I mean, I can go get some due diligence done and provide information for the record, but I really have no knowledge of this foreign loan program.

Mr. BARTLETT. I am not sure these are loans. I suspect that they are grants, that they are simply given to them, and I want to identify myself with Mr. Barletta's observation that charity ought to begin at home. It frequently doesn't, does it?

Several years ago we had a major drought in the district I am honored to represent, it is a largely agricultural district, and there was a near total crop failure, and the Department of Agriculture came by and said, gee, we want to help, and so they had some low interest loans that they wanted to give to my farmers, and one of the farmers got up, he says, you know, I am now standing on my tiptoes in a sea of debt about 6 feet deep with my nose barely above water, and you want to add another 2 feet to that sea of debt, I am just going to drown. What he needed, of course, was not another loan, but he needed a grant, he needed some help to see him through this crisis. Do we have that kind of a program available to those for whom a low-interest loan just can't make it?

Mr. RIVERA. In reference to a disaster?

Mr. BARTLETT. Yes, disaster relief.

Mr. RIVERA. Well, in reference to farmers also?

Mr. BARTLETT. No, with reference to anybody, any small business. Farmers are one type of small business, of course.

Mr. RIVERA. You know, a loan isn't always the right option for some individuals, some homeowners and some businesses. We are providing debt on top of debt in many cases, and, you know, we just don't want to burden somebody if they can't repay a loan. We just don't—you know, if they don't have reasonable repayment ability and adequate credit, we are just not going to go that extra step from that perspective because what it does is it just puts them closer to bankruptcy, and that is not our objective here. We are just trying to help businesses that can qualify for loans and try to make them recover from that perspective.

In the case of businesses, we refer them to the resource partners, and a local SBDC may be able to work out and figure out if there is a way that you can assist this business, help them with their local lender, and maybe they can restructure their debt, and there

is a lot of non-disaster type situations that an SBDC and our resource partners can help these type of small businesses.

Mr. BARTLETT. I am not a big government advocate, but at least to some extent with the taxes that we pay, small businesses, I think, have a right to see, to view some of those taxes as a kind of an insurance premium payment, and, you know what we do in insurance, of course, is to spread the risk, each person pays a little, not everybody will have a disaster, but those that do can then be recompensed for it. Don't you think that our small businesses, at least to some extent, could use some of the taxes they pay as a kind of an insurance premium that when it is really tough and they are going under, if they don't get some direct help, not just a low interest loan, if you are simply burying them deeper in a sea of debt, that is not going to be helpful, is it?

Mr. RIVERA. Congressman, that is a great question. From the perspective of, you know, the disaster loan program, that is what I feel comfortable responding to—

Mr. BARTLETT. Because you are disaster loans, you are not in disaster grants, okay. But this is a legitimate question I think that we need to consider, and I am not an advocate of big government.

Mr. Mulvaney indicated that he learned about your existence from his church I think he said. Do you partner with FEMA and other agencies so that when there is a disaster—you know, there are many small businesses out there that don't even know that you exist because they have gone out on their own, they haven't had a loan from Small Business and don't even know you exist until they have a disaster, and do you show up with a desk along with desks of other representatives of the government to let them know that you are there?

Mr. RIVERA. Well, we are collocated with FEMA at all of the joint information centers, the disaster recovery centers. So anywhere FEMA is at on the ground, we are actually at on the ground also. Like I mentioned earlier with Congressman Barletta, he identified some pockets of businesses, and we set up a business recovery center that was SBA-only, and it provided some resource partners like SBDCs and stuff.

Mr. BARTLETT. So if I am a small business and I have a disaster and FEMA shows up, either to their right or their left I am going to see your desk so I know you are there?

Mr. RIVERA. Yes, sir, we are always there with FEMA.

Mr. BARTLETT. Thank you very much. Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Mr. Rivera, can you tell the committee what will be the timetable for full implementation of all the 26 provisions contained in the act?

Mr. RIVERA. Congresswoman Velázquez, we feel that we have completed 23 of the 26, and we will continue to work towards working with Mr. Shear and GAO. The remaining three loan programs, the IDAP, the Immediate Disaster Assistance, the \$25,000 loan program, the bridge loan program, we are working right now with the Office of Capital Access. We have promulgated regs, we have actual loan authority.

Ms. VELÁZQUEZ. When do you think you will be ready?

Mr. RIVERA. We will continue to work with the Office of Capital Access, and I know that that is one of their priorities as we move forward, so hopefully in the near future.

Ms. VELÁZQUEZ. So next year? We are not going to be conducting an oversight and you are not going to give me the same answer?

Mr. RIVERA. If we have a hearing next year, hopefully we will have this program implemented. All we need to do is go out and do the pilot with the 7(a) lenders, and we are basically in place from that perspective, so we are pretty close.

Ms. VELÁZQUEZ. Two years ago, Mr. Rivera, Administrator Mills appeared before the committee and clearly stated her commitment to improve the agency's disaster readiness, and I am concerned that for fiscal year, this fiscal year your agency has proposed cutting, reducing the personnel of the disaster loan program by 150 full-time employees, and so my question to you is, this, based on the assessment that your agency had in the budget submission, says that we will reduce to 3 weeks the application, the processing of some of the applications. Study has shown that when a disaster strikes, if the small business do not get, doesn't get help, assistance, disaster assistance within the 3, 4 weeks probably that business will close. So aren't you concerned that this is going to impact the readiness of the program?

Mr. RIVERA. Well, Congresswoman Velázquez, the fiscal year 2012 budget did go from as comparison to the fiscal year 2011 budget, the fiscal year 2012 budget proposal does go from a thousand full time equivalents to 850, yes, ma'am. We feel that that is now our core, and we feel with the core and the surge and the staffing strategy we have in place, we feel comfortable that we can do this. We don't keep staff if we don't need them, so if we don't have disaster activity, we go down to—

Ms. VELÁZQUEZ. That is the problem. We don't know when the next Katrina is going to strike.

Mr. RIVERA. Yes, ma'am, you are absolutely correct, and what we have with the staffing strategy is we have the surge and surge-plus approach where we have these individuals that actually have signed up with us and are ready to show up in 24 to 48 hours, and these are the 2,000 employees that we have in the surge pool.

Ms. VELÁZQUEZ. Mr. Shear, in your prior reports on this program you have stressed that disaster preparation depends on the agency's ability to identify and balance risks against available agency resources. So how do you balance this out in terms of the reduction of 150; will that compromise the agency's ability to identify and balance risk?

Mr. SHEAR. I can't answer the question on the 150 exactly, but one of the things I have said to this committee before is that many times I am here before this committee and we are talking about programs other than disaster assistance, and we are saying, well, programs are fragmented, we are looking to get rid of redundancies or programs that don't leverage each other effectively, but disaster assistance is a different business, so I will just repeat the points from before. You want some redundancy in the system, and the thing that if I were Mr. Rivera or this committee, or I will just say as a public citizen, that would cause me to lose sleep at night is that once, whether it is a 9/11 or Katrina, and that is way in the

past, do people forget so much that you don't have the reserves in place, that they are available. So it is a huge problem, how do you balance those, because there is a cost of having reserves in place, but disaster recovery you have to have some concept of risk management. These simulation exercises are part of establishing that framework, and you have to be responsive to the risks that are out there, and we hope that that is occurring.

Ms. VELÁZQUEZ. Mr. Rivera, how should this committee and the American public judge your agency's success in responding to a major disaster? Should we look at the percentage of loans disbursed, the number of dollars loaned, customer satisfaction surveys or something else?

Mr. RIVERA. Congresswoman, I think you hit on all the factors that we look at. I mean, for example, the American—we do the independent survey with the American Customer Satisfaction Index. Out of a score of 100 we actually scored 80 percent. It is an independent survey, we have no control, we contract that survey out. We also believe that we are prepared. We believe we have a good workforce in place, they are well trained, we continue to work on process improvements, try to make ourselves as efficient as possible and continue to collaborate and work closely with FEMA and other Federal agencies, HUD, and just go, Internal Revenue Service, and just continue to try to be as proactive as we possibly can.

Ms. VELÁZQUEZ. Well, I am glad to hear that this committee got it right when we passed the legislation in 2008, but now we need full implementation of those provisions. Thank you, Mr. Chairman.

Mr. BARTLETT. Thank you, Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman, again. A quick question. How much do you think it costs you all to service, let's say, an SBA loan from Katrina-Rita in a percentage point?

Mr. RIVERA. I would have to get back with you. I don't know that exact dollar. I know that we spend on average about \$160 to \$200 million a year for the disaster, loan making and disaster loan servicing perspective, but the actual cost, the unit cost I would have to get back with you for the record.

Mr. RICHMOND. Because I guess I am interested in all of the loans that were done after Hurricane Rita and Katrina, and to that extent, Gustav and Ike also, that the interest rate with an SBA loan is above what it costs you to service that loan, and part of the question becomes what is the rationale for the difference, where does the money go, does it go in the future program, in future loans? But to the extent that it can help, it could help people in terms of reducing their interest payment, it would just serve wonders to people in those devastated areas if we could give them some relief on those interest rates above what it costs us to service them. We ought not make a profit, and we ought not let government grow on the backs of people who just went through a disaster. So I would be interested in what it is costing to service them, what is the average percentage rate, and what that means in the terms of real dollars.

Mr. RIVERA. Yes, sir, we will get back with you for the record.

Mr. RICHMOND. And, Mr. Chairman, that is it. I would like to thank Mr. Shear and Mr. Rivera for coming today and thank the SBA for what they do, and my district has been a constant bene-

fiary of their work. We don't want to be, but it just so happens that if it is not one thing it is another, and thank you for what you do.

Mr. BARTLETT. Thank you very much. In its annual report on top management challenges, the SBA's Inspector General report said improper payments in the disaster program were underestimated by close to \$1.4 billion. How much of this was in your area and what is being done to address this problem?

Mr. RIVERA. Congressman, the improper payments process that we had, the audit that we had with the Office of Inspector General, we took a very proactive approach and have reengineered how we do the process. Under the old process, the director in the Texas office had control of the improper payments and the calculation. Currently we have my director up in headquarters who is in charge of loan programs that actually goes through that process, so it is completely reengineered, and we continue to work on the improper payments and continue to reduce that percentage.

Mr. BARTLETT. So after the next disaster, the Inspector General will not be able to make a report like this; is that correct?

Mr. RIVERA. Well, that is always our goal.

Mr. BARTLETT. Thank you. Okay, as I anticipated, my colleagues have done a good job of asking the questions. When we look at the record, we may decide that there are other questions that we need to ask one or both of you so that we have a complete record for the future, and we hope that you can respond for the record if we ask those questions.

I would like to end by thanking both of our witnesses for appearing today. Providing assistance in the aftermath of a disaster is a fundamental mission and something that we have the responsibility to get right. While SBA has improved the process for many disaster victims, we need to make sure that these improvements continue and that we are prepared for any disaster that might come our way. This committee will continue to monitor SBA's performance to make sure that we are helping our neighbors when they need it most.

With that, I ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered. The subcommittee now stands in adjournment.

[Whereupon, the subcommittee was adjourned at 2:26 p.m.]



U.S SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TESTIMONY OF

JAMES RIVERA
ASSOCIATE ADMINISTRATOR FOR DISASTER ASSISTANCE
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

“Disaster Assistance: Is SBA Meeting the Recovery Needs of Disaster Victims?”

NOVEMBER 30, 2011

Good afternoon Chairman Graves, Ranking Member Velazquez, and distinguished members of the Committee. Thank you for inviting me to discuss SBA’s disaster assistance programs.

I am James Rivera, the Associate Administrator for the SBA Office of Disaster (ODA). ODA is responsible for providing affordable, timely and accessible financial assistance following a disaster to businesses of all sizes, homeowners, and renters. This financial assistance is available in the form of low-interest loans, and since SBA’s inception in 1953, we have provided over 1.9 million loans for more than \$50 billion dollars.

SBA is prepared to undertake a multi-faceted, aggressive approach in response to disasters, and is continuing to provide essential support to the disaster survivors. During FY2011, SBA approved 13,643 disaster loans for over \$739 million.

SBA’s Role in Responding to a Disaster:

SBA is not a “first responder” agency even though we are on the ground immediately following a disaster. SBA’s primary focus is providing low interest, long term loans as part of the recovery effort in coordination with other government partners at the Federal, state, and local levels. As part of an overall effort to assist survivors to get back on their feet, SBA’s disaster home loans of up to \$200,000 help those employed in the local community return and rebuild their homes. Moreover, nonprofits and businesses of all sizes are eligible for loans of up to \$2 million dollars.

Additionally, SBA offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations who have suffered economic injury caused by a disaster. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

Preparedness and SBA's Key Improvements to the Disaster Assistance Program:

SBA's disaster loan programs are a critical piece of the federal government's overall response in the wake of disasters. Since 2005, we have seen a great deal of success in our disaster program. Following the 2005 Gulf Coast Hurricanes, SBA made dramatic improvements to our operations. By incorporating lessons learned and installing process improvements, SBA's Disaster Assistance Program overhauled its entire disaster loan platform. As a result, SBA is now better prepared to process loans faster, provide a better quality of service and be more helpful to disaster survivors.

To ensure overall preparedness, the Disaster Program increased the number of workstations from 350 to over 1,750 (in Fort Worth) and brought online a "surge" center (in Sacramento) with 350 additional workstations. A second shift can be added to meet production if needed. Our core staff is 850, regardless of activity, and we have a pool of over 2,000 reserve staff to draw from. During the Irene and Lee events, we peaked at 1,750 employees. On top of this, we have increased the Disaster Credit Management System's capacity from 800 to 10,000 concurrent users.

Last fiscal year, we capitalized on having a highly skilled and motivated staff who are able to respond to different levels of disaster activity. Throughout the year we invested in staff to increase their skills, streamline the loan process, improve technology, and reduce contracting costs. We also implemented a new staffing strategy for ODA that allows us to supplement baseline staffing of 850 staff, through the immediate training and deployment of an additional 900 staff within three weeks, as was done in response to Hurricane Irene and Tropical Storm Lee.

From a loan processing perspective, we are currently exceeding our processing goals by approving or declining loan application requests within 8 days for home loans and 10 days for business loans during fiscal year 2011 (our goal is 14 days for homeowners and 18 days for businesses). In response to the Irene and Lee events, SBA is processing loan applications in less than 10 days on average. To put this into perspective, the average processing time during the 2005 Gulf Coast Hurricanes was 74 days for disaster home loans and 66 days for disaster business loans. Additionally, in August of 2008, SBA introduced an electronic loan application (ELA) which allows disaster survivors to apply for assistance online. In recent disasters, ELA has accounted for approximately 27 percent of all applications submitted.

SBA also revamped the post-approval process and improved the processes and tools for loan closings and funding disbursements. The emphasis is on customer service and accountability, with each approved loan being assigned an individual case manager.

To ensure coordination and collaboration across the board, SBA also works closely with our sister agencies. For instance, SBA and FEMA consistently worked together in order to effectively provide assistance to disaster survivors. SBA and FEMA implemented internal agency agreements so SBA and FEMA can continually exchange data electronically. The data exchanges are critical in providing improved disaster assistance to survivors, such as accelerating referrals to SBA and providing SBA loan application status updates in "real time."

Marketing and Outreach

In regards to marketing and outreach, SBA developed an aggressive plan to reach all potential applicants in an area before a disaster strikes. We are concentrating on areas that are subject to recurring similar disasters and to provide expanded outreach efforts before disaster strikes. Additionally, we provided all SBA employees with access to an online Disaster Tool Kit with detailed information on the Agency's role in preparedness, outreach and post disaster assistance.

We also instituted annual disaster training for SBA's Regional Administrators, District Directors, and Disaster Public Information Officers on disaster assistance responsibilities. And finally, we are currently involved in an overall assessment of our Disaster Assistance messaging, branding and outreach activities. This assessment includes focus groups with individuals who have been impacted by a disaster. The information and feedback from this assessment helped us strengthen the effectiveness of both our preparedness and post-disaster communications and outreach efforts.

Response to Hurricane Irene and Tropical Storm Lee

Since the beginning of these devastating storms on September 1, 2011, SBA approved more than \$350 million in disaster loans to help more than 9,100 homeowners, renters, businesses and non-profit organizations recover and rebuild from the devastation caused by Hurricane Irene and Tropical Storm Lee.

Additionally, SBA responded to the needs of residents and business owners by deploying 600 SBA disaster assistance workers and field inspectors to staff 163 Disaster Recovery Centers located throughout the East Coast. At these centers, SBA representatives are providing one-on-one service to disaster victims and have personally met with more than 16,000 disaster victims to answer questions, explain SBA's disaster loan program, help complete disaster loan applications and close disaster loans. In addition, homeowners and business owners can call our Disaster Customer Service Call Center in Buffalo, New York, which handled over 61,000 calls related to Hurricane Irene and Tropical Storm Lee.

2008 Farm Bill

Finally, SBA is making substantial progress in implementing the provisions of the 2008 Farm Bill that bear directly on our Disaster Assistance Program. We have been working closely with GAO to ensure that we are on schedule and we are happy to report that 23 of these provisions have already been implemented. The remaining three are being addressed, and we will continue to work with GAO on these.

In closing, we appreciate the opportunity to share with the Committee the role SBA plays in small business disaster recovery efforts, and we believe that the reforms we have instituted and the new tools Congress provided will allow us to more effectively and efficiently respond to the needs of our nation's citizens.

I look forward to further describing these efforts and answering your questions. Thank you.

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business,
House of Representatives

For Release on Delivery
Expected at 1:00 p.m. EST
Wednesday, November 30, 2011

**SMALL BUSINESS
ADMINISTRATION**

**Progress Continues in
Addressing Reforms to the
Disaster Loan Program**

Statement of William B. Shear, Director
Financial Markets and Community Investment





Highlights of GAO-12-253T, a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

After the Small Business Administration (SBA) was widely criticized for its performance following the 2005 Gulf Coast hurricanes, the agency took steps to reform its Disaster Loan Program. Congress also enacted the Small Business Disaster Response and Loan Improvements Act of 2008 (Act), which places new requirements on SBA to better ensure it is prepared to respond to catastrophic disasters.

This testimony discusses SBA's progress in addressing certain requirements of the Act and recommendations in a 2009 GAO report to improve the Disaster Loan Program.

In completing this statement, GAO reviewed and updated, as appropriate, the July 2009 report, *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). In that report, GAO recommended that SBA should fulfill the Act's region-specific marketing and outreach requirements; complete its annual report to Congress; issue an updated Disaster Recovery Plan; develop an implementation plan for remaining requirements; and develop procedures to further improve the application process for the Disaster Loan Program. SBA generally agreed with the recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process.

View GAO-12-253T. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

November 2011

SMALL BUSINESS ADMINISTRATION

Progress Continues in Addressing Reforms to the Disaster Loan Program

What GAO Found

SBA has continued to make progress in addressing provisions of the Act, although continued attention to certain provisions will be important for sustained progress. As of November 2011, SBA met requirements for 16 of 26 provisions of the Act and partially addressed 6. Four provisions do not require any action at this time. For example, SBA updated its Disaster Recovery Plan annually, most recently in June 2011, consistent with our prior recommendation. SBA also has taken steps to address the Act's requirements for region-specific marketing and outreach. The agency has begun a dialogue with the state directors of Small Business Development Centers in the Gulf Coast about disseminating disaster planning information in the five most hurricane-prone states before the hurricane season. Additionally, SBA officials told GAO they have issued some public service announcements in disaster-prone areas. SBA has issued annual reports to Congress on disaster assistance in 2009, 2010, and 2011, as required by the Act and as GAO recommended. However, to fully address statutory requirements the agency must make extensive changes to current programs or implement new programs. In particular, SBA plans to implement pilots before finalizing regulations for two programs that would involve private lenders making short-term loans to applicants awaiting assistance. As GAO reported in May 2010, SBA officials told GAO that they formed a work group to develop these pilots.

SBA has taken steps to implement three of five recommendations from GAO's 2009 report. However, in 2009 GAO recommended the agency develop an implementation plan and report to Congress on its progress in addressing all of the Act's requirements. In November 2011 GAO met with SBA officials, but they did not provide evidence indicating that the agency had begun implementing this recommendation. In 2009, GAO also recommended that SBA develop and implement a formal process to identify problems in the disaster loan application process and make improvements for future applicants. SBA agreed with the recommendation to improve the application process and according to its 2011 annual report on disaster assistance, the loan process has been streamlined and the agency continues to enhance the electronic loan application so it has greater functionality with the Disaster Credit Management System. SBA officials told GAO that results in customer satisfaction surveys relating to the application process have improved over time, but SBA has not provided information on how it would implement a formal process to address identified problem areas in the disaster loan application process. In its 2009 report, GAO interviewed individuals and reviewed results from SBA's 2008 Disaster Loan Program Customer Satisfaction Survey which provided some positive feedback about SBA's performance following disasters such as the 2008 Midwest floods and Hurricane Ike. However, interviewees and survey results indicated areas for improvement such as reducing the paperwork burden. Agency officials told GAO they listened to customer feedback, but the agency still appears not to have a formal process for identifying problems in the application process and making needed improvements.

Chairman Graves, Ranking Member Velazquez, and
Members of the Committee:

I am pleased to be here today to discuss our work on reforms made to the Small Business Administration's (SBA) Disaster Loan Program. As you know, SBA plays a critical role in assisting the victims of natural and other declared disasters. SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, businesses of all sizes, and nonprofits recover from disasters such as earthquakes, hurricanes, and terrorist attacks.

After the 2005 Gulf Coast hurricanes, SBA faced an unprecedented demand for disaster loans, while also being confronted with a significant backlog of applications; therefore, hundreds of thousands of loans were not disbursed in a timely way. Many criticized SBA for a slow and confusing response to the disasters—one that exposed many deficiencies in the agency's Disaster Loan Program and demonstrated the need for reform. As a result, Congress and SBA agreed that the program needed significant improvements. Since then, SBA has taken several steps to reform its Disaster Loan Program including creating an online loan application, increasing the capacity of its Disaster Credit Management System, and developing and updating a Disaster Recovery Plan (DRP).¹ In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act (Act), which places new requirements on SBA to ensure that it is prepared for future catastrophic disasters.² SBA has continued to face additional demand for disaster loans following major disasters, including Hurricane Ike and the Midwest floods in 2008, and major floods and tornadoes affecting several states in 2011.

My statement today is based on new information that updates our 2009 report and May 2010 testimony, which updated information on SBA's progress in addressing the Act's requirements and implementing our 2009

¹SBA's use of "disaster recovery plan" differs from the general use of the term to refer to an information technology-focused plan designed to restore operability of a system, application, or computer facility following an emergency.

²Pub. L. No. 110-246, Title XII, subtitle B, 122 Stat. 2168 (2008).

recommendations.³ Specifically, this statement focuses on SBA's progress in addressing certain requirements of the Act and recommendations in our 2009 report to improve the Disaster Loan Program.

For our 2009 report, we identified and analyzed the Act's requirements and related statutory deadlines; obtained information about SBA's reform efforts; reviewed documents and progress reports to determine if requirements had been addressed and deadlines met; interviewed officials and obtained information on what, if any, challenges existed that might affect SBA's ability to meet certain requirements and about next steps and resources the agency identified as needed to address any remaining requirements. We visited Iowa and Texas, and obtained information on SBA's performance after the 2008 Midwest floods and Hurricane Ike. We interviewed SBA and Small Business Development Center (SBDC) officials, state and local officials, and representatives of local Chambers of Commerce, economic development organizations, and affected small business owners about what worked well and what improvements to SBA's disaster loan processes they would suggest. Finally, we reviewed results from a survey of SBA loan applicants on their satisfaction with the Disaster Loan Program in 2008. To update information for this statement, in November 2011 we interviewed SBA officials and reviewed documents related to the disaster reform provisions and actions taken to implement our recommendations. Additional information on our scope and methodology is provided in our 2009 report.

This statement summarizes our July 2009 report and May 2010 testimony that were based on work conducted between October 2008 and July 2009 and between March and May, 2010, respectively. We updated our work in November 2011. All of these performance audits were conducted 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.

³See GAO, *Small Business Administration: Continued Attention Needed to Address Reforms to the Disaster Loan Program*, GAO-10-735T (Washington, D.C.: May 19, 2010) and *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.: Jul. 29, 2009).

Background

SBA's Office of Disaster Assistance (ODA) responds to disasters and administers the Disaster Loan Program. A Presidential disaster declaration puts into motion long-term federal recovery programs, such as the Disaster Loan Program, but SBA is not a "first responder." Rather, local government emergency services assume that role with help from state and volunteer agencies. For catastrophic disasters, and if a governor requests it, the Federal Emergency Management Agency (FEMA) can mobilize federal resources. SBA typically responds to a disaster within 3 days by sending ODA field staff to the affected area to begin providing public information about SBA's services.

Once a disaster is declared, SBA can make physical disaster loans and economic injury disaster loans. Physical disaster loans are for the permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property, including personal residences and businesses of any size. That is, SBA provides loans to cover repair costs that FEMA or other insurance has not already fully compensated or covered.⁴ Economic injury disaster loans provide small businesses, including agricultural cooperatives and private nonprofits, with necessary working capital until normal operations can resume.

The Act comprises 26 provisions with substantive requirements for SBA; some with specific deadlines and some needing appropriations, and includes requirements that SBA must meet for disaster planning and response, lending, and reporting.⁵ For instance, the Act includes provisions to improve SBA's coordination with FEMA, require that the agency conduct biennial

⁴SBA can lend individuals up to \$200,000 for their primary residence and \$40,000 for household goods and personal effects and can lend businesses up to an aggregated \$2 million for physical and economic injury disaster loans, before the individuals receive their insurance recovery. In these cases, the loan recipient must use the insurance recovery funds to reduce the balance of the SBA disaster loan. Even individuals or business owners who believe they have full insurance coverage are encouraged to apply for an SBA loan because their insurance recovery may turn out to be only partial, or their damage may exceed insurance policy limits.

⁵In June 2008, as part of the Food, Conservation, and Energy Act (also commonly known as the Farm Bill), Pub. L. No. 110-246, 122 Stat. 1651, Congress passed the Small Business Disaster Response and Loan Improvements Act of 2008. This law repealed and replaced a duplicative enactment of May 22, 2008. However, the Farm Bill contains a provision that generally preserved the prior act's date of enactment if it would provide an earlier effective date than that in the Farm Bill. Although the Act became law on June 18, 2008, the enactment date for purposes of determining the effective date is May 22, 2008. We calculated all statutory deadlines in our July 2009 report from May 22, 2008.

disaster simulations, create a comprehensive disaster response plan, and improve communication with the public when disaster assistance is made available. It includes requirements to improve ODA's infrastructure, appoint an official to oversee the disaster planning and responsibilities of the agency, and establish reporting requirements for various reports to Congress. The Act also creates new programs, such as the Immediate Disaster Assistance Program that would provide small-dollar loans immediately following a disaster and the Expedited Disaster Assistance Loan Program that would provide expedited disaster assistance to businesses.

SBA Continues to Improve Its Disaster Loan Program

As of November 2011, SBA has continued to make progress addressing requirements of the Act (see fig. 1). In addition, SBA provided us with evidence in November 2011 that the agency has taken steps to implement three of the five recommendations from our 2009 report. As of November 2011, SBA met requirements for 16 of 26 provisions of the Act and partially addressed 6. Four provisions do not require any action at this time. As we recommended and the Act requires, SBA has updated its DRP annually—most recently in June 2011 (section 12075). The current plan is more complete than the previous plan, providing updated information on actions SBA has taken on disaster recovery planning.⁶ As we reported in May 2010, SBA also issued regulations on coordinating with FEMA to better ensure that disaster assistance applications are submitted in a timely manner (section 12062). In addition, SBA must revise the regulations annually and report on the revisions when submitting its annual report to Congress. More recently, in January 2011, SBA issued final rules to implement the authority provided by the Act for issuing surety bond guarantees for contracts and orders related to a major disaster (section 12079).

⁶Small Business Administration, *Disaster Recovery Plan*, June 2011.

Figure 1: SBA's Status in Addressing Requirements of the 2008 Small Business Disaster Response and Loan Improvements Act, as of November 2011

Section	Description of requirement	Status (Nov. '11)	Deadline
12061	SBA permitted to make economic injury disaster loans to nonprofits.	●	
12062*	SBA must ensure its disaster assistance programs are coordinated to the maximum extent practicable with FEMA programs.	●	○
12063	Better public awareness of disaster declaration, application periods, and creation of a marketing and outreach plan.	●	○
12064	SBA must conduct a study looking at the consistency between standard operating procedures and regulations of the Disaster Loan Program.	●	○
12065	SBA increased loan amounts from \$10,000 to \$14,000 without requiring collateral.	●	
12066	SBA authorizes private contractors to process disaster loans and coordinate efforts with Internal Revenue Service to expedite loan processing.	●	
12067	SBA must develop, implement, or maintain a centralized information system to track and follow up with disaster loan applicants.	●	
12068	SBA is authorized to increase the deferment period of loans, but the deferment may not exceed 4 years.	N/A	
12069	SBA must put in a place a secondary facility for processing disaster loans in case the primary facility is unavailable.	●	
12070	SBA can not require the borrower to pay any non-amortized amount for the first 5 years after repayment begins.	●	
12071	SBA is authorized to make economic injury disaster loans in cases of ice storms and blizzards.	●	
12072	SBA must develop and implement a major disaster response plan and conduct a disaster simulation exercise at least once every 2 years.	●	●
12073	SBA must assign an individual the disaster planning responsibilities and report to Congress.	●	●
12074	SBA should ensure that the number of full-time equivalent ODA employees is not fewer than 800 and in the disaster cadre not fewer than 1,000.	●	
12075	SBA must develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually.	●	● ^b
12076	SBA must develop long-term plans to secure sufficient office space to accommodate an increased workforce in times of disaster.	●	
12077	SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit.	●	
12078	Maximum disaster loan amount increased from \$1.5 to \$2 million.	●	
12079	SBA may guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.	●	
12081	If the President declares a major disaster, SBA may declare eligibility for additional disaster assistance.	N/A	
12082	SBA permitted to make economic injury disaster loans to eligible small business concerns located anywhere in the United States (including outside the disaster area) when the SBA declares eligibility for additional disaster assistance.	N/A	
12083*	SBA must establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area.	●	○
12084	SBA must establish an Immediate Disaster Assistance Program to provide immediate small-dollar loans through private lenders.	●	○
12085*	SBA must establish an Expedited Disaster Assistance Business Loan Program.	●	○
12086	SBA is allowed to institute a program to refinance Gulf Coast disaster loans resulting from Hurricanes Katrina, Rita, or Wilma up to an amount no greater than the original loan.	N/A	
12091*	SBA must submit reports to Congress on disaster assistance.	●	●

● Addressed (initial or ongoing)

● Partially addressed

○ Missed deadline

N/A Not applicable because no action is needed to be taken by SBA at this time, due to provisions' discretionary nature.

Source: GAO analysis of the Act and SBA documents.

*The Act requires SBA to issue regulations for these provisions.

^bSBA provided the first updated DRP on November 15, 2009, several months past the expected update in June 2009. Since then, SBA updated the DRP on July 31, 2010, and in June 2011.

*Section 12091(f) includes requirements for a loan approval rate report, which is to provide a "detailing of how [SBA] can improve the processing of applications under the disaster loan program." SBA officials told us that they had covered the requirement in the 2007 DRP.

SBA has taken some steps to address the marketing and outreach provision of the Act (section 12063). SBA officials told us the agency has (1) begun an ongoing dialogue with the directors of SBDCs in the Gulf Coast about disseminating disaster planning and preparation information in the five most hurricane-prone states before the hurricane season; (2) detailed an SBA employee who works with the SBDCs to the Office of Entrepreneurial Development to help the agency develop a strategic approach for its disaster role; (3) issued some public service announcements tailored to specific regions; and (4) provided disaster preparedness presentations in conjunction with regional administrators and SBDCs. In November 2011, SBA told us that while the agency had not yet developed a written marketing plan, it had plans to do so.

According to SBA officials, as of May 2010, the agency had not yet completely addressed some provisions because to do so, SBA would have to make extensive changes to current programs or implement new programs—such as the Immediate and Expedited Disaster Assistance Programs (sections 12084 and 12085). These programs, which require participation of private lenders, would be designed to provide businesses with access to short-term loans while they were waiting for long-term assistance. As we reported in 2009, SBA plans to conduct pilots of these programs before fully implementing them. For our May 2010 testimony, SBA officials told us they had established a work group jointly chaired by officials from ODA and the Office of Capital Access to address these requirements and develop the pilots. ODA officials said they drafted regulations and received subsidy and administrative cost funding in the 2010 budget to allow them to pilot test about 600 loans under the Immediate Disaster Assistance Program (section 12084). In May 2010, SBA officials had told us that their goal was to have the pilot for the Immediate Disaster Assistance Program in place by September 2010. As of November 2011, SBA has not provided evidence indicating that the agency has made progress on this initiative.

While SBA has addressed most of the multiple new reporting requirements established in the Act, such as submitting annual reports to Congress on disaster assistance for the past 3 years, the agency has not met some statutory deadlines (section 12091). For example, as required by the Act and as we recommended in our 2009 report, the agency issued its first annual report on disaster assistance in November 2009 but

the report was due in November 2008. Specifically, the Act requires that SBA report annually on the total number of SBA disaster staff, major changes to the Disaster Loan Program (such as changes to technology or staff responsibilities), a description of the number and dollar amount of disaster loans made during the year, and SBA's plans for preparing and responding to possible future disasters.⁷ Since our May 2010 testimony, SBA provided us its fiscal year 2010 and 2011 annual reports on disaster assistance that were issued in June 2011 and November 2011, respectively.

In our 2009 report, we recommended that SBA develop an implementation plan and include milestone dates for completing implementation and any major program, resource, or other challenges the agency faces as it continues to address requirements of the Act. As of November 2011, the agency did not provide evidence it had implemented this recommendation. Not having an implementation plan in place for addressing the remaining requirements can lead to a lack of transparency about the agency's Disaster Loan Program, its capacity to reform the program and make program improvements, and its ability to adequately prepare for and respond to disasters.

In 2009, we also recommended that SBA develop and implement a process to address identified problems in the application process for disaster loans. We reported in 2009 that while SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with major components of its DRP in terms of its use of infrastructure and staff, information technology, and communications, both the individuals we interviewed and survey results indicated the loan application process could be improved. For example, individuals we interviewed and survey responses pointed to concerns about the amount of paperwork required to complete applications and the timeliness of loan disbursements. To address these concerns, the individuals we interviewed suggested eliminating the requirement that business loan applicants provide copies of federal tax records; providing partial disbursements earlier in the

⁷The Act also states the annual report must include information on some requirements under certain provisions, such as (a) the regulations on coordination with FEMA to assure that applications for disaster assistance are submitted as quickly as practicable as required under section 12062, (b) disaster simulation exercises conducted by the agency under section 12072, (c) updates to the comprehensive DRP required under section 12075, and (d) updates to SBA's plans for securing office space to accommodate an expanded workforce required under section 12076.

process; using bridge loans to help ensure disaster victims receive timely assistance; and involving SBA, SBDCs, and state and local officials in joint pre-planning and disaster preparedness efforts.

More recently, SBA reported they have been improving the application process. For example, SBA's 2011 annual report on disaster assistance states the loan process has been streamlined and that the agency continues to enhance the electronic loan application so it has greater functionality with the Disaster Credit Management System. While SBA officials told us that they listened to customer feedback and results from the customer satisfaction survey related to the application process have improved, SBA has not provided information on how it would implement a formal process to address identified problem areas in the disaster loan application process, as we recommended in 2009. By establishing such a process, SBA could better demonstrate its commitment to improving the Disaster Loan Program and the application process for future applicants.

In conclusion, SBA has taken important steps to address three of our five recommendations. These include progress made in improving marketing and outreach to various regional entities, submitting its annual reports to Congress, and updating its DRP annually.

Chairman Graves, Ranking Member Velazquez, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and 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. Individuals making key contributions to this testimony include Marshall Hamlett, Assistant Director; Anna Carbino, William Chatlos, Beth Faraguna, John Forrester, John McGrail, Marc Molino, and Barbara Roesmann.

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**TESTIMONY OF WILLIAM J. BOYD
CHAIRMAN AND CEO
AGILITY RECOVERY**

November 30, 2011

**HOUSE SMALL BUSINESS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES**

INTRODUCTION

Mr. Chairman and Members of the Committee:

Agility Recovery is pleased to provide this written statement for the Committee's hearing on the Small Business Administration's (SBA) long-term disaster recovery assistance programs.

As an American-owned and operated small business, we commend the Committee for its oversight of the SBA's disaster loan programs given the importance of the SBA's role in assisting our Nation's small businesses prepare for and recovery from disasters. Additionally, with damage from disasters in recent years growing increasingly severe, the positive impact of SBA cannot be overstated.

Agility and the SBA have formed a nationwide co-sponsorship agreement over the past 18 months which has allowed us to promote awareness among small businesses of the importance of disaster preparedness. The SBA recognizes the value of a holistic approach to disaster recovery, and this program incorporates the full spectrum of actions an organization should take including not only recovery, but also the more forward thinking elements including preparedness education and training as part of a streamlined approach. However, without Congressional reauthorization to carry out this efficient and beneficial function, we would be unable to continue reaching thousands of businesses and organizations across the country with these important messages.

The broad nature of this awareness campaign and educational outreach helps to promote the SBA's disaster loan assistance program. Agility has worked with the SBA to produce a free monthly webinar series, a website with downloadable educational and planning tools (www.PrepareMyBusiness.org), and a social media presence on Twitter and Facebook. Both Agility and the SBA actively contribute to developing the tools and educational assets provided free, along with the educational content presented during the monthly webinar series. Promotion of these events takes the form of email campaigns, social media outlets, event partnerships, and includes associations with other large scale national efforts like National Preparedness Month.

SUPPORT

Disaster preparedness is a shared responsibility among the government and private-sector organizations, who must work together to create well-prepared communities able to plan for, respond to, and recover from disasters. As multiple naturally occurring disasters have proven in recent years, no single government organization can do it alone. Federal, state and local governments all play significant roles, and are working together better than ever before. However, community resilience ultimately depends on public and private sector entities working together to increase awareness of risk, and support each other during response and recovery. Public-private partnerships are critical to the success of any community resilience effort, they should be expanded and nurtured at all levels of government.

As former FEMA Administrator and Agility consultant Chief David Paulison recently remarked, "Following a disaster, if operations are not restored right away, a community will be in jeopardy of a long, painful recovery. Having a robust recovery plan is the key to ensuring organizations can continue to serve their customers and employees in the wake of crisis. A community-wide collaboration involving public and private institutions working together is the best way to ensure the critical preparedness steps are taken ahead of time to facilitate response and recovery."

Having partnered with dozens of national associations, trade groups, think tanks, and educational organizations over the past two decades, Agility Recovery is of the opinion that no entity has the ability to influence small business growth, development, prosperity and resilience like the SBA. Through just over 18 months of working together on this co-sponsorship agreement to promote preparedness, we have been incredibly impressed with the talented team at the SBA. The dedication exhibited by James Rivera and the staff in the Washington office of Disaster Assistance, as well as those staffing regional offices around the country is to be commended. Specifically, Public Affairs Specialist Carol Chastang, who has managed day-to-day activities during this co-sponsorship, has been integral to every aspect of our effort and central to the success we've experienced thus far.

The ultimate goals of Agility's partnership with the SBA have been to (1) increase awareness among businesses including their vulnerabilities to both man-made and naturally occurring disasters, (2) provide actionable, easy to implement tools and training to help businesses develop better disaster preparedness plans, and (3) education and prepare businesses for recovery following disasters of all types. Through these efforts, the overall community resilience is increased and businesses give themselves the best chance to mitigate a disaster's impact and resume operations quickly.

As a 23 year veteran of the disaster recovery industry throughout North America, Agility Recovery strongly supports efforts to strengthen this, and other similar public-private partnerships. In our experience of responding to thousands of disasters, both large and small, the most obvious lesson learned is that stronger partnerships will significantly improve our nation's resilience. The extensive interconnections that tie together regional and national economies have intensified the damage caused by disasters, spreading the impact far beyond a single organization or single region. However, this interconnectivity can serve to strengthen the response if appropriately organized and prepared. The SBA's unique influence in the community of small businesses, and their support (both financial and educational) is imperative to a local and regional economy's recovery following disaster. With over 10,000 institutions as clients of Agility, and having assisted in thousands of recoveries, Agility can unequivocally state that proper preparedness is among the most important traits of resilient organizations and communities.

SUMMARY

The SBA's unique position to help promote awareness, educate, and provide support before, during and after disasters is among their most effective, influential means of assisting the small business community, and by extension the local, regional and national economies. The fact is, much work is still to be done towards increasing awareness and providing the tools and education to these small business leaders and organizers. This important effort requires collaboration between the public and private sectors. No one agency or single initiative will suffice to bring awareness to the masses, and increase our resiliency as a nation. Therefore, we sincerely urge the committee to approve reauthorization of the SBA's ability to carry out these programs of awareness and support to small businesses everywhere.

AUTHOR & ORGANIZATION

William J. Boyd is the driving force behind Agility Recovery's innovative spirit. "Bill" started at Muzak over 30 years ago as a sales representative. Before long, he became a vice president of the Muzak operations owned by the parent company. Soon thereafter, Bill purchased his own Muzak franchise and built it into the largest in the world. In 1997, after selling his business, Bill became CEO of Muzak LLC. During his four-year tenure, Muzak grew from \$80 million in revenue to \$250 million. In 2001, Bill was named the Ernst and Young Regional Entrepreneur of the Year. Currently, Bill sits on several boards of directors, is an executive in residence at Queens University of Charlotte and is part of the Leaders in Action speaker series. Mr. Boyd has been the Chairman of Agility Recovery Solutions since 2006. Since Bill took office as Chairman, Agility's client base has grown nearly 5000%.

Agility Recovery, a former division of GE, is one of North America's premier provider of business continuity and disaster recovery solutions to small and midsize businesses. Agility provides robust, sensible and easy-to-implement recovery solutions for an affordable monthly membership fee. For more than 23 years, Agility has ensured that businesses are there for their clients. The company has sustained a 100% success rate at recovering businesses in the wake of all disasters. It is for this reason over 10,000 businesses across North America are members of Agility. Additionally, Agility is endorsed by over 100 trade organizations across North America including the Independent Community Bankers of America, the Independent Insurance Agents & Brokers of America and the Credit Union National Association. Agility also has formed a co-sponsorship with the US Small Business Administration to bring a complete set of continuity tools and education to small businesses through a joint SBA and Agility website called www.preparemybusiness.org. For more information, visit to www.agilityrecovery.com, or view the downloadable public sector solutions brochure at www.agilityrecovery.com/psbrochure.pdf.

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House Committee on Small Business
“Disaster Assistance: Is SBA Meeting the Recovery Needs of Disaster Victims?”
Wednesday, November 30, 2011 1:00pm
2360 Rayburn House Office Building

Witness List

Mr. James Rivera
Associate Administrator, Office of Disaster Assistance
United States Small Business Administration
Washington, DC

Mr. William Shear
Director, Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC