

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

MEMORANDUM

To: Members, House Committee on Small Business
From: Chairwoman Nydia M. Velázquez
Date: July 18, 2019
Re: Committee hearing: “Flooded Out: Vanishing Environmental Reviews and the SBA’s Disaster Loan Program”

The House Committee on Small Business will meet for a hearing titled “Flooded Out: Vanishing Environmental Reviews and the SBA’s Disaster Loan Program.” The hearing is scheduled to begin at **10:30 A.M. on Friday, July 19, 2019 at Wheeling Village Hall – 2 Community Blvd, Wheeling, IL, 60090.** The hearing will enable the Committee to examine the utilization of the SBA’s Disaster Loan Program in the context of severe flooding that impacted parts of Illinois in 2017. Members will hear from a variety of witnesses who will address how the floods impacted their local communities.

Background

Disaster Assistance has been part of SBA’s mission since its creation in 1953. Through the agency’s Office of Disaster Assistance (ODA), the Small Business Administration (SBA) provides low-interest loans to homeowners, renters, businesses of all sizes, and private, nonprofit organizations following a disaster.

The impact of natural disasters on small businesses is typically two-fold – direct physical damage to their business, and loss of customers who were also impacted by the storm. Commonly, electrical grids and surface transportation infrastructure are severely damaged, preventing owners and customers from resuming operations quickly. With an expectation of reduced sales due to outside forces, coupled with increased costs to rebuild structures and inventories, SBA disaster loans can be the critical lifeline that helps small business survive the physical and economic impact of a natural disaster.

The first few months following a natural disaster are a critical period for small businesses. According to a recent survey of small businesses, nearly 75 percent do not have a disaster recovery plan, yet 70 percent indicated they felt vulnerable to a natural disaster.¹ The Federal Emergency Management Agency (FEMA) estimates roughly 40 to 60 percent of small businesses never reopen following a natural disaster.² For those that reopen, recovery costs are exorbitant. For example,

¹ Cynthia Scarinci, A Post-Superstorm Sandy study of Small Business Disaster Preparedness and Perspectives on Planning for Future Incidents, 3 J. INT’L & INTERDIS. RES., 61 (2016).

² Federal Emergency Management Agency, *Make Your Business Resilient*, (Sep. 2, 2015).

about half of respondents to one post-Superstorm Sandy survey indicated they spent between \$101,000 and \$250,000 on recovery costs.³

SBA has responded to hundreds of natural disasters over the past twenty years, including several major storms. In 2017 alone, the U.S. experienced three of the five costliest hurricanes on record.⁴ After insurance proceeds, SBA serves as the primary source of financing for affected businesses and homeowners. In many instances, however, the agency's response to these major events has not been uniform. Furthermore, in recent years, the SBA Disaster Loan Program has been the subject of congressional interest because of concerns expressed about the time it takes for SBA to process disaster loan applications, and the agency's failure to implement statutory provisions enacted to quickly disburse disaster funds.

Overview of Disaster Assistance

SBA disaster assistance is provided in the form of loans.⁵ These are unique in that they are the only loans made by SBA that go directly to the borrower and are not limited to small businesses.⁶ In fact, approximately 80 percent of SBA disaster assistance goes to individuals and households rather than businesses.⁷

Disaster Loans for Homeowners and Renters

Homeowners, renters, and personal property owners located in a declared disaster area (and contiguous areas) may apply to SBA for loans to help recover losses from a declared disaster.⁸ The Home Disaster Loan program falls into two categories: (1) personal property loans up to \$40,000 to repair or replace items such as furniture or automobiles damaged or lost in a disaster; and (2) real property loans up to \$200,000 to repair or restore a primary residence to its pre-disaster condition.⁹ These loans are limited to uninsured losses, and the maximum term of these loans is 30 years.¹⁰

Disaster Loans to Businesses and Nonprofit Organizations

Any business or nonprofit organization, regardless of size, can apply for a physical disaster business loan of up to \$2 million for repairs and replacements to real property, machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance.¹¹ Economic injury loans are limited to small businesses, and are designed to provide them with

³ See *supra* note 1.

⁴ National Hurricane Center, *Costliest U.S. tropical cyclones tables updated*, (Jan. 26, 2018).

⁵ Congressional Research Service, *Small Business Administration: A Primer on Programs and Funding*, RL33243 (Jun. 27, 2018).

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* The law restricts businesses with credit available elsewhere to a maximum term of 7 years. SBA sets the installment payment amount and corresponding maturity based upon each borrower's ability to repay.

¹¹ *Id.*

operating funds until those businesses recover.¹² The maximum loan is \$2 million and the terms are the same as personal and physical disaster business loans.¹³

2017 SBA Disaster for Flooding

Communities along the Des Plaines and Fox River watersheds have long faced flooding issues during significant rain events. Since 2013 alone, Lake County has experience two “100-year floods,” and 6 of the 10 largest storm events on record have occurred since 1994. In July 2017, intense storms damaged more than 3,200 homes, resulting in a state of emergency declaration for the region and causing millions of dollars in damage to the community. Though the Federal Emergency Management Agency (FEMA) declined to declare a federal emergency for the region, the Small Business Administration declared an emergency, making local businesses eligible for disaster loans. Since then, local communities have spent millions of dollars on stormwater management infrastructure to mitigate future flooding concerns.

Conclusion

SBA’s Disaster Loan Program is a critical lifeline for disaster victims – homeowners, businesses, and nonprofit organizations. A properly managed and functioning Disaster Loan Program is of the upmost importance to this Committee. Accordingly, this hearing will give Members an opportunity to ask questions of local public officials and business owners regarding their experiences with the program and conduct appropriate oversight where needed.

¹² *Id.*

¹³ *Id.*