

July 7, 2011

The Honorable Karen Mills
Administrator
Small Business Administration
409 3rd Street Southwest
Washington, D.C. 20024

Dear Administrator Mills:

We write to you regarding troubling reports on the initially high decline rates on U.S. Small Business Administration (SBA) disaster loans and the reasons behind them. In particular, as senators from states recently impacted by disasters, we are concerned about high decline rates and the impact on recovery from severe storms in Louisiana and Missouri.

For example, immediately following Hurricanes Katrina and Rita in 2005, the SBA disaster loan application decline rates were extremely high and this was widely reported immediately following the storms. Gulf Coast states saw a similar situation unfold after the *Deepwater Horizon* oil spill last year and, more recently, after the tornadoes in Alabama. We are concerned that these high rates of declined applications, coupled with negative media coverage, serve as a deterrent for businesses that may want to apply but are discouraged from doing so. For example, below is information that staff has compiled from recent SBA disaster loan data (as of May 19, 2011):

State (Disaster)	Applications Received	Applications Approved*	Applications Declined*	Loans Approved
ALABAMA (April Tornadoes)	1,427	96 (12%)	289 (88%)	96 Loans for \$4,244,600
NORTH CAROLINA (April Storms)	285	86 (34%)	163 (66%)	86 Loans for \$4,852,800
NORTH CAROLINA (October '10 Storms)	572	142 (27%)	373 (73%)	142 Loans for \$3,679,300
MINNESOTA (October '10 Storms)	282	150 (59%)	101 (41%)	150 Loans for \$8,930,200
CALIFORNIA (February Winter Storms)	316	167 (62%)	102 (38%)	167 Loans for \$5,822,500
LOUISIANA (Deepwater Horizon)	920	202 (27%)	537 (73%)	202 Loans for \$16,371,900
FLORIDA (Deepwater Horizon)	551	120 (32%)	257 (68%)	120 Loans for \$12,046,400

*Note: These percentages do not include loans which SBA received but were withdrawn or applications that are currently in processing. These percentages are only for loans SBA has considered (approved/declined).

With this data in mind, we respectfully request responses to the following questions on SBA's disaster loan program:

1. Please provide an update on SBA's disaster operations in Joplin, Missouri and in northern Alabama, including numbers of SBA staff deployed, applications received to date, and loans disbursed.
2. Please provide a chart detailing annual month-by-month averages, based upon 10-year averages (excluding catastrophic disasters), for the approval rates of both Economic Injury and Physical Damage Disaster Loans.
3. In the wake of a disaster, the SBA makes both business and home-owner disaster loans. How does the fact that your Agency administers home-owner loans affect your small business loan process?
4. Please explain why decline rates are so high immediately following a disaster. How does the Agency conduct outreach and marketing to encourage businesses to apply for disaster assistance?
5. Has the SBA made any changes to the disaster loan process since the 2005 hurricanes that might have increased decline rates among borrowers? If so, please explain.
6. As part of previous legislative packages, SBA has included a proposal to extend (from three years to seven years) the maximum term for businesses with credit elsewhere applying for SBA disaster loans. It is our understanding that the three year loan term resulted in a decline for many businesses as they could not show sufficient cash flow to repay the disaster loan within three years. The shorter loan term was also unattractive to borrowers as the three year repayment term impacted their company's cash flow. This legislative change would allow more businesses to be approved at the market rate, and loans would be less of a burden on the applicant's cash flow.
 - Does SBA recommend any additional legislative or administrative changes to business disaster loans that allows for additional businesses to be eligible or approved for disaster loans, while still retaining the agency's financial responsibility to taxpayers?

Thank you for your attention to this matter.

Sincerely,



Mary L. Landrieu
United States Senator



Claire McCaskill
United States Senator



Roy Blunt
United States Senator