

**SENATE SMALL BUSINESS AND ENTREPRENEURSHIP COMMITTEE  
HEARING REGARDING  
GULF COAST DISASTER LOANS AND THE FUTURE OF THE DISASTER  
ASSISTANCE PROGRAM**

**JULY 25, 2007**

Testimony of  
Administrator Steven C. Preston

Good morning Chairman Kerry, Ranking Member Snowe, and members of the Committee. Thank you for inviting me to discuss the progress and improvements being made to the Disaster Assistance program since the devastating 2005 Gulf Coast Hurricanes and more specifically the role the Small Business Administration plays in providing disaster assistance lending to victims of natural disasters.

During the rescue, relief and reconstruction of the Gulf to date, SBA received 422,729 loan applications, of which 364,000 were for homeowners and over 58,000 were for businesses. Of those, SBA approved over 160,000 loans for almost \$11 billion. Since then, as in all major disasters, we have had a number of cancellations; so the net number of loans is just under 120,000 for \$6.9 billion. Today, I am pleased to share with the committee that all but 1,000 loans have been either fully or partially disbursed; and of those borrowers who have not drawn down on their funds, we stand ready to disburse.

We invested thousands of hours to fully re-engineer our processes to eliminate our backlogs, dramatically reduce response time, and improve the support we give to disaster victims throughout the process. Because we have regular conversations with our customers, today we have the ability to informally poll our case managers on other issues our customers are facing. Our people have become advocates for the borrowers and we are now able to connect a loan and a document to a life and a story.

We continue to focus on better training for our employees so they can serve our customers needs. We have addressed issues in our information technology infrastructure and have put metrics and mechanisms in place to see issues in a timely manner and address them as they arise. But most importantly, we have methods in place for greater interaction with our customers.

SBA continues its commitment to disaster victims in the Gulf Coast and throughout the country. As you are well aware, when I arrived at the Agency, there was a major backlog to close and disburse the historically high number of loans. We quickly dug in to address the issues. First, we listened hard to our customers, who were experiencing the difficulties. Next, we listened to our employees who were close to the action to get their perspective. Then we dug deep into the operational processes where we saw a number of issues leading to high error rates, steep backlogs in critical processes and decision-making bottlenecks.

As a result of the reengineering effort we established a new process and our first step was to call all of our borrowers to determine the status of their loans and ensure we were providing the right kind of support to continue advancing the process. Over 90,000 borrowers were called in less than 45 days. Based on these calls we were able to determine whether these customers were ready to receive a disbursement, needed more time to determine what they wanted to do, or for whatever reason wished to withdraw or cancel their loan. In addition, these calls initiated a process whereby we contact all borrowers regularly throughout the process, and we track the issues our borrowers face.

As with every major disaster SBA has responded to, a number of applicants do not move forward with their loans. This could be because they received an insurance payment, because they did not want to take on additional debt, or because they could receive funds elsewhere.

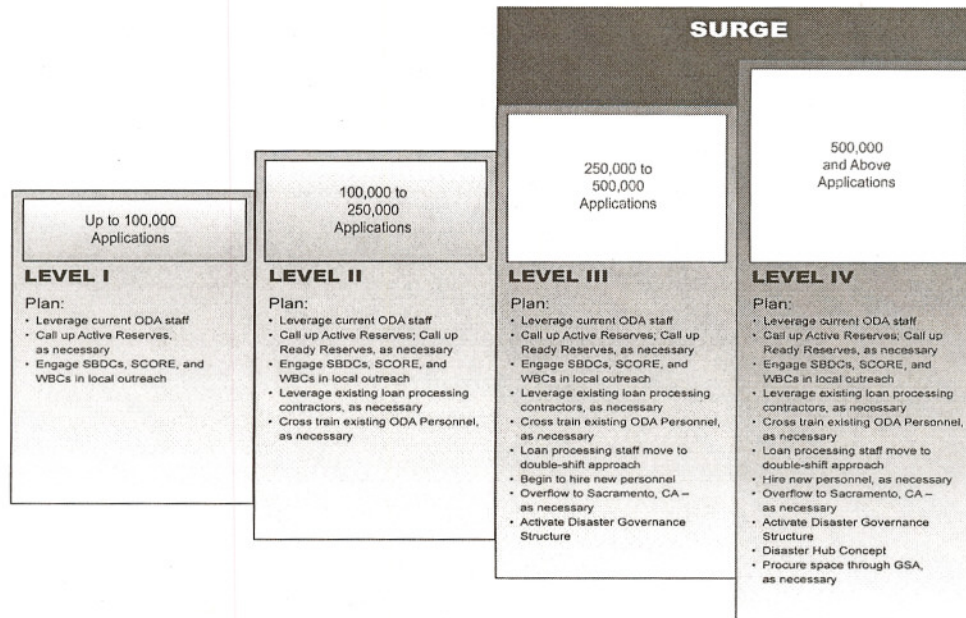
As part of our calling campaign, we identified 11,662 loans where the commitments had expired and no closing documents or requests for extension were in place. Callers were instructed to call three times within a 24 hour period. We made multiple efforts to reach every borrower who was still in the process. However, there were 7,752 borrowers who could not be reached, and based on that their loans were cancelled because the loan closing documents were long overdue. All of these loans had closing documents outstanding for more than 120 days and because of this a standard form letter stating this was sent to the address on file. In hindsight these letters could have been more individualized based on the situation rather than a standard form. That has been addressed and in the future personalized correspondence will be sent before a loan is cancelled, to ensure that loans are not cancelled without providing proper notice. Because of our concern that we may have cancelled loans without reaching borrowers, we called these borrowers again and over 1,200 loans were re-instated based on subsequent calls to the borrower.

SBA recognized the severe challenges that hindered its efforts to aid recovery, and has made dramatic improvements to its processes. On June 1<sup>st</sup> of this year, the SBA presented to the Committee the Agency's Disaster Recovery Plan. After months of deliberations and countless hours of work, the Agency has documented the critical steps to be taken by the Agency along with other Federal agencies to prepare for, respond to and recover from natural disasters. But we are not finished. This is a working document and continues to be reviewed and updated as appropriate.

Our improvements to the disaster assistance process include an accelerated loan application decision process; improved processes and tools for loan closing and fund disbursement; more transparent, meaningful performance data to better manage operations; consistent adherence to policy through training and internal quality assurance; better coordination with non-disaster field staff; and improved harmonization across disaster center operations.

Additionally, we have developed a surge plan to ensure that the SBA is prepared for a catastrophic disaster in the event one should hit in the future. Historically, the

Office of Disaster Assistance has been able to manage up to 250,000 application events within its own processing centers. If a disaster reaches a level higher than that, the surge plan would be implemented, as shown in the chart below.



Furthermore, the surge plan also includes personnel actions, space management plans, information technology matters as well as an in-depth communications plan that would reach all those affected by the disaster as well as those involved in the recovery effort.

Human Capital is the cornerstone of the Agency's disaster response. SBA recognizes the critical role that disaster employees play in the organization's response capability and the expanding role for the entire SBA organization in a surge capacity. Beyond disaster assistance employees, SBA's response to the 2005 Gulf Coast Hurricanes also included contributions from SBA's District Offices as well as staff from the Office of Capital Access. Looking ahead to future disasters, SBA will deploy a larger complement of internal surge personnel for short-term periods of time as needed to accomplish the disaster recovery mission. Currently, non-disaster field staff are receiving the necessary training to process loans and perform other disaster assistance functions in the event a major disaster strikes in the future.

We are also working with our Entrepreneurial Development partners (SBDCs, SCORE, WBCs) to develop a strategy in which they would play an integral part in assisting disaster victims by making potential applicants aware of SBA's services; handing out disaster loan applications; and helping applicants complete documents.

SBA has also revamped its application process system since the 2005 Gulf Coast Hurricanes. Consequently, SBA's quality assurance methods, both at its Processing and Disbursement Center (PDC) and Customer Service Center, have also evolved. At the

PDC, quality assurance focuses on monitoring that the staff are processing loan applications in accordance with SBA policy. A quality assurance team looks for departures from stated policy. We continue to build on our quality assurance methodology, employing training specialists who are studying and refining the systems which are currently in place.

With regard to infrastructure needs, SBA has also developed plans to utilize its Field Operations Center in Sacramento, California, if necessary. This facility is currently being used for field operations west of the Mississippi River. However it also serves as an alternate geographic location for loan processing if a disaster requires a larger response, or if an incident renders the Dallas/Forth Worth facility inoperable. The Sacramento facility allows SBA to offer training in its core functions in an additional facility to complement Dallas/Forth Worth. By leveraging the facility in Sacramento, SBA is positioned to simultaneously grow two pools of disaster reservists in two geographic locations.

Last of all, prior to the 2005 hurricane season, the Disaster Credit Management System (DCMS) was newly developed and only provided the capacity to accommodate approximately 2,000 concurrent users. After it became apparent that the system could not accommodate the Agency's needs, SBA implemented a hardware upgrade. Since that time, the DCMS has been upgraded to now support 8,000 concurrent users. This represents a four-fold increase in capacity, putting SBA in a much better position today to face future catastrophic disasters.

Also, to ensure we are in the best possible position to respond to future disasters SBA will provide accurate, timely and consistent information to key stakeholders beyond disaster victims including: state and local officials; other federal agencies and Congress; national, regional and local media; and strategic partners. Today, we have public affairs specialists trained to handle disasters in their districts. Information will flow through a consistent chain of command to ensure that all necessary information gets from the highest decision makers to the Disaster Recovery Center and into the hands of the disaster victims.

SBA continues to develop and refine its disaster recovery capabilities. Moving forward we continue to focus on next generation modeling and simulations. Implementation of such models will allow SBA to even more accurately predict loan amount and volume, and consequently to make funding request to Congress that more truly reflect the size of the response needed.

We are updating the Agency's standard operating procedures and training plans that have been implemented over the past two years. A comprehensive approach to enhancing standard operating procedures, training, and coordination continues today.

SBA continues to improve and automate the business processes already in place to bring about greater responsiveness and efficiencies. SBA is currently focused on defining functionality and system requirements for an online disaster loan application.

Lastly, SBA is actively engaging with a number of government, private and non-profit organizations to expand our public-private partnerships. By doing this, we plan to achieve improved local outreach efforts following a disaster; improved planning capability; and bolster processing capability.

In closing, thank you for having me here to testify. The 2005 hurricanes overwhelmed disaster response at all levels, and SBA was no exception. Our people worked – often around the clock - to try to help the disaster victims whose lives were torn apart by the hurricanes. Those are the same people who fixed the process and are, today, enabling SBA to play its part in rebuilding the Gulf while simultaneously improving our ability to respond to disasters in the future. I am very thankful for their dedication and their resolve.