



February 2020

SMALL BUSINESS ADMINISTRATION

Disaster Loan
Processing Was
Timelier, but Planning
Improvements and
Pilot Program
Evaluation Needed

GAO Highlights

Highlights of [GAO-20-168](#), a report to congressional committees

Why GAO Did This Study

SBA assists most types of businesses regardless of size and others affected by natural and other declared disasters through its Disaster Loan Program. Disaster loans can be used to help rebuild or replace damaged property or continue business operations.

GAO was asked to review SBA's response to three 2017 hurricanes (Harvey, Irma, and Maria). This report examines SBA's (1) planning for and response to the 2017 hurricanes; (2) disaster loan application and review process; and (3) implementation of the Express Bridge Loan Pilot Program.

GAO analyzed SBA planning documents; summary data from SBA's Disaster Credit Management System for applications submitted between August 31, 2017, and September 24, 2018 (the period in which SBA processed nearly all loan applications for each hurricane); and SBA guidance on the bridge loan program. GAO interviewed small business owners and officials from local governments, business advocacy organizations, and Small Business Development Centers in Florida, Texas, Puerto Rico, and the U.S. Virgin Islands.

What GAO Recommends

GAO is making five recommendations to SBA, including that it more comprehensively document risks and plans to mitigate these risks and evaluate the implementation of the Express Bridge Loan Pilot Program. Overall, SBA agreed with the recommendations, but described actions that partially address the recommendation for evaluating the pilot. GAO maintains it should be fully implemented, as discussed in the report.

View [GAO-20-168](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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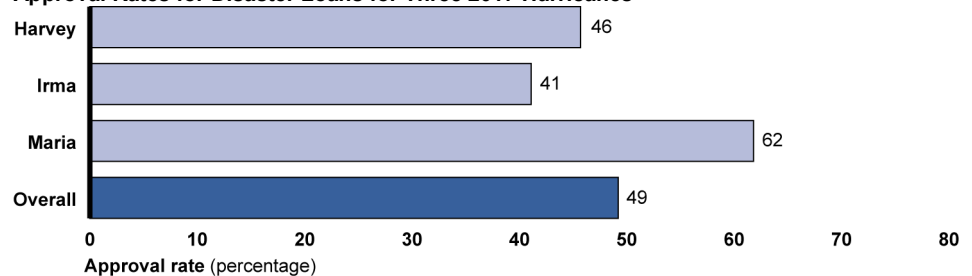
Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed

What GAO Found

The Small Business Administration's (SBA) Office of Disaster Assistance, which administers the Disaster Loan Program, regularly develops disaster plans but does not discuss risks and risk mitigation in detail in its planning documents. Specifically, SBA's current Disaster Preparedness and Recovery Plan lacks an in-depth discussion of risks (including extended power and communications outages) that could affect its disaster response. SBA's disaster response includes deploying staff to and establishing centers in disaster areas to accept loan applications. The aftermath of the 2017 hurricanes (Harvey, Irma, and Maria) illustrates how the risks affected SBA's disaster loan operations. For example, because of widespread power outages (particularly in Puerto Rico), loan applicants often could not submit applications electronically and SBA often could not call or e-mail applicants. As a result, SBA may not be adequately prepared to respond to challenges that arise during its disaster response efforts.

Changes SBA made to the loan application process since 2005 (such as implementing electronic applications) improved timeliness. For the 2017 hurricanes, SBA processed more than 90 percent of all loan applications (including those quickly declined or withdrawn) within its 45-day goal, averaging less than 18 days for each hurricane. Overall, about 49 percent of applications submitted after the 2017 hurricanes were approved (see figure). Applicants and others with whom GAO spoke noted some application challenges, including frequent changes to SBA contact staff and having to resend documents. According to SBA officials, staff changes resulted from turnover, among other reasons. Many applicants in Puerto Rico also encountered translation challenges during interactions with SBA.

Approval Rates for Disaster Loans for Three 2017 Hurricanes



Source: GAO analysis of Small Business Administration data. | GAO-20-168

SBA has no plans to evaluate its Express Bridge Loan Pilot Program, a loan guarantee program that began in October 2017 and is set to expire on September 30, 2020, and is intended to offer small businesses quicker funding after disasters. As of September 2019, SBA had received 93 applications, but most of them were incomplete and SBA had guaranteed only two loans. The Office of Capital Access, which manages the pilot, had not sought feedback from lenders on why so few loans had been made. Without evaluating program design and implementation, SBA's ability to make an informed decision on the program's future, including assessing potential demand for bridge loans, is limited.

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Abbreviations

BRC	Business Recovery Center
DCMS	Disaster Credit Management System
EIDL	economic injury disaster loan
FEMA	Federal Emergency Management Agency
IRS	Internal Revenue Service
OCA	Office of Capital Access
ODA	Office of Disaster Assistance
OIG	Office of Inspector General
PDC	Processing and Disbursement Center
PDL	physical disaster loan
SBA	Small Business Administration
SBDC	Small Business Development Center

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February 7, 2020

The Honorable Marco Rubio
Chairman
The Honorable Benjamin Cardin
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate

The Honorable Nydia Velázquez
Chairwoman
The Honorable Steve Chabot
Ranking Member
Committee on Small Business
House of Representatives

In August and September 2017, Hurricanes Harvey, Irma, and Maria made landfall in the United States, affecting nearly 26 million people.¹ The National Oceanic and Atmospheric Administration estimated the cost of the three hurricanes at \$265 billion, with the most damage occurring in Florida, Puerto Rico, Texas, and the U.S. Virgin Islands.

The Small Business Administration (SBA) is known primarily for its financial support of small businesses. In contrast, its Disaster Loan Program, which is administered by SBA's Office of Disaster Assistance (ODA), assists most types of businesses regardless of size, private nonprofit organizations, homeowners, and renters affected by declared disasters. In October 2017, SBA also began the Express Bridge Loan Pilot Program to supplement the agency's direct disaster response capabilities and more quickly provide financial assistance to small businesses.

You asked us to examine SBA's response to the 2017 hurricanes. This report examines SBA's (1) planning for and initial response to the 2017 hurricanes; (2) loan application and review process (including changes since Hurricane Katrina in 2005), timeliness, and approval rates; and (3) implementation of the Express Bridge Loan Pilot Program.

¹For this report, we refer to Hurricanes Harvey, Irma, and Maria as the 2017 hurricanes.

To answer these questions, we visited two areas each in Florida, Texas, and the U.S. Virgin Islands, and three areas in Puerto Rico.² We selected these areas based on the high numbers of approved home and business disaster loans, high population, geographic diversity, presence of a Small Business Development Center (SBDC), and presence of an SBA district office.³ In each area, we interviewed small business owners and officials from local government, business advocacy organizations, and SBDCs about SBA outreach and their experiences with the disaster loan application and review processes.⁴ While the results of these interviews are not generalizable to all areas affected by the 2017 hurricanes, they provided insight into the experiences of small businesses and local communities with the SBA Disaster Loan Program. We analyzed the results of these interviews with qualitative analysis software to identify common themes and patterns.

To evaluate SBA's planning for and initial response to the 2017 hurricanes, we reviewed SBA planning documents in effect for the hurricanes: SBA's 2017 Disaster Preparedness and Recovery Plan and its 2014 Disaster Playbook.⁵ We also reviewed SBA's 2017 and 2018 Staffing Strategies and models SBA used to guide its response, and reports issued by the SBA Office of Inspector General (OIG).⁶ To examine SBA outreach, we reviewed marketing and outreach plans from 2012 and 2018 and a sample of outreach materials SBA used during its response. We compared SBA's planning efforts against federal internal control standards for identifying, analyzing, and responding to risks, and

²We visited three areas in Puerto Rico because of the extent of the damage in the territory.

³For Florida and Texas, we also considered the number of insurance claims. Such data were not available for Puerto Rico and the U.S. Virgin Islands. SBDCs provide technical assistance to small businesses and aspiring entrepreneurs.

⁴Collectively, we interviewed 24 small business owners and officials from seven local governments, six business advocacy organizations, and nine SBDCs.

⁵Small Business Administration, *Disaster Preparedness and Recovery Plan* (Washington, D.C.: 2017); and *Disaster Playbook* (Washington, D.C.: June 9, 2014).

⁶Small Business Administration, *Office of Disaster Assistance Staffing Strategy* (Washington, D.C.: July 14, 2017); and *Office of Disaster Assistance Staffing Strategy* (Washington, D.C.: July 31, 2018). Also see Small Business Administration, Office of Inspector General, *Inspection of SBA's Initial Disaster Response to Hurricane Harvey*, 18-10 (Washington, D.C.: Jan. 19, 2018); *Inspection of SBA's Initial Disaster Response to Hurricane Irma*, 18-16 (Washington, D.C.: Apr. 26, 2018); and *Inspection of SBA's Initial Disaster Response to Hurricane Maria*, 18-19 (Washington, D.C.: July 19, 2018).

against Federal Emergency Management Agency (FEMA) guidance on disaster planning.⁷ We compared SBA's outreach efforts against federal internal control standards for internal communication and against key consumer education practices.⁸

To evaluate SBA's loan application and review process, we reviewed prior GAO and SBA OIG reports on the Disaster Loan Program to help identify changes made since Hurricane Katrina in 2005.⁹ We also analyzed summary data from SBA's Disaster Credit Management System (DCMS) for applications submitted between August 31, 2017, and September 24, 2018.¹⁰ SBA completed processing for more than 99 percent of the applications for each hurricane during the period covered by our data. Because the 2017 hurricanes occurred in quick succession and SBA treated them as one event, we compared the combined data for the 2017 hurricanes to those for Hurricane Sandy and the combined data

⁷GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014); and Federal Emergency Management Agency, *Developing and Maintaining Emergency Operations Plans: Comprehensive Preparedness Guide (CPG) 101* (Washington, D.C.: November 2010).

⁸See [GAO-14-704G](#); and *Digital Television Transition: Increased Federal Planning and Risk Management Could Further Facilitate the DTV Transition*, [GAO-08-43](#) (Washington, D.C.: Nov. 19, 2007). For our 2007 report, we convened a panel of 14 experts in strategic communications to identify key practices for a consumer education campaign.

⁹See GAO, *Small Business Administration: Actions Taken to Help Improve Disaster Loan Assistance*, [GAO-17-566T](#) (Washington, D.C.: Apr. 26, 2017); *Small Business Administration: Agency Has Controls to Comply with Paperwork Reduction Act but Could Improve Accessibility and Consistency of Disaster Loan Information*, [GAO-17-67](#) (Washington, D.C.: Nov. 21, 2016); *Small Business Administration: Additional Steps Needed to Help Ensure More Timely Disaster Assistance*, [GAO-15-727T](#) (Washington, D.C.: July 8, 2015); *Small Business Administration: Additional Steps Needed to Help Ensure More Timely Disaster Assistance*, [GAO-14-760](#) (Washington, D.C.: Sept. 29, 2014); *Small Business Administration: Progress Continues in Addressing Reforms to the Disaster Loan Program*, [GAO-12-253T](#) (Washington, D.C.: Nov. 30, 2011); *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.: July 29, 2009). Also see Small Business Administration, Office of Inspector General, *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2019*, 19-01 (Washington, D.C.: Oct. 11, 2018); 18-19; 18-16; and 18-10.

¹⁰SBA uses DCMS to process loan applications and make determinations for its disaster loan program. The August date corresponds to the date SBA received the first applications from the 2017 hurricanes and the September date to the one-year anniversary of Hurricane Maria, the last of the three 2017 hurricanes.

for Hurricanes Katrina, Rita, and Wilma, which SBA also treated as one event.¹¹ We assessed the reliability of the DCMS data by reviewing related documentation, interviewing knowledgeable agency officials, and reviewing related internal controls. We determined they were sufficiently reliable for describing characteristics associated with SBA's processing of applications.

To evaluate implementation of the Express Bridge Loan Pilot Program, we reviewed *Federal Register* notices and a program guide. We interviewed officials from the Office of Capital Access (OCA), which administers the loan guarantee program, and officials from three lenders to discuss their perspectives on and awareness of the program.¹² We selected one lender because it had made loans under the pilot program, another because it had begun the most applications for the program, and the third because it was a 7(a) lender located in a state affected by Hurricane Florence or Michael.¹³ We chose those hurricanes because they occurred in 2018, about 1 year after SBA began its pilot. We compared SBA's plans to evaluate the Express Bridge Loan Pilot Program against guidance for designing evaluations.¹⁴ Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from September 2018 to February 2020 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.

¹¹For this report, we refer to Hurricanes Katrina, Wilma, and Rita as the 2005 Gulf Coast hurricanes.

¹²We contacted seven lenders, but only three responded to our request for their views on the program.

¹³Under the Express Bridge Loan Pilot Program, only lenders that participate in SBA's 7(a) loan program with SBA Express lending authority can issue the bridge loans. The 7(a) program is SBA's largest loan guarantee program for small businesses, and SBA Express is a subprogram within it.

¹⁴GAO, *Designing Evaluations: 2012 Revision*, [GAO-12-208G](#) (Washington, D.C.: Jan. 31, 2012).

Background

Federal agencies can respond to a disaster when effective response and recovery are beyond the capabilities of affected state and local governments. In such cases, the President can declare a major disaster in response to a request by the governor of a state or territory or the chief executive of a tribal government.¹⁵ The SBA Administrator also can issue an agency physical disaster declaration for events that do not rise to the level of a major Presidential disaster declaration in response to a timely request by a state governor.¹⁶

The National Response Framework governs any type of federal disaster or emergency response.¹⁷ Under this framework, FEMA has lead responsibility and offers disaster assistance.¹⁸ At least 30 other federal agencies, including SBA, also administer disaster assistance programs and activities.

¹⁵42 U.S.C. § 5170. Recipients of disaster loans must be in specific areas permitted to receive disaster assistance by the declaration.

¹⁶To qualify for an SBA physical disaster declaration, there must be (1) 25 or more homes, businesses, or a combination of homes and businesses with 40 percent or more uninsured damage in a county or smaller political subdivision of a state, or (2) at least three businesses that sustain uninsured losses of 40 percent or more that leave 25 percent or more of the area workforce unemployed for at least 90 days. SBA also is able to make an economic injury declaration in response to determinations of a natural disaster by the Secretary of Agriculture, or by relying on a state certification that at least five small businesses in a disaster area suffered substantial economic injury as a result of a disaster and need financial assistance. In these “administratively declared disasters,” residents and businesses in affected areas are eligible for SBA disaster loans, but generally not for other forms of federal assistance.

¹⁷The *National Response Framework* is part of the National Preparedness System and covers actions to save lives, protect property and the environment, stabilize communities, and meet basic human needs following an incident. Department of Homeland Security, Federal Emergency Management Agency, *National Response Framework, third edition* (Washington, D.C.: June 2016).

¹⁸FEMA has three principal programs that help fund disaster recovery. The Individual Assistance Program provides financial assistance to survivors for expenses that cannot be met through insurance or low-interest loans, such as temporary housing, counseling, unemployment compensation, or medical expenses. The Public Assistance Program provides grant assistance to state, local, tribal, and territorial governments and certain types of nonprofit organizations for debris removal, emergency protection, and facilities restoration. The Hazard Mitigation Grant Program helps communities prepare for and recover from future disasters and funds projects such as purchasing and demolishing properties in flood-prone areas or elevating them.

SBA's Office of Disaster Assistance

The Small Business Act authorizes SBA to make direct loans to help businesses, nonprofit organizations, homeowners, and renters repair or replace property damaged or destroyed in a declared disaster (declared by the President or SBA). ODA is responsible for administering the SBA disaster loan program, primarily through the following offices:¹⁹

- **Customer Service Center** is a single nationwide point of contact for disaster survivors who have questions about SBA disaster loans. It provides a call center, email response, disaster application mailings, and pre-application entry.
- **Field Operations Centers** coordinate disaster field operations and publicize ODA's Disaster Loan Program before and after disasters.²⁰ Field Operations Centers establish, staff, and maintain field operations in declared disaster areas, including Disaster Recovery Centers, Business Recovery Centers, and Disaster Loan Outreach Centers.²¹

¹⁹Other offices in ODA include ODA Headquarters, which sets policy, procedures, and guidelines for all ODA operations and coordinates with FEMA and Congress; Quality Assurance, which focuses on monitoring ODA staff compliance with SBA policy, regulations, and law; the Administrative Services Center, which provides administrative support; the Office of Disaster Personnel, which provides human resources functions; the Office of Disaster Strategic Engagement and Effectiveness, which implements ODA's training plan; the Disaster Credit Management System Operations Center, which oversees DCMS; and the Damage Verification Center, which provides the loss verification and inspection function.

²⁰Field Operations Center–East is in Atlanta, Georgia, and serves the states east of the Mississippi River, plus Minnesota, the U.S. Virgin Islands, and Puerto Rico. Field Operations Center–West is in Sacramento, California, and serves the states west of the Mississippi River (except Minnesota), plus American Samoa, the Northern Mariana Islands, the Federated States of Micronesia, Guam, and the Republic of the Marshall Islands. Field Operations Center–East coordinated the response for Hurricanes Irma and Maria and Field Operations Center–West for Hurricane Harvey.

²¹FEMA coordinates Disaster Recovery Centers at which FEMA, SBA, volunteer groups, and other agencies answer questions and help survivors apply for federal disaster assistance. SBA operates Business Recovery Centers, which are created specifically to help business owners with recovery. SBA also may assist homeowners or renters seeking assistance at a Business Recovery Center. Other organizations and SBA's resource partners usually help staff these centers. A Disaster Loan Outreach Center is a public facility established and staffed by SBA to help disaster loan applicants obtain applications, return completed applications, complete disaster loan application forms, close loans, and assist with loan modifications, reconsideration, and late application requests. Usually, SBA is the only agency present at a Disaster Loan Outreach Center.

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- **Processing and Disbursement Center** screens all applications, reviews and processes those that are complete, closes all approved loans, and disburses loan proceeds.

In addition, ODA works with resource partners, such as SBDCs, to provide disaster assistance to businesses. SBDCs help SBA by

- conducting local outreach to disaster victims;
- assisting those who have had their business loan application denied or withdrawn with applications for reconsideration or re-acceptance;
- assisting declined applicants in remedying issues that initially precluded loan approvals; and
- providing business loan applicants with technical assistance, including to reconstruct business records, to better understand requirements to complete a loan application, and for compiling financial statements and collecting required documents.²²

SBA Disaster Loans and Loan Processing

The Small Business Act authorizes SBA to make available two different types of direct disaster loans to survivors located in a declared disaster area (see table 1):

- **Physical disaster loans** are for the permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. They are available to homeowners, renters, most types of businesses regardless of size, and nonprofit organizations. Businesses in agriculture-related industries—also known as agricultural enterprises—are not eligible.²³
- **Economic injury disaster loans** help meet working capital needs (until normal operations resume) for most disrupted small businesses and private nonprofit organizations that utilized all reasonable available funds and were not able to obtain credit elsewhere after a

²²For additional information, see [GAO-17-566T](#).

²³15 U.S.C. § 636(b); 13 C.F.R. § 123.201(a). Additional eligibility restrictions can be found at 13 C.F.R. §§ 123.101, 123.201. For information on disaster assistance programs that small agricultural producers and businesses that support agriculture can use, see GAO, *Disaster Assistance: USDA and SBA Could Do More to Help Aquaculture and Nursery Producers*, [GAO-12-844](#) (Washington, D.C.: Sept. 11, 2012).

disaster declaration.²⁴ The loans cover operating expenses the businesses could have paid had the disaster not occurred.

Table 1: Characteristics of Direct Disaster Loans of the Small Business Administration

Type of loan	Funds use	Eligibility	Collateral requirements ^a	Lending limit	Interest rate ^b	Loan term
Physical disaster loans						
Business	Repair or replace disaster-damaged property owned by the business, including real estate, inventories, supplies, machinery, and equipment; mitigation measures to protect the damaged or destroyed property from future disasters	Most types of businesses regardless of size ^c	Loans greater than \$25,000 must be secured with collateral	\$2 million ^{d, e, f, g}	Varies; generally for those that cannot obtain credit elsewhere, interest will not exceed 4 percent; for those that can obtain credit elsewhere, interest is capped at 8 percent	Up to 30 years
Home	Repair or replace primary residence, personal property; mitigation measures to protect the damaged or destroyed property from future disasters	Homeowners, renters, personal-property owners ^h	Loans greater than \$25,000 must be secured with collateral	\$200,000 to repair or replace primary residence to pre-disaster condition; \$40,000 to repair or replace clothing, furniture, cars, or appliances damaged or destroyed by the disaster ^e	Varies; generally for those who cannot obtain credit elsewhere interest will not exceed 4 percent; for those who can obtain credit elsewhere, interest is capped at 8 percent	Up to 30 years

²⁴SBA's size standards define whether a business is "small." Size standards have been established for types of economic activity, or industry, generally under the North American Industry Classification System. 13 C.F.R. pt. 121. "Credit elsewhere" refers to circumstances in which SBA believes a business can obtain credit from nonfederal sources on reasonable terms and conditions because of its cash flow and disposable assets. 13 C.F.R. §§ 123.104, 123.300.

Type of loan	Funds use	Eligibility	Collateral requirements ^a	Lending limit	Interest rate ^b	Loan term
Nonprofit	Repair or replace disaster-damaged property owned by a nonprofit; mitigation measures to protect the damaged or destroyed property from future disasters	Private nonprofit organizations such as charities, churches, and universities	Loans greater than \$25,000 must be secured with collateral	\$2 million ^{d, e, 9}	Varies; generally for those that cannot obtain credit elsewhere, interest will not exceed 4 percent; for those that can obtain credit elsewhere, interest is determined by a statutory formula based on the interest rate on interest-bearing obligations of the United States	Up to 30 years

Economic injury disaster loans

Business/nonprofit	Working capital to help meet ordinary and necessary financial operating expenses that cannot be met as a result of the disaster	Most types of small businesses, producer and small agricultural cooperatives and small aquaculture enterprises, and most private nonprofit organizations	Loans greater than \$25,000 must be secured with collateral	\$2 million ^{d, 9}	Cannot exceed 4 percent	Up to 30 years
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Source: GAO analysis of Small Business Administration documents. | GAO-20-168

^aLoans for which borrowers pledge collateral are “secured loans;” all others are “unsecured.” SBA’s preferred form of collateral is real estate. The collateral threshold currently is \$25,000 for all loans in all disasters. The \$25,000 cap on unsecured loans for physical disaster home and business loans applies until November 25, 2022, after which the threshold is scheduled to return to \$14,000 for physical disaster loans in nonmajor disasters. See Pub. L. No. 116-70 (2019); 13 C.F.R. § 123.11(a)(2).

^bInterest rates are periodically adjusted and vary for each disaster.

^cBusinesses in agriculture-related industries—also known as agricultural enterprises—are not eligible. 13 C.F.R. § 123.201. There are other restrictions, including on businesses owned by individuals convicted of certain crimes. 13 C.F.R. § 123.101, 123.201.

^dThe \$2 million limit applies to the combination of physical disaster and economic injury loans, and it applies to all disaster loans to a business or nonprofit and its affiliates for each disaster.

^ePhysical disaster loans may be increased up to 20 percent of the total amount of physical loss to make improvements that lessen the risk of property damage in future disasters of the same kind, including constructing retaining or sea walls, grading and contouring land, relocating utilities, and modifying structures. Loans also may be increased for refinancing or contractor malfeasance.

^fSBA can waive the cap on the lending limit if the business is a major source of employment, such as if it employed 10 percent or more of the entire workforce in the commuting area or employed at least 250 employees in the disaster area. 13 C.F.R. § 123.202(a).

⁹SBA may increase the \$2 million loan limit for physical disaster and economic injury loans to businesses or nonprofits under an individual disaster declaration based on appropriate economic indicators for the region(s) in which the disaster occurred. SBA will publish the increased loan amount in the *Federal Register*. 15 U.S.C. § 636(b)(8)(B); 13 C.F.R. § 123.202(e).

^hRenters can receive loans only for a physical loss to personal property. 13 C.F.R. § 123.100(a).

Business eligibility for the loans also differs. Certain businesses of all sizes are eligible for physical disaster loans, but only small businesses are eligible for economic injury disaster loans. Small businesses that did not sustain physical damage from a disaster cannot apply for physical disaster business loans but can apply for economic injury disaster loans. And, applicants seeking both types of loans may be approved for one type of disaster loan but denied for the other.²⁵

SBA procedures generally require that applications for a physical disaster loan be submitted no later than 60 days following the disaster declaration and no later than 9 months after this date for an economic injury disaster loan.²⁶ SBA may authorize an extension of the filing period, and did so for each of the 2017 hurricanes.²⁷

Applicants can apply for a loan (1) at a FEMA Disaster Recovery Center, (2) at a Business Recovery Center or SBA Disaster Loan Outreach Center, (3) by mail, or (4) online through SBA's electronic loan application system. SBA requires applicants seeking any disaster loan to submit documents with their application package, including permission for SBA to access applicants' tax return information.²⁸

²⁵We use "business loans" to refer to any loans resulting from businesses' applications for physical disaster loans, which may or may not include loan funds for economic injury, and "economic injury disaster loans" to refer only to loans that result from applications for economic injury disaster loans.

²⁶By regulation, SBA must publish notices of disaster declarations in the *Federal Register* that generally include the application deadline and the location for filing a loan application, among other things. 13 C.F.R. § 123.3(b).

²⁷For example, for Hurricane Maria the application deadline for physical disaster loans was extended from November 20, 2017, to March 20, 2018.

²⁸Business applicants must file a Tax Information Authorization, Internal Revenue Service Form 4506-T, for each applicant, each principal owning 20 percent or more of the applicant business, each general partner or managing member, and any owner with more than 50 percent ownership in an affiliate business. Additional documentation may include a completed application; complete copies, including all schedules, of the most recent federal income tax returns for the applicant business; a Personal Financial Statement (SBA Form 413) signed and dated by the applicant (if a sole proprietorship), each principal owning 20 percent or more of the applicant business, and each general partner or managing member; and a Schedule of Liabilities listing all fixed debts (SBA Form 2202 may be used). Homeowners must submit a complete and signed application and Form 4506-T, both of which must be signed by the applicant and any co-applicants. SBA may request additional documentation to process an application.

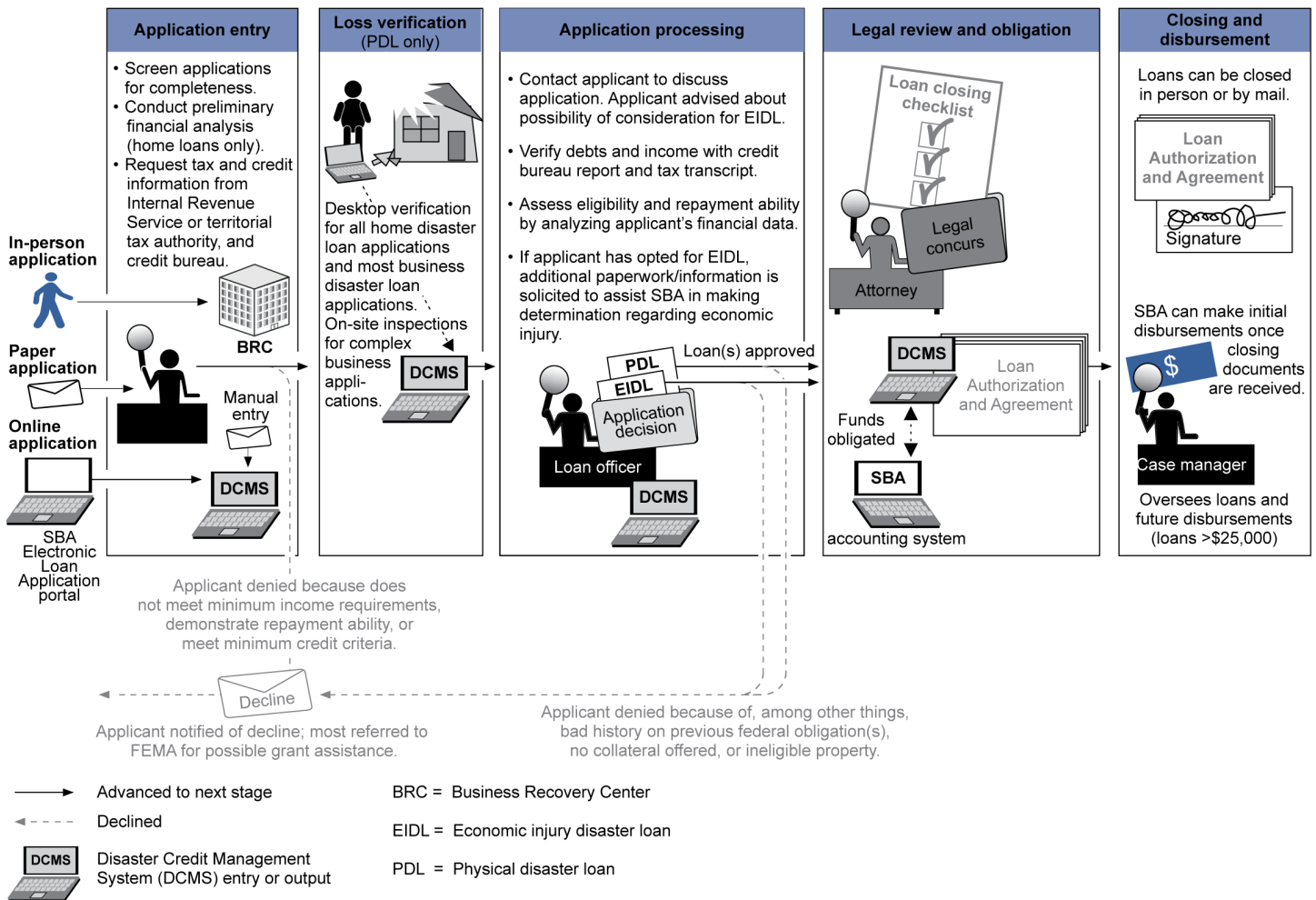
SBA's regulations contain underwriting criteria that require reasonable assurance of repayment.²⁹ The regulations state that SBA must have reasonable assurance that all disaster loan applicants can repay their loans based on SBA's analysis of the applicants' credit or personal or business cash flow.

Processing of disaster loan applications involves several stages (see fig. 1). For example, loss verifiers conduct desktop or on-site inspections for physical disaster loan applications to estimate the cost of restoring damaged property to predisaster condition. The verified loss becomes the basis for the loan amount. Loan officers determine eligibility during processing, taking into consideration any insurance or other recoveries, and make the decision to approve or decline an application.³⁰ Case managers work with borrowers through the disbursement process (until the loan is fully disbursed).

²⁹13 C.F.R. § 123.6.

³⁰The insurance recovery does not have to be final for SBA to approve and disburse a loan.

Figure 1: SBA's Disaster Loan Process



Source: GAO presentation of Small Business Administration (SBA) information. | GAO-20-168

Note: SBA may adjust its processes to close loans in locations such as Puerto Rico.

SBA Disaster Response Planning

To plan for its response to Presidentially declared disasters, SBA maintains long-term disaster planning documentation, conducts disaster simulations, maintains an outreach plan, and creates action plans for specific disasters.

- **Disaster planning documents.** SBA's major planning documents for disasters include its Disaster Preparedness and Recovery Plan and its Disaster Playbook. The Disaster Preparedness and Recovery Plan outlines SBA's responsibilities as part of federal disaster response

efforts. The plan is intended to ensure a broad scope of coordination, awareness, and support throughout the organization, and describes how SBA conducts its disaster-related missions.³¹ The plan also includes appendixes describing different aspects of SBA's disaster response operations, including SBA's forecasting and modelling to predict internal resource requirements such as staff. The document is revised annually. The Disaster Playbook outlines the roles and responsibilities of ODA departments, resource partners, and other private-sector partners at each major phase of the disaster recovery process.³² For example, it describes the steps taken by each ODA department to receive and process incoming disaster loan applications. According to SBA officials, the Disaster Playbook that guided the disaster response for the 2017 hurricanes was issued in 2014.

- **Disaster simulations.** SBA also participates in external and internal disaster simulation exercises. SBA participates in the FEMA-led National Exercise Program, which is a 2-year cycle of exercises that examine and validate capabilities in the National Preparedness System mission areas.³³

SBA's internal disaster simulations occur at SBA's biennial Senior Leadership Summit. SBA is required by law to conduct an internal disaster simulation exercise at least once every 2 fiscal years. The exercises are designed to improve understanding of preparedness concepts, identify opportunities or problems in SBA's response to disasters, and discuss solutions for improvement.

- **Outreach plan.** SBA maintains a marketing and outreach plan with the goal of continuing and strengthening lines of communication with

³¹Small Business Administration, *Disaster Preparedness and Recovery Plan*. The execution of SBA's disaster-related mission, as set forth in the Disaster Preparedness and Recovery Plan, involves response and recovery, including the recovery functions performed by SBA's Disaster Loan Program. Response and recovery are two of the five "national preparedness frameworks" set forth in the federal government's comprehensive approach to preparedness and domestic disaster incident management. The other frameworks are prevention, protection, and mitigation.

³²Small Business Administration, *Disaster Playbook*. While the Disaster Preparedness and Recovery Plan is an agency-wide document intended to help ensure coordination, awareness, and support throughout the organization, the Disaster Playbook is an ODA document that describes steps the office is to take to respond to a declared disaster.













³³The National Preparedness goal mission areas are prevention, protection, mitigation, response, and recovery.

stakeholders to build strong and productive partnerships.³⁴ The plan describes how SBA promotes awareness of the risk of natural disasters, the need to be prepared, and SBA’s role in disaster recovery. The plan also outlines areas of responsibility, disaster event scenarios, strategies for achieving its outreach goals, and implementation of outreach efforts. According to the plan, implementation of outreach efforts should include distribution of SBA disaster information products by public information officers and SBA’s resource partners, including SBDCs.

- **Action plans.** SBA Field Operations Centers create disaster-specific action plans to guide disaster responses. According to officials from the centers, action plans outline projected resource requirements, such as staff, and may include descriptions of the impending disaster scenario, SBA leadership responsibilities, and operational support requirements.

SBA has designated response levels that correlate staffing levels with anticipated numbers of applications. SBA has four response levels based on the number of loan applications it expects to receive (see fig. 2). Each level has different goals for staffing and processing applications.³⁵ The 2017 hurricanes triggered a level III response from SBA.

Figure 2: Small Business Administration Response Levels

	Anticipated number of applications (single or multiple disasters)	Maximum number of staff (combined)	Processing goal (weeks)
Level I	 ≤50,000	 1,024	 2 – 3
Level II	 50,000 – 250,000	 3,724	 3 – 4
Level III	 250,000 – 500,000	 6,924	 4 or more
Level IV	 500,000+	 As required	 More than 4

Source: GAO presentation of Small Business Administration information. | GAO-20-168

³⁴Small Business Administration, *Outreach and Marketing Plan for State, Local, and Tribal Leadership and Emergency Personnel* (Washington, D.C.: 2018).

³⁵When determining the response level, SBA considers the number of applications it anticipates receiving from a single disaster or multiple disasters.

Express Bridge Loan Pilot Program

SBA established the Express Bridge Loan Pilot Program to supplement the agency's disaster response capabilities.³⁶ The pilot program became available for use on October 16, 2017, and is set to expire on September 30, 2020.³⁷

The pilot allows 7(a) lenders with SBA Express lending authority to deliver SBA-guaranteed financing for disaster-related purposes to eligible small businesses on an emergency basis while the businesses apply for and await long-term financing.

The businesses must be located in, or contiguous to, communities with Presidentially declared disasters and have a pre-existing banking relationship with the 7(a) lender. Loan applications are subject to a streamlined underwriting process to ensure that small business owners receive a quick decision.

SBA Conducted Broad Outreach, but Lacks Guidance to Help It Plan for and Respond to Disasters

SBA's Disaster Planning Does Not Incorporate Risk Analysis or Guidance on Developing Action Plans for Specific Disasters

³⁶SBA was required to create two other expedited short-term or bridge loans, the Expedited Disaster Loan Program, which was repealed in February 2019, and the Immediate Disaster Assistance Program, which is still permissible under current law. SBA has created effectuating regulations for the Immediate Disaster Assistance Program, but has not otherwise implemented it.

³⁷According to SBA officials, the agency could extend the pilot program or make it permanent.

Disaster Planning Documentation

SBA's major disaster planning documentation lacks an in-depth discussion of risks SBA could face when responding to disasters. The Disaster Preparedness and Recovery Plan states that SBA must assess risk from two perspectives. First, it must address risk to its own resources and capabilities through its employee safety and continuity of operations plans to preserve its mission-essential functions, including the Disaster Loan Program. Second, SBA must evaluate the demands various disaster scenarios can place on the agency regardless of the impact to its own assets.

However, the Disaster Preparedness and Recovery Plan does not include a description of potential risks that may prevent SBA from successfully executing the Disaster Loan Program or discuss how SBA is to conduct risk analysis. Furthermore, SBA's Disaster Playbook does not include any mention of risk and risk-mitigation techniques. Federal internal control standards state that management should identify, analyze, and respond to risks related to achieving defined objectives.³⁸

For example, the types of challenges SBA faced in executing its response to Hurricane Maria in Puerto Rico and the U.S. Virgin Islands represent potential risks to the program because they could compromise SBA's ability to successfully execute the program.³⁹ These challenges included

- **Loss of electricity:** Electrical outages restricted SBA's ability to quickly establish operations and help survivors access disaster loans.⁴⁰ According to SBA officials, ODA established its base of operations at the SBA District Office in San Juan (which had generator power) because they had difficulty locating other usable office space due to power outages. In a report issued after the 2017

³⁸[GAO-14-704G](#).

³⁹We previously reported that the disaster response in Puerto Rico and the U.S. Virgin Islands faced different and additional challenges than in Florida and Texas, such as the islands' distance from the U.S. mainland. GAO, *2017 Hurricanes and Wildfires: Initial Observations on the Federal Response and Key Recovery Challenges*, [GAO-18-472](#) (Washington, D.C.: Sept. 4, 2018).

⁴⁰It took the Puerto Rico Electric Power Authority approximately 11 months to restore power to all customers able to safely receive power following Hurricanes Irma and Maria. GAO, *2017 Hurricane Season: Federal Support for Electricity Grid Restoration in the U.S. Virgin Islands and Puerto Rico*, [GAO-19-296](#) (Washington, D.C.: Apr. 18, 2019).

hurricanes, SBA noted that periodic outages also prevented applicant access to the online Disaster Loan Application Portal.⁴¹

- **Other infrastructure damage:** Physical infrastructure damage restricted SBA's mobility around Puerto Rico and the U.S. Virgin Islands following Hurricane Maria, delaying SBA's execution of the Disaster Loan Program. According to SBA officials, there were no flights into or out of the islands, and driving was difficult due to damage to and debris on the roads.
- **No or intermittent communications services:** According to SBA officials, telephone lines were down and cellular phone service was intermittent in Puerto Rico immediately after Hurricane Maria, which made communicating with staff and disaster survivors more difficult.

We present applicant, other stakeholder, and SBA perspectives on these and other challenges later in this report.

SBA officials told us that the agency contracts with an outside firm to conduct monthly portfolio analysis reports.⁴² Officials also told us that they use this report to identify areas of credit risk and make adjustments to program parameters, such as minimum acceptable credit scores. However, officials told us that they do not formally document other types of risks, including operational risks, or the steps taken to mitigate these risks.⁴³ For example, SBA's major planning documentation does not include any discussion of steps taken by ODA to mitigate the risk to the program posed by the major infrastructure damage that occurred in Puerto Rico after Hurricane Maria.

⁴¹Small Business Administration, Office of Disaster Assistance, *Harvey, Irma, and Maria (HIM) After Action Closeout Report* (Washington, D.C.: May 31, 2018).

⁴²SBA's portfolio risk analysis contract includes two tasks: existing disaster loan borrower credit scoring and disaster loan portfolio analysis. To conduct the portfolio analysis, the contractor uses SBA data and credit scores to analyze the disaster loan portfolio and prepare a monthly analytical report that identifies risk characteristics, performance metrics, and portfolio trends. The contractor also meets with SBA on a quarterly basis to discuss the portfolio analysis.

⁴³Operational risk is the risk of direct or indirect loss or other negative effects on an agency due to inadequate or failed internal processes, or from external events that impair internal processes, people, or systems. Operational risk encompasses a broad range of risks (such as legal, compliance, business continuity, business processes, human capital, and technology) that can have a direct impact on daily operations of an agency. United States Chief Financial Officers Council and Performance Improvement Council, *Playbook: Enterprise Risk Management for the U.S. Federal Government* (Washington, D.C.: July 29, 2016).

Action Plans for Specific Disasters

Without identifying risk elements associated with its disaster response and documenting how it plans to mitigate these risks, SBA may not be adequately prepared to respond to challenges that arise during its disaster response efforts.

The action plans created for the 2017 hurricanes contained varied information and in some cases did not discuss certain resource requirements for responding to the disaster, such as equipment needs. For example, the Hurricane Harvey action plan is less detailed than the plans for Hurricanes Irma and Maria and only discusses the anticipated staffing needs and strategies to meet those needs. The action plans for Hurricanes Irma and Maria identified additional resource needs and issues unique to a particular location.

FEMA provides guidance on developing disaster plans for local, state, and federal government planners to guide their on-site response to disasters.⁴⁴ These plans should focus on managing personnel, equipment, and resources that play a direct role in the response. The plans are to define how specific actions will be performed to achieve a planned outcome and include the “who, what, where, and when” in describing deployment and direction of resources.

SBA officials told us they created a template to help in estimating staffing needs, but SBA has not identified whether any other elements, such as those defined by FEMA, should be included in these plans.⁴⁵ Moreover, SBA has not provided guidance to the Field Operations Centers that is specific to preparing action plans for impending disasters. In addition, SBA’s major disaster planning documents, the Disaster Preparedness and Recovery Plan and the Disaster Playbook, do not mention action plans. According to SBA officials, these plans are internal documents, and the template and the Field Operations Center director’s prior experience creating action plans are sufficient guidance.

Without identifying the key elements of a disaster action plan and providing additional guidance to staff on how to incorporate these elements in future action plans, SBA’s Field Operations Centers may

⁴⁴Federal Emergency Management Agency, *Developing and Maintaining Emergency Operations Plans: Comprehensive Preparedness Guide (CPG) 101*.

⁴⁵The SBA Staffing Request Template is a form to be completed when requesting a staffing increase. The requestor submits the number of additional staff needed and a justification for the additional staff.

External and Internal Simulations

miss opportunities to better tailor their response to individual disasters, decreasing the effectiveness of their responses.

As discussed previously, SBA participates in external and internal disaster simulation exercises to help it prepare for disasters. For instance, SBA participated in the 2019 National Level Exercise, which simulated the interagency response to a large earthquake in Tennessee.

Prior to the 2017 hurricanes, SBA conducted an internal disaster simulation at its biennial leadership seminar in 2016. SBA simulated a series of three progressively more challenging events, including a simulated earthquake that, according to SBA officials, took out power to two major West Coast cities. According to SBA officials, this exercise helped them prepare for the widespread power outages encountered during the disaster response in Puerto Rico after Hurricane Maria.

SBA officials told us that after an internal simulation, SBA prepares a report that summarizes the events and recommends disaster response improvements. For example, after the 2016 simulation, SBA determined it did not currently have the resources to adequately respond to a large event. Suggested improvements to increase SBA's response capacity included establishing timelines for screening and training of new hires.

SBA Increased Staffing and Established Business Recovery Centers during Its Initial Response to the 2017 Hurricanes

Staffing

In response to the 2017 hurricanes, SBA forecasted the need for additional staff and hired staff as outlined in its Staffing Strategy. SBA also encountered several challenges associated with its hiring and training processes.

The Staffing Strategy used by SBA in its response to the 2017 hurricanes describes the types of staff SBA hires for disaster response, how SBA determines and manages staffing levels, and factors to consider when

hiring new or returning staff.⁴⁶ For example, the guidance describes business needs SBA should consider when making hiring decisions, such as workload, special skills required, and cost-saving measures.

Before an impending disaster, SBA uses a model to forecast staffing levels. According to SBA officials, the model helps identify the expected number of staff needed in each ODA office and peak need based on the anticipated number of applications received. The officials noted that predicted applications typically peak about 3–4 weeks into the disaster response. Key assumptions and inputs to the model include

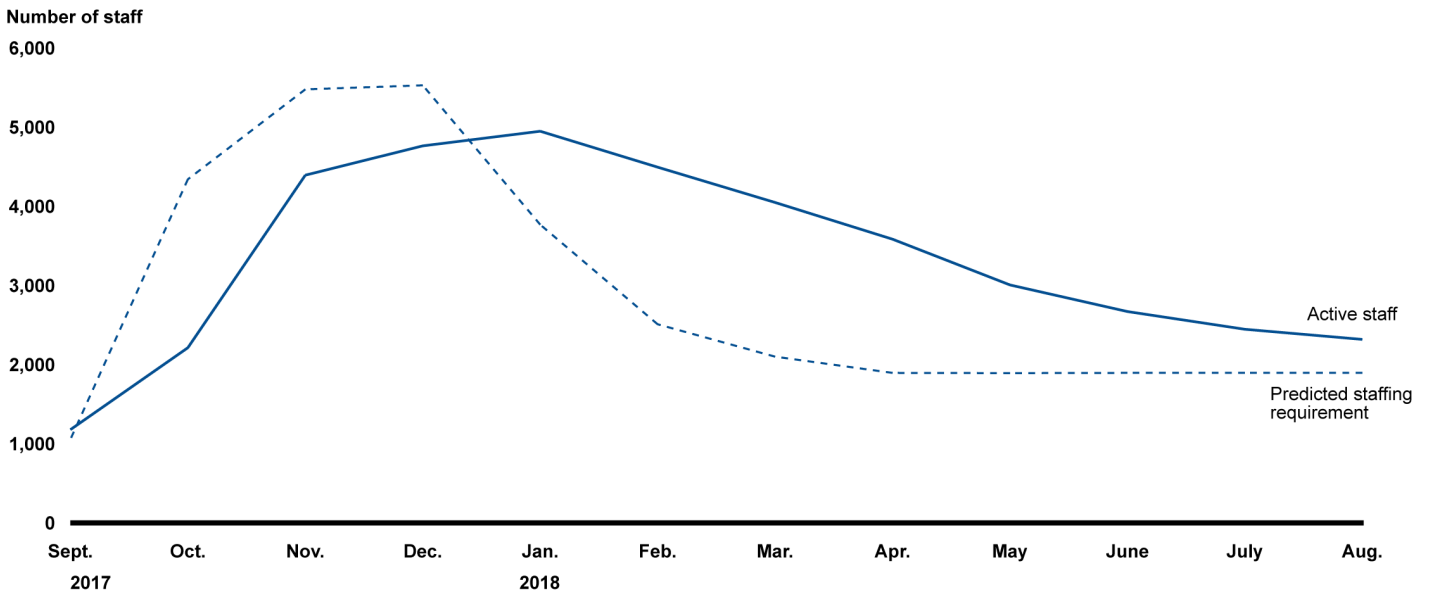
- the target application review and decision time frame;
- the requirements for specialized staff skills such as loss verification, loan processing, and legal review in the application process;
- staff productivity and training requirements;
- the total expected loan volume; and
- the type of disaster.

As shown in figure 3, SBA’s actual staffing lagged behind its predicted levels for the first 4 months following the 2017 hurricanes.⁴⁷ Officials told us that SBA encountered challenges quickly hiring and getting new staff on board immediately following the 2017 hurricanes.

⁴⁶SBA relies on different types of staff to support its disaster response. ODA retains a “core” staffing baseline of 800–1,000 employees needed to ensure readiness. SBA uses a combination of six types of hiring appointments: permanent, cadre, term-seasonal, term-intermittent, Schedule A, and excepted service attorney. The permanent and cadre appointments remain in constant pay status, while staff hired under the remaining four appointment types move between active (when in pay status) and surge (when in nonpay status).

⁴⁷ODA staff activated or hired to respond to the 2017 hurricanes were assigned to the Damage Verification Center, the Customer Service Center, Field Operations Centers East and West, or the Processing and Disbursement Center.

Figure 3: SBA's Predicted Staffing Requirements and Actual Staffing Following the 2017 Hurricanes (Harvey, Irma, and Maria), 2017–2018



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-20-168

Note: SBA staffing reports provided actual numbers of active staff on the first Friday of each reported month. SBA officials noted that staffing numbers may include staff working to respond to other disasters during this time frame, but that the majority of hiring occurred in response to the 2017 hurricanes.

Due to the rapid need for qualified staff to respond to the 2017 hurricanes, SBA faced a variety of self-identified challenges in hiring the staff.

- **Recruitment:** ODA lacked a national recruitment strategy and vehicle for advertising vacant positions. In addition, SBA processed resumes manually, without the ability to effectively match resumes with required skillsets. Due in part to its manual processes, it took SBA time to hire qualified human resources specialists to process the large number of applicants for positions, which affected the ability to hire and deploy new staff to disaster areas.
- **Hiring:** Because of the size of the 2017 hurricanes, ODA initially was unable to effectively support staffing needs of centers. In addition, SBA officials said that the agency had to hire Puerto Rican attorneys because secured loans must be signed by a notary and in Puerto Rico, notaries must be lawyers.

-
- **“On-boarding”**: ODA’s on-boarding processes were manual, heavily paper-based, and inefficient and caused delays in processing new staff. In addition, not enough time was devoted to the on-boarding process, and delays, disruptions, and unforeseen issues routinely extended the process.
 - **Training**: New staff required significant training that SBA did not have time to provide. Shortened or omitted training created a greater need to provide on-the-job training.

In response to these challenges, SBA’s after-action report for the 2017 hurricanes and its 2018 Staffing Strategy made recommendations to improve SBA’s hiring processes.⁴⁸ These recommendations included

- establishing regular intermittent postings;
- creating an enhanced recruitment toolkit that includes social media, advertisement, third-party partnerships, and an outreach plan;
- establishing interagency agreements for detailee staff;
- developing a template for deployment of staff;
- reviewing and updating position descriptions;
- building an applicant pipeline;
- developing an on-boarding plan; and
- implementing an integrated technology solution that includes recruitment, hiring, on-boarding, benefits, training, performance management, and “off-boarding.”

SBA officials told us they have begun implementing these recommendations. For example, the agency consolidated its hiring processes for new staff through USA Staffing, a federal online recruitment, evaluation, and hiring system.

⁴⁸Small Business Administration, *HIM After Action Closeout Report and Office of Disaster Assistance Staffing Strategy* (July 31, 2018). Although ODA typically updates its staffing strategy every 2 years, ODA officials told us they chose to revise the 2017 staffing strategy earlier to respond to the after-action report for the 2017 hurricanes.

Business Recovery Centers

SBA establishes outreach locations for businesses and individual disaster survivors, including Business Recovery Centers, in disaster areas.⁴⁹ The SBA OIG noted that while the centers are designed to assist business owners, staff also were available to assist homeowners and renters.⁵⁰ Based on our analysis of SBA data, SBA operated six such centers in response to Hurricane Harvey, 18 in response to Hurricane Irma, and 85 in response to Hurricane Maria.⁵¹

According to SBA officials, the number of Business Recovery Centers opened is dependent on two key data points—the number of declared counties with the greatest impact from the disaster and the business and population density. Officials told us that SBA opened the most centers in response to Hurricane Maria in Puerto Rico because of the high number of affected municipalities. Staffing levels at the centers are based on the number of businesses categorized as major and on population density, and then refined based on actual daily activity at the center. See figure 4 for a photograph of SBA staff at a center in a municipal sports complex in Bayamón, Puerto Rico.

⁴⁹By statute, SBA must identify locations that may be used as Business Recovery Centers in a declared disaster in each county, parish, or similar unit of general local government in the area served by an SBA district office, and ensure that identified locations may be used without cost to the federal government (to the extent practicable). 15 U.S.C. § 636(b)(14)(B).

⁵⁰Small Business Administration, Office of Inspector General, 18-10.

⁵¹SBA established six Business Recovery Centers in Texas for Hurricane Harvey; 11 in Florida, two in Georgia, one in Puerto Rico, and four in the U.S. Virgin Islands for Hurricane Irma; and 81 in Puerto Rico and four in the U.S. Virgin Islands for Hurricane Maria.

Figure 4: Small Business Administration Staff in Bayamón, Puerto Rico



Source: GAO. | GAO-20-168

Note: The faces in the photograph were blurred to ensure privacy.

In some locations we visited, SBA worked with its district office or local SBDCs to set up and staff Business Recovery Centers. For example, the Field Operations Center–East and the Florida SBDC Network created a staffing and deployment plan that outlined center locations in the Florida counties most affected by Hurricane Irma. The Florida centers were jointly staffed by SBA and SBDC employees, and included a mobile center.

According to SBA officials, SBA and SBDC representatives drove the mobile center to locations without a dedicated Business Recovery Center, such as the Florida Keys.

Similarly, the Field Operations Center–East created a staffing and deployment strategy for Business Recovery Centers with SBA’s District Office in Puerto Rico. They established fixed and mobile centers and each week staff traveled to multiple municipalities without fixed centers. The SBA District Office coordinated with local mayors and other officials to select the locations and ensure the public was informed. SBA officials noted that staff visited all the Puerto Rican municipalities over about 7 months.

SBA Conducted Outreach after the 2017 Hurricanes, but Has Not Incorporated Region-Specific Risks or Evaluated Its Efforts

SBA’s outreach for the 2017 hurricanes included local partners, generally was favorably regarded by stakeholders we interviewed, and met statutory requirements. But SBA’s current guidance on outreach efforts does not incorporate region-specific risks (such as those encountered after the 2017 hurricanes), and SBA has not evaluated its efforts.

Outreach Methods

According to SBA officials, SBA relied on public information officers, staff at recovery centers, local partners such as SBDCs and local government, and media contacts to disseminate information about the Disaster Loan Program to disaster survivors.⁵² When communicating with disaster survivors was difficult immediately after Hurricane Maria struck Puerto Rico, SBA officials told us they worked with the only operational radio station on the island to broadcast information about the program.

During our site visits to selected areas in the states and territories most affected by the 2017 hurricanes, stakeholders—including business owners and local SBA partners—told us they generally were satisfied with

⁵²According to SBA officials, SBA has public information officers who work with other federal agencies after a disaster to help coordinate federal-state communications, including joint press releases, media advisories, press conferences, town hall meetings, and other public speaking events. SBA contacts its regional and district offices, resource partners (such as SBDCs), chambers of commerce, economic development offices, community business organizations, state and local officials, civic organizations, faith-based organizations, and local community leaders to help promote awareness about the Disaster Loan Program. For example, following Hurricane Harvey, SBA officials told us they conducted 430 media interviews, attended 366 community meetings, and made 4,676 contacts with federal, state, and local officials.

SBA's outreach efforts to disaster survivors. Officials at one SBDC told us that they believed SBA public information officers did a good job reaching out to local businesses and keeping the SBDC informed about upcoming SBA disaster loan presentations and media outreach and went door-to-door to reach small businesses. Similarly, officials at an SBDC in Puerto Rico told us that SBA staff visited all the municipalities in their region, and that they participated in presentations about disaster assistance with SBA and FEMA. Nine of the 24 business owners with whom we talked told us they first learned about SBA's disaster loans from prior experience with the loans or through the agency's outreach efforts (presented online or on other media).⁵³ As discussed in more detail below, SBA does not have metrics that allow it to assess the effectiveness of its outreach efforts.

Outreach Materials

Outreach materials SBA provided to us contained required statutory elements. By statute, if a disaster is declared, SBA must make "every effort to communicate through radio, television, print and web-based outlets, all relevant information needed by disaster loan applicants."⁵⁴ SBA must include (1) the date of the declaration; (2) cities and towns in the areas of the declaration; (3) loan application deadlines related to the disaster; (4) all relevant contact information for victim services available through SBA (including links to SBDC websites); (5) links to relevant state and federal disaster assistance websites, including links that provide information on assistance available through FEMA; (6) information on eligibility criteria for SBA loan programs, including where applications can be found; and (7) application materials that clearly state SBA's function as the federal source of disaster loans for homeowners and renters.


We reviewed SBA Disaster Loan fact sheets available for Hurricanes Harvey, Irma, and Maria and other outreach materials distributed to disaster survivors and found they collectively included the required elements (see fig. 5 for examples). For example, the Hurricane Harvey fact sheet contains the date of the declaration and counties included in the declaration, as well as information about SBA's function to provide disaster loans, the types of loans available, loan eligibility requirements, deadlines, and contact information for SBA disaster assistance.

⁵³Business owners also told us they learned about the SBA Disaster Loan Program through SBDCs and word-of-mouth.

⁵⁴15 U.S.C. § 636(b)(5).

Figure 5: Examples of Disaster Loan Outreach Materials That SBA Used for the 2017 Hurricanes (Harvey, Irma, and Maria)

Date: 09/10/2017



**U. S. SMALL BUSINESS ADMINISTRATION
FACT SHEET - DISASTER LOANS**

**FLORIDA Declaration 15302 & 15303
(Disaster: FL-00130)
Incident: HURRICANE IRMA**

occurring: September 4, 2017 and continuing

Application Filing Deadlines:
Physical Damage: November 9, 2017 Economic Injury: June 11, 2018

If you are located in a declared disaster area, you may be eligible for financial assistance from the U. S. Small Business Administration (SBA).

What Types of Disaster Loans are Available?

- Business Physical Disaster Loans** – Loans to businesses to repair or replace disaster-damaged property owned by the business, including real estate, inventories, supplies, machinery and equipment. Businesses of any size are eligible. Private, non-profit organizations such as charities, churches, private universities, etc., are also eligible.
- Economic Injury Disaster Loans (EIDL)** – Working capital loans to help small businesses, small agricultural cooperatives, small businesses engaged in aquaculture, and most private, non-profit organizations of all sizes meet their ordinary and necessary financial obligations that cannot be met as a direct result of the disaster. These loans are intended to assist through the disaster recovery period.
- Home Disaster Loans** – Loans to homeowners or renters to repair or replace disaster-damaged real estate and personal property, including automobiles.

What are the Credit Requirements?

- Credit History** – Applicants must have a credit history acceptable to SBA.
- Repayment** – Applicants must show the ability to repay all loans.
- Collateral** – Collateral is required for physical loss loans over \$25,000 and all EIDL loans over \$25,000. SBA takes real estate as collateral when it is available. SBA will not decline a loan for lack of collateral, but requires you to pledge what is available.

What are the Interest Rates?

By law, the interest rates depend on whether each applicant has Credit Available Elsewhere. An applicant does not have Credit Available Elsewhere when SBA determines the applicant does not have sufficient funds or other resources, or the ability to borrow from non-government sources, to provide for its own disaster recovery. An applicant which SBA determines to have the ability to provide for his or her own recovery is deemed to have Credit Available Elsewhere. Interest rates are fixed for the term of the loan. The interest rates applicable for this disaster are:


	No Credit Available Elsewhere	Credit Available Elsewhere
Business Loans	3.305%	6.610%
Non-Profit Organization Loans	2.500%	2.500%
Economic Injury Loans		
Businesses and Small Agricultural Cooperatives	3.305%	N/A
Non-Profit Organizations	2.500%	N/A
Home Loans	1.750%	3.500%

What are Loan Terms?





The law authorizes loan terms up to a maximum of 30 years. However, the law restricts businesses with credit available elsewhere to a maximum 7-year term. SBA sets the installment payment amount and corresponding maturity based upon each borrower's ability to repay.

What are the Loan Amount Limits?

- Business Loans** – The law limits business loans to \$2,000,000 for the repair or replacement of real estate, inventories, machinery, equipment and all other physical losses. Subject to this maximum, loan amounts cannot exceed the verified uninsured disaster loss.



**U. S. SMALL BUSINESS ADMINISTRATION
DISASTER LOANS**

Whether you own your own business or own a small agricultural cooperative, rent or own your own home located in a declared disaster area, and are the survivor of a disaster, you may be eligible for financial assistance from the U. S. Small Business Administration (SBA).

What Types of Disaster Loans are Available?

- Business Physical Disaster Loans** – Loans to businesses to repair or replace disaster-damaged property owned by the business, including real estate, inventories, supplies, machinery and equipment. Businesses of any size are eligible. Private, non-profit organizations such as charities, churches, private universities, etc., are also eligible.
- Economic Injury Disaster Loans (EIDL)** – Working capital loans to help small businesses, small agricultural cooperatives, small businesses engaged in aquaculture, and most private, non-profit organizations of all sizes meet their ordinary and necessary financial obligations that cannot be met as a direct result of the disaster. These loans are intended to assist through the disaster recovery period.
- Home Disaster Loans** – Loans to homeowners or renters to repair or replace disaster-damaged real estate and personal property, including automobiles.

What are the Credit Requirements?

- Credit History** – Applicants must have a credit history acceptable to SBA.
- Repayment** – Applicants must show the ability to repay all loans.
- Collateral** – Collateral is required for physical loss loans over \$25,000 and all EIDL loans over \$25,000. SBA takes real estate as collateral when it is available. SBA will not decline a loan for lack of collateral, but requires you to pledge what is available.

What are the Interest Rates?

Interest rates are fixed for the term of the loan, are determined at the time of the disaster by formulas set by law, and may vary from disaster to disaster with market conditions.

What are Loan Terms?

The law authorizes loan terms up to a maximum of 30 years. However, the law restricts businesses with credit available elsewhere to a maximum 7-year term. SBA sets the installment payment amount and corresponding maturity based upon each borrower's ability to repay.

What are the Loan Amount Limits?

- Business Loans** – The law limits business loans to \$2,000,000 for the repair or replacement of real estate, inventories, machinery, equipment and all other physical losses. Subject to this maximum, loan amounts cannot exceed the verified uninsured disaster loss.
- Economic Injury Disaster Loans (EIDL)** – The law limits EIDLs to \$2,000,000 for alleviating economic injury caused by the disaster. The actual amount of each loan is limited to the economic injury determined by SBA, less business interruption insurance and other recoveries up to the administrative lending limit. EIDL assistance is available only to entities and their owners who cannot provide for their own recovery from non-government sources, as determined by the U.S. Small Business Administration.

(over)

(05/2016)

Source: Small Business Administration (SBA). | GAO-20-168

Outreach Guidance

SBA's guidance on outreach does not include steps on identifying regional disaster risks. In 2009, we recommended that SBA develop procedures to enable it to meet the region-specific requirements of the Small Business Act.⁵⁵ Specifically, we recommended that SBA include likely scenarios for certain regions prone to disasters. In 2012, SBA completed a marketing and outreach plan that stated SBA would develop webinars for specific regional risks. However, SBA's 2018 Marketing and Outreach Plan did not mention or incorporate regional challenges such as

⁵⁵ GAO-09-755.

those SBA encountered responding to the 2017 hurricanes in Puerto Rico and the U.S. Virgin Islands.

SBA officials told us that they experienced challenges in conducting outreach to the territories. As previously mentioned, SBA used the only operational media outlet in Puerto Rico—a radio station—immediately after Hurricane Maria to broadcast information. SBA officials told us that language barriers also presented a challenge during the response to Hurricane Maria. Outreach materials had to be printed in both Spanish and English (see fig. 6).

Figure 6: Example of Spanish-Language Outreach Materials on Disaster Loans That SBA Used for the 2017 Hurricanes (Harvey, Irma, and Maria)

Proceso de tres pasos:
Préstamos para desastres



Acerca de los préstamos para desastres

La Agencia Federal para el Desarrollo de las Pequeñas Empresas (SBA por sus siglas en inglés) otorga préstamos para desastres a empresas de todos los tamaños, organizaciones privadas sin fines de lucro, propietarios de viviendas e inquilinos, para reparar o reemplazar bienes que hayan sido dañados por desastres y que no estén asegurados o tengan un seguro insuficiente. Los préstamos para desastres de la SBA ofrecen una vía asequible para que las personas y las empresas puedan recuperarse de desastres declarados.

PASO 1:
Solicitud del préstamo

PASO 2:
Verificación de la propiedad y toma de decisión sobre el procesamiento del préstamo

PASO 3:
Cierre del préstamo y desembolso de los fondos

- ❑ Envíe su solicitud: 1) en línea; 2) en persona, en un centro para casos de desastre; o 3) por correo postal.
- ❑ Envíe su solicitud en línea a través del sitio web seguro de la SBA <https://disasterloan.sba.gov/ela>.
- ❑ Las empresas, cualquiera sea su tamaño, pueden recibir préstamos de hasta \$2 millones en concepto de daños materiales.
- ❑ Las pequeñas empresas, pequeñas cooperativas agrícolas, pequeñas empresas que se dedican a la acuicultura, u organizaciones privadas sin fines de lucro pueden recibir préstamos de hasta \$2 millones en concepto de daños económicos.
- ❑ Las pequeñas empresas pueden solicitar un préstamo máximo para empresas (por daños materiales y daños económicos) de \$2 millones.
- ❑ Como propietario de una vivienda, usted puede tomar un préstamo de hasta \$200,000 para reparar/reemplazar su residencia principal que haya sufrido daños.
- ❑ Como propietario de una vivienda o inquilino, puede tomar un préstamo de hasta \$40,000 para reparar/reemplazar sus bienes muebles que hayan sufrido daños.

- ❑ La SBA realiza un análisis crediticio de su situación antes de llevar a cabo una para verificar las pérdidas sufridas.
- ❑ Un verificador de SBA calculará la pérdida física total a su propiedad dañada por un desastre.
- ❑ Un oficial de préstamos determinará su elegibilidad durante el procesamiento, después de revisar los seguros u otros sistemas de recuero. La SBA puede otorgar un préstamo mientras se encuentra pendiente el cobro de su seguro.
- ❑ Un oficial de préstamos trabaja con usted para proporcionar toda la información necesaria para llegar a una determinación de préstamo. Nuestro objetivo es llegar a una decisión sobre su solicitud dentro de 4 semanas.
- ❑ Un oficial de préstamos se comunicará con usted para analizar la recomendación de préstamo y los siguientes pasos. Todas las decisiones que se tomen respecto de su préstamo se le notificarán por escrito.

- ❑ La SBA preparará y le enviará sus Documentos de cierre de préstamo para que usted los firme.
- ❑ Una vez que recibamos sus Documentos de cierre de préstamo firmados, se realizará un desembolso inicial a su favor en el término de 5 días:
 - o Daños materiales:
 - ❑ \$25,000
 - o Daños económicos (capital de trabajo):
 - ❑ \$25,000
- ❑ Se asignará un administrador de casos para que trabaje con usted a fin de ayudarle a cumplir con todas las condiciones del préstamo. También se programarán los siguientes desembolsos, hasta que usted reciba el monto total del préstamo.
- ❑ Después del cierre, su préstamo podrá ajustarse debido a cambios en sus circunstancias; por ejemplo, el préstamo podrá aumentarse por costos de reparación no previstos o reducirse si se reciben fondos de seguros adicionales.

Para obtener más información o para encontrar un centro local para casos de desastre, comuníquese con el Centro de Servicio al Cliente de la SBA llamando al 1-800-659-2955 (TTY: 1-800-877-8339).
<http://www.sba.gov/disaster>
Agosto 2017

Documentación requerida

Para procesar su solicitud y tomar una decisión respecto del préstamo, se requieren los siguientes documentos. Su oficial de préstamos y Administrador de casos le brindará asistencia para asegurarse de que usted presente la documentación adecuada. La decisión de aprobación y el desembolso de fondos del préstamo dependen de la recepción de su documentación.

EMPRESA	PROPIETARIOS DE VIVIENDAS Y LOCADORES
<ul style="list-style-type: none"> ❑ Solicitud de préstamo para empresas (formulario 5 de la SBA) completado y firmado por la empresa solicitante. ❑ Formulario 4506-T del Servicio de Rentas Internas (Internal Revenue Service, IRS) completado y firmado por la Empresa solicitante; por cada solicitante que sea propietario del 20% o más de la empresa solicitante, y por cada socio colectivo, cada socio gerente o cualquier propietario que tenga un 50% o más de la titularidad de una empresa afiliada. (Las afiliadas incluyen a la empresa controlante, subsidiarias o empresas que pertenezcan a los mismos propietarios o sean gestionadas por los mismos administradores). ❑ Copias completas, incluidos todos los anexos, de las declaraciones del impuesto federal sobre la renta más recientes de la empresa solicitante; o bien una explicación, si estas declaraciones no se encuentran disponibles. ❑ Estado financiero personal (formulario 413 de la SBA) completado, firmado y fechado por el solicitante (si es una empresa unipersonal), por cada solicitante que sea propietario del 20% o más de la empresa solicitante, y por cada socio colectivo o socio gerente. ❑ Lista de pasivos en la cual se indiquen todas las deudas consolidadas (se puede utilizar el formulario 2202 de la SBA). <p style="font-size: x-small; margin-top: 5px;">INFORMACIÓN ADICIONAL QUE PUEDE SER NECESARIA PARA PROCESAR SU SOLICITUD:</p> <ul style="list-style-type: none"> ❑ Copias completas, incluidos todos los anexos, de las declaraciones del impuesto federal sobre la renta más recientes de cada solicitante que sea propietario del 20% o más de la empresa solicitante, de cada socio colectivo o socio gerente, y de cada afiliada, cuando algún propietario tenga un 50% o más de la titularidad de la empresa afiliada. Las afiliadas incluyen, sin carácter restrictivo, las empresas controlantes, las subsidiarias u otras empresas que pertenezcan a los mismos propietarios o sean gestionadas por los mismos administradores. ❑ Si no se ha presentado la declaración del impuesto federal sobre la renta más reciente, un estado de resultados al cierre del año fiscal y el balance correspondiente a dicho año fiscal. ❑ Un estado de resultados actualizado, del año a la fecha. ❑ Otros documentos de presentación obligatoria (formulario 1368 de la SBA) que indiquen las cifras de ventas mensuales. 	<ul style="list-style-type: none"> ❑ Solicitud de préstamo para vivienda (formulario 5c de la SBA) completada y firmada por el solicitante y el co-solicitante. ❑ Formulario 4506-T del Servicio de Impuestos Internos (Internal Revenue Service, IRS) completado y firmado por el solicitante y el co-solicitante. <div style="text-align: center; margin-top: 20px;">  <p>https://disasterloan.sba.gov/ela</p>  <p>1-800-659-2955 (TTY: 1-800-877-8339)</p> </div>

Para obtener más información o para encontrar un centro local para casos de desastre, comuníquese con el Centro de Servicio al Cliente de la SBA llamando al 1-800-659-2955 (TTY: 1-800-877-8339).
<http://www.sba.gov/disaster>
Agosto 2017

Source: Small Business Administration (SBA). | GAO-20-168

Metrics to Evaluate Outreach Efforts

Federal internal control standards state that management should internally communicate the necessary quality information to achieve the agency's objectives.⁵⁶ However, SBA's guidance on outreach does not identify regional disaster risks. SBA officials told us that they have not considered documenting these challenges in their outreach guidance, although they may do so in the future.

Without updating its outreach guidance to discuss region-specific challenges, such as those faced in responding to disasters in the U.S. territories, SBA misses a key opportunity to better ensure staff are adequately prepared to conduct outreach in similar situations and locations.

SBA does not have metrics for how well its outreach efforts informed disaster survivors about the Disaster Loan Program. Although SBA surveyed a sample of disaster loan applicants in August 2018, the survey did not include questions specific to applicants' perception of SBA's outreach efforts that the agency could use to measure the success of its efforts. Officials told us the survey was primarily used to evaluate SBA's loan processing and not its outreach efforts.

In past work, we convened an expert panel to discuss challenges with consumer education and key planning components to overcome these challenges.⁵⁷ One of the key practices identified in the expert panel was the need to establish metrics to measure success in achieving the objectives of an outreach campaign. For example, process metrics can help ensure the quality, quantity, and timeliness of a campaign, and outcome metrics evaluate how well the campaign influenced the attitudes and behaviors of the target audience.

Without metrics evaluating its disaster outreach efforts, SBA will not be able to determine how well and to what extent its outreach efforts have informed disaster survivors about the Disaster Loan Program.

⁵⁶[GAO-14-704G](#).

⁵⁷See [GAO-08-43](#).

SBA Expedited Its Application Processing, but Applicants Cited Continuing Challenges

Since 2005, SBA has streamlined its loan application and review process and recognized such changes resulted in a need for earlier staff activation. SBA's approval rate for all disaster loan applications following the 2017 hurricanes was approximately 49 percent and Hurricane Maria had the highest approval rate (62 percent). Disaster loan applicants, SBA resource partners, and SBA officials identified challenges that affected application or review processes, including burdensome documentation requests and translation issues.

SBA Changes Expedited and Simplified Loan Application and Processing, Creating Need to Activate Staff Earlier

Loan Application and Processing Changes

Since 2005, SBA has made changes to its disaster loan program to streamline the loan application and review process. Some of the changes SBA implemented include

- **Using electronic loan applications.** In 2008, SBA created an online portal for the Disaster Loan Program, which eliminated the need for applicants to mail in applications or visit a recovery center. According to SBA officials, they typically receive paper applications within 14 days and electronic loan applications within 1–2 days after a disaster. They also indicated that increased usage of electronic loan applications has reduced data entry errors and improved loan processing times. The vast majority (96 percent) of the approximately 340,000 applications SBA accepted after the 2017 hurricanes were submitted electronically.⁵⁸
- **Expediting declines for applicants with poor credit.** According to SBA officials, in 2005 SBA established automatic declination for applicants with poor credit (instead of moving forward with full processing of all applications). SBA refers homeowners who are

⁵⁸According to SBA's procedures, SBA accepts an application if it has a signed and reasonably completed application form and a fully completed and signed Tax Information Authorization (Internal Revenue Service Form 4506-T) for each required taxpayer or entity. SBA returns unacceptable applications and requests the information needed to make the application acceptable.

automatically declined to FEMA for a potential grant and refers such businesses to resource partners for assistance. Overall, more than half (55 percent) of the approximately 146,000 applications declined after the 2017 hurricanes were automatically declined.

- **Expediting approvals for applicants with strong credit.** In 2014, SBA revised its disaster loan program regulations for physical disaster loans to allow it to consider an applicant's credit instead of only looking at a full cash flow analysis when determining an applicant's ability to repay.⁵⁹ Overall, SBA processed 28 percent of the applications approved after the 2017 hurricanes using this revised method.
- **Using desktop verification.** In 2017, SBA began conducting desktop verification to evaluate the cause and extent of property damage. The process involves an initial loss verification through interviews with the applicant and use of third-party information (such as from a tax assessor's website or Google maps) to estimate the cost of repairs. SBA is to conduct a post-desktop review following the initial disbursement using FEMA's inspection report, SBA's on-site inspection, or supporting documentation to validate the initial estimate.⁶⁰ In a September 2019 report, the SBA OIG found that the use of desktop loss verification contributed to SBA meeting its timeliness goals for processing loan applications for the 2017 hurricanes.⁶¹
- **Standardizing loan terms.** In 2017, SBA established 15- and 30-year fixed terms for loans, which streamlined the loan process by using the loan amount (instead of income) to determine repayment. According to SBA officials, the use of fixed loan terms is consistent with standard

⁵⁹Only business and homeowner applicants are eligible for this revised process. Prior to the change, 13 C.F.R. § 123.6 required SBA to analyze every applicant's personal and business cash flow, a time-consuming process that included debt reconciliation and a repayment analysis to determine if funds were available for both loan payments and day-to-day living expenses. SBA amended 13 C.F.R. § 123.6 in April 2014 to allow the agency to base repayment ability determinations on either cash flow or credit, including credit score. The repayment analysis still includes verification of income and employment through federal income tax returns.

⁶⁰Applicants may receive up to \$25,000 prior to any post-desktop review. However, SBA's loss verifiers must conduct on-site inspections before any subsequent disbursements exceeding \$25,000.

⁶¹Small Business Administration, Office of Inspector General, *Audit of SBA's Desktop Loss Verification Process*, 19-23 (Washington, D.C.: Sept. 26, 2019).

private-sector lending practices and therefore is easier for borrowers to understand.

SBA also has continued to make technological changes to streamline DCMS and the web portal. The DCMS version SBA used for the 2017 hurricanes supported up to 10,000 concurrent users. According to SBA officials, they have been transitioning to DCMS 2.0, which is expected to support more concurrent users.⁶² As noted in SBA's fiscal year 2019 Congressional Budget Justification and its 2017 Annual Performance Report, SBA anticipates that DCMS improvements will increase loan officer productivity from processing three to processing six loan applications per day.⁶³ Similarly, SBA integrated new features into the online portal to improve applicants' access to information resources during the application process. For example, applicants can readily access general questions and information, check the status of their applications, receive status notifications, and electronically upload and sign documents such as Internal Revenue Service Form 4506-T.

Effect of Changes on Timeliness

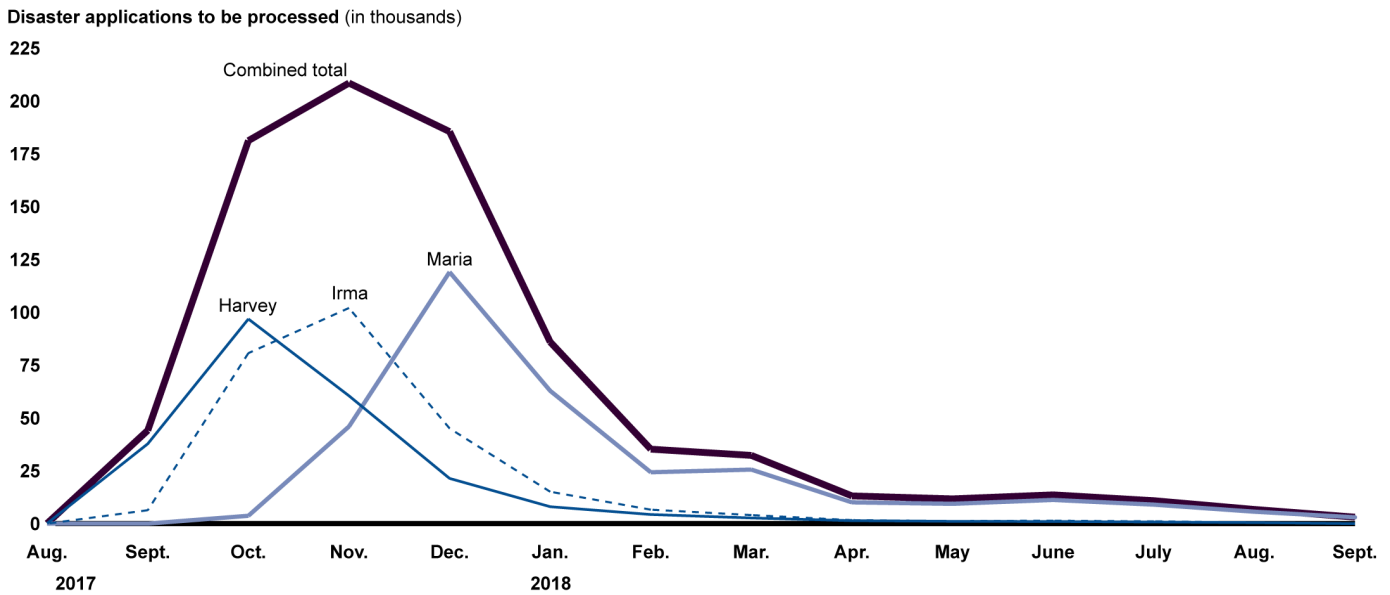
According to SBA officials, electronic loan application and other changes have reduced SBA's processing times. For Hurricanes Harvey and Irma, the number of applications to be processed peaked about 2 months after each disaster; applications for Hurricane Maria peaked nearly 3 months after the disaster (see fig. 7). The number of business applications to be processed peaked more than 3 months after Hurricane Sandy made landfall on October 29, 2012.⁶⁴

⁶²According to SBA officials, SBA planned to use the legacy system through the 2019 hurricane season, after which it would begin widespread use of DCMS 2.0.

⁶³Small Business Administration, *FY 2019 Congressional Justification and FY 2017 Annual Performance Report* (Washington, D.C.).

⁶⁴See [GAO-14-760](#).

Figure 7: Number of Disaster Applications to Be Processed, by Hurricane and Month/Year



Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: Hurricane Harvey made landfall in Texas on August 26, 2017. Hurricane Irma made landfall several times in the Caribbean before making landfall in Florida on September 10, 2017. Hurricane Maria made landfall in the U.S. Virgin Islands and in Puerto Rico on September 20, 2017.

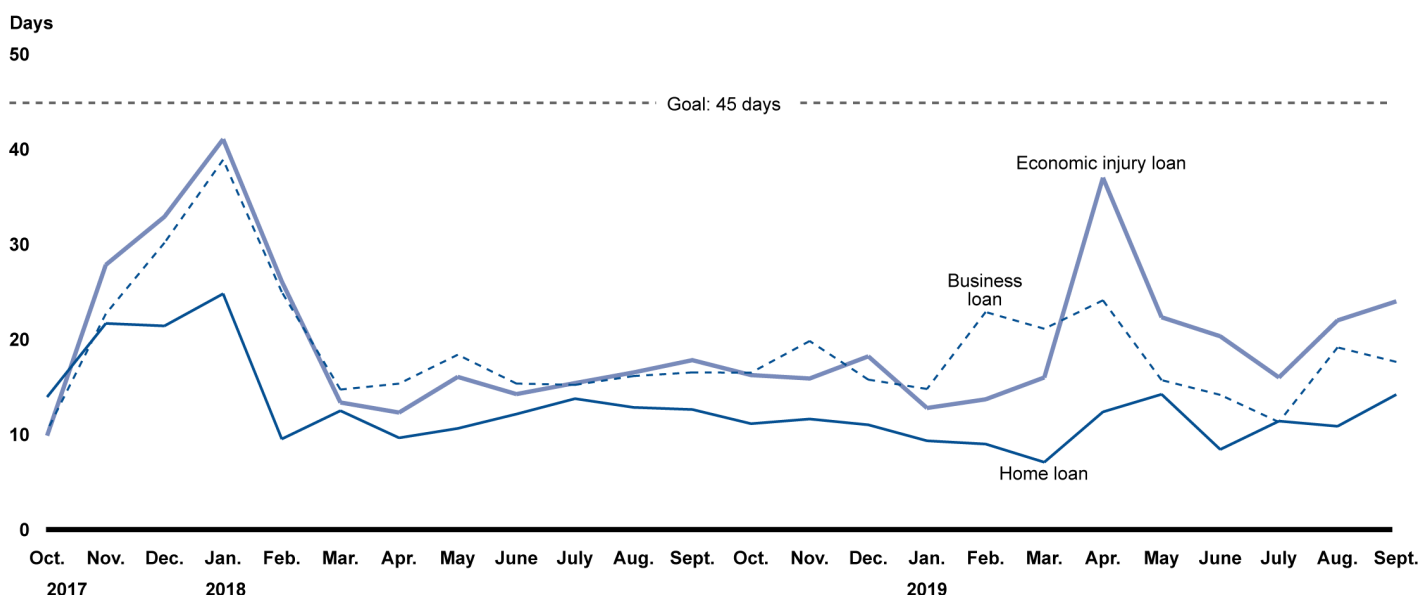
Our analysis of SBA data found that despite a high volume of applications, SBA exceeded its goal for the 2017 hurricanes of processing at least 85 percent of applications from receipt to decision within 45 days (see fig. 8).⁶⁵ More specifically, SBA processed 96 percent of its applications within 45 days. As noted previously, SBA’s processing goal varies based on expected application volume.⁶⁶ The average processing times for loans submitted after Hurricanes Harvey, Irma, and Maria were 16, 16, and 18 days, respectively. In general, SBA processed loans for

⁶⁵As discussed later, SBA’s calculation of processing times does not include the total time it may take to process some applications. For example, the processing time for applications that are withdrawn—those removed from consideration before SBA renders an approval decision—and later reaccepted does not include the processing time before the withdrawal. (SBA and applicants can withdraw and later resubmit applications.) Instead, SBA uses only the days elapsed between reacceptance and the decision date when calculating processing time.

⁶⁶The 2017 hurricanes were classified as a level III event with a 45-day processing goal.

homeowners faster than loans for businesses after the 2017 hurricanes.⁶⁷ In contrast, SBA did not meet its 21-day processing goal after 2012's Hurricane Sandy and developed a backlog of more than 6,000 applications that lasted approximately 4 weeks.⁶⁸

Figure 8: Average Days from SBA's Receipt of Application to Loan Decision for Hurricanes Harvey, Irma, and Maria, by Loan Type and Month of Decision



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-20-168

Note: The 2017 hurricanes were classified as a level III event with a 45-day processing goal. Hurricane Harvey made landfall in Texas on August 26, 2017. Hurricane Irma made landfall several times in the Caribbean before making landfall in Florida on September 10, 2017. Hurricane Maria made landfall in the U.S. Virgin Islands and in Puerto Rico on September 20, 2017. "Business loans" are any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under "home"), most types of businesses regardless of size, and nonprofit organizations. Data are for applications related to the 2017 hurricanes for which a decision had been made by September 2019. The figure reflects the average time for a decision for all applications receiving a decision in that month. Ninety-nine percent of applications that received a decision had

⁶⁷ Processing times for homeowner applications for physical disaster loans after Hurricanes Harvey, Irma, and Maria averaged 15, 15, and 17 days, respectively. Times to process business applications for physical disaster loans averaged 20, 24, and 27 days, respectively. Processing times for nonprofit applications are included in business loan averages. Times to process economic injury loan applications averaged 17, 23, and 29 days, respectively.

⁶⁸ See [GAO-14-760](#). According to SBA officials, Hurricane Sandy was classified as a level I storm and had an associated processing goal of 21 days.

those decisions made by November 2018. In general, SBA decided fewer applications in each subsequent month.

The SBA OIG noted issues with and recommended two improvements to how SBA calculates processing time from acceptance to decision. In a June 2014 report, the OIG found that SBA included times for automatically declined applications in its average processing times.⁶⁹ The OIG recommended SBA report processing times for automatically declined applications separately from applications requiring more processing.⁷⁰ In the summary data SBA provided for the 2017 hurricanes, SBA continued to include automatically declined applications, which require significantly less time to process than other accepted loans, in its average processing times.⁷¹

The OIG also found SBA's computation did not include all the processing time for applications previously submitted and withdrawn, but later reaccepted. SBA used only the days elapsed between the reacceptance and the decision date. As discussed in more detail later in the report, SBA and applicants can withdraw and later resubmit applications. The OIG recommended that SBA establish processing time goals that consider the full processing time for withdrawn applications that later are reaccepted.⁷² According to OIG officials, the OIG closed this recommendation although SBA did not implement it because SBA officials stated that system limitations would not allow for this measurement to be readily accomplished and reaccepted loans require a level of analysis and diligence that justifies separate measurement of processing time.

Although SBA officials told us there are no timeliness goals associated with closing a loan, approved borrowers have up to 60 calendar days from the date of the loan authorization and agreement to sign and return

⁶⁹SBA, Office of Inspector General, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations*, 14-14 (Washington, D.C.: June 30, 2014).

⁷⁰SBA disagreed with the recommendation, noting that omitting automatically declined applications from the average processing time calculation would not accurately reflect ODA's full performance. However, the OIG maintained that including automatically declined applications distorts the average processing time for qualified applicants.

⁷¹For example, for Hurricane Harvey automatically declined applications took less than 3 days to process, while accepted applications took about 16 days.

⁷²SBA agreed to explore ways to consider reporting processing times for reacceptances without double counting time already spent on the application.

all loan closing documents to close the loan. For Hurricanes Harvey and Irma, SBA took less than 50 days on average to close a loan, with business loans taking the longest. For Hurricane Maria, it took more than 53 days on average to close loans.⁷³ In comparison, for Hurricane Sandy SBA took 66 days on average from approval to close a physical disaster business loan and 43 days for an economic injury loan.

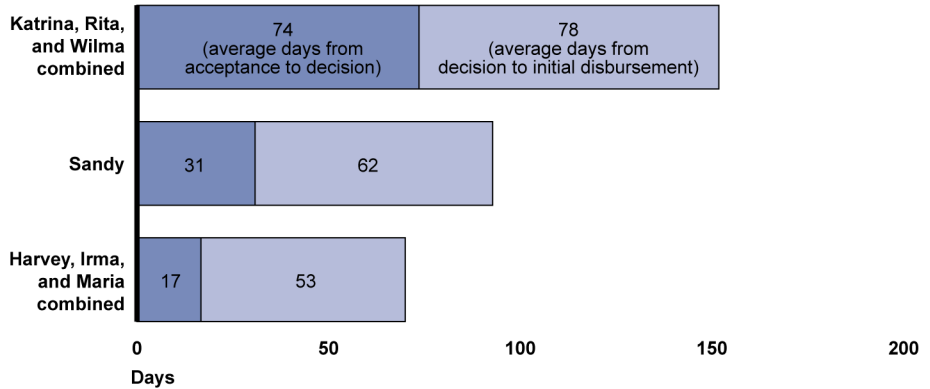
After the 2017 hurricanes, SBA also met its disbursement goal of providing initial disbursements to 95 percent of borrowers within 5 days of loan closing.⁷⁴ On average, SBA provided initial disbursements to approved borrowers within about 4 days of closing. SBA also had met its initial disbursement goal following Hurricane Sandy.

As a result of SBA's changes to its loan processing and review functions, SBA reduced its overall processing times. For the 2017 hurricanes, SBA took about 70 days on average to go from acceptance to initial disbursement, which is much less time than it took for Hurricane Sandy and the 2005 Gulf Coast hurricanes (see fig. 9).

⁷³Secured loans (loans of \$25,000 or more that require collateral) take longer for SBA to close than unsecured loans (loans of less than \$25,000 that do not require collateral). For applications SBA accepted from August 25, 2017, to July 10, 2019, for Hurricanes Harvey, Irma, and Maria, the average time from acceptance to closing was 82 days for secured loans and 61 days for unsecured loans.

⁷⁴SBA provided initial disbursements to 97 percent of borrowers within 5 days of receiving signed loan closing documents.

Figure 9: Average Processing and Disbursement Times for SBA Disaster Loans after Hurricanes Katrina, Rita, and Wilma in 2005, Hurricane Sandy in 2012, and Hurricanes Harvey, Irma, and Maria in 2017



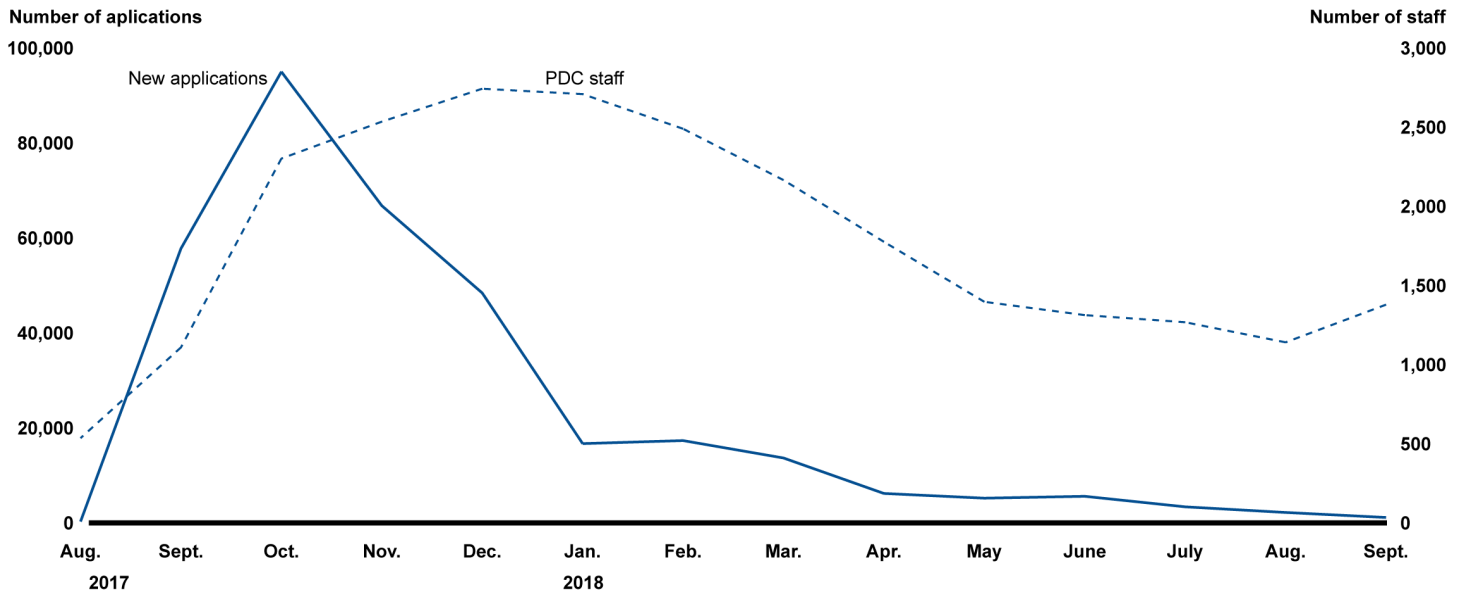
Source: GAO analysis of Small Business Administration (SBA) data. | GAO-20-168

Effect of Process Changes on Staffing

According to SBA officials, increased usage of electronic loan applications and expedited loan processing has resulted in the need to activate staff earlier, although SBA still faced challenges doing so. The number of applications that SBA received peaked at 95,000 applications in October 2017. SBA began adding staff immediately after the hurricanes, but the number of staff in ODA’s Processing and Disbursement Center did not peak until December 2017 (see fig. 10). In contrast, following Hurricane Sandy, application numbers peaked in December 2012 but ODA’s Processing and Disbursement Center did not reach peak staffing until March 2013.⁷⁵

⁷⁵Hurricane Sandy made landfall on October 29, 2012. See [GAO-14-760](#).

Figure 10: Number of New Disaster Loan Applications for Hurricanes Harvey, Irma, and Maria and Number of SBA Processing and Disbursement Center (PDC) Staff, by Month

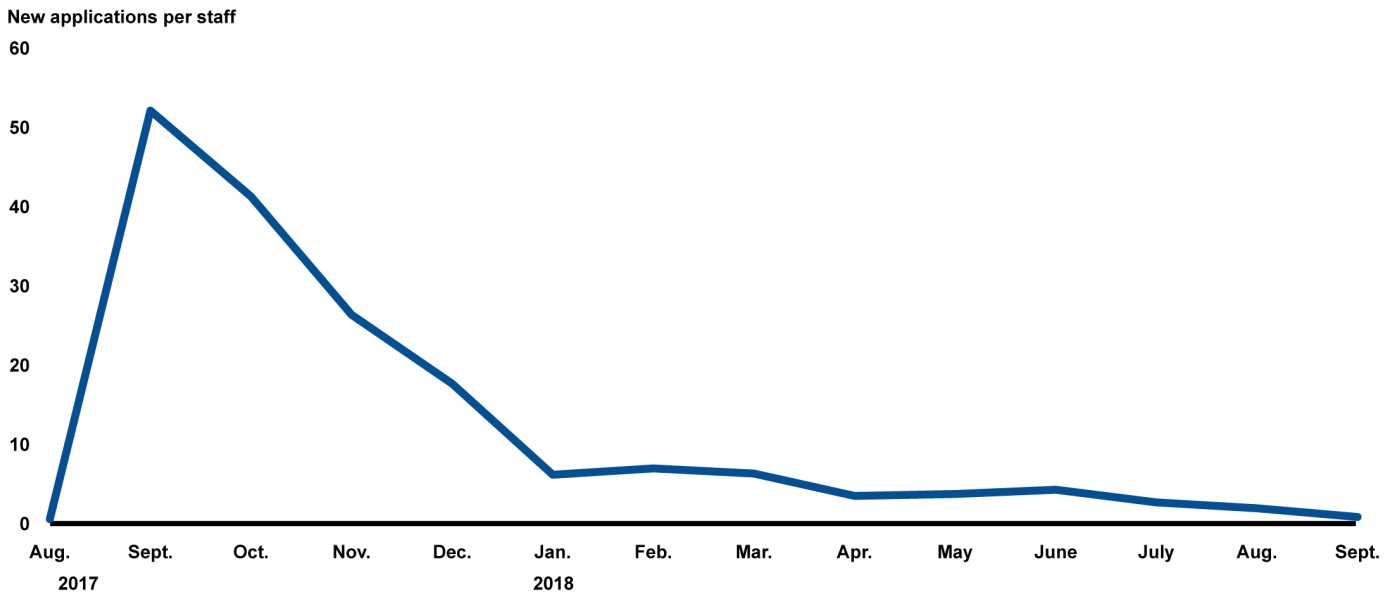


Source: GAO analysis of Small Business Administration (SBA) data. | GAO-20-168

Note: Hurricane Harvey made landfall in Texas on August 26, 2017. Hurricane Irma made landfall several times in the Caribbean before making landfall in Florida on September 10, 2017. Hurricane Maria made landfall in the U.S. Virgin Islands and in Puerto Rico on September 20, 2017. Staffing numbers are as of the end of the month.

While hiring processes were ongoing, SBA temporarily utilized staff from other SBA divisions to assist with reviewing applications. ODA then hired additional loan officers and also used other SBA employees and detailees from other federal agencies to process loans. By October 2017, ODA had more than quadrupled processing staff (from 536 in August to 2,302 in October), and the workload for those staff had peaked (see fig. 11). Each loan officer averaged more than 50 new loan applications in September 2017, but by January 2018 the average decreased to about six or fewer new applications per month. As discussed earlier, SBA anticipates its DCMS update will double loan officer productivity.

Figure 11: Number of New Disaster Loan Applications for Hurricanes Harvey, Irma, and Maria per Processing and Disbursement Center Staff, by Month



Source: GAO analysis of Small Business Administration data. | GAO-20-168










Note: Hurricane Harvey made landfall in Texas on August 26, 2017. Hurricane Irma made landfall several times in the Caribbean before making landfall in Florida on September 10, 2017. Hurricane Maria made landfall in the U.S. Virgin Islands and in Puerto Rico on September 20, 2017. Staffing numbers are as of the end of the month.

Overall Approval Rates for the 2017 Hurricanes Were Higher Than for the 2005 Gulf Coast Hurricanes, but Lower Than for Hurricane Sandy

In response to the 2017 hurricanes, SBA accepted about 340,000 applications and approved about 141,000 of them, making about \$7.2 billion in loans (see fig. 12).⁷⁶ SBA accepted the most applications for Hurricane Irma, but about half of the total approved loan amount was for applicants affected by Hurricane Harvey.

⁷⁶SBA uses a model based on the number of FEMA registrants and historical data to estimate the dollar value of loans it will make after a disaster. According to SBA officials, the predicted value of disaster loans was accurate for Hurricanes Harvey and Maria. SBA's estimate for Hurricane Irma was less accurate because the hurricane affected a smaller geographic area than originally forecasted.

Figure 12: Number of Accepted and Approved Applications and Approved Disaster Loan Amounts for Hurricanes Harvey, Irma, and Maria, as of Week 52 Following Each Hurricane

	Number of applications accepted		Number of approved applications		Dollar amount of approved loans (in billions)	
Harvey		110,800		43,467		\$3.397
Irma		118,269		41,352		1.733
Maria		110,812		56,477		2.095

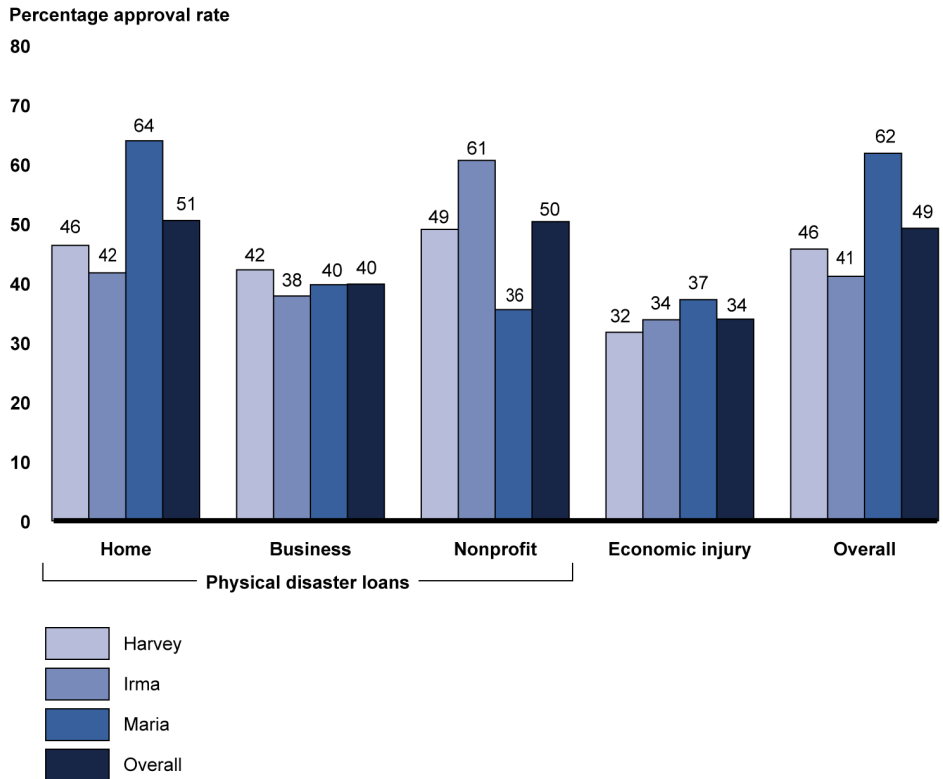
Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: According to SBA's procedures, SBA accepts an application if it has a signed and reasonably completed application form and a fully completed and signed Tax Information Authorization (Internal Revenue Service Form 4506-T) for each required taxpayer or entity. SBA returns unacceptable applications and requests the information needed to make the application acceptable.

Overall, SBA's approval rate for all disaster loan applications following the 2017 hurricanes was approximately 49 percent (see fig. 13).⁷⁷ Of the three 2017 hurricanes, Hurricane Maria had the highest approval rate, 62 percent. The approval rate for physical disaster loans for homeowners was higher for Hurricane Maria (64 percent) than for Harvey (46 percent) and Irma (42 percent). There was not much variation in approval rates for physical and economic injury disaster loans for businesses.

⁷⁷SBA calculates approval rates by dividing the number of approved applications by the sum of approved and declined applications. Withdrawn applications are not included in this calculation, and therefore do not affect the approval rate. We discuss withdrawals in more detail later in this report. When withdrawn applications are included in the calculation, the approval rates for all disaster loan applications following Hurricanes Harvey, Irma, and Maria are 39 percent, 35 percent, and 51 percent, respectively.

Figure 13: Approval Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria, as of Week 52 Following Each Hurricane

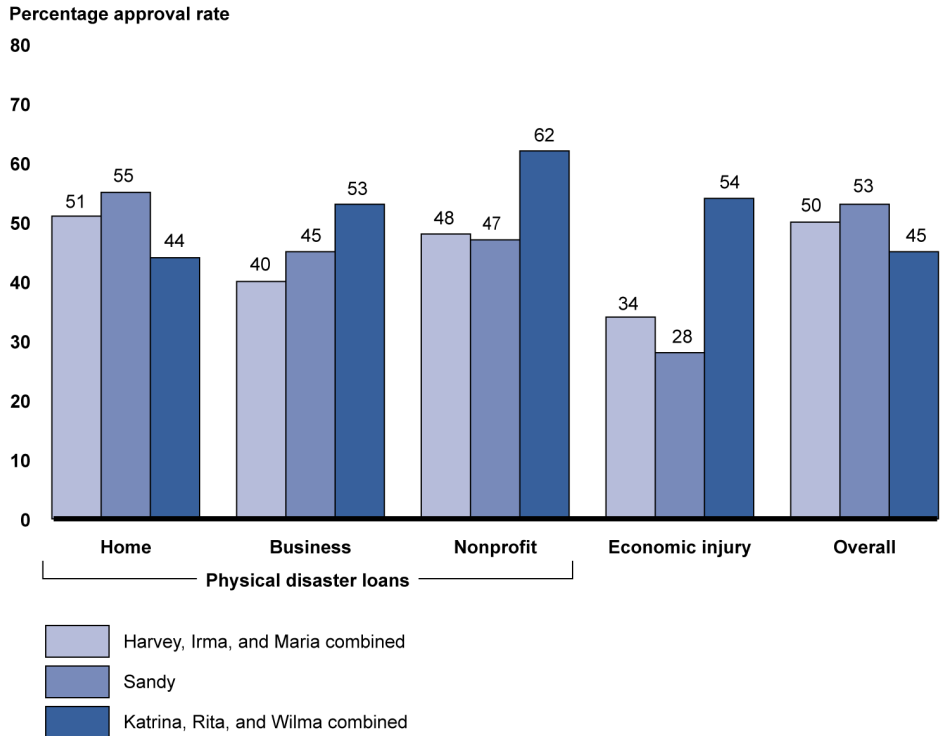


Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: "Business" loans are any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under "home"), most types of businesses regardless of size, and nonprofit organizations.

As shown in figure 14, the overall approval rate for loan applications was lower for Hurricanes Harvey, Irma, and Maria than for Hurricane Sandy, but higher than the combined rate for Hurricanes Katrina, Rita, and Wilma.

Figure 14: Approval Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria in 2017, Hurricane Sandy in 2012, and Hurricanes Katrina, Rita, and Wilma in 2005



Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: “Business” loans are any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under “home”), most types of businesses regardless of size, and nonprofit organizations.

Following the 2017 hurricanes, SBA declined about 146,000 loan applications. The primary reasons for declining applications were lack of repayment ability and unsatisfactory credit history.⁷⁸ Other common reasons included unsatisfactory history on a federal obligation and that the damaged property was not an applicant’s primary residence or a qualified rental property.

⁷⁸SBA can cite more than one reason for declining a loan application.

Declined applicants can request that SBA reconsider their applications.⁷⁹ SBA received about 15,000 such requests after the 2017 hurricanes. Of the requests SBA accepted, about half had their applications approved, and about 30 percent were denied.⁸⁰ Applicants who have their reconsideration requests denied can appeal SBA's decision. Ninety-one percent of applicants who were denied after the 2017 hurricanes and subsequently appealed won their appeal.

We also discuss withdrawal and cancellation rates for the 2017 and prior hurricanes in appendix II.

Applicants and SBA Identified a Number of Challenges Faced after the 2017 Hurricanes

Challenges Identified by Applicants and SBA Resource Partners

Disaster loan applicants, SBA resource partners, and SBA officials we interviewed in Florida, Puerto Rico, Texas, and the U.S. Virgin Islands identified a number of challenges that affected the application or review processes following the 2017 hurricanes.

Disaster loan applicants and SBA resource partners we interviewed identified the following challenges that applicants had when applying for SBA disaster loans following the 2017 hurricanes:

- **Providing required loan documentation.** Eight (of the 24) business loan applicants and officials from 10 entities, including from five SBDCs, felt that meeting SBA's loan documentation requirements was time-consuming or burdensome.⁸¹ Following the hurricanes, applicants experienced difficulty readily producing required documentation (such as insurance policies, property titles, and tax returns) because of extensive physical damage and power issues or

⁷⁹As part of the declination process, SBA provides the applicant with a "decline letter" to document the decision, which includes the reason for declining the application and explains reconsideration rights. Applicants have up to 6 months from the date of the initial decline letter to request reconsideration. If SBA decides to decline a request for reconsideration, then SBA provides a "reconsideration decline letter" to the applicant. Then applicants have up to 30 days to request an appeal as long as the reason for the decline has not changed since the initial letter. Otherwise, SBA may grant applicants up to 90 days to appeal if any new reasons for declining the application exist.

⁸⁰About 20 percent of the requests for reconsideration that SBA processed were withdrawn.

⁸¹In a 2016 report, we also found that applicants were burdened with unexpected requests from SBA for additional documentation and a lack of information about reasons for requesting such documentation. See [GAO-17-67](#).

outages.⁸² Additionally, 11 applicants reported that follow-up requests from SBA for additional documentation delayed processing, added confusion, or led some to withdraw their applications.

According to the results of a 2018 customer satisfaction survey conducted for SBA, the satisfaction of business loan applicants with the disaster loan application process had decreased by 9 percentage points since the previous survey in 2017.⁸³ The lowest-rated aspects of the application process for businesses were “ease of attaining information required for completing the application,” the “amount of paperwork involved,” and the “overall ease of filling out the application.”

According to SBA officials, they are statutorily required to request certain information from disaster victims who apply for a disaster loan. Although more documentation is requested for business loans than for home loans, the officials believe the information requested from business applicants is similar to information requested from individuals applying for a loan at a commercial bank. In response to previous recommendations we made, SBA recently has taken steps to streamline the application process by improving accessibility and consistency of loan-related information and requirements in paper and electronic resources.⁸⁴ For example, SBA added a list of frequently asked questions to its Disaster Loan Application Portal with a list of documents required to file an application. The paper applications for both home and business loans list potential additional documents that SBA may request as well as when they may be required.

⁸²Among other things, SBA recommends that owners back up customer data and all tax, accounting, payroll, and production records on computer hard drives, and store the records at an office location at least 100 miles away.

⁸³CFI Group, *American Customer Satisfaction Index Small Business Administration Disaster Assistance Program 2018 Customer Satisfaction Survey*, IA#20315 A1 (Ann Arbor, Mich.: November 2018). The response rate was 31 percent. The Disaster Loan Program processes surveyed were the application process, decision process, Customer Service Center, web portal, website, loan closing, inspection process, SBA staff, and recovery center. SBA has conducted this survey annually since 2007.

⁸⁴See [GAO-17-67](#). We recommended that SBA integrate information resources such as the fact sheet into its disaster loan assistance web portal and Partner Training Portal in a way that is more accessible to users; ensure the consistency of content across its disaster loan process resources; and define technical terminology related to financial statements and disaster business loan application forms. SBA has taken action to address the consistency of content across its disaster loan process resources and define technical terminology and is in the process of fully addressing our recommendation to integrate information into SBA’s Partner Training Portal.

Officials from all three SBDCs in Puerto Rico told us that applicants in Puerto Rico particularly had difficulty accessing tax documentation in a timely manner. SBA has an automated process to request and obtain tax transcripts from the Internal Revenue Service for final approval of loans. However, in Puerto Rico SBA must use a manual process with the Departamento de Hacienda (Puerto Rican taxing authority).⁸⁵ Further delays occurred due to widespread physical damage to infrastructure, including the Departamento de Hacienda. As a result, SBA permitted applicants in Puerto Rico to postpone submitting tax documentation until later in the application process. Instead of submitting tax documentation during the loan decision process, SBA allowed applicants to submit such documentation during conditional commitment (the point at which SBA's recommendation for loan approval is contingent on the applicant submitting additional required documents). In addition, ODA co-located loan officers with staff from the commitments department to facilitate prompt access to the tax transcripts they were awaiting from the Departamento de Hacienda.

- **Meeting flood insurance requirements.** Officials from two Florida entities told us many of the small businesses with which they worked had problems submitting insurance documentation as part of their application. Officials from one SBDC in Puerto Rico told us they had a client who was unable to obtain flood insurance. By law, SBA requires borrowers whose damaged or collateral property is located in a special flood hazard area to obtain and maintain appropriate flood insurance for the term of the loan.

Delays also occurred as a result of miscommunication between SBA and loan applicants about flood insurance requirements, according to an applicant we interviewed. That business owner told us that when he submitted a disaster loan application for physical and economic injury damages, SBA informed him the insurance requirements applied only to the physical damage portion of the loan. However, SBA later told the individual that insurance coverage was necessary for the entire loan, not just physical damages.

⁸⁵Puerto Rico has its own income tax system and may establish its own forms of income taxation and tax regulations separate from the U.S. Internal Revenue Code. In contrast, residents of the U.S. Virgin Islands, and corporations formed there, are taxed at the same rates and use the same forms and rules as the federal income tax under the "mirror system" of taxation. They file returns and pay income taxes directly to the Virgin Islands Bureau of Internal Revenue.

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- **Frequent changes in loan officers or case managers.** More than two-thirds (17 of 24) of the business owners we interviewed and officials at four of the nine SBDCs told us they (or their clients) worked with more than one case manager or loan officer during the loan application process.⁸⁶ Two small business owners said they had interacted with as many as nine. These changes led to the applicants having to repeat or resubmit information.⁸⁷ In addition, they sometimes received different answers to questions when a new loan officer or case manager was assigned.

SBA officials told us that SBA does not track the extent to which applicants work with multiple loan officers and case managers but that applicants should generally have only one of each. According to SBA officials, one loan officer is typically assigned to an application until a loan decision is made. Once a loan is approved, one case manager is assigned until the loan is fully disbursed.⁸⁸ However, according to SBA officials, an applicant may interact with more than one loan officer and case manager for reasons such as staff turnover and staff downsizing. In addition, whenever an applicant requests reconsideration of a declined application, the application is to be assigned to a new loan officer for processing. According to SBA officials, a newly assigned loan officer or case manager should be able to use DCMS to access an applicant's loan file, including records of past communication between prior loan officers and the applicant, loss verification reports, and previously submitted documents. When an applicant electronically submits a document through the web portal, ODA scans and uploads it into DCMS (typically in 24–48 hours), at which point it is viewable in DCMS. The officials explained that document storage methods in DCMS are uniform, which should minimize the possibility of documents being improperly stored.

- **Poor customer service and translation issues.** Five of the applicants (of 24) and officials from four entities we interviewed said disaster loan applicants perceived a lack of SBA responsiveness after

⁸⁶Loan officers are responsible for making loan decisions. Case managers are responsible for closing and disbursing the (approved) loan.

⁸⁷In September 2014, we also reported a lack of continuity with loan officers and case managers, resulting in lost documentation and information. See [GAO-14-760](#).

⁸⁸According to SBA officials, loan officers and case managers are assigned based on workload, skillset, and familiarity with specific requirements associated with the declared disaster area.

submitting their applications.⁸⁹ Staff from two of the entities attributed this lack of responsiveness to SBA having an inadequate amount of staff to handle the number of applications. SBA officials indicated that Processing and Disbursement Center staff strive to contact each applicant within 3 days of assigning a loan officer and within 5 days of assigning a case manager. They also stated the center should contact each applicant at least every 30 days using whatever available forms of communication, including mail, email, and telephone. But two applicants told us they only heard from their case manager after the applicant initiated the contact. Nine applicants also stated that when they did talk to their loan officer or case manager that person was not very helpful. For example, officials from one SBDC told us they talked to some loan officers on behalf of their clients and those loan officers were not able to clarify what documentation their clients needed to provide to SBA to complete their applications.

One Puerto Rican applicant and officials from all three Puerto Rican SBDCs told us that applicants in Puerto Rico faced translation issues. They believed SBA had insufficient staff who spoke Spanish, which made it difficult to communicate with applicants regarding status updates and requests for additional documentation. The SBA OIG reported that SBA officials estimated that some disaster survivors waited more than 45 minutes for an interpreter or experienced dropped calls.⁹⁰ In addition, officials from one Puerto Rican SBDC told us SBA only would accept official responses in English and believed that many applicants were denied in part because the documents with applicants' personal and financial information were in Spanish. The SBDC officials were told only an SBA translator could translate official documentation between SBA and applicants from English to Spanish. According to SBA officials, they tried to hire as many Spanish-speaking staff as possible and relied on a contractor to provide interpretation services during telephone communications with applicants. But the volume of calls was higher than anticipated, resulting in long wait times and many lost telephone connections. Following Hurricane Maria, SBA replaced the contractor with three

⁸⁹The SBA OIG reported that although the ODA Customer Service Center was able to increase staffing levels from 56 employees on August 4, 2017, to 321 employees by the end of October 2017, it still was challenged to respond to high volumes of phone calls and emails from disasters survivors immediately following Hurricanes Harvey, Irma, and Maria. Small Business Administration, Office of Inspector General, 18-10.

⁹⁰Small Business Administration, Office of Inspector General, 18-19.

new language service providers, which SBA used during its response to Hurricanes Florence and Michael in 2018.

- **Disbursement delays.** Eight business disaster loan applicants and officials from three SBDCs told us that applicants experienced delays receiving disbursements after their initial disbursement. Although applicants said they received initial disbursements within expected time frames, subsequent disbursements took longer than anticipated. For example, three small business owners told us it took more than a year from the time they applied to receive their full loan disbursement, and two others had to contact their federal representative to help get their disbursements because of delays. SBA data show that after the 2017 hurricanes it took, on average, about 141 days after applying for a loan for businesses to receive their full disbursement, including an average of 63 days from closing to final disbursement.

Similarly, business respondents to the 2018 customer satisfaction survey conducted for SBA expressed concerns about the timeliness of disbursements following loan closing.⁹¹ The lowest-rated aspect of the loan closing process was “timeliness of receiving loan funds after the closing was complete.” As a result, the firm that conducted the survey recommended that SBA examine data on the timing of loan disbursements over the past several years, determine whether the timing had changed significantly, determine the root causes of any notable changes, and develop plans to address any root causes.

SBA guidance requires approved borrowers to arrange for and obtain all loan funds within 6 months from the date of the loan authorization and agreement. However, SBA may extend the time frame on a case-by-case basis for ongoing projects. According to SBA officials, there are no timeliness goals for subsequent disbursements because the time frame for receiving further disbursements is contingent on the borrower’s ability to meet insurance requirements, secure a contractor to repair damages, and submit receipts to SBA. SBA also has improved features within the web portal so that borrowers can now use direct deposit to receive disbursements and commence repairs more quickly. Additionally, the portal now enables borrowers to electronically submit receipts for repairs or invoices to loan officers, who in turn can verify the use of disbursed funds and make additional disbursements much sooner than before.

⁹¹The survey questions did not make any distinctions between initial and subsequent loan disbursements.

Challenges Identified by SBA

During interviews and in an after-action report, SBA also identified challenges it experienced after the 2017 hurricanes that included a prolonged loss of electricity, DCMS performance issues, and unique loan closing requirements in Puerto Rico.

- **Loss of electricity.** As discussed previously, a prolonged loss of electricity adversely affected application submission and loan processing, especially in Puerto Rico.
- **DCMS performance issues.** SBA officials said the agency increased staffing to process incoming loan applications and the multitude of concurrent users caused technical issues and delays. Loan applicants also encountered periodic system outages. SBA released DCMS updates throughout the first few months of its response to the 2017 hurricanes to address system performance issues. As previously mentioned, SBA expects that DCMS 2.0 will address concurrent user issues.
- **Unique loan closing requirements in Puerto Rico.** SBA officials said they were initially unaware of loan closing requirements unique to Puerto Rico, which led to processing delays. They told us that secured loans must be signed by a notary, who in Puerto Rico must be a Puerto Rican-licensed attorney. As a result, SBA had to hire additional locally licensed attorneys and devote resources toward training attorneys and other staff involved in processing and closing loans in Puerto Rico, a process hampered by the previously discussed hiring challenges for the 2017 hurricanes. SBA has been implementing changes to its hiring process for future disasters.

SBA Implemented the Express Bridge Loan Pilot Program, Issuing Few Loans, and Has No Plans to Evaluate It

Express Bridge Loan Pilot Has Issued Very Few Loans, and SBA Generally Did Not Target Outreach to Disaster-Prone Areas and Has No Plans to Evaluate the Pilot

Number of loans. As of September 2019, lenders had issued two loans totaling \$50,000 under SBA's Express Bridge Loan Pilot Program. The loans were issued by one lender in 2018 to small businesses in North Carolina and South Carolina recovering from Hurricane Florence.

Outreach. SBA generally has not targeted its outreach for the program to disaster-prone areas. According to SBA officials, to market the pilot program OCA issued two *Federal Register* notices and a program guide, and encouraged district office staff to notify area lenders of the program.⁹² Additionally, SBA officials told us that before anticipated disasters, they have mentioned the program on quarterly telephone conferences attended by 1,000–1,500 7(a) lenders, and referred to the pilot in press releases. One lender told us that it was notified of the pilot program through an SBA policy notice with program guide attached, while another noted receiving an email promoting the program. According to SBA officials, this same email was sent to OCA field staff to be shared with all 7(a) Express lenders before the 2019 hurricane season. Internally, according to SBA officials, OCA has made information on the Express Bridge Loan Pilot Program available to all SBA employees on an internal website.

However, OCA has not marketed the Express Bridge Loan Pilot Program to ODA. OCA officials were unaware of any conversation with ODA (whose staff are on the ground after disasters and therefore most likely to interact with small business owners) about the pilot program, but assumed that ODA officials had high-level information about the pilot. However, staff we interviewed from both Field Operations Centers were unaware of the program.

OCA also has not targeted its external marketing to partners, such as 7(a) Express lenders and SBDCs, in disaster-prone areas. Although SBA officials told us that they made presentations at a 2019 lender conference in Florida, they did not point to similar outreach in other disaster-prone areas. The small business owners and SBDC officials with whom we spoke in Florida, Puerto Rico, Texas, and the U.S. Virgin Islands generally were unaware of the SBA Express Bridge Loan Program. During our February 2019 interview with the Florida Department of Economic Opportunity (which helps administer the state's bridge loan

⁹²Express Bridge Loan Pilot Program; Modification of Lending Criteria, 82 Fed. Reg. 47958 (Oct. 16, 2017); and Express Bridge Loan Pilot Program; Modification of Fee Policy, 83 Fed. Reg. 19921 (May 7, 2018).

program), officials stated they were unaware of program specifics and asked if it had started.

Evaluation. SBA officials do not currently plan to evaluate the program or determine why so few loans have been issued. SBA officials explained that the Express Bridge Loan Pilot Program's performance during the 2019 hurricane season would determine whether SBA would continue or terminate the program after its pilot period. When SBA announced the pilot, SBA stated it planned to evaluate the program using three principal measures: (1) the number of small businesses served, (2) the percentage of loans made that were paid off or down using lower fixed-rate disaster loans versus those held to term, and (3) the default rate on Express Bridge Loans compared to regular SBA Express loans of similar size in the 7(a) portfolio.⁹³ SBA officials told us they were not planning to conduct an evaluation because only two loans had been made, which the officials believe is not a large enough sample size to conduct a meaningful evaluation of the program.

Although SBA has guaranteed only two loans issued under the Express Bridge Loan Pilot Program, the program received 93 applications.⁹⁴ While most of the applications were not completed, they suggest a potentially larger demand for the program than initially indicated by the two completed loans. We discuss demand for bridge loans in more detail in the following section.

SBA has guidelines for evaluating pilot programs. SBA issued a Policy Notice on September 29, 2016, that called for it to evaluate any pilot

⁹³SBA also planned to consider the costs and standards of performance which, in order to be acceptable, must not have an impact on the subsidy model for the 7(a) loan program.

⁹⁴As of September 2019, lenders had begun 93 applications for the program. Of those, two were approved, 51 had aged out due to a lack of activity, 36 were withdrawn, and four were considered "in process" but officials expected them to age out. SBA officials could not state definitively why lenders had not completed the applications but theorized that lenders may have been curious about what information was required or entered the applications in error.

program. SBA subsequently incorporated this requirement in one of its standard operating procedures.⁹⁵

In addition, our guide for designing evaluations states that an evaluation gives an agency the opportunity to refine the design of a program and provides a useful tool to determine whether program operations have resulted in the desired benefits for participants.⁹⁶ We also previously reported that an evaluation can be valuable in determining why goals were not met, and can provide feedback on both program design and execution.⁹⁷ Such an evaluation can help determine what program changes might be warranted to achieve the desired impact.

In the absence of loan data, an evaluation could include consideration of feedback from lenders in disaster-prone areas on the pilot or their experiences with other bridge loan programs, such as the Florida program discussed in the following section. According to SBA officials, SBA had not actively solicited lender feedback on the current pilot since it became operational. However, SBA sought feedback from lenders on prior efforts to develop a bridge loan program. SBA officials told us that lenders commented on a prior proposal for a bridge loan pilot (the Immediate Disaster Assistance Program) and indicated that private lenders were not interested in participating in such a pilot because they considered disaster relief to be a governmental responsibility. Additionally, SBA officials told us during our previous work looking at the Immediate Disaster Assistance Program that they performed initial outreach to lenders—such as those who participated in SBA’s Gulf

⁹⁵In a report evaluating SBA’s Patriot Express Pilot Loan Program, which provided loans to small businesses owned and operated by veterans and other eligible members of the military, we recommended that SBA establish a policy to evaluate all pilot loan programs it initiates. Specifically, we recommended that SBA design an evaluation plan for any such pilot program prior to implementation—including an assessment of the program’s performance and its effect on program recipients—and to consider the results of such an evaluation before any pilot is extended. SBA addressed our recommendation as described above. See GAO, *Patriot Express: SBA Should Evaluate the Program and Enhance Eligibility Controls*, [GAO-13-727](#) (Washington, D.C.: Sept. 12, 2013).

⁹⁶[GAO-12-208G](#).

⁹⁷GAO, *Program Evaluation: Strategies to Facilitate Agencies’ Use of Evaluation in Program Management and Policy Making*, [GAO-13-570](#) (Washington, D.C.: June 26, 2013).

Opportunity Pilot Loan Program in the aftermath of Hurricanes Katrina and Rita—to obtain their reaction to and interest in the program.⁹⁸

The current pilot provides a similar opportunity to obtain feedback from lenders on loan terms that could affect their willingness to participate in this or a potentially redesigned program. For example, one 7(a) lender with whom we spoke did not like the Express Bridge Loan Pilot Program due to the maximum loan amount and the SBA guaranteed percentage.⁹⁹

Without evaluating the pilot program, including assessing potential demand and why so few loans have been made and the sufficiency of its outreach efforts, OCA will have limited information to inform its decision on the future of the pilot, including loan terms it may offer. Additional feedback, such as from lenders, could help SBA determine if design changes are warranted.

Interviews with Affected Small Business Owners and Use of Florida’s Bridge Loan Program Indicate Demand for Bridge Financing

The very low level of loans guaranteed under SBA’s bridge loan pilot contrasts with the desire for such loans indicated by our interviewees and the experience of the Florida Small Business Emergency Bridge Loan program.¹⁰⁰ We interviewed small business owners and those who work with small businesses. Almost two-thirds of all the entities (16 of 26) we interviewed and six small business owners told us that businesses needed immediate financial support after a disaster (for example, to help remove debris, make repairs, and replace inventory). Although many businesses ultimately receive insurance payments to help cover losses, the payments may not be received for several months. Representatives from one municipality told us a lot of people, including the city itself, still were awaiting their insurance payments more than a year after the disaster. To help fund their immediate recovery, small business owners with whom we talked often relied on their own savings, credit cards, or other sources of credit. However, these financing sources typically have interest rates higher than those offered by the Express Bridge Loan Pilot Program. In addition, it can take applicants approved for SBA Disaster

⁹⁸GAO-10-735T. SBA’s Gulf Opportunity Pilot Loan Program provided expedited small business financing to those communities severely impacted by Hurricanes Katrina and Rita. SBA never implemented the Immediate Disaster Assistance Program.

⁹⁹We contacted a total of seven lenders, but only three responded to our request for their views on the program.

¹⁰⁰According to SBA officials, Florida’s program is the only state bridge loan program.

Loans months to receive funds—time that could determine whether a business remains in operation.

Florida’s Small Business Emergency Bridge Loan program provides small business owners with interim disaster financing, similar to the Express Bridge Loan Pilot Program, but some structural differences exist (see table 2 for a comparison of principal terms and features). In particular, the Florida program uses public funds rather than being funded by financial institutions. Officials of the Florida Department of Economic Opportunity, which administers the program in partnership with the Florida SBDC Network and a third-party fiscal administrator, told us the Florida program is not focused on generating a return on investment.¹⁰¹ Rather, the program is focused on helping small businesses bridge the gap between the time their businesses incur damages and the time they secure other financial resources. Although SBA officials told us that the State of Florida’s program is not a valid comparison to SBA’s Express Bridge Loan Pilot Program because the loans for SBA’s program are made by private, for-profit lenders, the Florida program demonstrates demand for bridge financing for small business owners.

Table 2: Characteristics of the Express Bridge Loan Pilot Program and Florida Small Business Emergency Bridge Loan

	Express Bridge Loan Pilot Program	Florida Small Business Emergency Bridge Loan
Inception date	October 16, 2017	1992
Triggering event	Presidentially declared disaster	Governor of Florida declaration
Funding entity	7(a) lenders with Express lending authority (the authority to make loans with an accelerated turnaround time) from the Small Business Administration (SBA)	State of Florida ^a
Government guarantee/ responsibility	50 percent guarantee (SBA)	100 percent responsibility (Florida)
Implementing partner	7(a) lenders with SBA Express lending authority	Florida Small Business Development Centers (SBDC)
Eligible businesses	Businesses in affected areas (counties affected by Presidential declared disaster plus any contiguous counties) with existing banking relationship with 7(a) lender	Small businesses in the affected areas (Florida)
Loan amount	Up to \$25,000	Generally, up to \$50,000 (but terms may vary based on extent of disaster and State of Florida determinations)

¹⁰¹The third-party fiscal administrator for the Florida Small Business Emergency Bridge Loan program provides loan closing and servicing functions.

	Express Bridge Loan Pilot Program	Florida Small Business Emergency Bridge Loan
Length of loan	7 years (but lenders may require loan payoff if businesses secure certain long-term disaster financing)	Generally, up to 1 year (but terms may vary based on extent of disaster and State of Florida determinations)
Interest rate	Up to 6.5 percent over the prime rate	Zero percent; penalty for nonpayment will begin at the expiration date of the term of each loan, and will be 12 percent per annum on the unpaid balance thereafter, until the loan balance is repaid in full
Application window	Up to 6 months following an eligible Presidential disaster declaration	Generally, up to 30 days following program activation (but terms may vary based on extent of disaster and State of Florida determinations)
Approximate timeline from application to disbursement	From 14 to 22 days (based on conversation with participating lender)	From 4 to 5 days
Usage	Two loans totaling \$50,000 (as of September 2019)	Hurricane Irma: 1,167 applications, 883 loans totaling \$35 million Hurricane Michael: 742 applications, 590 loans totaling \$34.3 million (as of October 2019)
Marketing/promotion	<ul style="list-style-type: none"> • Periodic Office of Capital Access conference calls with field staff and 7(a) lenders • Program notice published on SBA website and press releases issued preceding disasters 	Includes social media, dedicated websites, State of Florida and SBDC websites, and word-of-mouth
Underwriter	7(a) lender	SBDC-convened local Loan Review Committee (local bankers, officials)
Underwriting requirements	<ul style="list-style-type: none"> • Minimum accepted Small Business Scoring Service credit score of 130 out of 300; • Guarantor(s) personal credit score; and • Submission of signed Internal Revenue Service Form 4506-T and tax transcript (or for businesses not established long enough to file taxes, an alternative to verify existence of the business) 	<ul style="list-style-type: none"> • Applicants with credit scores of 680 or above automatically receive \$25,000 • Local Loan Review Committees review and make determination for applicants with a credit score below 680, or requesting more than \$25,000
Application process	<ul style="list-style-type: none"> • Applicant submits request to its 7(a) lender • 7(a) lender collects required documentation and performs underwriting • 7(a) lender submits application to SBA • 7(a) lender closes the loan 	<ul style="list-style-type: none"> • Applicant submits application through SBDC • SBDC verifies applicant's eligibility • Loan Review Committee performs underwriting • Third-party fiscal administrator prepares the closing documents and closes the loan

Source: GAO analysis of SBA and State of Florida documents and interviews with SBA and Florida officials. | GAO-20-168

^aPer Florida statute (Fla. Stat. § 252.37(2)), during a state of emergency the Governor of Florida can direct that sufficient funds be made available by transferring and expending moneys appropriated for other purposes, moneys from unappropriated surplus funds, or moneys from the Budget Stabilization Fund.

Officials from the Florida Department of Economic Opportunity stated that when the Governor's office activates the Florida Small Business Emergency Bridge Loan program, the department uses various outreach

media, including social media, public-private partners, and state emergency response to disseminate information about the program. The program's fiscal administrator and the Florida SBDC Network also circulate information about the program, including by providing hyperlinks to the loan application on their websites. Finally, the program has been in place since 1992, which likely contributed to word-of-mouth about the program.

According to officials of the Florida Department of Economic Opportunity, following Hurricane Irma the program received 1,167 applications, of which 883 were approved, totaling \$35 million in disaster bridge financing. Following Hurricane Michael, the program received 742 applications, of which 590 were approved, totaling \$34.3 million in disaster bridge financing.

Florida Department of Economic Opportunity officials attributed the wide utilization of the Florida Small Business Emergency Bridge Loan to expedited access to funding and favorable terms. For example, the program offers survivors a zero percent interest rate for the term of the loan, which is generally 1 year. Given the difference in loan terms between Florida's program and SBA's pilot program, the demand for SBA's higher-interest loans may not equal the demand for Florida's loans. However, in disaster areas in which there is no state bridge loan program, SBA's pilot program could meet at least some of the need for bridge financing.

Conclusions

Following Hurricanes Harvey, Irma, and Maria in 2017, SBA faced difficulties in delivering its disaster loans due to the magnitude of the storms and resulting infrastructure damage, especially in Puerto Rico and the U.S. Virgin Islands. Nevertheless, SBA accepted about 340,000 applications and approved about 141,000 of them, making more than \$7 billion in loans to help business owners, homeowners, renters, and nonprofits recover.

However, the planning documents and guidance to the field that SBA used to guide its response to the 2017 hurricanes did not identify risks and focus on risk assessments or include detailed instructions on how to prepare disaster-specific action plans. And after the 2017 hurricanes, the documents and guidance, including for outreach on disaster loans, has not incorporated lessons learned—particularly as they related to region-specific risks that could hamper the operations of the Disaster Loan Program. By identifying risks and enhancing guidance on actions plans

and outreach efforts, SBA can better design its plans for and implementation of disaster response efforts and help ensure staff are adequately prepared to conduct operations in situations such as those encountered in Puerto Rico and the U.S. Virgin Islands. SBA also has not established metrics to measure the success of its outreach efforts. By establishing metrics, such as including questions when surveying disaster loan applicants on their perception of SBA's outreach efforts, SBA would be better able to determine how well its outreach efforts have informed disaster survivors about the Disaster Loan Program and make adjustments to improve the effectiveness of such efforts.

SBA also can improve its Express Bridge Loan Pilot Program, which offers small businesses the opportunity to quickly receive funding after disasters. The success of a Florida program offering a similar product and our own work suggest considerable demand for bridge loans. SBA has no plans to evaluate the program because it has issued so few loans. While SBA does not have the information needed to conduct a loan performance evaluation, it has the opportunity to conduct an evaluation of the pilot program's design and implementation. Such an evaluation could help determine why so few loans were issued, what role program design and internal and external outreach may have played, and what, if any, changes to the pilot might be warranted. By evaluating the Express Bridge Loan Pilot Program, including obtaining lender feedback, OCA will be able to make an informed decision about the program's future.

Recommendations for Executive Action

We are making the following five recommendations to SBA:

The Associate Administrator for the Office of Disaster Assistance should identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation. (Recommendation 1)

The Associate Administrator for the Office of Disaster Assistance should identify the key elements of a disaster action plan and provide additional guidance to staff on how to incorporate these elements into future action plans. (Recommendation 2)

The Associate Administrator for the Office of Disaster Assistance should update its outreach plan to include information on region-specific risks or challenges, such as those encountered after the 2017 hurricanes. (Recommendation 3)

The Associate Administrator for the Office of Disaster Assistance should establish metrics to measure the success of its outreach efforts during the response to a disaster. (Recommendation 4)

The Associate Administrator for the Office of Capital Access should evaluate the implementation of the Express Bridge Loan Pilot Program to determine why so few loans have been made and if any design changes may be warranted before the end of the pilot. Such an evaluation could include assessing SBA's outreach efforts and seeking feedback from lenders. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft of this report to SBA for review and comment. In written comments, which are reproduced in appendix III, SBA stated that overall it agreed with the report's recommendations and provided comments, as summarized below.

SBA described actions it planned to take to address the first four recommendations, which if implemented as planned would address them.

- For the first recommendation to identify and document risks—and plans to mitigate those risks—in its disaster planning documents, SBA noted that ODA would work with SBA's Office of Continuous Operations and Risk Management, which updates and publishes the annual Disaster Preparedness and Recovery Plan, to identify and document known risks associated with SBA's disaster response and implement a risk-informed approach to its direct response and recovery operations. SBA expected that its fiscal year 2021 plan would include this information.
- For the second recommendation to identify the key elements of a disaster action plan and provide related guidance to staff, SBA agreed and noted that ODA would develop the key elements of and templates for a disaster action plan, provide guidance to Field Operations Centers, and coordinate with the Office of Continuous Operations and Risk Management on including the information in appendixes to the Disaster Preparedness and Recovery Plan.
- For the third recommendation to update its outreach plan to include information on region-specific risks or challenges, SBA agreed and stated that ODA would update its outreach plan to include risks and challenges experienced during the 2017 hurricane season.
- For the fourth recommendation to establish metrics to measure its disaster outreach efforts, SBA agreed and noted that it would explore

potential new metrics to measure the effectiveness of its outreach efforts, such as adding a question about the efforts to the annual American Customer Satisfaction Index survey.

For the fifth recommendation to evaluate the implementation of the Express Bridge Loan Pilot Program to determine why so few loans have been made and if any design changes may be warranted before the end of the pilot (which could include assessing SBA's outreach efforts and seeking feedback from lenders), SBA described some actions it planned to take in response to the recommendation that would partially address it. The agency also commented on some of our findings, which we discuss below. We maintain our recommendation.

- In its comments, SBA noted it would seek feedback from SBA Express Lenders during the upcoming spring National Association of Government Guaranteed Lenders conference on their interest and participation in the pilot. SBA also noted that it would provide ODA with information and a set of frequently asked questions about the pilot program that ODA could distribute to small business owners at Business Recovery Centers. Although beginning to seek lender feedback and improving its internal outreach are good first steps, SBA would still need to conduct an evaluation to determine if any design changes were warranted to fully address the recommendation.
- SBA stated it did not currently have adequate data to evaluate the effectiveness of the program because only two loans had been funded. It also noted that while there were more than 90 incomplete applications for the Express Bridge Loan Pilot Program, the agency had concluded that there were not sufficient data to suggest the applications were actual attempts to originate loans and that lenders likely started the loans in error. In the draft report, we acknowledged only two loans had been issued and included SBA's views about why other applications were not completed. As we note in the report, in the absence of loan data an evaluation instead could focus on the pilot's design and implementation, and include feedback from lenders. Therefore, we maintain that SBA can and should evaluate the pilot program.
- SBA noted it previously sought feedback from lenders on the Immediate Disaster Assistance Program (a prior proposal for a bridge loan program) and at that time, there was very little lender interest in the program. The draft report included this information and noted that the current pilot provides a similar opportunity to solicit lender feedback, including on loan terms. In response to this, SBA stated that making significant changes to the size and guarantee on the pilot loans based on lender feedback would affect the subsidy for the

program. However, SBA will not know how lenders feel about the current pilot or what types of changes they might recommend until it seeks lender feedback. Lenders could call for changes to the program that were minor but still would improve their willingness to participate. In addition, if lender feedback suggested that the program would not work without significant changes and additional subsidy, such information could inform future actions to address borrower demand for bridge loans.

- SBA also stated that it did not believe our comparison of the Express Bridge Loan Pilot Program to the Florida Small Business Emergency Bridge Loan was appropriate. SBA stated the Florida program provides direct loans in contrast to SBA's limited guarantee to lenders, and had been in existence since 1992 and was well known (versus a 2017 program start and less knowledge about SBA's program). We highlighted both differences in the draft report. SBA also stated the Florida program has a larger pool of eligible applicants because it is not limited to Presidentially declared disasters or delivered only by certain lenders, as is the case with the SBA program. However, we note that the SBA program is available nationwide and the Florida program is limited to the state. In summary, SBA stated in its comments that the characteristics of the Florida program contributed to the demand for the program. We acknowledged this in the draft report, stating that given the differences between the programs, the demand for SBA's loans may not be equivalent to the demand for Florida's loans. Despite the program differences, we continue to believe that including a discussion of the Florida Small Business Emergency Bridge Loan program in the report was appropriate because its use indicates demand for bridge financing. In disaster areas in other states with no state bridge loan program, SBA's pilot program, with changes determined to be appropriate, could meet at least some of the demand for bridge financing identified by people we interviewed.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees and the Administrator of SBA. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, 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 report. Major contributors to this report are listed in appendix IV.



William B. Shear
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine the Small Business Administration’s (SBA) (1) planning for and initial response to Hurricanes Harvey, Irma, and Maria (hereinafter referred to as the 2017 hurricanes); (2) loan application and review process (including changes since Hurricane Katrina in 2005), timeliness, and approval rates; and (3) implementation of the Express Bridge Loan Pilot Program. We focused our review on Florida, Texas, Puerto Rico, and the U.S. Virgin Islands—the states and territories most directly affected by the 2017 hurricanes.

For all of our objectives, we visited two areas each in Florida, Texas, and the U.S. Virgin Islands, and three areas in Puerto Rico.¹ We selected these areas based on the high numbers of approved homeowner and business disaster loans, high population, geographic diversity, presence of a Small Business Development Center (SBDC), and presence of an SBA district office.² To help ensure geographic diversity, we selected locations from different metropolitan statistical areas in each state and Puerto Rico.³ In each location, we conducted a group interview with small business owners who applied for a disaster loan with SBA to learn about their experiences applying for a loan and working with SBA while their loan was processed and funds disbursed, and their need for bridge financing. These small businesses were recruited by representatives of the local SBDC and were selected to represent a range of outcomes (approved, denied, and withdrawn applications). Overall, we interviewed 24 small business owners across the nine areas we visited.⁴

In addition to small business owners, we met with officials from the SBDC and the local SBA district office responsible for each of the areas we visited.⁵ We also met with officials from seven local governments that

¹We visited three areas in Puerto Rico because of the extent of the damage in that territory.

²For Florida and Texas, we also considered the number of insurance claims. Such data were not available for Puerto Rico and the U.S. Virgin Islands. SBDCs provide technical assistance to small businesses and aspiring entrepreneurs.

³The U.S. Virgin Islands do not have any metropolitan statistical areas. According to the Office of Management and Budget, “the general concept of a metropolitan statistical area is that of an area containing a large population nucleus and adjacent communities that have a high degree of integration with that nucleus.”

⁴We conducted interviews with small business owners from every location we visited except one. Efforts to interview a small business owner in that location were unsuccessful.

⁵We conducted interviews with nine local SBDCs and the Florida SBDC Network, and four SBA district offices.

oversaw eight of the areas we visited—either from a mayor’s office or economic development office.⁶ Lastly, we interviewed officials from six chambers of commerce or business associations, one in every area except one.⁷ While the results of these interviews are not generalizable to all areas affected by the 2017 hurricanes, they provided insight into the experiences of small businesses and local communities with the SBA Disaster Loan Program. In addition to the site visit interviews, we interviewed officials from SBA’s Office of Disaster Assistance, including officials from both Field Operations Centers and the Processing and Disbursement Center, to discuss the Disaster Loan Program and SBA’s response to the 2017 hurricanes.⁸

For our analysis of open-ended responses from these interviews, we used a software program designed for analyzing qualitative information. For each open-ended response, we coded, organized, and analyzed responses under a number of relevant themes. Specifically, team members independently reviewed a segment of the interview transcripts to code the responses to identify themes. Once each analyst had completed coding his or her respective sections, the documents were merged into a master file that was reviewed by the engagement’s methodologist. Possible alternative categorizations of the material were discussed and resolved jointly. This code-based method constituted our primary approach to validating the results of our analysis. All categorizations were sourced to the original interviews through the use of the qualitative analysis software.

To evaluate SBA’s planning for and initial response to the 2017 hurricanes, we reviewed SBA planning documents in effect for the hurricanes—SBA’s 2017 Disaster Preparedness and Recovery Plan and its 2014 Disaster Playbook—as well as the targeted action plans SBA created for each of the hurricanes and summaries of exercises SBA

⁶One office worked with two of the areas we visited, and efforts to interview officials from the last area were unsuccessful.

⁷One chamber served three areas that we visited and another business association served two other areas. Efforts to conduct an interview with a chamber of commerce in one area were unsuccessful.

⁸Field Operations Centers coordinate disaster field operations and publicize the Disaster Loan Program before and after disasters. The Processing and Disbursement Center screens all applications, reviews and processes those that are complete, closes all approved loans, and disburses the loan proceeds.

conducted.⁹ We also reviewed the Office of Disaster Assistance's after-action report following Hurricanes Harvey, Irma, and Maria; SBA's 2017 and 2018 Staffing Strategies; models SBA used to guide its response; and reports issued by the SBA Office of Inspector General (OIG).¹⁰ We used these sources to identify challenges SBA faced planning for and responding to the 2017 hurricanes, including those it faced responding to Hurricane Maria in Puerto Rico and the U.S. Virgin Islands and with its hiring.

We reviewed SBA data on hiring and compared SBA's staffing modeling efforts to the actual staff activated after the 2017 hurricanes. We determined that these data were sufficiently reliable for the purposes of discussing SBA's staffing after the 2017 hurricanes by interviewing knowledgeable officials about the data. We compared SBA's planning efforts against federal internal control standards for identifying, analyzing, and responding to risks, and against Federal Emergency Management Agency guidance on disaster planning.¹¹ To examine SBA outreach on disaster loans after the 2017 hurricanes, we reviewed marketing and outreach plans from 2012 and 2018 and a sample of outreach materials SBA used during its response to Hurricanes Harvey, Irma, and Maria. We compared SBA's outreach efforts against federal internal control standards for internal communication and against key consumer education practices.¹²

⁹Small Business Administration, *Disaster Preparedness and Recovery Plan* (Washington, D.C.: 2017); and *Disaster Playbook* (Washington, D.C.: June 9, 2014).

¹⁰Small Business Administration, Office of Disaster Assistance, *Harvey, Irma, and Maria (HIM) After Action Closeout Report* (Washington, D.C.: May 31, 2018); *Office of Disaster Assistance Staffing Strategy* (Washington, D.C.: July 14, 2017); and *Office of Disaster Assistance Staffing Strategy* (Washington, D.C.: July 31, 2018). Also see Small Business Administration, Office of Inspector General, *Inspection of SBA's Initial Disaster Response to Hurricane Harvey*, 18-10 (Washington, D.C.: Jan. 19, 2018); *Inspection of SBA's Initial Disaster Response to Hurricane Irma*, 18-16 (Washington, D.C.: Apr. 26, 2018); and *Inspection of SBA's Initial Disaster Response to Hurricane Maria*, 18-19 (Washington, D.C.: July 19, 2018).

¹¹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014); and Federal Emergency Management Agency, *Developing and Maintaining Emergency Operations Plans: Comprehensive Preparedness Guide (CPG) 101* (November 2010).

¹²See [GAO-14-704G](#); and *Digital Television Transition: Increased Federal Planning and Risk Management Could Further Facilitate the DTV Transition*, [GAO-08-43](#) (Washington, D.C.: Nov. 19, 2007). For our 2007 report, we convened a panel of 14 experts in strategic communications to identify key practices for a consumer education campaign.

To evaluate SBA's loan application and review process, we reviewed prior GAO and SBA OIG reports on SBA's Disaster Loan Program to help identify changes SBA made since Hurricane Katrina in 2005.¹³ We also analyzed summary data from SBA's Disaster Credit Management System for applications submitted between August 31, 2017, and September 24, 2018.¹⁴ The August date corresponds to the date SBA received the first applications from the 2017 hurricanes and the September date to the one-year anniversary of Hurricane Maria, the last of the three 2017 hurricanes. SBA completed processing more than 99 percent of the applications for each hurricane during the period covered by our data. Because the hurricanes occurred in quick succession and SBA treated them as one event, we compared the combined data for the 2017 hurricanes to those from Hurricane Sandy and the combined data for Hurricanes Katrina, Rita, and Wilma, which SBA also treated as one event.¹⁵ We determined these data were sufficiently reliable for describing characteristics associated with SBA's processing of applications by reviewing related documentation, interviewing knowledgeable agency officials, and reviewing related internal controls. We used the results from our thematic qualitative analysis and interviews with SBA officials to

¹³For example, see GAO, *Small Business Administration: Actions Taken to Help Improve Disaster Loan Assistance*, [GAO-17-566T](#) (Washington, D.C.: Apr. 26, 2017); *Small Business Administration: Agency Has Controls to Comply with Paperwork Reduction Act but Could Improve Accessibility and Consistency of Disaster Loan Information*, [GAO-17-67](#) (Washington, D.C.: Nov. 21, 2016); *Small Business Administration: Additional Steps Needed to Help Ensure More Timely Disaster Assistance*, [GAO-15-727T](#) (Washington, D.C.: July 8, 2015); *Small Business Administration: Additional Steps Needed to Help Ensure More Timely Disaster Assistance*, [GAO-14-760](#) (Washington, D.C.: Sept. 29, 2014); *Small Business Administration: Progress Continues in Addressing Reforms to the Disaster Loan Program*, [GAO-12-253T](#) (Washington D.C.: Nov. 30, 2011); *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.: July 29, 2009). Also see Small Business Administration, Office of Inspector General, *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2019*, 19-01 (Washington, D.C.: Oct. 11, 2018); 18-10; 18-16; and 18-19.

¹⁴SBA uses the Disaster Credit Management System to process loan applications and make determinations for its Disaster Loan Program. In some cases when we asked for additional data, SBA provided data beyond September 2018. For example, when we asked for more detailed data on SBA's processing times, SBA included applications decided upon through September 2019 because SBA continued to process a limited number of applications after September 2018.

¹⁵Data used for the comparison are final data for Hurricanes Sandy, Katrina, Rita, and Wilma, and data as of August 21, 2019, for the 2017 hurricanes.

identify challenges associated with applying for or processing applications following the 2017 hurricanes.

To evaluate SBA's implementation of the Express Bridge Loan Pilot Program, we reviewed *Federal Register* notices and a program guide SBA published about the program. We interviewed SBA officials from its Office of Capital Access about their implementation of the program, and officials from three lenders to discuss their perspectives on and awareness of the program.¹⁶ We selected one lender because it had made loans under the pilot program, another because it had begun the most applications for the program, and the third because it was a 7(a) lender located in a state affected by Hurricane Florence or Michael.¹⁷ We chose those hurricanes because they occurred about 1 year after SBA began its pilot (in September and October 2018, respectively), allowing time for SBA to fully launch the pilot. We also interviewed officials from the Florida Department of Economic Opportunity to discuss the Florida Small Business Emergency Bridge Loan Program, which it helps administer. We compared SBA's plans to evaluate the Express Bridge Loan Pilot Program against guidance for designing evaluations.¹⁸

We conducted this performance audit from September 2018 to February 2020 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.

¹⁶We contacted a total of seven lenders, but only three responded to our request for their views on the program.

¹⁷Under the Express Bridge Loan Pilot Program, only lenders that participate in SBA's 7(a) loan program with SBA Express lending authority can issue the bridge loans. The 7(a) program is SBA's largest loan guarantee program for small businesses, and SBA Express is a subprogram within it.

¹⁸GAO, *Designing Evaluations: 2012 Revision*, [GAO-12-208G](#) (Washington, D.C.: Jan. 31, 2012).

Appendix II: Withdrawal and Cancellation Rates for 2017 and Prior Hurricanes

This appendix presents withdrawal and cancellation rates for disaster loan applications the Small Business Administration (SBA) accepted after Hurricanes Harvey, Irma, and Maria (the 2017 hurricanes), after Hurricane Sandy in 2012, and after Hurricanes Katrina, Wilma, and Rita (the 2005 Gulf Coast hurricanes).¹

Withdrawal and Cancellation Rates for 2017 Hurricanes Were Lower Than for Previous Hurricanes

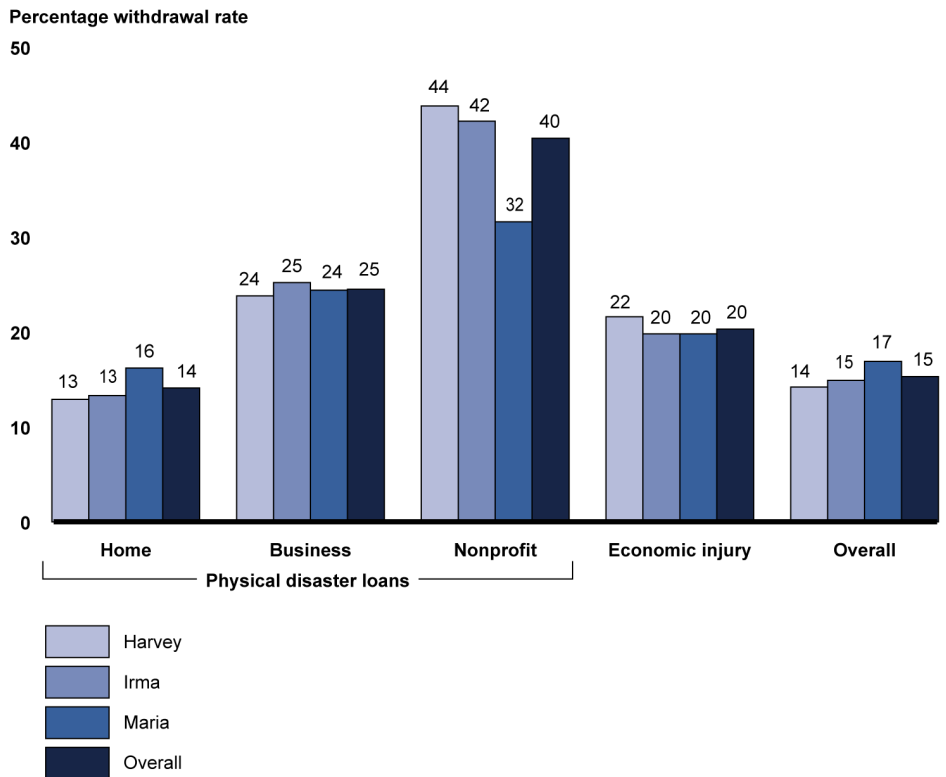
Withdrawal Rates

For the 2017 hurricanes, withdrawal rates were generally comparable for each type of disaster loan, as shown in figure 15.²

¹According to SBA's procedures, SBA accepts an application if it has a signed and reasonably completed application form and a fully completed and signed Tax Information Authorization (Internal Revenue Service Form 4506-T) for each required taxpayer or entity. SBA returns unacceptable applications and requests the information needed to make the application acceptable.

²We calculated the withdrawal rate by dividing the total number of withdrawn applications by the sum of approved, declined, and withdrawn applications.

Figure 15: Withdrawal Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria, as of Week 52 Following Each Hurricane



Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: “Business” refers to any loan resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under “home”), most types of businesses regardless of size, and nonprofit organizations.

Of the disaster loan applications SBA accepted for Hurricanes Harvey, Irma, and Maria, about 52,000 were withdrawn from consideration by SBA or the applicant.³ Of these, approximately 32,000 were withdrawn by SBA, and the rest were withdrawn at the applicant’s request. The leading reason for an SBA withdrawal was a lack of contact with the applicant to discuss disaster damages (inability to verify losses).⁴ Other common

³SBA loan officers assign codes to withdrawn applications to indicate the reasons for withdrawal. Of the 11 withdrawal codes, three are used for cases that originate from an applicant’s request to withdraw the application and eight for SBA-initiated withdrawals.

⁴SBA loan officers may assign multiple codes to each withdrawn application.

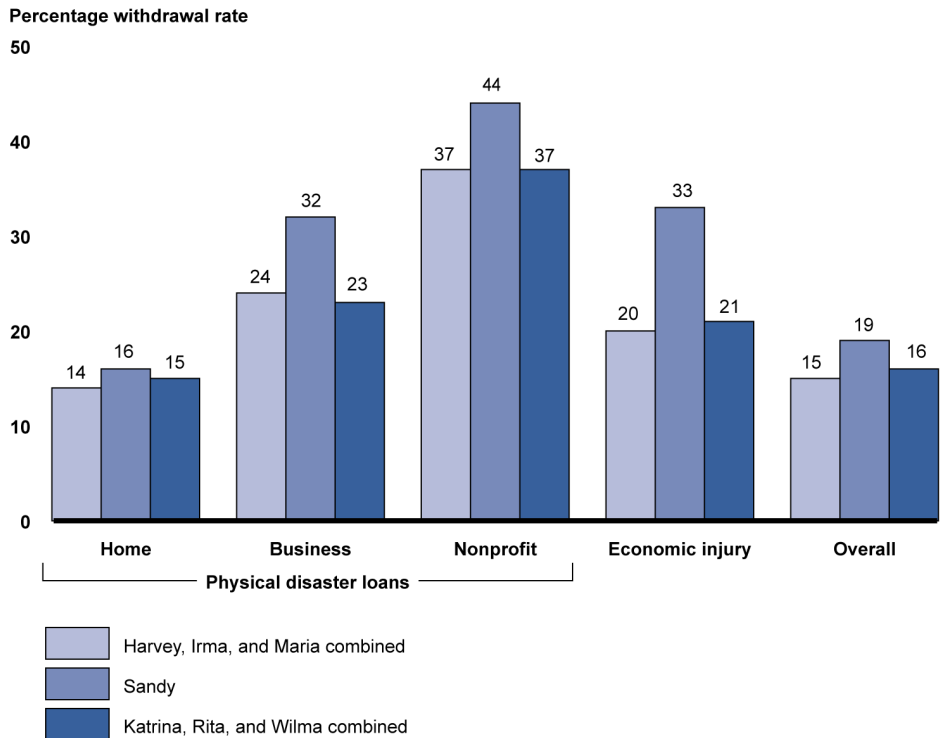
SBA-initiated reasons for withdrawals were the Internal Revenue Service having no record of the applicant filing taxes in the required time period and an applicant's failure to provide requested additional information. The main reason for withdrawal by applicant was a change of plans.

Applicants who withdrew their applications or had applications withdrawn by SBA could request that SBA reaccept their application.⁵ Nearly half (48 percent) of the approximately 52,000 withdrawn applications were submitted for reacceptance. Of those, 67 percent were approved, 20 percent were declined, and 13 percent were withdrawn again.

As shown in figure 16, the overall withdrawal rate for the 2017 hurricanes was lower than that for Hurricane Sandy and the combined rate for the 2005 Gulf Coast hurricanes. Across each of the disasters, home disaster loan applications had the lowest withdrawal rates while nonprofit applications had the highest withdrawal rates.

⁵As part of the withdrawal process, SBA provides the applicant with a withdrawal letter to document the decision, the reason for withdrawal, and a description of reacceptance rights. Applicants have up to 6 months to request reacceptance of withdrawn applications. SBA does not reaccept applications without reasonable assurance that a loan decision (approval or decline) can be made with the new information received from the applicant.

Figure 16: Withdrawal Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria in 2017, Hurricane Sandy in 2012, and Hurricanes Katrina, Rita, and Wilma in 2005



Source: GAO analysis of Small Business Administration data. | GAO-20-168

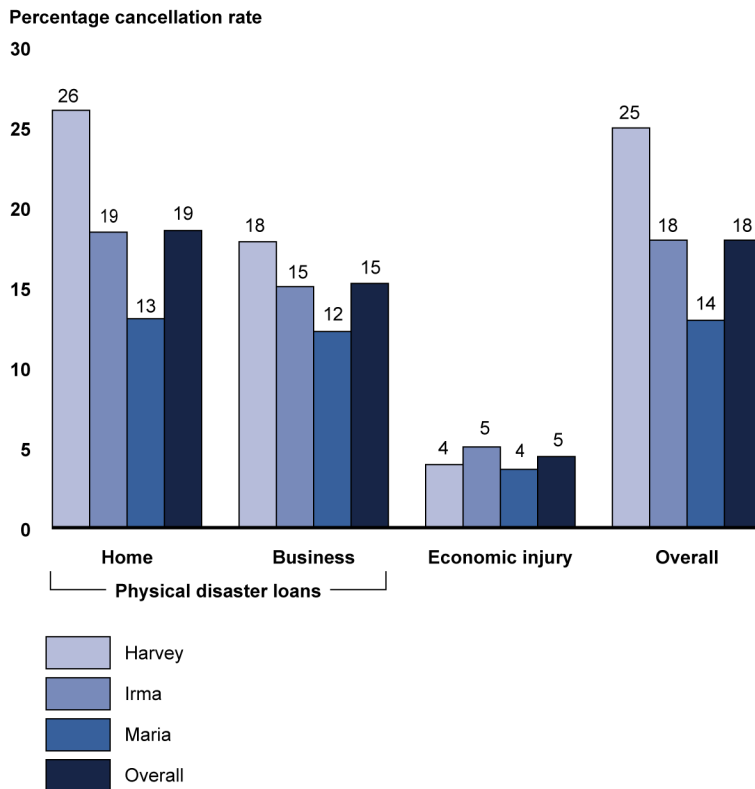
Note: “Business” refers to any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under “home”), most types of businesses regardless of size, and nonprofit organizations.

Cancellation Rates

Among the 2017 hurricanes, Hurricane Harvey had the most cancelled disaster loans (10,945) with an overall cancellation rate of 25 percent (see fig. 17).⁶

⁶SBA disaster loans can be cancelled after approval and before any disbursement. Cancellation rates are calculated by dividing the number of cancelled loans by the number of approved applications. A cancellation does not affect the calculation of SBA’s approval rate—approved loans are recorded as approvals even if subsequently cancelled. Either SBA or the borrower can initiate a cancellation. SBA loan officers assign codes to cancelled loans.

Figure 17: Cancellation Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria, as of Week 52 Following Each Hurricane



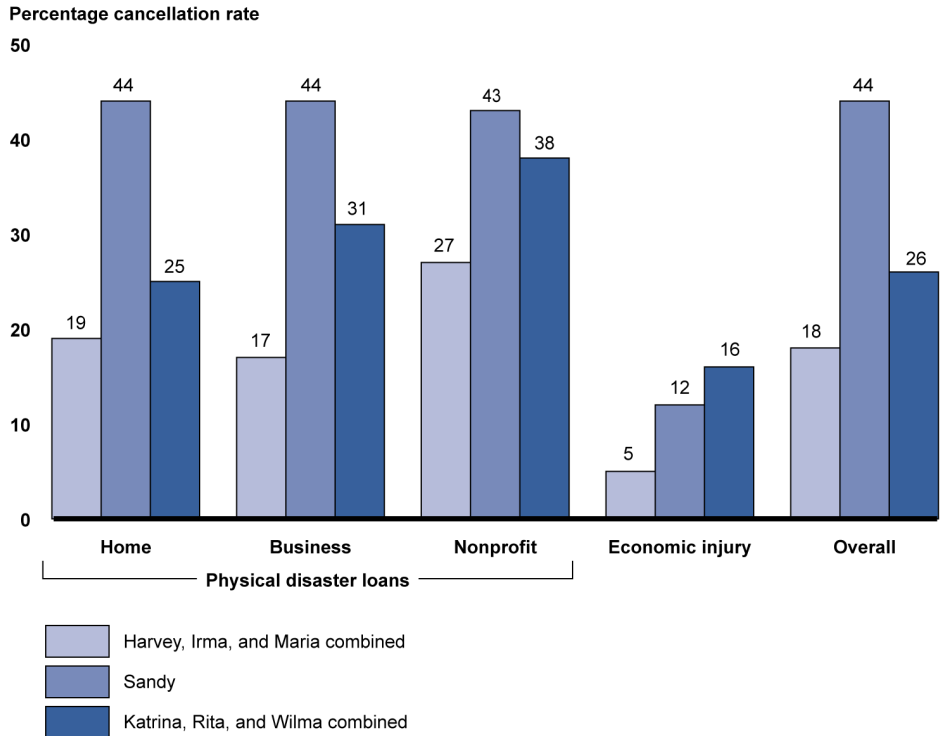
Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: “Business” refers to any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Nonprofit applications are included in this category. Physical disaster loans are also available to homeowners and renters (represented under “home”).

More than half (56 percent) of the cancelled loans were due to the borrower’s decision, including receiving sufficient support from other sources and reluctance to incur additional debt. Of the loans SBA cancelled, the most common reasons included the borrower’s failure to complete and return all loan closing documents and an adverse change in the borrower’s credit or financial condition that required a referral to the Federal Emergency Management Agency’s Individuals and Household Program.

As shown in figure 18, the overall cancellation rate for the 2017 hurricanes was lower than that for Hurricane Sandy and the combined rate for the 2005 Gulf Coast hurricanes.

Figure 18: Cancellation Rates by Disaster Loan Type for Hurricanes Harvey, Irma, and Maria in 2017, Hurricane Sandy in 2012, and Hurricanes Katrina, Rita, and Wilma in 2005



Source: GAO analysis of Small Business Administration data. | GAO-20-168

Note: "Business" refers to any loans resulting from a physical disaster loan application from a business, which may or may not include loan funds for economic injury. Physical disaster loans are available to homeowners and renters (represented under "home"), most types of businesses regardless of size, and nonprofit organizations.

Appendix III: Comments from the U.S. Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

January 17, 2020

Mr. William B. Shear
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) draft report titled, "*Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed.*"

The draft report is a review of SBA's response to three 2017 hurricanes (Harvey, Irma and Maria), and examines the following areas: 1) SBA's planning for and initial response to the 2017 hurricanes; 2) disaster loan application and review process; and 3) implementation of the Express Bridge Loan Pilot Program. To support the audit work, SBA provided to GAO planning documents, summary data from SBA's Disaster Credit Management System (DCMS) for applications submitted between August 31, 2017, and September 24, 2018, and SBA guidance on the Express Bridge Loan Pilot Program.

The GAO's analysis of SBA's response to the Hurricanes Harvey, Irma and Maria found that despite a high volume of disaster loan applications, SBA exceeded its loan processing and disbursement goals for the 2017 hurricanes. The report attributes the successful reduction in overall processing times to strategic improvements made by SBA following past major disasters, such as the 2005 Gulf Coast hurricanes and Hurricane Sandy in 2012.

Overall, SBA agrees with the GAO report's recommendations but has the following comments:

(1) The Associate Administrator for the Office of Disaster Assistance should identify, and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation.

SBA's Office of Continuous Operations and Risk Management (OCORM) is responsible for updating and publishing annually the *Disaster Preparedness and Recovery Plan (DPRP)*, which is the primary disaster operating plan for SBA's agency-wide response and recovery activities¹ referenced in the GAO report. ODA will work with OCORM to identify and document known

¹ As required by the *Small Business Disaster Response and Loan Improvements Act of 2008*.

risks associated with SBA's disaster response, as well as implementing a risk-informed approach to direct response and recovery operations. Beginning in Fiscal Year 2021, the DPRP will document this approach.

(2) The Associate Administrator for the Office of Disaster assistance should identify the key elements of a disaster action plan and provide additional guidance to staff on how to incorporate these elements into future action plans.

SBA agrees with the GAO recommendation to identify key elements of a disaster action plan and will provide guidance to Field Operations Center staff on how to incorporate these elements into future action plans. Better tactical direction and risk-informed planning will guide future action plan templates with key elements to ensure that Field Operations Centers do not miss opportunities to better customize their individual disaster response plans, and will preserve the effectiveness of the overall response. ODA will develop the key elements and templates, provide guidance to Field Operations Centers, and will coordinate with OCORM for their subsequent inclusion as appendices in the DPRP.

(3) The Associate Administrator for the Office of Disaster assistance should update its outreach plan to include information on region-specific risks or challenges, such as those encountered after the 2017 hurricanes.

SBA agrees with this recommendation and as a result, ODA will update its outreach plan to include information about region-specific risks and challenges, such as those experienced during the 2017 Hurricane Season and other unique disaster events. ODA's Office of Preparedness, Communication and Coordination is responsible for updating the outreach plan and providing guidance to staff on how to implement the plan.

(4) The Associate Administrator for the Office of Disaster assistance should establish metrics to measure the success of its outreach efforts during the response to a disaster.

SBA agrees with the recommendation to establish new metrics for disaster loan making outreach efforts. As a result, ODA is exploring potential new metrics to measure outreach effectiveness during a response to a disaster declaration. ODA's Office of Preparedness, Communication and Coordination is responsible for developing the outreach plan and related strategic goals that can track communication effectiveness. Some possible tracking tools may be a new survey question regarding ODA's communication in the American Customer Satisfaction Index (ACSI) survey that is conducted annually on various categories of SBA disaster loan applicants, and more dynamic media news release tracking and analytics that will go beyond output measurements.

(5) The Associate Administrator for the Office of Capital Access should evaluate the implementation of the Express Bridge Loan Pilot Program to determine why so few loans

have been made and if any design changes may be warranted before the end of the pilot. Such an evaluation could include assessing SBA's outreach efforts and seeking feedback from lenders.

The Office of Capital Access (OCA) appreciates the opportunity to provide final comments on the draft report regarding the Express Bridge Loan (EBL) Pilot Program. OCA's mission is to help make capital available, through banks and other lending partners, to small businesses that would not be able to access credit conventionally. In the event of a disaster, OCA understands the need for small businesses to quickly access capital as part of their recovery process. This need is why the EBL Pilot Program was created in 2017 after the three successive hurricanes that caused widespread damage.

Given the current usage of the EBL Pilot Program at two (2) funded loans and with both loans active in the 7(a) portfolio (not repaid with a direct SBA disaster loan), SBA does not currently have adequate data to evaluate the effectiveness of the program. OCA is aware that in addition to the two funded EBL loans, there were indicators in the electronic loan system that showed 95 incomplete applications for EBL loans. GAO states that these incomplete applications "suggest a potentially larger demand for the program." On October 10th, 2019, the Director of the SBA Office of Performance and Systems Management met with GAO staff to review the incomplete applications submitted to SBA systems under the EBL Pilot Program. SBA concluded that these loans did not have sufficient data to suggest they were actual attempts to originate EBL loans. Lenders likely started these loans in error, as there were no follow-up attempts at processing the loans, and all incomplete applications eventually aged out.

In the past, when SBA published regulations to implement the Immediate Disaster Assistance Pilot (IDAP) Program (also a \$25,000 bridge loan program) there was very little interest in the program. Feedback from private sector lenders regarding the IDAP Program indicated that, in general, such lenders believe that disaster lending is a governmental responsibility. Based on comments received on the IDAP Program, SBA reduced the underwriting requirements for the EBL Pilot Program to induce lenders to use the program. The GAO report recommends that SBA obtain feedback from lenders on loan terms that could affect their willingness to participate in the EBL Pilot Program, and cites as an example a 7(a) lender that did not like the maximum loan amount or the SBA guaranteed percentage. However, significant changes to the size and guarantee terms of EBL loans would have an impact on the subsidy for the program.

Further, SBA believes it is not appropriate to compare the EBL Pilot Program to the Florida Small Business Emergency Bridge Loan program for multiple reasons. First, the Florida loan program provides funds directly from the state government, while the EBL Pilot Program is not a direct loan program but instead provides a limited guarantee to lenders willing to lend their own capital.

Secondly, the Florida program is a mature program that has existed since 1992 and therefore is well known in Florida. The EBL Pilot Program began in 2017, near the end of the hurricane

**Appendix III: Comments from the U.S. Small
Business Administration**

season, and is not as widely known. Additionally, the EBL Pilot Program is limited to Presidential disaster declarations and only delivered by Express Program lenders to borrowers who have a previous business relationship with the lender. SBA limited the program to these borrowers in order to manage program risk. The Florida program has a larger pool of eligible applicants and fewer restrictions on eligibility.

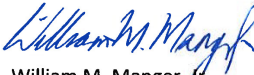
While the GAO draft report states that “the Florida program demonstrates demand for bridge financing for small business owners,” SBA contends that such demand is based on the characteristics of the Florida Bridge Loan. As stated in the report, Florida officials attribute the wide utilization of Florida Small Business Emergency Bridge Loans to their favorable terms, such as a zero percent interest rate.

SBA will provide the Office of Disaster Assistance with the EBL Pilot Program Guide and an FAQ with facts for distribution to small business owners on-site at Business Recovery Centers. SBA’s field office staff will be provided the same information to distribute directly to SBA Express Lenders and SBA Resource Partners in their respective areas. SBA will provide outreach to its 68 field offices and to the SBA Express Lenders through regular webinars, 7(a) connect calls, public press releases, and industry trade association conferences. Finally, SBA will seek feedback from SBA Express Lenders during the upcoming spring National Association of Government Guaranteed Lenders (NAGGL) conference on their interest and participation in the Pilot.

Thank you for allowing SBA the opportunity to comment on GAO’s draft report, “*Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed,*” and for taking SBA’s views into consideration.

Sincerely,


For James E. Rivera
Associate Administrator
Office of Disaster Assistance


William M. Manger, Jr.
Associate Administrator
Office of Capital Access

Appendix IV: GAO Contact and Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact name above, Paige Smith (Assistant Director), Daniel Newman (Analyst in Charge), Laura Gibbons, Marshall Hamlett, Marc Molino, Patrick Netherclift, Barbara Roesmann, Jessica Sandler, Cynthia Saunders, and Nina Thomas-Diggs made significant contributions to this report.

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