



U.S. Senate Committee on Small Business and Entrepreneurship

Chair, Senator Mary L. Landrieu

SBA Disaster Loans Frequently Asked Questions

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U.S. Senate Committee on
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1. Question: How do I apply for SBA disaster assistance?

Answer: To be considered for all forms of disaster assistance, victims must first call the Federal Emergency Management Agency (FEMA) at (800) 621-FEMA (3362). As soon as Federal–State Disaster Recovery Centers are opened throughout the affected area, SBA will provide one-on-one assistance to disaster loan applicants. Additional information and details on the location of disaster recovery centers is available by calling the SBA Customer Service Center at (800) 659 2955. For more information, you can also refer to SBA’s disaster website at: <http://www.sba.gov/content/applying-disaster-loan>

2. Question: What are the deadlines for applying for assistance?

Answer: The application deadline in Louisiana is October 30, 2012 for Physical Damage disaster assistance and May 29, 2013 for Economic Injury disaster assistance. In Mississippi, the deadline is October 31, 2012 for Physical Damage disaster assistance and May 30, 2013 for Economic Injury disaster assistance.

3. Question: SBA has indicated that you accept the “best available collateral” for disaster loans. Please explain what specific types of collateral SBA looks for when securing home and business disaster loans.

A: Collateral is required for physical loss loans over \$14,000 and Economic Injury Disaster Loans (EIDL) loans over \$5,000. SBA takes real estate as collateral when it is available. SBA will not decline a loan for lack of collateral, but will require borrowers to pledge what is available.

4. Question: What is the current collateral requirement for the amount of funds that SBA can disburse without requiring collateral?

Answer: SBA can disburse up to \$14,000 on physical damage loans without requiring collateral. SBA can disburse up to \$5,000 on EIDLs without requiring collateral.

5. Question: What are the typical issues resulting in a decline for SBA disaster loans?

Answer: The most common decline is from lack of repayment ability (not sufficient cash flow to support current and/or additional debt). Even though, SBA is a flexible lender and its credit thresholds are below traditional bank standards, SBA has a responsibility to taxpayers to be a prudent lender and to require a reasonable assurance of repayment ability in its disaster lending.

Other reasons for decline include credit issues including judgments, charge offs, and collection accounts.

a. Question: If an applicant is declined for a disaster loan, do they have the opportunity to appeal?

Answer: Yes, on the first denial, applicants have up to 6 months from the date of SBA denial letter to appeal the denial. If they are unsuccessful on the 1st appeal, they will be allowed 30 days from the date of SBA's 2nd denial to appeal.

b. Question: If an applicant is declined for a disaster loan because of problems with another Federal loan (student loan or SBA loan), can they address the problem and reapply?

Answer: Yes, the applicant may address/correct the issue with another Federal loan by either paying the loan, bringing it to a "current" status or demonstrating in any manner that the other Federal loan is no longer in a negative performance standing. Then, the applicant may request reconsideration/appeal of their SBA denial.

6. Question: What is the average default rate for home and business disaster loans?

Answer: Between FY 2006 and June of FY 2012 the average default rate for disaster home loans is 7.41 percent.

Between FY 2006 and June of FY 2012 the average default rate for disaster business loans is 7.53 percent.

7. Question: What is the current time frame for SBA to make an eligibility determination and disburse loan proceeds (if the loan is approved)?

Answer: We are currently approving or declining loan application requests, on average, within 10 days (our goal is 14 days for homeowners and 18 days for businesses).

SBA makes the first disbursement within five days of receiving the loan closing documents from the borrower. After the initial disbursement, subsequent disbursements are made serially based on the borrower providing receipts.

8. Question: On SBA disaster loans, are borrowers required to pay interest on the entire approved SBA disaster loan amount or just the portion that has been disbursed?

Answer: SBA disaster loans are simple interest loans. Interest is calculated on the outstanding principal balance of the disbursed loan amount.

9. Question: SBA has announced that you are able to defer loan payments on existing disaster loans on a case-by-case basis. What are eligible reasons for requesting a loan deferment?

Answer: The borrower must be in an area in which there has been a disaster declaration, and has been adversely impacted by the present disaster.

a. Question: What documents are required for a borrower to qualify for a loan deferment and where should a borrower make this request?

Answer: The borrower must submit a written request for a deferment stating that they are in an

area in which there has been a disaster declaration, and a brief explanation on how the disaster has affected their ability to make their existing monthly payment.

b. Question: What amount of time can a loan be deferred for?

Answer: Deferments will be for a period of six months.

c. Question: What is the current timeframe for SBA to process and approve a loan deferment request?

Answer: Based on the volume of requests the time frame should be approximately 10 business days.

d. Question: If a deferment is granted, when will the borrower be required to pay off the deferred principal and interest balances?

Answer: When the payment deferment period ends, regular monthly payments will be applied first to accrued interest and then to principal.

10. Question: Which types of businesses or industries are ineligible for SBA business disaster loans?

Answer: The following businesses are not eligible for Physical Disaster Loans.

- Businesses that are an agricultural enterprise (businesses primarily engaged in the production of food and fiber, ranching and raising of livestock, aquaculture and all other farming and agricultural-related businesses).
- The agriculture portion of businesses that are engaged in both agricultural and non-agricultural enterprises.
- Businesses that are going to relocate voluntarily outside the business area in which the disaster occurred, are not eligible for physical disaster business loans. If however, the relocation is due to uncontrollable or compelling circumstances, SBA will consider the relocation to be involuntary and eligible for a loan.
- Businesses that are engaged in illegal activity.
- Businesses that are government owned (except for a business owned or controlled by a native American tribe)
- Businesses that presents live performances of a prurient sexual nature or derives directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature.

Answer: Businesses are not eligible for Economic Injury Disaster Loans (EIDLs) if the business or any principal(s) of the business fit into any of the categories in CFR 13 - Business Credit and Assistance in §123.101, §123.201 or if the business is:

- Engaged in lending, multi-level sales distribution, speculation, or investment (except for real estate investment with property held for rental when the disaster occurred).

- A non-profit or charitable concern, other than a private non-profit organization.
- A consumer or marketing cooperative.
- Not a small business concern
- Deriving more than one-third of gross annual revenue from legal gambling activities
- A loan packager which earns more than one-third of its gross annual revenue from packaging SBA loans.
- Principally engaged in teaching, instructing, counseling, or indoctrinating religion or religious beliefs, whether in a religious or secular setting.
- Primarily engaged in political or lobbying activities.

11. Question: Are all aquaculture-related businesses ineligible for SBA disaster loans?

Answer: Effective for any declaration on or after September 27, 2010, SBA is authorized to provide EIDL assistance to aquaculture enterprises that are small businesses.

12. Question: What are the Small Business Administration (SBA) changes to the disaster loan process since the 2005 hurricanes that may have improved the program for borrowers?

Answer: Following the 2005 Gulf Coast Hurricanes, SBA has implemented numerous procedural, processing, personnel management and IT system improvements to better enable the agency to provide efficient and timely service to disaster victims. By incorporating lessons learned and installing process improvements, SBA's Disaster Assistance Program has overhauled its entire disaster loan platform. As a result, SBA is now better prepared to process loans faster, provide a better quality of service and be more helpful to disaster survivors. To ensure overall preparedness, the Disaster Program has increased the number of workstations from 300 to over 1,850 (in Fort Worth) and we have brought online a "surge" center (in Sacramento) with 350 additional workstations. A second shift can be added to meet production if needed. On top of this, we have increased the Disaster Credit Management System's capacity from 2,000 to 10,000 concurrent users.

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

We have capitalized on having a highly skilled and motivated staff who are able to respond to different levels of disaster activities. We have invested in staff to increase their skills, streamline the loan process, improve technology, reduce contracting costs, and implement a new Staffing Strategy for ODA. We are currently staffed at approximately 850 employees with a pool of over 2,000 potential employees ready for immediate onboarding. As an example, last year using the Staffing Strategy, we were able to immediately train and deploy an additional 800 staff within three weeks in response to Hurricane Irene and Tropical Storm Lee.

We believe that these changes have improved SBA's capacity to better respond to a disaster of a magnitude similar of the Gulf Coast Hurricanes.