SENATE HOMELAND SECURITY AND GOVERNMENT AFFAIRS COMMITTEE
FIELD HEARING
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Testimony of
Administrator Steven C. Preston

Good Morning Chairman Lieberman, Ranking Member Collins and distinguished members of the Committee. Thank you for inviting me to discuss the recovery progress both here in Louisiana as well as in Mississippi following the Gulf Coast Hurricanes in 2005. I am Steven Preston, Administrator of the U.S. Small Business Administration. This summer during my confirmation hearing, I pledged to address the challenges the Agency faced in its disaster operation as job number one, and I appreciate the ability to provide you with a status report.

As of today, 97 percent of the approved borrowers have received all of their money, some of it or chosen not to borrow. Currently, we have \$5 billion in SBA disaster-assistance funds at work rebuilding the businesses and homes of hurricane victims in the Gulf. Approximately \$2 billion in additional commitments are available to be disbursed.

These remaining commitments are to about 25,000 borrowers, the vast majority of whom have begun receiving disbursements. Many of these borrowers, we believe, are experiencing a number of outside challenges in proceeding with their lives, which is resulting in a delay in their ability to draw down funds.

I came to Agency almost 11 months after Katrina. In that time, the Agency had processed over 420,000 disaster loan applications, and had worked very hard to address the unprecedented nature of this disaster by expanding capacity in three areas: information systems, people and facilities. Building this capacity was absolutely essential in meeting the demands.

By that time, while the loan approval process was largely completed, the Agency faced a different challenge—closing the loans and distributing the funds. Over 120,000 borrowers were still in our process representing over \$7 billion of loan commitments.

So we quickly set out to dig into the issues and understand why. First, we listened hard to our customers, who were experiencing the difficulties. Next, we listened to our employees who were close to the action to get their perspective. Then we dug deep into the operational processes where we saw a number of issues leading to high error rates, steep backlogs in critical processes and decision-making bottlenecks.

During August and September, we invested thousands of man-hours to fully re-engineer our processes to eliminate our backlogs, dramatically reduce response time, and improve the support we give to disaster victims throughout the process. We called all of our borrowers to do two things: (1) introduce them to a new process where they would have a single relationship manager as a point of contact and (2) ensure we understood their status so we could provide the right kind of support. This outreach enabled us to build a database so we could track what issues all of our customers have and work to address them better. One example of this is that the data base showed us that our customers were having difficulties obtaining title and deed records from their local clerk offices. To better assist our customers, SBA has placed employees in the land records office right here in Orleans Parish, and we have reached out to other parishes and counties offering the same support.

Because we have regular conversations with our customers, we can also informally poll our case managers on other issues they face. Our people have also become advocates for the borrowers and we are now able to connect a loan and a document to a life and a story.

So where do we stand?

One example of the challenges was in our critical loan modifications process. This summer we had a backlog of 50,000-80,000 loans with an average age of over 70 days. This backlog was a major cause in the delays we experienced in disbursing funds. Today our modifications in process are fewer than 5,000 and the average age is under two weeks.

I also believe we are coordinating well with both Louisiana and Mississippi in support of their respective state grant programs. In Mississippi, we are turning around information requests in a matter of hours, and we look forward to being very responsive to the Louisiana Recovery Authority as their process continues to ramp.

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

I would also like to highlight that the SBA is working to support the needs of small businesses in the Gulf in a number of other ways through our regular financial assistance programs 7(a) and 504, as well as our Gulf Opportunity, or GO Loan pilot program. Our GO Loan program in particular has expedited small business financing to communities along the Gulf Coast. To date, we have provided over 500 GO Loans totaling more than $42 million as small businesses return home. Additionally we remain dedicated, along with our partners, to offer training and counseling while assisting small businesses in their effort to acquire government contracts.

As we look forward to the coming months, our efforts are focused on a number of activities:

1. Ensuring we are responsive in providing the states with information to support their grant programs.

2. Completing the process reengineering work and continuing to improve automation to ensure that it is fully in place for future disasters.

3. Documenting detailed surge plans, so that we have very clear, well-documented road maps and implementation models in place, based on the size and nature of the catastrophe.

And;

4. Exploring ways to work with the private sector should we determine that the private sector can provide more efficient and effective support in certain circumstances.

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