

THE IMPACT OF HURRICANE KATRINA ON SMALL BUSINESSES

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE ONE HUNDRED NINTH CONGRESS FIRST SESSION

SEPTEMBER 22, 2005

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THE IMPACT OF HURRICANE KATRINA ON SMALL BUSINESSES

THURSDAY, SEPTEMBER 22, 2005

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, D.C.

The Committee met, pursuant to notice, at 10:19 a.m., in Room 428-A, Russell Senate Office Building, the Honorable Olympia J. Snowe (Chair of the Committee) presiding.

Present: Senators Snowe, Thune, Isakson, Vitter, Enzi, Kerry, and Landrieu.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. The hearing will come to order. I apologize for the delay, but we had two votes this morning.

Thank you all for being here today. I have convened this hearing today to explore the devastating impact of Hurricane Katrina on small business and specifically on how and what time table the Federal Government and the SBA in particular respond to provide critical assistance.

I appreciate Administrator Barreto for being here today and for leading the Small Business Administration in its disaster relief efforts. I understand the Administrator spent a few days in the Gulf region and I look forward to your firsthand insights and testimony.

I also want to welcome the small business representatives from the second panel to testify on the extraordinary and almost inconceivable challenges they face in the wake of Hurricane Katrina and as they seek to rebuild both their lives and their livelihoods and I thank you for taking the time to be here at this most difficult crossroads in your own lives.

Two of our colleagues on this Committee, Senator Vitter and Senator Landrieu, know personally the extent of the magnitude of the devastation as a result of the hurricane in their own State of Louisiana and the entire Gulf region, and our hearts and prayers go out to them and their constituents. I just want them to know that we are here for them and we will do whatever it takes to help with this in the days and months ahead.

On Monday, I, along with the Commodore in the Coast Guard toured the region, as well, from both the air and the ground and saw firsthand the horrors that have been left behind. House after house, business after business ravaged and ruined by the cruelties

of wind and water. Without question, the damage from Hurricane Katrina will be prevalent long after the flood waters recede and the levies are reconstructed. Equally evident is this unshakable responsibility we have to bring the full resources of the Federal Government to bear in repairing the damage as quickly as humanly possible.

The Small Business Administration will be at the forefront of this massive relief effort. We can and must do no less than to strengthen its resources to help the people of the Gulf arise from this tragedy.

Moreover, in this aftermath of the worst natural disaster ever to visit itself on this country, and, of course, we don't know what the extent of damage will be from Hurricane Rita, there should be no doubt of the enormous economic impact this catastrophe has had and will have on our entire nation.

Indeed, the challenges facing us are impressive. Katrina's effects could dampen economic growth by as much as a full percentage point. In looking to build a brighter future, we cannot ignore that it is America's 25 million small businesses that create three-quarters of all the new jobs in this country and grow at twice the rate of all firms. Clearly, once again, it will be our small businesses and entrepreneurs who will lead the way through this most difficult time through their determination, their innovation, and unflagging spirit.

Even they cannot do it alone. Today, it is estimated that over 800,000 firms have been effected and employment in Louisiana, Mississippi, and Alabama may be reduced by more than one million jobs.

As chair of the Committee on Small Business and Entrepreneurship, I want to send one message loud and clear, that we are committed to moving heaven and earth to provide immediate and meaningful support to rebuild this region and to help sustain our economy. I want to ensure that Americans affected by this hurricane have the resources to begin rebuilding their lives, their businesses, and their dreams.

I understand FEMA has referred over 800,000 cases for loan assistance to the SBA, and the SBA is receiving up to 20,000 calls per day. This is a tremendous workload that the SBA must shoulder. To date, the SBA has distributed approximately 850,000 applications for loans to individuals and businesses, has received over 8,400 loan applications, and approved more than \$3.1 million in loans. This is obviously just the tip of the iceberg. A great measure of assistance is yet to be requested and provided, and therefore, it is critical that we act now.

Last Thursday, the Senate unanimously approved a bipartisan amendment to the Commerce, Justice, and Science appropriations bill that I introduced with Ranking Member Kerry, working closely across party lines with Senators Vitter, Landrieu, and Talent. We are now collaborating once again to enact a stand-alone bill based on this amendment and I hope that, frankly, we can even use a separate vehicle to move unanimous consent to get this legislation through separately in both the House and Senate so that it can be signed by the President.

Essentially, this amendment provides a comprehensive package for immediate emergency relief and funding of almost \$595 million to assist the victims of Hurricane Katrina in rebuilding their lives and their businesses. Specifically, the measure would increase the maximum size of a disaster loan from \$1.5 million per loan to \$10 million; provide the SBA the authority to grant victims of Hurricane Katrina up to 12 months to begin repaying their SBA loans; lower fees for the 7(a) program to make borrowing more affordable for small businesses outside the disaster area, many of which have been destroyed by the disaster and are struggling to cover higher costs in health care and energy; requires the SBA to treat special disaster provisions as separate from the regular programs to avoid increasing future subsidy rates and, therefore, the costs for borrowers who rely on these programs; increase the program level for SBA disaster loans, physical and economic injury, by approximately \$600 million, requiring an appropriation of approximately \$86 million.

The legislation would also allow the SBA to provide similar loans with lower fees for small businesses located outside the disaster zones, but nonetheless indirectly affected by the hurricane. We authorize \$400 million to the State governments of Louisiana, Mississippi, Alabama, Texas, and Florida to provide emergency bridge loans and grants to small businesses in the disaster areas so that we can disperse immediate funds until victims can secure other loans or financial assistance.

Given the explosive growth in cost of gas and heating oil, the legislation also includes a pilot program to give small businesses and farms access to low-interest-rate disaster loans. The Senate has already passed this provision three times. With the costs of Katrina relief and rebuilding estimated to be more than \$100 billion, we expand small business access to Federal contracts and subcontracts that had been operating in the areas destroyed by the hurricane.

In a time of uncertainty, government projects are reliable—all the more critical in a crisis the magnitude of this hurricane, and can provide steady pay for small business employees. Government procurement would open doors for many local small businesses to participate in the long-term reconstruction work in the Gulf Coast areas. Prior to the disaster, small construction companies in Alabama, Mississippi, and Louisiana brought home nearly \$500 million annually in Federal contracts and over \$3 billion annually in the Gulf region.

To achieve this goal, the legislation designates the hurricane disaster area as a HUBZone, attracting small businesses to locate and employ people in the disaster area with contracting and price evaluation preferences. Extending the HUBZone designation to the Gulf Coast would bring necessary business development to the area.

Finally, it authorizes nearly \$34 million for grants to increase business counseling in the region for SBA entrepreneurial development programs, including the Small Business Development Centers, the Women's Business Centers, SCORE, Veterans' Business Centers, and the Micro Loan Technical Assistance Program.

The bottom line is in order to ensure SBA has the essential resources to provide the best assistance possible to those in need, we

must enact this emergency package and ensure assistance is delivered to small businesses efficiently and effectively. What I want to learn, and I know the Committee Members do, as well, is to learn what are the immediate needs and requirements of affected small businesses, what is the SBA doing to bring services and assistance to the people and to the Gulf region, what is the time table for implementation, and what further assistance does the SBA require from Congress as the SBA moves forward, because our effort must be at once comprehensive, seamless, and tireless.

Before I turn to my colleagues, I would like to note that while some media reports have raised some concerns about the STAR Program that was made part of the SBA's 7(a) loan program after the September 11 terrorist attack, I share with the Administrator my deep concerns about the allegations that the program's implementation may have been seriously flawed. We have asked the SBA's Inspector General, and I know the Administrator has, as well, to conduct a review of the implementation of that program, and I just want the Members of this Committee to know that we will be undertaking our own rigorous review and oversight concurrently with the IG review. Both of these reviews are ongoing, and we will make certain that we will complete a resolution evaluation in a timely fashion. Once these concurrent reviews are finished, it is appropriate that the Committee would hold a future oversight hearing to discuss this critical issue.

At this point, I would like to recognize my colleagues. The Senator from Georgia, do you have any comments?

**OPENING STATEMENT OF THE HONORABLE JOHNNY ISAKSON,
A UNITED STATES SENATOR FROM GEORGIA**

Senator ISAKSON. I will submit mine for the record, Madam Chairman, but I appreciate you calling this hearing today.

Chair SNOWE. I thank you.

My colleague from Louisiana? As I indicated in my opening statement, we are prepared to have this Committee to bring all the resources to bear to help your region and to extend our profound regret and sympathy about what has happened, but we want to do everything that we can to help mitigate the burden that has obviously been perpetrated on your State.

**OPENING STATEMENT OF THE HONORABLE MARY L.
LANDRIEU, A UNITED STATES SENATOR FROM LOUISIANA**

Senator LANDRIEU. I want to acknowledge our Chairperson here and how, from the very first days of this catastrophe, the leadership of this Committee, along with Senator Kerry, has been focused on exactly what the Chairman said, how this Committee could move forward aggressively, appropriately, to help a region that has been devastated, not just, of course, the city of New Orleans, but the parishes surrounding the city of New Orleans, which are equally important in the stand-up of the region and the Gulf Coast generally.

I particularly want to thank this Chair and Senator Kerry and the Members of this Committee who have stepped forward to put an extraordinary amendment on the CJS bill and use it as an op-

portunity to get some initial \$400 million of aid through the small business organization.

We have had, and I won't go into it today, Madam Chair, some difficulties with FEMA. We will be working on that, a work in progress. I believe as a Member of this Committee that the Small Business Administration is very well poised through existing programs that we have as well as new things that our Committee should explore that can really get the right kind of aid, credit, assistance and just pausing some of the debt that small businesses have as we re-set up this region and use wisely the power of the private sector and private enterprise connected with the government response.

Madam Chair, you are indeed an expert on this. You have shown it year after year and I look forward—and I see my colleague from Louisiana, Senator Vitter—but we look forward to working with you very closely and, in fact, we will be offering later today a package of incentives for small businesses in addition to what has already been done that we will truly appreciate your consideration of.

[The prepared statement of Senator Landrieu follows:]

PREPARED STATEMENT OF HON. MARY L. LANDRIEU, A U.S. SENATOR
FROM LOUISIANA

I thank the Chair for holding this hearing on the devastation that Hurricane Katrina has brought on my home state of Louisiana, Mississippi, and Alabama, and how the Small Business Administration can best serve the people of the region in rebuilding our economy and our communities.

This Committee and the Senate has already started to help by adding an amendment to the Commerce-Justice-Science appropriations bill to bring some immediate relief to small businesses in the Hurricane Zone. That amendment will provide \$400 million to affected states for grants or bridge loans to small businesses that are trying to get back on their feet. This was the highest priority for businesses in my home state of Louisiana. The amendment would allow small businesses in the disaster area to defer disaster loan repayments for a year, increases funding for SBA's counseling and training programs, makes the disaster area eligible as a HUBZone to promote business growth, and sets higher small business contracting goals for Katrina-related rebuilding projects. These measures will be a great first step.

More help is on the way. Today, I introduced a comprehensive legislative package called the "Louisiana Katrina Reconstruction Act" that will help rebuild Louisiana's economy and our infrastructure. It contains tax incentives to spur business development and to encourage residents to come back home; \$45 billion in bonding authority to rebuild our infrastructure; as well as funding to protect mortgages, rebuild homes, and to provide for health care, education, housing, and other human needs in this unprecedented time. We hope this will serve as a model for rebuilding the entire Gulf region.

I welcome the small business representatives who will speaking before the Committee today, and am proud to have witnesses from Louisiana here: Mr. John Rowland, Ms. Alta Baker from Jennings, Ms. Mary Lynn Wilkerson from Monroe, Ms. Michele Sutton from Hammond, and Mr. Woodrow J. Wilson from New Orleans. These people and the thousands like them across Louisiana and the Gulf region will be the key to our revitalization.

Madam Chair, in New Orleans family-owned businesses are common. Sure we have big hotels and chain restaurants that employ a lot of people, but most of the restaurants, clothing stores, and souvenir shops are small, family-owned businesses. For these families their businesses were like a second home, their employees like part of the family. More than 65 percent of the new jobs in Louisiana in the past decade were created by small businesses and they will be the engines that drive our revitalization. Before the storm, Louisiana had 86,000 small businesses, employing over 850,000 people. The annual payroll was \$21.9 billion.

As of today, more than 214,000 people have filed jobless claims filed as a result of Hurricane Katrina. The Congressional Budget Office estimates that nationwide Katrina could lead to 400,000 job losses. Congress has to act fast or else we could

lose them forever. This concern is justified. Forty-three percent of businesses that close for a disaster never reopen. An additional 29 percent close down permanently within 2 years.

Any loss of these small businesses will have ripple effects beyond the Hurricane disaster area. There were 71,000 businesses in the disaster zone in Louisiana, but the storm's harm has reached out to affect 110,000 small businesses throughout the state. When a small business closes down, suppliers to that business lose a customer. For example, crawfish farmers in Lafayette—which was spared major damage by Katrina—are losing business because restaurants in New Orleans and other areas in the disaster area are closed. This chain reaction replicates and grows with each and every small business that does not get up and running soon.

The Small Business Administration will play a very important role in restoring our small business economy. I have serious concerns about whether the agency will have the resources in place to handle the huge numbers of loan applications that will be coming. Already we are hearing from small businesses that they may have to wait 90 days before they get a disaster loan from SBA. More than one million people have requested loan applications so far, 577,000 of them in Louisiana alone.

The SBA to its credit is trying to staff up to handle this crush of work, but I am concerned that these temporary workers will not have the right kind of training to be able to process applications in a timely manner. SBA's programs can be complicated for people who are not familiar with them. I do not want a lack of adequate training to keep small businesses from getting the assistance they need.

Madam Chair, our small businesses do not want charity, and the assistance we hope to provide them in our C-J-S amendment and the larger Louisiana reconstruction legislation is not charity. These efforts will recreate the opportunity that our small businesses used to succeed and grow before Hurricane Katrina hit. In these difficult and challenging times, small businesses just want a jump start to rebuild, reopen, or renew. The entrepreneurial spirit that made them a success will carry over and make them successful again. When they are done, our economy in Louisiana and the Gulf will thrive once again.

I thank the Chair.

RESPONSES BY HECTOR BARRETO TO QUESTIONS FROM SENATOR MARY L. LANDRIEU

Question 1. The Senate passed an amendment to the Commerce-Justice-Science Appropriations bill that included a number of provisions to provide relief to small businesses in the Katrina disaster area. One of those provisions provides \$400 million in funding for states to help small businesses with their immediate capital needs through bridge loans or grants. What is the administration's position on this provision?

Response. Not available.

Question 2. Your testimony states that SBA is going to hire some 2,000 temporary employees to meet staffing requirements for loan application processing. I am deeply concerned that these temporary workers will not receive adequate training in all of SBA's programs in enough time to be truly helpful to small businesses in the hurricane disaster zone.

- Please describe the training program for these workers.
- What are the hiring requirements for these workers.
- How much time will it be between the hiring of a temporary worker and that worker's being ready to handle their responsibilities?
- Please describe your efforts to hire displaced workers from the affected Hurricane areas to fill these temporary positions. What kind of outreach are you doing to reach displaced residents?

Response. Not available.

Question 3. One of the witnesses stated in his testimony that FEMA, SBA, and the SBDCs do not have a unified approach and that people seeking assistance get lost in a maze.

- Is there any coordination planning between SBA, FEMA, other Federal agencies, and State and local governments before disaster strikes? Please describe that planning and when that takes place.
- Does SBA need more resources to ensure that it can adequately coordinate with other agencies?

Response. Not available.

Question 4. The Committee has heard testimony from small business owners that it may take SBA as long as 5 months to process disaster loan applications.

- Please describe SBA's loan processing system.

- Does SBA check the credit worthiness of applicants?
- How do you determine economic injury? What records do businesses need to give you? If a business has lost its records can they still receive loans, particularly for economic injury?
- Does SBA maintain records from past disasters of average loan size? How many businesses received the maximum loan amount and for how many of these businesses is the maximum loan amount not enough to cover their needs? Please provide this information for the Committee.

Response. Not available.

Question 5. Herbert Mitchell did a presentation describing SBA staffing at facilities in the disaster area. There were only 140 staff at 30 sites in Louisiana. Does SBA have plans to hire additional staff for these Louisiana locations? What will the qualifications be for this staff? Will you use temporary staff or full-time SBA personnel to fill these positions?

Chair SNOWE. Absolutely, and I want to express to you, Senator Landrieu and Senator Vitter, that we will do everything that we can and we appreciate the input that you have provided in shaping this package and beyond. I would expect this will be the beginning of this effort by the Committee, both on the Committee and on the floor, and what we can get through. I would appreciate your guidance and counsel as we go forward. What is going to work for the people of your region and your State that will be most beneficial in beginning to restore the economic lifeline in your State.

Senator Vitter.

OPENING STATEMENT OF THE HONORABLE DAVID VITTER, A UNITED STATES SENATOR FROM LOUISIANA

Senator VITTER. Thank you, Madam Chairman. I also want to thank you and all the Members for being so supportive and helpful, including in this vital area. I want to thank Administrator Barreto for being here today and for all of his work.

To echo what Mary said, we are introducing a full-fledged package today and a big part of that, one part I have been very focused on with Mary and others, is the right package of incentives, tax incentives, depreciation relief, et cetera, to make sure businesses and jobs come back because that has to be a key part of the effort. We could rebuild all of the public infrastructure in sight. In fact, we could gold plate it. Unless businesses and jobs come back, people won't follow and we won't properly repopulate and get back on our feet. That is a big, big goal.

Let me just, as an illustrative list, not an exhaustive one, mention a few things. For instance, for businesses, we are proposing a relocation tax credit to help offset the huge cost many businesses have incurred in relocating and then the additional costs they would incur to come back. Also, we are proposing a \$1,000 tax credit for each employee a small business puts back to work in the disaster area and we are proposing a 3-year suspension of airline ticket taxes for flights into the disaster area, something that will help bring visitors back and a big part of our economy connected to tourism.

Also, certainly the bill we are introducing endorses this Committee's work by incorporating the Small Business Homeowners' and Renters' Disaster Relief Act, and we appreciate that work and we fully endorse it. This plan helps small businesses, of course. It was adopted last week as an amendment and we appreciate all your work on that.

The package also would provide grants to States to help small businesses bridge the time it takes to process SBA loans. Specifically, it would provide \$150 million to Louisiana to help fund bridge loans to businesses while the whole SBA process is gone through. Businesses are going to need that sort of immediate help, so anything we can do in terms of that sort of bridge loan or any other mechanism to get those businesses the help they need, not in 2 months, not even next month, but now is very important.

We believe we should allow borrowers to defer the repayment of SBA disaster loans, as well. This would allow borrowers—that includes homeowners and renters and businesses—on disaster loans to have a 12-month period to get back up and running before they go back on that repayment schedule.

Also, I think we need to increase the maximum size of an SBA disaster loan well above the \$1.5 million now, perhaps to \$10 million, because many small businesses have essentially faced complete destruction.

All of these are part of our package and things we will be working very closely with you on.

With that, I will wrap up, Madam Chairman. Thank you for all of your very active work already and I look forward to continuing in that vein, working very closely with you.

Chair SNOWE. I appreciate that, Senator Vitter. The help and assistance that you have given this Committee as we begin to shape these packages and what is going to work and work well and effectively. As you are going to be in the front lines, if you learn more or discern something that isn't working as far as our perspective is concerned in small business resources, we certainly want to know that because we have got to eliminate any of the confusion, the contradictions, and the complications in what is already a very difficult situation. I appreciate your view and that proposal, and in my position on the Senate Finance Committee, if I can help in that way, as well, with some of the tax incentive measures, that, certainly, I would want to do, so thank you.

Senator Enzi.

**OPENING STATEMENT OF THE HONORABLE MICHAEL B. ENZI,
A UNITED STATES SENATOR FROM WYOMING**

Senator ENZI. Thank you, Madam Chairman. I, too, want to congratulate you for holding this hearing and for the work that you have already gotten accomplished and finished. That is the kind of response that is needed, and the kind of response that you do will make a tremendous difference down there.

Last Friday, Senators Frist and Reid took several people down to actually look at the disaster. I have always said that a picture is worth a thousand words, but being on the ground is worth a thousand pictures. Senator Kennedy is the Ranking Member on my Committee, the HELP Committee, and he was on the trip, too. It was very helpful on the package that we are putting together to have that time to collaborate and actually to see if what we were doing was going to make a difference. I think we found that there were a few other things that we needed to do, as well.

I do have a full statement that I would like to have in the record and I apologize that I won't be able to be here for the entire hear-

ing. I do appreciate the testimony that was submitted in advance, particularly from the small business men and women. That does help us to have a little better feel for what is happening down there. I think through your hearing and your efforts, that we will be able to get it right, and I thank you.

Chair SNOWE. I appreciate that, Senator Enzi. Without objection, your statement will be included in the record, and all Members of the Committee, their full statements will be included, as well.

[The prepared statement of Senator Enzi follows:]

PREPARED STATEMENT OF HON. MIKE ENZI, A U.S. SENATOR FROM WYOMING

America is faced with responding to an event of epic proportions, a storm unlike anything seen in 150 years. In the days that have passed since Hurricane Katrina devastated so much of the Gulf Coast region of our country, we have all seen the impact this terrible storm has had on countless lives in the region.

More and more of us are witnessing firsthand the extent of the damage, including families and individuals returning to their homes and businesses. I was able to survey the damage in Louisiana, Mississippi, and Alabama last Friday as part of a bipartisan Senate delegation. Even now, scores of volunteers have congregated in the area to feed the hungry, quench the thirst of the thirsty and repair the damage.

We continue to do our part in the Senate too. I am very pleased that Chairwoman Snowe has called this hearing. Now is not the time to play the blame game. We need to focus on immediate assistance and the rebuilding of the region. Instead, it is a time for us start the process of addressing the short and long term needs of the people who were devastated by the storm. I look forward to hearing from SBA Administrator Barreto and Associate Administrator Mitchell about what the SBA has accomplished in response to Katrina and what the next steps are in providing permanent solutions to the affected people and businesses. Thank you both for participating today, I look forward to your testimony and working with you both to speed the recovery effort.

In the Health, Education, Labor and Pensions Committee which I chair, yesterday I introduced sweeping legislation with my Ranking Member Senator Kennedy. Our legislation, the Community Service Disaster Assistance Act of 2005 is a block grant program whose goal is to provide assistance to States and local communities with the intent of reducing poverty and revitalizing low-income communities. The programs are community governed, and fund initiatives to change conditions that perpetuate poverty, like unemployment, inadequate housing and poor nutrition. As a member of this committee, I look forward to working with my colleagues to address the needs of small businesses.

As a former Mayor, I have seen for myself the devastation caused by severe weather. Just last month Wright, Wyoming was hit by a tornado that did significant damage to the town. Plans to rebuild Wright are including support and cooperation on the local, State and Federal level—much the same as this tragedy will. In Wright, I have seen the Federal Government do an outstanding job of working with the state and community leaders to start the process of rebuilding. This formula can be replicated in the Gulf Coast region. It will also call on us at the Federal level to develop innovative and creative strategies that will cut through the red tape and provide the assistance that is needed quickly and efficiently.

That is why I am excited to hear from the second panel of small business owners and others that were directly impacted by Hurricane Katrina. We are looking forward to receiving their suggestions as to what we should do next as we work to produce a plan of action that will see us through the after effects of this storm—and provide us with a strategy we can use to respond to future such events.

Small businesses are the lifeblood of our economy. Helping small businesses open their doors again will continue the healing process and jump start the economies of the affected areas. The SBA will play an integral part in this process. I look forward to the testimonies and suggestions that will be given today. Thank you Madame Chair.

Chair SNOWE. Administrator Barreto, welcome, and Mr. Mitchell, who is the Associate Administrator for Disaster Assistance. I appreciate the fact that you are here, as well, today because I think it certainly will provide, I think, valuable input into how the disaster program works, what is the status today, and what SBA has

been doing in the Gulf region. I know you just returned, Administrator Barreto, as well from 3 days being down there, so I appreciate your views and being here today and being so responsive in showing the resolve in bringing the resources of this administration to the Gulf region and how best can we do it and go about it in the most efficient way possible.

Administrator Barreto, why don't you begin, and thank you for being here today.

STATEMENT OF THE HONORABLE HECTOR V. BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Mr. BARRETO. Thank you, Chair. Good morning, Chair Snowe and all of the distinguished Members of this Committee. Thank you for inviting me here today to discuss the Small Business Administration's Office of Disaster Assistance Relief Efforts for all of the victims of Hurricane Katrina.

As you have already mentioned, Chair, I am accompanied by Herb Mitchell, the Associate Administrator for Disaster Assistance. Herb is a longtime SBA employee, with over a decade of experience in the Office of Disaster Assistance. I am happy to have Herb as the head of our Disaster Office. He is definitely a man of experience, dedication, and skill.

Herb and I just returned last night, as a matter of fact, from Louisiana and Texas, and we learned firsthand of the destruction caused by this massive storm. More important, I met with citizens, with homeowners, with small business owners who were affected. We also met with the SBA Disaster Assistance employees on the ground, and I can tell you, I have never been more proud of the work they are doing for the SBA and for all of the victims.

I visited our Disaster Recovery Center and our displaced New Orleans District Office staff in Baton Rouge, as well as our Disaster Loan Processing and Disbursement Center staff in Fort Worth, Texas. They have done an excellent job and are carrying on the best tradition of Federal service and I am committed to offer them all of the support they need to carry out the SBA's disaster assistance mission.

Before detailing SBA's expanded recovery efforts in regards to Hurricane Katrina, it is important to get some background in SBA's disaster programs. The SBA Disaster Assistance Program is the primary Federal disaster assistance loan program for long-range recovery for the private sector and non-agricultural disaster victims. Disaster loans are direct loans from the SBA and eligibility is based on a financial criteria.

Interest rates are set through statutory formulas. Currently, the rate for loans for homeowners without credit available elsewhere is 2.68 percent, and with credit elsewhere, it would bump up to 5.3 percent. For businesses, the rates are 4 percent and 6.5 percent, respectively.

It is important to understand that SBA disaster loans are not just for small businesses. The majority of SBA disaster assistance is directly to homeowners to help rebuild their homes. SBA has two kinds of business disaster loans, physical disaster loans provided to qualified businesses of any size that have sustained uninsured

losses up to \$1.5 million with funds to repair or replace business property to pre-disaster conditions. Economic injury disaster loans, or what we refer to as EIDL loans, provide up to \$1.5 million in working capital loans for small businesses that suffer economic injury as a direct result of a disaster, regardless of whether or not the property was damaged.

The bottom line is SBA disaster loans help rebuild communities. SBA doesn't just help the small businesses, but their friends and their neighbors and their customers. Our disaster loans make recovery affordable through three factors: Low interest rates; longer terms, up to 30 years; and refinancing under certain circumstances. SBA disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help spur employment and stabilized tax bases by protecting jobs. The SBA responded immediately to the President's disaster declaration for Hurricane Katrina and continues to increase assets to assure our delivery of assistance goes smoothly.

Yesterday, I visited our processing center in Fort Worth, Texas. We have expanded that facility by 40,000 square feet. We have added phone and computer connections to increase our capacity to process the applications. SBA has received a record number of referrals already, well over a million to date. We have been sending out applications and are preparing to receive them back.

I would like to address head on the misguided media accounts of computer problems in the Office of Disaster Assistance. Nothing could be farther from the truth. Our prior system, the Automated Loan Control System, was cumbersome and unreliable. It was not a loan processing system, but it was a tracking system that interfaced with our mainframe to find loans and a separate system for underwriting on a different platform and a document generation system on a third platform. That is the way we used to do it. The technologies for all of these systems were obsolete.

Last year, the ALCS in one of our offices broke down during the Florida hurricanes and it took nearly a week to repair because no one carried parts for a system that was that old.

Faced with the possibility of future failures, SBA built the Disaster Credit Management System, DCMS, now being used for Katrina. The DCMS is an integrated web-enabled system that performs all of the necessary functions on one platform with the latest technology. This system has been in use since December 2004 and allows SBA to process loans electronically in a paperless environment through image or scanning. Processing and disbursement of disaster loans is centralized in Fort Worth with a backup location in Sacramento, California.

DCMS introduces virtual loan processing, making loan files available for processing anywhere by anyone at any time regardless of where the disaster occurs. This system will ultimately provide multiple interaction methods between the applicant and our Office of Disaster Assistance, like the Internet loan application under development.

The DCMS improves access to credit reports, criminal background checks, status of Federal debt, tax information, duplication of benefits data from FEMA, flood zone, verification of real property ownership with title companies, and courthouse records, et

cetera. All of this is an improvement over our old system, and we have used it successfully already for over 15,000 applications.

In response to Katrina, Office of Disaster Assistance is staffing up by hiring temporary employees to verify losses, to provide customer service on the phone and in the field, and to process and disburse loans. ODA is hiring over 200 employees a day, and we already have over 2,000 employees on board just focused on Katrina, and we expect to have another 2,000 to meet the ongoing needs.

By design, the Office of Disaster Assistance ramps up when a disaster strikes, and that saves taxpayers hundreds of thousands of dollars by keeping the staff low in times of low disaster activity. Our SBA ODA employees are in over 30 Disaster Recovery Centers (DRC's) and more are opening daily. At our DRC's customer service representatives and loan officers provide Katrina victims with one-on-one assistance, issuing and helping them fill out applications, answering questions. They are also accepting completed applications and making follow-up calls to victims that have not returned their applications.

We also plan a Business Assistance Center in the New Orleans area, Senator Landrieu, and I promise you that as soon as it is safe for our folks to be in New Orleans and for our folks to get back there, we will be there every day and we will be there to help them. We are already helping a lot of them in our Baton Rouge operations, where many residents of New Orleans are currently staying, as well as in our other Disaster Centers.

Herb and his staff have done a magnificent job. ODA has ordered equipment and is training new field verification staff for Katrina as it would for any disaster, but obviously on a much larger scale. When Katrina struck, ODA had 300 DCMS tablets—these are the computers—to meet the demands of ongoing disaster activity included in the immediate response to Katrina. ODA immediately ordered more tablets—we have already received 560 of 600 that we ordered—and we have 400 more in the pipeline.

I would also like to discuss the other steps SBA is taking outside of our usual programs. Last weekend, I met with a number of business leaders. It is inspiring to see their willingness to help. One business is already seeking ways to work with SBA to help us leverage our business matchmaking events to assist small businesses in the Gulf region.

SBA has assigned four Procurement Center Representatives, or PCRs, to Katrina-related contracting, and our Office of Government Contracting is meeting with Small Disadvantaged Business Utilization Officers from all of the major agencies to help focus attention on small business opportunities. SBA is also working with the General Services Administration to help update sourcing lists and to help small businesses enter the Central Contractor Registration Database of small businesses available for contracting in the Gulf region.

While the administration's priority is always to provide emergency services as quickly as possible, SBA is committed to ensuring that small businesses get fair opportunities. Our Small Business Development Center partners have come forward in an exemplary fashion to assist small businesses damaged by Katrina. We are working with them to enable them to provide services from neigh-

boring States and across the country, and to that end, I have approved a waiver for SBDCs to help in the disaster areas.

I also want to discuss the proposals from the President's speech. SBA supports the President's goal of rebuilding not just New Orleans, but the entire Gulf region and the designated Gulf Opportunity Zones, or GO Zones. SBA will have the following role: Increase the maximum size of SBA business-related disaster loans from \$1.5 million to \$10 million. SBA disaster loans to a business will cover activities that are typically capped at \$1.5 million. The proposal would increase that to \$10 million for businesses in the declared disaster area who were adversely affected by Hurricane Katrina. Raising that cap should help business activity recover more quickly by facilitating access to low-interest loans to cover physical and economic injury.

We want to increase disaster mitigation loans. When providing a loan for uninsured costs, SBA can increase the loan amount by up to 20 percent so the borrower can invest in mitigation technology, such as storm shutters, for example. The administration proposes raising the amount, basing the calculation on total damage.

For example, if a business had \$100,000 in damage, they may have \$80,000 insured and \$20,000 covered by an SBA disaster loan. Typically, a mitigation loan in that example would be 20 percent of \$20,000. The administration proposal would raise eligibility to 20 percent of the \$100,000 damage, a five-fold increase in the amount eligible for mitigation.

Increase the maximum size of surety bonds from \$2 to \$5 million. Small businesses often need bid and performance bonds for contracts. These bonds assure the contractor's customers that the contractor has the financial capacity to perform the work. The larger bonding limit would assist small businesses in a disaster area to secure contracts, especially those related to reconstruction.

We want to provide 7(a) and 504 loan borrowers with the options for deferring the principal and interest payments for a 12-month period. In order to allow affected small businesses in the disaster area to rebuild, the administration supports providing borrowers with options to defer principal and interest payments on existing 7(a) and 504 loans for up to 12 months. Under certain circumstances, participating lenders and certified development companies can make such deferrals available. Where a deferral is not available, alternative means of temporary relief may be needed, including economic injury disaster loans for working capital needs. Through these measures, borrowers could better regain their financial footing.

SBA is also planning to defer payments on agency serviced business loans in the disaster area and is asking our lending partners where possible to do the same on SBA loans that they service.

We want higher GO Zone specific 7(a) and 504 loan levels for 2006. The current program authorization set SBA nationwide 7(a) loan volume at \$17 billion and 504 loan volume at \$7.5 billion. The administration proposes to provide higher authorization levels for those in the GO Zone area during 2006, ensuring that lenders will be able to make small business loans in that area. GO Zone area

levels will be \$10 billion for 7(a) and \$5 billion for 504 in addition to the levels that are already authorized.

Once Hurricane Katrina hit the Gulf Coast, SBA's Office of Disaster Assistance immediately began its outreach, as we do in all disasters. Immediately, ODA was in contact with our regional offices, with our Small Business Development Centers, and with our local community-based organizations. Things are moving along quickly, and I am pleased to report that we are serving those affected by this disaster well with the manpower and the technology to continue to do so.

Again, I want to thank you, Chair Snowe. I want to thank all of the Members of this Committee for giving me the opportunity to speak to you today. I look forward to answering any of the questions that you might have.

[The prepared statement of Mr. Barreto follows:]

PREPARED STATEMENT OF HECTOR V. BARRETO, ADMINISTRATOR,
U.S. SMALL BUSINESS ADMINISTRATION

Good morning, Chair Snowe, Ranking Member Kerry and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's (SBA) Office of Disaster Assistance (ODA) efforts to provide relief to the victims of Hurricane Katrina.

I am accompanied today by Herb Mitchell, the Associate Administrator for Disaster Assistance. Herb is long-time career employee of SBA with over a decade of experience in our Office of Disaster Assistance. I want to tell you how happy I am to have Herb as our head of the disaster office; he is a man of experience, dedication and skill.

Herb and I have just returned from Louisiana and Texas. We learned firsthand the destruction caused by this massive storm, but more important, I met with citizens—homeowners and small business owners who were affected. We also met with our SBA disaster assistance employees on the ground and, I can tell you, I have never been more proud of the work we do at SBA.

I visited our disaster recovery center staff and our displaced New Orleans District Office staff in Baton Rouge, as well as our Disaster Loan Processing and Disbursement Center staff in Fort Worth. They have done an excellent job and are carrying on in the best tradition of Federal service. In response to that, I am committed to offer them all the support they need to carry out the SBA's disaster assistance mission.

Before detailing SBA's expanded recovery efforts in regards to Hurricane Katrina, I think it is important to give some background on SBA's disaster programs. The SBA Disaster Assistance Program is the primary Federal disaster-assistance loan program for long-range recovery for private-sector, non-agricultural disaster victims. Disaster loans are direct loans from SBA and eligibility is based on financial criteria. Interest rates fluctuate according to statutory formulas. Currently, the interest rate for loans for people *without* credit available elsewhere is 2.687 percent and the rate for people *with* credit available elsewhere is 5.375 percent for homeowners. For businesses the rates are 4.0 percent and 6.557 percent, respectively. It is important that everyone understand that SBA disaster loans are not just for small businesses, in fact, the majority of SBA disaster assistance is directed to homeowners, to help rebuild their homes.

SBA has two kinds of business disaster loans. Physical disaster loans provide qualified businesses of any size that have sustained uninsured losses up to \$1.5 million with funds to repair or replace business property to pre-disaster conditions. These loans may be used to replace or repair equipment, fixtures, and inventory, and to make leasehold improvements. Economic Injury Disaster Loans (EIDL) provide up to \$1.5 million in working-capital loans for small businesses that suffer economic injury as a direct result of a disaster, regardless of whether the property was damaged. These loans are made to help small businesses pay ordinary and necessary operating expenses that they would have been able to pay if the disaster had not occurred.

The bottom line is that SBA's disaster loans help rebuild communities. SBA doesn't just help the small businesses, but their friends, and neighbors—their customers. Disaster losses are unexpected and create financial hardships for most dis-

aster victims. Our disaster loans make recovery affordable through three factors; low interest rates, longer terms (up to 30 years), and refinancing under certain circumstances. SBA disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help spur employment and stabilize tax bases by protecting jobs.

SBA responded immediately to the President's disaster declaration for Hurricane Katrina and continues to expand and increase assets to ensure that our delivery of disaster assistance goes smoothly. Yesterday, I visited our processing center in Fort Worth. We have expanded that facility by 40,000 square feet and added phone and computer connections to increase our capacity to process applications. To date, SBA has received a record number of referrals—over one million. We have been sending out applications and are preparing to receive them back.

I would also like to address “head on” the misguided press accounts of computer problems in the Office of Disaster Assistance (ODA). Nothing could be further from the truth. Our prior system, the Automated Loan Control System (ALCS), was cumbersome, unreliable, outdated and does not comply with current IT security requirements. The ALCS was not a loan processing system but a tracking system that interfaced with our mainframe to fund and disburse loans. A separate automated Loan Officer Report system was used for underwriting and operated on a different platform. Finally, we also used a legal document generation system which also operated on a different platform. The technologies for all of these systems are outdated and inefficient. Last year in one of our offices the ALCS broke down during the Florida hurricanes; and it took nearly a week to be repaired. The delay was due to the need for parts, parts for a system that is so old no one carried replacement parts. Faced with the possibility of future failures, SBA many years ago moved forward to build our new Disaster Credit Management System (DCMS) now being utilized for Katrina. The DCMS is a totally integrated web-enabled system that performs all of the necessary functions on one platform with the latest technology.

This system has been in use since December of 2004 and allows SBA to process loans electronically in a paperless environment. Processing and disbursement of disaster loans is now centralized in Fort Worth, Texas, with a back up processing location in Sacramento, California. Both locations have sufficient numbers of desktop computers to process and disburse loans. The DCMS is a “paperless,” electronic loan application and loan process, which improves the processing of paper-based applications through imaging (scanning).

DCMS introduces “virtual” loan processing, making electronic loan files available for processing anywhere, by anyone, and at any time, regardless of where the disaster occurs. The system will ultimately provide for multiple interaction methods between the disaster loan applicant and ODA, such as internet loan application which is under development.

The DCMS improves SBA access to external data sources that provide credit reports, criminal background checks, status of Federal debt, tax information from the IRS, duplication of benefits data from FEMA, flood zone mapping with FEMA, verification of real property ownership with title companies and court house records, etc.

All of this is an improvement over our old system and we have used it successfully for over 15,000 applications.

ODA is staffing up to meet the demands of this disaster, as it does for all disasters, by hiring temporary employees to verify losses, provide customer service to the victims on the phone and in the field, and process and disburse loans. ODA is currently hiring over 200 employees a day. We have over 2,000 disaster employees on board right now and we expect to hire perhaps as many as another 2,000 to meet the needs of those affected. By design, ODA staffs up to meet the needs of disaster victims when disaster strikes. This staffing up is transparent to disaster victims and saves taxpayers hundreds of thousands of dollars by keeping the staff low in times where little disaster activity is occurring. By way of example, we had approximately 800 employees ODA wide at the time of the Hurricane.

Our SBA ODA employees are in over 30 disaster recovery centers and more are opening daily. At each of these DRCs, there are customer service representatives and loan officers providing Katrina victims with one-on-one assistance, issuing loan applications, helping to fill out applications, and answering program questions. They are also accepting completed applications, forwarding them to Fort Worth, and making follow up telephone calls to victims who have not returned their applications. We also plan to establish a Business Assistance Center in the New Orleans area. As soon as it is safe to for the residents of New Orleans to go home, SBA will be there to help them.

Herb and his staff have been doing a magnificent job. ODA has ordered equipment for and is training new field verification staff for Katrina as it would for any

disaster but on a much larger scale. At the time Katrina struck, ODA had 300 computerized DCMS “tablets” on hand to meet the demands of regular and on-going disaster activity, including the immediate response to Katrina and has a contract with a vendor to provide more as needed. ODA immediately ordered more tablets and has received 560 of the 600 it has ordered, with 400 more tablets in the pipeline.

I would also like to discuss some of the other steps SBA is taking outside of our normal programmatic efforts. SBA is considering a number of efforts to assist small business outside of usual programs. Last weekend, I met with a number of business leaders. It is inspiring to see their willingness to pitch in and help. One business is already seeking ways to work with SBA to help us leverage our business match-making events to assist small business in the Gulf Region.

SBA has assigned four (4) Procurement Center Representatives (PCRs) to Katrina-related contracting. Our Office of Government Contracting is meeting with Small and Disadvantaged Business Utilization (SDBU) officers from all major agencies to help focus on small business opportunities. SBA is also working with the General Services Administration (GSA) to establish up to date sourcing lists for small businesses and helping small businesses enter the Central Contractor Registration (CCR) data base of small businesses available for contracting for reconstruction and clean up in Gulf region. While the Administration’s priority is always working to provide needed emergency services as quickly as possible, SBA is committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort.

Our Small Business Development Center (SBDC) partners have also come forward in an exemplary fashion to assist with counseling and business development assistance for small businesses damaged by Katrina. We are working with them to enable them to provide services from neighboring states and across the country. To that end, I have approved a regulatory waiver for SBDCs to help in disaster areas.

I also want to take some time to discuss the proposals outlined in the President’s speech last Thursday. SBA supports the President’s goal of rebuilding not just New Orleans but the entire Gulf region devastated by Katrina. In the area that the President has designated Gulf Opportunity Zones (GOZ), SBA will have the following role:

INCREASE THE MAXIMUM SIZE OF SBA BUSINESS-RELATED DISASTER LOANS FROM \$1.5M
TO \$10M

SBA disaster loans to businesses for recovery activities are typically capped at \$1.5 million. The proposal would increase the limit to \$10 million for businesses that were adversely affected by Hurricane Katrina and are located in the declared disaster area. Raising this cap on loan size should help business activity recover more quickly by facilitating firms’ access to low-interest loans to cover physical damage and economic injury.

INCREASE DISASTER MITIGATION LOANS

When providing a disaster loan for uninsured recovery costs, SBA can increase the loan amount by up to 20 percent so that the borrower can invest in disaster mitigation technologies such as sea walls and storm shutters. The Administration proposes to raise the amount that can be provided for disaster mitigation by basing the calculation on the total damage caused by the disaster loan. (For example, a business that receives \$100,000 of damage may have \$80,000 covered by insurance and \$20,000 covered by an SBA disaster loan. Typically, SBA’s mitigation loans would be limited to 20 percent of the \$20,000. The Administration’s proposal would raise eligibility to 20 percent of the \$100,000 damage—in this case increasing by five-fold the amount of disaster loan lending eligible for mitigation.)

INCREASE THE MAXIMUM SIZE OF SURETY BONDS FROM \$2M TO \$5M

Small business often must secure bid and performance bonds in order to win contracts. These bonds assure the contractor’s customers—including those in the public and private sectors—that the contractor has the financial capacity to perform the requisite work. The larger bonding limit would assist small businesses in the disaster area secure contracts, especially those related to reconstruction.

PROVIDE 7(A) AND 504 LOAN BORROWERS WITH OPTIONS FOR DEFERRING THEIR
PRINCIPAL AND INTEREST PAYMENTS FOR A 12-MONTH PERIOD

In order to allow affected small businesses located in the disaster area to rebuild their enterprises and cash-flow, the Administration supports providing borrowers with options to defer principal and interest payments on existing 7(a) and 504 loans

for up to 12 months during fiscal year 2006. Under certain circumstances, participating lenders and Certified Development Companies can make such deferral available to the borrower. Where a deferral is not available, alternative means of providing temporary relief to the borrower may be needed, and could include the issuance of an Economic Injury Disaster Loan for the working capital needs of the small business. Through these measures, borrowers could better regain their financial foundations. SBA is also planning to defer payments on certain agency-serviced business loans in the disaster area and is sending a notice to our lending partners asking them, where possible, to do the same on SBA business loans that they service.

HIGHER GOZONE-SPECIFIC 7(A) AND 504 LOAN LEVELS IN FISCAL YEAR 2006

The current program authorizations for fiscal year 2006 limit SBA's nationwide 7(a) loan volume to \$17 billion and 504 loan volume to \$7.5 billion. The Administration proposes to provide higher loan levels specifically for the GOZone area during fiscal year 2006, thereby ensuring that lenders will be able to make small business loans in the area. GO Zone area limits will be \$10 billion for 7(a) loans and \$5 billion for 504 loans in addition to the levels already authorized for the regular programs.

Once Hurricane Katrina hit the Gulf Coast, SBA's ODA immediately began its outreach, as we do in all disasters. Immediately, ODA was in contact with our Regional Offices, SBDCs, and local community-based organizations. Things are moving along quickly and efficiently. And I am pleased to report that we are serving those affected by this disaster well and have the manpower and technology to continue to do so.

Thank you, Chair Snowe and Ranking Member Kerry, for affording me the opportunity to speak to you today about this very important topic. I look forward to answering any questions that you might have.

Chair SNOWE. Mr. Mitchell, do you have any comments?

STATEMENT OF HERBERT L. MITCHELL, ASSOCIATE ADMINISTRATOR, OFFICE OF DISASTER ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Mr. MITCHELL. Well, certainly I can echo Hector's comments. I mean, one of the things that—and it is very challenging, we just spent 3 days in Louisiana, Texas, and speaking to some of the individuals there in the business community—and one of the things that the business community kept impressing upon us, it is not only that the business community needs to recover, there is a whole issue around employees and getting employees back in that community and temporary housing, and obviously those things are beyond the scope of SBA, but if you are going to look at long-term community economic recovery in those areas, there is a whole host of things we have to look at beyond just disaster loans in terms of making that community work again.

Chair SNOWE. Thank you. I appreciate that comment, and maybe that is something, as well, we will have to look at because, obviously, that is a larger question.

Are you going on? Do you have additional—

Mr. BARRETO. He had a chart that we would like to share, if we can put it up there.

Chair SNOWE. Oh, absolutely. Is everybody ready to—

Mr. MITCHELL. One of the things we thought we would do, since we also are going through a reorganization that the Administrator approved in March and our original plan was to take 18 months to actually restructure the Office of Disaster Assistance, but what we have done, we have actually already started and we have actually expedited it.

Prior to this reorganization, we operated with four separate area offices around the country. Basically, those offices operated independently with their own computer systems. When one office was busy, the other one may not be.

What we have done with this reorganization is what we call a team concept. We have centralized processing in one location. We have a call center in Buffalo, in one location. We have two Field Operations Centers, East and West, Sacramento and Atlanta.

Do you want to go through the slides?

The Field Operations Centers are responsible basically for exactly what it is. It is basically managing the Recovery Centers and the field locations, making the outreach to the SBDCs and our resource partners, the lenders, working with the media, and also with the congressional staff.

Specifically for Hurricane Katrina, the Sacramento Office is handling Louisiana and our Atlanta office is handling Alabama.

The Recovery Centers themselves, this is actually where the victims of the disaster come in. There are a number of agencies there, including SBA, but FEMA and SBA are the primary agencies that are located there providing the assistance to those victims that come in with the application, answering their questions, and helping them fill out the applications.

We can just go ahead on through that one. Go to the next one.

One of the unique things in this disaster obviously is the extent that the business community has been impacted, and in addition to the Disaster Recovery Centers, we are planning to open, and we already have, I think, in Alabama, open a Business Assistance Center, and Hector already mentioned that we will open one in New Orleans. The plan is to go ahead and open that in Louisiana near New Orleans as soon as we can get into New Orleans, to then move that center. We are not going to delay in opening the center to wait until we can actually get there.

We have already mentioned the outreach to the Small Business Development Centers and also mentioned that Don Wilson, who is here who is President of the Association of Small Business Development Centers has been working closely with us in all three States. Their counselors are on site and providing assistance to the business community, as well, in completing those application packages.

Go on to the next one.

This chart simply gives you the total of the activity that we have received to date. The numbers are staggering. We are 3 weeks into the process. We have seen—and this has been updated as of last night to over a million referrals from FEMA. Field staff, we had about 2,300 total in the area office, 446 of those in the field. Hector mentioned we are hiring at the rate of about 200 a day, but in order to do that, we are actually interviewing about 400 applicants a day, and where possible, we are hiring folks locally in those communities to assist us in the Recovery Centers.

In fact, we were in Fort Worth yesterday in the Loan Processing Center where evacuees are located in Dallas. We have hired some of those individuals, as well, that are working for us in the Processing Center, as well.

The last page just simply gives you the congressional points of contact for Mississippi and Alabama and Louisiana.

With that, I will close and certainly we are open to any questions that you may have.

Chair SNOWE. Thank you.

[The information of Mr. Mitchell follows:]

U.S. SMALL BUSINESS ADMINISTRATION—DISASTER ASSISTANCE

FEDERAL DISASTER LOANS FOR HOMEOWNERS, RENTERS AND BUSINESSES OF ALL SIZES

SBA'S ROLE IN DISASTER RECOVERY

FIELD OPERATION CENTERS (FOC) EAST AND WEST

- Inform public with up to date information on all open disaster declarations.
- Perform outreach in the disaster impacted area in Disaster Recovery Centers, Business Assistance Centers, and SBA workshops.
- Perform Preliminary Damage Assessments in conjunction with local, State and Federal officials.
- Contain Congressional Liaisons, Public Information Officers (PIOs), and Field Operations.

HURRICANE KATRINA FIELD OPERATION CENTERS (FOC)

- The FOC responsible for Louisiana is located in Sacramento, CA.
- The FOC responsible for Mississippi and Alabama is located in Atlanta, GA.

DISASTER RECOVERY CENTERS (DRCS)

- These centers have representatives from FEMA, SBA and the State providing assistance to disaster victims.
- Depending on the size of the disaster, other Federal, local and volunteer agencies may be present.

SBA CUSTOMER SERVICE REPRESENTATIVES AT EACH DRC

- Issue applications.
- Respond to applicant inquiries.
- Assist individuals in completing applications.
- Accept completed applications.
- Close disaster loans.

BUSINESS ASSISTANCE CENTERS (BACS)

- Provide SBA disaster loan information to businesses (large or small) and non-profit organizations that were adversely impacted by the disaster.
- Issue business loan applications packages.
- Screen completed application packages.
- The BAC responsible for Alabama is located in Mobile, AL.

OUTREACH TO SBDCs

Disaster staff:

- Contacts local SBDCs in the declared disaster area.
- Provides program overview and updates on current SBA disaster activities.

OUTREACH TO COMMUNITIES

Disaster staff:

- Speaks to community-based groups, including civic clubs and organizations, Chambers of Commerce, etc.
- Represents SBA at town meetings.

KATRINA GRAND TOTALS

- Cumulative referrals—918,822
- Applications issued—878,181
- Field staff onsite—446
 - Alabama 98 in 10 sites

- Louisiana 140 in 30 sites
- Mississippi 208 in 11 sites

FOC CONGRESSIONAL POINTS OF CONTACTS

Mississippi and Alabama

- Field Operations Center—East
- Michael Lampton, 404-347-3771

Louisiana

- Field Operations Center—West
- Rick Jenkins, 916-735-1500

Chair SNOWE. I would like to recognize the Ranking Member, and I just want to reiterate our commitment to work together to make sure that we can do everything to deliver the resources that are available to SBA to help mitigate this tremendous disaster.

Senator Kerry.

**OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY,
A UNITED STATES SENATOR FROM MASSACHUSETTS**

Senator KERRY. Thank you, Madam Chairman. I really appreciate the coordinated nonpartisan and bipartisan efforts that we have been making in this Committee and I thank you for your leadership on this and thank you for having the hearing today.

I apologize very much for being late. I expected to be on time, but I was meeting with some of the families, military families of kids who were in Iraq, and I must say it was very moving. One couple, a grandfather and grandmother, had two sons who had been over there for two deployments, a grandchild is over there, and you listen to their sort of personal travail at this time. That is why I am late and I apologize for it.

I just will say very quickly, obviously, this is important. Small businesses have just been clobbered, and it is starting over for so many people, but for a lot of them, it is also how they are going to just be able to quickly pull themselves back together.

We are fond here of talking about small business as the engine of our economy, which is true nationally, but even more so in this particular region. Any recovery is going to be led by these small businesses being able to recover as fast as they can. I think there are some 200,000 or so in the area and some estimated 150,000 have been really negatively impacted.

The questions are enormous of how quickly they are going to be able to get back on roads that aren't open, get supplies that can't get there, workers who can't work there. It is just a huge task and the SBA is going to clearly have an enormous ability to be able to make a difference here and we hope they will.

I am not going to interrupt it further than to say that this is very important and I apologize for missing your testimony, but look forward to fleshing out some of these issues.

Chair SNOWE. Thank you very much, Senator Kerry.

Just to begin the line of questioning, I think first and foremost is to make sure that you have the adequate resources to respond to the magnitude and the scope of this disaster. Obviously, it is unlike any that you have had to grapple with in the past. I know you have had to deal with other hurricanes previously. I would like to have you compare the resources that you have today with those in the past. I mean, just given the numbers that you mentioned, Mr.

Mitchell, in your chart about the number of counselors and agents on site and it is a total of 446. I am just wondering if that is going to be sufficient to address the needs given the overwhelming nature of this devastation and the amount of need that is out there.

Also, I understand that you are recruiting, what, 2,000 workers—

Mr. BARRETO. It could potentially be at least 2,000 more, and we will bring on as many as we need. You know, in some ways, we are in a much better situation than we were last year when we were trying to deal with those four hurricanes. As we got to the end of our fiscal year, and, of course, we are nearing that in the days before the beginning of the new fiscal year, we had some resources available to us. We had several hundred million dollars that we could use for administrative costs, and, of course, we have been busy using that money here at the very end. We also had about \$2.6 billion in budget authority that was left over for us.

In terms of the immediate needs, in terms of the phase we were in, we definitely had the money that we needed. Now, obviously, going forward, that is something that is going to have to be assessed and evaluated, and, of course, we are going to be operating in our new budget. It is very, very likely that we are going to need to go back and have the supplemental to be able to do the job that is going to be before us.

I would like to have Herb comment specifically, because he obviously mentioned it, about the day-to-day operations in the Disaster Office. He can give you some specifics of how we have been employing those resources that we have and our plan for future resource needs.

Mr. MITCHELL. I think, clearly, the 446 employees that are in the field today are not enough. They are enough in terms of meeting the needs of staffing the Recovery Centers that currently exist, and I clearly expect that the number of Recovery Centers are probably going to go up at least four times.

We are expecting at some point to probably have 1,500 to 1,700 folks in the field, and that is a combination of not only the Recovery Centers, but the inspectors that will actually be going on site doing the estimation of damages and coming up with those loss amounts.

Part of the issue here is that it is the infrastructure, getting access, and I have to tell you the response period on this disaster has lasted longer than most disasters in terms of the emergency situation and that is the delay with some of the Recovery Centers, particularly in Louisiana and some other places, in Alabama, as well, and in Mississippi in terms of the infrastructure and getting set up so that we transition from response to recovery.

Chair SNOWE. I think it is going to be important to move as quickly as possible, even to put people in place in rural locations to have more accessibility, because given the breadth of the damage, I mean, I was down in New Orleans the other day, and I know that Senator Landrieu and Senator Vitter have been there on the front lines and seeing the devastation. It really, in Mississippi, it is extraordinary. I think that it is going to be best to get everything in position so that when people are prepared to come in and submit their applications, that there are people who are available.

Some of the people who will be testifying in the second panel indicated—and I just am going to give you some of the comments so that you can respond, so that will be helpful here—that they have no reliable information, that FEMA, SBA, insurance companies aren't unified so it becomes incredibly confusing, according to testimony from the second panel, because I think it would be helpful for you to hear so that you can respond—

Mr. BARRETO. Sure.

Chair SNOWE [continuing]. That FEMA makes it impossible to quote a price, for example, so that they can make home repairs. The SBDC, some have been destroyed in Louisiana and New Orleans specifically, and again, so they are overwhelmed for those that are remaining and don't have the resources. Is it possible to have SBDCs contracting with other professionals like CPAs and banks or something to help expedite this process?

These are some of the comments I just want to put out to you right now that we will hear from the second panel.

Mr. BARRETO. Absolutely. Well, I was in the Disaster Recovery Center yesterday in Fort Worth, our Processing Center, and they were preparing 80,000 in one day, 80,000 applications that they were sending out. Of course, they are receiving thousands back. There is a tremendous amount of volume that we are seeing there and we are responding to everybody as quickly as possible.

As you know, the process—and sometimes it is difficult for folks to distinguish the different players, who is public sector, who is private sector, what are the steps they need to take. Obviously, we are communicating to everybody that we possibly can through every forum that we have, whether that be through mail, whether that be through information that we are distributing—we produced hundreds of thousands of information cards with all of the appropriate information, through the media, through PSAs, through all of our resource partners, getting that word out there.

Obviously, if you are having difficulty getting an answer, that is very frustrating and you don't really care why you are not getting the answer, you just want the answer. For the first step for us by the requirement is that everything has to begin with FEMA, and then FEMA immediately refers that over to us and we respond to it immediately.

With regards to the insurance companies, I am not clear in terms of exactly what that glitch was that the individual is finding, but obviously, to the extent that we can be working together with the private sector, with our lenders, with the insurance companies to expedite these loans, we want to do that.

With regard to SBDCs, as Herb mentioned, and I will let him comment on this again, we have already been in very in-depth conversations with them, meeting with them. I recently spoke to their national meeting, talking to them. We did training at that national meeting. SBDCs are right now and will continue to play a critical role in helping us to assist these small business owners with a whole host of things, not just the disaster applications and some of the immediate things that we are doing, but they are going to have a pivotal role to play over the long term, because one of the things that we want to make sure that we are doing at the same

time on parallel tracks is bringing as many tools to the table as possible.

A lot of these folks, and we saw this after 9/11, are going to need assistance transitioning their businesses. They may never have had to do that before. Okay, how do they change their business? Do they have to change their business model? Do they have to change their business plan to be able to get some conventional financing? Are they going to look at doing things with government that they never did before?

For example, I got a call from a very prominent business woman from New Orleans who said, "You know what, I have never done government contracting before but I am going to now and so I need your help." And so we are working with her on that, as well.

Do you want to talk a little bit about some of those issues, Herb?

Mr. MITCHELL. Just a couple things specifically with the SBDCs, and we agree with him. We have got to do more and we have got to speed up that process. Part of the Federal response with the Recovery Centers, obviously FEMA has to lead along with the State and the local officials in terms of where those centers are and we follow that process so that, hopefully, there is a coordinated effort of a number of agencies in the Recovery Centers.

In regard to the SBDCs, we have been working very closely with them and certainly are aware of the acute need for additional space. There have been several lenders in all three States that have come to us to make space available and we are going to put the SBDCs and those lenders together in terms of that space.

We are initiating conversations with the National Credit Union Administration to make some of their facilities available.

What we are doing is we are trying every avenue possible where we can identify space, where business owners can come into their community to get assistance. That is what we are working on.

This issue of people not having information is critical. One of the things we shared with the business community when we were there is that the business community, an awful lot of times, can't wait for the process. They have to make individual decisions. It is amazing, if we are able to get to them, even if we can't make them a loan or if SBA is not the option, the avenue they want to pursue, is that they are able to understand what their options are.

For example, a lot of business owners may not know that even if they have insurance and they are negotiating with their insurance, they don't have to wait until they settle that process. They can still apply to SBA. We can still make the loan. We can take an assignment in the insurance policy and they can still take their time to negotiate. It is not knowing those options.

Believe me, we are doing everything we can to try to reach out to those communities and make staff available and town hall meetings, wherever we need to be to make sure that they understand what is available as they go through their options. We understand the process sometimes takes a lot longer, but they need information in order to make decisions today.

Chair SNOWE. Senator Landrieu.

Senator LANDRIEU. Thank you. I do have just a few questions, and I thank you all for your concern and your focus because it is going to require, as I have said many times, an unprecedented na-

tional response, not only from the Federal Government, but from State and local governments involved and from the business community and faith-based communities. It is an unprecedented disaster.

As Senator Kerry said, there are over 200,000 small businesses and counting that have been directly affected, and let me say, because some of our panelists, Madam Chair, are not from the areas of emergency, but their businesses are in dire straits because either their main buyers, like restaurants in New Orleans are out of business so crawfish farmers in Lafayette are going broke, for instance, and they will give some of that testimony.

As we say, talking about the seven parishes that were primarily affected by the winds and the water, almost every parish in Louisiana and small businesses are really struggling because their customers or their suppliers were in the region, and that is true of the Gulf Coast because we act as an economic unit.

As Waveland was hit, some people in Shreveport who have businesses and suppliers in Waveland are now suffering because their business in Waveland, their associates are gone, so it really is a quite difficult situation.

No. 2, I want to support what Mr. Mitchell said. Even if the Small Business Administration could act perfectly, and no agency can, and do everything within the context of small business, you can't get businesses stood up if people don't have houses to live in, highways to drive on, airports that planes will land in to bring businesses and supplies, and railroads that are working.

I just ask this Committee to be broad in our view as opposed to narrow and see how we can really reach out because it really is a comprehensive package that has to be put together and we are a part of that.

Just a specific question. You have 878,000 applications that have been issued. How many have been processed to date, do you know?

Mr. MITCHELL. We have actually received about 12,000 back. I think out of that, we probably have processed, oh, I have the numbers—

Senator LANDRIEU. And approved, processed and approved.

Mr. MITCHELL. I don't have that number here, but I think it is pretty close to about 1,500 that have actually been processed. I do have the approval number. Only 76 have been approved for about \$4 million so far.

Senator LANDRIEU. To date, we have 878,000 applications, the numbers that you gave for having been processed, and then to date, 78 approved. I raise that, Madam Chair, not out of any criticism but just to say how huge this is and how much faster we have to go.

Senator Vitter and I are introducing a package today which we hope Congress will look at very carefully on some things based on what you have already done, which was extremely helpful. Our businesses need immediate debt relief. They can't pay their mortgages because they don't have the buildings. They can't pay their credit card debt because they don't have any cash flow. They can't pay the notes on their vehicles because they all went underwater, or a lot of them did.

We have got to find a way for this Katrina and Rita, which is going to happen in Texas, the same thing, to make national like a 6-month break or something that they can just get their legs up underneath them. They just can't go borrow more money. They can't pay on the debt they owe now. Most small businesses operate, as you know, on a very tight—even with successful small businesses.

My point is, without going into a long speech, which I am sure you two have thought a lot about, is we have got to come up with a different mechanism that is quicker, easier, simple in the sense that everybody understands what it is, a 6-month kind of break. Then it allows the system to set up.

The other point is, with hiring people that are coming quickly, I think that is a good thing and I want to support not having thousands of people on in between hurricanes, but the problem is, when you go to hire them, are we hiring qualified people that are trained? Are we hiring people that really don't understand what to do so it complicates the situation because then they are giving wrong answers to important questions? That is an issue and I would like you all to address that.

One other thing, safety. You should ask the Mayor of New Orleans and the presidents of the parishes or the Governor whether it is safe to come back and don't listen to, excuse me, to CNN and FOX News and other things. You should just ask them, because I have been there many times. I am fine. It is safe in some places, not only law enforcement safe, but environmentally safe, and you can go into St. Tammany, Jefferson, and the region is used to acting that way. You don't have to be in every neighborhood. People are used to going—they can't go to their neighborhood, they know. They shop in Jefferson. Jefferson shops in Orleans. Just go wherever you can and get help quickly, and people at home know where to go.

Those were just some of my questions. One more. I have several complaints—I will put this in the form of a question to you, Mr. Mitchell, or to you, Mr. Barreto—of there are large contractors coming through FEMA not using local folks, No. 1, because we want to use the businesses there that need the business anyway, so we want local people, and minority- and women-owned businesses. I have heard many instances where their applications have been passed up for out-of-town. Could you comment, Mr. Mitchell or Mr. Barreto, on what you are doing to make sure our local people get looked at first, and particularly our minority, qualified minority contractors and women-owned contractors.

Mr. BARRETO. I will take a first stab at those four and then I will let Herb add as he would like.

With regards to the applications, you know, we normally get 50 percent of those applications back. In other words, a lot of folks will ask for it, and it is smart for them to do that because they are weighing all of the different options. When you see these huge numbers, we already know that a lot of these, we will not get back. As I mentioned, we are calling people where we can and reminding them, you know, to send us that application back.

As far as loans, we have to underwrite these loans, but we are working very diligently because we know, for example, that there

are a lot of folks in normal loan situations who have difficulty coming up with documents and being able to provide the information that we need to finish the underwriting process, and that has just been exacerbated by this disaster. Wherever possible, we are not putting in the ballpark and saying, "Okay, unless you get me this piece of documentation, I can't go any farther."

We are doing everything that we can to get that information ourselves, whether that be through the IRS, whether it is us going directly to the credit agencies, whether it is us going to other sources of information, or maybe their accountant or somebody else that they did business with.

I will let Herb talk a little bit more about the applications that we are receiving, and we are processing as quickly as possible. There is nothing that is happening right now that is preventing us from processing applications quicker. We are just deluged right now with a lot of informational requests. We are sending out a lot of information, et cetera.

That is starting to level off a little bit. I mean, we got up to these million refunds very quickly, but we are not seeing these huge amounts of requests for applications like we were in the very beginning. That doesn't mean that we won't have more. I am just saying that it sped up to where we are at right now and more are coming, of course. If Rita hits, this is going to be exacerbated.

With regards to the qualified employees, we have what we refer to as a cadre staff. In other words, we have folks like Herb and other senior managers who have been with us for years. I mean, these are the experts of the experts. They have been through a tremendous amount of disasters before. They are our top people and we are fortunate to have them, and many of them have been with us for years and years.

The folks that we are bringing on board oftentimes are specialists. For example, we need to bring in attorneys. We need to bring in loan processors. We need to bring in inspectors. These are people that have very specific areas of specialization and we are finding them. In fact, I asked that question yesterday to our HR head for the Disaster Office, are you getting the people that you need? What does the quality look like, et cetera, and he said the quality has been great, and by the way, we are trying to hire as many as we can from the affected areas, but we are also casting a wide net. We want the best people that we can to be able to respond to this disaster quickly.

With regards to going back into New Orleans, we agree with you. Before this recent evacuation, our Disaster Office was planning to go back in there. I have a great Director down there, and you may have met him before, Eugene Cornelius. He is working very closely with the State. He is working very closely with the Mayor. They have a very excellent relationship. They were planning on coming in there and setting up and starting to help people immediately.

The problem is—there are a couple of problems. One is that as soon as they were ready to go in, they were told they couldn't come in, and then the second thing is this was the second evacuation. The third thing is a lot of our people have been personally affected. Most of our people lost their homes, as well. They are victims, as well, and so they don't have any place to live. We are trying to get

them mobile homes and trailers and places. It just shows you the quality of our people. They are not even paying attention about their own disaster. They are trying to get back to help the small businesses.

Of course, as soon as the Disaster Recovery Centers are open, our people will be there. We always are, and we will definitely be there. I am talking about our disaster folks. We will take them down there and we will find places for them to live. You know, we have had a lot of challenges, yet one of the things that we saw right at the very beginning is that, okay, our folks didn't have a place to stay so they were driving, oftentimes 2 hours just to get into the affected area, and then they were having problems getting gas.

There have been a number of different challenges that make this unprecedented—

Senator LANDRIEU. Can I just add one thing on that—

Mr. BARRETO. Sure.

Senator LANDRIEU [continuing]. And then I am going to stop. You have been very gracious.

Madam Chair, this whole issue of prepositioning first responders and having, before the storm or disaster, put families of first responders in safe places has come up for law enforcement, for police, and now for small business, in other words, anyone that has to respond. We have to have a system where their families are moved to a safe place days before the storm so that those individuals could come back in and work, because if they don't work, nothing works. I mean, if our first responders can't work, nothing works. Even if you have got the greatest system in the world, some of which you have just described, a good system, maybe not the greatest but good, it can't work without trained people on the ground. It is a challenge. We are not there yet.

Mr. BARRETO. The last issue that you mentioned, Senator, was with regards to contracting, and we are very, very focused on this. I mentioned in my testimony the PCRs that we have brought on board to dedicate directly to Katrina. We have interfaced with the rest of our PCRs, having them identify opportunities for folks inside the affected area. We have already met with our contracting counterparts in all of the agencies, talking to them about identifying opportunities.

I think there is a misunderstanding that nothing has been relaxed in terms of the goals that we have for small business and especially minority small business. That is something that the President talked about in his speech.

One last thing I want to mention to you, we have been working very closely with Michael Olivier, the Secretary of Economic Development for Louisiana. In fact, he came and visited me in my office, brought his team on board. We talked about a number of different issues, many of the issues that you are bringing on board.

He strongly suggested that I come and visit him, and I did that this last week and we had a very, very productive day of meetings with the business community, with the lending community, with the State government, with the local government, with FEMA, with the disaster response folks. They were very effective.

Now, one of the things that he has mentioned to me, he said, "Look, Hector," he said, "we have got to do all these things. We have got to get the money and we have got to help them transition," he says, "But they are not going to make it unless they have business. They need business." And, he says, "You have got to help me get them some contracts."

One of the things that we are talking to him about and we are working on, as you may remember, we have had a very successful business matchmaking program that we have conducted over the last couple of years. We have set up 40,000 one-on-one appointments over the last couple years with the buyers of every Federal agency and many Fortune 500 companies and he has asked us to bring that program to him in Louisiana and we are working to do that as soon as possible.

Normally, it takes months to be able to gear up and to do all the logistics and bring all the buyers in. We are not going to do it in months, we are going to do it in weeks, and the great thing about this is that not only do we have commitments from procurement officials at all the government agencies, but the private sector wants to participate in this, as well. Fortune 500 companies want to give their contracts to those small businesses.

We will get them in our system. We will make sure—already, Michael has told us, Michael Olivier, he said, "Look, I have already got a database of small businesses here that you can use to invite to these business matchmaking sessions immediately." By the way, we want this to be regional, so obviously we are going to go in and do the first one in Louisiana, but we also need to do one in Mississippi and make sure that we include the Mississippi and Alabama small businesses, as well.

By the way, our vision for this is that once we do those initial ones, we want to do this kind of business matchmaking on an ongoing basis. We have the technology to be able to do that. We call that virtual matchmaking. We don't have to do events and bring people into the area to match up these procurement officials with those small businesses. We know that they are going to need business for a long time, and so this is something that we are working on immediately, and obviously minority business will have a major role in getting those appointments that we set up for the small businesses in the affected area.

Chair SNOWE. I would add a couple of points to that. I think it is going to be critical that on subcontracting, I am concerned about the waiver of small business in the supplemental, that overrides small business. It is also essential that the small businesses in the affected area participate extensively and substantially in the procurement process because the government is going to be the biggest buyer here in many ways.

Mr. BARRETO. We agree.

Chair SNOWE. Therefore, we have got to make that as part and condition in this whole effort, as well. That could certainly help with the economic recovery.

I understand you have one staffer responsible for small business subcontracting in Louisiana and none in Alabama or Mississippi. That has got to be a priority because that could be the first step

in the recovery for many small businesses, which is to participate in the procurement process.

Mr. BARRETO. Absolutely, and as I mentioned, we are already directing resources to those areas. I mentioned our Procurement Center Representatives. We have four that are already tasked exclusively with Katrina. All of the other PCRs have been tasked with this, as well. We have four that are dedicated to it, and whatever we have to do internally with our GCBD Department, we will do that.

Chair SNOWE. Okay. Thank you.

Senator Isakson.

Senator ISAKSON. Thank you, Madam Chairman.

Administrator Barreto, many of your lenders are community banks and medium-sized banks. Given the pervasive damage of the hurricane to all small businesses, what is the state of your lenders?

Mr. BARRETO. Well, we have been meeting with them. As I mentioned to you, I met with them in Louisiana. I met with some in Texas. A lot of these folks are, especially in the affected areas, are also transitioning. You know, they also were victimized. They were also affected. A lot of them, fortunately, had good contingency plans.

One of the major banks there, and excuse me, I have forgotten their name—I can get you the name—has told me that they are already operational and they will already be back to where they were before. Now, they are not in the area, but they have already set up some alternate sites for their employees and they are already working on it.

There is no doubt about it that the lenders were affected and they are also part of the response that we are going to need to do to make sure that we are doing everything that we can to work with them so that they can start doing the lending that is so necessary to bring these people back.

Senator ISAKSON. Is the capability there to close loans that are underwritten and insured by SBA? Are those resources available?

Mr. BARRETO. Yes. We haven't seen any—to this point, I would say to you that some of the ramifications of this are probably going to become evident in the weeks and months to come, but as of right now, what they are saying to us—and again, I haven't spoken to every single lender, but we have met with a group of government guaranteed lenders and their attitude towards us has been really more of, we want to be involved. We want to do everything that we can to respond to the folks that have been victimized.

Senator ISAKSON. Well, I have a special love for New Orleans. I spent my honeymoon there and spent most of my money educating one of my kids at Tulane, so I don't want this question to sound the least bit hard-hearted, but I do want to ask a question.

Senator LANDRIEU. Give him an application for a loan.

[Laughter.]

Senator ISAKSON. I support your recommendations both for the increase in the physical disaster loans as well as your proposal on disaster mitigation loans, the 20 percent of the aggregate amount rather than just the amount funded. I do want to ask this question.

Mr. BARRETO. Sure.

Senator ISAKSON. The underwriting of loans causes people to make good decisions. I was in the real estate business for 33 years, and could not have functioned were it not for loans, many of them government-insured, FHA, VA, things like that. Part of your responsibility is to assess the value of the security for the loan or the enterprise or the business, and in these disaster mitigation loans and disaster relief loans, you are going to be funding leasehold improvements and equipment which are capital purchases and then in the disaster mitigation category, you are funding things they can do in their business to prevent the next hurricane, i.e., Rita, from causing a repeat of the same damage.

My question is, how much of the underwriting in the physical disaster loans and subsequently disaster mitigation loans are going to be tied together so that as you make these loans, you are also causing good things to happen on the site so that the next hurricane might not do the damage that the last Hurricane Katrina did?

Mr. BARRETO. I am going to defer that question to my expert here who deals with all of the particulars of the underwriting process as it relates to disaster loans.

Herb.

Mr. MITCHELL. The basic two criterion in disaster lending, once we get past the eligibility questions, such as: Are they in a declared area? and those kinds of things, all we are looking for is satisfactory credit history and repayment ability. We are primarily a cash flow lender. We look at the pre-disaster position and financial condition of the company, and if they were operating satisfactorily, we make the assumption that they will continue to do so and that is the basis upon which we make the loan.

We take whatever collateral is available to secure it, but if the collateral is not there to secure the loan, we will still make the loan as long as the applicant has a satisfactory credit history and repayment ability.

Senator ISAKSON. If I might, I understand you are a cash flow lender, but I also understand that a physical disaster loan is in part a loan to rebuild leasehold improvements. You are going to have a recommendation later from NFIB about some advanced depreciation for some of these things—

Mr. MITCHELL. Sure.

Senator ISAKSON [continuing]. But you don't take into any consideration that you are financing something that might be damaged again when the next storm hits?

Mr. MITCHELL. Well, part of the criteria, the condition for making the loan, is that they must obtain and maintain insurance. Otherwise, they are not eligible for any future assistance from us, and that is probably going to be one of the issues in some of those areas. When we made loans in a lot of those areas the condition is if we have made them a loan in the past, they must have purchased insurance and maintained that. We are then only going to cover the uninsured portion of that.

Senator ISAKSON. My only point is this. You make loans to cover that amount above what is insured. Your example in your speech, Mr. Administrator, says if a company had \$100,000 in damage but only \$80,000 insurance, you will make a loan of 20 percent of

\$20,000. You want to make it 20 percent of \$100,000 in your recommendation.

If you are making that loan to someone, your underwriting, I think, should encourage them when they spend that money to rebuild in a more responsible way so that the next storm that hits doesn't maybe wipe everything out again. All I am trying to say is we have got a chance to cause people to do things better—

Mr. MITCHELL. We agree with you 100 percent and understand. We have to get a proposal from them as to exactly what they plan to do in the way of mitigation and it needs to make sense. We will evaluate that and fund it accordingly. You are exactly right. I mean, that is the whole idea.

Senator ISAKSON. Well, that is going to save them and SBA and their lender a lot of money in the future.

Mr. MITCHELL. That is exactly right.

Senator ISAKSON. Thank you, Madam Chairman.

Chair SNOWE. Thank you.

Senator Kerry.

Senator KERRY. Thank you, Madam Chairman.

Just following up on a couple of things, on the 2,000 people that you are employing and some 2,000 employees you plan to hire, where are they going?

Mr. BARRETO. Well, they are going in a number of different places. A lot of these are in our center where we are processing all of the loans, and one of the things that I mentioned in my opening statement was that we have already gotten some additional space and we have options even for more space because we think that we are going to need it. We are going to have a lot of people—

Senator KERRY. Is that in that Fort Worth center?

Mr. BARRETO. Yes, sir, Fort Worth. Of course, we will also have people in the affected areas. You know, one of—

Senator KERRY. How many people are going to be in the vicinity, in the region, visible and moving around?

Mr. BARRETO. We can give you the absolute numbers that we have right now, and some of this is a product of how many centers are opening up. You know, we talked about we have 30 centers already. Herb mentioned earlier that usually by this time in, if you could ever consider something a normal disaster, the centers would have already been open, we'd already have people in there, already interfacing with the folks that need the help. This is so different because there are a lot of places that we can't have a center in just yet.

Herb, why don't you mention how many folks we have on the ground and what is anticipated, because not only have we brought on 2,000, but we also mentioned that we are making plans for maybe hiring an additional 2,000, as well.

Mr. MITCHELL. Just to use some comparison, with the four hurricanes last year, we had pretty close to 1,700 folks actually in the declared areas, and that is a combination of customer service representatives, loan officers, and inspectors, and we clearly expect to have that again. I clearly think at some point we will have a presence of about 2,000 people, with about half of those actually being inspectors that will actually be going on site once we get the loan

application in to verify the damage and come up with the estimates.

Senator KERRY. What is the background of these folks? Do they have prior disaster experience?

Mr. MITCHELL. What we have is actually, and more so with the construction estimators, we have what we call a reserve force that we basically train and we call them back repeatedly when it is needed. A lot of these folks have worked for us before. We have a database of about 6,000 folks that have worked for us—

Senator KERRY. So you are drawing on a pool of people that are experienced—

Mr. MITCHELL. Right, and even before the disaster is declared, we are calling, we are clearing people, re-instating credit cards, we are doing all of that even before the disaster is declared.

Senator KERRY. As the Director said a few answers ago, some of the ramifications of this are not going to become evident for several months.

Mr. BARRETO. Sure.

Senator KERRY. Given that reality, Senator Landrieu and I wrote to you on September 1 and again on September 13 asking you to extend the application deadline on the physical disaster loans from October 28, because a lot of people aren't even going to be able to get back in to assess damage by then.

Mr. BARRETO. Right.

Senator KERRY. Can you give us an answer today as to whether you will agree to do that?

Mr. BARRETO. You know, we have the ability to be able to extend, and we have done that many times before. As you know, we had to do that a couple of times after 9/11. We have done it for other disasters. As I mentioned, if there is a need and we find that there are a lot of folks that just are not able to get us their applications during the prescribed time, we will definitely look at that and extend it accordingly.

You know, that is kind of where we are at right now. We talked about the fact that we have sent out a lot of applications and we are waiting for a lot of those applications to come back to us. Normally—

Senator KERRY. Where do you send them?

Mr. BARRETO. Well, they are sending them—we send them to a lot of different places. A lot of these folks have already given us an alternate address, a relative. A lot of them give us an address of where they are staying at. You know—

Senator KERRY. Those are the people who have contacted you?

Mr. BARRETO. So far, yes.

Senator KERRY. What about the people who don't know about it?

Mr. BARRETO. Well, we put out a lot of information. I think a lot of folks know that—because one of the things that happens is people know that the first place that you have got to go is FEMA, 1-800-621-FEMA. They are calling FEMA and FEMA is immediately getting those people and bringing them to us. Most people, I think, know that if you need some type of assistance, if you need a place to live, if you are looking for a grant, if you are looking for some information on something that you need, that is the first place that

everybody is being directed to and those referrals that have come to us have come to us from FEMA.

Senator KERRY. Have you had any evidence that you are not able to keep up with the demand at this point?

Mr. BARRETO. At this point, we haven't seen anything that has told us that. You know, always, you are concerned about how quickly you are going to be able to respond, and especially something of this proportion.

I have got to tell you, we have got people right now working 7 days a week on this disaster response, around the clock, and I was worried about them and I went up to talk to them yesterday, but these folks, they are very, very committed. They are very energized, if you will, and they are challenging themselves in ways that they have never done before. You know, they have a goal every day of how many folks they are going to be able to talk to and how many folks they are going to be able to get applications from and they push themselves to meet that.

I will let Herb comment on what he has seen so far, but we haven't seen anything that has told us that we are not able to keep up with what we have seen so far.

Mr. MITCHELL. Obviously, part of the challenge here is the number of applications coming in and the number of calls. We are gearing up to try to be able to process, and we clearly expect at some point to have 3,000 to 5,000 applications a day and that is what we are staffing to.

Senator KERRY. One of the issues that concerns me, and I think others, is the question of coordination with other agencies. When we had the red tide attack this summer up in New England—Maine, New Hampshire, Massachusetts were very hard hit. We had some 1,700 shellfish operators losing about \$3 million a day. When they went to SBA to get a loan, they were told, well, you are not small businesses. You can't get loans—you are farmers. We don't give farm loans. When they went to the Farm Service Agency folks, they were told, you are not farmers and we don't give loans to non-farmers. They were caught in between and aid didn't come.

What is happening now? You have got a huge shellfish industry down in Louisiana, which as Senator Landrieu says has been really hard hit. Who are they going to get assistance from? Is it going to be clear to them from the outset that they get small business disaster assistance?

Mr. BARRETO. I believe it should be. I mentioned that one of the persons that we are working very closely with is the Secretary of Economic Development for the State of Louisiana and he has brought this to our attention. We are working very closely with him to make sure that we get the information out to those folks and to help them every way that we possibly can. You know, some of those folks—

Senator KERRY. Does that include, in fact, lending to them?

Mr. BARRETO. I am sorry?

Senator KERRY. Does that include lending to them?

Mr. BARRETO. Absolutely.

Senator KERRY. Okay. So they will qualify?

Mr. BARRETO. Obviously, we have to look at every case that comes to us. I mean, there are a variety of reasons why people may

not qualify that may have nothing to do with the industry that they are in—

Senator KERRY. I understand that. I do understand there are some other requirements they have to meet. I think one of those problems was the definition of aquaculture, if I recall, is that correct?

Mr. MITCHELL. That is correct.

Senator KERRY. Is that resolved?

Mr. MITCHELL. We are going to have to get with Agriculture again and go through that. I mean, we are in contact with them and we need to make sure that we are clear exactly as to the definition and where those folks should go. We should not bounce them back between each agency once we make that determination.

Senator KERRY. Well, do we need to put that into a bill? We are working on a bill now that we are going to put through. Do we need to put that clarification in and make it absolutely clear so there is no interagency struggle here?

Mr. MITCHELL. Well, I am not sure that it is an interagency struggle. The issue, once—Agriculture has a definition for aquaculture. The issue becomes what that business is actually doing and where they are deriving their revenue from, and once that assessment is made, then they should go to the appropriate agency, once we make that assessment of that business activity.

Senator KERRY. What does that mean? I am not sure I understand. If you are in the crawfish business or the shrimp business—

Mr. MITCHELL. Well, the question of aquaculture is whether or not you are actually raising fish as opposed to catching. If you are catching and you are a commercial activity and processing, then it is SBA. If you are raising fish, then it is Agriculture. A lot of times, businesses are involved in a combination of both.

Senator KERRY. That is why I am asking you. We need to get assistance to them. Somebody who needs assistance doesn't want to get caught in this bureaucratic snafu. They need money and they need a loan. What we have got to do is make sure that this is as clear as a bell so that they don't get, the run-around or fall through the cracks. They are going to go crazy.

Mr. MITCHELL. Right. I think part of the solution is wherever they come into, once we make that determination, that the agencies abide by that determination that is made.

Senator KERRY. We have actually passed a bill in the Senate. Senator Snowe and I have addressed this issue. It is in the House now and it has gotten held up, frankly, because you folks haven't signed off on it. If you could sign off on it, we could get this out of here and get it done.

Mr. BARRETO. Senator, we will be happy to work with you on that. If the industry in the affected areas—if we have a lot of cases where this is going to be a problem, then obviously it is incumbent upon us to be working very closely with the Department of Agriculture.

The worst possible thing, and I think Herb alluded to this, we don't want folks to be getting the runaround. We don't want to add to the confusion of it. We will work together with you on that and we will also assess what the needs are of the folks in the fishing

industry. A lot of those folks, as you know, have lost their boats. They have lost their customers. They are going to need a lot of different kinds of help and we have got to be there for them.

Senator KERRY. That is why the coordination, I think, is going to be so critical——

Mr. BARRETO. Yes, I agree.

Senator KERRY [continuing]. I just urge you to take a look at that.

Do I have another moment, Madam Chairman?

Chair SNOWE. You may.

Senator KERRY. The Committee was contacted by the National Association of Realtors because in Louisiana, Mississippi, and Alabama, realtors are not currently eligible to participate in the economic injury disaster loan program. They are disqualified because apparently they have to be independently owned and operated and SBA interprets that to mean that they have to be, “free from significant control by other entities, which includes a broker.”

Now, the problem, or catch, is that the association with a broker is required by State law, even though they are out there on their own. For realtors, their business has evaporated, they need an emergency loan, but they are disqualified, again, by definitions. What can we do about it?

Mr. BARRETO. Again, I am happy to look at that. This is the first that I am hearing about this. I don’t know if you have any input on this.

Mr. MITCHELL. I have that issue on my desk right now. I have asked staff to work with counsel, to come back, to take a look at whether or not we need to take another look at that. It is policy, so we have some flexibility there. I mean, all we are trying to do is to make sure if somebody, a business owner, that they are independently operating, that they have—they are invested in the business and they take the risks of profits or loss. We are looking at that to see what flexibility that we can apply to help that particular industry.

Senator KERRY. Fine. As I close, I just urge you, Mr. Administrator—I regret that you are not formally at the cabinet table, but I think you have got to guarantee that Katrina rebuilding contracts are going to go to small business. So far, we are reading about big companies and I think it is really important to start sending the message out there about contracting with small businesses. I hope you will weigh in as heavily as possible to get those contracts out to small businesses, particularly the local and regional ones who are capable of delivering, as fast as possible.

Mr. BARRETO. It is a priority, Senator, and I will make sure that that happens.

Senator KERRY. Thank you, Madam Chairman.

Chair SNOWE. Thank you, Senator Kerry.

Senator Thune.

Senator THUNE. Thank you, Madam Chair and Senator Kerry, for holding this hearing, and I thank the panel, Administrator Barreto and Mr. Mitchell, for being here, and I especially want to extend a welcome and thank you to the small business owners who are here from Louisiana, Mississippi, and Alabama. Clearly, there are things right now that you could be doing back in your home

area, providing you can get into your home area, to address all the incredible challenges that are raised by this hurricane, but we are glad to have you testifying in front of this Committee and making that sacrifice so that you can inform the Senate about your businesses, how they are being impacted and what things we might be able to do to assist you. I appreciate your being here.

Administrator Barreto, I just wanted to—as was noted earlier today by Senator Kerry and others, the amendment to the Commerce, Justice, Science Appropriations bill that was passed through the Senate does give SBA expanded tools to help families and businesses that have been harmed by the hurricane, and some of those provisions align with the President's proposals that were unveiled last week during a speech in New Orleans, including increasing the maximum size of SBA disaster loans and deferring repayment of those loans for up to 12 months.

From your perspective, does that legislation give you the capabilities you need to meet the rebuilding needs of the Gulf Coast, or is there anything that we are missing or are there other things that we ought to be doing, as well?

Mr. BARRETO. I think some of the provisions that you have mentioned will be very, very important. I mean, increasing the loans to \$10 million, I think, is going to be important. The changes that we make to disaster mitigation loans and the increase that we can do there, I think that is going to be very, very important.

We are interested, and I mentioned this in my testimony, to increase the surety bond level. You know, there is going to be a tremendous amount of construction down in that area. A lot of small businesses have already come to us and said, we want to be part of that, but we are going to need some additional bonding, so we want to increase that to \$5 million. Obviously, we want to authorize the deferment, the 12-month deferment on interest and principal for existing 7(a) and 504 loans. That will provide some of the relief that Senator Landrieu was talking about.

We think it is very, very important to increase the budget authority that we have to make 7(a) loans and 504 loans, and to make sure that the amounts that we do get inside of the Gulf Area are separate from our normal budget authority. You know, we want to take it from \$17 billion and \$7.5 billion—I am sorry, \$17 billion for the 7(a) and \$7.5 billion and increase that another appropriate amount, \$10 billion on the 7(a) and an additional \$5 billion for 504. We think those things will help give us some additional tools that we don't have right now that will enable us to help a lot more small businesses.

I will tell you that we are getting—it is great and it is very, very good. We are getting a lot of ideas coming in from the Governors, from the Senators, from Mayors, from our lenders, and we are going through as much of that as quickly as we possibly can. There are some very, very good ideas there. There are other things that we really need to evaluate and see where we can do the most good for the most folks.

Again, we have kind of been through this before. We saw after 9/11 and some of the other disasters where we had to change things a little bit to do the most good for the most small businesses for that particular disaster, and every disaster is different, and, of

course, we are dealing with something now on a scale that we have never seen before, but at the same time, with distinctions from other disasters that we have had.

Those five things that I just mentioned, I think would be very important. I know that is all part of the legislation, and we want to and will continue working very closely with this body and with the Chair and the Ranking Member on any additional proposals that they might have.

Senator THUNE. After 9/11, there was a GAO report issued in 2003 that indicated some of the metrics that the SBA used for determining disaster loan performance were not fully reflecting the program's actual performance, and I am assuming, of course, that you want to have good information in front of you when you make these decisions about the effectiveness and performance of the programs, and obviously, as the Committee with jurisdiction over the SBA, we want that information, as well.

Have you made any changes since that report to help ensure that the data we are getting is accurate and that we are measuring the right data?

Mr. BARRETO. Absolutely. It is critically important, and again, I think that sometimes there is a misunderstanding in that the GAO report wasn't saying that the SBA wasn't doing the right kinds of disaster loans or that we weren't helping people that were affected. What they were saying is that the way that we are measuring the metrics wasn't fully capturing some of the goals that we had, but it wasn't really talking about the specific benefits that we were able to provide.

We have made some changes. We have an effective loan monitoring system now that we didn't used to have. I mean, when we first started, we didn't have an effective way to monitor our loans. We have got some very experienced people now that have been doing this for a while. We have automated a lot of our process. We have a lot better information. We have a lot of very good access to our lenders and we are working with them and talking with them every single day on other loans that we make.

I believe that we have made some definite enhancements and will continue to do that and I would be glad to provide you with a list of some of those specific items.

Senator THUNE. Do you think that the interagency communication, sometimes I think there is a frustration not only here with us, but also as the public observes some of this, that agencies of government, that one hand doesn't know what the other hand is doing, that there is just an awful lot of confusion out there. How would you characterize the interagency communication between, for example, SBA and FEMA?

Mr. BARRETO. Well, I think it has been good. First of all, FEMA and SBA are kind of joined at the hip any time that there is a disaster just by the very nature of disaster response. We have to work very, very closely with them. We are true partners in every sense of the word.

First of all, we are co-locating in all of their facilities, and we have to. I mean, there is no way we can do our job if we are not able to be in all the facilities because that is where the victims are going to be.

Also, we work very closely on communication efforts. In fact, I was just in Baton Rouge—let me see what day of the week it is—on Monday and we did a joint press conference with FEMA to make sure that we are communicating to all the press and to the local community where FEMA starts and where it stops and then where SBA begins and so forth.

We have had a very effective relationship, and I will also tell you that there are existing relationships that go back years and years. I mentioned that Herb has been with us for over 10 years. He has developed some pretty good relationships with FEMA folks that have also been there for 10 years. These are the experts. These are the professionals. These are the people that do this every single day.

I will tell you that wherever I went last week, whether it was in Baton Rouge visiting a Disaster Recovery Center, whether it was visiting the FEMA headquarters in the area, whether it was visiting the Houston Disaster Recovery Center, everywhere I went, when I talked to the leader of FEMA in that facility, they said—because I would ask them, I said, “Is there anything that we are not doing? Is there anything that you need? Is there anything that we could do better?” Every time, and please don’t overhear me, we are not complacent by any stretch of the imagination, but every time they said, “We have no issues with SBA. Everything is smooth. I know your people. I don’t worry about SBA.”

I think in terms of the relationship that we have had with FEMA ourselves, that it has been very good, very positive, and if there are any challenges going forward, I think we have the relationships and the experience to be able to mitigate that immediately so there is not anything that is going to affect any of the folks that are requesting disaster assistance.

Senator THUNE. I appreciate your answers and we welcome your ongoing input about things that we could, can be doing, tools that can be provided to the small businesses in that region that will help them get back on their feet. I think it is going to be critical in terms of this recovery and in getting the economy going again and jobs created, that we need to be very aggressive in attacking this challenge.

Again, Madam Chair, I appreciate you holding this hearing. I have got a statement I would like to have included in the record.

Chair SNOWE. Thank you. Without objection, it is so ordered. Thank you, Senator Thune.

[The prepared statement of Senator Thune follows:]

PREPARED STATEMENT OF HON. JOHN THUNE, A U.S. SENATOR FROM SOUTH DAKOTA

Chairwoman Snowe, Ranking Member Kerry, other Members of the Committee, and last but not least, our witnesses—thank you for putting this hearing together and for participating on such short notice. I would like to extend a special welcome and thank you to the small business owners here from Louisiana, Mississippi and Alabama. I am sure you have important things you could be doing right now to get your businesses back online after Hurricane Katrina. Instead you are testifying before our Committee. You have made a sacrifice to come here and inform the Senate about how your businesses are being impacted by the Hurricane. Thank you for making that sacrifice.

I am also looking forward to hearing from Administrator Barreto about what all the SBA is doing to help with the recovery effort. As some of you may know, the SBA does something of a transformation during times of disaster. The SBA transforms into the primary Federal source of government loans for homeowners, renters,

and business owners that have been impacted by the disaster. Unfortunately, SBA has had a lot of recent experience with disaster assistance loans.

After 9/11, SBA helped small businesses in New York and around the country that were hurt by the economic downturn associated with the terrorist attacks. By the end of fiscal year 2002, SBA approved more than 9,700 loans for a total of \$966 million to assist in the recovery efforts of September 11 victims nationwide.

Following the unprecedented four hurricanes that struck the Florida coast during the summer of 2004 and resulted in disaster declarations in approximately a quarter of the United States, the SBA approved more than \$2.1 billion in disaster loans to about 64,500 residents and business owners in the affected areas. SBA has stepped up to the task during these times of need. By providing loans in an accessible and efficient manner, the SBA has helped bridge the gap between disaster and reconstruction.

That being said, there are still inefficiencies that can be improved. Initial news reports on the SBA response to Katrina have been mixed. I am looking forward to hearing about the experiences of the small business owners on the ground. I am interested to hear how quickly SBA and the rest of the Federal Government is responding to their needs and helping them help themselves.

The Federal Government can and should play an important role in the clean up and redevelopment of the Gulf Coast. The best laid government program will never match the worth of a private church or civic organization helping those in need or an entrepreneur opening up a new small business that creates new jobs. The best thing we can do as the Federal Government is to try and facilitate these other parts of society and be conscientious of not getting in their way.

With that I would like to say that I am looking forward to the testimony and hearing from the small business owners who are going to be the real catalysts in redevelopment as they prepare to flip over the "open for business" sign and get the Gulf Coast economy moving again.

Chair SNOWE. To follow up on that, on being efficient and removing the conflicts between and among agencies, one of the approaches the Coast Guard takes, as chair of the Coast Guard Subcommittee and with whom I visited New Orleans and Gulfport, Mississippi, on Monday, is that their can-do attitude is this, they will ask questions later. If they confront a problem, they address it and they don't ask if it is some other Federal agency. They don't ask if it is a State responsibility, a local responsibility. They just go about and they do it.

I think that in this instance, given the dimensions and the scope of this disaster and this rebuilding effort that is going to be the largest and perhaps costliest, and we don't even know what is going to be compounded with Hurricane Rita. All the more reason to break down these bureaucratic barriers.

So I urge you from that standpoint, let us not get in the way, whose jurisdictional lines, you know, a certain responsibility belongs to. I think we have just got to eradicate them for all practical purposes and we can solve the rest later.

A few points that I want to make. The deadline which Senator referred to on October 28th, in our legislation, and I am hoping—again, as our goal is to assemble a package that we can move under unanimous consent—get it passed by both the House and Senate, signed by the President, including which in our amendment was extending that deadline for a year. We think that is very important.

Secondly, recruiting people from across the country, if that is possible. I know that is what the Coast Guard did. When they prepositioned actually their aircraft and their ships, they also prepositioned people. They assembled teams from every Coast Guard station in the country to come in, and so were able to move

in immediately after the hurricane, if not during, to begin responding to the crisis at hand. I would also urge you that in some ways.

I know housing is an issue I have seen firsthand, again, and people are there in the makeshift operations down there, and I know it has been especially difficult. You may think about putting people—again, what Senator Landrieu was referring to, about perhaps setting up shop in some of the parishes that are operational, again, consulting with local officials about what is doable, and right now, obviously the circumstances have changed down there because of the hurricane that is about to descend again in the Gulf. In any event, but that is another dimension. If there are operational needs, maybe it is better to have some centers set up there, as well.

On the procurement, please, I think that is going to be absolutely vital for small businesses to have access to the procurement opportunities that will be provided with the role the government is going to play in this rebuilding effort. I would urge you—and I am very concerned about these waivers in the supplemental. We couldn't hold up the supplemental for what it represented, obviously, for assistance, but I was very disappointed to find that waiver slipped in there on subcontracting plans for small businesses that could cost up to \$80 million in subcontracting and perhaps, I don't know, was it \$3 billion or so a year for small business prime contracts. This is significant. This is not the time—it never is, but certainly this is not the time to shut out small businesses—

Mr. BARRETO. I agree.

Chair SNOWE [continuing]. The procurement opportunities and to be overrun by all the large businesses because they need the job. This is going to be—you know, the vitality of the economy is represented by the small businesses that can survive this. I would urge you in that standpoint.

Finally, looking at the numbers in the applications filed, I see that the referrals are a million, but the applications approved is 76. Obviously, it is going to take some time. There is a huge gap between the referrals, and also, you have got 12,000 received. Approved have been 76, not your fault. Obviously, it is going through the process. At some point, all of the sudden, you are going to be overwhelmed by the numbers—

Mr. BARRETO. Right.

Chair SNOWE [continuing]. Between what was submitted for applications and the processing. I would hope that you are really prepared with the resources, both personnel and otherwise, to be responding to all of that.

Mr. BARRETO. We absolutely agree and we are using this time very wisely by training all the folks that need to be trained, by getting the additional space, and by the way, we have options for even additional space. We are really very fortunate. I visited the operation. It is already set up. In other words, we have gone into space now that already has the cubicles, already has the phone systems, already has computers. We can be operational in the additional space as quickly as we need to be.

We hear you loud and clear, and believe me, Herb and I meet on this every day. I mean, he is meeting on this every hour to make sure that we are ready for what is coming.

Chair SNOWE. I appreciate that, and please keep us informed of everything and anything that needs to be before us and that really does require our attention, because we want to eliminate as many problems as possible in this process and make it as easy as possible under these arduous circumstances of people who have been directly affected.

I appreciate your leadership, Administrator Barreto, Mr. Mitchell, thank you, and for your resolve and your commitment to bring the resources to people who desperately need it. Thank you.

Mr. BARRETO. Thank you, Senator Snowe and Senator Kerry. Thank you very much.

Chair SNOWE. No, thank you. Thank you.

Senator KERRY. Could I just ask a couple of other questions.

Chair SNOWE. Oh, yes. I am sorry. Administrator Barreto, I am very sorry.

Senator KERRY. I just have a couple—

Chair SNOWE. Okay. I didn't—

Senator KERRY. That is okay. No, no, no, go do what you have to do. I will just be 2 minutes.

As we both know, there has been the recent controversy over the 7(a) STAR loans.

Mr. BARRETO. Yes.

Senator KERRY. Obviously, we don't want that to undermine what happens with respect to Katrina response.

Mr. BARRETO. Yes, sir.

Senator KERRY. In an effort to try to make sure it doesn't, we put a provision in the amendment that authorizes the SBA to make the supplemental loans for Katrina victims that included oversight protections. Do you support, No. 1, that amendment that allows the 7(a) supplemental loans, and No. 2, the \$75 million?

Mr. BARRETO. Thank you for the question, Senator. First of all, let me say that we have spent a tremendous amount of time lately, and we will spend as much as we need to, to make sure that people understand the difference between our disaster loans and what these STAR loans were intended to provide. It has been very unfortunate. There has just been a lot of inaccurate reporting, a lot of misrepresentations, and to be perfectly frank with you, this has affected a lot of our lenders and a lot of the small businesses that we are trying to help.

We have gotten a lot of calls from our lenders saying, what is going on? We were trying to help small businesses and now we are being accused of doing something that we shouldn't have done. We followed what the regulation was. We followed what the intent was. We helped those small businesses. Those small businesses that are calling their lenders now saying, "Hey, I have got customers calling me saying that they are not going to do business with me anymore because they think that I have done something wrong. They think that I have taken money that I shouldn't have taken."

This has been very, very unfortunate. We are trying to correct the record every place that we could. I know how important those STAR loans were to you after 9/11 to be able to stimulate the economy and to get money into small businesses that were suffering through no fault of their own. There are many, many businesses,

as you know, outside of the declared disaster area in New York and outside the Pentagon that were suffering. They were screaming for help, the many industries. You mentioned some industries today. We were getting calls from the tourism industry. We were getting calls from the aviation industry. We were getting calls from businesses in airports. It was tremendous.

Obviously, we need to do everything that we can to help small businesses. Our primary focus right now is to help those hundreds of thousands of businesses inside the declared disaster area. I am happy to continue working with you on this issue.

One of the things that I also have to do is reassure our lending community that if we are able to do these loans, that it is going to be different this time, that they are not going to be accused and attacked—

Senator KERRY. Obviously, we want people to know it is different; and our goal is to make sure Katrina folks—well, we specifically put in the amendment, Senator Snowe and myself, a bipartisan effort with Senators Vitter and Landrieu, et cetera, that the supplemental loans for Katrina can go to people indirectly impacted. We are saying, and we clarify guidelines so that we define what constitutes “adversely impacted.” I think we have done our job.

What I want to know is, given that clarification, are you supportive of giving loans to those folks and of the \$75 million?

Mr. BARRETO. As I said, as we are dealing with the fallout right now, and it is a daily thing that we are being attacked, the last thing I would want to do is create more victims, you know, create small businesses, again, through no fault of their own, that are going to be attacked for getting a regular—

Senator KERRY. Are you saying to me you are not supportive of that—

Mr. BARRETO. I am not saying that I am not supporting it. I would be happy to work with you on that. First, we need to assess how—

Senator KERRY. Let us do that right here, right now.

Mr. BARRETO. Well, I am happy to. I am happy to work with you right now, but as I said, coming off the heels of where we are already suffering on the STAR loans, I want to make sure that if we are able to do it, that we do it right and that everybody is clear as to what the responsibilities are of all of the partners in this.

Senator KERRY. I am trying to figure out where we are.

Mr. BARRETO. Again, I am happy to continue to work with you on this issue, but—

Senator KERRY. In other words, you are not necessarily—

Mr. BARRETO. I am not ready to make a commitment today to do a Star loans II unless we really are able to understand exactly who is going to get those loans, because again, we have spent a lot of time reassuring our lenders. I have been talking to them. Everywhere I go, the lenders come up to me and say, “Hey what is the deal with this STAR loan program?”

Senator KERRY. I understand. But, Senator Landrieu has clearly pointed out how outside of the immediate, “disaster area”, you have major suppliers and others who are obviously hurt—

Mr. BARRETO. Many of those will be able to qualify for our regular disaster loans or economic injury disaster loans, which have much better terms, obviously, lower interest rates, longer terms, more liberal and flexible underwriting. We know that there are hundreds of thousands of small businesses that are going to need our help and that could potentially qualify for a disaster loan. We want to make sure that they get those direct disaster loans with the favorable rates, and then obviously we are going to continue to assess what the ramifications are.

You know, I remember after 9/11 it took us some time before we were able to really understand what the impact is, and especially with a potential second hurricane hitting and we are not even out of the hurricane season. This is something that I think could continue to be an issue for us to deal with for some time.

Senator KERRY. Well, I am not trying to—I don't want to litigate the case here now, obviously. I am not trying to. I just want to make sure we don't throw the baby out with the bath water.

Mr. BARRETO. Sure.

Senator KERRY. There is a clearly distinguishable, it seems to me, impact area and effect that we ought to be able to arrive at an agreement on, and I would hope that we do. I mean, helping areas outside of New York that were harmed by the ripple effect of 9/11, that was the original effort in the STAR program. As a result, businesses in Seattle or the Virgin Islands wind up being the recipients of those loans if they were harmed. So—

Mr. BARRETO. As you know, Senator, these were regular 7(a) loans, working capital loans, regular ones that we make to small businesses. These were small businesses that were applying for these loans because they were affected after 9/11, and we worked very closely with our lenders to understand that. There was a tremendous amount of effort by all of us to make sure that we not only educated the lenders, but we were able to get that help where the help was needed.

If the intention was to stimulate the economy and to save thousands of businesses and tens of thousands of jobs, I think we were very effective in being able to do that. If we are able to do this going forward, I just want to make sure that folks are clear, because I am really concerned that the kind of misrepresentation and misinformation on these STAR loans—

Senator KERRY. We want to help you to clarify it.

Mr. BARRETO [continuing]. Is going to occur again, and the last thing I need—I said in an editorial that I wrote, this is the second injury. These small businesses through no fault of their own got a regular 7(a) loan. In fact, one small business said, "Look, I didn't get such a great deal here. The interest rate was high. I want to rework that loan to get a lower interest rate right now."

A lot of these small businesses, again, did nothing wrong and they are being accused of taking disaster money, which is not true. These were not disaster loans. These were our regular 7(a) loans.

Senator KERRY. Therefore—

Chair SNOWE. Can we—

Senator KERRY [continuing]. We shouldn't have any problem at all in being able to do this under this other mechanism.

Mr. BARRETO. I would like to work with you to know that and make sure that we do everything that we can——

Senator KERRY. My final question is——

Chair SNOWE. Okay, because there is a second panel here.

Senator KERRY. Mr. Harris, on the second panel, has been told that it may take as long as 100 days to get a disaster loan. Now, given the numbers of people that we are hiring, and I think this is a refrain that we have heard from a number of different business folks, how can we dispel that notion and make sure that is not the case?

Mr. BARRETO. I will let Herb speak to that, but our goal is to process these loans in days—not months, days—and we are going to be monitoring the metrics on this very, very closely. I don't know where he got that information. It certainly wasn't from—it certainly shouldn't have been from anybody from the SBA because that is not normal operating procedure.

Herb.

Senator KERRY. Thank you.

Chair SNOWE. You weren't here earlier, Senator Kerry, but with respect to the overall STAR loan program, the Inspector General, we have requested an inquiry on those applications, and then the staff jointly will be conducting a review, and then we will have a hearing to follow up——

Senator KERRY. That is great. My interest is not to go backwards into that right now. My interest is to make sure that it doesn't stand as an impediment to our ability to be able to do it now, because I think we ought to, just as I thought we ought to do after 9/11. That is the key here, and I would like you not to feel burdened by it in a way that says, "Gee, we don't want to do it here." It ought to be more than feasible to get a set of definitions and an understanding of the scope of the issue so that we help people.

Mr. BARRETO. I agree.

Senator KERRY. Thank you.

Chair SNOWE. Thank you.

Mr. BARRETO. Thank you very much.

Chair SNOWE. Now you can go.

[Laughter.]

Chair SNOWE. Thank you.

The second panel this afternoon represents the small business community and the issues that they are now confronting.

I would like to introduce Mr. John Rowland, a member of the National Federation of Independent Businesses and the owner of Southern Hospitality Systems located in Louisiana. He founded his business in 1984 and it has grown to 11 full-time employees as well as 200 part-time employees.

May we have order? [Pause.]

Also testifying is Ms. Alta Baker, who is the founder, President, and CEO of Safe Haven Enterprises located in Jennings, Louisiana. Ms. Baker is a member of the Women's Business Enterprise National Council's Board of Directors and former Chair of its National Women's Enterprise Leadership Forum.

Next on the panel is Ms. Mary Lynn Wilkerson, State Director of the Louisiana Small Business Development Center. Mary Lynn has been State Director for 15 years, where she has counseled more

than 2,500 clients and delivered hundreds of training programs for small businesses and aspiring entrepreneurs.

Mr. Woodrow Wilson, President and CEO of Gulf South Animated Motion Technology, located in New Orleans. Mr. Wilson's business employs two full-time employees, suffered severe flood damage causing him to temporarily relocate to Baton Rouge.

Testifying next is Ms. Michele Sutton, a small business owner from Hammond, Louisiana. Ms. Sutton and her husband, Wayne, are the sole owners of Fairway Ventures, Rent USA, and Rent and Roll, with several stores located in the Mississippi Gulf Coast.

Next on our panel is Mr. Richard Harris, owner of Harris Homes, located in Ocean Springs, Mississippi. Mr. Harris was in the process of creating a housing development when Katrina hit the Gulf Coast. The new homes, which were in various stages of completion, all survived but were damaged.

Finally, we have Mr. Timothy Swindall, Vice President of SWR, Incorporated, located in Troy, Alabama. SWR is a HUBZone certified small business that operates a logistics support contracted to the Federal Government.

Thank you all for being here. I thank you for your presence. I know especially under these difficult circumstances that you could take the time and the effort to be up here, and we also thank you for your patience. I am sorry that the morning went on so long.

Mr. Rowland, let us begin with you. Thank you. You can summarize your testimony. Your full written statement will be inserted in the record. Thank you for being here today.

STATEMENT OF JOHN ROWLAND, PRESIDENT, SOUTHERN HOSPITALITY SYSTEMS, INC., NEW ORLEANS, LOUISIANA, ON BEHALF OF THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. ROWLAND. Good afternoon. I am John Rowland, President of Southern Hospitality Catering in New Orleans, Louisiana. Thank you, Chairman Snowe and Ranking Member Kerry, for giving me the opportunity to testify on behalf of the National Federation of Independent Businesses regarding the impact of Hurricane Katrina on small businesses.

For the past 21 years, Southern Hospitality has been a full-service, on-site catering business, proudly doing business in New Orleans. We fed jambalaya, crawfish etouffee, and bread pudding to literally millions of people all over the country, including the White House. We have employed hundreds of people over the past 21 years, many of whom have gone on to open their own restaurants, put themselves through school, or open their own businesses.

I started Southern Hospitality directly out of college with no experience, a few hundred dollars, and a gas card. Since 1984, I have enjoyed much success and take pride in the business that I have grown. It is amazing, the destruction that one hurricane has caused. My kitchen and facility are devastated. My entire inventory is gone, and I have reports that my mobile kitchen, delivery trucks, and two cargo vans have been severely vandalized.

I will do whatever I have to do to rebuild my business and put my 11 full-time and 200 on-call contract employees back to work. I will have to rebuild from scratch, as they say in the kitchen. Get-

ting back to operating conditions will be the first challenge. Getting customers back will be another totally separate challenge that I believe will take time, persistence, and, of course, money.

Small businesses like mine are ill-equipped to absorb this extraordinary, unprecedented event, yet small businesses account for a huge percentage of the region's economic engine.

I understand Congress is exploring low-interest loans for small businesses affected by Katrina and I am grateful for that. I urge, however, that Congress also consider offering small business grants to qualifying businesses, as well. This is because many small businesses, particularly seasonal ones like mine, will not have significant revenue for a long time. The last thing we can afford to do at this time is to incur more debt.

Tax incentives, too, are also important to small businesses. Section 179 of the Internal Revenue Code may be a great first step in regaining valuable equipment loss due to the hurricane. Under current law, Section 179 allows small businesses to expense, that is to fully deduct from taxable income, a limited amount of the cost of new business equipment in a year. In order to assist small business owners as they make the investments necessary to rebuild their businesses, I suggest increasing expensing limits as high as possible so that small business owners can take advantage of this immediately.

The second incentive I would suggest would be to revise the tax treatment of construction for repair and replacement purposes. Allowing small businesses that were affected by the hurricane to immediately depreciate 50 percent for equipment, building and structure, that would be useful for rebuilding businesses quickly. I sincerely hope that you will try to address immediate concerns in this area.

Senators I want to put people back to work. I am in this horrible position through no fault of my own. By increasing the annual allowance and by offering small business grants, I can invest in the assets I need to get back into business. When we speak of rebuilding New Orleans, I suggest that the bricks and mortar may prove to be the easy part. It will be rebuilding an economy with businesses of all sizes that will be our biggest challenge in the long term. Small business owners like me are eager to return to New Orleans and to contribute to the economy and culture that make our city great. With help from Congress, we will rebuild not only our buildings, but our economy, as well.

I thank the Committee for holding this hearing. I urge your steadfast support as the impacts of the devastation will long outlast the news cameras and the front-page stories. Long after the rest of the country has heard enough about Katrina, the Gulf Coast will still be hard at work trying to rebuild and to hold on.

Thank you for the opportunity to testify on this important issue, and I will be happy to take any questions you may have.

Chair SNOWE. Thank you, Mr. Rowland.

[The prepared statement of Mr. Rowland follows:]

PREPARED STATEMENT OF JOHN ROWLAND, PRESIDENT, SOUTHERN HOSPITALITY
CATERING, NEW ORLEANS, LOUISIANA

Good Morning. I am John Rowland, president of Southern Hospitality Catering of New Orleans, Louisiana. Thank you, Chairwoman Snowe and Ranking Member

Kerry, for giving me the opportunity to testify on behalf of the National Federation of Independent Business regarding the impact of hurricane Katrina on small businesses.

For the past 21 years, Southern Hospitality has been a full-service onsite catering business proudly doing business in New Orleans. We have fed jambalaya, crawfish etoufee and bread pudding to literally millions of people all over the country, including at the White House. We have employed hundreds of people over the past 21 years, many of whom have gone on to open their own restaurants, put themselves through school, or open their own businesses.

I started Southern Hospitality directly out of college with no experience, a few hundred dollars, and a gas card. Since 1984, I have enjoyed much success and take pride in the business I have grown. It is amazing the destruction that one hurricane has caused. My kitchen and facility are devastated. My entire inventory is gone. I have reports that my mobile kitchen, delivery truck and two cargo vans have been severely vandalized.

I will do whatever I have to do to rebuild my business and put my 11 full-time and 200 on-call contract employees back to work. I will have to rebuild "from scratch," as they say in the kitchen. Getting back to operating conditions will be the first challenge. Getting customers back will be another, separate, challenge that I believe will take time, persistence and money.

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I thank the Committee for holding this hearing. I urge your steadfast support, as the impacts of this devastation will long outlast the news cameras or front-page stories. Long after the rest of the country has heard enough about Katrina, the Gulf Coast will still be hard at work, trying to rebuild and hold on.

Thank you for the opportunity to testify on this important issue. I'll be happy to take any questions that you may have.

Chair SNOWE. I know Mr. Wilson, you have to leave at 12:30, is that correct? Would you like to—

Mr. WILSON. Not exactly 12:30, but pretty close.

Chair SNOWE. Well, why don't we begin just in case, and then Mr. Harris, and then if we want to ask you any questions or anything. Why don't you proceed, Mr. Wilson.

Senator KERRY. Madam Chairwoman, if I could just say quickly—

Chair SNOWE. Yes, go right ahead.

Senator KERRY. Because we are running late, I am also now way backed up and I can't be here for all of your testimonies and I apologize for that. I just want to say, Mr. Rowland, that is very important testimony. I know many of you are going to have similar kinds of stories and I appreciate that. I will review the record. This is the most important part of this hearing, as far as I am concerned, so I apologize for not being able to listen to each of you. We will do everything in our power to help you, and I think your last comment is very important. Long after the sort of shift has taken place, you all are going to be struggling. We understand that and we are here to help you, so thank you.

Mr. ROWLAND. Thank you.

Chair SNOWE. Thank you, Senator Kerry.

Mr. Wilson, you may proceed, and then we will go to Mr. Harris.

**STATEMENT OF WOODROW J. WILSON, JR., PRESIDENT,
GULF SOUTH ANIMATED MOTION TECHNOLOGY, INC., NEW
ORLEANS, LOUISIANA**

Mr. WILSON. Thank you very much for having me.

Chair SNOWE. Thank you for being here.

Mr. WILSON. I am very happy to be able to be here to put a real face on what happened to small businesses in New Orleans.

I am not going to take up a lot of time on exactly what happened. We all have seen the devastating pictures and we are totally ruined and devastated and now overwhelmed and are here asking for some help, immediate help, relief. I don't have a long prepared speech. I want to say what we need to help us get started immediately back in New Orleans is immediate cash in the form of loans and/or grants.

The whole Gulf Coast and the area has been devastated. Everybody is overwhelmed. We need, as I have heard you say this morning, immediate cash help. We are out of cash. How can we hire these people back? How can we clean our facilities and get going? We need the cash and the type of SBA loans I have heard today with bank guarantees. Banks don't readily loan directly to small businesses. It just doesn't happen on the ground floor where we are. You have to really be creditworthy enough to where you don't need the loan where the banks will loan you money.

The SBA directive is going to be imperative. It is going to be imperative that we get the deferments that I have heard here today in the amendments in the legislation. It is going to be imperative that we have an opportunity to get a bridge loan from either a bank or from the SBA so we can have cash tomorrow.

I have been to my business. I have a brown water mark of 6 feet or above over everything that I own, all my worldly business possessions. I am here today with the attitude and the spirit to start again, and I live and work on ground floor, if you will. We need immediate help in those areas. I have heard you say, and I hope that legislation is passed. It is what we need.

Three major things that I want to discuss personally. You see today a small businessman, of course, and you also see a small minority-owned business that is on the ground floor in a predominately minority city that actually hires people on the ground floor.

We need to be put back together much faster than the process may take. The process needs to be expedited.

Please help us now. Let us go back, clean up, and get those things going where we actually hire many in the city and urban people who don't have a lot of specialized skills, but they can work and want to work in my warehouse, in our office, doing the delivery, doing those kinds of basic functions.

Very important after that is the contracting opportunities I have heard here. It is most imperative that the minority-owned businesses get in on the action on the ground floor, especially in the area that is heavily minority populated. In New Orleans, we have a large population of Vietnamese, Latinos, and African Americans, that make up that gumbo, if you will. That means everybody has to participate. We are not going away. We are going to be there to rebuild.

Please help us now. Again, I keep saying that. The contracting opportunities are in Louisiana. There have been some very large contracts already awarded, as I understand it, to very large companies. Those subcontracting opportunities must be allowed to small and minority companies and we must be at the table, as I am here today, when those decisions are made. I heard earlier, Senator, Mr. Oliver of our Economic Department. We need to be at that table, and I would like to be there.

Of those contracting opportunities, there are many businesses that can be primes. We want the subcontracting opportunities of course, but we also can be primes in a lot of areas.

One of the last things that I will wrap up on besides the contracting opportunity is the economic injury loans. What gets us back to square one, of course, is the disaster loan that we have applied for. I am one of those 12,000 applications that are in the SBA process. I have not gotten approval about it, which I hope I will, and we need to speed up that process.

The economic injury that we sustained that has happened to us has, of course, wiped out all of our assets. As small businesses, you don't have a lot to begin with. You are already marginally profitable, if at all. We have been struggling for 3½ years personally to develop a technology and a patent in New Orleans that is going to allow us to not only do prototypes there, but actually manufacture in Louisiana something that is always heard of offshore somewhere. We have manufactured many parts in Hong Kong, but we want to manufacture in Louisiana. We do have the profit margins to make that effective, but we are going to need some long-term economic help in the form of loans and lines of credit.

The economic recovery is very key to us, too, because what we have got to get back is enough money to start from square one, start all over, as my colleague says, from square one. You are going to give me back my inventory and those kinds of things, my machines, and I am going to be back at square one. I need the ability and incentive to go beyond that to continue to hire more, to upgrade my equipment, and to be able to manufacture in New Orleans.

Very quickly, that has been the five points that small businesses need immediately. So please help us. Thanks for being here—

Chair SNOWE. Yes. I may want to ask you a couple of follow-ups before you leave.

Mr. WILSON. Yes.

[The prepared statement of Mr. Wilson follows:]

PREPARED STATEMENT OF WOODROW J. WILSON, JR., PRINCIPAL OWNER AND
MANAGER, GULF SOUTH ANIMATED MOTION TECHNOLOGIES, INC. (GSA)

INTRODUCTION

My name is Woodrow J. Wilson, Jr., principal owner and manager of Gulf South Animated Motion Technologies, Inc., (GSA), at 4700 Howard Avenue, New Orleans, LA. GSA is a small 4½-year old minority-owned business primarily involved with the development and sales of patented fiber-optic technology in flexible material (i.e. Caps, jackets, banners, etc.), and light emitting diode (LED's) in safety and other highly visible products that are programmable and self-illuminating, especially at night or during inclement weather situations.

Over the years our company has begun to diversify into other safety products industrial supplies and products, medical and pharmaceutical supplies, janitorial and cleaning products and most recently spill clean-up products, protective clothing and surface disinfectants that are non-toxic, EPA approved and kills bacteria (e-coli) fungi and viruses. We are a stocking facility with offices that have hired from three to six people, either full time or part time over the years, since 2001. Today a water line marks the nearly 6 feet of water that covered and destroyed nearly all of our worldly possessions and our active business. I am sure nothing is salvageable and we will have to start all over, but start all over we will! We want to recover, rebuild and restart our business ASAP!!!

1. *What We Need to Re-Cover, Rebuild and Re-Start our Businesses—as Soon as Possible (ASAP). Immediate Financial Help (Access to Capital).* SBA Bank Guarantees that have banks use looser rules and credit criteria to make loans to small businesses. All, all of our assets like A/R and inventory have been destroyed, even any equity that we may have had. Quote: (Mr. Peter Gwaltney, CEO of the Louisiana Banking Association that said 9/15/2005 T-P) “Bankers will ask regulators for more leeway in making loans to customers as they return home. Banks will make loans they ordinarily wouldn’t make. Under the circumstances banks need to make loans to get this economy moving”

2. *SBA Direct Loans*, low interest loans and/or lines of credit as an alternative to inventory repair and replace infrastructure, office supplies, fixtures, computers and rehire employees. And pay rents and operating expenses until things get going again.

3. *Loan Repayment Deferments.* Loan repayments deferments of up to 1 to 2 years to give us some breathing room and cash-flow to maintain. This recovery will be along term process that needs nurturing and patience.

4. An expedited process that will give us the help we need now in cash not in words.

5. *Special Attention to Minority-Owned Small Businesses.* Especially in New Orleans area and region. Our businesses for the most part are at ground zero and the heart and soul of places like New Orleans and other urban areas. Without, the jobs that we create from within . . . recovery will not be so tangible, take a lot longer to occur and leave the inner city people still in a trap and dependent.

For the majority, minority-owned businesses, access to capital is usually non-existent, except, family and friends and is provided by capital markets only after you’ve proved on paper that you don’t need the money to survive anymore. You are too small for venture capitalist, too risky for the banks and generally not considered when main stream economics are discussed. But where would we be without the restaurants, taxi drivers, shoe shops, truckers, carpenters and electricians and other self-employed craftsman in our communities.

6. *Contracting Opportunities.* For New Orleans and Louisiana-based businesses to actually get the contracts to do the work of re-recovery. All Local business should get “first” crack at these jobs and bided or no-bided contracts. Of course the money will circulate throughout the local and state economics . . . many more times and finally stay where it creates the most economic impact . . . the whole point of this recovery effort.

7. *Economic Injury Loans/or Grants.* In addition to the damage replacement money that will only bring everyone back to square one, all of us were actively contributing to the economy and would have continued if not for Katrina. So, please consider placing into legislation language that gives us a little something extra to

sustain ourselves and incentives to go forward. Something in south Louisiana we call “Lagniappe” something that can help us cash-flow hiring again and market ourselves for a quicker recovery.

8. *The Last Thing I Would Like to Mention and Commend the President on.* His Gulf Opportunity Zone to spur economic growth (GO-ZONE). It said in effect:

- Businesses in GO would be eligible for benefits through 2007—not just a one-time shot.
- GO will provide tax relief and loans for businesses and entrepreneurs to invest in the region and create jobs especially to include minority-owned enterprises (that speaks to a probable exclusion in the past).
- It is the small business and entrepreneurs that will create jobs and opportunity and help break the cycle of poverty.
- The U.S. Congress has an important oversight function to perform to make sure that we get the resources and not just the rhetoric to rebuild and . . . *Rebuild quickly.*

Thank you very much for having me testify here today!! And may God bless us all.

Chair SNOWE. Mr. Harris.

**STATEMENT OF RICHARD HARRIS, HARRIS HOMES,
OCEAN SPRINGS, MISSISSIPPI**

Mr. HARRIS. Yes. I would like to thank you all for the opportunity to speak here, and in timeframe, I will be short. My statement is here.

As a contractor on the ground level, I have been in the contracting business for almost 20 years. I have an education in industrial technology and also taught school for close to 20 years. I left education to become self-employed and I spent many years building a large company which I now own, Harris Homes, LLC.

The company was doing very well pre-Katrina. I had purchased property. I had developed a subdivision, which I had done in the past, and things were doing—and I was doing the best I have ever done in my business.

It is kind of ironic after Katrina that as a contractor, I am expected to get rich and help everybody and et cetera, and it is far from the contrary. I am talking with my attorneys, my bankers, my CPA. You know, I was doing so well that that was my problem. I have so much money out and so much vested that it probably will bankrupt me and I won't be able to help no one in South Mississippi or anywhere else.

Let me give you a rundown on that. Currently, my book of business was close to \$4 million. I had 25 active projects in progress. Basically, I built and delivered entry-level homes from \$145,000 to \$200,000. I delivered a home, almost a home a week, on average.

Now, keep in mind that my business is made up of small businesses. I am a general contractor. I have approximately 50 employees that are subcontractors, and those subcontractors have anywhere from 1 to maybe 20 employees. As a subcontractor, I am responsible for carrying a house or the project from the time it is actually started or under contract until it is finished. I am financing the materials, the property. I am financing the wages of all the subcontractors who I employ. If their businesses fall apart, of course, my business will not survive.

Hence, my biggest problem is I have lost all my employees and my subcontractors. At best, before the storm, I was working 50 to 100 people a day. Currently, I have about 12 people cleaning up the mess and assessing my damage. I lost these people for many

reasons. They were relocated. They lost everything they owned, as I did myself. I lost my personal house, my personal belongings, my personal vehicles. Everything I owned was taken by the tidal surge.

Luckily, my subdivision was not. It was high enough and dry enough that did not happen, but due to the money I have out, I do not need to borrow money. I have credit. I have the ability to borrow \$1.5 million tomorrow. I do not have the working capital or assets to make up what my insurance is not going to pay. I do not have the employees to continue the business rate I was at, so therefore I cannot service the money that I have out.

With that being said, I will probably not be able to do future business unless I would receive a grant. That would be about the only way. Some businesses are structured better than others.

Now, I did not lose my inventory. It is still three. I still have my 12 pre-sold contracts, but I do not have employees or the means in a timely manner to repair that or put it forward simply because materials are going up, labor costs are going up, my employees are being lost to strong-arming effects as far as Operation Blue Roof, FEMA. They are hiring my workers. They hire locally to help recover from Hurricane Katrina may not be the best idea because those are my employees they are taking, and that is additionally causing a strain on my business.

I have other issues, but bluntly, my current operating environment is very weak, because if another hurricane hits, I probably will not even be able to get materials to continue helping and rebuilding.

To go further than that, the insurance companies are in place. They are going around. Just as the SBA is taking applications, they are doing estimates. The adjustors are telling the people to get your local contractor to provide an estimate. You know, I can't even provide for myself or my family at the moment, much less put my subdivision back on track with no workers, no materials, or an inflating price of what is going to be—who knows what a sheet of plywood will be next week, especially after a new hurricane hits Texas.

I don't think I can even deliver a reasonable house, and keep in mind, my houses were under contract. I may have 12 contract purchasers that may sue me because the media basically has said, your house is worth 20 or 30 percent more. They want their houses. All my customers want their houses because they think they are worth 30 or 40 percent more, yet they want me to deliver that house at the old contracted rate, which there is no way I can do.

I cannot write estimates. The adjustors are in town, and I know this is way off from the SBA, but the adjustors in town are telling, not all of them, but some of the insurance companies are telling them to go to a local building contractor and actually get an estimate. Even if I could manage to keep my company afloat, how can I spend all day writing estimates and assessing damage that may or may not be somebody else's job and for jobs I may not even get?

It is a very bleak situation on my end, and I am not sure of the answers, but financially, I don't think borrowing more money on my aspect would save me or any small business that worked for

me, and many of my small businesses were destroyed, so I think—my cabinet shop, my electricians, my plumbers, my framers, the majority of them did go underwater, also, so there will be no quick recovery, regardless of what anybody thinks, of the devastated area. From a ground level, it will be slow and painful and it may even be much longer than people expect. My bank has already given me a 60-day extension on my notes and interest, but I can tell you now, that will be nowhere near sufficient.

Any questions?

[The prepared statement of Mr. Harris follows:]

PREPARED STATEMENT OF RICHARD HARRIS SUBMITTED BY WITNESS

Mr. Harris lives in Biloxi, Mississippi and owned and worked at his firm, Harris Homes, located in Ocean Springs, Mississippi, which is located on the Mississippi Gulf Coast between Biloxi, MS and Pascagoula, MS.

In 1990, Mr. Harris opened his own business, Harris Homes, and has been self-employed since that time. In 2000, Harris Homes purchased 20 acres of land in Ocean Springs, and developed a subdivision consisting of 49 lots (Dove Plains). Prior to August 29, 2005, 21 homes have been built, sold, and occupied. On August 29, 2005, the status of lots and construction was 25 active construction projects:

- 12 pre-sold contracts in various stages of construction (4 approximately 70 percent complete, 3 about 40 percent complete and 5 not started);
- 5 pending home construction contracts;
- 5 speculative homes in various stages of construction;
- 3 commercial developments to be kept as rental properties;
- 15 lots available for future home construction.

On August 29, 2005, Harris Auto Sales (used automobiles) was prepared to open for business. The sales lot was completed, dealer's license was obtained, and 5 used cars had been purchased and were on hand.

Mr. Harris also had a 1200 square foot strip mall under construction, as well as a "four-plex" apartment building.

After Hurricane Katrina, Mr. Harris was left with his personal home and possessions destroyed. Estimated uninsured loss of about \$100,000. The Dove Plain houses under construction suffered wind and rain damage, which Mr. Harris has estimated to range from \$2,000 to \$4,000 per unit. Estimated total uninsured loss is \$135,000. Mr. Harris' used car dealership had all 5 inventory units lost to storm surge, all which were not insured. Estimated total loss including lot repairs is \$28,000.

Mr. Harris has been following protocol. He registered with FEMA on or about September 8, and to date has not received the promised application or assistance. He has contacted the Mississippi Small Business Development Center on September 12 and met with an SBDC officer on September 19. He has also prepared and submitted all insurance claims, both personal and business.

Mr. Harris resumed construction in Dove Plains subdivision on September 5, and is ready to resume construction on the "four-plex" and the strip mall. At full operations Harris Homes normally employs subcontractors with a total of 50 employees daily. Presently he only has 15 workers daily.

Mr. Harris is concerned because he feels that there is little or no reliable information available to businesses or individuals. FEMA, the SBA, and insurance companies are simply overwhelmed. They are not unified and thus are making the process incredibly confusing. There are a number of circumstances and requirements set by FEMA that have made it impossible for Mr. Harris to quote a price for a new home or repairs to an existing home.

Mr. Harris believes that this process can become much more effective if:

- an effective communication vehicle to let individuals and small business owners know that they should plan for at least 90 to 120 days before any financial assistance will be in hand, and to communicate where to go for counseling and assistance.
- Provide the resources to staff assistance centers with trained/qualified staff.
- Effective "bridge" assistance (interest free loans and/or grants) to allow for time to assess the situation, and make plans for moving forward.

Chair SNOWE. Wow, Mr. Harris. We are just terribly sorry. I mean, having been down there on Monday and saw first hand—I was in Gulfport, so if it is any measure of what happened in your

area, it is pretty devastating, and, of course, in New Orleans, as well.

Mr. HARRIS. Well, I have a customer base. I mean, if I could add, it has been stated that three out of four houses are damaged in South Mississippi. As a general contractor, it is sad that I may not be there or able to help anyone rebuild their property.

Chair SNOWE. Yes.

Mr. HARRIS. I have been very careful in assessing my own damages, and unless I receive a grant, it will be likely my company will be——

Chair SNOWE. First and foremost of what you are saying is that having a grant, because obviously loans are of no use——

Mr. HARRIS. We can talk about loans all day long, but for some businesses, loans will not be enough.

Chair SNOWE. Right. Okay. That is first and foremost for you. I read your comments, and that is what—some of that, I was repeating to Administrator Barreto about the process. Ultimately for you, it is the bridge assistance that you need.

Mr. HARRIS. The bridge assistance, if it can be converted into a grant, it might be fine. I need my employees back, and a lot of those did go to work for local and government agencies because they were being paid more money. If I have to raise what I am paying them, I am going to need additional working capital above and beyond what I am——

Chair SNOWE. Yes.

Mr. HARRIS [continuing]. I am already, because of my builder's risk policies, everything I had was insured, but it was underinsured or either deductible and my deductible put me, because I have so much money out and because I had so many projects going, my deductible is a loan well over six figures. My profit margins are not enough per unit to keep up with the amount of losses I had from the hurricane, much less the economic strain I will see over the next few weeks.

Chair SNOWE. Right.

Mr. HARRIS. My interest payments monthly are staggering.

Chair SNOWE. You know, I appreciate that and we will look at this and these dimensions that you have raised and looking at that possibility as far as trying to provide some grants in this process, because otherwise, it is going to make it very difficult. You don't want to add debt upon debt at this point, given your circumstance.

Mr. HARRIS. Not a good choice on my behalf at the moment.

Chair SNOWE. The relocation and the other issues, getting back employees or getting workers, which is the other question, I know Senator Vitter was referring to a bill that he and Senator Landrieu were introducing with respect to that question about having tax credits for, you know, either relocating or attracting workers, because that is a huge challenge right now.

Mr. HARRIS. I have a specific question for that. Is an employee considered a full-time payroll employee? In my case, I 1099 all my employees, hundreds of them. They are subcontractors. Would I receive that tax credit? I mean, I had a constant workforce daily of 50 to 100 people.

Chair SNOWE. That is another issue that we can look at, obviously. You are saying, no, Ms. Wilkerson, is that right?

Ms. WILKERSON. It is unlikely——

Chair SNOWE. Unlikely.

Ms. WILKERSON [continuing]. Because they are not his employees. They are contract labor.

Mr. HARRIS. They are subcontract labor——

Chair SNOWE. Subcontracted——

Mr. HARRIS [continuing]. But, they make up my entire company.

Chair SNOWE. Yes.

Mr. HARRIS. The reason for that is because, basically, I mass produce houses. I am on a production schedule. I don't build them individually.

Chair SNOWE. Well, you know, we have to look at some of these issues because this is obviously an extraordinarily exceptional situation in the history of this country with respect to the worst natural disaster to hit the United States. We can look at some of those questions. What I have heard from you today is obviously extremely compelling. I have seen it, and I can only imagine. We will try to do everything that we can to help in your specific situation that obviously others find themselves in, as well. We will look at some of these exigencies and extenuating circumstances, as you are saying, about subcontracting and so on and the grant question.

Mr. HARRIS. Thank you.

Chair SNOWE. Thank you, Mr. Harris, and thank you for being here under these very difficult circumstances and taking the time to be up here with all the losses that you have experienced.

Mr. HARRIS. I do appreciate it. Thank you.

Chair SNOWE. We appreciate it. I would hope that you would also—we will be in touch and we will try to find a way to be in touch with you from the Committee on some of these questions and some issues, because we certainly want to do everything we can.

One of the issues my staff raised, we have extended the payments, one of the questions. We are trying to move a bill through very quickly on some of the issues that we have identified we can agree on and we can get it through the Senate without debate and move on to the House, get it done, and send it to the President. One of the issues in there is to defer, have a moratorium on any payments that are made. Would that help you in this situation?

Mr. HARRIS. As far as risk payments, like to an SBA loan or——

Chair SNOWE. Yes, on a loan or a grant.

Mr. HARRIS. I do have an SBA credit line and I use it extensively, but it makes up only about one-third of the working capital I go through on a monthly basis or a yearly basis.

Chair SNOWE. Right.

Mr. HARRIS. Unlike a lot of businesses, I have some small net worth, but just the storm itself and then the deductibles would take up any working capital I could extend myself to keep my business afloat. I would be happy to look at the scope and see if it is my projects.

Again, I finance them from inception all the way to completion, and that includes the real property, the actual construction of the house, all of the materials, the labor, everything. My end customer is the person who purchases the house, but my real working force and my collateral is my subcontractors and the ability to get the job done, and those are made up of 45 to 50 other small businesses.

I mean, if they are not in place themselves, regardless of any amount of money, if I cannot get my framers and my cabinet shop and my plumber and the electricians back online to service me, then my company may not do well anyway. I am not sure money or any type of loan is my answer, other than simply trying to wait it out and do the best I can in a timely manner.

Chair SNOWE. We will stay in touch with you as far as the assistance package is concerned because part of it will include some grants in there. We do so far \$40 million. This is the beginning of this major effort, so we want to stay in touch with you to see if this would be something that would work for you as we are going through this process and hopefully get this bill done very quickly.

Mr. HARRIS. The largest issue I have to date is simply being able to service the money I have out, since I can't move forward at the pace I was used to working at—

Chair SNOWE. Right, it is deferring that, and also, I think that is another issue, working with lenders. That is something else that we have to look at, hopefully, working with the lenders to defer the requirements for repaying and deferring them for an extended period of time, as well, and that is something else we can also look into, how we can best go about that part of it.

I appreciate it, and we will be in touch. I want to make sure we have a way of getting in touch with you, because some of these things may be of help to you directly, okay. Thank you.

Mr. Wilson—you can leave, Mr. Harris. Go right ahead. Thank you. Thank you for your patience. I am sorry we had to delay for the two votes.

Mr. Wilson, can I just add one thing, you mentioned earlier, contracting opportunities. I couldn't agree with you more.

Mr. WILSON. Yes.

Chair SNOWE. I mean, that is something, because the Federal Government is obviously going to play a critical and pivotal and very large role in the rebuilding process, you know, obviously, hundreds of billions of dollars in the final analysis, and we have got to make sure that small businesses that are on the ground floor—and I am really concerned when I am seeing sheets of paper between the difference between small business. You were referring to the large contracts that have already been issued to the large, this is multi-pages for the large contractors, one page for the small ones.

Mr. WILSON. Right.

Chair SNOWE. I know.

Mr. WILSON. Even the SBA's definition of small business can be pretty large, too.

Chair SNOWE. It can be pretty large, too, exactly.

Mr. WILSON. The really small businesses usually get left out.

Chair SNOWE. You are right on. I mean, I agree with you entirely and we are going to work on this issue because this could be the foot in the door, at least opening the door for economic opportunities on the ground floor, and that is with the Federal Government that is going to be playing, obviously, that essential role in the rebuilding. I agree with you on that.

The bridge loans and the grants and that is going to be also a critical component of this process.

Mr. WILSON. That would help us get going. The subcontracting part, that is also major, because a lot of times after these things pass—we have got Rita coming up, we have got a lot of things, we may have other disasters and we are off the front page. Who is to watch to make sure those contracts do, in fact, trickle down, if you will, to small businesses on the ground floor, small businesses? Please don't forget and—

Chair SNOWE. No, absolutely. In fact, that is why it is so, I think, important to have a Small Business Administration presence right in New Orleans, because that might also help to ensure that small business is playing a role where these decisions are being made, for example.

Is that possible from your perspective? Could Small Business be located physically now in some part of New Orleans?

Mr. WILSON. Well, yes. I heard them earlier saying that they were, in fact, beginning to move. I am not aware of the second evaluation. It is possible. A lot of downtown is dry and it is pretty safe. I live there, also. A lot of the bacteria levels, as Senator Landrieu said about the E. coli, are not as high as has been reported. Our own DEQ has levels that are higher than normal, but are well within limits that we can function in. I have met with Mr. Cornelius, who the Administrator mentioned earlier, and also with Mary Lynn, who is with the SBDCs, who will assist me quite a bit or a lot, and I am sure she will have some things to say. It is possible. I am moving back right away to start to clean up.

Chair SNOWE. Okay, great. Thank you. I will let you go, because I know you have a time schedule, but thank you very much.

Mr. WILSON. Thank you very much for having me.

Chair SNOWE. No, thank you. We will follow up on all of these issues, and we hear you about what is essential, what is absolutely paramount, and on a very fast track. Making sure that it works—and I hope you won't hesitate in any way, because you have enough burdens, but if there is something that you see or hear, through Senator Landrieu, Senator Vitter, myself and the Committee, we will have contacts here. If things aren't working, we want to hear about it and to work it out. You don't need those types of problems with bureaucracies and obstacles. I thank you.

Mr. WILSON. Thank you.

Chair SNOWE. We are here to help you. Thank you.

Okay. Ms. Alta Baker, thank you. You may proceed.

**STATEMENT OF ALTA BAKER, CHIEF EXECUTIVE OFFICER,
SAFE HAVEN ENTERPRISES, JENNINGS, LOUISIANA, ON
BEHALF OF WOMEN IMPACTING PUBLIC POLICY**

Ms. BAKER. Good afternoon, Chair Snowe and Members of the Committee. I am Alta Baker, owner and CEO of Safe Haven Enterprises, located in Jennings, Louisiana.

Safe Haven Enterprises manufactures modular steel buildings for physical protection—forced entry, ballistic resistant FEBR units with and without blast protection that can be used for office buildings, complex facilities, mobile command and communication centers, clinics, and a safe place for employees to deploy in the threat of terrorist attacks or even inclement weather. Safe Haven supports private industry and is the fabricator of Department of State

certified windows and doors. In addition, we are general contractors capable of project management and debris cleanup in the wake of Hurricane Katrina. Safe Haven is a woman-owned, HUBZone company.

I am appearing today on behalf of Women Impacting Public Policy, WIPP, a national bipartisan public policy organization advocating on behalf of women in business, representing over 500,000 members. I am also a member of the Women's Business Enterprise National Council, WBENC, and Women Presidents' Organization, WPO.

I am going to start by telling you what it is like to operate a small business in Louisiana today. Jennings is located approximately 2½ hours from New Orleans, so we did not suffer physical damage from the hurricane, but the effect on our company has been substantial. As you know, public communications systems have been strained to the maximum. We have been without reliable phone and data service since Hurricane Katrina hit the Gulf Coast, and as I walked in to testify, I received a phone call from my CEO in Jennings. We are now in the process of forced evacuation in advance of Hurricane Rita.

As you might guess, we have been inundated by folks who need homes to rebuild their lives. We have had as many as 24 guests staying in our home who have been temporarily displaced by the hurricane. Our daughter, our grandson—our daughter lost her business in New Orleans, and our grandson, whose school will not reopen this year.

Many evacuees remain in Southwest Louisiana. They need jobs. We are making it our business to provide jobs for them. Safe Haven has taken a leap of faith. We have decided to hire additional welders and carpenters who need work. To date, we have added seven. I was told this morning we are now up to 10. We pray that the orders will come to support these new employees. Our company will hire the people who have lost everything in the recent devastation of our State and are ready and willing to work.

In preparing for this hearing, I asked the Executive Director of WBENC, Gulf Coast, to give me a sense of the impact of Katrina on women-owned businesses that are located in the greater New Orleans area, and it has been devastating. According to the Center for Women's Business Research, over 47,000 women-owned businesses were operating in New Orleans prior to Katrina. They provided 100,000 jobs and generated \$11 billion in sales. In the three most heavily damaged States, Louisiana, Mississippi, and Alabama, about 371,000 women-owned businesses employed nearly 700,000 people and produced \$80 billion in sales. As we all know, many of these businesses suffered severe damage or went out of business completely.

Within several days of the hurricane, WIPP members who could provide or volunteer services answered a call to action. We have shared that database with SBA and Federal agencies. One of WIPP's coalition partners, the National Association of Women Business Owners, NAWBO, is leading a coalition effort of women business organizations that link business revenues and opportunities for women entrepreneurs affected by Hurricane Katrina. This website is www.womenbizrelief.com.

Safe Haven Enterprises is a small business located in a small town, but our largest Federal customer is the Department of State. Our buildings are deployed in embassies. We have Safe Haven buildings in places such as Israel and Lebanon. Another customer is the United States Army Corps of Engineers. In fact, one of our units is the Hurricane Command Center located on a Mississippi levee in New Orleans. It is intact and functioning. We have a good grasp of government needs for secure structures and understand the requirements of the Federal, State, and local contracting process.

First of all, we want to thank the leadership of this Committee and other Senators who sponsored the small business amendment to the Commerce, Justice, and Science Appropriations Act. We thank you for working in a bipartisan fashion to ensure that small businesses do not get left behind and that women-owned businesses have a voice in Congress.

Key to the recovery of our region is the provision that establishes a 30-percent prime contracting goal and a 40-percent subcontracting goal for small businesses in the Katrina-related reconstruction contracts. Not only is it important for those small businesses in the Gulf region, it is also important for the small business community nationwide.

Our members believe that the existing 23-percent goal should only be a starting point. The goal contained in this amendment more adequately reflects the contracting numbers that our members believe should be reflected in Federal procurement policy. With regard to Katrina recovery and reconstruction, small businesses are willing and able to assist.

While we completely understand the necessity of making adjustments to procurement procedures during a crisis such as Katrina, we also believe that the changes must take into consideration the effects on small business. The Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina, 2005, contained a provision that is very troubling to WIPP. The new law raised the micropurchase threshold from \$2,500 to \$250,000. WIPP believes this not only invites waste, fraud, and abuse in Federal contracts, but also undermines the ability of small business to help in the recovery effort. The small business reserve sets aside Federal contracts are less than \$100,000. Since the threshold has been raised to \$250,000 which can be bought with a credit card, we believe that the small business reserve is rendered useless. We applaud this Committee's pledge to modify this contracting change so that small businesses will be treated fairly with regard to procurement.

In closing, I want to thank the Committee for giving me the opportunity to share my experience and to address some policies that I believe will make a difference in the reconstruction of the Gulf Coast. I am now happy to answer any questions.

Chair SNOWE. Thank you very much. We appreciate that.

[The prepared statement of Ms. Baker follows:]

PREPARED STATEMENT OF ALTA BAKER, ON BEHALF OF WOMEN IMPACTING
PUBLIC POLICY

Good morning, Chair Snowe and Members of the Committee. I am Alta Baker, owner and CEO of Safe Haven Enterprises located in Jennings, Louisiana. Safe

Haven Enterprises manufactures modular steel buildings for physical protection—forced entry, ballistic-resistant—(FEBR) units with, or without, blast protection that can be used for office buildings, complex facilities, mobile command and communication centers, clinics and a safe place for employees to deploy in the threat of terrorist attacks. Safe Haven supports private industry and is a fabricator of Department of State-certified windows and doors. In addition, we are general contractors capable of project management and debris clean up in the wake of Hurricane Katrina. Safe Haven is a woman-owned, HubZone company.

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I am going to start by telling you what it is like to operate a small business in Louisiana today. Jennings is located approximately 2½ hours from New Orleans, so we did not suffer physical damage from the hurricane—but the effect on our company has been substantial. As you all know, public communications systems have been strained to the maximum. We have been without reliable phone and data service since Hurricane Katrina hit the Gulf Coast.

As you might guess, we have been inundated by folks who need work to rebuild their lives. We have had as many as 24 guests staying in our home who have been temporarily displaced by the hurricane. Many evacuees remain in southwest Louisiana. They need jobs. We are making it our business to provide jobs for them. Safe Haven has taken a leap of faith: we have decided to hire additional welders and carpenters who need work. To date, we have added seven—and we pray that the orders will come to support these new employees. Our company will hire the people who have lost everything in the recent devastation of our State, and are ready and willing to work.

In preparation for this hearing, I asked the Executive Director of WBENC, Gulf Coast, to give me a sense of the impact of Katrina on women-owned businesses that are located in the Greater New Orleans Area—and it has been devastating. According to the Center for Women's Business Research, over 47,000 women-owned businesses were operating in New Orleans prior to Katrina. They provided 100,000 jobs and generated \$11 billion in sales. In the three most heavily damaged states, Louisiana, Mississippi and Alabama, about 371,000 women-owned businesses employed nearly 700,000 people and produced \$80 billion in sales. As we all know, many of these businesses suffered severe damage or went out of business completely.

Within several days of the hurricane, WIPP members who could provide or volunteer services answered a call to action. We have shared that data base with the SBA and Federal agencies. One of WIPP's coalition partners, the National Association of Women Business Owners (NAWBO), is leading a coalition effort of women business organizations that links business resources and opportunities for women entrepreneurs affected by Hurricane Katrina. The website is: www.womenbizrelief.com.

Safe Haven Enterprises is a small business located in a small town, but our largest Federal customer is the Department of State. Our buildings are deployed in embassies the world over. We have Safe Haven buildings in places such as Israel and Lebanon. Another customer is the United States Army Corps of Engineers. In fact, one of our units is a command center located on a levee in New Orleans; it is intact and functioning. We have a good grasp of the governmental needs for secure structures and understand the requirements of the Federal, State and local contracting process.

First of all, we want to thank the leadership of this Committee and other Senators who sponsored the small business amendment to the Commerce, Justice and Science Appropriations Act. We thank you for working in a bipartisan fashion to ensure that small businesses do not get left behind and that women-owned businesses have a voice in Congress.

Key to the recovery of our region is the provision that establishes a 30 percent prime contracting goal and a 40 percent subcontracting goal for small businesses in the Katrina-related reconstruction contracts. Not only is it important for those small businesses in the Gulf Region, it is also important for the small business community nationwide.

Our members believe that the existing 23 percent goal should only be a starting point. The goal contained in this amendment more adequately reflects the contracting numbers that our members believe should be reflected in Federal procurement policy. With regard to Katrina recovery and reconstruction, small businesses are willing and able to assist.

While we completely understand the necessity of making adjustments to procurement procedures during a crisis such as Katrina, we also believe that the changes

must take into consideration the effect on small businesses. The "Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina, 2005" contained a provision that is very troubling to WIPP. The new law raised the limit of micropurchase threshold from \$2,500 to \$250,000. WIPP believes that this not only invites waste, fraud and abuse in Federal contracts, but also undermines the ability of small businesses to help in the recovery effort. The small business reserve sets aside Federal contracts that are less than \$100,000. Since the threshold has been raised to \$250,000, which can be bought with a credit card, we believe that the small business reserve is rendered useless. We applaud this Committee's pledge to modify this contracting change so that small businesses will be treated fairly with regard to procurement.

In closing, I want to thank the Committee for giving me the opportunity to share my experience and address some policies that I believe will make a difference in the reconstruction of the Gulf Coast. I am happy to answer any questions.

Chair SNOWE. Ms. Wilkerson.

**STATEMENT OF MARY LYNN WILKERSON, STATE DIRECTOR,
LOUISIANA SMALL BUSINESS DEVELOPMENT CENTER**

Ms. WILKERSON. Thank you so much, Chair Snowe, for allowing me to be here. You have my testimony, so I am going to take this opportunity to deviate a little bit and talk about a few things that I think are important.

I have been on the ground since day six helping businesses. I relocated myself to Baton Rouge and started working immediately in Secretary Olivier's office, and I, too, have been working 14 hours a day, 7 days a week, talking to people about their business needs. I appreciate the bipartisan support that you all are giving this issue because I think sometimes people don't understand the scope.

What we are dealing with is one-third of our economy, maybe more, and in that, one out of every five people live in poverty. Almost 30 percent of the children live in poverty. That is a huge number. She has given you numbers about things, and still, even though the numbers are big, women and minorities represent together less than 6 percent of the total sales in the State and about 8.5 percent of total payroll. There is huge opportunity to increase that.

When you talk about government procurement, and if we get them these government contracts, we must also be able to fund those government contracts. These businesses have probably already been impacted negatively by the storm, so we have got to ensure that they get the funding that will enable them to complete a government contract. I just want to remind you of that.

Also, in New Orleans, 85 percent of the businesses have 19 and fewer employees. We are talking about a lot of really small businesses. The thing that scares me at some point is the statistic that comes from the Home and Safety Group that says 43 percent of the businesses that are severely impacted never reopen their doors and another 29 percent fail within 24 months. I mean, that is like half of the businesses. Louisiana cannot afford to lose 30,000 businesses. I mean, we just can't. I can't imagine what that will look like if that happens.

I really want to highlight this need for the bridge financing that you all have talked about. Several of the people that I have talked about, one is an accounts receivable issue. We have got a business in Jefferson Parish, which is around New Orleans, that employs 60 people. It is an industrial products and services business. They

service a lot of municipalities and they have over 1,000 private businesses. When I spoke to them, they were very concerned about their business because of their accounts receivable. In 90 to 120 days, those accounts receivable now are virtually worthless. What happens in 90 to 120 days? Who is going to fund that? Even if he can get government contracts, his credit-worthiness then is much less than it was.

We also have a contractor with 12 feet of water in their building. All of their equipment is underwater. They are going to need more than \$1.5 million. They need that \$10 million. Also, FEMA has hired their two foremen at \$500 a day to put tarps on buildings. They are not coming back to work for this company.

Then on Sunday, a young woman called me to try to find her assistance. Her home has been destroyed. Her mother's home has been destroyed. She is a nurse, has been working 12 hours a day, but she also owns a limousine business. She hasn't gotten a paycheck. Her husband hasn't gotten a paycheck. She can't afford her insurance premiums. She can't afford the payments on the limousine services. She can't make payroll, and without an immediate bridge loan, she and her husband will lose both of their businesses.

I just hope that this legislation comes in time to save them. If the government doesn't provide the financial assistance we need, we are going to be in serious financial trouble.

As far as the SBDC part is concerned, we have been getting over 250 calls a day since September 6. We have offered five training programs to more than 200 businesses. We have been working with businesses. Mr. Wilson, we finished his application. Of those applications SBA received, we have probably helped clients send a significant portion.

I have 30 to 40 employees, and the Administrator talked about working with SBDCs often as did the disaster people, and that is true. I have met with them. I have talked to them. I have called to them. Never once did he talk about additional resources to the SBDCs. We are already in Bogalusa, Slidell, Hammond, and St. Charles Parish doing training and business assistance.

I appreciate your letter to the Administrator, yours and Senator Vitter's, about the portability grant. To date, we have heard nothing. It has been 25 days since Katrina and we have heard nothing about the portability grant. I just could tell you that we need that money because the demand for services is now, and I hope that if they pass this bill, that we, in fact, will as SBDCs get money, because not only are we going to have to try to help people get through this, but in the next 5 years, we are going to have to help create new entrepreneurs and get them in business. Thank you.

Chair SNOWE. Thank you, Ms. Wilkerson.

[The prepared statement of Ms. Wilkerson follows:]

PREPARED STATEMENT OF MARY LYNN WILKERSON, STATE DIRECTOR,
LOUISIANA SMALL BUSINESS DEVELOPMENT CENTERS

Chair Snowe, Ranking Member Kerry, Members of the Senate Committee on Small Business and Entrepreneurship, I am Mary Lynn Wilkerson State Director for the Louisiana Small Business Development Centers, an SBA partnership program with the State of Louisiana and 12 participating universities. Our program is administered by the University of Louisiana Monroe.

You indicated that you want to hear how small businesses have been impacted by Katrina. I hope that I will be able to provide you with some sense of the complete devastation of the small business community in the greater New Orleans area.

New Orleans and the surrounding parishes represent one-third of Louisiana's economy. Almost one million people were evacuated for Katrina and 3 weeks later, they have not been allowed to return to their homes and their businesses. Where are all of these people located now? Most of them are still in the State of Louisiana. They are in small rural churches, closed school buildings, shelters, closed but hastily reopened dorms, and in the homes of friends and families.

Can you imagine your state without one-third of its economy; without one-third of its small business community? Can you imagine not knowing when the largest city will begin to recover? Can you imagine if the largest city in your state was virtually destroyed? What if your state was almost the poorest state in the nation? Louisiana's poverty rate is 19.2 percent—the second highest in the nation.

Let's say you could open your business. Where will your customers come from? How long will it take for hundreds of thousands of homes to be repaired and become habitable again? How long will it take for thousands of businesses to be cleaned, repaired, and reopened? What will the population density need to be to support businesses? Who will provide the funds you need to continue your business? How long will it take to get the funds? How will you survive until the business sector begins to recover? All of these questions simply cannot be answered yet.

Perhaps never in the United States, has a major metropolitan area been so devastated. We must have the help of the Federal Government. We must have help from President Bush and bi-partisan Congressional support to recover.

Most of the businesses I have personally spoken with are having a very difficult time—they have lost or have significant damage to their home, they have significant physical damage to their business and the economic injury is incalculable at this time. They have no current income or a greatly reduced income. Many small business owners need someone to talk to about their business and they need someone to help them forecast what their economic injury will be and how long it will be before they begin to recover. They need technical assistance that can be provided by the SBDC's.

There are a few facts you should keep in mind as I tell you a few of the stories I have heard in the past 2 weeks. In the 11 critical parishes most severely impacted by Katrina, there are 70,525 businesses with less than 500 employees and there are 140 businesses with more than 500 employees. Businesses with 19 and fewer employees make up 85 percent of the total businesses in the greater New Orleans MSA.

Minorities make up 36 percent of Louisiana's population. They own 14 percent of the firms in Louisiana, but minority businesses represent only 1.8 percent of total sales and 2.7 percent of total payroll. Women-owned businesses own 23.9 percent of firms, but represent only 4 percent of total sales and 5.6 percent of total payroll. These businesses already have a difficult time with access to capital and their survival rate will be greatly impacted by their inability to obtain sufficient capital during this very difficult time.

In an article written by Scott Daugherty, "Helping Small Businesses After Hurricane Floyd", quotes from the Institute of Home Business and Safety provide some alarming statistics for small business survival after a disaster—"of all businesses that close down after a disaster, more than 43 percent never reopen, and an additional 29 percent close down permanently within 2 years." In Louisiana, we cannot afford to lose 20,000 to 30,000 businesses.

Finally I am getting to the stories.

A family-owned and operated business that employees 60+ people has been in business for several decades and is based in New Orleans. They are in the industrial and institutional maintenance products business and they provide products and services to many of the governmental agencies in the region. The company has a private client list of more than 1,000 businesses. When I spoke with one of the owners on Friday about the future of his business, he told me that he is extremely worried. According to him, "more than 90 percent of the businesses in Jefferson Parish are closed". He believes that he is one business that might have the opportunity to survive and to grow because of the clean-up situation. However, his family business faces a real threat—most of his business is done through accounts and his receivables are now virtually worthless. When the accounts become 90 to 120 days, he believes that his business will be in serious jeopardy. It will be. He asked me who would fund his business. I did not have an answer for him, but I promised I would look and I promised that I would ask when I came to Washington, D.C. Questions about financing accounts receivable with no value has been a common concern with businesses.

One couple owns a medium-sized firm that had as much as 12 feet of water in their business. Much of their heavy equipment has been destroyed or will have to be completely reworked before they can begin using it in their construction business. Their offices have been severely damaged. FEMA has hired the firm's two foremen. FEMA is paying them \$500 per day to cover buildings with tarps. The foremen are not coming back to work for the company. The workers are primarily from New Orleans East and they want to come back to work, but there is no place for them to stay. The owners will need far more than \$1.5 million to get their business back to where it was before Katrina.

On Sunday a young woman called me to try to find some assistance. Her home had been destroyed, her mother's home had been destroyed, her husband's business has been severely impacted, and her limousine business is gone. She is also a nurse and has been working extremely long hours and was shifted to another hospital. The hospital records have been mixed up and her paycheck had not been processed yet. She was in tears and you could tell she was at the end of her rope. She had a limousine service and her vehicles were 4 months from being completely paid off. She cannot pay this month's insurance premium and she cannot make her payroll. Without an immediate bridge loan on both businesses this family will lose both businesses. She indicated that she had signed up with FEMA but had not received the SBA Disaster application. They cannot wait several months for the SBA Disaster loan to be processed and closed. I advised her that the SBDC would help her and her husband fill out the applications and then we would help her with the financial projections they will need for economic injury. I advised her that her husband may be eligible for disaster self-employment benefits. She was very grateful that I was able to provide her with the first real information she had been able to get. I just hope that help is not too late for her—and for the other small businesses in Louisiana.

If the Federal Government does not provide the financial assistance needed, if it does not ensure that Louisiana businesses receive contracts to rebuild our communities and ensure the funding our businesses need to survive and rebuild, then it is the same thing as leaving all of those people on the roofs of their houses.

In Louisiana, the SBDC's are the only source for in-depth business assistance. The Louisiana SBDC has 13 Service Centers throughout the State of Louisiana—5 were impacted by Katrina and 3 of those 5 remain closed, and will be for some extended period of time.

Our main telephone number has received over 250 calls per day since September 6. In the past week, the SBDC's in Louisiana have offered 5 training programs for business recovery to more than 200 attendees. One press release resulted in 200 telephone calls and 50 e-mails in 1 day at Southeastern Louisiana University SBDC in Hammond. The LSU SBDC has provided one-on-one counseling to 27 individual clients, 52 requests for disaster assistance, and 39 e-mail inquiries in 1 week—all with no promotion. The LSU SBDC receives approximately \$120,000 in State and Federal funding for their SBDC and the SLU SBDC receives just under \$100,000 in State and Federal funding. We receive \$1.2 million for the entire state program.

The SBDC service centers in Louisiana and Mississippi cannot handle the demand that is coming and we have no resources to increase the number of counselors in our centers. There are many CPA's, bankers, and other professionals that have been negatively impacted and with additional resources, we could contract with these individuals to provide services to Louisiana businesses.

The Association of Small Business Development Centers arranged for more than 150 SBDC counselors to be trained and the ASBDC has coordinated SBDC volunteer counselors from other states coming to the affected areas. However, Louisiana does not have the funds necessary to pay travel, per diem and lodging for many of these volunteer counselors.

Madame Chair, I sincerely appreciate the letter you and Senator Vitter wrote to Administrator Barreto asking that the Small Business Administration waive the \$100,000 maximum so that the SBDC's will have the ability to apply for the necessary amounts of the SBA's Portability Funding program. It is now 25 very critical days since Hurricane Katrina and the SBDC's in Louisiana, Mississippi and Alabama still have no idea when the money can be applied for or when it will be available. Last year when Florida suffered 4 hurricanes they asked for additional resources from the SBA and they received \$4,500. We need increased resources now. The demand for services is now.

We need for the amount of the SBA Disaster loans to be increased from \$1.5 million to \$10 million. We need the loan payments deferred for at least 1 year. We need to increase the term from 3 years to 10 for applicants with credit elsewhere. We desperately need bridge loan money and grants. Small Businesses need to be able to refinance existing debt. We need for the October 28 deadline for physical injury

applications to be extended. We need more money appropriated for the SBDC program and more specifically for Alabama, Mississippi and Louisiana SBDC's.

Madame Chair, Ranking Member Kerry, I am extremely grateful for the Snowe, Kerry, Landrieu, Vitter, Talent amendment that provides for much of the funding for businesses that is so desperately needed on the Gulf Coast and for \$21 million in additional funding for the national SBDC program. I would like to express my gratitude to each of the Senators on this committee for their vote. I can only hope that the house also will pass the amendment as it is offered.

I know that you are all aware that the impact of Katrina is not limited to the Gulf Coast, but will be far reaching and will very likely impact businesses in your states. You have all had your businesses impacted by higher gasoline prices because of the damage to the oil producing drilling rigs and the plants in Louisiana that produce gasoline. A manufacturer in Missouri may have a primary supplier in St. Bernard Parish that may not be open for the next 8 to 12 months. That manufacturing business will suffer economic injury.

We must be aware that our banks could be facing difficult times as well. Many millions of dollars in direct disaster loans will be made at very low interest. Banks cannot compete with these rates and we must find a way to address the impact on banks. There needs to be some additional incentives for banks to make loans to small businesses.

Thank you again for allowing me to appear before the committee today. It has been an honor and a privilege. At this time, I will be glad to respond to any questions that you, Madame Chair, or other Members of the Committee may have.

Chair SNOWE. Ms. Sutton.

**STATEMENT OF MICHELE SUTTON, OWNER, FAIRWAY
VENTURES, LLC, HAMMOND, LOUISIANA**

Ms. SUTTON. Good morning. My name is Michele Sutton. My husband and I own three furniture stores and one tire store on the Mississippi Gulf Coast, two in Gulfport, one in D'Iberville, and one in Pascagoula, respectively. Our home office is in Hammond, Louisiana. We have owned and operated furniture stores for the last 21 years. After a brief 6-month retirement, we opened our company on the Gulf Coast in order for our sons to return home for gainful employment.

We had annual revenues of \$3 million, a payroll of \$958,000, and a modest profit margin after tax of 3 to 5 percent. We had 1,500 customers. Prior to Katrina, we had 32 employees. As of today, we have 14 left. In addition, prior to Katrina, we had signed and paid franchise fees to open an additional 10 stores in New Orleans, Jefferson Parish, and Baton Rouge, and on the Mississippi Gulf Coast. This would have meant an additional 100 newly created jobs over the next 3 years.

However, Katrina put a halt to our growth strategy. We are now in a survival mode. The morning after the storm, my husband and youngest son went to Mississippi to assess our situation and what they found was heartbreaking. Two of our stores were completely gone, 50 percent of our company, poof, overnight. Delivery trucks, inventory, retail locations, all gone. However, our other two locations sustained only minor damage—water, roof, glass.

Hooray! From one perspective, we are saying our glass is half-full. We could regroup, rally the troops, and salvage our family's livelihood. However, we had some small problems: No electricity, water, telecommunications, or gasoline, and most of all, our most valuable asset, our employees. Not to be deterred, while I am home praying for the return of utilities, my husband and son searched for our employees. They literally went shelter by shelter for our valued employees.

We have had people with us since we started, for 21 years. These people are a part of our family. We were able to find 20 of them, each with their own horrific story of Katrina's fury. Ten only had the clothes on their backs left. We immediately held a company meeting. We brought them in hot meals, paychecks, and gasoline. How do you motivate people to work when they have lost their homes and they are being moved from shelter to shelter, and in some cases living with relatives hours away? We decided we would do it with hope for a future. We promised them we would come back and we would be even stronger with their help.

We started devising recovery strategies. The first step in the daunting task was finding our customers and assessing the status of our products in their homes. We knew we had \$1 million of cost of goods out in the field, which equates to \$3 million of accounts receivable that we needed to recover. Our customers are blue-collar workers, casino employees, service industry people, and those on fixed incomes. What we found was that 50 percent of our customers' homes were gone. Neighborhoods were completely decimated. Thirty percent still had homes standing, but the people had evacuated. Twenty percent were home and they were okay. In addition, 35 percent of our customer base were casino employees who now are unemployed.

Basically, we were able to surmise that 90 percent of our customer base is presently unable to continue to make payments on their accounts for the following four reasons. No. 1, they no longer live in the area. No. 2, they no longer had the product. No. 3, they no longer have jobs. And No. 4, our physical absence in the marketplace implied, game over, store is gone, you don't have to pay.

We now believe we are like the little engine who said, "I think I can. I think I can." We, too, think we can hang on long enough to rebuild and recoup some of our accounts receivable, but in every direction we are turning, reality is dealing us another blow.

We no longer have delivery trucks. We had to immediately dip into our cash reserves and spend \$70,000 to replace two delivery trucks.

We need two new locations to replace the ones we lost, but the availability of retail space that is equipped, ready to go, is lacking.

Availability of goods, trying to get our products in, and then only 50 percent of our vendors that we have had a 20-year relationship would work with us because they were concerned about our viability.

The insurance claims process is moving at a snail's pace. It was 3 weeks before we saw the first adjustor, and now the adjustors are fighting with each other to determine what came first, wind or water, and personally, I don't care. I just want them to settle our claims. We paid them. We paid our premiums. We have no store, and we just want to get back to the business of being in business. I suppose this would be a good time to tell you, we are responsible. We bought—I used to laugh at my husband—we bought every type of insurance known to man to protect our company, but yet we can't get one adjustor to make a final decision and we don't know when, if ever, we are going to start to see an insurance check.

Two weeks ago, we filled out an online application with FEMA. As of today, we haven't heard anything, and I can tell you, on that

application, once you fill it out and said you had insurance, the application stopped. They didn't refer us to SBA to look for a loan. Fortunately, I heard about that attending a local Rotary Club meeting. That is where I heard about the SBA loan and that our local SBDC would help us. What we are being told is the application alone is arduous, it takes about 2 weeks to complete, and then about 3 to 6 months before we are going to hear if we qualify and if we are going to see monies.

Chair SNOWE. Who told you that?

Ms. SUTTON. The local SBDC in our community told us that that is what they were told—

Chair SNOWE. Three to six months?

Ms. SUTTON. Yes, and that is what they were told by the Small Business Administration. Finally—

Chair SNOWE. Is that true? Excuse me. Ms. Wilkerson, is that true? I know it isn't yours, but I just want to clarify that.

Ms. WILKERSON. Yes. We were told that by the SBA, that before a person got a check, it could be months, and, you know, I mean, they get part of an application in, but then you have got to have the records. Some of the mortgages are not available. They are underwater. I mean, we have lost the whole infrastructure, and by the time you get all the pieces together—

Chair SNOWE. We are going to follow up on that. That was one of the questions that I was going to ask Administrator Barreto, and I will get to that with him, but that is—so you are confirming what Ms. Sutton is saying, then, from your knowledge?

Ms. WILKERSON. We, in fact, have been told, off the record, that that would be true.

Chair SNOWE. Okay. We are going to straighten that one out.

Ms. WILKERSON. I will say this, that this next group that came in from Sacramento said that would not necessarily be the case, so that we are cautiously optimistic. They said the average turnaround would be somewhere around—they had been 42 days. They were working to close that gap. I will be cautiously optimistic.

Chair SNOWE. Well, I appreciate that. Thank you for your straightforward answer on that one and we will have to take care of that matter. Thank you.

Ms. Sutton, continue.

Ms. SUTTON. While we are still trying to bridge the gap between insurance and then an SBA loan, we still have payroll, cost of goods, business loans, and accounts payable with which to contend. Our bankers are telling us they are hesitant to lend us even more money when they don't know for sure whether or not our business is going to be viable. I am looking at which came first, the chicken or the egg. Is it business capital or is it a successful business?

I do not believe in bringing someone else my monkey unless I offer you solutions. Some suggestions would be immediate or expedited SBA loans and grants; the coordination between FEMA, SBA, and the insurance companies; training grants for new employees to replace those that aren't coming back; and then short-term loans guaranteed by the insurance money we have, but we just can't get our hands on.

Basically, every week that is passing, we are losing \$56,000 in revenue and an opportunity to do more new business. As if that

wasn't enough, what is adding insult to injury is the fact that an outsider can come in with the ready resources to take advantage of our misfortune because of where we did business. While we wait and watch, our years of sacrifice, hard work, and dreams are disappearing before our eyes.

I thank you and appreciate the opportunity to share with you our story.

Chair SNOWE. They are excellent suggestions. The training grants for new employees to replace those that aren't coming back and also short-term loans guaranteed by insurance proceeds—Mr. Mitchell said earlier that they can do that. We will just make sure that they do. It all does depend on timeliness, too, here, I mean, on top of everything else. Thank you. I will get to the other issues in a moment.

[The prepared statement of Ms. Sutton follows:]

PREPARED STATEMENT OF MICHELE SUTTON, OWNER, FAIRWAY, LLC,
HAMMOND, LOUISIANA

Good morning. My name is Michele Sutton. My husband and I own three furniture stores and one tire store on the Mississippi Gulf Coast: two in Gulfport, one in D'Iberville, and one in Pascagoula respectively. Our home office is in Hammond, Louisiana. We have owned and operated furniture stores for the last 21 years. After a brief 6-month retirement, we reopened our company on the Gulf Coast in order for our sons to return home for gainful employment. We had annual revenues of \$3 million, payroll of \$958,000 and a modest profit margin after taxes of 3–5 percent. We had 1,500 customers. Prior to Katrina, we employed 32 people; as of today, we have 14 left. In addition, prior to Katrina, we had signed and paid franchise fees to open an additional 10 stores in New Orleans, Jefferson, Baton Rouge and the Gulf Coast of Mississippi. That means an additional 100 employees would be hired in the next 3 years.

Katrina has put a halt to our growth strategy. We are now in the survival mode. The morning after the storm, my husband and youngest son went to Mississippi to assess our situation. What they found was heartbreaking—two of our locations were completely gone. Fifty percent of our company was gone overnight—delivery trucks, inventory and retail locations. Our other two locations sustained only minor damage . . . water, glass/window, and roof—hooray! Our glass was half-full. We could regroup, rally the troops and salvage our family's livelihood. We had one small problem—no electricity, water, telecommunications or gasoline and, most of all, no employees. Not to be deterred, while I was praying for the return of utilities, my husband and sons searched—shelter by shelter—for our valued employees. We've had people with us since our inception 21 years ago. They are a part of our family. We found 20 of them—each with their own horrific story of Katrina's fury. Ten had only the clothes on their backs left. We immediately held a company-wide meeting. We brought them hot meals, paychecks and gasoline. So, how do you motivate people to work when they have lost their homes and are being moved from shelter to shelter or, are living with relatives hours away? With hope for a future, we promised them that we would come back if we had their help.

Recovery strategies were devised. The first step was the daunting task of finding our customers and accessing the status of our products in their homes. We knew we had \$1 million in cost of goods sold in the field and an open accounts receivable of \$3 million that needed to be recovered. Our customers are blue-collar workers, casino employees, service industry people and those on fixed incomes. What we found was that 50 percent of our customers' homes were gone—complete neighborhoods were decimated; 30 percent had homes, but the people had evacuated; and, 20 percent were home and OK. In addition, 35 percent of our customers were casino employees who were now unemployed.

Basically, we were able to surmise that 90 percent of our customer base is presently unable to continue to make payments on their accounts. The primary reasons are:

1. They no longer live in the area.
2. They no longer have the product.
3. They assumed because we no longer had a physical location, they didn't have to pay.

4. For customers who actually have the money to pay their bill, the lack of gasoline, mail service, or the inability to drive from one city to another to bring a payment makes it almost impossible.

We now believe we are like the little engine who said, "I think I can, I think I can." We too, think we can hang on long enough to rebuild and recoup some of our accounts receivable. But, in every direction we turn, reality deals us a blow.

1. We no longer have delivery trucks. We have to use part of our cash reserves to spend \$7,000 for two cubes.

2. We need two new locations that are fully operational ASAP! But, there is a lack of available retail space.

3. Availability of goods—only 50 percent of our vendors would work with us on payment terms. Bye-bye cash reserves again.

4. The insurance claims process is moving at a snail's pace. It was 3 weeks before we saw the first adjuster. A lot of good he's been. He's arguing with another adjuster in what came first—WIND OR WATER—WHO CARES? We have NO STORE! Just settle it, so we can get back to the business of being in business! I suppose this would be a good time to share—we have every type of insurance available: Disaster, Business Interruption and vehicle.

5. Two weeks ago we filled out an on-line application with FEMA and, as of today, we have had no response.

6. We're working our way through a very cumbersome SBA loan application. We're being told the application takes 2 weeks to complete and 3 months to process—I hope we can hang on until we get help.

7. Finally, we still have payroll, costs of goods, business loans and accounts payable with which to contend.

In addition, with the slow (or no) insurance funds available, banks are hesitant to loan money to a company that cannot clearly determine if they will make it or not. It's the chicken or the egg; which came first—Business Capital or Successful Business?

I do not believe in bringing someone else my monkey. So, I respectfully offer you these suggestions for solutions:

1. Immediate or expedited SBA loans or grants.

2. Coordination between FEMA, SBA and insurance companies.

3. Training grants for new employees to replace those who are not coming back.

4. Short-term loans guaranteed by insurance proceeds.

Basically, every week that passes while we are waiting, we do not collect \$56,000 in revenue, and our opportunity to secure new business is lost.

Thank you, and I appreciate the time and opportunity you have given me today to share our story.

Chair SNOWE. Mr. Swindall, thank you for your patience.

**STATEMENT OF TIMOTHY S. SWINDALL, VICE PRESIDENT,
SWR, INC., TROY, ALABAMA**

Mr. SWINDALL. Yes, ma'am. My name is Tim Swindall and I am Vice President of SWR. My company is a HUBZone certified business based in Alabama. You have my written statement, and having sat through the hearing and listened to a lot of these stories, I am going to deviate largely from that and be quite brief.

Being a HUBZone business, we bring a different perspective to the small business issues, but you mentioned, Chair Snowe, a lot this morning about the importance of contracting opportunities. Obviously, that is important. It is the engine that drives the small business program.

As a HUBZone business, we are faced not only with competing against large companies, but competing within the small business program, as well. Amendment 1717, I believe, expressed or acknowledged the importance of the HUBZone program as a useful tool in rebuilding the Gulf Coast area.

As a HUBZone business, one of the big challenges that we face, even outside of a disaster situation like this, but on a normal basis, is the lack of enforcement of the program. Agency contracting offi-

cers largely ignore the acquisition requirements that are already in place and have been that apply to HUBZone companies. It is my hope that the potential focus that the SBA's efforts in this disaster relief effort could not only help in revitalizing the area, but also give the HUBZone program the support and focus that it needs to really bring its potential to fruition.

You know, the HUBZone program is designed to bring assistance to economically distressed areas, and that is a fact whether we are looking at a disaster situation or not. It is kind of a two-fold consequence that this effort could largely address and help out tremendously in.

What I would like to see is the small business goals for prime and subcontracting opportunities through the amendment to recognize the HUBZone program, as well, and specifically identify percentage goals for HUBZone companies whether it be through set-asides or subcontracting opportunities, as well. I believe that would be tremendously advantageous to the program rather than trying to roll that up into the small business program generically.

Thank you for the opportunity to be here today.

[The prepared statement of Mr. Swindall follows:]

PREPARED STATEMENT OF TIMOTHY S. SWINDALL, VICE PRESIDENT, SWR, INC.,
MEMBER HUBZONE CONTRACTOR'S NATIONAL COUNCIL

My name is Tim Swindall, I am Vice President of SWR, Inc. SWR is a HUBZone certified small business concern based in Alabama. SWR works as a Logistics Support Contractor to the Federal Government and currently performs contracts in such fields as Warehousing, Transportation, Communications, Electronics Repair, Aircraft Corrosion Control, Aircraft Transient Alert Services, Courier Services, Furnishings Management Operations, Appliance Maintenance, installation of Engineered Structures used for temporary and emergency applications, and Military Uniform Alteration and Repair. Current clients include Department of the Army, Department of the Air Force, Department of the Navy, Department of Veterans Affairs, and The Library of Congress. We currently employ approximately 125 people of which 85 percent reside in designated HUBZone areas.

The direct impact of Hurricane Katrina on my business was the complete termination of three contracts performed for the Department of Veteran's Affairs in Biloxi and Gulfport Mississippi, and the reduction of services performed under a contract with Keesler AFB, Mississippi. This, in turn, affected six to eight employees. Three of these employees have returned to work in the area on a part time basis, and two are in the process of being relocated and assigned to other projects until such time as their previous positions are reinstated. The contracts with the VA may never be reinstated as at this point it appears to be unlikely that the Gulfport campus will be rebuilt. Services provided at Keesler AFB were inclusive of operating the Base Furnishings Management Office. Once the base was opened for mission critical personnel we began cleanup of warehousing areas that were subject to our contract. Fortunately this damage was minor and the structural integrity of the warehouse was not greatly compromised. All salvageable furnishings in inventory have been grouped and are in the process of being distributed throughout areas of base housing that are presently inhabitable. The long term status of this contract is uncertain. Prior to Katrina, Keesler was evaluating the implementation of a Base Operations contract that would group a multitude of smaller contracts into one large contract. This contract currently being performed by my company was the resulting award of a HUBZone set aside procurement; however, if a decision to incorporate the Base Ops mode of operation is made it would effectually preclude small and small HUBZone businesses such as ours from competing as a prime contractor.

The SBA's HUBZone Empowerment Contracting program is logically designed to create jobs and encourage economic development in distressed or underutilized areas by increasing access to Federal contracting opportunities and offsetting some business costs. I have witnessed, firsthand, the results that this program is capable of rendering. When a HUBZone contract is awarded results within the work area are immediate in creating jobs, increasing cash-flow that circulates within the community, and strengthening area infrastructure. This impact is felt within each spe-

cific area as its employment rate increases and commerce begins to grow. For these reasons the HUBZone program could potentially be a highly effective development tool in restoring the Gulf Coast area.

Amendment #1717 in its *Small Business Contracting Provisions* allows for the designation of Hurricane Katrina disaster areas as HUBZone at the discretion of the SBA Administrator. At face value this appears to be a positive move that would reap benefits to those devastated areas; however, there are several critical points that I believe have been overlooked or not realized that could encourage substantial benefits. In order to render the HUBZone program, not only within the Gulf Coast but as a whole, successful in reaching its full potential economic impact on the distressed areas of our country these points must first be addressed.

1. Federal Acquisition Regulations pertaining to the HUBZone program states at FAR 19.1305 that agency contracting officers *shall* set aside acquisitions exceeding the simplified acquisition threshold for competition restricted to HUBZone small business concerns when they have a reasonable expectation that offers will be received from two or more HUBZone small business concerns; and award will be made at a fair market price. This is probably the strongest language used in describing the requirements of any small business program. The HUBZone program was deemed important enough by its designers that its use is required without exception when the procurement parameters are met rather than leaving it as an option for use at the contracting officer's discretion, as many small business programs are. Still, as strong and plain spoken as this language is most agencies continue to ignore it, and in my experience, refuse to follow its required use even when pointed out. On almost a daily basis I find procurements posted on FedBizOps that fit the requirements to be set aside for HUBZone competition. It is mystifying to hear the comments from many contracting officers when approached about the possible use of the program. Some are simply ignorant of or not familiar with the requirements and when brought to understand comply; yet others are belligerently biased against its use. Presently there is a procurement for warehousing and transportation services being solicited as a small business set aside by the Army Corps of Engineers in Mobile Alabama. This is a prime example of contracting opportunities that could easily be set aside for HUBZone competition but are passed on by the contracting officer. Bottom line is that no matter how much potential is in the program it will never reach fruition until agencies are better educated and made aware of the program and its benefits. The SBA's HUBZone program under the Administration of Kevin McHale and with the diligent support of the HUBZone Contractor's National Council lead by Ron Newlin and Cordell Smith has made great efforts toward affecting that result; however, until more authority is dedicated toward enforcing existing regulations any efforts toward expanding the program will be fruitless.

2. By designating Hurricane Katrina disaster areas as HUBZone, target areas could potentially encompass large areas previously outside of the HUBZone program. This, without doubt, would undermine the intent of the program. By broadening the scope of the program beyond those most needy areas, businesses largely unaffected by this disaster and otherwise unqualified for meeting HUBZone program certification could then become certified and compete for Federal contracting dollars that would end up outside of truly distressed areas. Careful, deliberate evaluation should be exercised by the SBA Administrator within his discretion toward the expansion of current HUBZone area parameters.

3. Amendment #1717 also carries a provision establishing contracting goals of 30 percent prime contracting and 40 percent subcontracting for small businesses. With the estimated rebuilding cost at \$100 billion I believe this goal is both progressively stimulating to small businesses in the affected area while at the same time establishing reasonable parameters for contracting officers to take quick decisive actions where necessary without abusing small business programs. I also believe an additional provision that would increase the reciprocal benefits of these provisional goals would be to establish a specific goal toward HUBZone small businesses based on a percentage of the small business prime contracting goal of 30 percent. As I expressed earlier the primary obstacle standing between the HUBZone program and achievement of its full potential is merely enforcing its proper use.

4. Establishing a specific goal of perhaps 7 percent to 10 percent of the 30 percent prime contracting goal established for small business would bring its requirements undeniably to the conscience of agency contracting officers and give the program the authoritative power that is needed to finally generate some much needed momentum in the program creating the beneficial results that we know to be possible. While 7 percent to 10 percent is an increase above the program goals of 3 percent currently established on a national level, considering that much of the affected areas subject to these provisions can be established as HUBZone and therefore available

to an increasing number of small businesses to compete for as they enter into the HUBZone program I believe this to be a fair measure.

I am most confident that the HUBZone Empowerment Contracting program can, when properly acknowledged and utilized, not only have an astounding effect on the rebuilding and revitalization of the Gulf Coast from the devastation reeked by Hurricane Katrina but also play a vital leading role in recuperating our Nations economically distressed areas and creating jobs where they are most greatly needed.

Chair SNOWE. Mr. Swindall, I gather you are suggesting having a separate designated HUBZone, having a separate designation.

Mr. SWINDALL. Yes, ma'am. I believe, because as I stated, my experience is—well, the fact of the matter is that contracting officers are already ignoring the program. It is a challenge that we are faced with daily. As a matter of fact—

Chair SNOWE. You are just saying, even though you are a HUBZone and you are supposed to be eligible for these contracts—

Mr. SWINDALL. Exactly.

Chair SNOWE [continuing]. They are still ignoring—

Mr. SWINDALL. Yes, ma'am. Specifically, the Corps of Engineers right now in Mobile is soliciting a procurement for warehousing and transportation. It is a combined contractual effort to provide both of those services, both of which my company have experience and excellent ratings performing. It is a small business set-aside procurement, which in and of itself is not bad, but it easily meets the FAR requirements to be set aside for HUBZone.

The amendment also potentially will increase HUBZone areas at the SBA Administrator's discretion, so basically, largely, the disaster areas could end up becoming entire HUBZones, which would make these opportunities available to any small business that entered the program.

I believe by specifically addressing HUBZones in those contracting bills with a percentage, I think it really would put some teeth into the program to bring these contracting officers and make them comply with the regulations that are already there.

Chair SNOWE. Right, which you are saying they are not, the bottom line.

Mr. SWINDALL. Yes, ma'am.

Chair SNOWE. Well, that is something we have got to address. It is an incredible bias, frankly, that exists in the agencies.

Mr. SWINDALL. It is a problem that we face whether we are in a disaster situation or not.

Chair SNOWE. Exactly. Yes.

Mr. SWINDALL. It is something that we have battled on a daily basis. I believe to shine some silver lining to the dark cloud, I believe that some focus on that program through these disaster relief efforts could potentially get the ball rolling and not only help the disaster areas, but other economically distressed areas, as well.

Chair SNOWE. Right. It is an excellent suggestion and we will work on that and we will focus on that, absolutely, because it really does otherwise minimize the effectiveness of this approach—

Mr. SWINDALL. Yes, ma'am.

Chair SNOWE [continuing]. Ms. Wilkerson, when you were saying just about New Orleans, and 85 percent of the businesses in New Orleans have 19 or fewer employees. That is significant, and we are looking at this HUBZone designation for disaster areas and

that is in our legislation, as well, but it is going to render parts of that useless if they are overlooking the value of small business, and looking at the comparative charts here between the small business contracts that already have been compared to the large contractors, already, you can see the dimensions of the problem.

In other words, I mean, if they could do the subcontracting, but we have got waivers in the supplemental that are creating problems that you have all identified, as well, and it has raised serious concerns to me. We didn't want to hold up the supplemental for the assistance. It was a Hobson's choice for us. We could not do that. We are going to try to rectify it. They have committed to working with us on that, hopefully. Nevertheless, we are going to do that, because small business really is a lifeline here.

Mr. SWINDALL. Subcontracting opportunities are great, but it is my experience—my company deals largely in Federal contracting, providing services for the Federal Government. It is a trend within DOD now to base operation contracts and other similarly-related contracts that roll several or a multitude of contracts that had previously been performed by small businesses into one large contract that really only large companies realistically can compete for. Although subcontracting quotas and goals are in place, they are rarely realized in a realistic manner anyway. It totally changes the picture. I believe all efforts toward prime contracting opportunities for small business would really go a long way.

Chair SNOWE. Prime, yes. Right. Absolutely. Then you don't have those problems.

Mr. SWINDALL. Yes, ma'am.

Chair SNOWE. You have the one, and I agree with that and we really need to work on that.

Ms. Wilkerson.

Ms. WILKERSON. One thing, since the cat is out of the bag, so to speak, about the timing, I would like to go ahead and say. I understand—

Chair SNOWE. I am glad it is, because—I am sorry it is. I mean, I am glad it is, but I am sorry it is a problem.

Ms. WILKERSON. I think it is important, and we felt it was important to manage people's expectations of when they really are going to get money, and when you talk to the people in Florida and you talk to the people in North Carolina and the people that have been through these disasters, the fact is, that is what they are telling us, too. I mean, they are telling stories that occasionally, there are still some loans that have not been funded and we are talking about a year. Those are isolated incidents, but it does happen and people should not expect it to happen in 21 days. It probably won't.

Chair SNOWE. I guess the fact is we are trying to get the loans to rebuild the city. It is inconceivable in the 21st century that is what we are grappling with, is a losing a city, but that is where we are. The machinery of government has to keep pace to make it happen, and there is no reason why this should take that long in getting money to people so we can start this process. It doesn't take that much to write a check.

I am just glad they came out today, because that is one of the issues we will rectify here because it is going to hold up everything. I mean, that tells me that it is probably replicated in all the other

agencies and FEMA and so on and we can go on endlessly thinking about the possibilities here about how that will materially affect the ability to have a viable rebuilding effort in a timely fashion. I mean, it is not going to be easy under any circumstance, but certainly if the government is not providing the wherewithal to do it in a timely fashion.

What is it here that you have heard today that you think works or doesn't work? Is there anything that we have discussed in the earlier panel with the Administrator or anything? What I am hearing from you is bridge loans, grants, time, obviously now. A lot of the suggestions you have raised—I am going to comb through your testimonies, Mr. Rowland, as well. I mean, we will read your testimonies for all the suggestions, so we will do that. Is there anything that really is so important that you want to make sure that draws the attention of this Committee with respect to how we are working these programs or what works?

Mr. Rowland.

Mr. ROWLAND. A lot of people have lost all their records—

Chair SNOWE. Yes.

Mr. ROWLAND [continuing]. Which doesn't give them the ability to back a lot of, obviously, money that they are going to go after. Certainly, no one expected this to happen, so that is definitely something that is going to have to be addressed and a big concern. If somebody wants to get a bunch of loans and they don't have anything to back it, what is going to happen, because they are completely wiped out, all their databases and everything else. That is definitely a big concern, I would think.

Chair SNOWE. All right. We are going to follow up on that particular issue and have a plan to handle that and so on. We will look at that, definitely, absolutely.

Mr. ROWLAND. Thanks.

Chair SNOWE. Ms. Wilkerson, do you have any suggestions on that and what generally has worked in the past or hasn't worked? No?

Ms. WILKERSON. With respect to—

Chair SNOWE. The loss of documents, not having any documentation—

Ms. WILKERSON. Clearly, we need the IRS to have a rapid turnaround with those transcripts. We are making those requests, but it would be also helpful if we could have the IRS, local, housed with us, and they do talk about that in the Business Recovery Center where it is just going to be business. They did talk about having the Commissioner of Insurance and the IRS and those people, but we clearly need the IRS firmly on board, firmly committed to a 72-hour turnaround.

Chair SNOWE. Okay.

Ms. WILKERSON. If I had to make a comment, the portability grants—

Chair SNOWE. Yes.

Ms. WILKERSON [continuing]. I mean, I think it is critical.

Chair SNOWE. Absolutely. We correct that, too—

Ms. WILKERSON. We can help people on the ground, because the difference is we are going to walk them through the process and talk about whether the other funding programs, and the young

woman who did not know her self-employed husband could be unemployment insurance. If we had not told her that, she wouldn't know it. We will walk them through all the processes. We definitely need to be able to get that.

We need those tax credits. We need that loan deferral. We also need the ability to roll the existing debt, and they do say in some cases, but we need a broader roll existing debt into the disaster loan, because if you pile debt on top of debt with a 3 percent profit margin, you have just doomed them to fail. If you can roll that in, then that gives them that long-term strain to look at getting that paid for. I think that would be very helpful to a lot of really small businesses.

Chair SNOWE. Do you have the resources to do your job?

Ms. WILKERSON. Well, I have about 30 people—the answer is, no, we are flooded. I mean, when we have got—

Chair SNOWE. Right. So you relocated.

Ms. WILKERSON. I personally moved myself to Baton Rouge so that I could work with Louisiana Economic Development and the SBA.

Chair SNOWE. I see.

Ms. WILKERSON. I am by myself down there, except I do have a couple of centers, and I am moving the UNO SBDC into the LSU SBDC to help people.

Chair SNOWE. Has SBA offered any additional assistance or personnel for you?

Ms. WILKERSON. No, ma'am.

Chair SNOWE. No? How do they expect all this to be done?

Ms. WILKERSON. I don't know. That is my point. When he kept talking about a partnership with our program, that is great, but we serve 14,000 people a year with \$2.2 million now.

Chair SNOWE. Okay. That is another issue we will have to address.

Ms. WILKERSON. Yes.

Chair SNOWE. Did you have something to add?

Mr. WILSON. Yes, Madam Chair, Don Wilson with the ASBDC. We are bringing in—we trained 250 people in Baltimore 2 weeks ago and they are all—

Chair SNOWE. How many?

Mr. WILSON. Two-hundred-and-fifty. They are all experienced loan packagers and processors. They are procurement specialists. They are what needs to be in Louisiana and Mississippi. Those States where those 250 people are from are saying, "We will pay their salaries and we will pay their benefits, but we don't have the money to pay the money to send them down there, to pay their housing and pay their food."

Mary Lynn wants to bring in those folks. She doesn't have the dollars to do it. ASBDC has given both Mary Lynn and Mississippi a \$75,000 bridge loan so they can begin to bring them in. Mr. Gurley in Mississippi already has 11 people on the ground from Ohio, from Tennessee, from Florida, from North Carolina, and we will be sending in 10 to 15 every week to help them.

You see, when SBA asks for supplementals, they always ask for the additional dollars for loans and for their home people. They never ask for any additional dollars for their partnership people,

but yet we are the ones that end up—they are handed off to us because we are the people who help reconstruct their financial backgrounds.

Chair SNOWE. Okay.

Mr. WILSON. If IRS could also put actually an IRS person in an SBDC—

Chair SNOWE. Good point, good point. That is a very good point.

Mr. WILSON [continuing]. If it is 72 hours, I will be very surprised. If the counselor is right there with an IRS—

Chair SNOWE. Right, one-stop shopping.

Mr. WILSON [continuing]. The counselor can work with the client to begin to process those loans right there.

Chair SNOWE. Absolutely.

Mr. WILSON. You saw how many—and Herb, let me say, Herb has been super and the Administrator has been super in working with the Association, but you saw how many loans are out there and how many have been returned. That is because so many people find the application daunting. They need an SBDC person or a Women's Business Center person or a SCORE person to help them fill those out. SCORE and SBDC, under your amendment, thank God, there is additional resources there—

Chair SNOWE. Right.

Mr. WILSON [continuing]. \$21 million for us and \$4.5 million for the women. That has got to get through so that these bodies can get on the ground—

Chair SNOWE. I see.

Mr. WILSON [continuing]. In Mississippi and Louisiana to help these people fill out—

Chair SNOWE. That is our goal.

Mr. WILSON. They have only got 76. We are talking about a 21-day turnaround on the loans or whatever it will be. Well, they processed 76 in 3 weeks out of 12,000 in. That is not a criticism. Loan processing is not instantaneous. Our background historically has been—

Chair SNOWE. They have a million applications.

Mr. WILSON [continuing]. When an average client fills out an SBA disaster loan, about 40 percent of them get approved or filled out—I mean, that are filled out. With 9/11 in New York and with Hurricane Floyd in North Carolina and with the hurricanes last year in Florida, with the assistance of trained counselors, those rates went up between 70 and 80 percent approved. That is the reason we have got to get additional SBDC-trained people who have been through the hurricane experience and 9/11 in Mississippi and Louisiana to—

Chair SNOWE. It is recruiting them from around the country, where they are already trained, helping to recruit from around the country to bring them in.

Mr. WILSON. We have got the counselors already signed up. We are ready to come.

Chair SNOWE. You are ready to come. You need the expenses.

Mr. WILSON. We need the dollars to bring them there, the airfare, the food, and the housing.

Chair SNOWE. Well, okay. That is something we can—

Ms. WILKERSON. Plus FEMA has all the hotels and the RV park spaces in our State.

Chair SNOWE. That is another additional issue, the housing question.

Ms. WILKERSON. Right, right.

Chair SNOWE. Well, no, you have identified some significant issues here that need to be quickly addressed, and first and foremost is to get a bill through and all of these questions and get it through immediately so you have got the resources at your doorstep to begin this process. The idea of having an IRS person there along with SCORE and the Women's Business Center and everybody to help is a great idea to expedite this process.

Yes, I am concerned. We have a million applications and only 76 approved out of all of that so far. Now, there are a number of issues, but at some point, it is going to create a serious backlog here, if it hasn't existed already, given the gap and the time-consuming nature of the process, which we have got to also improve upon.

I thank you. I am sorry you are all here under these circumstances. I know the Committee, and I speak for all of us, truly appreciates the fact that you were able to be here under these circumstances and the personal and professional hardships that you are enduring as a result of the hurricane. I truly appreciate it.

I want you to know that we are going to do everything we can to help in every way we can and as soon as we can to at least assist you in this one dimension with the difficulties that you are experiencing. I truly regret that. The fact that you have taken time to come up here to Washington is really magnificent on your part, to share your stories and your personal stories.

We pledge to you we are going to do everything that we can to help in every way possible, so thank you and God bless you. Thank you.

This hearing is adjourned. Thank you.

[Whereupon, at 1:28 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, DC, Nov. 10, 2005.

Mr. WESTON COULAM, *Staff Director,*
Committee on Small Business and Entrepreneurship,
U.S. Senate,
Washington, D.C.

DEAR MR. COULAM: Thank you for your letters of October 17, 2005 and October 18, 2005, requesting further information from the September 22, 2005 hearing on the Impact of Hurricane Katrina on Small Businesses. Attached please find a complete set of answers to your questions. Please accept our apologies for the delay in returning these to you.

Should you have any further questions please contact our Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

C. EDWARD "TEE" ROWE,
Associate Administrator for
Congressional and Legislative Affairs.

RESPONSES BY C. EDWARD "TEE" ROWE TO QUESTIONS FROM COMMITTEE ON
SMALL BUSINESS AND ENTREPRENEURSHIP

Question 1. How is the SBA making sure that its assistance is provided to the areas in the Gulf Coast that have suffered the most damage from Hurricanes Katrina and Rita?

Answer. The SBA is committed to assisting the victims of the Gulf Coast hurricanes. The region is suffering from the triple misfortune caused by Hurricanes Katrina, Rita and now Wilma.

The SBA now has nearly 3,800 employees in the Office of Disaster Assistance working exclusively on helping the Gulf Coast and Florida recover. This is four times the number of employees that were in this office before the Hurricanes struck.

As of November 8, SBA has approved over \$400 million (\$426,731,600) in disaster loans to more than 6,293 individuals and businesses in the Gulf region.

Of those, \$365,070,000 in disaster loans has been approved to 5,368 homeowners and renters in the region.

Some 543 Business Physical Disaster loans have been approved for \$39,387,300 and 382 Economic Injury Disaster Loans have also been approved for \$22,274,300.

The SBA has assigned Field Staff to each of the 130 Disaster Assistance Centers in the region. As you know, these centers are situated in accordance with the levels of hurricane damage present in a given locality.

The SBA is working hard to help the region recover and offer aid to citizens that need relief. SBA assistance is available on an equitable basis regardless of an applicant's place of residence. The procedures for each type of assistance are the same for all citizens when applying for hurricane relief.

Question 2. Where is the SBA focusing its attention, in terms of the services it is providing and the counties and parishes it is serving?

Answer. Victims and evacuees of Hurricanes Katrina and Rita are able to get SBA assistance at 130 Disaster Recovery Centers and 9 Business Recovery Centers throughout the hurricane affected areas. Of those, 103 Disaster Recovery Centers are in the affected Gulf States. A toll-free SBA Customer Service line (1-800-659-2955) is open 24-hours a day, 7-days a week. Victims may also receive assistance through a dedicated electronic mailbox, as well as the SBA website, where business applicants may download an application.

Question 3. What is the SBA's general prognosis for the pace of the recovery of small businesses in the affected region?

Answer. It is difficult for the SBA to give a definitive answer concerning the pace of economic recovery in the Gulf region. In human terms, the tragedy has been immense and widespread. The social and economic dislocation suffered by the citizens of the Gulf Coast has affected the entire Nation.

The Federal Reserve Bank of Atlanta has experience analyzing the economic damage from hurricanes and the amount of time needed to recover. Jack Guynn, the Bank's President and CEO, agreed this week with analysts that the devastation caused by Hurricanes Katrina and Rita will subtract about ½ of a percentage point

from the GDP growth the U.S. would have seen in the third and fourth quarters of 2005.¹

However, Federal Government and insurance payments will provide the region with an economic rebound. Post-hurricane reconstruction spending will boost national economic output by $\frac{1}{2}$ a percent in early next year, he says.

The shock to aggregate demand is likely to be temporary and growth should pick up again in the region as investment flows in to rebuild homes and infrastructure. This economic upswing will help businesses large and small to recover from their losses.

Question 4. In general, how long does the SBA estimate it will take to return the small business economy in the Gulf Coast region to the level it enjoyed prior to the hurricanes?

Answer. It is too early to tell, with specificity, how soon the small business economy will recover to the levels enjoyed prior to the hurricanes. The SBA is working hard to help the region return to its pre-hurricane levels as quickly as it can. Small businesses will benefit from the economic upswing fed by the investments made in rebuilding the region.

Question 5. In addition to providing small business owners with advice on rebuilding and restarting their businesses, what is the SBA doing to help small businesses be better prepared for future catastrophes?

Answer. The SBA helps by enabling borrowers to mitigate the impact of future disasters on their businesses. When providing a disaster loan for uninsured recovery costs, SBA has the authority to increase the loan amount by up to 20 percent so that the borrower can invest in disaster mitigation technologies such as sea walls and storm shutters.

The Administration has proposed to raise the amount that can be provided for disaster mitigation by basing the calculation on the total damage caused by the disaster. (For example, a business that receives \$100,000 of damage may have \$80,000 covered by insurance and \$20,000 covered by an SBA disaster loan. Typically, SBA's mitigation loans would be limited to 20 percent of the \$20,000. The Administration's proposal would raise eligibility to 20 percent of the \$100,000 damage—in this case increasing by fivefold the amount of disaster loan lending eligible for mitigation.)

The SBA also provides materials on its Web site to help small businesses prepare for potential disasters. They include issues for small business owners to consider and prepare for before disaster strikes, such as keeping a backup copy of critical business records at a secure offsite location at least 50 miles away from the business location.

Small businesses have access to the SBA's "Be Aware and Prepare" page with links to information on business disaster prevention, disaster recovery, and business continuity issues. The information can be found at <http://www.sba.gov/disaster/recov/prepared/getready.html>.

SBA DISASTER PROGRAM

Question 1. What is the average length of time that a disaster loan application being filed for Hurricane Katrina or Hurricane Rita will take to be completed by the applicant?

Answer. Generally, the home application takes 2 hours to complete, and the business application takes a total of 3 hours to complete.

Question 2. For victims of Hurricane Katrina and Hurricane Rita, (a) what has been the average time between an applicant's submission of an application for an SBA disaster loan, and the point at which the applicant is told his or her application is approved or denied, and (b) what has been the average duration between the notice of a loan's approval and the disbursement of that loan's funds?

Answer. Based on the loans processed so far, the average time between an applicant's submission of an application for an SBA disaster loan and the point at which the applicant is advised of approval or denial is generally within 30 days. (b) Based on the loans approved so far, the average duration between the notice of a loan approval and the initial disbursement of the loan funds is generally less than 20 days. Disbursement time is dependent upon the borrower, who controls when the closing documents are returned. Loan documents are prepared within 24–48 hours of approval and disbursements are made within 5 days of return of signed loan closing documents.

¹Mr. Guynn's October 20, 2005, discussion of the economic impact of Hurricanes and monetary policy is attached.

Question 3. What allowances is the SBA making to compensate for the difficulty that storm victims have in obtaining documentation to support their applications?

Answer. Recognizing that many applicants may have difficulty providing financial documentation, SBA has eased its filing requirement for 3 years' Federal income tax returns to 1 year, and will accept the application without that return if it is not available. In the absence of any other information, SBA will base its repayment decision solely on the information provided by the Internal Revenue Service (IRS). Our Customer Service Representatives are also helping applicants to estimate simple balance sheets and income statements if necessary. Additionally, SBDCs located throughout the disaster area are assisting applicants to recreate lost financial information and complete the SBA disaster loan application.

We have also increased the loan amount that can be disbursed without a title search from \$25,000 to \$50,000. This allows us to disburse more quickly without compromising loan integrity.

Question 4. Based on the number of referrals made by FEMA thus far, and the SBA's experience of making loans after other disasters, what is the SBA's estimate of the number and dollar amount of disaster loans the SBA will make in response to Katrina and Rita?

Answer. Projected Approvals:

	# Loans	Avg. Loan Amt.	Total Approved Amt. (\$000s)
Home (82 percent)	68,305	\$26,213	\$1,790,479.0
Business (10 percent)	8,330	\$19,752	\$164,534.2
EIDL (8 percent)	6,664	\$30,913	\$206,004.2
Total Projected Approvals	\$83,299		\$2,161,017.4

Question 5. How quickly after the hurricanes were SBA offices assisting victims of the hurricanes?

Answer. SBA already had Disaster Recovery Centers (DRCs) in Alabama and the Florida panhandle for Hurricane Dennis. Evacuees from Hurricane Katrina came into these centers to talk to FEMA and SBA as soon as they arrived in the locale.

In Mississippi, Louisiana, and elsewhere in Alabama, SBA was onsite within 2 days of the disaster. SBA located personnel at every DRC opened by FEMA and the state. The decision of opening dates for DRCs is made by FEMA in concert with the State, and depends on conditions (accessibility, security, utilities) in the disaster locale.

When Rita came ashore, SBA was already located in several DRCs for Katrina in Louisiana and Mississippi, and was able to provide services to evacuees from other areas. New DRCs in Texas, as well as DRCs that were forced to evacuate for the new storm, opened as soon as conditions allowed.

Question 6. What did the SBA do to prepare for the hurricanes?

Answer. SBA plans continuously for disaster response. Prior to hurricane season, SBA anticipates requirements for supplies, equipment and staff needs.

As Katrina approached, SBA began to contact potential re-hires and disaster reserve personnel, and implement plans for recruiting new hires. We assessed expected needs for computers, supplies, and equipment. We designated field management personnel and began searching for lodging in the disaster areas.

We are constrained by regulations which prohibit us from committing funds, hiring, securing space or lodging, or traveling to the disaster area before a disaster declaration is actually made. However, because we had nearby centers in operation for earlier disasters (prior to Katrina, operations existed for Hurricane Dennis in Alabama and the Florida panhandle; prior to Rita, operations were in place for Katrina in Alabama, Mississippi, and Louisiana), we were able to use those centers to facilitate moving personnel and supplies into the new disaster area.

Once the disasters were declared, we began hiring customer service representatives, loss verifiers, loan processors, and others, both nationally and in the local disaster areas. Supplies and equipment were deployed, and we located personnel in each DRC as it was opened by FEMA and the State. We expanded our toll-free customer services lines to accommodate the large volume of calls, and established a dedicated electronic mailbox for disaster inquires. We also opened Business Assistance Centers in several locations, and partnered with SBDCs, who are providing as-

sistance in reconstructing financial records and completing applications in the disaster locales.

Question 7. Did the SBA participate in or assist Florida's small business emergency bridge loan program that followed the hurricanes in that State in recent years?

Answer. SBA has a successful history of working with the private lending community and, as recently as the 2004 Hurricanes, with the State of Florida and its Bridge Loan Program, benefiting several thousand disaster victims over the years. We look forward to the opportunity of working with any disaster-affected State on such an endeavor.

There are some important considerations to keep in mind. (1) While many bridge loans can and will be repaid by our program, SBA cannot guarantee that bridge loans will be repaid with approved disaster loan funds. The use of disaster loan proceeds is governed by statute. The majority of bridge loans are granted in the early stages of recovery from a disaster and there is no way to know if the borrower will also be approved by SBA and/or if the funds will be used for eligible disaster related purposes; (2) More specifically, SBA loan proceeds can only be authorized and disbursed to repair or replace disaster-related losses. Accordingly, individuals and/or business owners will be required to document that the funds of their interim loan were spent for SBA-eligible disaster-related purposes; (3) SBA cannot pay off interim loans for individuals or business owners whose disaster loan applications were declined by or have not yet been processed by SBA.

Nevertheless, SBA can help those disaster victims who have an approved SBA loan or have secured an interim bridge loan, and can document that the proceeds of that loan were used for eligible disaster related purposes.

Question 8. What concerns, if any, does the SBA have about the combination of State and Federal programs to assist hurricane victims?

Answer. The SBA stands ready to work with State and local officials to combine program assistance when appropriate. Concerns may arise when programmatic standards, definitions and regulations vary across differing levels of jurisdiction.

However, the SBA looks forward to working with the Committee along with State and local officials to improve the coordination and effectiveness of government's response to large-scale disasters.

The Office of Disaster Assistance (ODA) is always concerned about duplication of benefits from other programs and constantly monitors new programs at the Federal and State levels to be sure we are aware of them.

In addition, ODA is concerned that it is only a source of long-term recovery loans for businesses and homeowners, and that the victims need to be mindful of other sources of short-term assistance (grants or loans) that might be available for short-term needs.

Question 9. Mr. Barreto testified that in order to meet the demand of this disaster the SBA is currently hiring over 200 employees per day. Understanding the vital need to bolster the staff and resources, does the SBA have sufficient administrative funds to sustain these disaster employees over an extended period of time?

Answer. SBA's current estimates show that the Disaster program currently has adequate administrative resources through the end of January 2006. This estimate assumes that there are no further disasters of significant magnitude declared before then.

Question 10. How is the SBA ensuring that employees are properly trained to use the new Disaster Credit Management System?

Answer. *Field Inspection Team:* Prior to the transition to DCMS, the Field Inspection Team identified a core group of 43 employees and brought them into the SBA Field Operations Center in Atlanta for 5 days of training with the DCMS. Training for this core group consisted of a comprehensive instruction on the application within DCMS related to verification actions from the assignment of files to the review and completion of the product. Training included extensive hands-on training with the DCMS tablets used for field verifications.

Loan Processing: Employees receive class room training followed by on-the-job training. Employees are assigned to processing teams of 8-10 with one supervisor providing daily guidance.

Customer Service: New hires in the Call Center receive one full week of classroom/mentoring training. Subject matter experts on the staff conduct the training. Team leaders continually monitor the employees for quality and quantity of work performed. Training/performance issues are discussed and recorded every month with each employee.

Question 11. Given the reports that the real estate records of many local governments in the Gulf area have been flooded, and that the records of some banks may also have been destroyed, how is the SBA responding to loan applicants who are unable to provide necessary documents to support their applications?

Answer. SBA is using whatever vehicle is available to prove eligibility and/or ownership. Online property searches, tax appraisal records, title companies, direct phone verification with third parties, FEMA records, insurance companies and banks are examples of alternative resources.

Question 12. How many "temporary" disaster employees does the SBA typically have in reserves? How many of disaster employees were in reserve prior to Hurricane Katrina?

Answer. Prior to Katrina we had approximately 617 regular temporary ODA employees onboard nationwide; however, the formal Disaster Reserve (DR) had not yet been established. To date, we have the following:

- DR Customer Service Representative: 371 qualified; 335 selected for tentative reserve appointments (20 declinations and 11 with suitability issues).
- DR Construction Analyst Loss Verifier: 125 qualified; 117 selected for tentative reserve appointments (7 declinations and 16 with suitability issues).

Currently ODA has approximately 300 DR applications on file which have not been rated. On 10/25/05, ODA closed the DR announcement and expects to reopen it once the present disaster activity subsides.

Question 13. How long is the training for disaster field employees? Disaster Area Office employees? Please describe the training for these employees.

Answer. SBA typically maintains a core of cadre employees, and hires temporary employees for the duration of a disaster. A variety of training methods are used for new and returning employees.

- Former employees that return to work with SBA may live in locations all over the country. Normally they have already been trained and only need to be updated on new procedures and policies currently in use. SBA provides that type of update training via telephone, fax and email. After they travel to the disaster location, they work with Team Leaders that were already employed and receive "on the job" update training.

- New Customer Service Representatives (CSRs), Loss Verifiers (LVs) and other employees are hired nationwide, and in the disaster locale. The new employees are trained in the office for four (4) days and sent to the field to begin the "on the job" portion of their training under the direction of their assigned Team Leader.

- We also hire new employees that are located in the disaster area. Often these new employees are also disaster victims. Since they are located in the disaster area and there is usually no facility available to train employees in the disaster area, we provide a more direct "on the job" training. These new employees are typically assigned to a more experienced employee to work closely to learn the program and procedures. Since they live in the disaster area they don't need the administrative and travel policies and procedures training at that time.

- In addition, we hire new employees from around the country that respond to job announcements. These employees are typically hired and sent directly to the disaster area and trained "on the job" under the same procedure as locally hired employees.

- The training for CSRs is briefly described as follows:
 - SBA disaster loan program knowledge, policy and field procedures.
 - Administrative and travel policies and procedures.
 - SBA Field Operations applications and forms completion.
 - Importance of customer service and how to work with stressed disaster victims.
 - SBA's role in relation to FEMA and the State.
 - The referral process if an applicant is declined by SBA in the field due to repayment ability and referred to the FEMA/State Grant program.
 - How to review the completed application with the disaster victim on site.
 - Various other miscellaneous training points.

• Initial training for the field inspectors is a comprehensive 3 day training course. In addition to administrative, travel, and organizational topics, the course includes an overview of the DCMS and hands-on training in all aspects of the computer tablets used to complete the original on-site inspections. When dispatched to the field the field inspector is assigned to a team leader who will provide additional training and technical support as required. This may include teaming the new field inspectors with an experienced field inspector for one-on-one training during actual on-site inspections.

- Training for Processing & Distribution Center (Formerly Area Office) employees consists of 3 days of formal classroom training. In addition to administrative and organizational issues, the course includes hands-on training in using the DCMS as well as the technical aspects of the specific job, such as understanding the disaster program, how to read credit reports, tax returns, income calculation, and how to calculate eligibility. The employee is then assigned to a team leader who will review the new employee's work and provide technical assistance and additional training.

Question 14. Does the SBA plan to make any analysis of whether the current Disaster Loan program is meeting all of the pertinent needs of hurricane victims? If so, when might this be completed?

Answer. ODA is constantly reviewing and analyzing its program, policies and procedures to determine if the program overall is meeting the pertinent needs of disaster victims. The program is intended to provide long-term recovery financing, and is not a short-term emergency needs lender. We are continually looking at ways, therefore, to speed up the delivery of the program without compromising integrity.

Question 15. Does the SBA have a policy of not disbursing any disaster loan funds in New Orleans, and other Gulf Coast areas protected by levees, until the levees have been built to a standard sufficient to successfully resist a "Category 5" hurricane? If so, what is the source of this requirement?

Answer. SBA has no such policy. We do require the appropriate building permits, construction contracts, and other documentation required by Federal law or local building authorities.

Question 16. Please provide an up-to-date chart showing the number of loan applications the SBA has received from hurricane victims, and the number that have been approved, disbursed, or withdrawn.

Answer. See Appendix A.

Question 17. In reviewing loan applications, has the SBA prioritized the processing of applications from businesses that wished to participate in bidding for contracts to rebuild the Gulf Coast region?

Answer. ODA has no way of determining which loan applicants are seeking to bid on Federal contracts to rebuild the Gulf.

Question 18. In reviewing loan applications, has the SBA prioritized the processing of applications from businesses and homeowners who wished to receive the disbursement of funds for their loans immediately, rather than those businesses and homeowners who planned to delay the disbursement until a later time?

Answer. To the extent possible, SBA processes loans in the order they are received. Because of the many decision factors involved, SBA cannot know in advance whether the loan will be approved and when an applicant wishes to take disbursement of all or part of their loan. It is common for SBA to disburse personal property funds for necessities soon after closing, while real estate funds may not be disbursed until the borrower is ready to begin construction, and has the necessary state and local permits to do so.

Question 19. Does the SBA prioritize, for processing, evaluation, or disbursement purposes, certain types of disaster loan applications?

Answer. To the extent possible, SBA processes applications in the order of receipt. SBA has designed processes that expedite applications through the evaluation process as appropriate. For example, an initial repayment analysis is performed before an application is issued to expedite an IHP grant referral for those homeowners and renters who clearly cannot repay a loan. Also, a credit check is performed as soon as an application is entered to speed IHP grant referral of homeowners and renters with adverse credit history. Verification of damage occurs for those applicants for whom there is a reasonable chance that a loan will be approved.

We have also implemented initiatives to expedite the processing of business loans.

If an applicant is declined for loan assistance, they may ask for reconsideration twice within a specified period of time, so that additional information may be considered which may result in an approval.

Question 20. Please provide the approval rates (percentage of applications received that were approved) for at least 5 previous disasters, including Hurricane Andrew in Florida, Hurricane Charley in Florida, and the Northridge Earthquake in California, and provide the approval rate for Hurricane Katrina and Hurricane Rita applicants as well.

Answer. See Appendix B.

Question 21. For the five disasters referred to in the previous question, and for Hurricanes Katrina and Rita, please provide:

- a. the average response time to the disasters.
- b. the average approval time.
- c. how many applications were submitted?
- d. How many applications were approved?
- e. How many applicants were received and of those how many were approved, declined or pending 60 days, 90 days and 120 days after the disasters?

Answer. For items a, b, c, and d, see Appendix B. SBA is unable to provide historical information in response to item e.

SBA'S FINANCING PROGRAMS

Question 1. The hurricanes will almost certainly create an increased level of loan defaults for borrowers in the Gulf Coast region that already have loans in the SBA's 7(a) and 504 Loan programs. (a) How much of an increase over normal loan defaults does the SBA expect as a result of the hurricanes? (b) How much does the SBA expect the program's fees might have to change to compensate for these defaults and still maintain a zero subsidy?

Answer. (a) At this point it is difficult to predict what the ultimate effect will be. The 7(a) and 504 portfolio of loans in existence prior to the hurricanes is a small part of the overall portfolio in both programs. While the experience with the New Orleans portfolio is likely to be unique, the precedents for the other devastated areas would indicate that some portion of those existing borrowers will see a significant increase in business volume as they supply the goods and services demanded by recovery. The New Orleans situation will be significantly affected by the speed (and ultimate success) with which rebuilding efforts actually occur. In the worst case scenario, where many residents and businesses do not choose to return in the immediate future, it is likely that the Agency's delinquency and loss experience may exceed that of previous disasters already included in our baseline.

(b) Because of the size of the hurricane affected portfolio relative to the portfolio as a whole, and because the existing portfolio is spread out over many cohort years, it is unlikely to have a significant effect. While the principal and interest deferments will result in less revenue during the deferment period, the fact is that in the case of those loans that resume payment in the subsequent year, the cash collected from the on-going fee will be higher than predicted in the model because the loan balance on which the fee is based will be higher than assumed in the original model.

Question 2. Will the SBA have a policy of not approving loans under the 7(a), 504, or Microloan programs in the Gulf Coast region if the borrowers are in an area protected by levees, but the levees are not sufficient to withstand a Category 5 hurricane?

Answer. SBA's standard loan authorization requirement is that any business in a flood plain must purchase flood insurance. The Agency has no intention of altering that policy.

Question 3. Has the SBA decided to defer the payments owed by borrowers to it under the 504 loan program for 1 year if the borrowers are adversely impacted by the hurricanes? If so, how many borrowers will be eligible for this deferment?

Answer. SBA has deferred payments on SBA-serviced 504 loans in the disaster areas. In addition, all borrowers in the affected areas have the option of requesting a deferment as appropriate for their business's circumstances. Because of the unique nature of the 504 loan repayment structure, a deferment requires that a 5-year "catch up plan" be designed.

ENTREPRENEURIAL DEVELOPMENT

Question 1. Given the overwhelming and daunting task facing many small business owners in the affected area, how is the SBA interacting and coordinating with resource partners and others to provide economic, financial, and business management guidance?

Answer. The Small Business Development Center (SBDC) Program has a long history of providing assistance to business disaster victims to help them plan their business resumption, prepare disaster loan applications, etc. SBA is working closely with the SBDC national network and its trade association to be sure that adequate staff and resources are available to the SBDCs in the affected areas. This has included taking steps such as approving plans for staff from nearby SBDCs to work on a temporary basis in the affected areas and inviting the SBDCs in the affected areas to apply for grants under the *portability program* enacted last year and intended to assist communities that are economically challenged as a result of a busi-

ness or government facility down sizing or closing which has resulted in the loss of jobs or small business instability.

During its more than 40 years of counseling and training small businesses, SCORE also has been an active provider of disaster recovery assistance. Of particular value in a disaster situation is SCORE's online counseling data base of more than 50 counselors with disaster recovery expertise—www.score.org. Available 24/7, and not limited by geographic boundaries, this service can help small business owners wherever they may have temporarily or permanently relocated, even when a “brick and mortar” location is not available. SCORE has mobilized specialized business counseling/coaching in addition to the 24/7 online counseling assistance. Developing recovery plans, inventory assessments, business interruption recovery plans, property and loss assessments, backup computer systems, and providing assistance with disaster loan applications are all part of the services provided by SCORE face-to-face counselors at sites in the region and where evacuees have relocated. The Atlanta SCORE chapter is helping Gulf Coast entrepreneurs by providing 7-day-a-week business counseling at three major evacuee centers outside Atlanta. Many other chapters, including those in Mobile and Baton Rouge, have also increased their services. Additionally, SCORE has added links on its homepage (www.score.org) to Federal recovery programs, including SBA and FEMA. SBA has worked closely with the National SCORE Association and, on a local basis with the local SCORE chapters to encourage and facilitate the provision of disaster recovery services to affected small businesses.

Flooding from Hurricane Katrina forced both the SBA's Louisiana District Office and the Women's Business Center in New Orleans (*Urban League of Greater New Orleans Business Resource Center*) out of their offices. Both entities temporarily relocated to Baton Rouge where they shared space, and where each provided limited assistance to local business disaster victims, as well as those that were also displaced from New Orleans and other hard-hit areas. SBA's Louisiana DO recently returned to New Orleans, and made space available to the WBC so that it can again offer limited services to support the long-term recovery of the New Orleans business community. The operations of the WBCs in Mississippi and Alabama were not severely impacted by the hurricanes, and continue to provide services in their areas. In addition, a number of women's business centers across the country are reporting that they are reaching out to hurricane victims that have permanently or temporarily relocated to their areas. Many WBCs and other contributors have joined with the Association of Women's Business Centers to raise funds to help the WBC in New Orleans to rebuild its own operations.

Question 2. Since many people may not know where to get help, what is the SBA doing to provide more outreach and market its services and the services of SBDCs programs to small business owners in the affected area?

Answer. SBA has embarked on a media campaign, including issuing numerous press releases and both audio and video public service announcements, to make small businesses in the affected areas aware of the recovery services available from the Agency and its resource partners. In addition, SBA personnel in the affected districts are working closely with local media, lenders, chambers of commerce, business organizations, and other entities to make sure that the message gets out about the assistance available from SBA and its partners, including the SBDCs. In addition to SBA's outreach and marketing efforts, many of SBA's partners, such as the SBDCs, also publicize the availability of their assistance through their own websites and other media.

Question 3. Currently the SBA has \$1 million available in “Portability Funds” to be used by Mississippi and Louisiana in Federal FY '06. These funds are for non-matching grants for special projects however each grant is capped at \$100,000.

- a. Have any SBDC's requested these portability funds beyond the maximum level?
- b. Which SBDC's?
- c. What are the requirements to apply for these funds?

During the first week of October, SBA used the Grants.gov site to invite applicants to apply for the approximately \$1 million in Portable Assistance Grant funds. To date, only the Mississippi SBDC has requested Portability funds, and its application is within the statutory maximum.

Under the legislation, SBA is authorized to provide grants not to exceed \$100,000 per grant to SBDCs in communities that are affected by business or government downsizing or closing resulting in loss of jobs or small business instability. To be eligible, an applicant must be a Lead SBDC that can demonstrate its ability to provide a quality portable assistance project for the specific purpose of providing programs and services to small businesses in communities suffering from economic hardship attributable to the downsizing or closing of businesses or government fa-

cilities. The requirements for application are more fully set out in the grants.gov posting.

Question 4. How much additional funding will the Mississippi, Louisiana and Alabama SBDCs need in order to provide assistance to small business for the short term and long term?

Answer. State SBDC Directors in both Mississippi and Louisiana have requested staffing support from SBDCs across the country experienced in providing disaster-related technical assistance. SBA has supported this effort by allowing staffs from neighboring SBDCs to temporarily supplement the staff of the SBDC in Mississippi. Similar activity is expected in Louisiana. In addition, to help provide additional staff support for the Gulf state SBDCs, two large corporations have donated a total of \$200,000 to be used by the SBDCs in Louisiana and Mississippi (\$75,000 each), and Alabama (\$50,000).

SBA has no plans to request additional SBDC program funding for the disaster recovery effort. However, the Agency is working closely with the local SBDCs, and is exploring ways to direct existing program resources in the form of unexpended regular program funds to the disaster areas. In addition, SBA has issued a program announcement for the new *portability program* grant funds, and the Mississippi SBDC has already applied under this announcement. SBA is expecting to also receive applications from other Gulf state SBDCs. [It must be noted, however, that all applications received under the announcement will be evaluated in accordance with the criteria contained in the Program Announcement.]

Question 5. How many SBDC employees are currently working in Louisiana and Mississippi? How many additional employees were hired to respond to the hurricanes? How many employees from other states volunteer to assist? Which states?

Answer. According to the most recent information we have, the Mississippi SBDC has 22 counselors and trainers on staff, including six formerly part-time employees who were converted to full time status, and two new hires. The Louisiana SBDC has 24 counselors and trainers on staff, and another four contractors hired on 90-day contracts. In addition, numerous staff persons from SBDCs in other parts of the country have volunteered to go to the disaster areas to assist the local SBDCs. In total, 44 counselors and trainers from other states have volunteered to go on 2-week rotational assignments in the affected Gulf States. These counselors have come from the following states: FL, GA, AZ, SD, MD, MI, OH, NC, NE, NM, PA, and TN. Some of the members of this volunteer cadre have already completed assignments in Mississippi.

Question 6. What additional services has SCORE and the Women's Business Centers provided in response to the Hurricanes?

Answer. Flooding from Hurricane Katrina forced both the SBA's Louisiana District Office and the Women's Business Center in New Orleans (*Urban League of Greater New Orleans Business Resource Center*) out of their offices. Both entities temporarily relocated to Baton Rouge where they shared space, and where each provided limited assistance to local business disaster victims, as well as those that were also displaced from New Orleans and other hard-hit areas. SBA's Louisiana DO recently returned to New Orleans, and made available space to the WBC so that it can again offer limited services to support the long-term recovery of the New Orleans business community. The operations of the WBCs in Mississippi and Alabama were not severely impacted by the hurricanes, and continue to provide services in their areas. In addition, a number of women's business centers across the country are reporting that they are reaching out to hurricane victims that have permanently or temporarily relocated to their areas. Many WBCs and other contributors have joined with the Association of Women's Business Centers to raise funds to help the WBC in New Orleans to rebuild its operations.

SCORE also has been an active provider of disaster recovery assistance. Of particular value in a disaster situation is SCORE's online counseling data base of more than 50 counselors with disaster recovery expertise—www.score.org. Available 24/7, and not limited by geographic boundaries, this service has been helping small business owners when a "brick and mortar" location is not available. SCORE has mobilized specialized business counseling/coaching in addition to the 24/7 online counseling assistance. Developing a recovery plan, inventory, business interruption, property and loss assessment, developing backup computer system, assistant in disaster loan applications are all part of the services provided by SCORE face-to-face counselors at sites in the region and where evacuees have relocated. Atlanta SCORE is helping Gulf Coast entrepreneurs by providing 7-day-a-week business counseling at three major evacuee centers outside Atlanta. Many other chapters, including Mobile SCORE and Baton Rouge SCORE, have increased their services. Additionally,

SCORE has added links from its website (www.score.org) to various recovery assistance sites including SBA and FEMA.

GOVERNMENT CONTRACTING

Question 1. With regard to the SBA's disaster loan processing, please provide to the Committee the following information:

(A) The name and contact information for the vendor or vendors, including sub-contractors, that have been involved in creation and operation of the SBA Disaster Credit Management System (DCMS), as well as in the conversion of the Automated Loan Control System and the Loan Officer Report System to DCMS;

(B) Any contract or contracts, together with any related contractual amendments, related to the DCMS;

(C) Any contract award evaluation documents related to the DCMS, such as those that would be available for production to the Government Accountability Office in proceedings under the Competition in Contracting Act; and

(D) The names, titles, and contact information for SBA officials responsible for award and administration of any DCMS-related contracts.

Answer: See Appendix C. *SBA Official Contacts:* Herbert L. Mitchell, Associate Administrator for Disaster Assistance, (202) 205-6734; Michael Sorrento, Director, DCMS Operations Center, (703) 487-3642; and Janet Strong, Deputy Director of Contracts, (202) 205-7307.

Question 2a. In your testimony, you indicated that the SBA has assigned 4 Procurement Center Representatives (PCRs) to assist small firms with Katrina-related contracting. However, according to the SBA's own information, it already had 3 PCRs in the region prior to the disaster. Of these PCRs, the SBA assigned no PCBs in Mississippi, only one in Louisiana, and only two in Alabama. In addition, the SBA had 1 PCR assigned to cover the Homeland Security Department in Washington, DC, along with the Department of Agriculture and the Defense Contracting Command.

Have you, or have you not, assigned any additional PCRs to the Hurricane Katrina contracting beyond the above-mentioned PCRs?

Answer. The four PCRs in the region and the PCR at the Department of Homeland Security are dedicated to Katrina-related contracting.

Question 2b. If you have assigned additional PCR's, please state how many additional PCRs have been assigned, and whether these additional assignments created any temporary or permanent PCR vacancies?

Answer. The four PCR's in the region and the PCR at the Department of Homeland Security are dedicated to Katrina-related contracting.

Question 2c. In light of the significant contracting activities following the disaster, please advise whether you intend to seek funding for additional PCRs to ensure that each affected State and the Department of Homeland Security headquarters in Washington have at least one dedicated PCR?

Answer. At this time SBA does not see a need to seek funding for additional PCRs.

Question 2d. Please provide to the Committee your best available data concerning the number of small businesses assisted by the PCRs with regards to Katrina contracts, the number of appeals filed by the PCRs and the SBA with regard to consolidated contracts related to the Hurricane Katrina, as well as the number and dollar volume of contracts set aside for, or awarded to, small business concerns as a result of this assistance.

Answer. Contracting information is being tracked by individual agencies through the Federal Procurement Data Center-Next Generation (FPDS-NG), the central repository of statistical information on Federal contracting. As of October 17, 2005, according to the data obtained from the FPDS-NG, the small business dollars obligated for Hurricane Katrina are well over the governmentwide 23 percent goal. However, we believe this only represents a portion of the work that has been awarded to date. As you know, many contracting offices supporting Katrina, particularly those relocated to the disaster recovery area, do not have access to their normal contract writing systems and thus, have not been able to populate FPDS-NG contemporaneously with the contract awards they have made. Still, others have not had time to enter data due to the tempo of operations. As the operations tempo improves, we expect that the data will be entered and thus the accuracy in terms of total contracts awarded, and dollars obligated, will increase.

Question 3a. Federal disaster-relief agencies have been claiming that small businesses will receive fair opportunities to subcontract on Katrina-related projects.

However, it appears that the demand for subcontracts exceeds the current capacity to manage the requests from small businesses. One prime contractor was reported by *The Washington Post* to field over 6,300 calls from interested firms. Yet, according to the SBA's own information, the SBA employs just one Commercial Market Representative (CMR) in the State of Louisiana (who also doubles as a PCR), and none in the States of Alabama or Mississippi.

Please describe to the Committee in detail how you intend to cope with the substantial demand for subcontracts given the limited SBA personnel resources dedicated to subcontracting currently in the region?

Answer. The role of the CMR is to identify subcontracting opportunities. The biggest challenge is matching the opportunities with the businesses that are able and willing to perform.

Question 3b. Please inform the Committee whether you will seek additional funding to provide for at least 1 CMR in each affected State?

Answer. At this time SBA does not see a need to seek funding for additional CMRs.

Question 4. You stated at the hearing that the statutory Small Business Act goals apply to Katrina-related contracts. However, according to data compiled by the Committee, small businesses have been awarded only 15 percent of the total Katrina-related spending. Further, press reports indicate that small disadvantaged businesses received only 1.5 percent of Hurricane Katrina contracts awarded by the Federal Emergency Management Agency. Please describe in detail the SBA's efforts to ensure that Federal contracting actions related to the Hurricane Katrina contracts meet the statutory small business prime contracting and subcontracting goals?

Answer. Contracting information is being tracked by individual agencies through the FPDS-NG, the central repository of statistical information on Federal contracting. As of October 17, 2005, according to the data obtained from the Federal Procurement Data Center-Next Generation, the small business dollars obligated for Hurricane Katrina are well over the governmentwide 23 percent goal. However, we believe this only represents a portion of the work that has been awarded to date. As you know, many contracting offices supporting Katrina, particularly those relocated to the disaster recovery area, do not have access to their normal contract writing systems and thus, have not been able to populate FPDS-NG contemporaneously with the contract awards they have made. Still others have not had time to enter data due to the tempo of operations. As the operations tempo improves, we expect that the data will be entered and thus the accuracy in terms of total contracts awarded, and dollars obligated, will increase.

In the meantime, SBA continues to use a variety of resources to match small businesses with Hurricane Katrina contracting opportunities. Since February 2005, the SBA has increased by nearly 30 percent the number of PCRs stationed at acquisition activities throughout the country to advocate on behalf of all small businesses. While all SBA PCRs are providing assistance to small businesses interested in participating in the rebuilding efforts, the SBA has specifically dedicated five PCRs to work with Federal agencies, including the Department of Homeland Security and the Federal Emergency Management Agency, to identify relief and reconstruction contract and subcontracting opportunities for small businesses. These PCRs, as well as others, are also working closely with small business vendors to assist them in locating procurement actions that they may be capable of performing. Special emphasis is being made to specifically identify Gulf Coast small business concerns for all Hurricane-related contracting opportunities.

Additionally, SBA District Office and PCR staff is providing "hands-on" assistance to small businesses that are unfamiliar with the Federal Government procurement process, to obtain necessary registrations and certifications to be able to compete for prime and subcontract actions.

The SBA is working with the Army Corps of Engineers to ensure that opportunities exist for small businesses to participate on contracts for the Gulf Coast recovery and reconstruction. Our efforts to date include exploring procurement strategies that we believe will expand the number of small businesses, including local 8(a) and HUBZone firms, participating in these contracts. To optimize the participation of local small businesses, we are also using our field staff and resources partners to verify the operational capacity of local small businesses, and then provide listings of these firms to the Army Corps of Engineers. In addition, we will expedite the processing of Mentor-Protégé agreements and provide priority processing of 8(a) and SDB certification applications from firms in the affected area.

Question 5a. The Department of Commerce and the Department of Homeland Security both announced specialized websites for Katrina-related contracts. These websites and the registration services they provide appear to be tailored to small businesses. In contrast, the SBA has no such website, and it does not maintain a registry of firms interested in providing disaster-related services.

Why has the SBA failed to lead in this crucial area and ceded ground to other agencies?

Answer. The SBA has taken a proactive role in this area. In fact, the SBA is working with Department of Commerce and other Federal agencies to provide a central point of reference for businesses, especially minority-owned businesses and women-owned businesses, to register for and become aware of Federal contracting opportunities in the Gulf Coast. The National Hurricane Contracting Information Center ensures that businesses understand the process and are aware when opportunities become available. The SBA has assigned an employee onsite at the NHCIC to provide information to small businesses specifically seeking Hurricane Katrina prime and subcontracting opportunities. The SBA is tracking the number of inquiries nationwide.

Question 5b. Would the SBA take the initiative to create framework contracts (including Blanket Purchase Agreements or Government-Wide Acquisition Contracts) and to negotiate set-asides with Federal agencies for small businesses interested in providing disaster-related work now and in the future?

Answer. SBA is committed to ensuring that small businesses receive their fair share of Federal contracting opportunities.

Question 6a. As you know, I introduced legislation providing for certain measures to improve access of small firms to Federal disaster-relief contracts. Please advise whether the SBA supports:

A statutory prime contracting goal of 30 percent and subcontracting goal of 40 percent for Katrina-related contracts, given the fact that the Department of Homeland Security and the Army Corps of Engineers historically exceeded these targets?

Answer. SBA would not object to such a provision.

Question 6b. Designation of areas affected by the Hurricane Katrina as HUBZones, subject to the discretion of the SBA Administrator?

Answer. SBA believes that HUBZone designation would clearly assist in fast tracking contract opportunities, jobs and capital investment to areas affected by Katrina.

Question 6c. Increase of the surety bond guarantee amount to \$10 million?

Answer. SBA supports the President's proposal to increase the amount to \$5 million.

Question 6d. Repeal of Section 101 of the Second Hurricane Katrina Supplemental Appropriations bill, which sought to waive statutory small business prime contracting and subcontracting provisions on Katrina-related contracts?

Answer. The Office of Procurement Policy has issued guidelines for implementation, but a repeal would not be objectionable.

Question 6e. Requirements for small business subcontracting plans, to be concluded within a reasonable period after award, for contracts awarded subject to the emergency procurement authorities?

Answer. SBA in consultation with the Office of Federal Procurement Policy believes that this provision has some drawbacks regarding the withholding of payment, but does not generally object.

Question 6f. Reinstatement of the statutory and regulatory parity between the small business reservation and the simplified acquisition threshold?

Answer. SBA, after consultation with the Office of Federal Procurement Policy believes this provision is not objectionable.

RESPONSES FROM HON. HECTOR V. BARRETO TO QUESTIONS
FROM SENATOR CARL LEVIN

I want to ask about a concern brought to our attention by the Michigan Small Business Technology Development Center (SBTDC) which administers SBA loans. It relates to the ability of evacuees who now reside in Michigan (or elsewhere) and who intend to re-start their life by moving or opening a business in the new state, whether temporary or permanent. These individuals want to file for SBA disaster assistance loans in order to finance the relocation of their business. However, it is not clear they would be eligible for such loans and I think that needs to be clarified.

The problem is SBA's eligibility criteria requirements which say that in order to be approved for a SBA disaster assistance loan the relocation has to be mandated or involuntary and that the relocation cannot be voluntary. What exactly does mandated or involuntary mean? SBA field officers believe these requirements are far too ambiguous and in the case of the Katrina disaster will need clarification to avoid confusion, disappointment and frustration.

What if a business in a Gulf state has suffered severe water damage and molding and the business owner decides to relocate to another state rather than try to rebuild the damaged business? This small business has clearly suffered a disaster and should be eligible for a federally guaranteed low-interest-rate disaster assistance loan. However, the business may not be eligible because we don't know exactly what criteria SBA will be using to judge whether the relocation is "mandatory," or involuntary.

Question 1. How does SBA intend to apply the requirements and how can it clarify this so that the disaster assistance loans can go to those that need them?

Answer. SBA considers each relocation request based on the individual factors involved. 13 CFR § 123.201 sets forth the regulations which establish our policy on determining whether a relocation is voluntary, involuntary, or mandatory. 13 CFR § 123.201 (c) states: (c) If your business is going to relocate voluntarily outside the business area in which the disaster occurred, you are not eligible for a physical disaster business loan. If, however, the relocation is due to uncontrollable or compelling circumstances, SBA will consider the relocation to be involuntary and eligible for a loan. Such circumstances may include, but are not limited to:

- (1) The elimination or substantial decrease in the market for your products or services, as a consequence of the disaster;
- (2) A change in the demographics of your business area within 18 months prior to the disaster, or as a result of the disaster, which makes it uneconomical to continue operations in your business area;
- (3) A substantial change in your cost of doing business, as a result of the disaster, which makes the continuation of your business in the business area not economically feasible;
- (4) Location of your business in a hazardous area such as a special flood hazard area or an earthquake-prone area;
- (5) A change in the public infrastructure in your business area which occurred within 18 months or as a result of the disaster that would result in substantially increased expenses for your business in the business area;
- (6) Your implementation of decisions adopted and at least partially implemented within 18 months prior to the disaster to move your business out of the business area; and
- (7) Other factors which undermine the economic viability of your business area.

RESPONSES FROM HON. HECTOR V. BARRETO TO QUESTIONS FROM SENATOR JOHN KERRY

LOAN APPLICATION DEADLINE

Question 1. Mr. Barreto, during the hearing, I asked you if you would extend the application deadline beyond October 28th for physical disaster loans, referencing letters Senator Landrieu and I sent to you on September 1st and September 13th. You did not answer the question and we still have not received a reply. Mr. Barreto, will you agree to extend this deadline?

Answer. SBA works closely with the Federal Emergency Management Agency (FEMA) to provide disaster assistance to victims of Presidential disasters, and SBA physical deadlines conform to those established by FEMA. FEMA has advised that the deadline for applying for damages from Hurricane Katrina in Louisiana, Mississippi, and Alabama, and for Hurricane Rita in Louisiana and Texas, has been extended until January 11, 2006. SBA's deadlines have been extended as well.

ODA has no authority to extend FEMA's deadlines on its own.

DISASTER LOANS

Question 1. SBA's disaster loans, for homeowners and businesses, are indispensable to economic recovery after Hurricane Katrina. A press release from SBA, dated September 8, 2005, said that "SBA is looking to hire at least 300 damage inspectors and 400 loan officers and customer service representatives immediately." In your testimony, the numbers grew, noting 2,000 disaster employees on board and the possibility of hiring another 2,000. As of October 5th, a document from the SBA showed 2,934 disaster loan employees, with 450 loans made for homeowners, and

20 made to small businesses. After you left the hearing, at least three witnesses said they had been told they would probably wait several months to get loans, not the SBA's promised 21 days.

Mr. Barreto, you spent considerable time in your testimony countering circulating concerns that the new disaster loan system was not able to handle a large-scale disaster, arguing it was fully tested and able to handle the disaster. However, how do you explain the low loan approvals and the lag times in approved loans?

Answer. Approval rates vary as a result of a number of factors, including economic conditions in the disaster area. In areas of distressed economic conditions, many disaster victims may lack repayment ability and/or have adverse credit history, which results in a lower approval rate.

SBA has accelerated decline processes designed to expedite the referral of obvious declines to the IHP grant programs, so that available Federal assistance may be received as soon as possible. For these loans, the property loss is not verified and the loan is not fully processed to a decision. This accelerated process typically distorts the approval rate early in the disaster. At the beginning of the disaster, our approval rate was 2 percent or less. As of the end of October, the approval rate is approximately 15 percent, and can be expected to increase as more loans are fully processed.

The size of this disaster required that SBA hire and train new Customer Service Representatives, Loss Verifiers, Loan Officers, and other personnel to meet the needs of the high number of disaster victims. As new employees have come into production, we have been able to more efficiently address the needs of the disaster victims.

Question 2. Based on disaster loans for Hurricane Katrina, what is the average time from when a small business submits an application for a disaster loan until they have the money in their bank account? Distinguish physical disaster loans from economic injury disaster loans. How can we streamline the process?

Answer. Based on the loans processed so far, the average time between an applicant's submission of an application for an SBA disaster loan and the point at which the applicant is advised of approval or denial is generally within 30 days. (b) Based on the loans approved so far, the average duration between the notice of a loan approval and the initial disbursement of the loan funds is generally less than 20 days. Disbursement time is dependent upon the borrower, who controls when the closing documents are returned. Loan documents are prepared within 24–48 hours of approval and disbursements are made within 5 days of return of signed loan closing documents.

Question 3. How many of the witnesses who testified have applied for disaster loans, when did they apply, and have their loans been approved?

Answer. Approved: Wes Wyman-\$733,000. Eight of the witnesses did not apply for disaster loan assistance. One has been declined. We are unable to disclose further information under the Privacy Act (5 U. S. C. 552a).

CONTRACTING

Question 1. We have reports from Mississippi that FEMA is passing the responsibility down to MEMA, the Mississippi Emergency Management Agency, where small businesses are being told to go online or to call a 1–800 number to find out about contracting opportunities. Considering that the many small businesses in those areas don't have access to the internet or telephone service, that system seems unreasonable. SBA should be the watchdog for small businesses in this process.

In your testimony you talk about some of the things the SBA is doing on contracting, but this is one example where coordination is not working and SBA needs to do more. How are you ensuring that small businesses in the Gulf region are aware of contracting and subcontracting opportunities related to the rebuilding effort?

Answer. SBA is committed to ensuring that small businesses receive fair opportunities to help in the rebuilding efforts.

Specifically, the SBA is working with the Department of Commerce and other Federal agencies to provide a central point of reference for businesses, especially minority-owned businesses and women-owned businesses, to register for and become aware of Federal contracting opportunities in the Gulf Coast. The National Hurricane Contracting Information Center ensures that businesses understand the process and are aware when opportunities become available. The SBA has assigned an employee onsite at the NHCIC to provide information to small businesses specifically seeking Hurricane Katrina prime and subcontracting opportunities. The SBA is tracking the number of inquiries nationwide.

Contracting information is being tracked by individual agencies through the FPDS-NG. As of October 17, 2005, according to the data obtained from the FPDS-NG, the small business dollars obligated for Hurricane Katrina are well over the governmentwide 23 percent goal. However, we believe this only represents a portion of the work that has been awarded to date. As you know, many contracting offices supporting Katrina, particularly those relocated to the disaster recovery area, do not have access to their normal contract writing systems and thus, have not been able to populate FPDS-NG contemporaneously with the contract awards they have made. Still others have not had time to enter data due to the tempo of operations. As the operations tempo improves, we expect that the data will be entered and thus the accuracy in terms of total contracts awarded, and dollars obligated, will increase.

In the meantime, SBA continues to use a variety of resources to match small businesses with Hurricane Katrina contracting opportunities. Since February 2005, the SBA has increased the number of Procurement Center Representatives (PCRs) stationed at acquisition activities throughout the country to advocate on behalf of all small businesses by nearly 30 percent. While all SBA PCRs are providing assistance to small businesses interested in participating in the rebuilding efforts, the SBA has specifically dedicated five PCRs to work with Federal agencies, including the Department of Homeland Security and the Federal Emergency Management Agency, to identify relief and reconstruction contracting and subcontracting opportunities for small businesses. These PCRs, as well as others, are also working closely with small business vendors to assist them in locating procurement actions that they may be capable of performing. Special emphasis is being made to specifically identify Gulf Coast small business concerns for all Hurricanes-related contracting opportunities.

Additionally, SBA District Office and PCR staff are providing "hands-on" assistance to small businesses that are unfamiliar with the Federal Government's procurement arena, to obtain necessary registrations and certifications to be able to compete for prime and subcontract actions.

The SBA is working with the Army Corps of Engineers to ensure that opportunities exist for small businesses to participate on contracts for the Gulf Coast recovery and reconstruction. Our efforts to date include exploring procurement strategies that we believe will expand the number of small businesses, including local 8(a) and HUBZone firms, participating in these contracts. To optimize the participation of local small businesses, we are also using our field staff and resources partners to verify the operational capacity of local small businesses, and then provide listings of these firms to the Army Corps of Engineers. In addition, we will expedite the processing of Mentor-Protégé agreements and provide priority processing of 8(a) and SDB certification applications from firms in the affected area.

Question 2. What are you doing to ensure that small businesses, and in particular, local small businesses, get their fair share of Federal contracts?

Answer. See above answer.

Question 3. Do you support the 30 percent goal for prime small business contracting and the 40 percent goal for small business subcontracting that was included in the bipartisan amendment we passed on the CJS bill last week?

Answer. SBA is committed to ensuring that small businesses receive fair opportunities of help in the rebuilding efforts.

Question 4. In addition to making sure that small businesses are aware of opportunities, what are you doing to ensure that contracting officers at the Department of Homeland Security and FEMA are doing their best to find qualified small businesses to do the work?

Answer. See answer to the first question above.

Question 5. Please list the company name, date of award, dollar amount of award, contract description, type of competition, type of contract (i.e. fixed price vs., cost plus) and the small business participation or subcontracting goals of the 10 largest contracts awarded by FEMA and the Army Corps of Engineers as of October 7, 2005.

Answer. The Committee will need to submit this request to the respective Agencies.

Question 6. One of the first actions of the SBA to assist small businesses in the affected region was to transfer four Procurement Center Representatives to the area to assist in the awarding of recovery contracts. Given the depleted number of PCRs that have been responsible for Federal contracting oversight, four officers represents a significant amount of the PCR workforce. How does the SBA plan to reorganize the PCR activities that were previously performed by those four individuals?

Answer. The PCR's have always provided back up to each other and technology has made it possible to easily shift work loads as most work is done electronically.

Question 7. On May 20, 2005, the Small Business Administration (SBA) Inspector General (IG) released an Audit Report which determined that approximately 87 percent of the reported potential bundlings, with a value of at least \$384 million, identified during the survey were not reviewed by SBA. One of the major shortfalls discussed in the report is the lack of resources, particularly the number of Procurement Center Representatives (PCRs) available to monitor the over 2,000 procurement locations for the Federal Government. Given the significant shortfalls in oversight that were occurring prior to the Katrina disaster, and given the significant amount of contract dollars that are being allocated to the rebuilding effort, it is my opinion and the stated opinion of the committee that there is a need for more PCRs. Do you believe that the SBA should hire more PCRs to monitor the \$300 billion in Federal contracts awarded each year as well as the over \$100 billion expected in the recovery effort?

Answer. SBA does not believe it needs more PCRs. Contracting and technology have changed over the years. A large part of contracting is done through Federal schedules and other vehicles other than individual contracts. Also all contracting is done electronically.

Question 8. Of the 10 Hurricane Katrina consolidated 8(a) contracts that were awarded by the Army Corps of Engineers as of October 3, 2005, approximately 99.4 percent of the contracts dollars (\$48,931,515 of the \$49,232,371) went to two Alaska Native Corporations (ANCs) through sole-source contracts. What dollar amount and percent of the total awards that have been allocated to 8(a) companies have been awarded to ANCs as sole-source contracts? How many dollars (and percent) of total awards have been allocated to ANCs? Please provide a detailed breakdown of any subcontracting plan that has been reported to the SBA as a part of the two ANC contracts awarded by the Army Corps of Engineers as sole-source 8(a) contracts.

Answer. The Committee will need to request this information from the Army Corps.

Question 9. The SBA, once again, has failed to meet its governmentwide goal of 5 percent utilization of women-owned businesses but continues to delay the implementation of the women's contracting program. With hundreds of billions of dollars being awarded by the Federal Government for disaster relief and rebuilding the affected areas, do you believe that the women's contracting program could give procurement officers a tool which they could use to help meet their statutory 5 percent goal?

Answer. SBA is committed to ensuring that all small businesses including women-owned small business receive their fair opportunities.

SBA'S EFFORTS AND RESOURCES TO RESPOND

Question 10. As you have acknowledged before this Committee during your tenure as the Administrator of the SBA, capital is not always the answer to a small business's needs and that counseling is an important resource for helping our small businesses succeed. In a disaster, it is certainly true that businesses need capital and counseling. In that spirit, the Senate passed legislation that provides \$33.75 million additional funding for SBA's counseling partners.

Given that SBA's entrepreneurial development programs have been flat-funded and underfunded since 2001, are the SBDCs, the Women's Business Centers, the Veteran's Business Outreach Center's, temporary SBA disaster loan centers, etc., adequately funded to handle the estimated 500,000 small businesses affected in the Gulf region? Please explain how you reach those conclusions by providing the funding status of each center in the region, estimated future and past counseling capacity, and what additional resources the SBA has dedicated to assisting its entrepreneurial development partners.

Answer. The Louisiana SBDC was funded at \$1.3m for fiscal year 2005. This is the same level of funding provided to the SBDC since fiscal year 2002. The Mississippi SBDC has been approximately level funded at slightly more than \$847,000 since fiscal year 2000. The Alabama SBDC has also been approximately level funded since fiscal year 2000 at just over \$1.25 million. [As you are aware, the annual funding providing to the SBDCs is based on a statutorily mandated population-based formula.]

State SBDC Directors in both Mississippi and Louisiana have requested staffing support from SBDCs across the country experienced in providing disaster-related technical assistance. SBA has supported this effort by allowing staffs from neigh-

boring SBDCs to temporarily supplement the staff of the SBDC in Mississippi. Similar activity is expected in Louisiana when the State has addressed its more pressing personal recovery efforts and is ready to receive such assistance. In addition, to help provide additional staff support for the Gulf state SBDCs, two large corporations have donated a total of \$200,000 to be used by the SBDCs in Louisiana and Mississippi (\$75,000 each), and Alabama (\$50,000).

SBA has no plans to request additional SBDC program funding for the disaster recovery effort. However, the Agency is working closely with the local SBDCs, and is exploring ways to direct existing program resources in the form of unexpended regular program funds to the disaster areas. In addition, SBA has issued a program announcement for the new *portability program* grant funds, and the Mississippi SBDC has already applied under this announcement, and SBA is expecting to also receive applications from other Gulf state SBDCs. [It must be noted, however, that all applications received under the announcement will be evaluated in accordance with the criteria contained in the Program Announcement.]

Small Business Development Centers	FY 2004 Award Amt.	FY 2004 Clients Trained & Counseled	FY 2005 Award Amt.	FY 2005 Clients Trained & Counseled	Estimated FY 2006 Award Amt.	Estimated 2006 Clients Trained & Counseled from Submitted Proposals
Louisiana SBDC	\$1,308,515	15,224	\$1,308,515	10,539*	\$1,303,515	13,252
Mississippi SBDC	\$799,236**	7,412	\$847,168	6,997*	\$847,168	9,120
Alabama SBDC	\$1,259,646	20,682	\$1,235,718**	19,301*	\$1,259,646	18,411

* Decrease due to implementation of uniform client definitions across all Entrepreneurial Development programs, including changes that allow only one SBA partner to count clients attending events presented jointly by two or more partners.

** Reductions in funding were due to the SBDC not using its full allotment of funds available.

Flooding from Hurricane Katrina forced both the SBA's Louisiana District Office and the Women's Business Center in New Orleans (*Urban League of Greater New Orleans Business Resource Center*) out of their offices. Both entities temporarily relocated to Baton Rouge where they shared space, and where each provided limited assistance to local business disaster victims, as well as those that were also displaced from New Orleans and other hard-hit areas. SBA's Louisiana DO recently returned to New Orleans, and made available space to the WBC so that it can again offer limited services to support the long-term recovery of the New Orleans business community. The operations of the WBCs in Mississippi and Alabama were not as severely impacted by the hurricanes, and both continue to provide services in their areas. In addition, a number of women's business centers across the country are reporting that they are reaching out to hurricane victims that have permanently or temporarily relocated to their areas. Many WBCs and other contributors have joined with the Association of Women's Business Centers to raise funds to help the WBC in New Orleans to rebuild its operations. The SBA does not have any additional existing resources available for the WBCs in the Gulf region, and has no plans to request additional funding for the program.

The table below shows actual and anticipated funding for the Gulf region WBCs, as well as their recent actual and estimated performance data.

Women's Business Center	FY 2004 Award Amt. (from FY '03 Approps.)	FY 2004 Clients Trained & Counseled	FY 2005 Award Amt. (from FY '04 Approps.) performance-based awards	FY 2005 (Qtrs. 1-3) Clients Trained & Counseled	FY 2005 Est. Total Trained & Counseled*	FY 2006 Award Amt. (from FY '05 Approps.)
Women's Business Assistance Center, Inc., Mobile	\$111,000	603	\$70,150	736	1,071	\$127,719
Urban League of Greater New Orleans WBC	\$150,000	1,072	\$150,000	390**	476**	*150,000
MS Action for Community Education Inc. (MACE), Greenville	\$111,000	289	\$70,150	107	188	\$122,748

* Final fiscal year 2005 data will be provided to SBA within 15 days.

** Decrease due to implementation of uniform client definitions across all Entrepreneurial Development programs, including changes that allow only one SBA partner to count clients attending events presented jointly by two or more partners.

Question 11. Does the Administration support those provisions passed as part of the CJS FY 2006 appropriations bill that would increase funding and waive matching requirements for SBA's entrepreneurial development programs? Please explain.

Answer. SBA has no plans to request additional funding for the SBDCs and WBCs in the Gulf region. However, the Agency intends to make the unexpended regular SBDC program funds available to the SBDCs in the affected states, and it expects to receive applications from these states for the funds available through the Portable Grant program enacted last year.

When considering the funds available for the SBDCs and WBCs to provide services both in the Gulf region, and to individuals who have temporarily or permanently relocated outside that region, it is important to remember that SBA's financial support to the SBDCs and WBCs represents only a portion of their overall financing. In the case of the SBDCs, SBA's grants must be matched dollar-for-dollar by cash and in-kind contributions. In the case of the WBCs, cash and in-kind contributions must equal one dollar for every two Federal dollars during the first 2 years of WBC's participation in the program, and must be matched dollar-for-dollar during the WBCs' remaining 3 years in the program. Typically many of the centers in both programs actually overmatch these minimum requirements so that the total amount of funding may be far greater than double the SBA contribution.

PREPARED STATEMENT OF THE AMERICAN SMALL MANUFACTURERS COALITION

Mr. Chairman, Members of the Committee, thank you for the opportunity to submit testimony on behalf of the American Small Manufacturers Coalition (ASMC). The American Small Manufacturers Coalition—a trade association of Manufacturing Extension Partnership (MEP) Centers located nationwide—strives to advance the competitiveness of America's 344,000 small manufacturers. Three of these Centers are located in the region recently devastated by Hurricane Katrina, including the MEP of Louisiana (MEPoL), Mississippi Technology Alliance, and the Alabama Technology Network. Since these Centers were unable to submit testimony as they remain focused on assessing damage and assisting their small manufacturing clients, the ASMC is submitting comments on their behalf and on behalf of their clients.

The more than 11,100 small manufacturers that operate within the three-state region of Alabama, Louisiana, and Mississippi employ more than 600,000 employees and provide an annual payroll exceeding \$21 billion. Of those 11,100 manufacturers, more than 3,400 have been served over the past 5 years by the Alabama Technology Network, Mississippi Technology Alliance, and MEP of Louisiana. As a part of the Manufacturing Extension Partnership network, these three Centers have offices throughout the three-state region.

MEPoL estimates that nearly 3,000 manufacturers within the Parishes were directly impacted by Katrina. These manufacturers had focused on an array of industries, including machinery, food processing, metal fabrication, chemicals, shipbuilding, lumber mills, and printing. Only recently have manufacturers within the community begun venturing back to their plants in order to assess the physical damage of the hurricane's deadly force.

The most basic challenge manufacturers face is limited communication. Many manufacturers, for instance, had no means of accounting for their employees, and some remain to this day effortlessly looking for displaced workers. For those that were able to locate their employees, like Acme Machine in Covington, Louisiana, business remains interrupted as workers are unable to report to work due to their own personal home loss.

Crabs, LLC of Lockport, Louisiana, is also experiencing a decline in employment due to displaced workers. When its doors reopened, less than 50 percent of its employees reported to work, which contributed to a significant decrease in productivity and may threaten the firm's long-term financial viability. Currently, Crabs, LLC is recruiting workers from Alabama in order to supplement its lost labor force.

Communication barriers also have inhibited manufacturers from maintaining contact with their suppliers and clients. Nearly 10 days after Katrina hit, communications remained limited and firms such as V-labs were still unable to contact many of their clients and suppliers. Located in Covington, the carbohydrates and polysaccharides manufacturer is able to receive calls and faxes, but outgoing communications is non-existent. Thankfully, resources such as MEPoL came to the aid of V-labs and put the manufacturer in contact with the local university, which allowed the firm to use its lab and fax machine in order to make outgoing calls.

Bodin Foods in New Iberia, Louisiana, also lost nearly 50 percent of its business from clients that were either destroyed or with whom the firm could not commu-

nicate. The Bodin Foods plant remains operational, but its supply chain was destroyed as most of the components used to make specialty food products were generated in the New Orleans area. Bodin is now seeking suppliers elsewhere and in some cases has had to go so far as California to find them.

Supply chain disruptions to our nation's defense also will be realized as a result of Katrina. Many shipyards, such as Avondale and Ingalls, which are suppliers to Northrop Grumman, a prime Department of Defense supplier, were also damaged. The dislocation of employees and damage will cause production delays, as well as inhibit these firms' ability to meet the demands of the national defense program. Large original equipment manufacturers have lost some of their key suppliers and, conversely, some manufacturing firms have lost their supply chain clients. It will be critical in the coming months to establish mechanisms to support and rebuild these supply chains.

Transportation costs also are inhibiting the ability of businesses to rebuild. Crabs, LLC, as previously mentioned, is a business that routinely ships its product by air. Due to the closure of the New Orleans airport, it has been forced to find a new distribution channel. The high cost of gas prohibits the firm from shipping by truck, and new airline routes have resulted in a 40-percent product loss. The railways also are repairing damage and are not yet an option for timely distribution. According to the Louisiana Railway Association, many railways are conducting repairs and service to the New Orleans area remains limited.

The manufacturing effects of Katrina extend beyond destruction of industrial buildings. For example, as praline manufacturer Nanny's Candy, located in Carencro, lost 60 percent of its business due to destruction of hotels and the resulting dramatic decrease in tourism. The unexpected profit loss has caused a cash-flow crisis for the firm, which has had to lay off workers.

Other firms, however, suffered catastrophic losses. Torino Belts, a manufacturer of high-end leather accessories located in New Orleans, experienced total destruction. Currently, the firm is working with the MEP of Louisiana to find relocation opportunities within the Baton Rouge area in order to retain business within the state. Timing for this move is critical however, and if a facility is not located soon, Torino Belts will be forced to relocate in another state.

It is clear from these stories and others that the manufacturers of the Gulf Coast region are in great need of assistance. This storm's devastation and destruction will have lasting effects on the region's economy and the viability of its industry, and those impacts will translate across the country and beyond. The financial support of Congress for the region's most primary needs have been greatly appreciated, but the assistance and support cannot stop there. Attention must be given to economic recovery assistance, and manufacturing extension centers can be of great assistance.

ASMC, through the NIST MEP program, proposes to send 300 manufacturing specialists to the effected areas in order to assess the damage to manufacturers and assist in their redevelopment. The team would evaluate site viability, assess the need for relocation, identify new suppliers, and evaluate damaged equipment and identify alternatives. The field engineers within the national MEP network also would help manufacturers identify new clients in order to supplement those lost. That team of 300 field engineers would include roughly 100–150 displaced manufacturing employees from the region, hired on a temporary basis, in order to help stimulate the local economy, decrease the state's unemployment benefits, and leverage the extensive manufacturing knowledge of those employees to assist effected firms. In order to provide these services at no charge to the effected manufacturers, ASMC will be requesting \$70 million in supplemental funding to cover the annual loaded salary of the 300 manufacturing specialists, provide necessary housing and expenses to locate the specialists within the most highly effected areas, and assist effected manufacturing supply chains. This technical assistance will allow the region to rebuild its industrial economy one manufacturer at a time. The current needs of this area greatly exceed the capacity of the three local MEP Centers, and, as it was after 9/11, it is critical that the Nation come together to support this community recover and rebuild, to regain the economic strength it once had.

Again, I thank Mr. Chairman and Members of the Committee for allowing me to submit testimony on behalf of ASMC members and the manufacturers effected by Hurricane Katrina.

PREPARED STATEMENT OF JOHN K. LOPEZ, CHAIRMAN, ASSOCIATION FOR SERVICE
DISABLED VETERANS AND CO-CHAIRMAN, TASK FORCE FOR VETERANS ENTREPRE-
NEURSHIP

In addition to the human and economic devastation of the recent Katrina and Rita Hurricanes, there appears to be a coming destruction of the order and logic of the Federal procurement system.

Service Disabled Veteran Enterprises (SDVE) in the Hurricane Impact Area (HIA) are reporting that attempts to participate in the reconstruction effort are being ignored and rejected by the major contractors and government connected individuals that are recipients of the billions of dollars in awards that are being distributed by government agencies.

Resident SDVE that have been disadvantaged as a result of their sacrifice for our nation, are now being further burdened in their attempts to rehabilitate themselves by the invocation of "MAJOR CORPORATIONS ONLY" reconstruction procurement policies, that exclude SDVE.

The U.S. Congress has encouraged and supported the development of SDVE entrepreneurship by enacting P.L. 106-50 and Section 3 of P.L. 108-183 and the President of the United States (POTUS) has issued Executive Order 13360 to emphasize total governmental support for the SDVE initiatives.

However, under the guise of "Emergency Authority" the reconstruction effort in HIA is being carefully programmed to be a permanent monopoly for agency insiders.

This is an insult to the role and intent of the U.S. Congress and a subversion of the POTUS initiatives.

The HIA reconstruction effort is a repeat of the IRAQ reconstruction deception of smaller businesses.

The IRAQ reconstruction effort was characterized by the same method of deception.

After receiving billion dollars, all encompassing, procurement awards major corporations then herd smaller businesses into "HOLDING PEN" data bases, where they are neutralized by being reported as "BEING AVAILABLE" to the future requirements of the awardees.

The available records show that agencies have not met their legislatively prescribed SDVE participation goals and there is no indication that major corporation awardees have attempted to meet their goals, since reporting requirements have not been made available to stakeholder scrutiny.

It is crucial in emergency situations to retain perspective and not invoke "KNEE (Media) JERK" reactions that becomes a double felony when reviewed in a future setting.

It is vital that the U.S. Congress exercise restraint and practice due deliberation when faced with issues as serious as HIA Reconstruction.

A carefully tailored, temporary modification of existing law and regulation is indicated, but those modifications should be temporary and subject to constant and continuous scrutiny.

PREPARED STATEMENT OF LIEUTENANT GENERAL CARL A. STROCK, CHIEF OF
ENGINEERS, U.S. ARMY CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

Madam Chair, thank you for the opportunity to provide testimony on the Corps of Engineers response to Hurricane Katrina. I am Lieutenant General Carl Strock, Chief of Engineers and I would like to share with you information about our activities to involve small and disadvantaged businesses in the work we are doing in the region.

The U.S. Army Corps of Engineers is continuing to work primarily in support of the Federal Emergency Management Agency, carrying out a wide variety of missions in response to Hurricane Katrina. Our initial efforts focused on closing levee breaches, getting the flood water out of New Orleans and providing ice, water, temporary power, debris removal services, and temporary roofing in portions of Louisiana, Mississippi, and Alabama as requested by FEMA or local governments.

I fully recognize the value that small businesses play in our national economy, and I am personally committed to using small businesses in performing our work, both in the normal course of business, and in times of national disaster such as these. Typically, the Corps of Engineers awards 40 percent of its prime contract dollars to small firms. For work associated with Hurricane Katrina and other disasters, we strive to use Small, Small-Disadvantaged, Women-Owned, HUBZone and Service-Disabled Veteran Owned firms to the maximum extent possible, consistent with the urgent need to preserve life and property.

As a part of the National Response Plan, the Corps of Engineers supports FEMA when natural disasters such as hurricanes occur. In addition to the nearly 2600 civilian and military employees who have responded, we use pre-positioned contracts for urgently needed supplies and services. The pre-positioned contracts used to support Hurricane Katrina for ice, water and some of the initial debris removal services were awarded competitively in 2003. Many of these awards were to small firms. Unfortunately, the magnitude of this devastating event requires extensive and immediate response beyond the capability of our pre-placed contracts. When, as in this case, the needs are greater than our ability to respond with preplaced contracts, we begin by awarding additional contracts using emergency procedures. We must respond quickly and effectively. We maximize competition and the use of small businesses as much as possible without delaying urgently needed supplies or services. Very quickly, we begin to develop plans for how we will satisfy the ongoing needs by using a broader range of procurement tools, and more normal procurement methods as soon as time permits us to do so.

I moved quickly to assure we could provide information to the public, and established a resource page for our private sector partners. We immediately began posting to our USACE home page links (www.usace.army.mil) and provided points of contact for our prime contractors so that small firms could apply to do work for them. We established a registration site, where firms who wished to help could provide information on their capabilities; this site can be reviewed by government contracting officers seeking vendors, and by companies seeking subcontractors. We also developed a site where vendors could provide equipment availability information for items such as storm water pumps, generators, and transformers. The data base is searchable and can be used by government agencies or contractors who need those products. We are publishing a listing of our contract awards as well.

We are enhancing opportunities for small and local firms by requiring any large business that is awarded one of the contracts to implement aggressive subcontracting strategies and report their level of success in awarding subcontracts to small firms. An example of our efforts is related to our need to remove the enormous amounts of debris left by Hurricane Katrina. The initial value was estimated at nearly \$2 billion, far beyond the value of our pre-positioned emergency response debris contracts. The urgency of the situation required immediate award, and we advertised the procurement for a reduced time period, receiving 22 proposals. On September 15, 2005, we awarded four debris removal contracts. Each contract also requires large business prime contractors to submit a subcontracting plan with aggressive goals for each small business category.

In addition to our aggressive subcontracting goals, we are encouraging use of local businesses as prime and subcontractors. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act, we require our prime contractors to give preference, to the maximum extent feasible and practicable, to organizations, firms, or individuals residing or doing business primarily in the area affected by the disaster. Our large firms have been recruiting in shelters and have been actively working to locate small firms to assist in operations. Based on very preliminary data, large firms are reporting that they are awarding 22 percent of subcontracted dollars to local firms.

I have asked my team to divide work wherever practical so that we can target work for appropriate small business and other programs. Other small firms may win additional contracts under the Small Business Competitiveness Demonstration Program. Each day, my staff provides me with status updates on Corps of Engineers contract awards including socioeconomic data.

I am committed to assuring that small firms play a vital role in our contracts. Madam Chair, this concludes my statement.

PREPARED STATEMENT OF CONTRACT SERVICES ASSOCIATION OF AMERICA (CSA)

Madam Chairman, and Members of the Committee, the Contract Services Association (CSA) requests that this statement be included in the official record for your September 22 hearing on "Katrina and Small Business."

By way of introduction, CSA is the nation's oldest and largest association of service contractors representing over 200 companies that provide a wide array of services to Federal, State, and local governments. CSA members perform over \$40 billion in Government contracts annually and employ nearly 500,000 workers, with two-thirds of those employees being members of private sector employee unions. CSA members represent the diversity of the Government services industry and include small businesses, 8(a)-certified companies, small disadvantaged businesses, women-owned, HubZone, Native American-owned firms and global multi-billion dol-

lar corporations. CSA promotes Excellence in Contracting by offering significant professional development opportunities for Government contractors and Government employees, including the only program manager certification program for service contractors.

Small businesses—and competition—are key embodiments of the American spirit and our free enterprise system. This was highlighted as far back as 50 years ago with the passage of the 1953 Small Business Act (P.L. 163–83). The preamble states:

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well being but to the security of this Nation. Such security and well being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for property and services for the Government be placed with small business enterprises, and to maintain and strengthen the overall economy of the Nation.

Now more than ever, those sentiments ring true. Following the devastation of Hurricane Katrina, and with Hurricane Rita bearing down on the South just a few short weeks later, we all need to step back and see what part we can play to help the devastated areas. Today's hearing focuses on a critical element of the rebuilding—the role of small businesses, not only those located in the local community but in the surrounding region as well. But as the committee reviews this issue, CSA would challenge you to consider the tools already available to ensure fair access, and adequate competition, for all businesses that may be able to play a part in the rebuilding efforts. And also determine what flexibility is required to get the assistance needed to the areas, while maintaining the integrity of the acquisition system.

One suggestion for flexibility that CSA would offer is a waiver—for the immediate affected area—of the Service Contract Act (SCA). Under the SCA, only the Secretary of the Department of Labor has the authority to waive the SCA threshold of \$2500—a threshold that is far too low, considering the extent and the expense of the relief efforts. Furthermore, SCA covers all service contracts no matter the size of the company, so even the smallest small business is covered if it receives a contract for more than \$2500. Obtaining a wage determination can be a lengthy process—and in the relief and recovery efforts, time is of the essence. Finally, waiving SCA would allow the Government to contract with commercial companies that would not normally do business with the Federal Government—and may not do so again—but in this instance have certain valuable skills that the Government should be able to tap.

CSA also would like to submit as part of its record statement, a commentary that was published in the Federal Times on September 19, and authored by CSA's Senior Vice President for Public Policy. Thank you for the opportunity to share this information with the Committee.

[Reprinted with permission from the Federal Times, Sept. 19, 2005]

COMMENTARY—THE PROCUREMENT EXECUTIVE'S VIEWPOINT

RELIEF AT THE READY—STORM RECOVERY EFFORT NEEDS CONTRACTORS' EFFICIENCY

(By Cathy Garman¹)

Service contractors answered the government's call after 9/11 and continue to play a critical role in the war on terrorism. Now in the latest national crisis—a natural disaster of devastating proportions with far-reaching, long-term impact—service contractors are stepping in again to work with government agencies to help those in need put lives back together and rebuild the areas struck by Hurricane Katrina.

While there is much confusion about post-Katrina emergency contracting authorities and elevated procurement thresholds, government agencies and private organizations are publicizing data on what is needed and on the special authorities available to support contingency operations. Indeed, most of what is being accomplished

¹ Cathy Garman is the senior vice president of the Contract Services Association.

to provide relief and start rebuilding is being done by the business community, which today performs many of the critical day-to-day support missions at times such as this. Businesses bring corporate best practices to bear, such as supply-chain management and logistics. This is an excellent example of partnership between government and the private sector.

The American worker always has had a can-do attitude, doing whatever needs to be done—and, frankly, not waiting for the government to act. The business community is now displaying that can-do spirit in many ways. Government contractors with employees in the devastated areas have organized their own relief efforts to help those employees. And they are organizing efforts to help the broader community in areas where they have facilities.

Despite the early action of the service contracting community, plenty of work remains. Certainly, Federal Emergency Management Agency and Army Corps of Engineers contractors will garner a large share of the government's relief work. But untold opportunities for small- and medium-sized businesses will be available, predominantly at the subcontracting level. Feeding and housing relief workers, and helping with demolition and cleanup, are areas where small and medium companies can step in right away and play a vital role. Significant long-term work remains as well—a chance to rebuild a city from the ground up—and service contractors will be there on the forefront.

Unfortunately, the positive impact of the work being performed by service companies is often ignored by Congress and the media in the continued hoopla over alleged contracting abuses and the general role of the private sector. This blame game has already begun in Washington. But people displaced from their homes, waiting for electricity to come on and the water to be drinkable, can't wait for the normal procurement process to be followed. Providing these services 6 months from now isn't good enough. Clearly the government can't do it alone; it needs the special capabilities honed by the competitive forces of the private sector to provide these services now. Good, sound business judgment should carry the day, with flexible contracting authorities that still will ensure that critical needs are met quickly—without squandering taxpayer dollars.

The Contract Services Association has developed a Web site of contracting information at www.csa-dc.org/news/katrina.asp. The site is updated constantly and includes information issued by and concerning various agencies, including:

- The Office of Management and Budget has issued guidance to Federal agencies' chief acquisition officers and chief financial officers regarding new streamlined hurricane procurement policies enacted in recent hurricane relief supplemental appropriations.
- A General Services Administration memorandum for civilian agencies outlines the emergency authorities, pursuant to the 2003 Services Acquisition Reform Act, for increasing the micropurchase threshold to \$15,000 and the simplified acquisition threshold to \$250,000.
- The Homeland Security Department directs companies with resources to donate or sell to the response agencies—disaster recovery services, for example—to register at the National Emergency Resources Registry at www.SWERN.gov. Also, FEMA, part of the Homeland Security Department, procures goods and services through the GSA's Federal supply schedule.
- The Interior Department has significant responsibilities in the hard-hit areas. On Sept. 1, approval was signed for other than full and open competition required under the Federal Acquisition Regulation, and for a waiver to FAR publication requirements. This provides coverage to Interior contracting activities that need appropriate accelerated procedures.
- The Small Business Administration, www.sba.gov, is developing a community-based network to spread information on disaster assistance to small businesses, and procurement guidelines for small businesses.

At a time of national need, America's service contractors stand ready to help their fellow citizens rebuild and restart their lives.