# SMALL BUSINESS AND HURRICANE KATRINA: REBUILDING THE ECONOMY

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BEFORE THE

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## HOUSE OF REPRESENTATIVES

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# SMALL BUSINESS AND HURRICANE KATRINA: REBUILDING THE ECONOMY

**FRIDAY, OCTOBER 7, 2005**

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
*Washington, DC*

The subcommittee met, pursuant to call, at 10:30 a.m., in Room 2360 Rayburn House Office Building, Honorable Don Manzullo [Chairman of the committee] presiding.

Present: Representatives Manzullo, Bartlett, Kelly Musgrave, Sodrel, Fortenberry, Fitzpatrick, Gohmert, Velazquez, Lipinski, Grijalva, Sanchez, Bean and Moore

Also Present: Representatives Melancon and Taylor.

Mr. MANZULLO. Good morning. I welcome everyone to the Committee's hearing on the impact of the recent hurricanes on small businesses located in the Gulf Coast region. There are a number of small business owners from the affected areas who deserve special praise from taking time away from more pressing problems to enlighten the Committee about the situation in the Gulf and the assistance they may need in rebuilding their businesses and the economies in the area. I also want to thank the SBA Administrator for moving his schedule around to make himself available this morning. Hector, hopefully you received some sleep during your red-eye flight from Los Angeles. Unfortunately, we were not able to have a witness from the Department of Homeland Security to testify about hurricane recovery procurements for local small businesses because their top officials are at a conference in New Orleans right now informing small businesses about contracting opportunities.

Early Monday, August 29, Hurricane Katrina made landfall in the Gulf Coast region of Mississippi. The strength of the hurricane devastated the Gulfport and Biloxi areas. But Katrina's damage did not end there; the strength of the storm caused substantial breeches to the levee system protecting New Orleans flooding nearly 80 percent of the city, forcing the greatest mass migration of people in this country since the Dust Bowl emptied the Great Plains in the 1930s, and washing away thousands of small businesses that were the cornerstone of the economy.

Already traumatized by Katrina, the residents then had to deal with Hurricane Rita. At one point, the storm was described as a tornado the size of Georgia. Fortunately, Rita weakened substantially before it made landfall on September 24. Nevertheless, the storm inundated low-lying regions of Southwestern Louisiana and

eastern Texas, including areas in Mr. Poe's district, a valued Member of this committee.

This hearing is not about recriminations or what should have been done better in the immediate response to Hurricanes Katrina and Rita. This hearing will examine the disaster assistance provided by the SBA and look to the future needs of small business owners as they try to rebuild their establishments and the economy of the Gulf Coast.

In a meeting with Herb Mitchell, the dedicated public servant in charge of the Office of Disaster Assistance at the SBA, he noted that more than 700,000 people registered to obtain assistance from the federal government as a result of Katrina. That number certainly has increased significantly since then to over 1.6 million referrals or inquiries after the destruction wrought by Hurricane Rita. The Office of Disaster Assistance at the SBA is one of the government's primary focal points for providing assistance to homeowners and small businesses through its disaster loan program. And while not all of those who registered for assistance will receive a loan from the SBA, the numbers that the Office of Disaster Assistance deal with is simply staggering. Compare that to the Northridge earthquake, which ended up with 125,000 loans, juxtapose that against the sheer number of applications and inquiries here.

I recently visited Baton Rouge, and I saw dedicated public servants from the SBA working tirelessly to assist small businesses devastated by Hurricane Katrina. I also saw small business owners who remained optimistic that their innate resilience will enable them to lead the rebuilding of their communities and shattered economies. The role of the government in this circumstance is not to smother the workers trying to provide assistance or hinder the efforts of small business owners wanting to rebuild. Rather, government assistance should be limited to absolute minimum needed to ensure that public servants can do their jobs and small business owners have adequate resources, combined with those from the private sector, to rebuild.

No one can deny that certain assistance is necessary. For example, temporary suspension of payment of SBA loan payments makes sense because it will be some time before many businesses will have a customer base. Similarly, an increase in the size of SBA disaster loans will be needed. What is unacceptable is using this disaster to spend precious taxpayer funds to dramatically expand the SBA and other government programs for initiatives that only tangentially relate to Katrina and Rita just so we think that we are doing something to provide hurricane relief. For example, I have specific concerns about allowing a long-term deferral of payment of interest on disaster loans because that will dramatically drive up the cost of the disaster loan program to the U.S. taxpayer and would set a negative precedent for other natural disasters. The victims of the devastating 1993 Mississippi River floods in the Midwest did not have this benefit and they survived. Student loans do not have this benefit. The issue is, why risk the ability of the SBA to respond to future natural disasters by allowing the deferral of interest payment?

As we move forward with relief legislation, the response from this Committee will not be, let's open the federal feeding trough and allow just anything into the bill whatever they like. The right response is to tailor policies to maximize the potential of private citizens and markets to rebuild the economies affected by the one-two combination punch of Katrina and Rita.

Finally, I wanted to take this opportunity to thank the Bush Administration for rescinding the month-old rule that increased from $2,500 to $250,000 the amount federal employees could charge to government credit cards for services related to Hurricane Katrina relief. I raised this objection during passage of the second supplemental appropriation bill last month in a colloquy on the House floor with the Chairman of the House Appropriations Committee because of its potentially devastating consequences for small business. Few people know that contracts of between $2,500 and $100,000 are reserved exclusively for small businesses. With this new ruling, small businesses can once again have an open and transparent process by which to compete for government contracts as it relates to Hurricane Katrina and Rita relief and recovery efforts. That will be the subject possibly for another hearing on that aspect of the relief effort in the Gulf. I also want to thank the Administrator for recent announcement of a 12-month deferral of SBA-serviced business and disaster loans in the primary counties and parishes of the disaster area.

My Dad is from those parts. He was born in Donaldsonville, and I stayed with my cousin in Baton Rouge. There was no place to stay. Either I stayed with him or traveled four hours to Houston. And, my cousin Tommy took us all over that area down there. We visited the Joint Command Center, where all the agencies are working and many of those people there are living, not only in the building there but they are living in tents. I was really impressed with the quality and efficiency of the work going on. We have a lot of work to do, however.

[Chairman Manzullo's opening statement may be found in the appendix.]

Now I will recognize the ranking member of the full committee, the distinguished gentlelady from New York, for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

On August 29th, the Gulf Coast was hit with one of the worst natural disasters ever witnessed by our Nation. Not only were possessions lost and families separated, but the livelihood of millions of people and businesses were instantly shattered.

The impact of Hurricane Katrina was unprecedented, and with it we were all reminded of the harsh reality, there is nothing more critical than ensuring that assistance is provided immediately and efficiently to all those in need.

In the aftermath of Hurricane Katrina, thousands of small businesses have turned to the Small Business Administration for assistance. Looking back on the past six weeks, it has become obvious to me and many others that today SBA has failed the Gulf Region small businesses. It is appalling that as of last week, one month after the hurricane touched down, not one of the small businesses that have been promised a loan actually received one. This is unac-

ceptable, and there are simply no excuses for such an inadequate response.

To compound this, small business owners are being told by SBA that it will take up to three months before they actually receive their disaster loan. Thousands of small businesses in the Gulf Region have been displaced or have lost their businesses altogether. These business owners have existing expenses to cover, employee salaries to take care of, and rent to pay. Clearly, they cannot afford three months to receive assistance. Three months represents a critical period for these small businesses. It is the difference between recovering and rebuilding, and having to shut down their businesses.

In addition, many entrepreneurs are simply discouraged from even applying. Small businesses are overwhelmed by the paperwork requirements and extremely time- consuming application process. Many of these individuals simply do not have the time or resources to weed through the process.

The last thing entrepreneurs in the Gulf Coast need is to have to fight through an agency charged with being its number one source of assistance. SBA shouldn't be creating headaches for these small businesses, they should be curing them.

The sad truth is that this is not the first time we have heard complaints about SBA's response to disaster. After 9/11 a number of small businesses in the New York City area never received a disaster loan, then last year we heard more complaints about the hurricanes touched down in Florida. What is happening here today is just plain wrong. With the record- breaking demand SBA is facing, it is clear the agency lacks the resources to meet the needs of the Gulf Region's entrepreneurs.

I can tell you what is going on here. We are seeing the effects of an agency whose budget has been cut in half over the past five years, and it is now crippling under a demand they cannot simply handle.

The rank and file employees who are committed as any in the Federal Government cannot accomplish the agency's mission without the tools to do so, and that is what is happening here.

I want to thank the SBA employees who are working in such challenging conditions. While we evaluate ways to remedy SBA's mishaps, we also need to look at the rippling effects Katrina will have on the small business and lending communities for years to come. Over $2 billion of SBA loan portfolio is in the Gulf Coast Region today. Current estimates have placed long defaults as high as $500 million. To make sure this does not occur, steps must be taken now to avoid the looming prices, so we aren't left scrambling once again.

In order to move forward and avoid situations such as this, something needs to be done. The bottom line here is, something has gone terribly wrong in SBA's response, whether it is an issue of not having adequate staff, resources, or a fully- functional loan processing system, there are far too many small businesses through the Gulf Region still awaiting for assistance. This is simply unacceptable, and it is time they agency recognizes this. No more everything is fine talk, that is not going to work here. This agency cannot walk away today without laying out a plan of action and steps

to provide immediate relief to the thousands of entrepreneurs who are relying so heavily on SBA right now. Entrepreneurs in the Gulf Coast need SBA's assistance today, not tomorrow.

If we want these businesses to make a full recovery, and to ensure small businesses can depend on SBA in future disasters, then these issues need to be addressed now.

Thank you, Mr. Chairman.

[Ranking Member Velazquez's opening statement may be found in the appendix.]

Mr. MANZULLO. Here's the procedure we are going to use. We are going to start with Mr. Barreto, and then when we finish Mr. Barreto said that he would stick around as long as he can to be able to hear the testimony of the other witnesses.

We have a member here from Louisiana that wanted to, your last name is about as bad as mine, Charlie, if you would take just a very brief amount of time, brief, one minute to introduce your witness who will be on the next panel.

Mr. MELANCON. My witness will be in the next panel, Guy T. Williams, and I came in earlier and found out that another friend of mine, Ralph Brennan is in here. Both these folks are from New Orleans, but that entire metropolitan area has been totally devastated, as you are aware. I had hoped to come in and introduce Mr. Williams and, Mr. Chairman, I appreciate that opportunity.

Mr. Williams is the Chairman and Chief Executive Officer of Gulf Coast Bank & Trust. He was telling me just a few minutes ago that they have placed a portable building to try and get a branch back up in St. Bernard Parish, which is one of my parishes that has been totally devastated. There is not a house or a business—

Mr. MANZULLO. Charlie, you are over a minute.

Mr. MELANCON. Over a minute, I'm sorry, sir.

Mr. MANZULLO. We've got votes coming up in just a few minutes.

Mr. MELANCON. Let me just introduce you to my friends, Guy Williams and Ralph Brennan, from Louisiana.

Mr. MANZULLO. Do you guys want to stand up. There you are, thank you for coming from Louisiana.

Thank you, Charlie.

Administrator Barreto.

## STATEMENT OF THE HONORABLE HECTOR V. BARRETO, U.S. SMALL BUSINESS ADMINISTRATION

Mr. BARRETO. Good morning, Chairman Manzullo, Ranking Member Velazquez, and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's Office of Disaster Assistance efforts to provide relief to the victims of Hurricane Katrina.

Herb Mitchell, the Associate Administrator for Disaster Assistance, is with me. Herb is a career employee with over a decade of experience in disaster assistance. Herb and I were recently in Mississippi and Alabama, and previously in Louisiana and Texas, we learned first hand the extent of the destruction caused by the hurricane.

In Gulfport, I was shocked to see a city that had literally been flattened. We met with the citizens, homeowners and the small

business owners who were affected, and with our SBA employees on the ground, and I can tell you I've never been more proud of the work we do at the SBA.

Mr. Chairman, I know you want to discuss efforts to rebuild the Gulf Region, and how SBA can rebuild the economy of the affected areas. However, would like to first talk about the SBA's work since Hurricane Katrina hit.

Mr. Chairman, you met our Disaster Recovery Staff led by Al Judd in Baton Rouge. They are just one of 33 Disaster Recovery Centers in Louisiana. We now have nearly 600 staff on site in the affected areas. They have done an excellent job, and I am committed to offer them all of the support they need to carry out the SBA's disaster assistance mission.

As the primary federal disaster assistance loan program for long-range recovery for private sector, non- agricultural disaster victims, SBA's disaster program offers direct loans with eligibility based on financial criteria. Currently, the interest rate for loans for homeowners without credit available elsewhere is 2.687 percent, and the rate for homeowners with credit available elsewhere is 5.375 percent. The vast majority, over 96 percent, of our disaster home loans, are made at the lower interest rate. For business the rates are 4 percent and 6.557 percent, respectively.

SBA disaster loans are not just for small businesses. Most loans go to homeowners, and Katrina and Rita home loan applications currently out number business applications 8:1. SBA has two kinds of business disaster loans, physical disaster loans for uninsured losses up to $1.5 million, with funds to repair or replace business property to pre-disaster conditions.

Economic injury disaster loans provide up to $1.5 million in working capital for loans for small businesses that suffer economic injury as a direct result of a disaster, regardless of whether the property was damaged.

These are loans to help small businesses pay ordinary operating expenses. The bottom line is, the SBA's disaster loans help rebuild communities. SBA doesn't just help the small businesses, but their friends, and 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- ravished 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.

I would like to address the media accounts of computer problems and processing slow downs in the Office of Disaster Assistance. Nothing could be further from the truth. The old system, the automated loan control system, was cumbersome. It was unreliable. It was outdated. The ALCS was not a loan processing system, but it was a tracking system to interface with our mainframe, and we had two other unconnected and outdated systems for underwriting and legal documentation generation as well.

Last year, the ALCS broke down during the Florida hurricanes, and it took nearly a week to be repaired because nobody carries parts for a system that old. Faced with the possibility of future failures, SBA moved forward to build the disaster credit management system, or DCMS. The DCMS is a totally integrated, web-enabled system, that performs all of the necessary functions on one platform with the latest technology. It also improves SBA's access to external data sources like credit reports, and existing federal debt, tax information, and benefits data. This system has been in use since November of 2004, and allows SBA to process loans electronically in a paperless environment.

As I said, SBA started moving even before Katrina hit. We had 880 staff when the President made his declaration, and we now have over 2,800. We expect to hire nearly 2,000 more.

Recently, I visited our processing center in Fort Worth, Texas, where we have expanded the facility by 40,000 square feet and added phone and computer connections to increase our capacity to process applications, and we will acquire the floor above us in Fort Worth to expand further if needed.

To date, SBA has received a record number of referrals from FEMA, over 1.4 million referrals, more than the four 2004 hurricanes combined. Our processing center in Fort Worth, Texas is working 22 hours a day, and surge capacity is in place in the back-up processing location in Sacramento, California. Both locations have sufficient numbers of desktop computers to process and disburse loans. They have received 61,000 applications, mostly in the past two weeks, yet they are receiving and inputting those loans at over 3,000 a day.

The temporary problems in the affected area were not related to the system, rather staff often couldn't reach homes or businesses, or contact the applicant. Lack of physical access slowed our folks in the beginning, and they were only completing 250 verifications daily. That has doubled and we reach over 2,000 verifications a day now. We have already completed 29 percent of the assigned verifications, and that number will climb.

In order to further expedite verification, SBA is working to obtain some satellite imaging data and other public records that can help us verify damage and ownership without going to the site. Unfortunately, the person on the ground is still usually the best tool for verification.

As I said, ODA is staffed up to meet the demands of this disaster and continues to hire. By design, ODA staffs up to meet the needs of disaster victims when disaster strikes. The 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. Our SBA ODA employees are now in over 50 disaster recovery centers, and more are opening daily. At each of these DRCs SBA provides Katrina victims with one-on-one assistance, helping to fill out applications and answering questions. They are also making follow-up telephone calls to victims who have not returned their applications.

I would also like to discuss some of the other steps SBA is taking outside of our normal programmatic efforts. SBA has assigned four procurement center representatives, or PCRs, to Katrina-related

contracting. Our Office of Government Contracting is meeting with small and disadvantaged business utilization officers from all major agencies to help focus on small business opportunities. SBA is working with the General Services Administration to establish sourcing lists for small businesses, and help small businesses enter the central contractor registration database of small businesses. It's available for contracting in the Gulf Region. Small business can call now, 1-800-FED-INFO to register and learn about opportunities. A customer service representative from GSA will field the calls and direct each caller to the nearest SBA district office. The SBA has designated personnel to respond to these inquiries and make referrals to SBA's PCRs.

I'm also happy to announce that Judith Roussel, our District Director from Illinois, who has considerable contracting experience, has been detailed to coordinate this effort, and the early data on small business utilization, the recovery efforts, is encouraging. We are well exceeding our small business prime contracting goal of 23 percent. 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.

Let me just offer two examples of the results. The Army Corps of Engineers recently issued 100 percent small business set aside for quality assurance services, a multiple award, firm, fixed-price contract. They've also issued an 8[a] competitive contract action for multiple award roofing contracts, three contract awards anticipated at not to exceed $50 million each.

I have signed an administrative notice for all SBA service borrowers in the affected areas, giving them up to 12 month deferment of payment. In the same notice, I encouraged our lending partners to contact SBA and work with us to see what type of solutions we can find to assist them in working with their small business borrowers.

Our small business development center partners have also come forward 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 authorized SBDCs to operate outside their state to help in the affected areas.

SBA also recently announced a new agreement with the Louisiana SBDC and efforts with the Mississippi SBDC to provide additional disaster business counseling.

Mr. Chairman, I would now like to discuss some of the proposals the Administration has put forth. In the area that the President has designated Gulf Opportunity Zones, or GO Zones, SBA will have the following role. We will increase the maximum size of SBA business-related disaster loans from $1.5 million to $10 million. 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.

Increased disaster mitigation loans, SBA can currently increase a disaster loan by up to 20 percent, so the borrower can invest in disaster mitigation technology, such as storm shutters. For exam-

ple, a business with $100,000 of damage may have $80,000 covered by insurance, and a $20,000 SBA disaster loan. Typically, the SBA's mitigation loan would be 20 percent of the $20,000. The Administration's proposal would raise eligibility to 20 percent of the total $100,000 damage, in this case increasing the amount eligible for a mitigation loan five fold.

Increase the maximum size of surety bonds from $2 million to $5 million. 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 areas secure contracts, especially those related to reconstruction.

Provide 7[a] and 504 loan borrowers with the option for deferring their principal and interest payments for a 12-month period. In order to help small businesses 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. Under certain circumstances, participating lenders and certified development companies can make deferral available. Where deferral is not available alternative means of providing temporary relief to the borrower may be needed and could include an economic injury disaster loan for the working capital needs of the small business.

Through these measures, borrowers could better regain their financial foundation. SBA is also deferring payments on certain agency service business loans in the disaster area, and sent a notice asking our lending partners where possible to do the same for SBA business loans that they service.

Higher specific GO Zone and 7[a] and 504 loan levels than Fiscal Year 2006. The current program authorizes for Fiscal Year 2006 SBA's nationwide 7[a] loan volume to $17 billion, and 504 volume up to $7.5 billion. The Administration proposes higher loan levels specifically for the GO Zone area during Fiscal Year 2006, ensuring that lenders will be able to make small business loans in the area. GO Zone area levels 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. ODA was in contact with our regional offices, with our SBDCs and local community-based organizations. Our efforts have been hampered by the destruction, but I'm pleased to report that we are serving those affected by this disaster well, and have the manpower and technology to continue to do so.

While SBA is continuing its traditional efforts to offer assistance to businesses and homeowners to rebuild, we also believe there is more that can be done to rebuild the economy in the Gulf Region.

Thank you, Mr. Chairman, and Ranking Member Velazquez, for affording me the opportunity to speak to you today about this very important topic. I look forward to answering any question that you might have.

[The Honorable Barreto's testimony may be found in the appendix.]

Mr. MANZULLO. Thank you.

Mr. Taylor, if you want to take one minute and introduce your witness. I do not think there is going to be an opportunity for people who are not members of the Small Business Committee to ask questions.

Okay, it could be some time. Okay, it's up to you, thank you.

Mr. Barreto, thank you. What I would suggest is, Herb Mitchell, do you want to have a seat next to the Administrator, and as the questions come, because you have a lot of in-pocket information on this, that if Mr. Barreto wants to have you answer the question just feel free to do so.

For the record, do you want to give your name and spell the last?

Mr. MITCHELL. Thank you, Mr. Chairman.

My name is Herbert Mitchell, and I'm the Associate Administrator for Disaster Assistance at SBA.

Mr. MANZULLO. Thank you.

The first question is, we've been in contact with FEMA, and the reason that we have been told that monies have not been disbursed in the New Orleans area is the fact that the Army Corps of Engineers has not certified that they can build a facility that will withstand a Level 5 hurricane, and until such time as some assurances are made as to exactly what the Army Corps can do, that the SBA cannot disburse. Did you want to comment on that, Mr. Barreto?

Mr. BARRETO. Well, you are absolutely right, Mr. Chairman. There are a number of issues, and often times those don't get mentioned or covered, that we require for us to be able to distribute a loan. The one that you mentioned is critical, is that are those areas going to be rebuilt.

One of the things that we have to have is a permit. We are not allowed to be able to disburse money, even after we've approved the loan, until there is a permit.

Now, one of the things that slowed us down in the very beginning was our inability to get into some of those areas. We also have to go in and physically do an investigation of that area. We had a lot of challenges in the beginning. It's getting better, it's getting a lot better, and our investigations have gone up, but that's also one of the critical requirements.

Another requirement is that there must—if they are in a flood plain, they must also have flood insurance, so that's another issue that sometimes precludes us from getting that money out.

And lastly, and again, this is something that again doesn't often times get mentioned, is that we can't distribute money until the individual tells us to distribute the money. Sometimes for a whole variety of reasons we'll approve a loan and the individual may decide they don't want it right at that time. They may not want to start accruing interest, or they may have decided to go a different route.

So, all of those issues play into why a loan may not be yet approved or be distributed yet.

Mr. MANZULLO. Have loans been approved but are waiting distribution based upon the factors that you just set forth?

Mr. BARRETO. Absolutely.

Mr. MANZULLO. Do you have the numbers of those? Mr. Mitchell, you might have those.

Mr. MITCHELL. As of last night, we have approved 586 loans for $36 million, only 23 of those have actually had disbursements for $207,000, that's correct.

Mr. MANZULLO. In terms of the personnel required to handle this number of applications, do you want to share that information with us?

Mr. BARRETO. Absolutely. As we mentioned already, you know, we've been staffing up continuously. I mean, we are averaging at one point, and Herb can comment on this, 200 additional hires a day.

As I mentioned in my testimony, you know, the SBA has a cadre of employees. I believe that right when the disaster hit we had 800 permanent cadre employees. Those are the folks that do—

Mr. MANZULLO. Just for disaster relief.

Mr. BARRETO. Right, just for disaster relief.

But, since that time we've brought on a couple of thousand more, and we are expecting to probably have to bring on another couple thousand.

Now, one of the things is that we are fortunate, is that we have a network that we call on. In other words, we have people that are already trained that have worked with us on disasters before, and so we call them up, it's like calling up the National Guard, but this is the disaster guard, if you will, and they come on board with us and they are able to hit the ground running.

On a disaster like this, and especially with the volume that we are talking about, we also need some people with specialization. We are going to need some additional attorneys. We are going to need some additional people that can do the loan processing, do the investigation, folks that have customer service expertise, and all of those people are being brought on board right now.

I can have Herb talk specifically about the numbers that we have right now and what our process has been about ramping up.

Mr. MITCHELL. As of this morning, we are at 2,900, and as you already mentioned we started at 880 before the disaster hit. We are still interviewing. We are estimating that we're probably going to peak at some point about 4,000, and, obviously, a lot of the attorneys and paralegals will come on as more loans move into the legal process.

But, we are also hiring more inspectors in the field, as we are able to get in, get access to additional areas. Hector has already mentioned, our productivity in that has gone up tremendously in the last week or so, simply because we are able to get access, we've moved people to the field.

And, the other benefit that we are seeing right now, as more of, I guess, construction employees, who were previously unemployed, are now available to assist us. I think on this past week we put out an ad in Louisiana. We had 300 applicants, Louisiana construction workers, and we are starting to interview and hire those individuals. I think we hired 15 the first day, and we will continue to do that. The benefit to us is, obviously, we don't have the travel expenses, and we have people that, not only know construction, but

they know the local area as well, to help us in doing the inspections.

Mr. MANZULLO. Okay.

Ms. Velazquez?

Ms. VELAZQUEZ. Mr. Chairman, I will defer to the Members on my democratic side, and then at the end I will ask my questions.

Mr. MANZULLO. Who will be the first Democrat out, oh, Mr. Grijalva?

Mr. GRIJALVA. Thank you, Mr. Chairman.

I just have some general questions, and thank you, Mr. Barreto, for being here.

I think the Chairman said that maybe one of the objectives of the hearing was not to open the federal coffers to such a point that it becomes a feeding frenzy, paraphrasing. I might suggest as well, though, that as we've responded to this devastation, you know, there's been a suspension of Davis-Bacon, there's been a suspension of affirmative action in some areas, I think that affects women and minority owned businesses in terms of accessing contracts. We've had a series of no-bid contracts to connected corporations, and I would suggest that maybe denying reconstruction contracts to small businesses at the initial outset and to local workers who desperately need the job should be part and parcel of how we reconstruct. And, I don't think it's a question of coffers, it's a question of process and fairness, as much as anything else.

My question, though, is, let me just specify in one area, if I may, Mr. Barreto. Given the needs of the low-income communities in these devastated areas, the SBA, I believe, could truly make a difference, not only in the short term relief, but in the long-term reconstruction, by targeting programs to the Gulf Region to those specific communities.

And, my question, is the SBA considering any proposals to expand the use of programs developed for low-income communities, principally, the PRIME program and the New Markets Venture Capital program, are those being thought about as expanding into a targeted aspect?

Mr. BARRETO. We are doing a number of things, Congressman Grijalva. First of all, you are absolutely right, you know, small business has to be a part of this reconstruction, and there's nothing that's going on right now at the federal level that is preventing small business people, minority small business people, from having access to those contracts.

And, one of the things, whenever there's a disaster, and this has been our experience, one of our big responsibilities is to make sure that we are communicating with all of the individuals in that area on how to access our programs, how to access our services, also working with the local communities there to make sure that we are getting that information out.

Obviously, you know, for a lot of folks they are assessing what their needs are going to be. The disaster loans will be one component of that. One of the things that this offers us is an opportunity to also introduce them to all of the other things that the SBA does. You've mentioned some of those things in our regular programs, our regular lending programs, our regular training programs, our

regular contracting programs. And so, we are also offering that as well.

Just yesterday, we had a meeting in New Orleans with regards to communicating with the business community what all the tools that are available there, and we are setting up a business center there, specifically, to interface with the small business community, and especially the minority small business community, on how they can access, not only tools, because tools are very important, but opportunities. A lot of small businesses are saying to us, look, all the tools are great, but if I don't get some business for my business pretty soon I'm not going to be able to take advantage of anything.

One of the things that we are also doing, Congressman Grijalva, is that we've had a very successful program at the SBA for the last couple years called Business Match-Making, and we are working with the affected states right now to bring that program to those states and match up those small businesses directly with the buyers, the federal buyers.

Mr. GRIJALVA. Specifically, the PRIME program, is that being expanded? Is there stuff that's being done with that PRIME program in these devastated areas?

Mr. BARRETO. Yes, we have not looked at that as to expand the PRIME program or any of the other programs. Our first, you know, response that we've had is to make sure that we are getting the information out on the disaster loans and disaster assistance. That's key, and then at the same time—

Mr. GRIJALVA. Those two programs in the long-term reconstruction and stability, stabilization of the area and the business aspect, those programs will be looked at for expansion?

Mr. BARRETO. We'll look at all of our programs, because I want to make sure that the small businesses there have access to the full complement of SBA services and programs, absolutely.

Mr. GRIJALVA. Let me just, one other point, in your Senate testimony of September 22nd you labeled the press accounts about the computer problems at ODA as "misguided." And, as I reviewed your testimony for today, you dropped that adjective, so that's no longer misguided?

Mr. BARRETO. Well, there's a lot of adjectives that you could use with regards to the press reports. The thing that happens often times with a lot of the press reports that are coming out is it's incomplete information.

You know, we don't have a problem with our system, in fact, our system is a huge improvement above what we had before, and I mentioned that in my testimony. We think this is going to help us to do a lot more and do it quicker, and more efficiently, and in a much more qualified way than we've ever been able to do it before.

Mr. GRIJALVA. Last question.

Mr. MANZULLO. Well, time is out, we'll get back.

Mr. GRIJALVA. Thank you.

Mr. MANZULLO. Mr. Bartlett?

Mr. BARTLETT. Mr. Chairman, I'd like to yield my time to a gentleman who not only had his district devastated, he lost his house. I think Mr. Taylor recovered two wrenches and a pipe cutter. I'd like to yield my time to Mr. Taylor.

Mr. MANZULLO. We can do that.

Mr. Taylor?

Mr. TAYLOR. Thank you, Mr. Bartlett, and thank you, Mr. Chairman.

Mr. Barreto, what I'm really troubled by is, I hear a lot of talk about what you are doing for small business, but it's all the crumbs that are falling off the table. The big contract right now is disaster clean-up, that was given on a no-bid contract for up to $500 million to out-of- state firms. Where were you when this took place? I mean, as an advocate for small business, I would think that you would have been in the room at the table saying, wait a second, this is a devastated area, 16,000 casino workers out of work in my district, the shrimpers have lost their boats, the only thing they are going to catch in a trawl now might be a Porsche that's been under water for a month. I mean, we can go down the list, timber fields are knocked down, cattle fences, and we just go down the list of everything that's happened.

So, the big jobs that are available right now is disaster clean-up, and that's going on a no-bid contract to an out-of-state firm, where was SBA, looking out for the little folks who live there?

Mr. BARRETO. Well, absolutely, Congressman, that is our responsibility. I'm not aware of every procurement in every federal agency often times until after it takes place. But, one of the things that's very important to remember—

Mr. TAYLOR. Where was SBA when this decision was made? Were you included at all in that decision-making process?

Mr. BARRETO. Which decision, Congressman?

Mr. TAYLOR. The decision to let the disaster clean-up, a $500 million, again, you know, everyone else is looking for just crumbs off the table, I read your programs, crumbs that fell off the table, the big contract that's going on right now in south Mississippi is disaster clean-up. There was not a single word in there about one little carve out to help small business.

Mr. BARRETO. Congressman, last year the Federal Government bought $70 billion from small business.

Mr. TAYLOR. I'm talking about right now.

Mr. BARRETO. I understand.

Mr. TAYLOR. This is about the hurricane.

Mr. MANZULLO. Mr. Taylor, let the witness answer the question.

Mr. TAYLOR. I'm sorry.

Mr. BARRETO. $70 billion was almost 23 percent of everything the Federal Government bought, that's not crumbs, that's actually a significant increase. A few years ago we were doing $50 billion.

And, the good news is that those federal contracts are going to every community, small disadvantaged businesses, they are going to all kinds of minority businesses, women businesses, and we will make sure that small businesses there get contracts.

Mr. TAYLOR. When?

Mr. BARRETO. In the very beginning, what was happening is that there was an urgent need to respond immediately. We were trying to save lives, we were trying to get people in there, and that's what happened. But, there's going to be a tremendous amount of contracting activity.

In fact, the numbers that we have right now is that a contract that's going to small business and minority business is far exceed-

ing the 23 percent federal percentage, far exceeding as of this moment.

Mr. TAYLOR. I think your numbers are way off, and I think you need to double check them.

Mr. BARRETO. We have double checked them, and they are far exceeding 23 percent of all the contracts that are going in that area are going to small businesses, many of those to minority businesses.

Mr. TAYLOR. Are they going from the people from the devastated areas?

Mr. BARRETO. A number of those contracts are going to them. I don't have the percentage.

Mr. TAYLOR. I can assure you that 23 percent certainly isn't going locally.

Mr. BARRETO. It's more than 23 percent.

Mr. TAYLOR. It's not going local, and again, if I may, that's water under the bridge, let's start today. Are you, as an advocate for small business, going to request that FEMA go ahead and recompete those contracts?

Mr. BARRETO. They did that yesterday, Congressman. FEMA rescinded, was going back out to bid on those contracts yesterday.

Mr. TAYLOR. And, did you, as the advocate for small business, request that it be done in an expedited manner, because 30 days from now a heck of a lot of that work is already going to be gone.

Mr. BARRETO. Right.

Mr. TAYLOR. And then, it doesn't implement for, say, another 30 days, so you are going 90 days from the day of the storm, and a heck of lot of work has been accomplished by out of state firms.

Mr. BARRETO. I agree.

Mr. TAYLOR. And, they've missed all that opportunity.

So, have you gone to bat to try to expedite that?

Mr. BARRETO. We work very closely with FEMA, and the Acting FEMA Director has said that he's going to expedite those rebiddings. But, that is another one of those issues where, you know, you have to balance being able to respond quickly, especially at the front end of a disaster, and then going back out to a competition on these things. That's going to take some time.

Mr. TAYLOR. Okay, again, for the future, there's really two phases to a hurricane. I can understand the first guy who comes in asks for—on electricity, brings his own fuel, feed, and house his own people, and that goes on for about three weeks. After three weeks, there is electricity available, there's fuel that can be purchased locally, there are people that can be contracted locally. For the future, I would really encourage you, because there's going to be another hurricane, or tornado, or flood, whatever, I would really encourage you to work with FEMA to do it in two separate phases, the initial phase where the dates are and then the follow on, so that we don't make this mistake again.

Mr. MANZULLO. Thank you.

Ms. Moore?

Ms. MOORE. Thank you so much, Mr. Chair, and I just want to thank the witness for coming here and being willing to be a part of this panel.

My question really is, I guess, you know, I guess I just want to say that I know you didn't cause the storm, Katrina.

Mr. BARRETO. Thank you, Congresswoman.

Ms. MOORE. That hasn't been said often enough, but I do think that natural disasters like this really give us an opportunity to step back and look at what the quote, unquote, to borrow your words, "normal procurement process" is like. And, my concern, as has been stated by other members of the Committee, is that this storm has really pulled off the fig leaf, as it were, for how we ordinarily do procurement, and small business really doesn't fare well.

The L.A. Times today reported, and maybe I can clear up this 23 percent, people keep being stuck on 23, 23 checks totally $207,800 have been issued so far to small businesses. You know, I voted for $62 billion, and $207,800, 23 checks, have been cut. And that's, you know, when I talk to small businesses in my district they say that that's kind of business as usual, that the big companies come in, there's a press release, you know, saying we are going to do it, and so I guess I want you to respond to that.

And also, I want to talk about what happens normally. Tell me how—I know people have talked about Davis-Bacon, affirmative action, rules being bypassed, but how have the living within a certain distance of the work, how have those rules been implemented during this catastrophe?

And, in terms of the 23 firms that have got the $207,800, what is the plan for?

Mr. BARRETO. Sure, thank you for that question.

First of all, let me clarify something. There's actually been close to 600 loans approved for $36 million.

Ms. MOORE. Twenty-three checks have been cut.

Mr. BARRETO. Exactly, 23 checks have been cut, for the variety of reasons that we've already talked about, but, and by the way, not all those 23 were businesses, by the way. Right now what we are seeing is, homeowners are outnumbering the small businesses 8:1 in terms of, you know, the request for loans. And, that's just normal, there's a lot more homeowners than there is businesses.

And then, you know, I'm going to let Herb talk a little bit about this, and I want to also—we brought some charts, because I want to actually illustrate what it is that we are dealing with. You know, 70 percent of all of the applications that we've received we've gotten them in the last couple of weeks. You know, there's this sense of that we have thousands, and thousands, and thousands of applications in a pipeline someplace that are not getting out, that's not really what's happening.

And then, I'll let Herb talk a little bit about, you know, sometimes we talk about what we do in a normal disaster. I don't think that there is any kind of a normal disaster. They are all different, they all require a different kind of a response and a different kind of an effectiveness. There's no doubt that this one is very different, unprecedented in the scope that we are dealing with right now.

And, you know, Herb has a tremendous amount of experience over the last ten years dealing with every disaster that the SBA has ever had to deal with, so I'd like him to maybe walk through a couple of these charts, and I think that will illustrate a little bit about how the flow is going on these loans.

Ms. MOORE. And, be very specific, because I think that, you know, this hearing is about the Gulf Region, but I guess I'm trying to get my arms around how you operate ordinarily.

Mr. BARRETO. Sure.

Ms. MOORE. You know, and how we've departed from those practices, like, for example, if Brown & Root, one of the Haliburton companies, I mean, does it meet the mile requirement? I do want to understand that better, how small businesses do or do not qualify for loans, if they don't live in proximity to the SBA regional offices.

Mr. BARRETO. Okay, and Herb can come in on that too, but please understand, there is no—I mean, if that small business is in a declared disaster area, and remember, we are talking about a declared disaster area the size that we've never seen before, the size of a country, anybody inside that area, it doesn't matter where in that area that they live, could qualify for a small business loan or a homeowner's loan, or a renter's, you know, to replace personal property. So, there's not an issue there, if they are inside the declared disaster area they are going to be able to apply for these loans.

Ms. MOORE. Okay, just very quickly, before my time runs out.

Mr. MANZULLO. Mr. Gohmert.

Ms. MOORE. Before my time runs out.

Mr. MANZULLO. It's run out.

Ms. MOORE. Oh, Mr. Chairman.

Mr. MANZULLO. I can't stop the clock.

Mr. GOHMERT. Thank you, Mr. Chairman.

Just to go quickly to some questions I had. One of the recommendations is to increase the maximum size of surety bonds from $2 million to $10 million, and I notice the President's recommendation was to $5 million. Has there been any data as to how many businesses it would affect to go from $2 million, to $5 million, to $10 million?

Mr. BARRETO. Well, we've looked at that. I don't have the exact percentage in front of me. What we found is, is that most of the small businesses that we are dealing with would be under that $5 million surety bond area. And so, you know, that's the reason that we determined $5 million was probably the best for us, because it's going to include most of the small businesses.

Mr. GOHMERT. So, you don't recommend the $10 million?

Mr. BARRETO. Not at this point. I don't believe that it's going to affect that many of the small businesses in that area. I mean, we are always happy to continue taking a look at it, and if there's evidence that a number of small businesses need that $10 million, then we definitely want to take a look at that.

Mr. GOHMERT. Well, with regard to this maximum size of the loans themselves, $1.5 million to $10 million is a possibility, what is your data on that?

Mr. BARRETO. Well, you know, we've done this before, we did this in 9/11. We realized there were a lot of small businesses that were going to need more, that were going to need more, and especially in a disaster like this where there's been such devastation, where it's going to take some time for some of these small businesses to come back, we want to be able to offer them as much of that loan

as they can get. So, $10 million has been a number that we've used before on these kinds of things.

Mr. GOHMERT. There's a potential recommendation to defer repayments owed to the SBA in the 504 loan program, what is the recommendation on how long to defer payments?

Mr. BARRETO. Right now, we are looking at a year, we are looking to defer those payments and that interest for a year.

Mr. GOHMERT. Okay.

You mentioned that the SBA had been ramping up and hiring, basically, at times 200 people a day.

Mr. BARRETO. Right.

Mr. GOHMERT. That's pretty massive.

Mr. BARRETO. Yes.

Mr. GOHMERT. How long term are the contracts for these people that are being hired?

Mr. BARRETO. Yes. Well, obviously, we are going to have people working with us on this disaster, and this is not unusual the way that we do it, for as long as we need them. So, you know, we don't anticipate that, you know, they are going to be there for a month and then they are going to be gone, we think we are going to have people in the area, in these loan processing centers, for a significant amount of time.

Herb can speak a little bit to that, in terms of what his approach is going to be on that.

Mr. MITCHELL. Most of the employees are employed for up to—temporary employment up for a year. Generally, we generally go 90 days, and if we need to extend, but we simply just know that it's going to be long term, so almost all of the temporaries are given at least a one-year appointment.

Mr. GOHMERT. Well, I'm sure you understand my concern. We don't want so much of this money being allocated for SBA to end up, even though it helps people temporarily by giving them a job, making the governmental entity bigger than the people they are trying to help, which has happened in some departments.

Mr. MITCHELL. We understand, and they will only be kept on board as long as they are needed. We have, obviously, the flexibility to let them go if we don't have the work.

Mr. GOHMERT. You guarantee a year, there's no month-to-month?

Mr. MITCHELL. There is no guarantee, they have an appointment for up to a year.

Mr. GOHMERT. Up to a year.

Mr. MITCHELL. That precludes us, for example, of giving somebody a 30-day appointment and then have to go through paperwork for 2,000 employees to extend it. We just put them on a year appointment, and we release when we don't have the work.

Mr. GOHMERT. With regard to the SBA loans, these will have security, correct?

Mr. BARRETO. Well, they are underwritten. I mean, they have to have collateral, and they have to be able to prove that they can repay the loan. Now having said that, this is not like underwriting a regular commercial loan, we are going to be a lot more flexible, and we don't have the stringent requirements that one of our lenders would have in a normal situation.

Herb, do you want to talk about the underwriting?

Mr. MITCHELL. Our specific policy on collateral is that we take best available to secure the loan, which means—

Mr. GOHMERT. My time is running out, so let me just encourage you to make sure you get the collateral properly secured. That's been a problem some places in the country, collateral has not been properly secured.

And one other issue when it comes to collateral, and I haven't heard anybody mention it, but I know in east Texas where I'm from, after a river floods we've had feds come in and say to the land owner, that's wetlands, you can't do anything with that anymore, and I haven't heard anybody say whether or not there has been any discussion with the entity that might come in and say, you know what, New Orleans is now wetlands, you are going to leave it alone.

Mr. BARRETO. Well, you know, that's a big issue, and that's one of the reasons that we can't, you know, even if we have approved a loan in a certain area, by the way, this isn't particular to this disaster, you know, we've approved loans in other areas and sometimes it takes a while before that money can be disbursed, because the person doesn't have a permit to be able to rebuild there. So, we will not release any monies until those permits are in place.

Mr. MANZULLO. Ms. Bean?

Mr. GOHMERT. Thank you.

Ms. BEAN. Thank you, Mr. Chairman, Ranking Member Velazquez, thank you, Mr. Barreto for being here today.

I'd like to go back to the contracts that are being awarded.

Mr. BARRETO. Sure.

Ms. BEAN. You mentioned that the clean-up contract is going to be rebid. How many local businesses, small businesses, have you identified and already approved, and have you cut checks for, so that they are prepared to participate in this rebid process? Many of them you mentioned a match-making program that is going to look at their skill sets and match it up with where there's opportunities.

Mr. BARRETO. Right.

Ms. BEAN. But, many of them have been operationally devastated, even though they have the skill sets and the knowledge base, and they know the area, to do some of the clean- up or reconstruction. So, how many have you identified? What are we talking in terms of dollars, given that billions of dollars have been awarded even previous to this contract already, that have been done on a no-bid basis, exclusively cutting out the potential for the local businesses to participate?

Mr. BARRETO. You know, a lot of these contracts are coming out of FEMA and GSA, and so they are tracking these numbers, and I don't know that they have reported specific numbers in terms of how many local small businesses and what the contracts have got. We've gotten some preliminary data as to what the percentage of the contracts that they've let, and how much of that has gone to small businesses, how much of that has gone to minority businesses, and we will work with them and we'll make sure that we have all available data on that.

And, with regards to business match-making, some of these businesses are going to be in transition, and some of them may need

to partner with another company, or some of them we'll help them transition their business. So, business match-making is more than just, you know, matching somebody up with somebody for a contract that day. Often times what's happening here is, you are creating linkages, you are creating relationships that will lead to contracts in the months to come.

With regards to the loans, as we've said before, you know, the majority of the loans that we are dealing with right now, the overwhelming majority of the loans are not coming from small businesses, they are coming from homeowners, people who have had physical damage to their home, or may have lost some personal property.

Herb, I don't know if you want to comment on what you are seeing with regards to the small business activity on the loans that we've already approved.

Mr. MITCHELL. Well, very few of them at this point have actually been disbursed. I mean, the challenge here, and what we expect within the next three to five days, is the inspections will be completed, we are getting access, we'll get those numbers as to what it's going to cost to repair or replace that property.

But, a lot of challenges still lay ahead, even once they get a decision as to, you know, whether or not they are going to actually be able to get a contract or get an estimate, get the permits, get all of the things in place to actually rebuild.

One of the town hall meetings that we had in the field, beyond just the financing, was employees. A lot of businesses are saying to us, look, we just don't have the employees. We need some assistance in providing temporary housing for our employees in the area where we can operate, and that's one of the challenges as well, beyond—there are a whole host of other issues as well.

Ms. BEAN. So, what have you done from a process perspective to prioritize loan requests from local businesses that are part of the reconstruction effort, or certainly would like to be, and/or to do outreach to those who don't even know that these resources are available to them?

Mr. BARRETO. Well, that Business Center that we are opening up in New Orleans with the Mayor, that's going to help us to do that, and again, what we are dealing with is really outreaching, educating, informing people.

You know, a lot of times these small businesses, this is the first time they are ever going to come in contact with the SBA, and so we really have to do an orientation for them.

With regards to the small businesses that are applying for loans, it kind of depends on what business they are in. Not all of them are interested in contracting with the Federal Government or local government, they may have a business, maybe a restaurant business for example, I know that we are going to hear from the restaurants, they are interested in getting their business back up to speed, getting those customers back, marketing that business, et cetera.

So, you know, you are dealing with different kinds of concerns, depending on what that business is.

Ms. BEAN. So, you said you are doing outreach, what are you doing? How are you letting the people—

Mr. BARRETO. Well, a number of different ways. One of them is, is that we are working very closely with the economic development officials of their state. We've had several meetings, for example, with Michael Olivier, who is the Secretary of Economic Development for Louisiana. He's been very helpful to us. Most recently, he was the Economic Development Director in the State of Mississippi, so he's very familiar with those two states. We are working with him to get that information out.

When I was down there in Louisiana, and in the last few weeks I've been to all of our operations, working with them, meeting with their business communities, making sure that information is out, working with the media, getting PSAs out. We've produced hundreds of thousands of informational brochures that illustrate all the things that we can do for them. So, I mean, we are getting—

Ms. BEAN. So, you are doing radio and public service announcements?

Mr. BARRETO. Absolutely, and working with our district employees as well, who are helping us get that information out, too.

Ms. BEAN. Thank you, Mr. Barreto.

Thank you, Mr. Chairman.

Mr. MANZULLO. Thank you.

Mr. Fortenberry?

Mr. FORTENBERRY. Thank you, Mr. Chairman, we appreciate your willingness to hold this important hearing and, obviously, I've just walked in, and trying to catch up on the context of the entire proceeding. So, I would yield some time to my colleague, Mr. Gohmert, if he is interested in speaking.

Mr. GOHMERT. Thank you.

I am curious, what analysis has been done to the amount of flood insurance in the area, and how it affects businesses, and how you might mesh with that prospect?

Mr. BARRETO. Well, Congressman, one of the things that is a prerequisite for us, especially if the small business is located in a flood plain or an area that is very susceptible, you know, that is one of the requirements before we are able even to distribute.

Mr. GOHMERT. I would hope so.

Mr. BARRETO. Yes, it is, and, Herb, do you want to mention what we are seeing right now with regards to the flood insurance in terms of, you know, the ability to get it?

Mr. MITCHELL. Yes. I don't think there's any challenge in terms of the availability of flood insurance, and, obviously, there are some issues around some of the mapping and whether or not some of those areas should have been mapped accordingly. But, you know, that's just a product of the maps not being updated.

But, there are two elements to flood insurance. One is, if you were in a flood plain, and you were required to obtain flood insurance and you did not, you would not be eligible for any federal assistance, and that's SBA across the board. I mean, that's statutory.

If we make you a loan as a result of a flood, then you must purchase the flood insurance and maintain that insurance.

Mr. GOHMERT. So, for those people that have insurance, shouldn't that take care of rebuilding their business?

Mr. MITCHELL. Our experience is that what people will find is that they will be under insured. I mean, flood insurance and haz-

ard insurance, for that matter, cover specific things, and if you don't get additional riders you may not have full coverage.

And so, we are covering that uninsured portion of the insurance, whether it's flood insurance or hazard insurance.

But, I also want to emphasize to you—

Mr. GOHMERT. So, you are saying that even though you require flood insurance you don't require riders that would actually keep them insured in the event of a flood.

Mr. MITCHELL. Well, not to that extent. Flood insurance has limitations as to what is actually covered. For example, you know, basements may not be covered, but only the furnace and those essential utilities in the house would be covered. But, if you fix your basement that may not be covered on the flood insurance.

And, you simply have to look at your policy as to exactly what's covered. What's not covered on the insurance you are eligible for an SBA loan.

Mr. GOHMERT. Well, unless there is an exemption or exception for flooding caused by a local government failing to take care of itself by securing the levee that may allow it to flood, then I would think that if we had flood insurance on these businesses then flood insurance should come in and take care of that.

Now, I think the people I know on this panel on both sides, Democrats and Republicans, are compassionate, we want to help people that are in need, but then again, we don't want to rush in and make the Federal Government and the taxpayer pay for what an insurance company should have examined the risk and taken care of itself. And, I just haven't really satisfactorily heard how that comes into play, if SBA is going to be taking the burden off of the flood insurance obligation.

Mr. MITCHELL. Well, I'm not sure SBA has—the statute for us is that we can cover uninsured losses. The flood insurance policy prescribes what's covered. They have flood insurance and they are reimbursed to the extent of what's covered under that policy, then the loan can cover what's remaining.

Mr. GOHMERT. I do have an issue about fair market value. I don't know how you go about assessing fair market value in an area where there are obviously no comparable sales within these conditions, and how do you go about assessing it? You know, we hear some people say there are so many chemicals and sludge and things that it shouldn't even be used, and I'm not sure how you go about assessing that.

Mr. MITCHELL. Well, that's a good question, but there are two elements to that. When we actually go out to do the inspection, we are coming up with the cost to repair or replace that property. So, it's the replacement cost that establishes the eligible loan amount.

Fair market value only comes into play as to the value of the collateral that's going to secure that loan, and, obviously, that's going to be a tough figure to come up with. But, keep in mind, irregardless of the fair market value of the collateral value, if the business has the cash flow to repay that loan and satisfactory credit, we would still make the loan.

Mr. MANZULLO. Ms. Sanchez?

Ms. SANCHEZ. Thank you.

Mr. Barreto, I want to bring your attention to a very alarming story that I think highlights the importance of today's hearing, and this is a true story of what is happening in the Gulf Region.

There's an example of 75 electricians that came from New Orleans, Baton Rouge, and Lake Charles, Louisiana, who were hired by a local minority contractor, Allmight Enterprises, a few weeks ago for a $163 million project which was to last 21 months at the Naval Air Force Station in Belle Chasse, Louisiana, and they were going to wire a tent city that would house 15,000 military personnel.

Four weeks into that project, BE&K, who was the overall project contractor from Birmingham, Alabama, and who I would note is also working for Kellogg Brown and Root, which is a subsidiary of Haliburton, they told the minority contractor and the 75 workers that their services were no longer needed.

Workers later found out that they were released so that BE&K could replace those local workers and minority contractor with out-of-state workers that would be paid half of what the workers were paid previously, because they had been paid the prevailing wage, and an electrician was being paid $28 per hour, including benefits, while the out-of-state replacement workers were paid only $14 an hour.

Now, BE&K's firing of the minority contractor and local workers in Belle Chasse, Louisiana, probably is not an isolated incident, but a growing trend in the Gulf Coast, where we see big corporate contractors come in and rob Louisiana workers and Louisiana minority-owned contractors of work and jobs to rebuild their own communities, and I want to share with you, when I talked with one of these workers whose voice broke and he was in tears talking about this experience, he said that the workers, the 75 electricians on that job had suffered devastating losses. Most of them were living in their cars and working on the job, and they had, basically, the clothes on their back while they were working on that job. Now, they no longer even have those jobs.

And, we know that small businesses, sitting on this Committee, we hear it over and over again, are the economic engine that spurs economic growth and has the potential to revitalize the Gulf Region.

So, while you testified today that you have these wonderful programs in place to try to help minority contractors find out about these opportunities, I want to know what is the Small Business Administration doing to ensure, not just that minority contractors know about these bidding opportunities, but that the local contractors and local workers are going to, in fact, get awarded these contracts and are going to keep these contracts when out-of-state contractors come in with workers that are willing to work for sub-par wages and kick and displace these already devastated workers off of these jobs.

Mr. BARRETO. Was this a FEMA contract?

Ms. SANCHEZ. I don't know if it was a FEMA contract.

Mr. BARRETO. Because I think I read something about that recently, and I don't know that I have all the facts of this, but my understanding of what I have heard is that a contract was let, they wanted to immediately respond. There was a firm that didn't have enough electricians to be able to respond to it, so they partnered

with another firm. This must be the minority firm. And, they assumed that it was going to take X amount of time to do the work, and my understanding is that 60 to 80 percent of the work got done much quicker than what they thought it was going to get done.

Now, if it's a FEMA contract, I believe that the FEMA Administrator has said yesterday that they are going to go back and look at those contracts and make sure that, you know, there isn't an egregious example where somebody is being taken out of a contract unfairly.

In this particular instance, my understanding is that the contract was a temporary contract, again to supplement the existing workforce of the firm that had the contract.

Now, you asked what we are doing, and we are doing a lot of things, but one of the things that we've done is that we have procurement center representatives, and those we refer to as PCRs. We've dedicated four of our PCRs full time to the Gulf Region to identify opportunities for small businesses, especially minority businesses, and we are asking all of the rest PCRs that we have across the country to assist in that as well.

I mentioned in my testimony that I've also asked Judith Roussel, she's a District Director from Chicago, from New Orleans, with a tremendous amount of experience working with small businesses and on contracting issues, to work with us, and I've detailed her now to New Orleans, she's from New Orleans, so she'll be perfect for this kind of responsibility.

Ms. SANCHEZ. If I could just interrupt you, because my time is about to expire. I just want to say, though, that, you know, these workers were told 21 months and four weeks on the job they were let go. I have a hard time imagining that they would say it's for a short-term duration, we think 21 months, oh, but the work got done much quicker, and four weeks after they were hired on they got let go.

My concern is that we should be making sure that the first person to get these jobs are folks who have been devastated and lost everything and looking for economic opportunity, so that we have Louisianians rebuilding Louisiana, and Mississippians rebuilding Mississippi, and I'm not hearing that out of your testimony today.

Mr. MANZULLO. Thank you.

Ms. Kelly?

Ms. KELLY. Thank you, Mr. Chairman.

First of all, Mr. Barreto, I want to tell you that I appreciate all the work that the SBA is doing in the Gulf Region to help recover from both Katrina and Rita. I am concerned, just like my colleague, Ms. Sanchez, though, about reckless spending, inappropriate spending, and the spending that goes to large corporations rather than to the small business people, and the skilled workers who live in that area who need to get the money back in their pockets.

The reason for that is that the banks and the other people who depend upon the financial structures being there for them, banks can't even do business if they don't have anybody with money in their pocket to come into the door.

So, I'm concerned that we do keep a focus on that.

I wanted to know if—I had to leave, so I don't know if you've answered this question, what kind of safeguards do you have to ensure that our taxpayer dollars that are going there are being used in such a way that they are going definitely down to these small businesses?

And, as a corollary to that, I want to let you know that in the past the SBA has not been mindful of the fact that a lot of the SBA loans that are going out to people are larger, not small loans. There are businesses there that need $50,000, not $500,000. It takes just as much paperwork to do a $50,000 as a $500,000 loan, are you being mindful of that, sir?

Those are two questions I'd like answers to.

Mr. BARRETO. Absolutely.

Well, and we agree with your context, Congresswoman. WE need to be judicious. We need to be careful. We need to make sure that there isn't fraud and waste. I mean, you know, I think sometimes people forget that we have all of these safeguards built into the underwriting of these loans. You know, the truth of the matter is that sometimes people don't want loans, they want a grant, and SBA can't do grants. We do not do grants.

In fact, this is another thing that sometimes people don't realize. A lot of people come to the SBA to file their application so that they can be turned down by the SBA, so that they can go back to FEMA and get a grant. You know, that's not always discussed either. There was a lot of people that applied to SBA because they have to, they have to be turned down by SBA before they can go back and get that grant. FEMA does those grants.

Ms. KELLY. May I interrupt you and ask you one more question about that?

Mr. BARRETO. Absolutely, sure.

Ms. KELLY. How long does that process take? How long does it take you to deny or accept a loan right now?

Mr. BARRETO. Yeah, I will let Herb talk about that, because that is one thing that we are very mindful of. We understand—we know the individuals that are not seeking loans, and we are very mindful that we need to give them a decision very quickly so they can go back to FEMA, and, Herb, do you want to talk about that?

Mr. MITCHELL. Our target is to try to get people an answer within 30 days, and, obviously, there are exceptions, and there are exceptions for a number of reasons, either because we don't have the documentation, we can't gain access, or someone may have forgotten about a student loan that they had 20 years ago and we've got to clear that up, or there's a delinquent federal debt that they haven't filed. I mean, there are a whole host of issues that can come into the process, the underwriting process, that can deviate from that time frame that we try to work with the borrower to, basically, clear that up and get some satisfactory answers so that we can move on to a decision.

Ms. KELLY. I want to ask, I want you to go on, I asked you two questions, actually.

Mr. BARRETO. On the contracting side, you know, obviously, what we need to do is work very closely with the entities that are giving the contracts, and we do that. We have a great relationship, of course, with FEMA because we are co-partners any time there is

a disaster, so we are working very closely with them and their procurement folks. We are working very closely with GSA, because GSA also puts out a lot of contracts. In fact, yesterday we made an announcement that GSA and ourselves had put together a dedicated 1-800 line for small businesses to call us if they want information, and also a website to go on and get information very quickly on how they can access these federal contracts.

And, then again, I mentioned to you that we are not waiting for the small businesses to come to us, we are going to them. This business match-making initiative that we are launching in the Gulf States is starting immediately. Over the next month we are going to be registering people so that they can attend a business matchmaking event that we are going to be doing in the Gulf States. In fact, we have plans to do two of these events before the end of the year, and after we do those events we want this to be an ongoing initiative.

We can use technology now to set up appointments for people, so we don't even have to do an event in the area every week. After we do these events, and after we have a database of these small businesses, that we will receive from these economic development officials in these states, we'll be able to stay in contact with them and help them facilitate contract opportunities on a going forward basis. This will be a priority, and there is going to be, as everybody on this Committee knows, a tremendous amount of work and procurement for years, and small business has to get its fair share of it.

Mr. MANZULLO. Thank you.

Mr. Lipinski?

Mr. LIPINSKI. Mr. Chairman, is Mr. Melancon going to have an opportunity to ask questions?

Mr. MANZULLO. If someone yields.

Mr. LIPINSKI. Okay, let me, I will yield, let me take a few seconds, and then I'm going to yield my time to Mr. Melancon.

My concern is that, yes, we face an extraordinary situation, extraordinary disaster, and what we need to be concerned about from this point forward is doing the best that we can to help small businesses who have been impacted by this.

I worry that it has—SBA has been overwhelmed by this, but there's an unwillingness to admit that it has been the case. I don't see any political sin in admitting that, so that we can move forward from here, and maybe devote more resources to taking care of small businesses.

But, with that, I am going to yield my time to Mr. Melancon.

Mr. MANZULLO. Mr. Melancon, you have a little over four minutes.

Mr. MELANCON. Thank you, Mr. Lipinski and Mr. Chairman.

I would like to request, since I have a limited amount of time, that the SBA provide this Committee with the list of small businesses that are getting contracts, specifically, for me, for Louisiana, I would think that Mr. Taylor would like Mississippi.

There are workers being hired, you said, substantial numbers by SBA, can you tell me exactly where these people are?

Mr. BARRETO. Sure, absolutely.

Well, we've talked about the numbers, they are in a number of different locations. Every time a disaster recovery center opens, and as you know, well, we have over 60 now, but in the very beginning there was only a very few, but every time one of those centers open we deploy our people to those centers immediately. So, we have people right now in those 60 centers, several hundred people in the affected areas.

Of course, we have people that are also working out of our processing center in Fort Worth, Texas. We have a lot of people there, because they are the ones that are responsible. All of the applications are going there, so we have all of the people that are responsible for inputting the information, processing it, processing the loans, customer service. Of course, we also have people in our call centers. We have a couple of call centers, one in Buffalo, New York, and an overflow in Sacramento.

Mr. MELANCON. Mr. Barreto, since I have a limited amount of time, and I appreciate the preponderance of information, but the information I'm trying to get is, are there Louisiana folks, is there a Louisiana office, are they being deployed and put to work? These people have nothing, no home, no nothing.

Mr. BARRETO. I agree. I was recently in Baton Rouge in our recovery center there, and actually I was also in Gulfport, Mississippi a couple of weeks ago. Wherever possible, we are hiring local people. We have a number of local people that are working with us in those areas, too.

But, to give you specific information, I'd like Herb Mitchell to talk about where our assets are deployed, and how we are going about also reaching out to the local community so that we can hire them.

Mr. MELANCON. Herb, would you just give me numbers? I don't need to take all that down.

Mr. MITCHELL. I don't have the numbers. We'll get the numbers for the Committee.

Mr. MELANCON. That's fine.

Mr. MITCHELL. But, keep in mind, we are going to be increasing that number.

Our strategy in any disaster is to go in and, obviously, deploy wherever we can get people. As we then continue to staff up, it's to hire locally, and then get people off of travel status and hire local folks. So, I mean, that process continues throughout.

Mr. MELANCON. If you could just try and get me that.

My numbers that have been given to me, and I'm told that they ought to be pretty accurate, in Florida last year after the hurricanes I'm understanding that the SBA loan rate approval rate was at 94 percent, and I'm understanding right now in Louisiana it's at 2 percent.

Mr. BARRETO. It's never been 94 percent approval rate. It usually averages, and Herb can talk to this, about 50 percent, and again, I want to restate this, not everybody that applies for SBA wants a loan from the SBA. Some of them want grants, and they go back to FEMA, some of them change their mind and they decide not to take the loan. So, there are a number of different issues at play.

But, we've never had a 90 percent approval rate.

Mr. MELANCON. And, not on average you don't, but I'm just telling you what the numbers I've been told.

So, another question that I would like, or request I would like to make is, I'd like to see from Florida how many applications were made, how many were turned down, from Louisiana to date, how many were made, how many were turned down. And, some of them may be going back because they want the FEMA, but, you know, that's probably going to be footnoted, that it is believed, because you said you know who they are.

Mr. BARRETO. We'll get you the information, absolutely.

Mr. MELANCON. Hector, you were talking about insurance, that's going to be a whole other calamity, because the property and casualty carriers are looking for every option to get out. The most you can buy is $250,000 of flood insurance, and if you've got a small businessman that's got a million dollars invested he's in French speaking card play, he's burried.

As the big contractors have been hiring people—

Mr. MANZULLO. I've got to move this along, we've got an hour of votes coming up in a half an hour.

Mr. MELANCON. Thank you, sir.

Mr. MANZULLO. Ms. Musgrave?

Mrs. MUSGRAVE. Thank you, Mr. Chairman.

I would like to know, you mentioned that homeowners' loans were the biggest category so far, has the demand on personnel for that in any way caused a problem for small businessmen that were seeking loans? Do you have adequate personnel to handle both of those?

Mr. BARRETO. Absolutely.

You know, we'll process any loan that's coming to us, so, I mean, we are not, you know, segmenting the loans. It just happens that there's a lot more small businesses in any area when there's a disaster, so you are going to get a lot more.

We think, and Herb can speak to this, we are seeing a higher incidence in this particular case, you know, 8:1 right now is what we are seeing, but there is nothing in our resource allocation that would prevent us from being able to process any loan that we get from a small business person.

Mrs. MUSGRAVE. I'm really concerned about the cost of housing for federal employees, some of us were a bit amazed when we heard about a contract with Carnival Cruise Lines, and what that was costing. So, what kind of oversight are you exercising in regard to these overhead costs?

Mr. BARRETO. Well, I'm not sure, with regards—the oversight that we do exercise is with our own employees, and that's an issue for us as well. In fact, in the very beginning of the disaster, you know, we had people that were literally driving two hours each way every day because there was no place to stay. Now some of our folks, especially the folks in the local areas, for example, we have an office in New Orleans, our regular district office, but every one of those employees that's in that district office was a victim as well.

Now, they want to get back to work, and we have them working in other offices, but they want to get back to work in New Orleans to help the small businesses in New Orleans, but they've had no place to stay. So, we are working with FEMA to get them trailers.

Obviously, this is on a voluntary basis, but a lot of our employees are passionate about this, they are committed about this, they want to be back in that area.

The same thing happened to us in Gulfport. You know, we had employees in Gulfport, we had a satellite operation there, but Gulfport had tremendous amounts of damage. And so, we are working, we've got them in another office. There's another office of the local government that kind of adopted us, and so we've got our SBA employees in that office as well.

So, you know, that has been a challenge for us also personally, in terms of, especially in the heavily-damaged areas, where do our people stay, where can they stay, and so we are working through those logistics as well, and making sure that we are policing it, and that there is no egregious, you know, expenses for this.

But, do you want to comment on what we are doing to get—

Mr. MITCHELL. Everybody in travel status has to be authorized, and they are authorized based on the Federal Travel Regulations, and, obviously, in every disaster, and more so in this case, there is increased allowance for housing.

But, the reality is, housing, at least initially, was not available, and Hector has already mentioned, we had people sleeping in tents, we've had people sleeping in schools, ten to a room. We, basically, have rented apartments where there's no furniture, and we've issued blankets and everything for them to sleep on, but the challenge is, it's just the lack of availability of places to stay.

When we were there recently, we had to, basically, stay in Houston in order to get to Baton Rouge, and fly back and forth each day.

Mrs. MUSGRAVE. Do you have any employees on ships?

Mr. MITCHELL. I'll have to check, I'm not sure, but we can check. You are referring to the ship that FEMA provided in New Orleans?

Mrs. MUSGRAVE. Yes.

Mr. MITCHELL. Yes, we'll check.

Mrs. MUSGRAVE. Okay, thank you.

I yield back the balance of my time.

Mr. MANZULLO. Ms. Velazquez?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Barreto, during your testimony on the Senate side, you said that the SBA will respond in days, no months. But, as of two days ago the SBA has received 4,569 business applications for loans. Of this, only 398 or 8.7 percent have been completed, processed by SBA. Can you please explain to us why is the SBA taking so long in processing so few applications?

Mr. BARRETO. Well, we have responded, and I mentioned to the Senate, I believe I mentioned here, is that even before the disaster happened we were already bringing people on board, staffing, getting ready.

Now, one of the things, as you know, that we can't be in the area where there's a disaster until FEMA sets up a center, and so that was one of the things that kind of slowed down the process in the beginning.

Now, the other challenges, and this is particular to this disaster, is that we have to go in and look at the property. We have to do an investigation, and we had a lot of challenges with that as well.

Ms. VELAZQUEZ. Let me, if I may.

Mr. BARRETO. Sure.

Ms. VELAZQUEZ. What about the 17,000 site visits that you have completed? So, if you follow the trend of approval loans in previous disasters, it is about, and you said it before, 45 to 50 percent.

Mr. BARRETO. Right.

Ms. VELAZQUEZ. Well, that will have given you at least 7,000.

Mr. BARRETO. Well, Congresswoman Velazquez, there's never been a disaster like this in history. You know, one of the things that we have to get is information from them.

Ms. VELAZQUEZ. Okay.

Mr. BARRETO. Sometimes people have—

Ms. VELAZQUEZ. I know, I know—

Mr. BARRETO.—lost their information, and we are working with them to be able to produce that.

Ms. VELAZQUEZ.—let's move on.

Mr. BARRETO. Okay.

Ms. VELAZQUEZ. Tell me about the EIDL. Why hasn't the SBA processed the 338 EIDL applications? They do not require visit sites.

Mr. BARRETO. No, they do not, and, you know, every EIDL application that we received we are processing. In fact, it's less than 1 percent of all the applications that we've received so far are the EIDL applications, but EIDL is economic injury, they are economic injury disaster loans, it's not physical damage, it's business that they have lost. And so, one of the things that we are working with them is to establish what the revenues that they've lost are.

One of the reasons that we allow people to apply longer for EIDL is because often times they are not going to know for a period of months how much business they have lost. It takes some time to be able to really verify. And, a lot of times people say, look, I don't want to ask for too much, and I don't want to ask for too little, I want to ask for what I need.

Ms. VELAZQUEZ. Okay, you answered me.

Is the SBA doing anything different that will adversely affect approval rates for businesses seeking disaster loans?

Mr. BARRETO. To our knowledge, we are not doing anything that would adversely affect the processing and approval of any disaster loans.

Ms. VELAZQUEZ. Okay.

I'm asking you this, because as you can see from the chart that we have there, the approval rate for business loans from Katrina as of two days ago was 8 percent, 5 percent for business. That means that SBA has declined 92 percent of all loans, 95 percent of business loans.

In previous disasters, the approval rate was much higher. For Hurricane Ivan, the approval rate was 49 percent, for Francis it was 39 percent, for Hurricane Charlie it was 46 percent, and the list goes on.

So, why is it that SBA only is approving 5 percent of business loan applications for this disaster?

Mr. BARRETO. Because the chart is comparing apples and oranges. You know, in previous disasters, every application that came in somebody was looking at it, and often times what would happen is that our people in the field would not even put it in the system.

In other words, they had the authority to look at an application and say, this application, should we process it, are we going to be able to approve it, and many, many applications never made it into the system. Now that we have an automated system, all of the applications are going in, applications that before would have never even been processed before because the individual might not qualify for a loan, now those are going in the system and that is skewing the percentage.

Ms. VELAZQUEZ. But, why could you say that this is comparing apples and oranges?

Mr. BARRETO. Because we have—

Ms. VELAZQUEZ. The disasters in Florida were natural disasters, and this one is a natural disaster.

Mr. BARRETO.—I'm not comparing the disasters, I'm comparing the system. The system that we have today versus the system that we used for every disaster prior to this.

Ms. VELAZQUEZ. So, can you explain to me why only 5 percent?

Mr. BARRETO. Sure. I'd like Herb to explain, because I think it's very important to understand what the process was before, where somebody had to eyeball the application and many times the application never even made it into the system, versus now that we have an automated system, everything goes into the system.

Mr. MITCHELL. I think that's part of it, but the other key element here is, you have to compare the time frame, from the time the disaster was declared to this point in time for Katrina to the Florida hurricanes.

If we go back and look at almost the same point in time, I would dare say it's probably going to be very similar, because what happens is, the declines move through the process, whereas approvals, for example, and I've asked the staff to look at every one of these EIDLs and tell me exactly what status they are in, either we are waiting for the IRS transcript information, or we are waiting for additional documentation, and, in fact, probably more than half of them are at the stage where they are ready to be approved. But, it just simply takes a little bit longer to get the approval, and what will happen is that, as we go through this period the approval rate will go up.

Ms. VELAZQUEZ. So, are you arguing—

Mr. MANZULLO. Thank you, your time is expired.

Mr. Barreto, you are excused.

Mr. Brennan, I want you to have a seat up there and start with your testimony immediately. You have to catch an airplane.

Mr. BARRETO. Thank you, Mr. Chairman.

Mr. MANZULLO. While he's doing that, Mr. Taylor, introduce your witness.

Mr. TAYLOR. Thank you.

Mr. MANZULLO. Thank you.

Mr. TAYLOR. Mr. Chairman, I'd like to welcome actually two folks from south Mississippi, Mr. Brennan, although he works in New Orleans, has a home in Hancock County, as Mrs. Phil Ryan. We want to welcome both of them.

I would hope that one of the things that they could talk about, that I think is very much going to affect business, is the problem of people who did not live in a flood zone, who did not have flood

insurance, and have now found that they are not going to get any settlement from their insurance companies. And, I've got to believe this is going to have a profound effect on people's pocketbooks and, therefore, on business.

If they could work that into their testimony I would certainly appreciate it.

But, we want to welcome both of them.

Mr. MANZULLO. Okay, thank you.

Mr. Brennan, you are up, five minutes.

**STATEMENT OF RALPH BRENNAN, RALPH BRENNAN RESTAURANT GROUP**

Mr. BRENNAN. Thank you, Mr. Chairman.

Chairman Manzullo, Congresswoman Velazquez, and Congressman Taylor, I did have a house in Hancock County. It's now rubble, unfortunately, thanks to Katrina. But, let me begin my remarks.

Thank you, Mr. Chairman.

Chairman Manzullo, Congresswoman Velazquez, and Members of the Committee, my name is Ralph Brennan I am the owner of three restaurants in New Orleans, Louisiana: the Red Fish Grill and Bacco in the French Quarter; and Ralph's on the Park next to the City Park. I am testifying here today on behalf of the National Restaurant Association, which is the leading business association for the restaurant industry. The Association's mission is to represent, educate, and promote a rapidly growing industry that is comprised of 900,000 restaurant and foodservice outlets employing 12.2 million people around the country. I am also actively involved in promoting travel and tourism to New Orleans and the surrounding area and I serve as the Chairman of the Ernest M. Morial New Orleans Exhibition Hall Authority. Thank you for the opportunity to testify today about the impact of Hurricanes Katrina and Rita on small businesses in the Gulf Coast region and changes in federal policy that will help the region rebuild.

Mr. Chairman, I'd heard about the storm that would wash away New Orleans for my whole life. I thought it would never happen, but it did. To see the destruction has been overwhelming. In addition to the devastation in New Orleans, I've also seen the devastation along the Gulf Coast in Mississippi which to me looks like a barren planet in a science fiction movie. It's incredible. I feel a lot of emotion because of the impact on each of our lives. All of us left town expecting to return in two or three days and that our homes and businesses would be reasonably safe. Unfortunately, they're not. We have to rebuild our entire city and the Gulf Coast Region, especially the hospitality industry in these areas.

Unlike many restaurants in New Orleans and other areas of the Gulf Coast region that have been heavily damaged and destroyed, two of my three restaurants in New Orleans are now open, but with limited menus, partial staff and until today boiled water restrictions. Bacco had no gas until Wednesday,and we are using our wood-burning grills and ovens and a great deal of creativity to serve customers. To reopen the Red Fish Grill, I worked closely with Jim Funk, the head of the Louisiana Restaurant Association and the Louisiana Department of Health to draft modified health regulations which have allowed restaurants to reopen while pro-

tecting the health of our employees and our customers. One of my biggest challenges is finding employees to staff my restaurants. Many of my staff have not come back to the city or have found employment elsewhere. The biggest short-term issue in this regard, particularly in New Orleans, is finding adequate housing for restaurant employees as 70 percent of the houses in New Orleans sustained water damage.

The overall scope of the damage from Hurricane Katrina, followed by the destruction in southwest Louisiana caused by Hurricane Rita, is unprecedented. The areas most heavily impacted by Hurricane Katrina are home to about 6,800 restaurant and foodservice establishments, employing approximately 90,000 people. Annual restaurant sales for Louisiana, Mississippi and Alabama total $12.4 billion, about 2.6 percent of the $476 billion in restaurant sales nationwide. Louisiana fared the worst, with the destruction from Katrina, followed by the extreme damage in Southwest Louisiana caused by Hurricane Rita. Our 5,200 impacted restaurants employed about 67,000 people. The restaurant industry was the number one private employer in New Orleans before these hurricanes, directly employing 54,000 people and indirectly employing another 20,000 people that supplied the industry with goods and services. The travel and tourism industry represents over 650,000 jobs and more than $10 billion in payroll for the three impacted states. Eating out was frequently one of the number one reasons for visiting New Orleans. The city has a distinct cuisine that is a crucial part of its culture.

In 2004, travel and tourism accounted for more than $50 billion in business activity in the region. In New Orleans, travel and tourism is a $5 billion-a-year industry, accounting for more than 80,000 jobs.

Mr. Chairman, with regard to changes in federal policy that will help the region rebuild, there exists an urgent need to assist small businesses, a number of whom are also restaurant supply companies and food purveyors who are facing a bleak future unless the restaurants and food service outlets they serve are able to open.

In addition to the housing issue I talked about, some of the main challenges that restaurants are facing are:

Lack of employees. Restaurants are typically opening with 30% of their former staff. There is a great demand for foodservice workers. We have only been able to open with 16 percent of our former staff.

We have a lack of a customer base. In my area, Orleans Parish is still not repopulated and other parishes are only partially inhabited. To build back up to our former number of approximately 3.400 restaurants, we will have to achieve a significant return of our population base.

There are unresolved insurance issues. Many restaurateurs in the Gulf Coast region are having difficulties in getting their claims resolved and are even more concerned about whether affordable insurance can be obtained for the future.

And re-establishing tourism and convention business is important. The hospitality industry played a significant role in the New Orleans economy before Hurricane Katrina. Re-establishing tourism can play a significant role in our recovery.

Specific recommendations for important targeted and time-limited provisions to assist in the long-term recovery and reconstruction of the Gulf Region are included in my written testimony.

Mr. Chairman, and Members of the Committee, thank you again for holding this important hearing and for focusing your attention on the plight of small businesses in the Hurricane Disaster Zone. The Committee has an important role to play in the hurricane relief efforts, and this hearing is an important step.

Since Katrina, a lot of people have suggested that I open restaurants elsewhere, but I'm not going to do that. I've gone home and have reopened, and I plan to stay there. This Committee and Congress can help get New Orleans, Louisiana, and the entire Gulf Coast Region, back on its feet, so that all of our residents, restauranteurs and other small businesses, can go home again.

I'd be happy to answer any questions.

[Mr. Brennan's testimony may be found in the appendix.]

Mr. MANZULLO. Thank you.

Ms. Ryan? Do you want to pull the mike closer to you? Thank you.

**STATEMENT OF RAE ANN RYAN, TRAVEL AFFILIATES**

Ms. RYAN. Mr. Chairman, and distinguished members of the House Small Business Committee. My name is Rae Anne Ryan and I am honored to appear before you today to convey the devastating impact Hurricane Katrina has had on small businesses, especially the travel and tourism industry, in the Gulf Coast region of the United States.

But, first I want to recognize the efforts of the Administration, state and local officials, U. S. citizens and people from around the world. Without their assistance and generosity, we could not begin to recover, and the help just doesn't stop. I'm here today through the help of Air Tran Airlines and Hampton Suites Hotel. We could ill afford to come away at this time.

I am the president of Travel Affiliates in Gulfport, Mississippi, and co-own the agency with my husband, Phil. My full-service agency has been a member of the American Society of Travel Agents, ASTA, since 1967. The ASTA Travel Trade Association is the worlds largest and most influential, with more than 17,000 members in 140 countries.

Gulfport was severely broadsided by Hurricane Katrina. In these five weeks since the hurricane, Gulfport homes and businesses that were left standing now have power, but little or no phone service. Much of the infrastructure remains impassable with washed out bridges and roads.

I, and four of my employees, have lost our homes to Katrina. Since the storm, two of my employees haven't returned to work, and may not even return to the area. Sadly, this trend is echoing across the region. It represents the loss of thriving small businesses, a decreasing workforce, and challenges the area's ability to recover and prosper quickly.

Fortunately, my travel agency came through the storm without serious structural damage, but my current situation is not typical. Many of my colleagues spread across the Gulf Region who own and operate small business travel agencies like mine had roofs torn off

and broken windows that let the wind and rain destroy everything. They are basically out of business. Regardless of where we are conducting our travel business, all we are doing is processing refunds for our clients. How can we possibly endure the next four to six months waiting for new travel business to surface. We need assistance to working capital in order to sustain businesses while the region rebuilds.

The travel and tourism industry is a primary economic engine that drives the prosperity of the Gulf Coast. According to statistics compiled by the Travel Business Roundtable and the Travel Industry Association of America, the Katrina affected counties in Mississippi and Alabama, and the Parishes in Louisiana, supporting 260,000 travel-related jobs generating $3.7 billion in payroll income. In 2004, the travel sales for the Gulf Coast Region was $18.3 billion.

Mr. Chairman, there are no easy solutions to restoring and preserving the Gulf Coast Region after Katrina. Immediate federal and state relief packages are needed to allow the people to rebuild their homes and small businesses.

Reflecting back to the events of 9/11, I have this Committee and the SBA to thank for my agency's survival. I successfully applied for, and my travel agency received, one of the 500 EIDL loans. It saved my business.

As Congress formulates relief packages for small businesses in the Gulf States, it is essential to keep in mind that small businesses need working capital to survive. The SBA also has had the ability to increase the maximum size of SBA business and home-related disaster loans from $1.5 to $10 million, allow for deferred principal payments up to 12 months on new or existing disaster loans, and provide debt consolidation and refinancing opportunities for small businesses. Most importantly, the SBA needs the resources and tools to act quickly and efficiently process disaster relief loans.

ASTA endorses the elements contained in the SBA's plans that were presented to the Senate Small Business and Entrepreneurship Committee on September 22, 2005. We believe it's the best approach in enacting small business relief legislation.

Thank you for inviting me to testify, and I'll answer any questions.

[Ms. Ryan's testimony may be found in the appendix.]

Mr. MANZULLO. Thank you for your testimony.

Mr. Perkins.

**STATEMENT OF RANDY PERKINS, PERKINS PRODUCTIONS, INC.**

Mr. PERKINS. Chairman Manzullo, Ranking Member Velazquez and Members of the House Small Business Committee, my name is Randy Perkins and I am the co-owner of Perkins Productions in Covington, LA on the North Shore of New Orleans.

Before I came in to address you this morning, I want you to know that I prayed for a couple of things, for clarity and wisdom, clarity to understand that I'm not just speaking for Perkins Productions, but for hundreds of thousands of small businesses across

the Gulf South, and also the wisdom to share with you our desperate needs.

My wife and I have been in business for 11 years now, and the two of us run our video production company out of our home, but we subcontract out to approximately 50 people in the area. Our business relies heavily on the customers and filming opportunities that exist right in the city of New Orleans, and that's about 95 to 97 percent of my business.

The strong base which we depended so heavily on was turned upside down on August 29, 2005. That is the day Hurricane Katrina hit our city, and that is when the livelihood of our business came to a sudden halt.

Not only were large sections of New Orleans largely destroyed, but so was our business. In the last 30 days my business has generated only $225 dollars. This is compared to an average monthly revenue of $18,000. With monthly bills totaling somewhere between $9,000 and $10,000 and virtually no income coming into our business, we needed to secure financial assistance elsewhere.

On approximately September 9th, we decided to apply for an SBA disaster loan. It seemed to be the first, and one of the few, options available to us. All in all, it was really the only chance we had at getting assistance that would enable us to get through the rough period. My wife went ahead and took the time to fill out the paperwork and submit this application. I happened to bring a copy with me. We are lucky. We had five years of documentation, many businesses in the New Orleans area have lost everything. Once we had submitted this, she was then told it would take up to 90 days to receive the loan, once it was approved. However, it's one month later, and I still haven't been told whether we are going to get a loan, or even if they received my application.

When there is no income coming in, business has all but stopped, and there are existing expenses and costs to cover , three months is just too long to have to wait for assistance. What we need, and most businesses in our similar situation, is immediate relief so we can start providing again for our families and investing in our local economies.

An additional challenge that I have is an already existing loan payment that we have to make. We are in the 5th year of paying back an SBA loan. Right now, my wife and I are paying for a business that has lost the majority of its customer base. At this point, if there is anything that would help us financially it would be forgiveness of what we owe on the remaining loan payments. I know SBA had offered to suspend the payments, but the truth is that even if we don't have to pay for a period of time, we are still going to be dealing with incurring debt on top of more debt when we start the payments again. The reality is that to have these payments forgiven would enable us to take care of the existing challenges we face day to day, moving forward with our production company, and continuing to serve our local economy.

In the aftermath of Hurricane Katrina, obtaining financial assistance is at the top of the list for all small businesses. Given the extraordinary circumstances we have been faced with, grants are another option. Congress bailed out the airlines when they needed it. Small businesses that represent over 99 percent of employers, espe-

cially those from the Gulf Coast, deserve the same. The four loans that have been distributed in Louisiana so far are just not going to cut it. Grants are another solution to help remedy a situation that is not going away anytime soon.

Small businesses in the Gulf Coast need assistance now. There are many who may not make it through if we don't get immediate relief, and I'm one of those companies. From a business perspective my end goal is this, to get my firm up and running again, boost the local economy, pay the bills and at the end of the day have a little bit of money left to feed my immediate family, and also the four extra families that I've got living with me.

This is why small businesses are relying so heavily on SBA during this time.

In the past, I have had a great response from the SBA. As a matter of fact, this is my second SBA loan. They were always available, ready to listen and comprehensive of our business needs. However, post Katrina I cannot say the same. Throughout this ordeal SBA has become a very faceless agency to me. They aren't making themselves readily available, and the assistance that they talk about isn't reaching the people that need it most.

It has been over five weeks now, and to this date my wife and I have received nothing more than a $2000 FEMA check. Waiting three months for a disaster loan, that might come through, will add more debt upon more debt, is going to be too little, too late. All of the businesses that were devastated by the hurricanes need help, and I beg of you, they need help today.

I want to thank you for allowing me to appear before the committee today and letting me share my story. At this time, I will be glad to respond to any questions you may have.

[Mr. Perkins' testimony may be found in the appendix.]

Mr. MANZULLO. Thank you, Mr. Perkins.

Mr. Williams?

**STATEMENT OF GUY T. WILLIAMS, GULF COAST BANK AND TRUST**

Mr. WILLIAMS. Mr. Chairman, Ranking Member Velazquez, and Members of the Committee, my name is Guy Williams. I am president and CEO of Gulf Coast Bank, I'm here on behalf of the American Bankers Association and small business in the metro area. I am both the small businessman and the leading lender to small business in South Louisiana. Our bank is the largest SBA lender in the State of Louisiana. I want to tell you where we are.

25 percent of my employees have lost their homes. My parents lost their home, my sister lost her home. We have three families living together. My brother came over to help from Lake Charles, Rita struck and his wife's business was severely damaged, so he went back to Lake Charles.

Fortunately, our main office was undamaged.

Mr. MANZULLO. Mr. Williams, would you take a sip of water, please.

Mr. WILLIAMS. Thank you, I'm sorry.

Mr. MANZULLO. Go ahead.

Mr. WILLIAMS. Fortunately, our main office was undamaged and we reopened last week. We were the first bank to reopen down-

town. We had two small businesses come in. One a sandwich shop looking for change so they could open, another one who wanted to make a loan payment, God bless him.

We are doing things differently now. We have Fidelity Homestead operating in our lobby downtown. We are opening Monday in St. Bernard Parish. We'll be the first business back in St. Bernard Parish. We are excited to do that, and we are happy to be there to contribute to the redevelopment in that Parish.

But, I want to make two key points. Small business is the heartbeat of Louisiana. We are not a big business state, we only have one Fortune 500 company, that's Entergy, and they recently placed their New Orleans subsidiary, Entergy Services, in bankruptcy. Small business is it in Louisiana, and we need help right now.

I couldn't agree with my fellow witnesses more, we need help immediately. The paperwork is too slow, response has been too slow. The New Orleans Times Picayune had an article this week, SBA slow to the rescue. The Wall Street Journal yesterday, in the New Orleans area as many as 30,000 businesses are significantly at risk. The SBA has said the agency is working. The New Orleans Chamber has said they were told it will take four to five months to get money in hand.

Two examples, we started a small business in Chalmette, World of Wings, not as nice as Mr. Brennan's restaurants, but well received, and they were doing great. Their business today looks like this, you have it in your package, that's the mud on the floor. They can't reopen. They are in leased premises. The insurance is not going to pay them the full value of their damage. We need to give help to them.

Another small business in Chalmette, a young man returned to Chalmette from Afghanistan, and he started a technology business. His insurance is going to pay him depreciated value. Surely we can help him.

Now, we have some ideas of how this could be done effectively. First, there are certified and preferred SBA lenders. If SBA will allow us to originate disaster loans, we can speed this process. We are audited. We have financial integrity. We know how to process SBA paperwork. If you pay banks a small fee, say 2 percent, to originate these loans, we could originate the disaster loans, if we originated all of them for a cost of about $40 million the 4,000 employees that the SBA is proposing to hire, when you factor in their total cost for a year, including salaries, that will be about $200 million. It would both be cheaper, and it would be faster, and it would spread the work around.

We all know that the SBA cannot handle this work right now, and I'm not critical of the SBA, they are overwhelmed, everybody is overwhelmed. Right now, the Red Cross lines up people to get service. They can handle 1,200 a day. As I drive in to work, usually between 6:15 and 6:30 in the morning, they make an announcement, we've reached our limit. So, people sleep in their cars. They are opening one disaster center in New Orleans. We appreciate it, but if those people work day and night they can't handle the need.

Let us, as a banking industry, share the work. This is a cost effective solution and it will work. It will speed the process and it will be more efficient.

Second, 7[a] loans that are severely impacted, like the gentleman at the end, let those loans be turned into the disaster program and the amortization extended.

Third, I agree with some of the Chairman's ideas on greater flexibility, we as a banking industry support that.

Fourth, collateral requirements could be waived and should be, not reduced, but in some cases people don't have anything else to put up, they put everything on the table to start their business, but the businesses were doing well, they'll do well again if we can give them a start.

And finally, we do need to allow simpler documentation. Some of these businesses, particularly in St. Bernard, have lost their location and their CPAs are gone.

Members of the Committee, thank you for—

[Mr. Williams' testimony may be found in the appendix.]

Mr. MANZULLO. Thank you, Mr. Williams.

We are going to have votes in ten minutes. I'm going to take a few minutes and then Ms. Velazquez.

I read somewhere, I thought it was in one of your testimonies, and perhaps not, that the State of Louisiana had instituted itself some bridge loans. Is that correct?

Mr. Williams, you would know about that.

Mr. WILLIAMS. No, that's not correct.

Mr. MANZULLO. Okay, all right, thank you.

One of the problems, and I think you heard the testimony of the Administrator with regard to disbursement of the loans, is the question of certification by the Army Corps of Engineers as to the integrity of the levy. That's necessary in order to get insurance in place, and that has a lot to do with it.

Mr. WILLIAMS. And actually, there's a lot of confusion. None of the levies broke, the canals broke that serviced the city. There's a simple solution, it's used in Holland, you put flood gates at the end of the canals. That's a proven technology. We can argue a long time about that, but if we are going to wait for the Corps to build Category 5 levees you might as well just close New Orleans.

Mr. MANZULLO. Well, that's a big problem, because the issue there is whether or not the taxpayers of this county should rebuild New Orleans, partially or in whole, until there is a process whereby the integrity of those levies can be assured. This is a risk for everybody, and being a banker you obviously have that risk also with regard to your conventional loans.

Mr. MELANCON. Mr. Chairman, if I could just make one comment on that. The integrity of the levies are overseen, and engineered and approved by the Corps of Engineers.

Mr. MANZULLO. That's correct.

Mr. MELANCON. And contracted. They are doing the job.

Mr. WILLIAMS. The levees actually didn't fail, once again. There is a simple solution, it's flood gates as used in Holland, but I don't think we can stop—

Mr. MANZULLO. I understand, the legal problem is insurers willing to underwrite in an area, even though they don't write the flood insurance, in an area as to which they have no certification as to the integrity of the levees. That's what differentiates this disaster from all the other disasters.

Ms. Velazquez, I want to go to you since we are running out of time.

Ms. VELAZQUEZ. I just would like for the record to reflect the fact that on this side of the aisle, Democrats, we are committed to rebuild Louisiana, and to make it even better than it was, all of the region, but, you know, I've been hearing all these comments and statement about questioning the fact if we should rebuild Louisiana.

Mr. Williams, what do you expect the impact of Katrina to be on your loan portfolio, which I know includes a significant number of 7[a] loans.

Mr. WILLIAMS. If we don't get some help it will be devastating. In St. Bernard, we have 65,000 residents and not one habitable home. There's not an electric light bulb burning in St. Bernard today.

We'll be the first business open when we open on Monday.

Ms. VELAZQUEZ. Do you have any recommendations to the Committee?

Mr. WILLIAMS. Let us approve the disaster loans. We can do the work. We are certified. We have audited by the SBA. We can speed the process. We know who needs it. We'll get it done fast.

Ms. VELAZQUEZ. Mr. Williams, there are $2 billion worth of SBA loans in the hurricane affected region, and there is the potential of $500 million of these loans to default. If default costs by Katrina lead to higher program costs for the 7[a] program in the next year, how will your bank handle that?

Mr. WILLIAMS. Banking is a leverage business. If we lose money, then we'll be less able to help people in the future, and it will reduce our flexibility and our ability to provide financial resources.

Ms. VELAZQUEZ. Thank you.

Mr. Perkins, I understand you filed for an SBA disaster for your business nearly—yes, Mr. Perkins, I know that you testified that you applied for a business loan, a small business loan, 30 days ago, and as far as your request for financial assistance how would you characterize the response by SBA?

Mr. PERKINS. Well, I want to realize that time is a big blur for everyone down in that area right now, so I can't tell you whether it was a week ago or two weeks ago. We tried to follow up with the SBA by making a phone call, and we called to the Atlanta Division to talk about the loan process and if there were any other options.

We were referred to Arkansas. Arkansas referred us to Texas, and Texas referred us back to Atlanta. At that time, we hung the phone up.

Ms. VELAZQUEZ. Would you say that you and your fellow business owners are discouraged by the fact that you have to fill out a lengthy application, which the SBA is telling you might take three months, and then on top of that you heard in today's hearing that they decline rate right now is 95 percent.

Mr. PERKINS. Well, today has been eye opening for me. I have to say that. I had a decision when I came here today to decide whether I'd keep my business in the New Orleans area, or whether I'd leave, or whether I would fold it. I have to think long and hard going home. But, before I left Louisiana, I talked to a mortgage

company owner. He told me that he received the application like I did, and we filed through the FEMA process and got the application, that he looked at it, threw it in the trash because he said it's too much documentation. I don't have the time. I'm worried about cutting trees out of my houses. I'm trying to get food on the table.

Ms. VELAZQUEZ. Mr. Perkins, let's assume that you get a disaster loan from SBA. Is that loan going to be enough to ensure that you get the business back on track?

Mr. PERKINS. I don't think the face of my business is going to be the same for years. If I get a loan, and I still, I question incurring more debt upon more debt, but in these sorts of situations I do have to do, I am willing to make a commitment to stay, and build, and retool, and reshape my business.

Ms. VELAZQUEZ. Thank you.

And now, I yield my time to Mr. Taylor.

Mr. TAYLOR. I want to thank the gentlewoman.

Rae Ann, please forgive me for forgetting your name, but I will never forget that 16 years ago right now, on extremely short notice, you got 300 people up here for my swearing in ceremony, so thank you very much for that.

Ms. RYAN. You are welcome.

Mr. MANZULLO. Mr. Bartlett?

Mr. BARTLETT. Thank you very much.

Mr. Chairman, I don't think there was a single individual or organization going into this that said, gee, I, we, are going to screw up the response to and the recovery from these hurricanes. I think that every individual and every organization did what, at the time, they thought was the right thing to do.

Obviously, we could have done better, and I hope that the response to this is not going back and pointing fingers and fault finding, but without any recriminations just seeing how we can do it better next time, because there will be a next time.

Mr. Chairman, I have just one little pet thing that really bothers me in events like this. Imagine that I'm a homeowner in Mississippi, and my home is flooded, and I come back and I see a big red thing on the door that says you can't go in there. You know, as a private property owner, I'm having a big problem with some bureaucrat telling me that I can't go back into my house, and I can't live in my house. I don't have any problem, Mr. Chairman, with the government telling me, we've inspected that house and we are not sure it's safe, and if you go back in there you go back at your own risk, but I understand they are telling the homeowners that they can't go back into their house. Is that true? And, if that's true, am I the only one in America that has a problem with Big Brother? I just think that there's such a thing as property rights, you know, and, you know, you tell me that my home is not safe, and then you leave it up to me whether I want to go, but you are not my caretaker, thank you.

Mr. BRENNAN. Well, I think, if I can answer that question, I believe what the Mayor was trying to do was have each building that was severely flooded inspected for structural integrity.

Mr. BARTLETT. Still, if the thing falls on my head, sir, that's my—you tell me, I think it may fall on your head.

Mr. BRENNAN. Oh, I agree.

Mr. BARTLETT. So, I go in at my own risk, is that okay?

Mr. BRENNAN. I believe the Mayor allows you to go in at your own risk, but they did mark each building that they believed had structural problems, so that when the homeowner returned that the homeowner would then know that he was entering at his own risk.

Mr. BARTLETT. If that's all they did I'm happy with that.

Mr. BRENNAN. That's my understanding.

Mr. BARTLETT. I want them to do that.

If they went the next step and said you can't come back, then I'm having a big problem with that.

Mr. BRENNAN. And, if I could add something, I mean, I'm not—this hasn't come out yet, but New Orleans hasn't been repopulated, and in my remarks I said about 70 percent of the homes and businesses had water damage, those people just started to return to inspect their properties now. So, if there are issues with SBA and other programs that are taking place, there's an opportunity to fix it, because only a small portion of New Orleans, a city of approximately 450,000 people, has begun to be repopulated. And, I happen to have a home in there and a business in that area, and they are coming back very slowly in our area.

So, it's going to be a while, and SBA will have—should have some time to catch up if they move quickly.

Mr. BARTLETT. Mr. Chairman, there's one other lesson I think we might learn from this. I remember watching my television night after night, and they were televising from the French Quarter, and there wasn't any water there. I understand there never was any water there, is that correct, and yet there was nobody there.

Now, there wasn't any reason anybody had to leave the French Quarter if they had had food, if they had had water, if they had had sanitary facilities, and if they had had some power for lights or something. And, I hope that one of the lessons we learn from this is that people need to be told that they can prepare and should prepare, because we have a whole lot of people out there homeless today who wouldn't have needed to be homeless if they had made some preparation.

Don't you agree?

Mr. BRENNAN. Well, actually I'll try to answer this too, I believe the Mayor called for the mandatory evacuation, not because of the potential of flooding, but rather because of the potential of wind damage. We had 150 to 175 mile an hour winds threatening the City of New Orleans.

And, as was said here, we've never had a levee break like this before, and it was not the main levees that protect us from the lake and the river, but rather the internal canals that broke.

But, I believe the Mayor's mandatory evacuation was based on wind, and not the threat of flood.

Mr. BARTLETT. There are many buildings that have safe parts of the building, even for wind damage, and again, personal property rights and personal responsibility give me a big problem when you tell me I've got to leave my home. You tell me we think you ought to leave your home, that's okay, but tell me I've got to leave my home?

Mr. PERKINS. Sir, if I could address you just a moment. I went into New Orleans approximately two weeks afterwards, and it's not a place you'd want to be.

Mr. BARTLETT. That may be true, sir, but I'd like that to be my decision.

Mr. PERKINS. I understand.

Mr. BARTLETT. Not yours.

Mr. PERKINS. I understand that, but, you know, you talk about the television press and all that, showing that, I'm in the video production business, and I can tell you that my video camera cannot in any way, shape or form, demonstrate the devastation that's in that area.

I've gone into some homes that have had 9 foot of water in it, and it's the stink, it's the disease, it's the smell, and people are going to get sick if they go back in those homes.

Mr. BARTLETT. Thank you for telling me that, then let me make my own decision.

Thank you, Mr. Chairman.

Mr. MANZULLO. Okay, I made a decision, Ms. Bean you are up.

Ms. BEAN. Thank you, Mr. Chairman.

I guess, first of all, know that on the Small Business Committee we are very committed to being advocates for small businesses which is our stimulative engine, and given the economies that you are dealing with that have been wiped out it's so important that we focus there.

We've heard a number of the challenges that you are facing. Obviously, the infrastructure of the city itself, local or internal operational challenges, some businesses have been devastated internally, some have not, housing for employees. Of those things, I'd like to hear what's the number one issue? Is capital the issue, or is it first making sure that the area, and the infrastructure, and the phone lines, and the housing, is it personnel and infrastructure more than capital, or does capital come up first in what's holding you up?

And, I guess the other thing is, what percentage of your customer base do you think will return, because, particularly for Mr. Perkins, who said, you know, your revenue stream has gone away, and it sounds like you could move forward, but if your customers don't come back then where are you really headed.

So, what percentage do you think is viable to count on as a returning customer base?

Mr. PERKINS. Well, what we are looking for, I'm fortunate, I had utilities back up in two weeks, my phone lines were back, I have Internet access, and things of that sort. I'm looking for work, that's the biggest thing that I have.

My business is going to have to take a new face. It will be quite some time before the New Orleans base will come back. I'm going to have to reach tentacles out. I'm also going to have to take a new look at my business, and maybe do a spur, restore home videos and things of that sort, but I need capital to buy a $10,000 machine that will allow me to do that.

So, realizing that I'm willing to make the commitment that I'll keep my business there, that eventually, eventually, I don't know when that is, is it six months, is it a year, is it five years, it will

come back, but I want to stay there so I am positioned to regain my business.

Ms. BEAN. So, capital is your number one issue.

Mr. PERKINS. Capital is number one.

Ms. BEAN. What about the rest of you?

Ms. RYAN. I have to say that, and maybe it's just the female mother of me, but my workforce, everyone I come into contact with, is so focused on having clothes to wear, having the health of their family, being able to get from point A to point B, the infrastructure has been a real problem.

The sales people that call on me selling me advertising for the Sun Herald, doing television commercials, that kind of thing for me, those sales reps can't even go out and do their job. Phones are down, they can't drive anywhere, the cost of gas, the length of time in traffic.

So, for us, the infrastructure, I'd almost have to say, would be number one, but can we do both at the same time?

Ms. BEAN. We hope to multi task, but, obviously, we don't want to leave any critical areas out by just focusing on capital.

It sounds like we are being called. Thank you.

Mr. MANZULLO. Okay.

We concluded. Let me just conclude on this note. With regard to the decline rate, the approval rate on the other hurricanes was after the completion of all the applications and consideration, the decline rate at present by the SBA, that's still a work in progress, so you can't compare the two of them. In the end, it will probably come up to about the same decline rate or approval rate as the other hurricanes.

I want to thank you all for coming. We made it under the bells. We have a tierney of bells here. Thank you for trekking the long way from Louisiana, and Mississippi—

Ms. VELAZQUEZ. Mr. Chairman?

Mr. MANZULLO.—and thank you both for coming—yes, Ms. Velazquez?

Ms. VELAZQUEZ. I just would like to clarify something here. There is not a relation between the volume and the approval rate, and in previous disasters there's not such correlation. So, volume and approval don't track each other.

Mr. MANZULLO. Well, we don't know that at this point.

Ms. VELAZQUEZ. Yes, we do, we have the data.

Mr. MANZULLO. In any case, thank you for coming.

This hearing is adjourned.

[Whereupon, the hearing was adjourned at 1:17 p.m.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

# Congress of the United States
## House of Representatives
109th Congress
## Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

**Statement of Chairman Donald A. Manzullo**
**"Small Businesses and Hurricane Katrina: Rebuilding the Economy"**
10:30AM October 7, 2005 in Room 2360 Rayburn HOB

Good morning. I welcome everyone to the Committee's hearing on the impact of the recent hurricanes on small businesses located in the Gulf Coast region. There are a number of small business owners from the affected areas who deserve special praise from taking time away from more pressing problems to enlighten the Committee about the situation in the Gulf Coast and the assistance they may need in rebuilding their businesses and the economies in the Gulf Coast. I also want to thank the SBA Administrator for moving his schedule around to make himself available this morning. Hector, hopefully you received some sleep during your red-eye flight. Unfortunately, we were not able to have a witness from the Department of Homeland Security to testify about hurricane recovery procurements for local small businesses because their top officials are right now at a conference in New Orleans informing small businesses about contracting opportunities.

Early Monday, August 29, Hurricane Katrina made landfall in the Gulf Coast region of Mississippi. The strength of the hurricane devastated the Gulfport and Biloxi areas. But Katrina's damage did not end there; the strength of the storm caused substantial breeches to the levee system protecting New Orleans flooding nearly 80 percent of the city, forcing the greatest mass migration of people in this country since the Dust Bowl emptied the Great Plains in the 1930's, and washing away thousands of small businesses that were the cornerstone of the economy.

Already traumatized by Katrina, the residents then had to deal with Hurricane Rita. At one point, the storm was described as a tornado the size of Georgia. Fortunately, Rita weakened substantially before it made landfall on September 24. Nevertheless, the storm inundated low-ling regions of Southwestern Louisiana and eastern Texas, including areas in Mr. Poe's district, a valued Member of this committee.

This hearing is not about recriminations or what should have been done better in the immediate response to Hurricanes Katrina and Rita. This hearing will examine the disaster assistance provided by the Small Business Administration and look to the future needs of small business owners as they try to rebuild their establishments and the economy of the Gulf Coast.

In a meeting with Herb Mitchell, the dedicated public servant in charge of the Office of Disaster Assistance at the SBA, he noted that more than 700,000 people registered to obtain assistance from the federal government as a result of Katrina. That number certainly has increased significantly since then to over 1.6 million after the destruction wrought by Hurricane Rita. The Office of Disaster Assistance at the SBA is one of the government's primary focal points for providing assistance to homeowners and small businesses through its disaster loan

program. And while not all of those who registered for assistance will receive a loan from the SBA, the numbers that the Office of Disaster Assistance deal with is simply staggering.

When I recently visited Baton Rouge, I saw dedicated public servants from the SBA working tirelessly to assist small businesses devastated by Hurricane Katrina. But more importantly, I also saw many small business owners who remained optimistic that their innate resilience will enable them to lead the rebuilding of their communities and shattered economies. The role of the government in this circumstance is not to smother the workers trying to provide assistance or hinder the efforts of small business owners wanting to rebuild. Rather, government assistance should be limited to absolute minimum needed to ensure that public servants can do their jobs and small business owners have adequate resources, combined with those from the private sector, to rebuild.

No one can deny that certain assistance is necessary. For example, temporary suspension of payment of SBA loan payments makes sense because it will be some time before many businesses will have a customer base. Similarly, an increase in the size of SBA disaster loans will be needed. What is unacceptable is using this disaster to spend precious taxpayer funds to dramatically expand the SBA and other government programs for initiatives that only tangentially relate to Katrina and Rita just so we think that we are doing something to provide hurricane relief. For example, I have specific concerns about allowing a long-term deferral of payment of interest on disaster loans because that will dramatically drive up the cost of the disaster loan program to the U.S. taxpayer and would set a negative precedent for other natural disasters. The victims of the devastating 1993 Mississippi River floods in the Midwest did not have this benefit and they survived. Student loans do not have this benefit. Why risk the ability of the SBA to respond to future natural disasters by allowing the deferral of interest payment?

As we move forward with relief legislation, the response from this Committee will not be – let's open the federal feeding trough and allow just anything into the bill whatever they like. The right response is tailor policies to maximize the potential of private citizens and markets to rebuild the economies affected by the one-two combination punch of Katrina and Rita.

Finally, I wanted to take this opportunity to thank the Bush Administration for rescinding the month-old rule that increased from $2,500 to $250,000 the amount federal employees could charge to government credit cards for services related to Hurricane Katrina relief. I raised this objection during passage of the second supplemental appropriation bill last month in a colloquy on the House floor with the Chairman of the House Appropriations Committee because of its potentially devastating consequences for small business. Few people know that contracts of between $2,500 and $100,000 are reserved exclusively for small business. With this new ruling, small businesses can once again have an open and transparent process by which to compete for government contracts as it relates to Hurricane Katrina and Rita relief and recovery efforts. I also want to thank the Administrator for recent announcement of a 12-month deferral of SBA-serviced business and disaster loans in the primary counties and parishes of the disaster area.

Now I will recognize the ranking member of the full committee, the distinguished gentlelady from New York, for her opening statement.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

# Congress of the United States
## House of Representatives
109th Congress
## Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Nydia M. Velázquez, Ranking Democratic Member
House Committee on Small Business
Hearing on "Small Business and Hurricane Katrina: Rebuilding the Economy"
Friday October 7, 2005

On August 29th the Gulf Coast was hit with one of the worst natural disasters ever witnessed by our nation. Not only were possessions lost and families separated – but the livelihoods of millions of people and businesses were instantly shattered.

The impact of Hurricane Katrina was unprecedented and with it we were all reminded of a harsh reality – there is nothing more critical than ensuring that assistance is provided, immediately and efficiently, to all those in need.

In the aftermath of Hurricane Katrina, thousands of small businesses have turned to the Small Business Administration (SBA) for assistance. I must say, as a former teacher, I often times evaluate situations in terms of a grade. In my book, SBA receives an F for their response to this disaster.

Looking back on the past 6 weeks, it has become obvious to me – and many others – that to date, SBA has failed the Gulf Region's small businesses. It is appalling that one month after the Hurricane touched down, not one small business that had been promised a loan actually received one. This is unacceptable, and there are simply no excuses for such an inadequate response.

To compound this, small business owners are being told by SBA that it will take up to three months before they actually receive their disaster loan. Thousands of small businesses in the Gulf Region have been displaced or have lost their businesses altogether.

These business owners have existing expenses to cover, employee salaries to take care of, and rent to pay. Clearly, they cannot afford to wait three months to receive assistance. Three months represents a critical period for these small businesses. It is the difference between recovering and rebuilding – and having to shut down their business.

In addition, many entrepreneurs are simply discouraged from even applying. Small businesses are overwhelmed by the paperwork requirements, and the extremely time-consuming application process. Many of these individuals simply don't have the time or resources to weed through the process.

The last thing entrepreneurs in the Gulf Coast need is to have to fight through an agency charged with being its number once source of assistance. SBA shouldn't be creating headaches for these small businesses – they should be curing them.

The sad truth is that this is not the first time we have heard complaints about SBA's response to disasters. After 9/11, a number of small businesses in the New York City area never received a disaster loan. Then last year, we heard more complaints after the hurricanes touched down in Florida.

What is happening here today is just plain wrong. With the record breaking demand SBA is facing, it is clear the agency lacks the resources to meet the needs of the Gulf Region's entrepreneurs. I can tell you what is going on here – we are seeing the effects of an agency whose budget has been cut in half over the past five years, and is now crippling under a demand they simply can't handle.

While we evaluate ways to remedy SBA's mishaps, we also need to look at the rippling effects Katrina will have on the small business and lending community for years to come. Over $2 billion dollars of SBA's loan portfolio is in the Gulf Region today, with estimated loan defaults as high as $500 million in losses. Steps must be taken now to avoid the looming crisis, so we aren't left scrambling once again.

In order to move forward and avoid situations such as this – something needs to change. The bottom line here is something has gone terribly wrong in SBA's response. Whether it is an issue of not having adequate staff, resources or a fully functional loan processing system – there are far too many small businesses throughout the Gulf Region still waiting for assistance.

This is simply unacceptable – and it is time the agency recognizes this. No more *"everything is fine"* talk – that is not going to work here. This agency cannot walk away today without laying out a plan of action and steps to provide immediate relief to the thousands of entrepreneurs who are relying so heavily on SBA right now.

Entrepreneurs in the Gulf Coast need SBA's assistance today – not tomorrow. If we want these businesses to make a full recovery, and to ensure small businesses can depend on SBA in future disasters – then these issues need to be addressed now.

I look forward to hearing the testimony of today's witnesses.

Thank you.

DONNA M. CHRISTENSEN
DELEGATE, VIRGIN ISLANDS

COMMITTEE ON RESOURCES
RANKING MEMBER, SUBCOMMITTEE ON NATIONAL PARKS

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

COMMITTEE ON HOMELAND SECURITY
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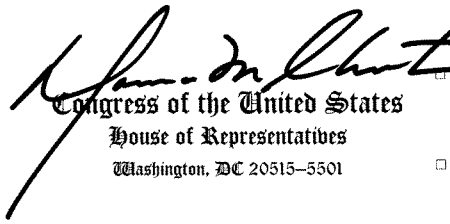

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**CONGRESSWOMAN DONNA M. CHRISTENSEN'S STATEMENT PREPARED FOR HOUSE SMALL BUSINESS FULL COMMITTEE HEARING ON HURRICAN KATRINA AND THE IMPACT ON SMALL BUSINESS**

October 7, 2005

It is with a deep sense of concern that I join Chairman Manzullo and Ranking Member Velazquez and my colleagues to examine Hurricane Katrina's impact on small businesses along the Gulf Coast.

Small businesses are the lifeline of every economy and the Gulf Coast is no different. Nearly 900,000 of the region's businesses are small with at least 59,000 of them being minority firms. Thousands of small businesses have been misplaced, suffered severe damage or have lost their businesses entirely.

Small businesses located in the immediate disaster area face much adversity as they struggle to overcome displacement, physical damage to their businesses coupled with uncertain economic conditions. For many small business owners, their first complication is rebuilding, beyond that they share reality of higher energy costs, as well as the loss of suppliers, customers, inventory and staff. But even those that are there are having insult added to injury in that they cannot get the jobs to help to rebuild their own community.

The ability of the Small Business Administration and other government agencies to respond to the disaster wrought by Hurricane Katrina, as well as provide timely assistance to those businesses and residents affected remains a contentious issue. We must ensure that relief efforts does not hamper small businesses. Loan repayment programs must be designed with the reality of Katrina in mind. Small businesses' ability to rebound after the storm is one of the biggest obstacles that these businesses face.

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I personally know the difficulty in securing an economic injury loan. The bar is extremely high, and the yield extremely low. I could not make it in either of the two major hurricanes I went through. It cannot be that way this time!

There are several legislative proposals being considered and some existing programs for helping small businesses. In considering these programs, we must keep in mind that our goal is to provide economic relief to small businesses and not create an economic nightmare from which these small businesses will never recover. That being said, any proposal to provide economic relief to small businesses should include reasonable eligibility criteria and standards, realistic repayment terms, including but not limited to repayment deferments, and perhaps include a grant element.

And after the loans are given, it is most important that SBA not reinstate the sale of its disaster loans. This essentially changes the terms of the loans and hinders further business growth from those who have had to seek one of these loans.

Many small businesses are making big contribution everywhere they are allowed to thrive. The same can happen in the Gulf region. Lacking manpower, budget, connections, and the level of help they need from the SBA, they are still finding ways to improve the situation for Katrina survivors.

As in every other facet of recovery, we have a chance to finally get it right, and build a strong economic foundation for so many of the communities that could not get out of poverty. Lets make this area a showcase for small business, women and minority businesses, and then lets take what we learn to the rest of the country.

**SMALL BUSINESS COMMITTEE:**
***"Small Business and Hurricane Katrina: Rebuilding the Economy"***

***STATEMENT FOR THE RECORD***

**Rep. Linda T. Sánchez**
**October 7, 2005**

- I want to thank Chairman Manzullo, Ranking Member Velasquez for conducting this extremely important hearing to evaluate the impact of Hurricane Katrina on Gulf Coast small businesses and their ability to rebuild.

- I recently heard a very alarming story that I want to share with you today that highlights the importance of today's hearing.

- At a recent press conference, the President of IBEW Local 130 of New Orleans shared his frustration with the unreliable and sporadic nature of entering into federal contracts in the Gulf Region.

- For example — and this a true — seventy-five electricians from New Orleans, Baton Rouge, and Lake Charles, Louisiana were hired by a minority contractor a few weeks ago for a $163 million, 21-month project at the Naval Air Station in Belle Chasse, Louisiana to wire a "tent city" that would house 15,000 military personnel.

- Four weeks into the project, BE&K, the overall project contractor from Birmingham, AL, told the local minority contractor and the 75 workers that their services were no longer needed. Workers later found out that they were released so that BE&K could replace the local workers and minority contractor with out-of-state workers that would be paid HALF of what the workers were paid previously (they were being paid the prevailing wage for an electrician of $28 per hour, including benefits, while the out-of-state workers are paid only $14 per hour).

- Unfortunately, BE&K's firing of the minority contractor and local workers in Belle Chasse, Louisiana probably isn't an isolated incident, but a growing trend in the Gulf Coast — Big Corporate contractors are simply robbing Louisiana workers and Louisiana minority-owned contractors of work and jobs to rebuild their own communities.

- It is morally reprehensible that these local people are being treated like second class citizens in their own communities.

- These workers and the contractor have suffered devastating losses. What is even worse is that most workers are living in their cars and only have the clothes on their backs and now they don't even have their jobs.

- In addition, these American families deserve the kind of fair wage rates that will help put them back on their feet and provide hope. To deprive a worker in the region, who is struggling with the losses incurred by a natural disaster, the protection of Davis-Bacon wage rates, is to victimize him or her a second time. It is kicking them while they are down.

- Congress needs to ensure that Louisianans rebuild Louisiana, Mississippians rebuild Mississippi, but that is NOT what's happening!

- As we all know, small businesses are going to be the economic engine to rebuild and revitalize the Gulf region.

- I look forward to hearing how the Small Business Administration is ensuring that small businesses and minority contractors from the affected region are getting their fair share of contracts in the rebuilding of the Gulf Coast and that these businesses are hiring local people to rebuild their lives and communities.

10-5-05

# Coalition promotes hiring of La. workers

*Union leader says electricians treated 'like 2nd-class citizens'*

By Leslie Williams
Staff writer

The Louisiana AFL-CIO, ACORN of Louisiana, the NAACP of Baton Rouge and the Service Employees International Union announced Tuesday they are joining forces to form New Orleans Opportunities for Action and Hope to "ensure that as Louisiana rebuilds, the poverty that preceded Katrina is not recreated."

The organization was created to encourage employers and others to hire workers from Louisiana, especially from areas battered by Hurricanes Rita and Katrina, organization officials said.

During the announcement Tuesday, some union members decried the treatment they've already received. Robert "Tiger" Hammond, business manger for Local No. 130 of the International Brotherhood of Electrical Workers, said 75 electricians from New Orleans, Baton Rouge and Lake Charles were hired a few weeks ago at the Naval Air Station in Belle Chasse to wire the "tent city" there.

Hammond said they were recently let go in favor of workers from Texas.

"After the job was about 60 percent complete, BE&K of Birmingham, Ala., told us the company no longer needed our services," Hammond said. The company replaced the Louisiana workers with workers with less pay and no benefits, he said.

Bill Rigby, a vice president for BE&K, said the union workers "did good work," but were let go because their services were no longer needed.

Rigby said his company brought in "some of our own electricians" from Texas and elsewhere to "augment" the union work force. As a consequence, the "backlog of work fell off, and we no longer needed their help," he said.

But Hammond and others viewed it differently.

"Local people are being treated like second-class citizens in our own communities," said Hammond, who has sent a letter of complaint to the corporate offices of BE&K.

W. Roland Goetzman, a Baton Rouge resident formerly of New Orleans, was one of the 75 union workers.

"I'm a longtime resident of Louisiana," Goetzman said. "I'm a veteran. I am P.O.'d about them bringing these people from out of state that are not going to pay any taxes and they're going to take the money out of the state."

State Reps. Juan A LaFonta and Austin J. Badon Jr., both Democrats from New Orleans, attended the NOAH gathering to show their support for the cause.

In all, the coalition represents more than 151,000 people fighting for "priority job placement and training" for Louisiana residents, good wages, and immediate and long-term affordable housing.

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Staff writer Susan Finch contributed to this report.

**Statement of**
**Hector V. Barreto**
**Administrator**
**U.S. Small Business Administration**

**U.S. House of Representatives**
**Committee on Small Business**
**Hurricane Katrina Relief Efforts**

**October 7, 2005**

Good morning, Chairman Manzullo, Ranking Member Velazquez 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.

Herb Mitchell, the Associate Administrator for Disaster Assistance, accompanies me today. Herb is a career SBA employee 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 were recently in Mississippi and Alabama, and previously we were in Louisiana and Texas. We learned firsthand the extent of the destruction caused by Hurricanes Katrina and Rita. In Gulfport, Mississippi I was shocked to see a beautiful city that had literally been flattened. Herb and I also met with the citizens, the 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 know, Mr. Chairman, that you want me to discuss prospective efforts in rebuilding the Gulf region and ways that SBA can help rebuild not just the homes and buildings but also the economy of the affected areas. However, I would like to touch upon the work being carried out by SBA since Hurricane Katrina hit.

Mr. Chairman, I know you met our disaster recovery center staff, led by Al Judd, and our displaced New Orleans District Office staff in Baton Rouge. They are just one of 33 disaster recovery centers in Louisiana. We now have 190 staff on site in Louisiana and more are going in as more disaster recovery centers are opened. In Mississippi, Alabama, and Texas, respectively, we have 254, 78 and 65 field staff on site. SBA has ramped up our Disaster Loan Processing and Disbursement Center staff in Fort Worth to over 1,000 employees. 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 homeowners without credit available elsewhere is 2.687% and the rate for homeowners with credit available elsewhere is 5.375%. The vast majority, over 90 percent, of our disaster home loans are made at the lower interest rate. For businesses the rates are 4.0% and 6.557%, respectively, and again most are made at the lower rate. 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. Right now Katrina home loan applications outnumber business applications eight to one.

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. As a matter of course, SBA combines an EIDL loan with each physical disaster application.

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 disaster 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. Recently, 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 from FEMA – over one million. We have been sending out applications and are preparing to receive them back.

I would also like to address the 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 that 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 was so old no one carried replacement parts. Faced with the possibility of future failures, SBA several 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 November 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). This is a quicker, better process than before. Initial input of an application file takes only five to ten minutes. The application is started with "seed" data received from a FEMA download of teleregistration referrals to SBA. After entering completed loan applications into the DCMS, automated processes run and allow pertinent electronic data to be sent to our loss verifiers to perform an on-site inspection. While the loss verification is taking place any other documentation – business records, IRS files, and other information -- are scanned into the database in a parallel process saving time and making a complete electronic file available to any authorized system user at any location.

The loss verification process has also been substantially improved. In the past, our inspectors were required to travel to a central point to receive case file assignments and return completed inspections on a daily basis. We have equipped our inspectors with computer tablets which enable assignments from supervisors and completed inspections from the on-site loss verifier to be performed electronically. The computer tablets are also used to perform the inspection by capturing the loss data through a custom application designed by highly skilled loss verification staff. Inspection data entered by the loss verifier and sent electronically is used in the subsequent underwriting process and for the generation of loan approval documents.

In DCMS the scanned file creates a "virtual" loan process, making electronic loan files available for processing anywhere, by anyone, and at any time. An example of the improvement this creates is when an applicant calls asking for the status of a loan application. Now our call center staff can pull up the file and quickly inform an applicant of where the loan is and what information may be needed. This frees up our loan officers from having to answer routine questions so they can concentrate on finalizing loan decisions.

The DCMS improves SBA access to external data sources that provide credit reports, status of existing SBA loans, status of Federal debt, tax information from the IRS, duplication of benefits data from FEMA, and flood zone mapping with FEMA.

All of this is a vast improvement over our old system and we have used it successfully for over 18,000 applications. There have been some temporary problems in the affected area, but these are not related to the system. Rather the disaster environment itself poses several challenges which we are actively addressing. In many cases our staff is unable to reach homes

and businesses to verify the losses, or they are unable to contact the applicant to schedule the site visit with them. In order to alleviate some of that problem, I am pleased to inform you that SBA has obtained satellite imaging data and other ownership data that can help us verify damage as well as ownership and occupancy without going to the site. Although the person on the ground is still our best tool for verification, disaster victims will no longer have to wait for us to gain access to inaccessible areas.

ODA is staffed up to meet the demands of this disaster, and continues to hire. ODA is 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 has over 2,200 disaster employees on board right now and we expect to hire approximately 2,000 more 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 now in over 50 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 are working with Mayor Nagin's office on a plan to establish a Business Assistance Center in New Orleans. As soon as the residents of New Orleans 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 it now has over 1,000 tablets.

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.

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 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) database of small businesses available for contracting for reconstruction and clean up in Gulf region. Small business can call **1-800-FEDINFO** to register and find out about contracting opportunities. A customer service representative from GSA will field the calls and

direct each caller to the appropriate SBA district office nearest the caller's location. The SBA has designated personnel from each district office to respond to these inquiries and make referrals to the SBA's PCRs and others as necessary.

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. Let me just offer a few examples of the results of our efforts:

- The Army Corps of Engineers recently issued a 100% small business set-aside for Quality Assurance Services, a multiple award firm fixed price contract.
- They have also issued an 8(a) competitive contract action for multiple award roofing contracts, three contract awards anticipated at not to exceed $50 million each.

I have signed an administrative notice for all SBA-serviced borrowers in the affected areas giving them up to a 12 month deferment of payments. In the same notice I also encouraged our lending partners to contact SBA and work with us to see what type of solutions we can find to assist them in working with their small business borrowers.

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 authorized SBDCs to operate outside their states to help in the affected areas. SBA has also recently announced a new agreement with the Louisiana SBDC and efforts with the Mississippi SBDC to provide additional disaster business counseling.

Mr. Chairman, I would now like to discuss some of the proposals the Administration has put forth. 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 (GOZones), 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% so that the borrower can invest in disaster mitigation technologies such as storm shutters and floodproofing measures. 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% of the $20,000. The Administration's proposal would raise eligibility to 20% 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 FY 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 deferring payments on certain agency-serviced business loans in the disaster area and has sent a notice asking our lending partners, where possible, to do the same for SBA business loans that they service.

**Higher GOZone-specific 7(a) and 504 loan levels in FY 2006.**

The current program authorizations for FY 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 FY 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. Our efforts have been hampered by the destruction but our efforts are progressing 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. While SBA is continuing its traditional efforts to offer assistance to businesses and homeowners to rebuild we

also believe there is more that can be done to help reinvigorate and rebuild the economy in the Gulf Region.

Thank you, Chairman Manzullo and Ranking Member Velazquez, 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.

REPRESENTING THE RESTAURANT INDUSTRY
*The Cornerstone of the Economy, Career Opportunities and Community Involvement*

**Statement of Ralph O. Brennan, FMP**
**Ralph Brennan Restaurant Group, LLC**
**New Orleans, Louisiana**
**On behalf of the National Restaurant Association**
**Committee on Small Business**
**U.S. House of Representatives**
**October 7, 2005**

Thank you, Mr. Chairman.

Chairman Manzullo, Congresswoman Velazquez and other members of the Committee, my name is Ralph Brennan I am the owner of three restaurants in New Orleans, Louisiana: the Red Fish Grill and Bacco in the French Quarter; and Ralph's on the Park next to the City Park. I am testifying here today on behalf of the National Restaurant Association, which is the leading business association for the restaurant industry. The Association's mission is to represent, educate, and promote a rapidly growing industry that is comprised of 900,000 restaurant and foodservice outlets employing 12.2 million people around the country. I am also actively involved in promoting travel and tourism to New Orleans and the surrounding area and I serve as the Chairman of the Ernest M. Morial New Orleans Exhibition Hall Authority. Thank you for the opportunity to testify today about the impact of Hurricane Katrina on small businesses in the Gulf Coast region and changes in federal policy that will help the region rebuild.

Mr. Chairman, I'd heard about the storm that would wash away New Orleans my whole life. I thought it would never happen, but it did. To see the destruction has been overwhelming. In addition to the devastation in New Orleans, I've also seen the devastation in Mississippi which looks like a barren planet in a science fiction movie. I feel a lot of emotion because of the impact on each of our lives. All of us left town expecting to return in two or three days and that our homes and businesses would be reasonably safe. They're not. We have to rebuild our entire city, especially the hospitality industry.

Unlike many restaurants in New Orleans and other areas of the Gulf Coast region, two of my three restaurants in New Orleans are now open, but with limited menus, partial staff and boiled water restrictions. Bacco has no gas and we are using our wood-burning ovens and a great deal of creativity to serve customers. To reopen the Red Fish Grill, I worked closely with Jim Funk, the head of the Louisiana Restaurant Association and the Louisiana Department of Health to draft modified health regulations which have allowed restaurants to reopen while protecting the health of our employees and customers. One of my biggest challenges is finding employees to staff my restaurants. Many of my staff have not come back to the city or have found employment elsewhere. The biggest short-term issue in this regard, particularly in New Orleans, is finding adequate housing for restaurant employees as seventy percent of the houses in New Orleans sustained water damage.

The overall scope of the damage from Hurricane Katrina is unprecedented. The areas most heavily impacted by Hurricane Katrina are home to about 6,800 restaurant and foodservice establishments, employing approximately 90,000 people. Annual restaurant sales for Louisiana, Mississippi and Alabama total $12.4 billion, about 2.6 percent of the $476 billion in restaurant sales nationwide.

Louisiana fared the worst from Katrina, followed by the destruction in Southwest Louisiana caused by Hurricane Rita. Our 5,200 impacted restaurants employed about 67,000 people. The restaurant industry was the number one private employer in New Orleans before these hurricanes, directly employing 54,000 people and indirectly employing another 20,000 people that supplied the industry with goods and services. Eating out was frequently one of the number one reasons for visiting New Orleans. The city has a distinct cuisine that is a crucial part of its culture.

Although Katrina's effects upon the restaurant industry will play out against a strong national economic backdrop, net lost sales in the region have and will continue to be substantial. Ultimately, they could reach into the hundreds of millions of dollars. The total economic impact of lost restaurant-industry sales—taking into account the impact of the restaurant industry on other industries—could reach into the billions of dollars. The travel and tourism industry represents over 650,000 jobs and more than $10 billion in payroll for the three states. In 2004, travel and tourism accounted for more than $50 billion in business activity in the region. In New Orleans, travel and tourism is a $5 billion-a-year industry, accounting for more than 80,000 jobs.

Some of the main challenges that restaurants are facing include:

- Lack of employees. Restaurants are typically opening with 30% of their former staff. There is a great demand for foodservice workers in affected areas;
- Lack of a customer base. In my area, Orleans Parish is still not repopulated and other parishes are only partially inhabited. To build back up to our former number of approximately 3.400 restaurants, we will have to achieve a significant return of our population base;
- Unresolved insurance issues. Many restaurateurs in the Gulf Coast region are having difficulties in getting their claims resolved and are even more concerned about whether affordable insurance can be obtained for the future;
- Re-establishing tourism, convention and meeting business. The hospitality industry played a significant role in the New Orleans economy before Hurricane Katrina. Re-establishing tourism can play a significant role in our recovery.

Mr. Chairman, with regard to changes in federal policy that will help the region rebuild, government at all levels, municipal, state and federal, will need to marshal significant resources to help rebuild the region quickly and successfully. We commend Congress for including a number of important provisions recent relief legislation including: the expansion of the Work Opportunity Tax Credit (WOTC) to Katrina victims, the employee retention tax credit, and the enhanced deduction for donations of food inventory.

As you know, there exists an urgent need to protect small businesses during this time of great hardship. Over 97% of travel and tourism is comprised of entities involving 100 employees or fewer. Small businesses are truly the lifeblood of our industry. In addition, a number of small businesses in the affected areas are restaurant supply companies and food purveyors who are facing a bleak future unless the restaurants and food service outlets they service are able to reopen. We ask that the Committee and Congress work to secure funding in order to increase the program level for home disaster loans, business physical disaster loans and economic injury disaster loans provided through the Small Business Administration. We also request that the federal government consider offering additional monetary relief by granting fair deferrals or grace periods on disaster loans, as well as for repayments owed on previously existing SBA loans. This will provide owners with additional time and monetary resources necessary to reestablish their individual operations. In addition, the Committee should consider authorizing increased funding for the SBA's counseling and training resources to help small businesses directly and indirectly affected by Hurricane Katrina to recover.

In addition, the Committee should examine ways to reduce the paperwork required to apply for business loans and grants to rebuild. The process of obtaining an SBA loan under these disaster conditions is extremely daunting. According to the Louisiana Restaurant Association, very few loans have been processed in Louisiana to date. Whatever steps that could be taken to simplify this process while maintaining the integrity of the program could only help our rebuilding efforts.

While initial administrative and legislative initiatives have already been implemented at the Federal level, there will be an additional need for relief measures as recovery efforts move forward. To overcome the extensive negative images of the disaster area due to widespread media coverage, both national and international, of destruction, contamination and other detrimental imagery, two provisions would assist in facilitating travel and visitation in the disaster zone, and are intended to be provisional: 1) Increasing the Business Meal Deduction to 100% for expenditures in the hurricane disaster zone; 2) Implementing a Spousal Travel Deduction for business travel to the hurricane disaster zone.

Other important targeted and time-limited provisions which Congress should consider to assist in the long-term recovery and reconstruction of the Gulf region include:

- An employer deduction for costs associated with housing relocated employees;
- A housing credit/allowance/vouchers for employees from the disaster zone
- A tax deduction/credit for costs associated with housing an evacuee/family in a home or business
- Temporary housing provided to Katrina-affected employees by their employers not treated as a taxable benefit
- Tax-exempt bond financing for rehabilitation/reconstruction/refinancing of business properties in the disaster zone, combining elements of the Liberty Bond and Enterprise Zone Bond programs to assist all businesses within the targeted zone
- Leasehold Improvements/Restaurant Depreciation
- Bonus Depreciation
- Small Business Expensing
- Historic Preservation/Rehabilitation: Allow a tax credit for qualified rehabilitation expenditures to encourage the retention of the unique character of the disaster zone properties
- Provide Parity in Redevelopment Assistance to Non-Profit Entities

Mr. Chairman and members of the Committee, thank you again for holding this important hearing and for focusing your attention on the plight of small businesses in the hurricane disaster zone. The Committee has an important role to play in hurricane relief efforts, and this hearing is an important step. Restaurateurs are entrepreneurs; we're active and busy people, and we're restless right now. A lot of people suggested I open a restaurant elsewhere, but I don't want to do that. I want to go home. This Committee and Congress can help get New Orleans, Louisiana and the entire Gulf Coast region back on its feet so that all of our residents, restaurateurs and other small businesses can go home again.

I would be happy to answer any questions.

**TESTIMONY OF RAE ANNE RYAN, CTC**

October 7, 2005

Mr. Chairman, Ranking Member Nydia Velazquez and distinguished members of the House Small Business Committee. My name is Rae Anne Ryan and I am honored to appear before you today to convey the devastating impact Hurricane Katrina has had on small businesses, especially the travel and tourism industry, in the Gulf Coast region of the United States.

I must first recognize the efforts of the Administration, state and local officials, U. S. citizens and people from around the world. Without their assistance and generosity, the Gulf Coast region could not begin to recover from the worst natural disaster this Nation has endured. Amazingly, the charity never stops coming. I could ill afford my travel expenses to Washington, DC and am here today only through the good graces of Air Tran Airlines and Hampton Suites Hotel.

I am the president of Travel Affiliates in Gulfport, MS, and co-own the agency with my husband. Travel Affiliates has two locations; one in Gulfport (Harrison County) and the other in Ocean Springs (Jackson County). My agency has been a member of the American Society of Travel Agents (ASTA) since 1967, approaching our 40th year. ASTA is the world's largest and most influential travel trade association with more than 17,000 members in 140 countries.

Gulfport, Mississippi was severely broadsided by Hurricane Katrina. The aftermath of the storm gave the appearance of a war zone...homes were leveled,

businesses were destroyed, power lines were down, streets were filled with debris and flood waters were everywhere. In the five weeks since Hurricane Katrina slammed into the Gulf Coast region, Gulfport homes and businesses left standing now have power but little or no phone service. Much of the infrastructure remains impassable with washed out bridges and roads. Traffic in Gulfport is congested with clean-up crews and utility trucks. What normally was a ten-minute drive, now takes 45 minutes. High gasoline prices have further raised anxiety levels and have profoundly impacted our daily lives.

I, and four of my employees, have lost our homes to Katrina. We have made the best of a bad situation and are grateful to those family and friends who have opened their doors to take us in. Throughout the residential areas, many families are currently living in FEMA campers setup in their backyards. Electrical power, hot water, air conditioning and phone services are no longer normal, basic necessities; they are luxuries.

Prior to Hurricane Katrina, Travel Affiliates had 14 full time employees and one part-time employee. Since the storm two of my employees have not returned to work and are unsure if they will return to the area at all. Sadly, this trend is echoing across the Gulf Coast region. It represents the loss of thriving small businesses, a decreasing work force and challenges the region's ability to recover and prosper quickly.

Fortunately, my travel agency was up and running within days after the storm. Travel Affiliates is located within a mile of the beach and housed in a structure that has weathered many storms over the years. Because the agency is located in a highly concentrated business section of town populated with food services and pharmacies, it was designated as a priority area. Power, water and phone services were restored within several days.

My current situation is not typical. Many of my colleagues spread across the Gulf Region who own and operate small business travel agencies like mine are basically out of business. Agency owners are busy processing refunds for their clients. With no new business coming through the door, they cannot possibly endure a four to six month time period waiting for new travel business to surface. It is critical that these travel agencies have access to working capital in order to sustain their businesses while the region rebuilds.

The travel and tourism industry is a primary economic engine that drives the prosperity of the Gulf Coast region. In Gulfport and Biloxi, the gaming industry alone generated about $911.5 million in annual revenues, which roughly produces $500,000 in tax revenue on a daily basis. If you take into consideration all of the components within the industry such as cruise lines, hotels, car rental companies, airlines, restaurants, retail stores, attractions, etc. the numbers are staggering when it comes to employment and tax revenues. According to statistics compiled by the Travel Business Roundtable (TBR) and the Travel Industry Association of America (TIA), the following illustrates Katrina's devastating impact on the travel and tourism industry:

- Approximately **18%** of total employment for Louisiana, Mississippi and Alabama, or approximately **1 out of every 5** jobs, are travel and tourism specific and have been impacted by Hurricane Katrina.
- In 2004, there were **$18.3 billion** in total sales in major travel-related industries, or about **$50 million a day.**
- Those sales supported **260,000 jobs** and **$3.7 billion** in payroll income for these travel-related industries.
- In the 32 affected parishes of Louisiana, **$13.5 billion** is spent per year in travel-related businesses, involving **191,000 jobs**. This equates to an ongoing loss of **$37 million per day**.

- In the 15 affected counties in Mississippi, **$2.8 billion** is expended annually in travel-related businesses, which encompasses **38,000 jobs**. This ongoing loss totals approximately **$7.7 million per day**.

- In the three affected counties in Alabama, **$2 billion** is spent in travel-related businesses per year, involving **30,000 jobs**, with ongoing losses of **$5.5 million per day**.

- Aside from the government, the tourism industry is the largest employer in the city of New Orleans, with more than **80,000 jobs** having a **$5 billion** annual impact on the economy.

- Travel and tourism in New Orleans accounts for **44%** of Louisiana's tourism revenue and contributes **$158 million** in annual state tax revenues.

In 2004, TBR and TIA report that the U.S. travel and tourism industry generated $599.2 billion in domestic and international travel expenditures. The industry directly provided 7.3 million jobs, producing $163.3 billion in payroll. Further, it created a trade surplus of $5.8 billion. Travel and tourism is ranked the first, second or third industry in 29 states and the District of Columbia. The industry thrives in all 50 states and 435 congressional districts. Small business entities compose 97.7 percent of travel and tourism industry representing organizations with less than 100 employees.

Mr. Chairman, there are no easy solutions to restoring and preserving the Gulf Coast region after Katrina. Immediate federal and state relief packages are needed to allow the people to rebuild their homes and small businesses. Reflecting back to the events of 9/11, I have this committee and the Small Business Administration (SBA) to thank for my own agency's survival. The SBA opened nationwide the Economic Injury Disaster Loan (EIDL) program and under your leadership Mr. Chairman, the House Small Business Committee in conjunction with the SBA and guidance from ASTA, expeditiously changed an outdated small business size standard classification for travel

agencies. Within a 17-day time period, the travel agency size standard increased from $1 million in gross receipts to $3 million. The outcome of these actions accounted for 500 approved EIDL loans for travel agencies totaling $26 million. I successfully applied for and received one of these critical loans and it saved my business.

As Congress formulates relief packages for small businesses in the Gulf States, it is essential to keep in mind that small businesses require working capital to survive. The SBA also has to have the ability to: increase the maximize size of SBA business and home-related disaster loans from $1.5 million to $10 million; allow for deferred principal payments up to 12 months on new or existing disaster loans and provide debt consolidation and refinancing opportunities for small businesses. Most importantly, the SBA needs the appropriate resources and tools to efficiently process disaster relief loans in an expeditious manner. ASTA endorses the elements contained in the SBA's plan to assist small businesses in the Gulf States region that was presented to the Senate Small Business & Entrepreneurship Committee on September 22, 2005. ASTA believes it is the best approach in enacting small business relief legislation.

Thank you again for inviting me to testify. I look forward to answering any questions you may have.

Testimony
of
Randy Perkins
Before the House Small Business Committee
Hearing on "Impacts of Hurricane Katrina on Small Businesses"
October 7, 2005

Chairman Manzullo, Ranking Member Velázquez and Members of the House Small Business Committee I am Randy Perkins and I am the co-owner of Perkins Productions in Covington, LA on the North Shore of New Orleans.

My wife and I have been in business for 11 years now, and the two of us run our video production company out of our home. Our business relies heavily on the customers and filming opportunities that exist right in the city of New Orleans.

The strong base which we depend so heavily on was turned upside down on August 29, 2005. That is the day Hurricane Katrina hit our city, and that is when the livelihood of our business came to a sudden halt.

Not only were sections of New Orleans largely destroyed, but so was our business. In the last 30 days our business has generated only $525 dollars. This is compared to an average monthly revenue of nearly $18,000. With monthly bills totaling $10,000 and virtually no income coming into our business, we needed to secure financial assistance elsewhere.

On September 9th, we decided to apply for an SBA disaster loan. It seemed to be the first – and one of the few – options available to us. All in all, it was really the only chance we had at getting assistance that would enable us to get through the rough period. My wife went ahead and took the time to fill out the paperwork and submit the application. She was then told it would take up to 90 days to receive the loan, once it was approved. However, nearly one month later, we still haven't been told if we are going to get a loan.

When there is no income coming in, business has all but stopped, and there are existing expenses and costs to cover – 3 months is just too long to have to wait for assistance. What we need – and what most businesses in our similar situation need – is immediate relief so we can start providing again for our families and investing in our local economies.

An additional challenge is the already existing loan payments we have to make. We are into our 5th year of paying back on a 7(a) loan. Right now, my wife and I are paying for a business that has lost the majority of its customer base. At this point, if there is anything that would help us financially – it would be to have forgiveness for the remaining loan payments. I know SBA had offered to suspend the payments, but the truth is that even if we don't have to pay for a period of time, we are still going to be dealing with incurring debt on top of more debt when we start the payments again. The reality is that to have these payments forgiven would enable us to take care of the existing challenges we face, move forward with our production business and continue serving our local economy.

In the aftermath of Hurricane Katrina, obtaining financial assistance is at the top of the list for small businesses. Given the extraordinary circumstances we have been faced with, grants are another option. Congress bailed out the airlines when they needed it. Small businesses that represent over 99% of employers – especially those from the Gulf Coast – deserve the same. The 3 loans that have been distributed in Lousiana so far are just not going to cut it. Grants are another solution to help remedy a situation that is not going away anytime soon.

Small businesses in the Gulf Coast need assistance now. There are many who may not make it through if they don't get immediate relief. From a business's perspective, the end goal here is get our firms up and running again, boost our local economies, pay the bills and at the end of the day – know we are able to put food on the tables for our families.

That is why small businesses are relying so heavily on SBA during this time. In the past, I have had good fortune in my work with SBA – they were available, ready to listen and comprehensive of our business needs. However, post Katrina – I cannot say the same. Throughout this ordeal SBA has become a faceless agency. They aren't making themselves readily available, and the assistance that they talk about isn't reaching the people that need it most.

It has been over 5 weeks now, and to this date my wife and I have received nothing more than a $2000 FEMA check. Waiting three months for a disaster loan – that will add more debt to our existing debt – to come through, will be too little too late. All of the businesses that were devastated by the hurricanes need help – and they need it today.

I want to thank you for allowing me to appear before the committee today and letting me share my story. At this time, I will be glad to respond to any questions you may have.

*Testimony of*

Guy T. Williams

*On Behalf of the*

AMERICAN **BANKERS** ASSOCIATION

*Before the*

House Small Business Committee

United States House of Representatives

October 7, 2005

Testimony of Guy T. Williams
*on behalf of the*
American **Bankers** Association
*before the*
House Small Business Committee
*of the*
United States House of Representatives

October 7, 2005

Mr. Chairman, Ranking Member Velazquez, and Members of the Committee, my name is Guy T. Williams. I am president and CEO of Gulf Coast Bank & Trust in New Orleans, Louisiana, and the immediate past president of the Louisiana Bankers Association. I am pleased to be here today to represent the American Bankers Association (ABA). ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

I want to thank you, Mr. Chairman, for holding this hearing to discuss the post-Katrina rebuilding of the Gulf Coast's small businesses and economy. Let me assure you that meeting the needs of the small businesses and banking customers impacted by hurricanes Katrina and Rita is extremely important to my bank and every bank in the Gulf Coast area – it is vital to the health of our local economies and the success of our banks.

At Gulf Coast Bank & Trust, we have nine banking offices. Our main office is located in the heart of New Orleans's Central Business District on St. Charles Avenue. Surprisingly, the office had escaped major damage and flooding. But it took days before we could reach the bank and ensure that the necessary utilities and systems were back up and running. Finally, on Wednesday, September 28, we reopened the St. Charles Avenue branch. We are now the only bank branch operating in downtown New Orleans. On our first day back in New Orleans, two customers came to the branch. One of those customers was a local small business owner who came in to make a loan payment. The other was a local sandwich shop owner who needed change in order to reopen.

Mr. Chairman, Louisiana is a small business state. We have only one local Fortune 500 company – Entergy – and it just placed its New Orleans subsidiary in bankruptcy. In order for our state to survive, small business must recover. Small companies provide the vast majority of the job growth in our area. We understand the importance of bank financing to these businesses and to our community. I am very proud of the fact that although we are a relatively small community bank, we are the number one Small Business Administration (SBA) lender, by volume, in the state of Louisiana.

The ravages of hurricanes Katrina and Rita have radically altered the economic landscape of New Orleans. This was our worst nightmare. Our beautiful city was flooded and left vacant for 30 days. Our citizens scattered and our businesses shut down. As bad as it was in New Orleans, other areas had it worse. In St. Bernard Parish, which is located immediately southeast of New Orleans, there is not one habitable home, not one open

business, not one electric light, not to mention the complete loss of phone, Internet, and all other services there. This blue collar community of 65,000 people has been largely overlooked because the devastation has made it so hard to reach. Our three branches in that community were all heavily damaged and cannot be reopened for months.

In my testimony today, I would like to make three points:

**I. SBA Lending is Critical to the Gulf Coast's Economy**

Small business lending is a critical component of the Gulf Coast region's economy, which also accounts for a major portion of my and many other regional banks' business;

**II. Hurricanes Katrina and Rita Have Made SBA Loans Even More Important**

In the aftermath of Hurricane Katrina, SBA loan programs are more important than ever to helping stimulate and rebuild the Gulf Coast region; and,

**III. Congress Can Act Now to Improve SBA's Role in a Regional Recovery**

Congress can help support and optimize a regional recovery by enacting legislation to increase SBA's effectiveness and to reduce administrative costs, thereby allowing more businesses to benefit from SBA's loan programs.

Let me discuss each point in greater detail.

**I. SBA Lending is Critical to the Gulf Coast's Economy**

Small businesses look to banks operating in their hometown for leadership to help them grow their businesses and to thrive. In fact, banks are the primary source of credit to small businesses throughout this country and are often small employers themselves, too.

It is often said that small businesses are the engine of our economy. If that statement is true, then capital is the oil that makes the engine function. Small businesses make up nearly half of all commercial and industrial loan customers and three-quarters of all business banking customers. At Gulf Coast Bank, we have $551 million in assets, with roughly 60 percent devoted to business loans – all of which are to small businesses.

The small businesses we lend to are a basic part of our community. For example, one of my customers opened a neighborhood restaurant just six weeks before Katrina struck. Because they leased their business space, all the equity formed due to the improvements they made to the restaurant is gone. They have no collateral. Insurance will not even begin to cover their losses. Another bank customer of mine is a Marine, who recently returned from Iraq and opened a small computer servicing and repair business. His business was doing well, too. The hurricane wiped him out, destroying his equipment and tools. If we cannot help people like this, who deserve our gratitude, then who should we be helping?

**II. SBA Loans Are Now Even More Important**

Obviously, the recent hurricanes dealt a tremendous blow to the Gulf Coast region's economy. At the broadest level, the Federal Emergency Management Agency (FEMA), as of September 8, had designated 169 counties or parishes in four states as eligible for some form of disaster assistance; employment in those areas totaled about 5.8 million jobs in 2004.[1] The 86 counties or parishes classified as "most affected" by FEMA represent 2.4 million jobs. Wages in these places totaled $76.7 billion in 2004. Overall unemployment attributable to Hurricane Katrina is now estimated to be between 300,000 and 400,000. Hurricane Rita will add to these numbers.

Small businesses were hit especially hard by Katrina. This is particularly true in my home state of Louisiana, where small firms with fewer than 500 employees numbered 79,693 in 2002 and employed 853,102 individuals, or 54 percent of the state's non-farm private sector. Small businesses employment is also high in Mississippi and Alabama, with small firms accounting for half of all non-farm private employment in each state.

Most of the at-risk employment was in flooded areas of Louisiana, while in Mississippi virtually all of the employment losses were attributable to wind damage rather than flooding. Alabama received a mix of fallout from Katrina. Texas is only now tallying the losses from Rita. Recovery will require huge expenditures on repairs, rebuilding, and equipment replacement, not to mention lost inventory.

[1] Statistics in this paragraph from "The Macroeconomic and Budgetary Effects of Hurricanes Katrina and Rita: An Update" Congressional Budget Office, September 29, 2005.

Timing is critical to maintain at least some semblance of business continuity and to jump start the Gulf Coast's economy. Residents in these areas need shops and services open and ready for business, particularly at this juncture when many evacuees from the hardest hit areas are contemplating not when to return but ***whether*** to return. A recent survey of evacuees in Alabama revealed that half planned to remain in Alabama rather than return. If we delay the rebuilding, we will suffer an irreversible loss of manpower and a customer base. This challenge represents a tremendous opportunity to grow the region's economy, but also a perilous risk that government and private efforts to rebuild will not occur quickly enough, be targeted effectively, or present area residents with substantive reasons to stay. Small businesses are the basic building blocks of our economy and our communities. They deserve as much support as possible.

Banks themselves have suffered considerably due to the effects of Hurricane Katrina. All banks in the Gulf Coast region have experienced difficulties. Half of the banks in the tri-state region severely affected by Hurricane Katrina have a quarter of their loan portfolios dedicated to small business loans. More than one-third of these banks have fewer than 30 employees. In New Orleans, where my bank is headquartered, I see people still sleeping in cars six weeks after the storm struck. I have four metro-area branches five inches deep in sludge. Before they can reopen, these branches must be emptied of sludge, the sheetrock and insulation must be removed, the electrical fixtures replaced, and new carpets installed, not to mention the computers, desks, and office supplies replaced.

Schools reopened this week in Jefferson Parish, but it will be January or later before New Orleans and St. Bernard Parish schools reopen. A whole year will be lost. Many of my employees have lost their homes and many family members have lost their jobs. My parents lost their home as did my sister. The losses are staggering.

There are thousands of businesses in my immediate vicinity that are facing problems like my bank is experiencing. There are differences, too. Big chain stores are in a different position than are corner grocery stores that have lost their entire inventory and that depend upon receipts from one week to buy stock for the next, for example. Also, each parish is in a different state of recovery. St. Bernard Parish is the worst off. Orleans Parish is getting by with very slow progress. The city has laid-off all but essential workers and the future remains uncertain. None of us like bureaucracy, but how do you start a business if there is no office of safety and permits and no civil court system? On a more encouraging note, Jefferson Parish is open for business, although still severely damaged.

What businesses most need now – critically – is access to financial resources to begin and sustain the recovery process on every block in my city. My customers need money for building materials, for infrastructure, for professional waste removal, for wages, and more. Unfortunately, one needs only to read the newspaper to know that federal recovery efforts have been less than ideal. SBA itself has been subject to glitches and setbacks that appear to have overwhelmed the agency in its efforts to assist small business owners seeking loan relief in the wake of Hurricane Katrina. I have with me a copy of our local paper that shows that only 14 SBA disaster assistance loans have been made to date in our area.

Last week, the media reported the SBA had handed out 950,000 applications for disaster loans, received 26,100, and yet had only approved 142 loans as of September 26, and checks had not yet been sent – one month after Katrina struck. To be fair to SBA, the nature of physical injury loans, which require significant documentation of damaged property, is partly responsible for the backlog. But other problems have plagued SBA's efforts, such as a failed new computer system, which meant loans that once took 30 minutes to process took several hours to complete. Even before SBA's new computer system failed, their loan processing rate was less than before the system was installed in December.

In addition, SBA has just announced – effective as of October 1 – a 9 percent increase in its servicing fee on 7(a) loans. This is the second consecutive fiscal year that SBA has increased lender fees in the 7(a) program. The increase will work against efforts to maximize SBA lending in the Gulf Coast region.

**III. Congress Can Act Now to Improve SBA's Role in a Regional Recovery**

There are concrete steps Congress can take now to help the Gulf Coast's small businesses – and the area's banks – recover:

**(a) Allow Preferred Lenders and Certified Lenders to Process Disaster Loans for a Reasonable Fee.**

Currently, SBA has plans to open a central service center in New Orleans's French Quarter to receive and process disaster loan applications from some 81,000 businesses

located in the general area. SBA's plan promises to create a quagmire of frustrated, ill-served applicants, whose patience has already been worn excessively thin by government bureaucracy and inattention. Business owners in the region have barely been able to go to their company sites to inspect the damage. Instead of working to physically recover their businesses, are local business owners now expected to wait in impossibly long, un-air conditioned lines for countless hours? Even under ideal circumstances, it can take 21 days to receive disaster loan funds. SBA's proposed strategy is doomed to add insult to injury. Yet SBA's disaster loan program is often the only salvation for companies that lacked insurance, or whose insurance will not cover all of Katrina's damage.

A practical solution that can be placed into action today is to allow SBA-preferred lenders and SBA-certified lenders to process disaster loans for a reasonable fee. A fee of 1 percent to 2 percent would cover banks' costs ***and is likely to result in an overall savings to the government*** due to the efficiency of bank processing. A public-private partnership would allow SBA to process more loans by using experienced bank loan officers who are already intimately familiar with SBA's programs and requirements. Instead of one centralized location to receive and process loan applications, there would be dozens spread throughout the city. This model could be applied across the Gulf Coast region, utilizing the existing expertise and facilities of hundreds of bank branches in Louisiana, Mississippi, and Alabama.

**(b) Reclassify Certain Unrecoverable SBA 7(a) Loans Into the SBA Disaster Portfolio.**

SBA 7(a) loans approved prior to Hurricane Katrina did not incorporate the kind of risk analysis for the wholesale destruction wrought by a Category 4 hurricane making landfall

within miles of downtown New Orleans and causing unprecedented flooding for hundreds of miles north, east, and west along the Gulf Coast. If ever there was a rationale for authorizing the use of emergency funds, Hurricane Katrina is it.

SBA's disaster loan program is a direct government loan program that provides loans to individuals and businesses at very low interest rates, roughly around 4 percent, over a 30-year period. The 7(a) program is a government guarantee program that shares the risk between the government and lenders. In most cases, 7(a) loans provide a 50 percent to 75 percent government guarantee if the loan defaults, which places the lender at risk for 25 percent to 50 percent of the loan principal.

Because many of the loans in the hurricane-impacted areas are 7(a) loans with terms ranging from seven to 10 years, many of these loans are expected to go into default, with the government absorbing the majority of the outstanding loan. If a portion of these loans were transferred to the 30-year disaster loan program, the government may be able to collect the money on these loans over a longer period of time since payments would be more affordable for borrowers.

**(c) Create a New Type of 7(a) Program to Provide for a 90 Percent Guarantee, Waive the Guaranty Fee (Customer Fees), and Reduce the Lender Servicing Fee by 50 Percent.**

As mentioned above, the 7(a) program guarantees loans for 50 percent to 75 percent of the principal, depending upon the specific type of 7(a) loan. To assist businesses in the

hurricane-impacted areas, SBA should develop a guarantee program that provides a higher percentage guarantee (90 percent, ideally) and should lower the ongoing fees for both small business and for lenders.

The case for lowering the fees for borrowers is obvious. Lowering the fees for lenders would provide lenders an incentive to make loans through the program. If SBA does not increase the guarantee and lower the fees, there may be insufficient incentive to lend to businesses that have very little or no collateral, due to the extreme effects of Hurricane Katrina. Given the significant risks, the 10 percent stake that banks assume is considerable and ensures the appropriate level of due diligence in making loans while significantly increasing the flow of funds.

**(d) Waive Collateral Requirements For Loans Less Than $250,000.**

Existing SBA loan programs require some form of collateral. The collateral for many of the businesses in the Gulf Coast region are either under water or the value of the collateral has been greatly diminished. Waiving the collateral requirement would help those small businesses that need limited capital ($250,000 or less), attract more applicants, and significantly help the rebuilding process.

**(e) Permit flexible repayment options (payment deferrals and/or interest only loans.**

SBA's 7(a) loans operate just like a traditional commercial or mortgage loan with monthly payments. SBA should support a program that would defer payments on new or existing loans – perhaps even restructuring loans to convert them into interest-only loans to

further reduce monthly payments for borrowers. This would allow time for businesses to rebuild – something that will take many months – without having such a severe initial cash-flow burden. Lenders and small businesses would find the loans highly attractive, which, in turn, would aid recovery efforts and help to stimulate the local economy.

**Conclusion**

In conclusion, SBA lenders are uniquely positioned to provide the kind of logistical and financial support necessary to sustain the long-term recovery required in the aftermath of hurricanes Katrina and Rita. Small businesses are a fundamental provider of jobs, products, and services to communities throughout the affected areas. Banks, many that are small employers themselves, also depend upon the vitality of SBA's loan programs. Congress can make a tangible difference in the lifeblood of these communities by optimizing SBA's loan programs to deal with this disaster. The recommended actions listed above would go a long way to provide opportunity where there now exists an over abundance of frustration.

Mr. Chairman, one of the recurring themes after these hurricanes has been the difficulty in delivering help to those who need it most. The banking industry is not looking for a handout. Instead, we are offering a cost-effective way to quickly deliver disaster loans and thereby jump start our severely damaged economy. Time is of the essence. We need your help.

Thank you. I would be happy to answer any questions you might have.

FOR IMMEDIATE RELEASE
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# NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS® AND COALITION OF WOMEN BUSINESS ORGANIZATIONS LAUNCH WEB SITE TO ASSIST WOMEN BUSINESS OWNERS AFFECTED BY HURRICANE TRAGEDY

*Resources Available for Women Entrepreneurs in Need of Assistance through Web site www.womenbizrelief.com*

(McLean, VA)—The National Association of Women Business Owners (NAWBO) and the NAWBO Institute for Entrepreneurial Development (NAWBO IED) launched www.womenbizrelief.com today to assist women entrepreneurs in the hurricane ravaged South by extending resources and support. WomenBizRelief is a coalition of women's business organizations and media that support women entrepreneurs gathered to support women business owners that have been impacted by Hurricane Katrina.

The Web site encourages donations of housing, equipment, and employment from woman entrepreneurs to assist those women business owners affected by Hurricane Katrina. In addition, women business owners in need of assistance can visit the site for resources to help them rebuild their businesses and lives. The main goal of the Web site is to create a user-friendly clearinghouse for resources that are needed immediately to help emerging businesses. Coalition members will promote the availability of the web site to their members and networks across the country. The site also contains a blog feature which will help NAWBO's leaders document the outreach efforts occurring by organizations on a local level.

"With more than 370,937 women entrepreneurs in Louisiana, Mississippi, and Alabama, according to the Center for Women's Business Research, this Web site is the vital link connecting women business owners offering and in-need of help," said Gayle Watson, NAWBO's president and president of Performance Solutions in Dallas, TX. "I want to commend the effort of all the coalition members who have come together to help women entrepreneurs and their families during this tragedy."

Coalition members include: Association of Women's Business Centers , Center for Women's Business Research , Count-Me-In , Enterprising Women magazine, National Women's Business Council , SBTV.com , Women's Business Enterprise National Council, Women Impacting Public Policy, and Women's Leadership Exchange . A complete list of coalition members is available at www.womenbizrelief.com.

Specifically, NAWBO has:

- Raised well over $10,000 in individual contributions for grants to women business owners impacted by the tragedy. The NAWBO IED has matched the first $10,000 received, and will partner with Count-Me-In, to handle the grant administration/distribution function. To donate, visit www.nawbo.org.
- Waived national dues for all members in affected areas for the next two years.
- Helped companies that want to make contributions to identify where those contributions can be most helpful, through a resource list posted on www.nawbo.org.

Mary MacRae, chair of the NAWBO IED noted, "To understand the scope of the economic destruction, the Center for Women's Business Research has reported that prior to Katrina, there were more than 47,000 women-owned businesses in New Orleans, providing more than 100,000 jobs and generating $11 billion in sales. We believe this grant initiative will allow us to help get these women entrepreneurs back on their feet so they can provide jobs and help the local economy recover."

A tragedy of this magnitude will require the assistance of the entire nation in rebuilding the communities and businesses that were in the path of the hurricane. NAWBO urges each of our members to support and participate in these efforts. More information is available at the NAWBO Web site at www.nawbo.org.

**About NAWBO:** Founded in 1975, NAWBO propels women entrepreneurs into economic, social and political spheres of power worldwide. Thirty years later, NAWBO is still the only organization that solely represents the interest of women entrepreneurs in all industries. The organization's mission is to strengthen the wealth-creating capacity of its members and promote economic development; to create innovative and effective change in the business culture; to build strategic alliances, coalitions and affiliations; and to transform public policy and influence opinion makers. Visit www.nawbo.org for more information.

**About the National Association of Women Business Owners Institute for Entrepreneurial Development® (NAWBO IED®):** In 2003, National Association for Women Business Owners formed the NAWBO Institute for Entrepreneurial Development (IED), a 501(c) 3 educational foundation that seeks to expand the educational opportunities for emerging and established women entrepreneurs. Past NAWBO IED initiatives include the sponsorship of an international track of educational programming at NAWBO's 2004 Women's Business Conference in Dallas, TX, and sponsorship of the October 2004 Joint Economic Summit hosted in conjunction with Women Entrepreneurs of Canada. Current efforts include a nation wide campaign to support women entrepreneurs who were affected by Hurricane Katrina.

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