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OVERSIGHT: GULF COAST DISASTER LOANS AND THE FUTURE OF THE DISASTER ASSISTANCE PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

JULY 25, 2007

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FIRST SESSION

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OVERSIGHT: GULF COAST DISASTER LOANS AND THE FUTURE OF THE DISASTER ASSISTANCE PROGRAM

WEDNESDAY, JULY 25, 2005

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP, WASHINGTON, DC.

The Committee met, pursuant to notice, at 10:08 a.m., in room SR–428A, Russell Senate Office Building, Hon. John Kerry (Chairman of the Committee) presiding.

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

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

Chairman KERRY. Good morning. We will come to order, although I have never seen a more orderly room.

Anyway, I apologize for being late. I had to go to the Finance Committee, which was starting a hearing, and I am trying to balance between them. So I thank you for your patience.

We are going to do things a little differently here today, both at the request of the Administrator, but also with my enthusiasm, because I often think that, at these hearings, there is a sort of procedure by which the Administration testifies first, and then others come in, and you do not really get the kind of give-and-take and exchange that I think could be most helpful to the Committee. And since this is about getting good information and laying out the facts, I think it is helpful to everybody to have the Administrator go last. So I welcome the Administrator's willingness to do that, and I look forward to it.

We are here today to take a close look at the SBA's Disaster Assistance Program. This program serves as the Federal Government's primary source of long-term financial assistance to small businesses that have been hit by a disaster of one kind or another.

A couple of years ago, we became all too familiar with what is wrong with the program: The lack of adequate planning, the lack of adequate staffing, and other kinds of problems that accompanied the massive failure of delivery of services across the board in the wake of Katrina. And that taught us something.

I think a lot of people, however, are unaware of how frequently the SBA does respond to various disasters around the country, some small, some large. And in fact, the SBA's Disaster Assistance Program plays an integral role in rebuilding homes and towns and businesses in communities all across the country.

In my home State, the city of Uxbridge recently experienced a serious mill fire, and some 135 homes and businesses were destroyed. A lot of damage was done, and some 300 jobs were lost. And this mill had become a major magnet, if you will, for business in a community that has been hurt over the last past several years by businesses going abroad and the transition of our economy.

So SBA stepped in, and I want to thank the Administrator for the fast response of the Agency. Agency personnel were on the spot Sunday afternoon for a fire that occurred on Saturday, did their evaluation, and by Monday we had a designation and were able to move.

And that is terrific. That is an important message to send to people. That is the way it ought to work. Not every disaster can receive, or does receive the same kind of response. And certainly there are some places where we have not seen such swift response.

Next month marks the 2-year anniversary of the most devastating natural disaster that we know of in the history of this country. The impact of Hurricane Katrina was nothing less than catastrophic on the State of Louisiana and on surrounding communities in the Mississippi also. Thousands were killed, hundreds of thousands were displaced, and many of them are still struggling to recover from the impact.

At every step during the response and recovery process, the Federal Government was shown to be unprepared and unable to respond. And I want to emphasize: This was not on Administrator Preston's watch. He came in to try to clean up some of this, and I think he has done an admirable job of trying to tackle a lot of that, but at no agency was the lack of preparedness more evident, or incompetent, frankly, than what happened within the SBA. Insufficient staffing, slow response, lack of coordination, lack of leadership, lack of vision, and an inadequate processing system led to the Agency's absolute failure to respond to the needs of the Gulf Coast victims.

Nearly 8 months after the storm hit, Mr. Preston's predecessor resigned, leaving an enormous mess to clean up, frankly. On that day, more than 31,000 loan applications remained unprocessed, and just 10 percent of the money that was approved for disaster victims had actually been disbursed.

By all accounts, Administrator Preston made it his top priority to get this program on track. In the fall of 2006, he set a goal of reaching each and every one of the roughly 90,000 loan applicants who had been approved for a loan, but had not received their money.

This aggressive goal did have an immediate impact, and to date the Agency has disbursed nearly $6 billion to the victims who waited so many months to rebuild their homes and their lives.

Today, during the course of this, and it is inevitable—and I want to emphasize—this is not a "gotcha" hearing. This is an educational accountability hearing. It is what Government ought to do; it is what the Committee ought to do; it is what all of us ought to be involved in. But notwithstanding the success generated by Administrator Preston's efforts, there were some serious concerns in some quarters with some of the methods that were used to carry out that effort.

Earlier this year, I received two letters from former SBA loan officers which I sent to the Agency's Inspector General, Eric Thorson, to consider as part of what was already an ongoing investigation into the Agency's Gulf Coast response. And I think we should emphasize, it is good that we are having that kind of evaluation so we understand what did go wrong and do not repeat those mistakes, and we would be criticized if we did not, every single one of us.

Today, we will hear from Mr. Thorson regarding several of the allegations made in these letters.

And we will hear from Gale Martin, a former SBA loan officer who wrote one of the letters alleging misconduct on the part of superiors.

As Chairman of the Committee, obviously I am concerned by those allegations and by the findings, but I admire the qualities in SBA Administrator for his willingness to be accountable and to establish accountability, and to submit to that accountability. I think it is admirable, and I think it is important, and I am confident we are going to see that exhibited here today.

The goal of this hearing, and the goal of each Senator on the Committee and for each witness, is to ensure that no victim falls through the cracks, that no one who is relying on the Government for a loan to rebuild a business or home is left wondering why the Government let them down, and that we know what happened so that these kinds of things do not happen again.

As we have done since the day Katrina struck, Senator Snowe, Senator Landrieu, and Senator Vitter and I have worked, and we will continue to work to make sure that he SBA leaves no stone unturned in providing relief to small business owners and homeowners who are still struggling to make ends meet.

And I know I do not need to, but I will encourage Administrator Preston to continue to work with the Inspector General in the months ahead to address the concerns raised in those reports.

More importantly, I believe an effort needs to be made to ensure that no loan applicant who was approved for a disaster loan was left with an undesired or unrequested cancellation. If there are victims of this storm who were approved for assistance, but were later turned away against their wishes, then I think we have a responsibility to go back and try to find out whether things can be made right, within obviously, the rules and normal standards by which those decisions are made. I am confident that Administrator Preston will make a serious effort to do that.

Just as we have to continue to look at what could be done for the people of the Gulf Coast, we have to put in place the tools that prevent another Katrina-like response. The SBA recently briefed Congressional staff on its Disaster Recovery Plan which establishes a framework for how the Agency will respond to future events, and we look forward to hearing from the Administrator regarding the specifics of the plan.

We are also going to hear from William Shear of GAO, who has made several recommendations through two published reports regarding what steps the SBA needs to take to address the shortcomings that we will discuss.

Finally, we are meeting today, 4 months after this Committee voted unanimously to report a bill that addresses many of the holes in SBA's capacity to execute effective disaster response. I emphasize capacity: Capacity depends often on the law itself, on staff, and other things.

This bill creates an expedited disaster response program to get money in the hands of victims quickly. It authorizes private banks to make disaster loans so that local banks can get involved immediately with the response effort—I might add—in a place where they know the people, know the players, know the facts, and have a stake.

It also creates a new level of declaration for the Administrator, a declaration of catastrophic national disaster, to allow for businesses outside of the geographic reach of a disaster access to low interest loans if they are adversely impacted.

I want to emphasize—because some have expressed some concern about a new level of disaster assistance—it can only be done with the Department of Homeland Security and Presidential, and other appropriate sign-offs. So it is not as if it were some great new permissive discretion, and only in the face of, obviously, a legitimate disaster.

Despite broad bipartisan support in the Senate and a letter of support from the Administrator, this bill remains stalled. We need to pass this bill now, so that funds are available if and when the SBA needs to respond to another large-scale Katrina-size disaster.

So we are here today because we have to get this right. We are almost 2 months into another hurricane season which is projected to be a busy one. The National Oceanographic Atmospheric Administration projects 13 to 17 named storms, with as many as 10 becoming hurricanes.

I think it is irresponsible of Congress to continue to count on luck to carry us through having seen what we have lived through in the last years. So I hope we are going to break that logjam, and I call on my colleagues to help us do that.

I now turn to Senator Snowe.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, A UNITED STATES SENATOR FROM MAINE

Senator SNOWE. Thank you, Mr. Chairman, and thank you for holding today's vital hearing on disaster loan oversight, and for your continued leadership on this crucial matter which has required tremendous effort by this Committee to follow up on a number of initiatives that developed in the aftermath of Hurricane Katrina.

I certainly want to welcome SBA Administrator Preston. I want to thank him for both his countless hours and efforts on this issue. I understand he has just passed the 1-year anniversary of his tenure at SBA, and I wish to congratulate him.

And we are especially anxious to hear the progress that he is making. I know, during his confirmation hearings just a year ago, he indicated his commitment to focus on disaster-related issues that we unfortunately and tragically discovered. When it was time for the SBA to respond to the disasters that occurred in the region, they were not on the front lines as they should have been. I know the SBA has responded with numerous initiatives such as the 90-in-45 Campaign to address those issues. And obviously, we need to learn about what has worked and what has not worked, and we are going to continue to persevere and to make sure that we resolve any outstanding issues in which these programs are administered.

I also want to welcome Inspector General Thorson, Mr. Shear, and Ms. Martin today. Thank you for your participation and your perspectives on what the SBA can do better, what needs to be done now, and what is not working. Clearly, as the Chairman indicated, we have to get this program right.

As we learned all too well in the aftermath of the devastating 2005 Gulf Coast hurricanes, it is absolutely imperative that Government programs on the front lines are fully prepared when called upon to aid disaster victims.

Admittedly, the SBA's Disaster Loan Program faced herculean challenges in the wake of Hurricane Katrina, but to the detriment of all concerned, the Agency made too many costly mistakes, leaving disaster victims waiting months for loans to be processed, or their money to be disbursed.

As we all well know, in the numerous hearings that were held by this Committee between 2005 and 2006, as well as this year, we found the collective record was devastating in terms of the failure of the SBA to respond appropriately and swiftly to the disaster that has occurred in the region, particularly in New Orleans.

The SBA's recently released Disaster Recovery Plan is a step in the right direction toward correcting these problems, yet I am deeply alarmed by reports the Inspector General will share with us today.

I am specifically concerned with allegations that suggest $1.5 billion in SBA loans were awarded to applicants who lacked repayment ability, that loans may have been improperly canceled, and that SBA staff altered quality assurance reports in order to avoid penalties.

Hopefully, this new recovery plan equips the SBA with the tools required to avoid making the same egregious errors in the future. We have to do everything that we can to redouble our efforts to make sure that SBA successfully disburses loans after a catastrophic disaster.

As for this Congress and this Committee, I can tell you that during the last 22 months, we have worked hand-in-glove to craft bipartisan disaster legislation which would assist the SBA to respond effectively and swiftly to future disasters.

In fact, the reauthorization we passed in the last Congress included disaster-related legislation—and passed unanimously by this Committee. Unfortunately, we never were able to get similar action by the House of Representatives.

We then had a product of consensus and compromise among Chairman Kerry, Senator Landrieu, Senator Vitter, and myself, as well as other Members of this Committee. The Small Business Disaster Response and Loan Improvements Act of 2007, again, passed unanimously by this Committee, providing the SBA with more resources to aid the victims of future catastrophes, taking into account our review of what has worked in the past and how Congress could help SBA's preparedness for future disasters.

I have long championed one such provision, the private disaster loans which would allow private banks the ability to partner with the SBA to offer disaster loans. We cannot overstate the necessity of both making additional resources available and increasing access to capital for business owners and homeowners immediately following a disaster.

Also addressed in this bill is an issues that emerged in our hearings, bridge loans are an absolute necessity until the SBA can be on the front lines in administering the loan program. It is important that small businesses get immediate assistance so they can begin to recover from the disaster.

What has disheartened and disappointed many in this Committee is that Congress has yet to pass our disaster-related legislation. How long do we have to wait? How devastating does the storm have to be for our Nation's small business owners to receive support from this Congress. This disaster package is very much essential to not only dealing with the past, but also the future. And as the Chairman said in his statement—with every indication that we will have above normal hurricane activities this season—we must be prepared.

I know in my State of Maine alone, during the month of April, heavy rains took their toll on the southern part of the State, and we had disasters as a result of catastrophic flooding for the second time in less than a year.

So Mr. Chairman, as you will agree, the failure to pass this legislation makes no sense. It is certainly not controversial. It is everything that we have worked on, explored, and examined in every dimension. There is broad support for this bill including the Administration, the SBA Administrator, and Members of this Committee on a bipartisan basis. This is not something that should have been held up in the United States Senate.

It is a consequential matter. It makes a difference, and it will continue to make a difference in the Gulf region and any other areas that might be affected by a devastating hurricane. This is certainly an issue around which we all should be able to coalesce and show support.

We hope that we will be able to move this bill forward so that this legislation can be signed into law. This hearing represents a forward-looking effort to collaborate with the SBA for a more comprehensive and aggressive response to future disasters.

It is paramount that we bolster the Agency's capacity for assisting this country's small business community with the same dedication to excellence exemplified by the entrepreneurs it strives to serve.

So I thank you, Mr. Chairman. I thank the distinguished panel of witnesses who are going to be here today to help and guide us in finding solutions to improve the disaster response by this vital agency.

Thank you, Mr. Chairman.

Chairman KERRY. Thank you very much, Senator Snowe.

Our first witness is Eric Thorson, the Inspector General of the Small Business Administration. He has served in this role since April of 2006 and previously served as the Chief Investigator for both the Senate Permanent Subcommittee on Investigations and the Senate Committee on Finance.

Also Gale Martin, former loan officer, Small Business Administration. Ms. Martin has 25 years of experience in accounting, tax preparation, and small business management. She became a public servant with the U.S. Small Business Administration's Office of Disaster Assistance in Fort Worth, Texas in December 2005, and remained with the SBA through late November 2006.

In addition, William Shear, Director of Financial Markets and Community Investment at the Government Accountability Office. Mr. Shear has directed substantial bodies of work addressing SBA, Federal Housing Administration, and Rural Housing Service Community Economic Development Program.

So we are grateful to have the experience and commitment that is represented in the panel, and look forward to your testimonies.

Mr. Inspector General.

STATEMENT OF THE HONORABLE ERIC M. THORSON, INSPECTOR GENERAL, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC

Mr. THORSON. Thank you, Chairman Kerry and Ranking Member Snowe.

I appreciate the invitation to appear before you to discuss our work on the effectiveness of the efforts made by the Small Business Administration (SBA) to cope with the aftermath of Hurricanes Rita and Katrina.

Debra Ritt, the Assistant Inspector General for Auditing, Mr. Hickok and Mr. Houle both of the audit staff conducted a series of audits of disaster relief procedures that are the subject of my testimony today.

I will try to give you a very short summary of these reports, but I would request that my full statement be entered into the record.

Chairman KERRY. And without objection, it will be.

Mr. THORSON. Shortly after assuming the position of Inspector General, I personally visited the New Orleans area and walked on the deserted streets of the worst-hit areas, surrounded by total devastation. It was dramatically apparent that our oversight work would need to begin immediately and cover nearly every aspect of the SBA disaster loan process.

Within 90 days of my visit, the Office of Inspector General had established a new office in New Orleans, putting both investigators and auditors at the scene.

In the fall of 2006, faced with a backlog of loans that had been approved, but not yet disbursed, SBA initiated a 90-in-45 Campaign designed to contact approximately 90,000 borrowers within 45 days to resolve any issues that may prevent closure. The audits that I will discuss today were initiated in response to complaints by SBA employees about problems allegedly resulting from this campaign and other efforts to expedite the loan disbursement process.

While certainly problems arose, this does not diminish the Agency's great effort which increased disbursements from only $2 billion in August 2006 to $5.5 billion by the end of the year.

And as you said, Mr. Chairman, no one in our office approached this from a "gotcha" mentality. This was really done in an effort to contribute to lessons learned.

As a referral from this Committee, we received disturbing written allegations that indicated thousands of already approved disaster loans were canceled in what appeared to be an effort to improve statistics that focused negative attention on the huge backlog of approved, but undisbursed loans.

We have just issued a draft report to SBA on this topic. Our audit focused on the first 2 weeks of September 2006, during which time over 12,000 loans were canceled. We determined that close to 8,000 of them were canceled without any prior notification to the borrowers. These were loans primarily for homeowners and renters who planned to use the loans to rebuild homes and replace personal property destroyed by the hurricanes.

At the time, SBA procedures required that borrowers be sent a 14-day letter before a loan could be canceled, outlining steps needed to prevent the cancellation; however, no 14-day letter was sent. The direction was given to make three attempts to call each borrower within 24 hours. If they could not reach the borrower, they were to cancel the loan.

The director of the Fort Worth Center stated to our audit staff that these instructions were intended to get the loans off of SBA's books.

Our audit disclosed that, in many cases, SBA made only one attempt to reach the borrower before canceling the loan. A letter of cancellation was sent informing the borrower, and sometimes that the cancellation was at the borrower's request, even though no such request had been made. The normal disaster loan commitment expires in 60 days. In this case, the loans were past 120 days.

While we recognize the effort made by the Agency in allowing an extension to 120 days, given the drastic situation in this area, cancellation within a 24-hour timeframe, even if beyond this 120-day deadline, does not appear to be a fair or prudent course of action. In fact, as we near the 2-year anniversary, I have no doubt that there are many cases where it is still difficult to assemble the documents that might be required to close a disaster loan.

In October, the Buffalo Center attempted to re-contact the nearly 8,000 borrowers they were previously unable to reach. Of the 4,500 that they eventually did contact, about 1,200 requested that their loans be reinstated.

The urgency of this audit is that we recognize, unlike many audits where the numbers portray a level of efficiency or productivity, these numbers represent individuals and families who have faced a tragedy most of us cannot imagine.

A second audit responded to an employee complaint that SBA was not taking proper steps to protect its interest in collateral on secured loans. We found nearly 5,000 uncashed checks received from borrowers for recording and filing fees. This indicated that SBA had not recorded the liens on any of the loans related to these checks. Almost 3,000 checks were over 90 days old, and SBA had to request new checks before the liens could be recorded. We estimated that SBA disbursed $368 million in loan proceeds on over

3,000 loans without timely perfecting liens on property or completing UCC filings.

A third audit was prompted by employees who alleged that a supervisor altered the results of a quality assurance review over the loss verification process. Loss verifications provide initial damage estimates for repair or replacement of property used to determine the amount of a disaster loan. Our audit found that an SBA official did materially alter the results of quality assurance reviews in 72 of 246 cases, apparently to meet required performance parameters.

The final audit looked at a pilot program that SBA started in November 2005 to expedite loan decisions. By making a loan based primarily on a borrower's credit score rather than the normal analysis of ability to repay, SBA expedited nearly 70,000 Gulf Coast disaster loans, totaling $3.7 billion.

We estimate over 21,000 loans totaling $1.5 billion, or about 32 percent of the sampled loans, were made to applicants who lacked repayment ability. While many of these loans processed under the program may default, we also believe that many of these individuals should have been referred to FEMA for consideration of a grant instead of a loan.

After we briefed SBA on our findings, the Agency terminated the program on April 9, 2007. We commend SBA for quickly acting on these findings.

Our audit staff has accomplished a great deal of work on the disaster loan process in a very short period of time. I would be remiss, however, if I did not mention the outstanding efforts that our criminal investigators have made as well. With no presence at all in the region 1 year ago, as of today, we have obtained nine indictments, one conviction, and prevented losses to the Government of millions of dollars. I am very proud of the work our criminal investigators do each day to help ensure that the money allocated for victims is not lost to theft or to fraud.

We hope these comments have been both helpful and constructive. It is our most sincere desire to use these audits to work further with the Agency to help fix the problems that I have outlined above.

Thank you.

[The prepared statement of Mr. Thorson follows:]

STATEMENT OF

HON. ERIC M. THORSON

Inspector General, U.S. Small Business Administration

Before the

Committee on Small Business and Entrepreneurship

United States Senate

July 25, 2007

Chairman Kerry, Ranking Member Snowe and members of the Committee, I appreciate the invitation to appear before you to discuss our work on the effectiveness of the efforts made by the Small Business Administration (SBA) to cope with the aftermath of Hurricanes Rita and Katrina. With me today is Debra Ritt, the Assistant Inspector General for Auditing. She and her staff have worked diligently to identify and conduct audits of SBA disaster relief procedures that provide the most value to the Agency and hurricane victims. It is a selection of these audits that is the subject of my testimony today.

Shortly after assuming the position of Inspector General, I personally visited the New Orleans area and walked on the deserted streets of the worst hit areas, surrounded by total devastation. Just being there was a life altering experience. It was dramatically apparent that our oversight work, to be of the most value, would need to begin immediately and cover nearly every aspect of the SBA disaster loan process.

Within 90 days of my visit, the Office of Inspector General had established a new regional office in New Orleans putting both investigators and auditors at the scene. Our audits of the various Agency disaster programs have since covered a wide range of issues, and have uncovered some discouraging problems.

In the Fall of 2006, SBA initiated the "90 in 45" campaign to contact every borrower, some 90,000, whose loan had not been fully disbursed, within 45 days in order to properly and rapidly disburse funds for loans approved for victims of Hurricanes Katrina, Rita, and Wilma. The audits that I will discuss today were initiated either in response to complaints from SBA employees about problems allegedly resulting from this campaign or other concerns about SBA's efforts to expedite loan disbursement.

Improperly Cancelled Disaster Loans

As a referral from this Committee, we received disturbing written allegations that indicated thousands of already approved disaster loans were cancelled in what appeared to be an effort to improve statistics that focused negative attention on a huge backlog of approved but undisbursed loans. While certainly problematic, this does not diminish the Agency's great effort that increased disbursements from only $2 billion in August of 2006 to $5.5 billion by the end of the year.

We have just issued internally a report, still in draft, that evaluates whether SBA unnecessarily cancelled already approved loans in 2006, as alleged by former SBA employees. Our audit focused on SBA's Buffalo Customer Service Center, which processed about half of the over 40,000 loan cancellations made last year, of which about 12,000 loans were cancelled during the first two weeks of September 2006.

The loans were cancelled at the direction of SBA's Fort Worth Processing and Disbursement Center, who instructed the Buffalo Center to make three attempts to call each borrower within 24 hours. If they could not reach the borrower, they were to cancel the loan. The Director of the Fort Worth Center stated to our staff that these instructions were intended to get the loans off of SBA's books so that SBA did not have to report a backlog of undisbursed approved loans. Our audit of SBA's records disclosed that in most cases, SBA made only one attempt to reach the borrower before canceling the loan. A letter of cancellation was sent informing the borrower, and sometimes indicated that the cancellation was at the borrower's request, even though no such request had been made.

The normal time before an SBA disaster loan commitment expires is 60 days. In this case, the loans were past 120 days. While we recognize the effort made by the Agency in allowing an extension to 120 days, given the drastic situation in this area, cancellation within a 24 hour timeframe does not appear to be a fair or prudent course of action. In fact, as we near the 2 year anniversary of these hurricanes, I have no doubt there are many cases where it is still difficult to assemble the documents that might be required to close a disaster loan.

Of the nearly 12,000 cancelled loans, we determined that close to 8,000 were cancelled without any prior notification to the borrowers. These were loans primarily for homeowners and renters who planned to use the loans to rebuild homes and replace personal property destroyed by the hurricanes. This was contrary to SBA's own procedure, which stated that:

> *"Before we initiate an action to cancel all or any funds, we must mail a letter giving 14 calendar days notice of the pending cancellation. The letter must specify the action the borrower can take to prevent the cancellation."*

We also discovered that when the Buffalo staff annotated its records, the limited options in the computer system recorded it as if the borrower had requested the cancellation.

Several weeks after canceling the loans, the Buffalo Center did again attempt to contact the nearly 8,000 borrowers they were previously unable to reach. Of the 4,500 borrowers eventually contacted, about 1,200 requested that their loans be reinstated. In a sample of borrowers interviewed by our audit staff, some individuals had agreed to the cancellations, but others were upset that their loans had been cancelled and felt that they had been pressured to make a decision on the spot.

If a loan is not reinstated within 6 months from loan cancellation, the borrower is prohibited from ever again reapplying for the loan regardless of need. The inability of borrowers to close on loans within the time restrictions imposed by SBA is extremely problematic in light of the slow progress made to rebuild the infrastructure in the Gulf Coast region. Therefore, we believe SBA's deadlines for those who were not provided the required advance notice should be extended so that borrowers who are not ready to close on their loans may still get the assistance they need.

The very program the Agency initiated to assist victims in receiving disaster assistance in a more expeditious manner became a program driven, at least for these 8,000 borrowers, more by statistics than the needs of the very people it was trying to assist. The urgency of this audit is that we recognize, unlike in many audits where the numbers portrayed indicate a level of efficiency or productivity, these numbers represent individuals and families who have faced a tragedy most of us cannot imagine.

Two Audits of the *90-in-45 Campaign*—"Disbursing Funds Against Borrowers Wishes" and "Securing Collateral"

We issued two audit reports on SBA's efforts to expedite loan disbursements during its *90-in-45 Campaign*. The audits undertaken regarding this campaign were in response to an employee complaint that loans processed during the campaign were being disbursed contrary to borrowers' wishes and without obtaining all of the documents required to secure the government's position as a lender.

Regarding the first complaint, we found only a few instances where disbursements were made contrary to borrowers' wishes. During this campaign, loan disbursements were made without contacting the borrowers, even when SBA had not heard from the borrower in several months, or had not received additional documents needed for disbursement. When unwanted disbursements were received, the borrowers generally returned the funds and loan balances were appropriately reduced. While the number of instances we identified were small and do not reflect a widespread problem, we believe that *any* disbursements made contrary to borrower wishes is inappropriate as it creates an unwanted debt to the government that can impact his/her access to credit elsewhere.

We also determined that SBA had established production goals for the *90-in-45 Campaign*, based on the number of loans that had to be processed to reach the 90,000 in 45-day goal. Therefore, there was a strong indication that the goals could not be met without sacrificing customer service and adherence to SBA loan requirements. Because many loan officers and support staff held temporary positions, production goals became an issue of job security. Temporary employees were fearful that if they did not disburse enough loans, they would be terminated.

We determined that SBA also gave cash awards to teams that made the largest number of disbursements. Using cash incentives based solely on the volume of disbursements can lead to hasty decisions to meet production goals, with less attention paid to quality customer service and adherence to SBA legal requirements.

We concluded that while the *90-in-45 Campaign* was intended to get disaster funds in the hands of borrowers quicker, the goals and bonuses may have inappropriately influenced employees to make decisions or disburse funds that were disadvantageous to the borrower.

Our second audit of the campaign examined whether SBA took proper steps to protect its interest in collateral on secured loans. We focused on SBA's efforts to secure collateral because, at the time of our audit, we found that the Center had nearly 5,000 unprocessed checks received from borrowers for recording and filing fees. Since these checks had not been processed, this indicated that SBA had not recorded the liens on any of these loans. Many of these checks could not be processed because they were either too old or had incorrect information. Over half (2,949) of these checks were over 90 days old and SBA had to request new checks before the liens could be recorded. We also found instances where borrowers' checks were either written for the wrong amount or to the wrong payee. When checks were incorrect, loan closers did not always follow-up with borrowers in a timely manner to obtain replacement checks, which created further delays in protecting SBA's secured interests.

Through statistically relevant sampling, the audit disclosed that SBA released an estimated $368 million in loan proceeds on over 3,000 secured loans without perfecting liens on property used as collateral or completing UCC filings.

Quality Assurance Reviews of Loss Verifications

This week we issued a final report on the integrity of SBA's Quality Assurance Reviews (QAR) of loss verifications. Loss verifications provide the initial damage estimates for repair or replacement of real, personal and/or business property and are used to establish loan amounts under SBA's Disaster Assistance Program. The report addressed an employee complaint that QARs of individual loss verifications were inappropriately altered in order to meet performance metrics required under the process outlined in OMB Circular A-76.

Under the A-76 process, government employees may submit a bid to compete with outside contractors to perform the work based on a "Most Efficient Organization (MEO)" study. If the employees win the competition, they must operate as the MEO and meet performance metrics. In February 2005, a group of SBA employees assigned to SBA's Office of Disaster Assistance was determined to be the MEO of an A-76 competition and awarded a 5-year contract to conduct the initial loss verifications. The MEO was required to perform within a 2 percent exception. SBA monitored the MEO's performance through a QAR process, and in July 2006 SBA conducted its first review of the MEO's performance using a team of ODA loss verifiers that were not assigned to the MEO. The team concluded that the MEO performed within the 2 percent exception rate.

Our audit determined that the QAR process was compromised, allowing a senior official to alter results in order to avoid penalties and to retain the work under the A-76 contract. Specifically, we found that 72 of 246 QARs reviewed were materially altered, lowering the MEO's true 4.8 percent exception rate for the 246 QARs to 0.6 percent. The 0.6 percent rate was well below the 2 percent maximum exception rate stipulated in SBA's Letter of Obligation.

We recommended that SBA take steps to ensure that the initial QAR results are documented and any changes justified in writing and coordinated with the reviewers.

The Expedited Loan Program

The Expedited Loan Program was established as a pilot in November 2005 to reduce the processing time for underwriting disaster loans. The pilot was revised in December 2005 with an expiration date of May 15, 2006. It was then extended four times. The Expedited Loan Program used credit scores and a series of critical questions as the means to underwrite loans and to make general loan approval. Unlike standard processing, loans processed under the Expedited Loan Program are approved without an analysis of an applicant's repayment ability or verification of his/her stated income and debt. Additionally, loan making decisions by loan officers were not reviewed by a supervisor. The Expedited Loan Program was suspended on April 9, 2007.

As of April, 2007, SBA had approved close to 70,000 expedited loans, totaling $3.7 billion, specifically related to the 2005 Gulf Coast Hurricanes. Loans approved under expedited procedures accounted for nearly 45 percent of all disaster loans approved during this time period.

Our audit disclosed that, based on a statistically relevant sample, about 32 percent of the Gulf Coast Hurricane loans approved under the Expedited Loan Program were made to applicants who lacked repayment ability. Based on the sample results, we estimate that over 21,000 loans, totaling $1.5 billion, were awarded to high-risk applicants who may not be able to repay their loans. Loans for these individuals most likely would not have been approved if they had been processed under standard loan processing procedures. This occurred because the loans were approved based solely on the applicants' credit scores, without regard to their income and expenses. Consequently, had loans for these applicants been declined, SBA would have referred the applicants to FEMA for possible grant assistance. While recognizing the great needs of the borrowers, we are concerned that there is a high probability that a significant number of loans processed under expedited procedures will default.

After we briefed the Office of Disaster Assistance on our audit findings, SBA terminated the Expedited Loan Program. In its place, SBA introduced the RAPID Pilot Program. This program was initiated as part of the Administrator's Action Commitment Excellence (ACE) Campaign. We commend the Agency for expeditiously addressing the shortcomings identified in our audit of the Expedited Loan Program.

Conclusion

Our audit staff has accomplished a great deal of work on the disaster loan process in a very short time frame. I would be remiss, however, if I did not mention the outstanding efforts that our criminal investigators have made in this same area. With no presence at all in the region one year ago, as of today we have obtained 9 indictments and 1 conviction, and prevented losses to the government of millions of dollars. I am very proud of the work our criminal investigators do each day to help ensure that the money allocated for victims is not lost to theft or to fraud.

We hope these comments have been both helpful and constructive. These audits I have mentioned are only a portion of the work done in this area. It is our most sincere desire to use these audits to work further with the Agency to help fix the problems I have outlined above.

Chairman KERRY. Thank you very much, Inspector General. We appreciate it.

Ms. MARTIN.

STATEMENT OF GALE B. MARTIN, FORMER LOAN OFFICER, U.S. SMALL BUSINESS ADMINISTRATION, ARLINGTON, TX

Ms. MARTIN. Good morning, Senator Kerry and Ranking Member Snowe. Thank you for inviting me to testify in front of the Senate Committee on Small Business and Entrepreneurship.

My name is Gale Martin. I am a former loan officer of the Small Business Administration's Office of Disaster Assistance in Fort Worth, Texas. I loan processed for the SBA from December 5, 2005 to the end of November 2006, which was directly after the Katrina and Rita disasters.

I am currently employed with the Communications Department of the Federal Emergency Management Agency in Denton, Texas.

I am here today to hope for about a million people. These are the people who were unjustly sent away without anything at all, after applying for disaster loans in the wake of Hurricanes Katrina and Rita.

We—this group of nine concerned loan officers, and former loan officers—are especially concerned with the home applicants. They were the tragedy of the badly done processing within the SBA in 2005 and 2006. These are the people whom we would like to see given a second look, which is to say, another chance for a loan.

Everyone knows that the system didn't work: The loans weren't written, applicants left empty-handed, we have an excess of, at the time, $6 billion on the worst natural catastrophe the United States has ever had to mend, and that did not seem to make sense.

I brought with me the testimonies of eight other loan officers. We join together and we all agree that we were being forced by management to cancel, decline, and withdraw applications unnecessarily and unjustly in order to make the numbers look good for the public, the press, and Congress.

We could not process each of these loans to a correct decision in the amount of time that we were given. We were being forced to rush files through at a ridiculously unreasonable rate, or be faced with losing our jobs immediately. The bar of daily production quotas was raised often, and directly correlated with the amount of bad press the Agency was receiving. Senior loan officers and loan officers alike were scrambling daily, looking for any way to increase their numbers of completed loans just to hold onto their jobs.

It takes almost no time to withdraw, decline, or cancel a file. There are many, many reasons to be doing this. It also takes less time for a senior loan officer to concur or agree with a file that has been declined or withdrawn. This moves the entire staff's focus and motivation to finding quick declines and withdrawals to meet their daily production quotas, and had very little to do with helping the approved files for the disaster applicants.

Here is an example of an extraordinary measure used by the management to push things through. We were told we could withdraw a file after three attempts to get in touch with the applicant in a 24-hour period. That meant one call in the morning, one call in the afternoon, and a third call in the afternoon of the second day, and by the close of business on that second day, that file could be withdrawn. If we did manage to get in touch with the applicant, the applicant would then be given 48 hours to fax in all requested documents, or again, they could be withdrawn or declined.

Remember, these people had been waiting in line for 4 to 7 months just to talk to a loan officer. This was a standard practice. This is how we were told to treat the applicants.

There were call-out projects that called thousands of people who were given a few hours to make a final decision on their loans or their loans would be canceled. A lot of these people were still undecided as to whether they could or they should even rebuild. If they accepted the loan, they would have to start making their agreed-upon payments on the loan at the full amount, even if the loan could not be disbursed.

If the applicant asked for an extension of time, it was refused. They had only the choice of accepting the loan or having it canceled. They were told they could come back in if they reapplied within a 6-month period, but what they were not told is that they would have to go through a complete income reverification and requalification, and the full approval process again, using their most current information.

Any time a file was withdrawn, canceled, declined or, in some cases modified, the applicant was faced with a complete reverification. This meant all their documents had to be updated, their income had to be reverified, new tax transcripts secured, and insurance proceeds double-checked for any additional duplication of benefits. The approval guidelines used directly after Katrina and Rita were very relaxed in comparison to what they are using now. Many of these applicants would probably not be able to qualify for a loan again.

The applicants were never given any information: They were rarely sent their decline letters, cancellation letters, or withdrawal letters. I used to receive phone calls from applicants 3 or 4 months after I had called them with my decision on their file. They were still waiting for a copy of their letters.

Applicants only have 6 months to come back in. They were told to wait for their letters before they reapplied. The clock started ticking from the day the loan officers made their decisions on a file. The applicant usually did not know this. If they waited a while before calling for a copy of their letter, they probably would not have enough time to remedy the deficiencies on the file and secure any additional paperwork necessary before the clock would run out. This was another way to get rid of files.

An excellent example of an applicant not being informed of anything on their case, being put through sheer agony to secure a loan, and then being forced into a cancellation of their loan is the case of Alice.

I wrote a relocation loan for Alice in July of 2006, and I have been following her progress since then. Alice had been waiting in line for relocation processing for over 4 months. Of course, she had called in to talk to customer service but, as usual, they refused to give her any information about what would be needed in processing.

When I first spoke to Alice, she was horrified to find that she needed to have a purchase contract in hand or I would have to withdraw the file. This is the policy with relocation loans. She thought she would have some time to make the purchase after I informed her of the amount that she would be eligible to borrow. This situation was a common occurrence within the relocation department. The borrower was never informed of what was needed prior to talking to a loan officer. They would wait in line for months just to be kicked out immediately again for not having a purchase contract.

In this case, I agreed to hold on to her file because of her hardship circumstances with her 94-year-old mother who was wheelchair-bound. Alice hopped on the project of looking for a house, driving from Florida to Georgia with her 94-year-old mother in tow.

Every day she would call in, or every other day, and inform me of the progress on her file. Unfortunately, Alice's file had been in process for 271 days, and this was the time when the Agency was being very embarrassed for aged files. I was told to withdraw her file twice—fairly politely—and then threatened by the department head about it.

Fortunately, Alice found a home in that week and we were able to write her loan. However, the purchase did not work, and Alice found herself on the phone with a loan officer recently who refused to give her an extension and insisted on canceling her loan. He said she could come back in if she reapplied within 6 months, but he did not explain that she would have to go through a complete requalifying for that loan.

This all happened in early April, and by the end of June, she still had not received a cancellation letter. He also neglected to tell her that the clock started ticking from April. When she called in to inquire, she was then sent a letter stating that the loan was canceled at her request.

This is an example of every error that I have just been trying to communicate to you. Very little was done well on the file, and Alice is still fighting to get her loan back.

As I explained above, we were also simply ordered to withdraw files. During the main thrust of each of the four production campaigns, we were not allowed to hold files beyond a week's time. Please bear in mind that the public had lost absolutely everything in the world. They could not give us the documents necessary to process their files within that time period.

An example was during the business loan processing campaign which ended in March. We were very behind in securing tax transcripts for applicants from the IRS. Up to this period, the applicant was not considered responsible for securing their own tax transcripts. We were suddenly ordered to inform our applicants that they would have to secure their own transcripts within 5 days or their files would be withdrawn. Applicants were frantically calling in, crying and begging for the files not to be withdrawn. We simply gave them a direct line number to the IRS and suggested that they call and recall the IRS until they found a sympathetic ear who was willing to process their request before the deadline. For the most part, the applicants were told by the IRS that it would take up to

6 weeks to process their transcript request. As a result, these files were unreasonably withdrawn.

The applicants were rarely notified of decisions made on their files. The written testimony of two of the reconsideration loan officers spells it out. Loan officers would simply lie in the chronological comments in order to close off the file and include it on their daily production reports. Over and over again, reconsideration letters from the applicants would come back having stated that they had not been informed of the changes made on their cases.

I also witnessed this myself while working in the legal escrow department. If I saw that a file had been withdrawn, I always made it a point to call the applicant and ask if they were aware that the file had been withdrawn. The answer was always no.

I remember one poor lady was on vacation in California. She ended up having her daughter in Mississippi break into her house to get me the documents I needed to reinstate her file since I could only hold the file for 24 hours.

Another poor woman who had been withdrawn and not notified had to exit her apartment within 2 weeks of my call. Her landlord had already given her a one-time extension and refused to give her a second. She thought everything was in place for SBA to complete her closing in 2 weeks. Instead, her file had been withdrawn with no apparent reason.

By the way, my orders in Escrow were simply to fix a legal stipulation on the withdrawal, not to reinstate the file. We did manage to save her home purchase and get her home closed in time, but we had to scramble to do it.

The statement below was made by a former reconsideration loan officer. I thought it was worth including in my oral testimony.

> "What follows are a few examples of why fundamental change is needed at the Agency: I was told to change the dates on the DCMS system to reduce the aging time of the files. The Reconsideration Department withheld hundreds of files for 2 weeks that had been recommended for approval, to make the total number of the files not processed a smaller number, thereby making the numbers process look better. The head of the same department asked a new employee, 'Why do you care?' when a loan officer showed some concern for his applicants. Another supervisor said he would use a 3-minute egg timer, and when it went off, that was the maximum time that his group of employees were allowed to be on the telephone with their applicants. A 15-year SBA vet, SLO, talked to his group of employees, and the topic of conversation was: 'How to get rid of files.'"

I could go on and on for hours here, but the truth is that only the wealthy moved through the system easily. People with credit issues who owed the Government even a little bit of money, who had lost their documents, or just moved around would probably not be given a loan, and if they had, they would probably have to fight to keep it.

In closing, it was the decision of the Agency to force files through the system at a rate that did not allow for proper processing. Their concentration was on making the numbers look good to the public and Congress at the expense of possibly over 100,000 applicants.

Thank you again for allowing me to testify, and I look forward to answering any of your questions.

[The prepared statement of Ms. Martin follows:]

Oral Testimony of Gale B. Martin, a former Loan Officer of the U.S. Small Business Administration – Office of Disaster Assistance As Given to the Small Business Committee of the U.S. Senate

July 25, 2007

Good Morning, Senator Kerry and Ranking Member Snowe. Thank you, for inviting me to testify in front of the Senate Committee for Small Business.

My name is Gale Martin. I am a former loan officer of the Small Business Administration – Office of Disaster Assistance, in Ft. Worth, Texas. I loan processed for the SBA from December 5th 2005 to the end of November 2006, which was directly after the Katrina and Rita disasters. I am currently employed as an E-Correspondence Writer for the Communications Department of the Federal Emergency Management Agency in Denton, Texas.

"A Second Look"

I am here to hope for a million people. These are the people who were unjustly sent away without anything at all, after applying for disaster loans in the wake of hurricanes Katrina and Rita. We, this group of nine concerned loan officers and former loan officers, are especially concerned with the home applicants. They were the tragedy of the badly done processing within SBA in 2005 and 2006. These are the people that we would like to see given "***a Second Look***," which is to say another chance for a loan.

Everyone knows the system didn't work. The loans weren't written. Applicants left empty handed. We have an excess of allocated funds of six billion dollars on the worst natural catastrophe the United States has ever had to mend and that didn't make sense.

I have brought with me the written testimonies of eight other loan officers. We join together, and we all agree that we were being forced by management to cancel, decline, and withdraw applications unnecessarily and unjustly in order to make the numbers look good to the public, the press, and Congress. *We could not process each file to a correct "decision" in the amount of time we were given.* We were forced to rush files through at a ridiculously, unreasonable rate or be faced with losing our jobs immediately. The bar of daily production quotas was raised often and directly correlated with the amount of "bad press" the Agency was receiving.

Senior Loan Officers and Loan Officers alike were scrambling daily looking for any way to increase their number of completed loans, just to hold onto their jobs. It takes almost **no time** to decline, withdraw, or cancel a file and there are many, many reasons to do this. It also takes less time for a Senior Loan Officer to concur with a file that has been declined or withdrawn. This moved the entire staff's focus and motivation to finding quick declines and withdrawals to meet their daily production quotas and *had little to do with approving files to help the applicants.*

Here is an example of an extraordinary measure used by management to push things through: We were told we could withdraw a file after three attempts to get in touch with the applicant in a 24 hour period. That meant one call in the morning, one call in the afternoon, and a third call in the afternoon of the second day, and by the close of business of that second day that file could be withdrawn. If we *did* manage to get in touch with the applicant, the applicant would then be given just 48 hours to fax in all requested documents, or again, they could be withdrawn or declined. Remember these people had been waiting in line for four to seven months just to talk to a loan officer. *This was a standard practice. This is how we were told to treat the applicants.*

There were call-out projects that called thousands of people who were given a few hours to make a final decision on their loans, or their loans would be cancelled. A lot of these people were still undecided as to whether or not they should or could rebuild. If they accepted the loan they would have to start making their agreed payments on the loan, even if the loan could not be disbursed. If the applicant asked for an extension of time, it was refused. Their only choice was to accept or to be cancelled. They were told they could come back in, if they reapplied within six months. What they *weren't* told is that they would have to go through a complete income re-qualification and the full approval process again using their most current information. Anytime a file was withdrawn, cancelled, declined, or in some cases modified, the applicant was faced with a complete re-verification. This meant all their documents had to be updated, their income had to be re-verified, new tax transcripts secured, and insurance proceeds double-checked for any additional duplication of benefits. The approval guidelines used directly after Katrina and Rita were very relaxed in comparison to what they are using now. *Many of these applicants would probably not be able to qualify for a loan again.*

The applicants were never given any information. They were rarely sent their decline letters, cancellation letters, or withdrawal letters. I used to receive phone calls from applicants three to four months after I had called them with my decision on their file. They were still waiting for a copy of their letter. Applicants only have six months to come back in. They were told to wait for their letters before they reapplied. The clock started ticking from the day their loan officer made their decision on the file. The applicant usually didn't know this. If they waited awhile before calling for a copy of their letter, they probably wouldn't have enough time to remedy the deficiencies on the file and secure any additional paperwork necessary before the clock would run out. This was another way to get rid of files.

An excellent example of the applicant not being informed of anything on their case, of being put through agony to secure a loan, and then being forced into a cancellation of that loan, is the case of Alice Bowman: I wrote a relocation loan for Alice in July of 2006 and have been following her case through since then: Alice had been waiting in line for relocation processing for over four months. Of course, she had called into customer service, but as usual, they refused to give her any information about what she would need to be processed. When I first spoke to Alice, she was horrified to find out that she needed to have a purchase contract in hand, or I would have to withdraw her file. This is the policy with relocation loans. She thought she would have some time to make her purchase, after I informed her of the amount she was eligible to borrow. – This situation was a common occurrence in the relocation department. The borrower was never informed of what was needed prior to talking to a loan officer. They would wait in line for months, just to be kicked out immediately again for not having a purchase contract. In this case, I agreed to hold on to her file because of hardship circumstances with her 94-year-old mother who was wheelchair bound. Alice hopped onto the project of looking for a house, driving from Florida to Georgia, with her 94-year-old mother in tow. Every other day she called in and informed me of her progress. Unfortunately, Alice's file had been in process for 271 days and this was at the time when the agency was being embarrassed for aged files. I was told to withdraw the file twice, and then threatened by the department head about it. Fortunately, Alice found a home and we were able to write her loan that week. - However, that purchase didn't work, and Alice found herself on the phone with a loan officer recently, who refused to give her an extension and insisted on cancelling her loan. He said she could come back in if she reapplied within six months, but he didn't explain that she would have to re-qualify that loan. This all happened in early April, and by the end of June, she still had not received a cancellation letter. He also neglected to tell her that the clock started ticking from April. When she called in to inquire, she was then sent a letter stating that the loan was cancelled at her request. This is an example of every error that I have just tried to communicate. Very little was done well on this file, and Alice is still fighting to get her loan back.

As I explained above, we were also simply ordered to withdraw files. During the main thrust of each of the four production campaigns, we were not allowed to hold files beyond a week's time. Please bear in mind that our applicant had lost *absolutely* everything in the world. They could not give us the documentation necessary to process their files within that time period. An example was during the business loan processing campaign which ended in March, we were very behind in securing the tax transcripts for applicant's from the IRS. Up to this period, the applicant was not considered responsible for securing their own tax transcripts. We suddenly were ordered to inform our applicants that they would have to secure their own transcripts, within five days, or their files would be withdrawn. Applicants were frantically calling in, crying and begging for their files not to be withdrawn. We simply gave them a direct-line number to the IRS and suggested that they call and re-call the IRS until they found a sympathetic ear, who was willing to process their request before the deadline. For the most part, the applicants were told by the IRS that it would take up to six weeks to process their transcript requests. As a result, these files were unreasonably withdrawn.

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Another poor women who had been withdrawn and not notified, had to exit her apartment within two weeks of my call. Her landlord had already granted her one extension and would not give her a second extension. She thought everything was in order for SBA to complete her closing in two weeks. Instead her file had been withdrawn for no apparent reason. By the way, my orders in escrow were to simply fix a legal stipulation on the withdrawal, not to reinstate the file. We did manage to save her home purchase and get her closed on time, but we had to scramble to do it.

The statement below was made by a former reconsideration loan officer. I thought it was worth including in my oral testimony:

What follows are a few examples of why fundamental change is needed at the Agency: I was told to change the dates on the DCMS system to reduce the aging time of the files. The Reconsideration Department withheld hundreds of files for two weeks that had been recommended for approval, to make the total number of files not processed a smaller number (thereby making the numbers processed look better). The head of this same department asked a new employee, "Why do you care? when a loan officer showed concern for his applicants. Another supervisor said he uses a three-minute egg timer and when it goes off, that is the maximum time that he and his group of employees were allowed to be on the telephone with any applicant. A 15 year, SBA veteran, SLO talked to his group of employees and the topic of conversation was: "How to get rid of files."

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In closing: It was the decision of the Agency to force files through the system at a rate that did not allow for proper processing. Their concentration was on making the numbers look good to the public and Congress at the expense of possibly over a hundred thousand applicants.

Thank you again for allowing me to testify, and I look forward to answering any of your questions.

Chairman KERRY. Thank you very much, Ms. Martin.
Mr. Shear.

STATEMENT OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. SHEAR. Mr. Chairman, Senator Snowe, and Members of the Committee, it is a pleasure to be here this morning to discuss SBA's response to the 2005 Gulf Coast hurricanes.

My testimony is based on two reports that we issued under the Comptroller General's authority.

The first report, which was released in July 2006, discussed SBA's planning for and implementation of the Disaster Credit Management System, called DCMS, which the Agency uses to process disaster loan applications.

The second report, which was released in February 2007, discusses SBA's disaster planning for other logistical areas, such as hiring and training a capable workforce and acquiring necessary office space.

As we all know too well, the Gulf Coast hurricanes were truly catastrophic. SBA faced unprecedented demand for its disaster loan services as a result of the hurricanes.

In summary, we identified several system and logistical challenges that SBA experienced in responding to the Gulf Coast hurricanes that undermined the Agency's ability to provide timely disaster assistance to victims.

For example, the limited capacity of DCMS restricted the number of staff who could access the system at any one time to process disaster loan applications.

In addition, SBA staff who could access DCMS initially encountered multiple system outages and slow response times in completing loan processing tasks. As of late May 2006, about 9 months after Hurricane Katrina struck the Gulf Coast, SBA processed disaster loan applications, on average in about 74 days, compared with its goal of within 21 days at that time.

While the large volume of disaster loan applications that SBA received clearly affected its capacity to provide timely disaster assistance to victims, we found that the absence of a comprehensive planning process beforehand limited the Agency's initial response.

For example, in designing the capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that the Agency received after the 1994 Northridge, California earthquake. SBA did not consider disaster scenarios that were more severe, or use the information available from disaster simulations developed by Federal agencies, or catastrophe models used by insurance companies to estimate disaster losses. The SBA also did not adequately monitor the performance of the DCMS contractor or completely stress test the system prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning prior to the Gulf Coast hurricanes for other logistical areas, such as workforce planning or space acquisition.

We made recommendations to SBA in both our July 2006 and February 2007 reports.

For example, we recommended that SBA first reassess DCMS's maximum user capacity, in light of lessons learned from the Gulf Coast hurricanes, information available from catastrophe risk modeling firms disaster simulations, and related cost considerations.

Second, strengthen its DCMS contractor oversight and further stress test the system.

Third, analyze the disaster loan process and identify ways to more efficiently process loan applications, including an evaluation of the feasibility of implementing a secure internet-based application feature for home loan applicants.

And fourth, develop timeframes for completing key elements of the Disaster Management Plan.

The SBA has taken steps to enhance its capacity to respond to potential disasters and we are encouraged by SBA's agreement with our recommendations. However, the process is ongoing, and continued commitment and actions by Agency managers are necessary.

As of July 2006, SBA officials said that the Agency had completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users, as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes.

Further, in June 2007, SBA released a disaster plan. While we have not evaluated the process SBA followed in developing its plan—consistent with recommendations in our reports—the plan states that SBA is incorporating catastrophe models into its planning process, an effort that appears to be at an early stage. SBA's plan also anticipates using 400 staff who are not normally involved in disaster assistance programs to provide backup support in an emergency. We will monitor SBA's efforts to implement our recommendations.

It is a pleasure to present our work before this Committee. I would be happy to answer any questions.

[The prepared statement of Mr. Shear follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business and Entrepreneurship
U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, July 25, 2007

SMALL BUSINESS ADMINISTRATION

Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness

Statement of William B. Shear, Director
Financial Markets and Community Investment

G A O
Accountability * Integrity * Reliability

GAO-07-1124T

July 25, 2007

SMALL BUSINESS ADMINISTRATION

Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-1124T, a testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate

Why GAO Did This Study

The Small Business Administration (SBA) helps individuals and businesses recover from disasters such as hurricanes through its Disaster Loan Program. SBA faced an unprecedented demand for disaster loan assistance following the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which resulted in extensive property damage and loss of life. In the aftermath of these disasters, concerns were expressed regarding the timeliness of SBA's disaster assistance.

GAO initiated work and completed two reports under the Comptroller General's authority to conduct evaluations and determine how well SBA provided victims of the Gulf Coast hurricanes with timely assistance. This testimony, which is based on these two reports, discusses (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2) factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

GAO visited the Gulf Coast region, reviewed SBA planning documents, and interviewed SBA officials.

What GAO Recommends

GAO recommends that SBA take several steps to improve its disaster preparedness, and SBA agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-1124T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

GAO identified several significant system and logistical challenges that SBA experienced in responding to the Gulf Coast hurricanes that undermined the agency's ability to provide timely disaster assistance to victims. For example, the limited capacity of SBA's automated loan processing system—the Disaster Credit Management System (DCMS)—restricted the number of staff who could access the system at any one time to process disaster loan applications. In addition, SBA staff who could access DCMS initially encountered multiple system outages and slow response times in completing loan processing tasks. SBA also faced challenges training and supervising the thousands of mostly temporary employees the agency hired to process loan applications and obtaining suitable office space for its expanded workforce. As of late May 2006, SBA processed disaster loan applications, on average, in about 74 days compared with its goal of within 21 days.

While the large volume of disaster loan applications that SBA received clearly affected its capacity to provide timely disaster assistance to Gulf Coast hurricane victims, GAO's two reports found that the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that the agency received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider disaster scenarios that were more severe or use the information available from disaster simulations (developed by federal agencies) or catastrophe models (used by insurance companies to estimate disaster losses). SBA also did not adequately monitor the performance of a DCMS contractor or completely stress test the system prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning prior to the Gulf Coast hurricanes for other logistical areas, such as workforce planning or space acquisition, at either the headquarters or field office levels.

While SBA has taken steps to enhance its capacity to respond to potential disasters, the process is ongoing and continued commitment and actions by agency managers are necessary. As of July 2006, SBA officials said that the agency had completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes. Further, in June 2007, SBA released a disaster plan. While GAO has not evaluated the process SBA followed in developing its plan, consistent with recommendations in GAO reports, the plan states that SBA is incorporating catastrophe models into its planning process, an effort which appears to be at an early stage. GAO encourages SBA to actively pursue the use of catastrophe models and other initiatives that may further enhance its capacity to better respond to future disasters.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Small Business Administration's (SBA) response to the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which caused more than 1,400 deaths and more than $80 billion of estimated property damages. While SBA is generally known for the financial support it provides to small businesses, the agency also plays a critical, if less publicized role, in assisting the victims of natural and other disasters. Specifically, SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, and businesses of all sizes recover from disasters such as earthquakes, hurricanes, and terrorist attacks. Due to the damage associated with the Gulf Coast hurricanes, SBA faced unprecedented demand for its disaster loan services and, 9 months following the hurricanes, had approved nearly 150,000 such loans totaling nearly $10 billion. However, concerns have been expressed that SBA's response to the hurricanes was slow, leaving many disaster victims without the timely assistance that they needed.

My statement today is based on two reports that we issued under the Comptroller General's authority to initiate reviews of federal programs. The first report, which was released in July 2006, discussed SBA's planning for and implementation of the Disaster Credit Management System (DCMS), which the agency uses to process disaster loan applications.[1] The second report, which was released in February, discusses SBA's disaster planning for other logistical areas, such as hiring and training a capable workforce and acquiring necessary office space.[2] I note that these reports are part of a larger effort by GAO to assist Congress in assessing the response of federal, state, and local agencies to the Gulf Coast hurricanes and to identify steps that such organizations could take to improve the provision of assistance and services to the victims of future disasters.[3]

In my testimony, I will discuss (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2)

[1]GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, GAO-06-860 (Washington, D.C.: July 28, 2006).

[2]GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, GAO-07-114 (Washington, D.C.: Feb. 14, 2007).

[3]See, for example, GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of the Nation's Preparedness, Response, and Recovery System*, GAO-06-618 (Washington, D.C.: Sept. 6, 2006).

factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

To address these objectives, we visited the Gulf Coast region, reviewed documents related to SBA's acquisition and implementation of DCMS, reviewed reports that discuss disaster planning, analyzed relevant SBA planning documentation, and interviewed disaster planning experts and SBA officials in headquarters and field offices. We conducted the work on our reports from November 2005 through January 2007 and in accordance with generally accepted government auditing standards.

In summary:

- We identified several significant system and logistical challenges SBA experienced in responding to victims of the Gulf Coast hurricanes that compromised the agency's ability to provide timely disaster assistance. First, due to DCMS's limited capacity, the number of staff who could concurrently access the system to process disaster loans was restricted. Further, SBA staff who were able to access DCMS often encountered system outages and slow response times. Second, SBA faced challenges in training and supervising thousands of mostly temporary employees hired to process loan applications and encountered difficulties in obtaining suitable office space for the expanded workforce. As a result of these and other challenges, SBA averaged about 74 days to process disaster loan applications, as of late May 2006, compared with the agency's goal of processing applications within 21 days.
- While the unprecedented volume of disaster loan applications clearly affected SBA's capacity to provide timely assistance to Gulf Coast hurricane victims, the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the maximum user capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that it received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider any disaster scenarios that were more severe or use the information available from disaster simulations or

catastrophe models to help design DCMS's capacity.[4] SBA also did not adequately monitor a DCMS contractor or completely stress test DCMS prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning for other logistical issues, such as workforce or space acquisition planning, prior to the Gulf Coast hurricanes at either the headquarters or field office levels.

- While SBA has taken steps to enhance its capacity to respond to potential disasters, the process is ongoing and continued commitment and actions by agency managers are necessary. As of July 2006, SBA officials said that the agency had completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes. Further, in June 2007, SBA released a disaster plan. While we have not evaluated the process SBA followed in developing its plan, consistent with recommendations in our reports, the plan states that SBA is incorporating catastrophe models into its planning process, an effort that appears to be at an early stage. SBA's plan also anticipates using 400 staff who are not normally involved in disaster assistance programs to provide back-up support in an emergency. SBA officials said about half of these individuals will be trained as of the end of this month with the remainder trained by this Fall. We encourage SBA to actively pursue this and other initiatives that may further enhance its capacity to better respond to future disasters, and we will monitor SBA's efforts to implement our recommendations.

Background

SBA was established by the Small Business Act of 1953 to fulfill the role of several agencies that previously assisted small businesses affected by the Great Depression and, later, by wartime competition. SBA's stated purpose is to promote small business development and entrepreneurship through business financing, government contracting, and technical assistance programs. In addition, SBA serves as a small business advocate, working with other federal agencies to, among other things, reduce regulatory burdens on small businesses.

[4]Federal agencies and other organizations have developed assessments of the potential destructive consequences of varying disaster scenarios, which are intended to help federal, state, and local agencies enhance their disaster planning. Moreover, many insurance companies and state entities that provide catastrophe insurance coverage currently use computer programs offered by several modeling firms to estimate the financial consequences of various natural catastrophe scenarios.

SBA also provides low-interest, long-term loans to individuals and businesses to assist them with disaster recovery through its Disaster Loan Program—the only form of SBA assistance not limited to small businesses. Homeowners, renters, businesses of all sizes, and nonprofit organizations can apply for physical disaster loans for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. Small businesses can also apply for economic injury disaster loans to obtain working capital funds until normal operations resume after a disaster declaration. SBA's Disaster Loan Program differs from the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP). For example, a key element of SBA's Disaster Loan Program is that the disaster victim must have repayment ability before a loan can be approved whereas FEMA makes grants under the IHP that do not have to be repaid.[5] Further, FEMA grants are generally for minimal repairs and, unlike SBA disaster loans, are not designed to help restore the home to its predisaster condition.

In January 2005, SBA began using DCMS to process all new disaster loan applications. SBA intended for DCMS to help it move toward a paperless processing environment by automating many of the functions staff members had performed manually under its previous system. These functions include both obtaining referral data from FEMA and credit bureau reports, as well as completing and submitting loss verification reports from remote locations.

DCMS's Limited Capacity and Difficulties in Other Logistical Areas Impeded SBA's Response to the Gulf Coast Hurricanes

Our July 2006 report identified several significant limitations in DCMS's capacity and other system and procurement deficiencies that likely contributed to the challenges that SBA faced in providing timely assistance to Gulf Coast hurricane victims as follows:

- First, due to limited capacity, the number of SBA staff who could access DCMS at any one time to process disaster loans was restricted. Without access to DCMS, the ability of SBA staff to process disaster loan applications in an expeditious manner was diminished.
- Second, SBA experienced instability with DCMS during the initial months following Hurricane Katrina, as users encountered multiple outages and slow response times in completing loan processing tasks. According to

[5] FEMA grants are also not available to businesses.

SBA officials, the longest period of time DCMS was unavailable to users due to an unscheduled outage was 1 business day. These unscheduled outages and other system-related issues slowed productivity and affected SBA's ability to provide timely disaster assistance.

- Third, ineffective technical support and contractor oversight contributed to the DCMS instability that SBA staff initially encountered in using the system. Specifically, a DCMS contractor did not monitor the system as required or notify the agency of incidents that could increase system instability. Further, the contractor delivered computer hardware for DCMS to SBA that did not meet contract specifications.

In the report released in February, we identified other logistical challenges that SBA experienced in providing disaster assistance to Gulf Coast hurricane victims. For example, SBA moved urgently to hire more than 2,000 mostly temporary employees at its Ft. Worth, Texas disaster loan processing center through newspaper and other advertisements (the facility increased from about 325 staff in August 2005 to 2,500 in January 2006). SBA officials said that ensuring the appropriate training and supervision of this large influx of inexperienced staff proved very difficult. Prior to Hurricane Katrina, SBA had not maintained the status of its disaster reserve corps, which was a group of potential voluntary employees trained in the agency's disaster programs. According to SBA, the reserve corps, which had been instrumental in allowing the agency to provide timely disaster assistance to victims of the September 11, 2001 terrorist attacks, shrank from about 600 in 2001 to less than 100 in August 2005.[6]

Moreover, SBA faced challenges in obtaining suitable office space to house its expanded workforce. For example, SBA's facility in Ft. Worth only had the capacity to house about 500 staff whereas the agency hired more than 2,000 mostly temporary staff to process disaster loan applications. While SBA was able to identify another facility in Ft. Worth to house the remaining staff, it had not been configured to serve as a loan processing center. SBA had to upgrade the facility to meet its requirements. Fortunately, in 2005, SBA was also able to quickly

[6]SBA's disaster reserve corps consists of individuals, including retirees and students, who have backgrounds in the agency's disaster assistance programs (e.g., finance and customer support) and who are willing to work on a temporary basis for the agency in an emergency situation. Such individuals must agree to relocate within 40 hours of notification of a disaster situation where their services are required by SBA.

reestablish a loan processing facility in Sacramento, California, that had been previously slated for closure under an agency reorganization plan. The facility in Sacramento was available because its lease had not yet expired, and its staff was responsible for processing a significant number of Gulf Coast hurricane related disaster loan applications.

As a result of these and other challenges, SBA developed a large backlog of applications during the initial months following Hurricane Katrina. This backlog peaked at more than 204,000 applications 4 months after Hurricane Katrina. By late May 2006, SBA took about 74 days on average to process disaster loan applications, compared with the agency's goal of within 21 days.

Unprecedented Loan Application Volume and SBA's Limited Disaster Planning Contributed to Challenges in Providing Timely Assistance to Hurricane Victims

As we stated in our July 2006 report, the sheer volume of disaster loan applications that SBA received was clearly a major factor contributing to the agency's challenges in providing timely assistance to Gulf Coast hurricane. As of late May 2006, SBA had issued 2.1 million loan applications to hurricane victims, which was four times the number of applications issued to victims of the 1994 Northridge, California, earthquake, the previous single largest disaster that the agency had faced. Within 3 months of Hurricane Katrina making landfall, SBA had received 280,000 disaster loan applications or about 30,000 more applications than the agency received over a period of about 1 year after the Northridge earthquake.

However, our two reports on SBA's response to the Gulf Coast hurricanes also found that the absence of a comprehensive and sophisticated planning process contributed to the challenges that the agency faced.[7] For example, in designing DCMS, SBA used the volume of applications received during the Northridge, California, earthquake and other historical data as the basis for planning the maximum number of concurrent agency users that the system could accommodate. SBA did not consider the likelihood of more severe disaster scenarios and, in contrast to insurance companies and some government agencies, use the information available from catastrophe models or disaster simulations to enhance its planning process. Since the number of disaster loan applications associated with

[7]The report we issued in February (GAO-07-114) discusses the need for federal agencies and other organizations to engage in comprehensive disaster planning based on previous GAO work, reports by other investigative organizations, and the views of disaster planning experts.

the Gulf Coast hurricanes greatly exceeded that of the Northridge earthquake, DCMS's user capacity was not sufficient to process the surge in disaster loan applications in a timely manner.

Additionally, SBA did not adequately monitor the performance of a DCMS contractor or stress test the system prior to its implementation. In particular, SBA did not verify that the contractor provided the agency with the correct computer hardware specified in its contract. SBA also did not completely stress test DCMS prior to implementation to ensure that the system could operate effectively at maximum capacity. If SBA had verified the equipment as required or conducted complete stress testing of DCMS prior to implementation, its capacity to process Gulf Coast related disaster loan applications may have been enhanced.

In the report we issued in February, we found that SBA did not engage in comprehensive disaster planning for other logistical areas—such as workforce or space acquisition planning—prior to the Gulf Coast hurricanes at either the headquarters or field office levels. For example, SBA had not taken steps to help ensure the availability of additional trained and experienced staff such as (1) cross-training agency staff not normally involved in disaster assistance to provide backup support or (2) maintaining the status of the disaster reserve corps as I previously discussed. In addition, SBA had not thoroughly planned for the office space requirements that would be necessary in a disaster the size of the Gulf Coast hurricanes. While SBA had developed some estimates of staffing and other logistical requirements, it largely relied on the expertise of agency staff and previous disaster experiences—none of which reached the magnitude of the Gulf Coast hurricanes—and, as was the case with DCMS planning, did not leverage other planning resources, including information available from disaster simulations or catastrophe models.

SBA Has Taken Steps to Better Prepare for Disasters, but Continued Commitment and Actions Are Necessary

In our July 2006 report, we recommended that SBA take several steps to enhance DCMS, such as reassessing the system's capacity in light of the Gulf Coast hurricane experience and reviewing information from disaster simulations and catastrophe models. We also recommended that SBA strengthen its DCMS contractor oversight and further stress test the system. SBA agreed with these recommendations. I note that SBA has completed an effort to expand DCMS's capacity. SBA officials said that DCMS can now support a minimum of 8,000 concurrent agency users as compared with only 1,500 concurrent users for the Gulf Coast hurricanes. Additionally, SBA has awarded a new contract for the project management and information technology support for DCMS. The contractor is responsible for a variety of DCMS tasks on SBA's behalf including technical support, software changes and hardware upgrades, and supporting all information technology operations associated with the system.

In the report released in February, we identified other measures that SBA had planned or implemented to better prepare for and respond to future disasters. These steps include appointing a single individual to coordinate the agency's disaster preparedness planning and coordination efforts, enhancing systems to forecast the resource requirements to respond to disasters of varying scenarios, redesigning the process for reviewing applications and disbursing loan proceeds, and enhancing its long-term capacity to acquire adequate facilities in an emergency.[8] Additionally, SBA had planned or initiated steps to help ensure the availability of additional trained and experienced staff in the event of a future disaster. According to SBA officials, these steps include cross-training staff not normally involved in disaster assistance to provide back up support, reaching agreements with private lenders to help process a surge in disaster loan applications, and reestablishing the Disaster Active Reserve Corps, which had reached about 630 individuals as of June 2007.

While SBA has taken a variety of steps to enhance its capacity to respond to disasters, I note that these efforts are ongoing and continued commitment and actions by agency managers are necessary. In June 2007, SBA released a plan for responding to disasters. While we have not evaluated the process SBA followed in developing its plan, according to the SBA plan, the agency is incorporating catastrophe models into its disaster planning processes as we recommended in both reports. For example, the plan states that SBA is using FEMA's catastrophe model, which is referred to as HAZUS, in its disaster planning activities. Further, based on information provided by SBA, the agency is also exploring the use of models developed by private companies to assist in its disaster planning efforts.[9] These efforts to incorporate catastrophe models into the disaster planning process appear to be at an early stage.

[8]As described in the report we issued in February (GAO-07-114), SBA faced a significant backlog in disbursing the funds associated with approved disaster loans in July 2006. SBA has redesigned the loan review and disbursement process in such a way that agency officials believe disbursement performance has been improved significantly.

[9]U.S. Small Business Administration letter to the Honorable Henry Waxman, dated Jun. 1, 2007.

SBA's plan also anticipates further steps to ensure an adequate workforce is available to respond to a disaster, including training and using 400 non-disaster program office staff to assist in responding to the 2007 hurricane season and beyond. According to SBA officials, about 200 of these staff members will be trained in reviewing loan applications and providing customer service by the end of this month and the remainder will be trained by this Fall. We encourage SBA to actively pursue initiatives that may further enhance its capacity to better respond to future disasters, and we will monitor SBA's efforts to implement our recommendations.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.

GAO Contact and Staff Acknowledgments

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Chairman KERRY. Thank you very much, Mr. Shear. Let me try to come right back to you, and then I will go back to the others, because your's is a testimony focused more on process, and I want to get at it for a minute.

You have had a fair amount of experience in assessing SBA's internal capacity over a period of time. What is your judgment here? Is it that SBA doesn't have the people, the personnel, the structure? Give us the net bottom line in a hard fashion, if you will.

Mr. SHEAR. The point that we observe that I think is most relevant to the question you just asked is, over the years, we have looked at what is called SBA's transformation efforts, and we are very glad to be initiating our work at your request to look at transformation.

And we get into questions as far as how siloed the Agency is. So in terms of the ability of the Office of Disaster Assistance to interact with other parts of SBA to get the right expertise to the table is something that certainly is a concern of ours going forward, generally with the Agency, and specifically with respect to disaster assistance.

Chairman KERRY. What do you think that they have to do that has not been done, in your judgment?

Mr. SHEAR. Well, first there has to be greater, I would say, communication and transparency within the Agency to make sure that when they submit a plan—for example, for disaster assistance, there is buy-in from the Agency, and you are looking across the Agency.

And then I think the agency is rather siloed in terms of looking at, what do we have to do to really provide quality disaster assistance, in terms of reaching out to other entities, such as FEMA, such as the geological survey, such as other partners in disaster assistance. So these are among the things that we are more globally looking for from the Agency.

Chairman KERRY. Are you satisfied that SBA is working to incorporate your recommendations?

Mr. SHEAR. We are hopeful that they are. We are glad that they agree with our recommendations. We have initiated some discussions, and we are basically waiting for them to come to us to document what is behind their plan which they just released recently to the Congress to make sure that there is substance behind it.

This is our role as an audit agency. So we are hopeful. We think they are working constructively with us, but we really have not looked at the details behind the actions that they have taken because we have not been yet provided with what we call the details that would make us really confident, as far as SBA's capacity going forward.

Chairman KERRY. Well, it has been a year since the report was published. So I take it that when you say you're being hopeful at this point, you are saying to me that you think things could have been embraced faster.

Mr. SHEAR. We would hope they would be faster, and to some degree, what we have been dealing with—sometimes we ask, is it a communication problem between SBA and us, or between or different parts of SBA? And that would, in a sense, be the best scenario that basically, the Agency is further along than we think they are.

But to some degree, it causes us some pause that we really have not been provided that much information on what has happened.

Chairman KERRY. Do you think that they have the personnel, either type of personnel, or numbers necessary?

Mr. SHEAR. The personnel—one of the things that I think is hopeful, and again, getting behind this—is that during the course of our work, we pointed out that disaster assistance—especially in response to catastrophes—requires some redundancy; it requires infrastructure in place for when the catastrophe occurs.

There seems to be now some recognition of what should happen in terms of reserve corps, in terms of office space, that you have to be prepared and have infrastructure in place. There is a recognition of that. As of yet, we do not know to what degree that will be carried out over time. And that is something that I think, for this Committee and for our work, will be ongoing over time.

For example, you could see that the reserve corps right after 9/11, had a lot of people in their reserve corps, but then that dissipated over time. So what causes me to think that we will be constantly monitoring this component, even if the reserve corps are adequate today, if they are adequate next year, what will happen if we go through a few years without major disasters, as far as readiness? That is part of our concern.

Chairman KERRY. Ms. Martin, you described a fairly—I guess the word to describe it is chaotic, haphazard process.

You're shaking your head.

Ms. MARTIN. No. No, it was not chaotic or haphazard. They knew what they were doing. They knew where they were taking it to.

There are some extremely skilled people there. Everyone, everyone was burdened with production; that was the goal.

Chairman KERRY. Say that again. They knew what they were doing?

Ms. MARTIN. They knew what they were after.

Chairman KERRY. They were after what?

Ms. MARTIN. They were after files to be pushed through quickly.

Chairman KERRY. So you are saying to the Committee that they just wanted the files cleared and out of the way, that 90-in-45 drove the process.

Ms. MARTIN. Absolutely. And I worked with 90-in-45. I was in the Legal Escrow Department looking at the files. They were an absolute mess. A lot of them should not have been passed.

We did not have time to clean them up. I did try for the first 3 weeks or a month, and I was ordered by my SLO to just push them through. If they say fix the stip, fix the stip, and that is what I did. They needed correction.

People had been pushing these through way too quickly. There was not enough documentation. Insurance needed to be revisited one more time.

Chairman KERRY. Well, is there a balance here—let me ask you in fairness, is there a balance here in good faith, if they are trying to give the benefit of the doubt to the folks in that dire situation, that there may have been a situation—since we do not have a grant program—that they were effectively going to use the loans as a bridge to help people get on their feet?

Is that a legitimate way to look at it or not?

Ms. MARTIN. Well, obviously, they wanted the money out in the field. People, in fact—I can cite another situation—had up to September of 2006 only received $10,000. They were under a lot of gunfire for that, and the decision was made—right or wrong—to get it out there. They figured they could do the cleanup later, which is what is going on in the Collateral Department at the moment. I think that was, perhaps, a wise choice, and yes, I think they were trying to help.

Chairman KERRY. Why could you only hold a file for 48 hours?

Ms. MARTIN. Because they wanted the file to be pushed through quickly.

Chairman KERRY. So they specifically—wait, you——

Ms. MARTIN. Now, in Legal Escrow, during the 90-in-45 Campaign, it was actually 24 hours, not 48. I pushed the point to hold it for 48. We were given 24 hours to move a file out of our queue.

And basically, as I said, I am looking at a file with several problems on it——

Chairman KERRY. Were you also not—was that 24 hours notwithstanding whether you had been able to contact the person.

Ms. MARTIN. Oh, absolutely. If I could not contact the borrower, the file was withdrawn.

Chairman KERRY. It was automatic.

Ms. MARTIN. Absolutely. Absolutely. As soon as——

Chairman KERRY. No matter what the rationale for not being able to reach the borrower.

Ms. MARTIN. It did not matter. I mean, simply, the whole purpose was to prepare this file for disbursement. If the borrower could not be contacted, it was withdrawn.

Chairman KERRY. Senator Snowe.

Senator SNOWE. Ms. Martin, did anybody lose their job, or were they threatened with the loss of their position if they failed to meet this standard and this goal?

Ms. MARTIN. Absolutely. If you will read—which, excuse me, I would like to enter into the formal record the testimonies of the nine loan officers including myself.

If you will read through the testimonies, that a couple of them, yes, actually were.

[The testimonies of the former officers appear in Comments for the Record on page ??.]

Senator SNOWE. Yes. I did not have the benefit of that.

Ms. MARTIN. Yes, they did.

There were many of us trying to pressure back, fighting to hold onto files. We were simply called into the office and threatened.

Senator SNOWE. And what was your understanding, and the others who have submitted their statements with respect to where these instructions were coming from?

I mean——

Chairman KERRY. Can I just interrupt for 1 second?

Senator SNOWE. Yes. I am sorry.

Chairman KERRY. I need to go to Finance to ask some questions of one of the nominees there, important to our State.

So Chairman Landrieu will Chair in my absence, and we will just continue. I will be back.

Thank you.

Senator SNOWE. Ms. Martin, was there an understanding, or did any of your superiors or fellow colleagues have an understanding in terms of where these instructions were derived?

I mean, who was issuing these instructions beyond your direct superiors?

Ms. MARTIN. I have to complement the immediate staff in SBA. I worked for some very lovely people, some very nice people. They were being given orders from outside the Agency, above Fort Worth.

They were in danger of losing their jobs if they did not obey. But who—but shall we say Washington, I have no idea. But I understood, just from working with them and how truthfully they were eager and they were hopeful to help these applicants themselves, that they were being bound by what was being requested of them.

Senator SNOWE. Right. And I assume that you and others expressed to your superiors the devastating impact that this was having.

Ms. MARTIN. Absolutely.

Senator SNOWE. I appreciate what you are saying here today, because I can only imagine the horrendous circumstances that these disaster victims were confronting: loss of their business and their homes. And we had many of those witnesses before our Committee, so we certainly understand the dimensions of their tragedy. For them to amass the necessary information for verification would be overwhelming, under the best of circumstances, but under these unimaginable circumstances it would be nearly impossible.

So obviously you expressed that to your superiors. And what did they say in response?

Ms. MARTIN. They were a little worried about my attitude from the simple reason that, at the end there, especially in the Escrow Department, I became somewhat of a little bit of a threat, because I seemed to be taking notes as to what was going on, and that was that I had already made the decision to turn this over to you, the difference being that—this could not be allowed. This was not acceptable. The money was appropriated. These people have a right to the loans. After listening to 6 months of crying borrowers, either screaming or crying, begging for help, living in FEMA trailers, what were we going to do, leave them there?

Something had to be done. Their hands were tied. They could not do anything more than just say, Gail, just fix the stips. Just fix it. I said, but there are 18 things on this file that are wrong. Just fix the stipulations.

I was hollered at quite a—several times by department heads who were trying to move me into more of agreement with what they were actually trying to do.

Senator SNOWE. I see. And you were a temporary employee, as I understand.

Ms. MARTIN. I was a long-term temporary.

Senator SNOWE. You were a long-term temporary.

Ms. MARTIN. Yes.

Senator SNOWE. And did that include the others who were working in your department?

Ms. MARTIN. All of us. All of us are long—there are people who have been there for 17 years and they are still considered long-term temporaries.

Senator SNOWE. Long-term—really? OK.

Ms. MARTIN. There are very few core employees.

Senator SNOWE. Well, I certainly appreciate the facts that you have presented, and your willingness to present that information to this Committee, because we certainly want to take any corrective actions. And on behalf of those who submitted testimony, as well, because obviously that is not the way that we would want to handle those circumstances.

It is one thing to meet goals, but there is a way in which to accomplish it, and we will just have to get to the bottom of it.

Mr. Thorson, are you looking into this issue as the subject of one your reports?

Mr. THORSON. We had not looked into some of the things that came out in today's testimony which did definitely get my attention.

There were some very serious statements made here today.

Senator SNOWE. Yes.

Mr. THORSON. And I think, given what we did find, on the basis of what we have looked into, I think we are going to have to take another look at some of these things.

Senator SNOWE. I see. So you have begun a process in any event, but you have not had the opportunity to talk to Ms. Martin and others?

Mr. THORSON. We got the letter that the Committee sent us, and there have been some communications, but not to the extent that we heard today. And we certainly are looking at things, for instance, the withdrawals. That is ongoing.

But Ms. Martin touched on a number of very serious issues today.

Senator SNOWE. So you are surprised by what you are hearing today.

Mr. THORSON. Absolutely.

Senator SNOWE. Then clearly it is going to be critical for this Committee to be appraised of your findings on this question, because we obviously want to get to the source of the problem and take any corrective measures. So I appreciate that.

Mr. THORSON. Absolutely.

Senator SNOWE. To what extent do you think the SBA, Mr. Thorson, has taken the steps to address and to remediate some of the issues that you have raised here today, because that is critical. I am trying to determine if they are making the progress that is necessary, especially in direct response to some of the specific issues, like the loan cancellations, the lack of security collateral.

Mr. THORSON. I think you have two different things that you have heard.

One is the more technical aspects, which are the cancellations and how many days were allowed. How many calls are made in 24 hours? Should they be canceled? And that sort of thing.

And then you have some very serious management issues that Ms. Martin just raised that are really separate from that. And it comes down to a leadership aspect and management of how people are treated that are doing this work. What focuses—certainly, a lot of attention on this is, of course, the seriousness of the work they were doing and the people they were trying to help.

And of course, from a management point of view, how disillusioning this is to the people trying to do this work. And that is—as I sat here and listened to that, I have a great concern.

So we have two different things here that we are going to have to sit down and address.

Senator SNOWE. Yes. The specifics and the overall approach and how this culture developed.

Mr. THORSON. I think you really hit on it when you call it a culture. And I have seen that before in various bureaucracies that we have looked.

The culture really has to be one of really wanting to assist and help the individuals. And certainly, when I went to Louisiana—and I have also been in Mississippi—but you see the people working out on the scene, on the ground, the volunteers, et cetera. They are great people. They are really doing tremendous work, and you owe them excellent management and leadership.

Senator SNOWE. I agree.

Mr. THORSON. That is what we are going to have to be talking about.

Senator SNOWE. Unfortunately, the result was sort of cold, calculating and dismissive. And knowing what we know, and certainly the two Senators here, Senator Landrieu and Senator Vitter, who were on the front lines of the State that was so devastated, to hear what Ms. Martin is saying today is tragic, because people are facing enormous problems.

I mean, the whole idea of just assembling all that information. It would be virtually next to impossible, not to mention the timeframes that were demanded as well.

So I appreciate your efforts in looking into this, as well as getting back to us.

I know my time is up. I will be back to you, Mr. Shear, but I know the Madame Chair is here, and we will go on to the next round.

Thank you.

Senator LANDRIEU [presiding]. Senator Vitter.

Senator VITTER. I just want to thank all of the witnesses for their work and their testimony, and I am really eager to get to the Administrator and talk with him. So I will wait for that.

Thank you.

Senator LANDRIEU. I do have a couple of questions. And I want to thank the Chair and Ranking Member for calling this hearing. Gulf Coast recovery has been something that they have really stayed focused on from literally the first weeks of Katrina and Rita in a very bipartisan way. Together my colleagues have worked to try to find a better to serve the constituents that we represent who are in such—were and still are in such desperate situations.

To have an agency that has the title of "Small Business Administration," and then to see that it was not administrating anything very well—at a time of great need for our constituents—was very disappointing. Not only do we want to fix it for the people we still can help at home along the Gulf Coast, but we want to make sure that, when this happens again—and rest assured it will—that SBA is better prepared. For example, either a tsunami will hit Seattle, or a Hurricane will slam into Long Island, or an earthquake will occur in California or Memphis, and thousands upon thousands of businesses will be disrupted.

When those business owners, large and small, turn to their Government that they have paid taxes for, put the uniform on—served—we owe it to them that this Government will respond better than it did the last time.

Before I ask my question, I must say how terribly disappointed I am that a bill to fix many of the issues that are being raised again today is being held up on the floor of the Senate.

And I am going to, with the Chair and the Ranking Member, pursue the focus of this hold to try to see what we can do to move a bill forward that can correct some of these issues, and then, of course, to continue hearings like this to find and draft additional legislation that is necessary, as well as asking for changes to be done at the administrative level that do not require legislation.

I have one question, but I want to comment to Mr. Thorson. Thank you for going down to New Orleans at my request. And the tour that you did, I got tremendous positive feedback about your really going down, kicking the tires, talking to both people who had received loans and those that had not, the Loan Office, et cetera. And I think that experience will certainly help you and help us to reform the situation that we are finding.

My question may be, I am not sure—may be, Ms. Martin, to you.

It was apparent within several months of the storm that applicants were sent fairly quickly a $10,000 check.

Ms. MARTIN. Yes.

Senator LANDRIEU. But at the same time, they were required to begin paying on the full amount of their loan, or at least that is what was told to me, that they would be paying on the full amount of the loan approved.

So if they had $150,000 loan approved, they had only received $10,000. They were being immediately billed for the amortization schedule, I guess, of the full amount; is that true?

Ms. MARTIN. Absolutely.

Senator LANDRIEU. Why did that happen, and has it been changed?

Ms. MARTIN. It hasn't been changed, which is why, in the cancellations, the applicants would have canceled their loan.

What was happening is, they have received $10,000; they are still not able to rebuild; they are still waiting for relocation processing. They were given a 12-month deferment only. The clock started ticking from the day they signed the final loan papers. That is day one of their 12 months. At the end of that, they have to make full payment. They have received 100—maybe they have receive their personal property, the $40,000, but they have not been funded over for the rebuild yet. They will be making their $1,200 payments.

When I talked to a senior loan officer, she said, well, they have been qualified at $1,200. They will simply be re-amortized at the end of the note. So that has not changed.

And this is why a lot of these people would have decided to—I don't even know if I can rebuild—decided to let go of the note.

Senator LANDRIEU. I need to get this clear.

You are testifying that, when the final loan document was approved, the clock started ticking——

Ms. MARTIN. It started ticking from the day they signed their final loan document.

Senator LANDRIEU. So they sign the final loan document and the clock starts ticking, and they have 12 months, and then, at the end of that 12 months, they have to start paying a full monthly——

Ms. MARTIN. Full payment.

Senator LANDRIEU. Full payment on the whole amount, whether they have receive it or not?

Ms. MARTIN. Absolutely.

Senator LANDRIEU. Now, when they signed their final loan document, did they, on that day, receive their $10,000 check, or did the check come later?

Ms. MARTIN. No. The $10,000 was sent out, usually, within 2 to 3 months of their initial application.

The theology was they could give them a $10,000 unsecured loan, so——

Senator LANDRIEU. So they received their $10,000 loan—excuse me—before they actually signed the final document?

Ms. MARTIN. Yes.

Senator LANDRIEU. When they applied, they could receive at least $10,000.

Ms. MARTIN. There was an initial disbursement of $10,000, because the rules of the game for a $10,000 loan meant they could actually justify, under law, a $10,000 loan that was unsecured.

So if the applicant later turned around and said, no, I have decided I don't want to collateralize my new home and the old home, they could pull it back down to what they had already disbursed to the applicant.

Senator LANDRIEU. And two more questions.

Is it still the law of the SBA, or the rule, that when a person in Louisiana—and maybe Mississippi, but I know this to be true, I think, in Louisiana—receives their Road Home grant, that they must repay, in full, their SBA loan, Ms. Martin?

Ms. MARTIN. Not repay in full, however, I had outlined a specific case where—they are counting it as a duplication of benefits, meaning that it is raking it straight off the top of their eligibility.

If they have $200,000 worth of eligibility and receive $100,000, their new eligibility is $100,000. Instead of giving them this ability to refinance their loans—and many of them have one or two loans that are still out at 8 percent on the damaged property—instead of giving them this ability to refinance and then taking the grant and putting it against the entire eligibility and the entire loan, basically they are removing their ability to refinance and just taking it dollar for dollar against the loan—if I managed to get that point across.

The problem is——

Senator LANDRIEU. Could you explain it one more time? That was a little complicated.

Ms. MARTIN. Yes, I understand that.

The applicant's eligibility to refinance their note is directly proportional to their eligibility. So they may be eligible for a $200,000 note. That makes them eligible for $200,000 of refinancing of the note on their damaged property which is usually at a much higher percent interest rate—10 percent, let's say.

What they are doing with the grants is they are removing their eligibility by $100,000, or in many cases, $130–$140,000, which also removes their eligibility to refinance that note by the same amount.

What happens is the poor applicant is stuck with their old notes at 8 and 9 percent. They do have the grant, but their eligibility has been pulled down directly proportional with the amount of the grant. It is actually crippling the applicant in some cases.

Senator LANDRIEU. And I am going to state for the record—and I may ask for a letter from the Coordinator of Gulf Coast Recovery to express the position of his office on this, because this has been a singular bone of contention with me.

When this Congress passed the block grant funding, it was in recognition that what we had available for these disaster victims may be not enough, given the catastrophic nature of this situation.

It was the expressed intent of the appropriators, of which I am one, to provide residents with the funds they need to fully rebuild their homes. Our great attempts are being thwarted by administrative rules that, despite our restated position of the Congress and the Administration to rovide badly needed help to victims, they are still being held to the standard of grants being a duplication of benefits with loans. It is intended to be a duplication—for people to be able to get a low interest loan, and on top of that, if they are deemed eligible by the State and have additional needs to receive whatever they are entitled to by the way these grants are being fashioned by the Governor and the staff of Mississippi, and the Governor and the staff of Louisiana. And I intend to make that the way this operates—to provide necessary resources for housing recovery.

Mr. Shear, do you want to add anything?

Mr. SHEAR. I cannot—based on our work, I cannot respond specifically to that situation. So much of our work was geared toward, how do you handle loan applicants rather than looking at some of the issues involving the CDBG funds.

Senator LANDRIEU. One more question, and then I see Senator Thune may have questions and statements.

When we have a disaster or catastrophic situation, as we have just had, is it not possible for the SBA to get copies of tax returns from the Federal Government, as opposed to asking disaster victims to go search in a home that is crumpled and destroyed for their old copies?

Ms. MARTIN. May I answer that, as a processor?

Senator LANDRIEU. Yes, go ahead.

Ms. MARTIN. We, up to the end of the business loan campaign, would not have—we would accept what they were saying, but we had to have it verified by the IRS in absolutely every case.

It was an extraordinary measure to ask the applicant to go to the IRS directly. Normally, that is never done. And the only reason we——

Senator LANDRIEU. Excuse me. What is normally done?

Ms. MARTIN. Normally, we send in a tax transcript request to the IRS, and we would only accept something coming directly back from the IRS.

Senator LANDRIEU. But in this case?

Ms. MARTIN. There was a flood. It was tax season. There were a flood of requests from us, and we could not process them in time.

Senator LANDRIEU. So normally, when you have to process your loan applicants, you—since you are a Federal agency, it would make sense—you normally go to another Federal agency and say, would you send me Mrs. Jones back 3 years of taxes so we can process her SBA loan?

But in this case, that was not done for a Mrs. Jones. She had to go find her own tax returns?

Ms. MARTIN. She had to find her tax transcripts; it is a reverification.

She could have given us her original copies if she had them, but we would not have accepted that. They had to be verified. It has to be a third-party verification coming directly from the IRS in every case, in every case.

The difference was we were asking her to go to the IRS for us and to get the tax transcripts directly sent to us.

Senator LANDRIEU. So a person that had lost their home, lost their school, and did not have a church to pray in on Sunday, did not have a trailer to leave, you—our Government—requested that they contact the IRS and get copies of their taxes and then have them verified by a third party?

Ms. MARTIN. No. That is the third party.

The IRS—we would accept—if it were fine for the transcripts to be even faxed in to the applicant, they are in a format that we accept. She would then fax them in to us.

They are the third party, but we had to have the IRS verifying the information. They were not quick enough for us, so we went to the applicant and made them do it. And if they couldn't get it in in time—all of those—all of those were withdrawn.

In that second or third week of March—I believe it was—anyone who did not have their tax transcripts in had their files withdrawn.

Senator LANDRIEU. Mr. Shear, do you have a comment about this nonsense?

Mr. SHEAR. Oh, yes.

When our team visited the Gulf Coast, we heard nightmarish stories such as these and based on the focus of our work, especially the focus on the use of DCMS and the loan process, these were among some of the reasons that we said that SBA should look for the feasibility of using an internet—you know, a secure way of making loan applications, because people are going through nightmares with submitting home records, tax records, other types of records, those being misplaced during this long chaotic process.

And so those were among the reasons why, based on our focus at the time we were visiting the Gulf Coast, we said, there has to be a better way to do this.

Senator LANDRIEU. OK.

Any other final comments, because we have a second panel, and then Senator Thune may have a——

Mr. THORSON. I think, as a victim, one of the last things I would want to be told is to contact the IRS. This is probably not something that I think most people were prepared to do, wanted to, or really—it actually goes against, as was pointed out, the procedures, which was to receive those directly from the IRS to the SBA, so they knew that there were no changes made.

But like I said, as a victim, that would not be something that I would want to hear.

Senator LANDRIEU. Senator Thune.

Senator THUNE. Thank you, Madam Chair. I thank you for calling this hearing. I think it is important that Congress, on an ongoing basis, take a look at things that we can learn and things that we can do better, and hearings like this one are an effective forum, I think, for Members of Congress to reflect on and remember the Gulf Coast disaster, and more importantly, give us an opportunity to better understand the mistakes that were made, and what steps have and still need to be taken to be better prepared for future disasters of all sizes.

I do want to take a moment to thank Administrator Preston and the SBA for the work that they have recently done in my home State of South Dakota. I know that the severe storms and the tornadoes and the flooding that occurred this past year near Aberdeen, South Dakota do not compare in size or scope to the hurricanes that ravaged the Gulf Coast in 2005, but they nonetheless impacted families and businesses.

And after visiting South Dakota following the flooding, there was no question in my mind that the assistance that came from FEMA and the SBA was crucial to the cleanup, to the repair, and the recovery for that area. So I am pleased to say that SBA has made available low interest disaster loans to homeowners, renters, businesses of all sizes, and private non-profit organizations to help them rebuild.

And while the last day to apply for disaster assistance does not close until next Monday, thus far, SBA has approved more than $16 million in low interest loans to South Dakota's residents and businesses in need. So I know that there are many South Dakotans that are very grateful for the assistance that they have received, both from FEMA and the SBA, and I would again thank the SBA and the Administrator for their help in that regard.

I know that, with regard to the issue before us today, there has been a lot of work that has gone in to trying to determine the answers to some of the questions that were raised as a result of what we went through with Hurricane Katrina.

And I guess what I would like to ask Mr. Thorson if his office did any audits on the handling of duplication of benefits, and if so, what were the findings on that?

Mr. THORSON. That is something that we have ongoing as far as the duplications. And we have worked with the HUD IG as well on that issue. So it is something that is ongoing now.

Senator THUNE. So you do not have any findings currently that you can report about that?

Mr. THORSON. Not at this time, no.

Senator THUNE. OK. The second question I have is, at the end of your testimony, you discuss briefly some of the indictments and the conviction that the criminal investigators made last year.

Can you provide the Committee any more details about that?

Mr. THORSON. On some, where the cases are closed, we can certainly provide the details. I do not have them with me today, but there are a number of cases that have been completely processed. We obviously do not talk about any ongoing criminal cases.

We do work with the Justice Department and their Katrina Fraud Taskforce. We are a full partner in that effort, and the work that is being done down there is, in my opinion, outstanding. These are good people. The U.S. attorneys are exceptionally cooperative in that effort in trying to stick to a zero-tolerance policy, and we are making great strides down there to keep the money where it belongs.

Senator THUNE. Let me just, if I, Madame Chair, conclude. Again, I appreciate your holding the hearing. I thank the witnesses for their testimony, and I look forward to working with my colleagues on this Committee on this important issue and making sure that we are meeting the needs of future disaster victims, and obviously, hoping we can take a page out of the lessons that were learned with regard to this disaster.

So thank you, Madam Chair.

Senator LANDRIEU. Senator Snowe, do you have any additional questions before we move to the second panel?

Senator SNOWE. I think, given the time, I will submit my questions, thank you.

Thank you all very much. We really appreciate it.

Senator LANDRIEU. And I just have one.

Mr. Thorson, how many criminal investigations have been prosecuted successfully? Can you at least mention the number?

Mr. THORSON. Is it——

Senator LANDRIEU. I am following up with Senator Thune.

Mr. THORSON. The number?

Senator LANDRIEU. The number. Can you at least testify——

Mr. THORSON. I believe we had one conviction and, I think, nine indictments, is what I mentioned in the statement.

Senator LANDRIEU. Nine indictments and one conviction-——

Mr. THORSON. One conviction, and then——

Senator LANDRIEU [continuing]. Two years later.

And how many total applications did we have?

Mr. THORSON. I——

Senator LANDRIEU. Approximately.

Mr. THORSON. I want to make sure I give you that number properly. It will not take long.

Senator LANDRIEU. Ms. Martin, do you know approximately how many applications?

Mr. Shear, approximately?

I think it was between 400–500,000.

Ms. MARTIN. Four Hundred twenty-two thousand was the number of applications associated with the three hurricanes.

Senator LANDRIEU. Four Hundred twenty-three thousand applicants. We have one conviction and nine cases.

I most certainly want to prosecute fraud, and I assure my colleagues we will. The greatest fraud was perpetrated by the Agency itself.

Ms. MARTIN. Thank you. Yes, it was.

Senator LANDRIEU. And I would just like to go on record at this Committee, I will go on the floor, the greatest fraud perpetrated was by the Agency itself.

So please continue. I am sure you have to prosecute people who took money they should not have, but the real fraud is the failing of the Agency.

Thank you and we will hear from Mr. Preston.

Mr. Preston, we are happy to have this morning, and let me begin by saying that my experience so far has been that you are committed to change and reform.

I want to say, for the record, that you have been very responsive to my office, and I thank you for that, but I will also say—based on the testimony this morning and the continued work that we are doing on this—that we have a long way to go.

But if you would just begin with your opening statement, and then we will go through a round of questions.

STATEMENT OF THE HONORABLE STEVEN C. PRESTON, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC

Administrator PRESTON. Great, sure. All right. First of all, is the mike on? OK.

Good morning. Thank you, Chairman Kerry, Senator Landrieu, Senator Snowe, Senator Thune.

Thank you also for your kind words starting out. I would also like to thank Eric Thorson. He has been a good partner of ours at the Agency.

Bill Shear has done some terrific work through the GAO report.

And of course, Ms. Martin, it is never easy for a front line employee to come forward and testify in a situation like this.

I would like to say, and I think this is very important, as I listened to the testimony and the answers today, there is a long timeline that has been discussed here. A lot of the issues that were brought forward in these discussions preceded the re-engineering work that has taken place at the SBA. And so it is very important, when you think about what you heard today, I think, to put in it the proper context, because it is a different agency today.

I came to the agency just over a year ago in July 2006. Prior to coming into the position, I took a trip to New Orleans, on my own time, to see and listen to the issues first hand; to see—like everybody, I think, who has been down there firsthand—what an incredibly devastating, overwhelming situation it was.

So after coming into the job, my second week on the job, I went down to New Orleans. I went immediately to the processing centers where we process disaster loans. It was clear to me, at that time, that we had very significant operational and service issues, many of which you heard about today.

Our staff was overwhelmed. I think our staff was losing heart. We had severe backlogs in a number of critical areas. Over 100,000 disaster victims were still in our process. And in order to tackle the greatest backlogs right away; we immediately reassigned staff to focus on those key areas.

Then we undertook an extensive re-engineering effort to accelerate responsiveness to people in the Gulf, and to ensure a dramatically better response in the future.

In order to get to the root of the issues, we interviewed our customers; we interviewed our employees, we talked to people in many of your offices. We gathered performance metrics that had not been gathered before. We hired a small team of experts in rapid results process improvement to support us.

In August, armed with our findings and analytical support, I convened a meeting of 20 top Agency officials from our processing centers, from our disaster operations, and from headquarters. We started this session by listening to a video that I had our people make of our customers telling us about their stories.

Some stories were good. They elaborated on how much money they had received, and how it not only helped them get their lives back, but it also helped others in the Gulf get services like daycare and taxi services.

Others told us of the ongoing confusion and difficulties that they had experienced in dealing with the SBA, becoming one more source of despair, unfortunately, for many of them.

At the conclusion of that meeting, we resoundingly resolved that the effort we were undertaking would be in the interest of the people we served: The disaster victims of America. That was our primary focus.

Following this meeting, the team launched into a detailed redesign process that would involve totally redefining how we went about the business of making a disaster loan: To make it faster, to make it more efficient, and to become much more helpful to the customer, while also providing greater consistency from a perspective of standards and oversight.

In September, a number of things happened: We physically moved 1,300 people and redesigned our workflow from a production line with backlogs, inadequate communication between functions and higher error rates, to case teams where loan officers, attorneys, and case managers worked collaboratively.

Customers were reassigned to those teams based on the characteristics of their loans to ensure that they received high-quality service. Every borrower, for the first time ever, received a case manager—a single point of contact, a human being on their side who could help them.

There were 33,000 customers at that point who had not sent in their closing documents. Most of them were past their expiration date. We did not have records from the borrowers indicating that they wanted to proceed. Previously, those people would have simply gotten a letter in the mail telling them that they were canceled and that they could reapply within 6 months.

Under our new process, these customers were assigned to a triage team in our Buffalo call center with the mission of getting people the help they needed, whether that assigning the customer to a case manager to assist in closing and disbursement, extending the closing date if the customer still was interested, but was not sure of his or her plan, or canceling the loan if the customer was no longer interested or responsive. The plan specifically stated that it was to ensure customer satisfaction at every point.

Most people were contacted, and we proceeded based on the customers' wishes. In 9,000 cases, people were not ready to close, so we gave them a case manager to help them close. Over 3,000 were ready—I'm sorry, 9,000 were not ready to close. We put them in a closing team. Over 3,000 were ready to close, so they got a case manager tailored to their circumstances. About 4,000 requested cancellation and about another 4,000 requested an extension. That extension was granted. About 7,700 borrowers who were past their expiration date and who, according to our records had not requested an extension, received a cancellation letter which indicated that they could reinstate the loan for 6 months.

Because of our commitment to speak with those borrowers under the new system, a week after the campaign ended, we began calling all 7,700 borrowers again. We reached almost 5,000 of those borrowers. One thousand two hundred had their loans reinstated. As a result, they were given a case manager for the first time, and they were put on a path to disbursement of those loans on a much more accelerated basis.

By Thanksgiving, the backlogs were largely eliminated, and our response time had dramatically improved. Along the way, as with any major change of a large operation experiencing tremendous challenges, we encountered unexpected challenges, but we have been able to address many of them quickly because of better metrics, better early warning indicators, much better communication across the Agency, coordination across functions and problem resolution teams.

One of my biggest responsibilities as a leader is to try to keep an open line of communication with managers, front line employees, and most of all, our customers, not only to lay out the vision, but also to listen. I have done this by listening both to employees and customers. I go down to that facility in Fort Worth; I kick the managers out of the room, and I bring in people on the front line and listen to them. Every one of them has my e-mail address; a lot of them use it. I hear a tremendous amount of front line feedback, and that is an important way that we make changes at the SBA.

Specifically, the issues in the Inspector General's report on collateral had persisted for some time. Those rose in prominence because of our re-engineering efforts. We had identified those. And as it noted in the report, today we have a new process in place to ensure better controls before closing, and we had made a lot of process by the time we got in there.

Additionally, during a meeting with employees at the processing center, I learned that we did not have consistent standards that were being applied before disbursing loans. We are addressing those types of issues now through a renewed policy team, and better focus there.

From talking to customers, we learned that many people in the Gulf Coast had loans that were not enough to cover the costs of repairing damages because of rising construction costs. We made adjustments to our estimates at the end of last year, and we put in place a process to expedite review of loans where people did not have enough money to increase the amount of the authorization.

As both Louisiana and Mississippi became to roll out their CDBG grant programs, we needed to get information from the SBA to help them out. We knew we needed to be responsive to those important programs. We put in place a process which resulted in information requests being turned around in a matter of hours for both of those programs.

Today, we not only have a redesigned closing and disbursement process, which we needed to complete our work in the Gulf, we have also redeveloped the way SBA responds to future disasters.

On June 1 of this year, we presented you, the Committee, with a copy of our Disaster Recovery Plan. After months of deliberation, countless hours of work, we have documented the critical steps taken by the Agency to respond and recover from natural disasters of all levels. It includes a surge plan, which we have implemented. It clarifies personnel actions, space management plans, information technology matters, as well as an in-depth communication plan and coordination plan with external groups.

It gauges the SBA network of district officers as never before, and it puts in place a model for much greater coordination with, and support from other governmental agencies and non-governmental support organizations.

Our disaster operation has undergone dramatic transformation over the last year. It leaves the Agency in a significantly improved position to serve Americans in the future.

I also have a couple of members of our staff here, if you have questions for them: Perry Pedini, from our Buffalo call center, which is a subject of one of the IG reports; Celia Horner, from our Fort Worth facility; and we also have Herb Mitchell here, who runs Disaster Assistance.

I would also like to ask permission to have some letters regarding our efforts included in the record, one from the advisor to the president of the city council in New Orleans talking about our efforts, and one from Parish Clerk offices, talking about specific efforts that we have put in place to assist them with their work flow.

Administrator PRESTON. Thank you.

[The prepared statement of Administrator Preston follows with attached letters referenced above:]

SENATE SMALL BUSINESS AND ENTREPRENEURSHIP COMMITTEE HEARING REGARDING GULF COAST DISASTER LOANS AND THE FUTURE OF THE DISASTER ASSISTANCE PROGRAM

JULY 25, 2007

Testimony of
Administrator Steven C. Preston

Good morning Chairman Kerry, Ranking Member Snowe, and members of the Committee. Thank you for inviting me to discuss the progress and improvements being made to the Disaster Assistance program since the devastating 2005 Gulf Coast Hurricanes and more specifically the role the Small Business Administration plays in providing disaster assistance lending to victims of natural disasters.

During the rescue, relief and reconstruction of the Gulf to date, SBA received 422,729 loan applications, of which 364,000 were for homeowners and over 58,000 were for businesses. Of those, SBA approved over 160,000 loans for almost $11 billion. Since then, as in all major disasters, we have had a number of cancellations; so the net number of loans is just under 120,000 for $6.9 billion. Today, I am pleased to share with the committee that all but 1,000 loans have been either fully or partially disbursed; and of those borrowers who have not drawn down on their funds, we stand ready to disburse.

We invested thousands of hours to fully re-engineer our processes to eliminate our backlogs, dramatically reduce response time, and improve the support we give to disaster victims throughout the process. Because we have regular conversations with our customers, today we have the ability to informally poll our case managers on other issues our customers are facing. Our people have become advocates for the borrowers and we are now able to connect a loan and a document to a life and a story.

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

SBA continues its commitment to disaster victims in the Gulf Coast and throughout the country. As you are well aware, when I arrived at the Agency, there was a major backlog to close and disburse the historically high number of loans. We quickly dug in to address the issues. First, we listened hard to our customers, who were experiencing the difficulties. Next, we listened to our employees who were close to the action to get their perspective. Then we dug deep into the operational processes where we saw a number of issues leading to high error rates, steep backlogs in critical processes and decision-making bottlenecks.

As a result of the reengineering effort we established a new process and our first step was to call all of our borrowers to determine the status of their loans and ensure we were providing the right kind of support to continue advancing the process. Over 90,000 borrowers were called in less than 45 days. Based on these calls we were able to determine whether these customers were ready to receive a disbursement, needed more time to determine what they wanted to do, or for whatever reason wished to withdraw or cancel their loan. In addition, these calls initiated a process whereby we contact all borrowers regularly throughout the process, and we track the issues our borrowers face.

As with every major disaster SBA has responded to, a number of applicants do not move forward with their loans. This could be because they received an insurance payment, because they did not want to take on additional debt, or because they could receive funds elsewhere.

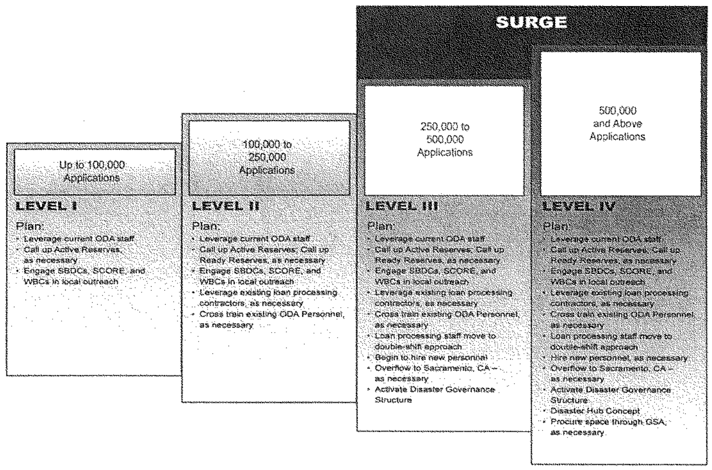
As part of our calling campaign, we identified 11,662 loans where the commitments had expired and no closing documents or requests for extension were in place. Callers were instructed to call three times within a 24 hour period. We made multiple efforts to reach every borrower who was still in the process. However, there were 7,752 borrowers who could not reached, and based on that their loans were cancelled because the loan closing documents were long overdue. All of these loans had closing documents outstanding for more than 120 days and because of this a standard form letter stating this was sent to the address on file. In hindsight these letters could have been more individualized based on the situation rather than a standard form. That has been addressed and in the future personalized correspondence will be sent before a loan is cancelled, to ensure that loans are not cancelled without providing proper notice. Because of our concern that we may have cancelled loans without reaching borrowers, we called these borrowers again and over 1,200 loans were re-instated based on subsequent calls to the borrower.

SBA recognized the severe challenges that hindered its efforts to aid recovery, and has made dramatic improvements to its processes. On June 1st of this year, the SBA presented to the Committee the Agency's Disaster Recovery Plan. After months of deliberations and countless hours of work, the Agency has documented the critical steps to be taken by the Agency along with other Federal agencies to prepare for, respond to and recover from natural disasters. But we are not finished. This is a working document and continues to be reviewed and updated as appropriate.

Our improvements to the disaster assistance process include an accelerated loan application decision process; improved processes and tools for loan closing and fund disbursement; more transparent, meaningful performance data to better manage operations; consistent adherence to policy through training and internal quality assurance; better coordination with non-disaster field staff; and improved harmonization across disaster center operations.

Additionally, we have developed a surge plan to ensure that the SBA is prepared for a catastrophic disaster in the event one should hit in the future. Historically, the

Office of Disaster Assistance has been able to manage up to 250,000 application events within its own processing centers. If a disaster reaches a level higher than that, the surge plan would be implemented, as shown in the chart below.



Furthermore, the surge plan also includes personnel actions, space management plans, information technology matters as well as an in-depth communications plan that would reach all those affected by the disaster as well as those involved in the recovery effort.

Human Capital is the cornerstone of the Agency's disaster response. SBA recognizes the critical role that disaster employees play in the organization's response capability and the expanding role for the entire SBA organization in a surge capacity. Beyond disaster assistance employees, SBA's response to the 2005 Gulf Coast Hurricanes also included contributions from SBA's District Offices as well as staff from the Office of Capital Access. Looking ahead to future disasters, SBA will deploy a larger complement of internal surge personnel for short-term periods of time as needed to accomplish the disaster recovery mission. Currently, non-disaster field staff are receiving the necessary training to process loans and perform other disaster assistance functions in the event a major disaster strikes in the future.

We are also working with our Entrepreneurial Development partners (SBDCs, SCORE, WBCs) to develop a strategy in which they would play an integral part in assisting disaster victims by making potential applicants aware of SBA's services; handing out disaster loan applications; and helping applicants complete documents.

SBA has also revamped its application process system since the 2005 Gulf Coast Hurricanes. Consequently, SBA's quality assurance methods, both at its Processing and Disbursement Center (PDC) and Customer Service Center, have also evolved. At the

PDC, quality assurance focuses on monitoring that the staff are processing loan applications in accordance with SBA policy. A quality assurance team looks for departures from stated policy. We continue to build on our quality assurance methodology, employing training specialists who are studying and refining the systems which are currently in place.

With regard to infrastructure needs, SBA has also developed plans to utilize its Field Operations Center in Sacramento, California, if necessary. This facility is currently being used for field operations west of the Mississippi River. However it also serves as an alternate geographic location for loan processing if a disaster requires a larger response, or if an incident renders the Dallas/Forth Worth facility inoperable. The Sacramento facility allows SBA to offer training in its core functions in an additional facility to complement Dallas/Forth Worth. By leveraging the facility in Sacramento, SBA is positioned to simultaneously grow two pools of disaster reservists in two geographic locations.

Last of all, prior to the 2005 hurricane season, the Disaster Credit Management System (DCMS) was newly developed and only provided the capacity to accommodate approximately 2,000 concurrent users. After it became apparent that the system could not accommodate the Agency's needs, SBA implemented a hardware upgrade. Since that time, the DCMS has been upgraded to now support 8,000 concurrent users. This represents a four-fold increase in capacity, putting SBA in a much better position today to face future catastrophic disasters.

Also, to ensure we are in the best possible position to respond to future disasters SBA will provide accurate, timely and consistent information to key stakeholders beyond disaster victims including: state and local officials; other federal agencies and Congress; national, regional and local media; and strategic partners. Today, we have public affairs specialists trained to handle disasters in their districts. Information will flow through a consistent chain of command to ensure that all necessary information gets from the highest decision makers to the Disaster Recovery Center and into the hands of the disaster victims.

SBA continues to develop and refine its disaster recovery capabilities. Moving forward we continue to focus on next generation modeling and simulations. Implementation of such models will allow SBA to even more accurately predict loan amount and volume, and consequently to make funding request to Congress that more truly reflect the size of the response needed.

We are updating the Agency's standard operating procedures and training plans that have been implemented over the past two years. A comprehensive approach to enhancing standard operating procedures, training, and coordination continues today.

SBA continues to improve and automate the business processes already in place to bring about greater responsiveness and efficiencies. SBA is currently focused on defining functionality and system requirements for an online disaster loan application.

Lastly, SBA is actively engaging with a number of government, private and non-profit organizations to expand our public-private partnerships. By doing this, we plan to achieve improved local outreach efforts following a disaster; improved planning capability; and bolster processing capability.

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

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CAROL A. CARTER
CHIEF DEPUTY

July 20, 2007

Hon. Steven C. Preston
U.S. Small Business Administration
409 3rd Street, SW
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Washington, DC 20416

RE: SBA Assistance to the Orleans Recorder of Mortgages Office

Dear Mr. Preston:

Hurricane Katrina and the subsequent flooding utterly devastated the New Orleans area. Our office, the Orleans Recorder of Mortgages, was essentially crippled. Most of our equipment was damaged, and many of our books and records were exposed to moisture and mold and had to be painstakingly restored. Nonetheless, we re-opened on October 10, 2005 to meet what was to become an unprecedented volume of customers and transactions. We re-opened with a staff of only thirteen out of our pre-Katrina staff of forty-four. Many of our employees lost everything. Many were out of state, and others could not be located.

Our office is responsible for recording and indexing all the legal instruments that place liens, privileges, mortgages, and other encumbrances on property located in Orleans Parish. We maintain the public record in this regard that is relied upon by the title community, lending institutions, individuals, and the business community.

Over the next year, we moved the office three times. We slowly added staff as former employees returned to the area and other qualified staff were hired. By October of 2006, the situation was getting dire. Our computer record, effectively the public record for all liens, was numerous months behind the current date, and we had backlogs of approximately 50,000 mortgage cancellation requests, over a thousand mortgage certificates (a search of the mortgage records that is used for title research), and numerous months of mail that needed to be certified and sent out. Moreover, we were serving between 150 and 300 people daily, many of whom were recording documents and ordering mortgage certificates for their SBA loans. With this volume, the customers had to wait all day or longer for service despite our best efforts. By chance, a local SBA employee, Joey Niolet, came to our office, and we discussed getting SBA to help with the volume of its borrowers coming in to the office. He in turn spoke with his supervisor in New Orleans who then contacted the Ft. Worth office for permission to put SBA employees in our office. After two meetings, it was decided that SBA employees would work on site and given use of our conference room to assist the SBA borrowers coming to our office.

The first group of five SBA employees arrived on November 6, 2006. We trained them on document intake and the drafting of mortgage certificate requests. We designated a cashier for the SBA customers, and the waiting time significantly decreased for all of the customers. Moreover, the SBA employees were able to answer their customers' questions about their loans, something they previously asked our staff. This also helped our office to establish lines of communication directly with the SBA's staff and the SBA home office personnel in Ft. Worth. It further enabled us to address concerns we had relating to SBA documents and practices.

Soon we discussed other ways they could help. The areas of data input, mortgage certificate preparation, mail, and cancellations were identified. Another group of six SBA employees arrived in early January of this year, and we began training them to perform these functions.

Data input in our office is more involved than keying in information. It involves indexing the instrument by the names, properties, and related instruments already on record. We trained three SBA employees to input SBA's recorded documents. When they started in January, the computer record was numerous months behind the current date. This was cause for great concern in the title community. Over the following months, the gap was narrowed and finally closed in May. To date, the SBA employees have indexed and entered over 12,000 of the SBA documents into our system.

Mortgage certificates were taking several months to complete in January of 2007. We had a significant backlog, yet we made the certificates for SBA borrowers a priority to help our citizens complete their loans and begin rebuild their lives. We trained one SBA employee to assist in this area, and he worked on and completed over 200 mortgage certificates for SBA borrowers before he was reassigned to work another disaster. Our backlog was eliminated by the end of March 2007. What used to take weeks, now takes a few days to turn around.

We had several months of mail that needed to be certified and mailed out in January of 2007. Several thousand recorded SBA documents were in this mail backlog waiting to be returned to the title companies. We trained two SBA employees on the procedure for keeping our records intact while waiting to be input into the computer system. They processed approximately 15,000 pieces of mail and eliminated the backlog by January 19, 2007. Two other employees continued to process the mail and assist with filing thereafter.

Last, we have seen an unprecedented number of mortgage cancellation requests filed with our office. We estimate there have been over 71,384 filed since the hurricane. Our cancellation department is currently comprised of six employees. We have trained four different SBA employees to do this function, and collectively they have processed approximately 11,000 cancellation requests to date with a total of 48, 700 taken in. Currently, we are working on cancellation requests filed in December of 2006. Our present plan to have the SBA personnel trained to process the thousands of SBA mortgage cancellations that we anticipate will result from Road Home payments. Frankly, because the Road Home has taken longer than any of us imagined, we have yet to see the bulk of the requests for the cancellation of SBA loans. We expect them to be filed in large numbers.

It is with the deepest, heartfelt gratitude that I acknowledge the assistance of the SBA during the most trying period in the history of the Mortgage Office. As life long New Orleanians, we thank you for the tremendous help you have given to our office, more importantly to our beloved citizens.

If you have any questions or concerns, please feel free to contact us at (504) 592-9176.

Sincerely,

Desirée M. Charbonnet

Desirée M. Charbonnet
Orleans Parish Recorder of Mortgages

Carol Carter

Carol A. Carter
Chief Deputy Clerk

Mark Newberg
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Honorable Steven C. Preston
Administrator, U.S. Small Business Administration
409 3rd St. SW, 7th Floor
Washington, DC 20416

July 25, 2007

Dear Administrator Preston,

I wanted to take a few moments to tell you about my experiences in dealing with the Small Business Administration under your leadership. As you know, my name is Mark Newberg and I serve as an Advisor to Councilman Oliver Thomas in the City of New Orleans. I deal mainly with our "big picture" policy issues; our movements toward those good ideas that will help pull New Orleans from where it sometimes sits, an illusory stagnant outpost in the collective national consciousness, to a position of leadership in reconstruction, in clean energy, in disaster preparedness, and response.

I've also been fortunate to deal with various federal agencies, individually and in groups, and I've had the opportunity to observe the differences in approach that can be taken by those various agencies, but also the differences in approach, within agencies, when leadership is changed. One of the reasons that I'm so pleased to write you today is that I'm able to tell you that the Small Business Administration, under your leadership, has made significant leaps in its dealings with the City, and has proven to be a valuable and willing partner in our recovery.

But before I get into the details of that, let me back up a little to explain how I ended up in a position to make these observations, though I admit that sometimes, in the post-Katrina whirlwind, we haven't always had the time to appreciate just how far we've come. I had just started my third year at Tulane Law School, when Katrina came ashore. I evacuated, from New Orleans to Austin, Houston, Memphis, Knoxville, DC, and Boston, where I was a visiting student at Harvard Law, before returning to Tulane, graduating, and beginning my current job. Through the course of the evacuation, and my time in Boston, my reactions were like those of many others, ranging from shock to horror, and ultimately settling into the netherworld of frustrated despair. It seemed, during those early days, that no one, at any level, was prepared to deal with the magnitude of Katrina's wrath. All the systems we relied upon, all the systems we, as evacuees, were instructed to use to put our own financial houses in order, seemed completely incapable of handling this second, paper inundation.

It was in this state of mind that I was introduced to the SBA, shortly after the change of Administrators. I was sent, as a representative of the City, to a meeting in Baton Rouge organized by Federal Coordinator of Gulf Coast Rebuilding Don Powell. At that meeting, held at the State House, representatives from the Federal agencies (including FEMA, HUD, and the SBA) were gathered around a table with representatives from the State, and the State's contractors, to facilitate the resolution of issues within the nascent Road Home program. What I expected was a great deal of disagreement, dissension, and outright disdain from the parties at the table. After all, media coverage of the Road Home program, and every level of the disaster response, had been blistering, and relations between each level of government were at their lowest ebb.

What I didn't expect was a frank acknowledgement from the SBA that there had been problems in its response, particularly in its ability to process disaster claims on a large scale, in an organized and consistent manner. Nor did I expect the absolute willingness of SBA to dive into the resolution of Road Home issues by sharing what it had learned in its own processing. In fact, had SBA's contribution to our recovery ended with that meeting, I would still be offering praise today. The act of data sharing, allowing processed application data to be matched across processes, accelerated the financial compensation of thousands of Louisiana citizens. The SBA made a demonstrable contribution to our recovery.

The SBA's contributions, however, did not end there. Based on the working relationships we established at that meeting, and the SBA's willingness to reach out to the City, we began to address other pressing issues. The SBA ramped up its processing capacity to deal with the influx of loan applications. It responded to an issue raised at the initial meeting and, in partnership with the City and State, established a first-ever working relationship with local clerical offices to expedite the processing of disaster compensation applications. It's important to note that, in order to provide clear title to property in New Orleans (a prerequisite for compensation), four different offices are involved: The Recorder of Mortgages, the Registrar of Conveyances, the Custodian of Notarial Archives, and the Clerk of Civil Court. Each of those offices plays a vital role in the process of establishing clear title, and each office was running at maximum capacity, with reduced staff performing extra work, but demand far outstripped any reasonable expectations of output. By working together, we were able to foster an agreement among all interested parties, governed by guidelines agreed and adhered to by all, to place SBA assistance inside select offices to expedite the processing of SBA-related material. This agreement had the effect of reducing workload and increasing production and, again, accelerated the compensation process for thousands of Louisiana citizens.

The SBA also launched the Accelerated Disaster Response Initiative (ADRI), tasked to take the best thinking on financial disaster response, risk management and assessment, combine it with on-the-ground expertise and observations, and create a better model for response to future disasters. By tapping into ADRI, and by further strengthening our working relationship, we have been able to share the knowledge we've gained by actually living through the Katrina recovery, in order to insure that no other American cities ever face the same obstacles.

This, in essence, may be the SBA's most important, and lasting, contribution. Yes, it has improved processing. Yes, it has improved information sharing. Yes, it has acknowledged problems that existed, and problems that still exist, and has reached out to us for proposed solutions. Yes, it has asked us to inform it of problems that we uncover, so that we can work together to resolve them. Yes, it has had its representatives attend meetings we've arranged, to help us further the recovery of our own small businesses. And yes, each of those steps is important, and cumulatively the impact has been great. However, ADRI may be more important still, because I believe that the ADRI represents the sum total of what we've learned by doing, both right and wrong, in the course of our recovery.

We now know that the process of applying for disaster loans, post-disaster, is overly cumbersome and complicated. We know that, in order to expedite the processing of loan applications, we have to expedite and simplify the process of applying for the loans themselves. We know that, by allowing local financial institutions to participate in the processing and distribution of those loans, we can help solidify local economies, by stabilizing those very local institutions, at the same time as we grow local economies by putting business and homeowners back on their feet. We know that the economic consequences of a stalled recovery, a delayed reaction, and a difficult disbursement process far outstrip any incremental costs associated with crafting a better process to begin with. We know disasters will happen again, and we know that we need to prepare. We know that we would fail our duty if we failed to take the lessons learned in New Orleans and apply them to our future disaster response. But most importantly, we know that we have to acknowledge those who've done right, if we're going to point out the areas that have gone wrong. The Small Business Administration, and the businesslike, problem-solving approach taken under your leadership, has been undeniably worthy of our praise. Thank you for allowing the principles of good government, combined with people of good will and good intention, to assist us in our recovery.

Sincerely,

Mark Newberg

Advisor
Councilman At-Large Oliver Thomas
New Orleans City Council
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Chairman KERRY. [presiding.] Thank you very much, Administrator Preston. We appreciate it.

So help us understand—you have described an enormous amount of change, which we respect and certainly acknowledge. There have been a lot of changes. But the 90-in-45 campaign has obviously run into its rough spots; would you agree with that?

Administrator PRESTON. I think a lot of what you heard today preceded that program. And I think what we did when we came in—first of all, it is a broader initiative. We call it the Accelerated Disaster Response Initiative.

We had a 45-day initiative to call 94,000 borrowers who are somewhere in our system to find out what they needed and how to get them to the right place.

Chairman KERRY. Why put a 24-hour curfew on that?

Administrator PRESTON. Well, the 24-hour issue is something that came out in Eric Thorson's report.

And the issue there was, we had 33,000 people that had expired loans. We had not canceled them, and we wanted to get to them to understand what to do. So a call effort was put in place to reach all of them, and instructions were to try and get to people in 24 hours.

In retrospect, frankly, I would have preferred for it to be a week or several days. But you have to understand, if they didn't get called and they were past their expiration date, they got a letter that said, "Your loan has been canceled. Contact us in 6 months if you would like to be reinstated." And then we recalled all 7,700 people and reached 5,000 of them.

So when you look at that whole body of activity, there were very few people who ultimately were not reached. Now, the inconvenience is that there were about 1,200 people that we sent a cancellation letter to; then a week later we called them and they said, I didn't want to cancel. So that is where the inconvenience was.

But what happened once we did contact them is they had never had a case manager before and they got an expedited closing and disbursement process. So they got put into the flow.

Chairman KERRY. You contacted, I think, some 7,700-plus folks, right?

Administrator PRESTON. We contacted in the campaign 94,000. Seven thousand seven hundred were the ones who were past due—who were expired, that we couldn't get on the phone, and they got a cancellation letter.

The instructions that we had given people——

Chairman KERRY. Right, but of the 7,700 who were contacted, some 1,200 said, whoa, wait a minute. I still want my loan.

Administrator PRESTON. Yes. Initially, we couldn't get them——

Chairman KERRY. So what does that tell you about the rest of the universe that has not been——

Administrator PRESTON. Well, out of the 7,700——

Chairman KERRY. One thousand two hundred out of the 7,700 said, I wanted to stay there. I assume there are a lot of people out there who have been canceled who do not want to be canceled.

Administrator. PRESTON. Well the universe of people canceled that we did not reach during that call campaign was about 3,000 people.

They got a letter. They got messages left for them 1 week. They got a letter saying, we are going to cancel you, but call us in 6 months if you want to reinstate. Then they got another call and, in most cases, had phone messages left for them.

So that group of 3,000 people or so had several outreaches made to them, and we have not heard back from them, or if we have, we have reinstated them.

Chairman KERRY. Is it accurate what the Inspector General asserts, that the standard letter notifying a borrower 14 days prior to cancellation was not sent?

Administrator PRESTON. Yes. It was not sent because, in those cases, we allowed their expiration to elapse. We did not cancel them.

Typically, what happens is, if your elapses in 2 weeks, you get a 14-day letter ahead of time. We were not canceling anybody's loans. We knew this situation was horrible, and the instructions that we gave our people were, do not cancel any loan until you talk to a human being, or you hear from them. And by virtue of calling these 94,000 people, that was the process we used to talk to them and get them to the right place in the organization.

So when they didn't get reached— OK, when we were not able to reach them, they were already past their expiration date. Rather than saying, your expiration date is coming in 14 days, we sent them a letter that said, effectively, your expiration has passed. Call us in 6 months if you would like us to reinstate.

Chairman KERRY. Mr. Preston, when you first came in here for confirmation, we talked about what has happened to SBA over the course of the last years, and the Ranking Member, likewise, when she was Chair, beat on this significantly.

I mean, it has been a source of concern to this Committee the degree to which the SBA budget has been reduced, and how that has affected personnel.

Is it your judgment at this point, that the ability of the Agency to be able to respond to this has been affected by what has happened to that budget, to personnel over the course of the last few years?

Administrator PRESTON. No. I think you all have been terrifically accommodating of this Agency through the supplementary budgets, as we have needed funds for these larger disasters. So most of our funding has not come through the typical budgeting process.

Chairman KERRY. Except that you do not have a permanent staff in place to do the planning and put the procedures in place and guarantee that you do not have these bumps.

Administrator PRESTON. We have staff in place that does that. We do not have a position that is called that, but we have teams of people that work on that everyday.

Chairman KERRY. Well, if that is true, then why did Katrina get the response it got?

Administrator PRESTON. Well, it is hard for me to—I do not think at that point the Agency had a surge plan in place that we do today that contemplated the type of requirement that we had.

We had systems that could not handle it. We had dramatically fewer people on staff. We did not have plans in place to be able to ramp that large. We did not have back up facilities plans. We did not have a plan in place to engage our district network like we do today. We had many, many fewer reserve people trained as compared with today.

So when you look at that—and I know your staffs have gotten a briefing on it—what you see in that disaster plan is something that is in place today with people, names, facilities listed, arrangements in place, work that has been done by our district offices. It is an entirely different concept around preparedness. And it is an entirely different concept around how we process a loan.

Chairman KERRY. With respect to that Disaster Assistance Plan that you mentioned in your testimony also, were outside experts consulted in the formation of that plan?

Administrator PRESTON. Yes. We worked with an outside consulting firm who is very well thought of in this area.

We consulted with other outside organizations to look at their disaster preparedness plan. We showed our plan to a number of other Federal agencies to take a look at those.

Chairman KERRY. Were the reports issued by GAO and SBA considered in that process?

Administrator PRESTON. Yes. Now, the GAO reports really—many of the issues addressed in the GAO report have been adjusted through the operational improvements.

The big issue, I think, that the GAO report came forward with is to enhance our predictive capability which we have expanded through the use of modeling that is used in other Federal agencies.

Chairman KERRY. And final question, or couple questions, the issues raised by Ms. Martin in her testimony, unless I misheard them, clearly apply to the 90-in-45 period of time.

And it is pretty strong testimony that there was sort of a, "let's get rid of these; let's move these out attitude," and certainly her testimony at least, is that some superiors were clear and intent on that.

What is your response to that?

Administrator PRESTON. Well, I think one of the things she focused on a lot had to do with title documents. And this was exactly one of the things that Eric Thorson's report focused on, which was getting the paperwork together to close it and move it on.

Eric's report showed that, in many cases, there was insufficient documentation in place on certain pieces of collateral. We think there are many circumstances that would support what we did in some cases, and other cases, we did not have what we needed.

What I would tell you is the circumstances that she alluded to were highlighted in the 90-in-45 re-engineering initiative. And as part of that, the redesign of those processes were kicked off. They were not completed as part of the campaign, and I think she left in November of last year, so she would have left toward the end of the campaign.

But today, the IG's recommendations in that area have been fully implemented, and the backlog of the problems that were in place are largely worked out.

So frankly, I would love to have seen Ms. Martin's testimony a year ago when we were kicking this off, because as I have learned listening to these stories to see how people act, what their motivations are, and how it all fits together, is one of the best pieces of insight a leader like I can have as we look at fixing it.

The other thing I want to mention is, before we changed this, we had a big production line effectively set up with how we did loans. If there were problems, often, they went down the production line. Backlogs occurred in many areas of that production line. There was insufficient coordination, and as a result—and there was no single point of contact for the borrower.

When we totally redesigned this process to put in place case teams, it provided an opportunity for all these teams to work together to resolve these issues jointly, to improve coordination for the borrower, and then to give them a single point of contact.

So many of the issues that she brought up, I can envision how they would have occurred under the old process, and even during the transformation of the process.

Chairman KERRY. What about the last point, the important point that she made, I thought, about the intimidation and actual encouragement of the declining of the loan, or the withdrawal of the particular application?

Do you think some folks just kind of—now, I am not directing this, but I know how bureaucracies work sometimes, how it can go up and down the chain of command, and some people can get overly enthused, or lazy, and/or—just in the course of business, want to get it done the simplest, easiest, fastest, least inconvenient way.

Administrator PRESTON. Well, what I would tell you is, when it comes to the approval of a loan, those were prior to these—I mean, loans had generally been all approved by the time we had kicked off this initiative. The issue was, the loans had been approved and they were not getting closed and out the door.

I think you can appreciate, the Agency never came under attack for not getting the loans through the door. They came under attack for not disbursing loans. The only financial incentives that were in place in that facility had to do with disbursing loans. There was no incentive whatsoever, I think, for people to cancel loans.

Now, the other thing I want to mention is Mr. Thorson's report dealt with the call campaign in Buffalo, Ms. Martin worked in Fort Worth. So those were different sets of activities. I can envision how somebody working on the front line with a team lead who wants to get through work can get heavy handed.

She did make one comment that I thought was an important one. She said, we were—she used the comment, the number of files we processed. Prior to re-engineering this organization, a lot of what we looked at were things like files processed. Now, what we look at are things like, how long has it taken us to turn around a borrower request? How long are our backlogs in getting back to customers? We have details on every single borrower on why we haven't closed their loan. It is one of the reasons we found out people were having such a horrible time getting title documents, and we sent 12 people into the Parish Clerk's office in New Orleans Parish to help them with their backlog.

So the types of things we measure are much more about customer response and customer wait times than they are about moving something through a process, because those old metrics, I think, focused people on the wrong things.

Chairman KERRY. Can I say to you, Mr. Administrator, that I know from experience, and when you hear this kind of testimony, that—I have no question that you are trying to institute that change in the culture. I have no question of the bona fides of the reforms that you want to put in place, none whatsoever. And I think Ranking Member Snowe would agree with me, this is a very different hearing from the hearing we would have had with your predecessor.

But I did hear Ms. Martin say that one of the measurements was still processing cases, and therefore, it just may be that what you are sending down the chain is not getting to every part of that chain, and I think it is important——

Administrator PRESTON. I think that is great——

Chairman KERRY [continuing]. To make sure the metrics are in fact——

Administrator PRESTON. Well, I do see the metrics. And frankly Senator, I, in many cases, designed a lot of them myself.

I would highlight that Ms. Martin has not worked at the Agency since last year—November. A lot has changed since then. There was an overlap during that 90-in-45.

Chairman KERRY. So this fundamental change, you are saying, has been put in place since that period of time.

Administrator PRESTON. A lot of the tracking tools were put in place through that campaign and are in place today.

Chairman KERRY. Fair enough. I accept that. And we will obviously continue to work with you.

I do want to express my appreciation for your willingness to come in here and be part of this. I think it is helpful, and I think we will all benefit. I- think the Agency can ultimately be stronger for it, but I certainly appreciate the way in which you have addressed the questions that we had before the Committee.

Administrator PRESTON. Well, thank you. And once again, your staffs have been in the centers. Some of them have—we welcome, at any point, anytime your staff want to come down and talk to our employees, talk to—walk the floors and see for themselves.

I think this is an exciting story about people who really care and who are working like crazy to be excellent service individuals for America's disaster victims.

Chairman KERRY. Thank you.

I will turn it over to Senator Snowe now. I need to go back to where I was, but Senator Snowe will close out the hearing at her discretion.

Senator SNOWE [presiding]. Administrator Preston, I want to thank you. I know it has been a difficult challenge that you inherited a little more than a year ago. When you became Administrator of the Agency, the disaster program required massive restructure. Regrettably, it wasn't working well at a very difficult time for the Gulf Region and for this country.

We have heard testimony on a number of issues today, but I want to start with Ms. Martin's testimony.

Obviously, it is troubling. She testified today on what took place in Fort Worth, Texas from December 2005 through November 2006, and I found her testimony deeply disturbing.

Administrator PRESTON. Absolutely, yes.

Senator SNOWE. Have you ever heard of the types of episodes described in Ms. Martin's testimony?

It does not matter when it happened, the fact is that it happened. Given what she has indicated, you need to be concerned that a culture might be developing.

Administrator PRESTON. Yes.

Senator SNOWE. And I was just wondering, were you aware at all, of these kinds of charges?

Administrator PRESTON. As I mentioned earlier, every employee has my e-mail address, and many of them use it.

And so, periodically, I have gotten e-mails from employees—a number of months ago, I would say, I got a handful of e-mails from employees who indicated that decisions were not being made consistently in some cases. And usually what I would do is I would e-mail the person back and say, can you get me details on how that works.

And what I did was I went down to the Fort Worth Center shortly after that, and I cannot give you the month, but it was early this year, and spoke to the employee base, and said—which I have done a number of times before—and said, look, this is all about serving people. You are doing God's work here. Thank you so much, but let me tell you, if you ever have a concern, if there are ever issues, if you ever asked to do something that you do not think is appropriate, contact me.

And then I also held a number of sessions with front line employees with no managers in them. And you might think that they may be intimidated by those meetings, but what I can tell you is they view it as just a great opportunity to vent.

And what I learned was a couple of things. And probably most, I think, poignant of which was, we had consolidated four different centers. They did not all do business the same way. When they got consolidated there was inconsistency in certain practices; there was sometimes friction. And whereas a lot of the policies had been unified, they had not necessarily been adopted in the organization.

So we put in place a policy and procedure team, asked them to redouble their communication efforts, and began taking what I had heard from employees to get that out there and ensure that was the case.

I think the most troubling thing has to do with Ms. Martin's testimony was sort of the attitude and the view that potentially people were pounding their fist and it was just about production. What I can tell you is, in all the documents where we talked about the reforms, we consistently communicated to people that what was in the past was in the past. Let's look forward, and let's think about serving people compassionately and effectively.

And what ended up happening was, when I would meet with case managers, they became the customer advocate. It was no longer about getting their stuff done. I would hear people saying, we have a practice over here that I am concerned is a problem. We really need to fix it. So I can envision how an organization, especially many people working 7 days a week, we had double shifts going, some of the facilities that they were in were not what you would call A-class facilities. I can envision how that could have happened in many cases. I absolutely could not comment on whether or not that was widespread in the Agency at that time.

Senator SNOWE. Did you issue instructions in conjunction with this new effort to accelerate the process and to make these 90,000 calls?

Administrator PRESTON. Yes, we had——

Senator SNOWE. Did you issue instructions on how to conduct themselves and what the guidelines should be?

Administrator PRESTON. We had call scripts, in fact, for—I was looking through it the other day, and it is interesting. I was looking through some of the e-mails from the Buffalo call center. And Perry Pedini is here, and Perry may not realize it, but I looked at an e-mail from him to his calling staff right around the time of the call campaign.

Quoting from it: "Thousands of disaster victims are relying on these funds to rebuild and complete their recovery. The importance of this project cannot be understated."

Some of our people were chomping at the bit to get these calling campaigns going. The head of our Fort Worth center sent Herb Mitchell an e-mail, wanting to get started. This is an extremely important task because it is going to define the universe of those who want to close and those who want to seek disbursement. And what happened is, after we determined that, we gave them their case manager and they got along the way. The call scripts provided different categories of customers and encouraged people to get them to the right place so that they could get the right kind of help.

And then I was looking at the executive briefing document with the stated objectives for that particular call campaign: "Assign files to a loan team for disbursement. Extend loans if the customer is interested. Cancel loans if they are no longer interested or responsive. Ensure customer satisfaction at every interaction."

So the communication that was going out—and certainly the culture we have been trying to build in the organization is much more about customer-facing. And if you look on many of the walls in the SBA, you will see the second point—there will be four points, customer-focused.

Senator SNOWE. So has that been translated there? I mean, are you sure that no longer exists?

Based on what you have heard here today, how do you follow-up?

Administrator PRESTON. Oh, certainly how I would follow-up is——

Senator SNOWE. I want to make sure, because obviously, given the circumstances, you want to make sure that this does not continue to exist.

Administrator PRESTON. Yes.

Senator SNOWE. I mean, it wasn't just several calls, it was many calls.

Administrator PRESTON. Yes.

Senator SNOWE. So I think it is important——

Administrator PRESTON. Absolutely.

Senator SNOWE. The people, especially given the devastation that they faced, it is hard to imagine having their circumstances further compounded by a horrible call from SBA demanding that they respond immediately with all of their information.

So I am just wondering, how you know that has changed?

Administrator PRESTON. I think, certainly what I think I will do following this hearing is to make sure to convene the leaders in that organization to go through the issues, go through the concerns.

I have—I will tell you, I have talked to many of them one-on-one to say, what do you think the mind set was at the time? What do you think people are going through? I have heard people say, where we were a year ago, it is a different place today. It is a different feeling. It is a different level of morale.

I think you also have to understand——

Senator SNOWE. I think that these are specific cases.

Administrator PRESTON. These are specific cases.

Senator SNOWE. Yes. So I think that it is important to get to the specifics of the issues that Ms. Martin raised with those who work there, it seemed to be the norm rather than the exception at that moment in time.

I just think it is important to make sure what happened—and I know Mr. Thorson will be looking at it, but just to make sure it doesn't happen again.

Administrator PRESTON. Absolutely.

Senator SNOWE. We need to find out what transpired and all the details associated with it, because it really is important. You do not want that episode to be repeated. You really should find out why.

Administrator PRESTON. Yes. Although I would emphasize one more time. Many of these circumstance, many of these circumstances preceded the re-engineering work we have done.

But I think your comments are absolutely on target, Senator.

Senator SNOWE. Yes, because it was November of 2006 that Ms. Martin was referring to. So that is not all that long ago.

How many outstanding loans do you have now?

Administrator PRESTON. In the Gulf, we have got—I might be off by 1,000 or so, but about 17,000 that are in the process of getting disbursed, and about 1,000 that have not been disbursed.

Those are generally situations where people have taken initial disbursement and just do not know yet what they are going to do. So we call them regularly.

I have to tell you, I was in New Orleans a few weeks ago doing an on-camera piece, and the cameraman and the producer in the studio came up to me and said, you guys are professional. You guys are terrific to deal with. I have never seen this from a Federal agency before. And as they described the circumstances that they had in dealing with us, it was—I really felt like I could envision how the changes we have made had begun to take. And that is why I think it is so important—I have a couple of letters from officials in New Orleans that are on the ground.

Senator SNOWE. I appreciate that, and I think that is critically important in making that turnaround, given as I said, the enormous undertaking that it requires—the thousands and thousands of loans, and all the other issues related to it.

And speaking about the SBA's 6 month reinstatement policy. Now, I gather that if they do not get their loan reinstated within

6 months they are limited in terms of Federal assistance they can receive once they reapply?

Administrator PRESTON. No. What we have done is we have extended that another 6 months. And our practice right now is, if people call us, we extend them. So we have continued to be very flexible with the Katrina situation.

We get a handful of people everyday that call us up, and we reinstate them.

Senator SNOWE. And what is it that they are required to do in order to be reinstated, to have all of their information verified?

Why should they go through that process once again?

Administrator PRESTON. Well, what we ask for to reinstate them is—we ask for a form that allows us to get information from the IRS to see if there is a new tax form.

And our policy right now—although in other situations we have required more documents—is simply to ask people to give us their signed promissory note and their loan authorization, and if they can just do that we will reinstate them. So it is a relaxed standard right now.

Senator SNOWE. OK. And if their loan was improperly canceled by the Agency——

Administrator PRESTON. Oh, they can call us up today, and we will reinstate it.

Senator SNOWE. You will?

Administrator PRESTON. Yes.

Senator SNOWE. Without a reverification process?

Administrator PRESTON. Well, if their circumstances have changed dramatically—what we need to do is get updated tax information, but we do that—we get that from the IRS.

And I, unfortunately, cannot speak to the circumstance that Ms. Martin mentioned that—right after the storm. I am just not familiar with it.

We are also working with the IRS to try to increase the level of automation between our two agencies to get that more seamless.

Administrator PRESTON. I will tell you Senator, a lot of our letters are drafted by attorneys, who want to make sure the letter of the law is followed. And we have, in many cases, looked at some of these letters and try to make the language softer and more compassionate to the borrower.

Senator SNOWE. I know that Mr. Thorson mentioned something about $1.5 billion worth of loans were given to those high-risk individuals that should really, essentially, go into FEMA.

And also we heard in testimony here today that FEMA actually referred many disaster loan applications to SBA that represented a high risk, as well.

Administrator PRESTON. Yes.

Senator SNOWE. Is there a way of working together on this?

Administrator PRESTON. There are two things there, and both of them have been taken care of.

One of which is our interaction with FEMA during the storm was not what it needed to be. And so we have simplified and approved the process of getting people to us from FEMA, and I can go into that a little bit more chapter and verse.

The issue that Mr. Thorson brought up was, shortly after the storm. To accelerate the loan approval process, the Agency rolled out a pilot where the approvals were based much more heavily on credit scores. So they didn't do as much analysis of their financial information.

As a result, the IG audit report showed that a lot of people that were approved at that time would have been unlikely to have been approved under our more detailed cash-flow analysis process.

That pilot was discontinued, and we now have in place a methodology that does more extensive work. His numbers extrapolated that to about $1.5 billion in loans.

Senator SNOWE. Now, in his testimony today, in mentioning all the loan cancellations, the expedited loan program, the lack of collateral, sufficient collateral—all those issues—have they all been addressed so far?

Administrator PRESTON. Yes. The collateral issue has been addressed. The expedited loan process has been addressed. I think we have talked about the cancellation—the 1,200 people that got a cancellation letter and then we reinstated. I do want to mention that is fewer than 1 percent of our approvals, although anybody who is disrupted is a problem.

And there was one other, which is a new report on the quality review of the loan verifiers—or the loss verifiers, rather—that we have just gotten, and we need to look into.

That is more about having a good process in place for internal oversight than financial risk or customer service.

Senator SNOWE. Is SBA prepared to handle a similar situation in the future? Hopefully we do not have one.

Given the lessons learned, are you prepared?

Administrator PRESTON. I remember very clearly——

Senator SNOWE. Would you say that SBA is prepared to handle another catastrophic disaster?

Administrator PRESTON. Yes. I remember very clearly our first meeting when you said this was an opportunity for the Agency to shine, and they did not.

I would say, I think the Agency has shined in the last 6 months. And I want to say the very people who were leading that Agency during that period of time and who were overwhelmed are the ones, I think, that have rallied and really put this Agency on the right track, and I am very proud of them.

I would also tell you—and I know some of your staff who were over in our briefing, when you look at how we are ready for whatever may happen, it is a very clear pathway with very clear understanding of how we get there in terms of people, facilities, technology, and coordination. We already have every one of our district offices with contact plans for local and State officials filled out and completed and ready to go. We are training 400 people in our own field; about half of that has been done.

So a lot of what we have talked about has been getting the funds in the hands of people in the Gulf, but at the same time, we have taken all those lessons learned and designed an entirely different way, not only to process, but to plan and implement a surge.

So you know, I think we are in a very, very good position today as a result.

Senator SNOWE. I appreciate it.

Well, I thank you, Administrator Preston, and I know it has been a significant effort on your part and those at SBA, and we are pleased to hear that you are making some major reversals from where we were from the onset in the aftermath of Hurricane Katrina.

Administrator PRESTON. Thank you.

Senator SNOWE. We really appreciate it. And we want to work in a constructive fashion to resolve any of the additional questions, the issues that Ms. Martin raised——

Administrator PRESTON. Right. Absolutely.

Senator SNOWE [continuing]. To get this right for now, and for those who have been directly affected by any improper decisions or behavior.

And then, second, to make sure it works well in the future.

Administrator PRESTON. Yes.

Senator SNOWE. Hopefully we do not have to utilize this disaster response, but if we do, the SBA is now in a position to shine at a time in which people are facing some very troubling situations, as we saw in the Gulf 2 years ago.

Also, I hope we get to pass a disaster loan package through the Senate as quickly as possible.

Administrator PRESTON. Thank you, yes.

Senator SNOWE. We appreciate your expressions of support for this legislation, and hopefully we can overcome some of the objections of our colleagues here in the Senate, because clearly, this package has been thoroughly evaluated and examined over the last year-and-a-half when we first initiated that effort here in the Committee. It was part of the overall reauthorization. Not much has changed. It passed unanimously then, and it has passed the Committee again under the Chairman's leadership, and it is unfortunate we have not moved this forward.

And anything that you can do to assist in that effort, we greatly appreciate.

Administrator PRESTON. Thank you, yes.

You should also know that we have already begun to work on some of the provisions in the bill in contemplation that it will pass. And I also want to say your staff, Senator Kerry's, Senators Vitter's and Landrieu's staffs have been terrific partners of ours in understanding the issues in the Gulf, getting us to the right people, and giving us great insights along the way. So I cannot tell you how much I appreciate that.

Senator SNOWE. Well, thank you.

This hearing is adjourned, but the Committee will leave the record open for 2 weeks for any additional comments and questions.

[Whereupon, at 12:17 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement for the Record
Senator Mary L. Landrieu
for Small Business Committee Hearing on
"Oversight: Gulf Coast Disaster Loans and the Future of the Disaster Assistance Program"

Thank you Chairman Kerry for calling this oversight hearing on SBA's response to the 2005 hurricanes and to provide an update on its continued efforts, along with this committee, to enact significant disaster reforms. This hearing continues the important bipartisan work begun under Ranking Member Snowe during the last Congress to monitor SBA's performance in the Gulf Coast and its work to prepare for future disasters.

Let me welcome the witnesses today, in particular SBA Inspector General Eric Thorson. As you know, Mr. Thorson was unanimously confirmed by this committee in April 2006 and truly impressed many of the committee members with his background, experience, and dedication to service. I must say that he impressed me with his follow through on two specific commitments made to me during his confirmation. The Inspector General made two important commitments to me at his confirmation hearing which are particularly timely given today's testimony. First, he accepted my invitation to visit New Orleans to see firsthand the damage and pace of recovery. Following this tour, I understand that, within 90 days, he opened an investigation/audit office on Canal Street in New Orleans and all but one of the six employees are local hires. Second, Mr. Thorson, committed to me to not only investigate fraud in the Gulf Coast but also mismanagement and inefficiency within SBA itself - which is part of the focus of today's hearing. I commend the Inspector General for being a man of his word and look forward to his testimony today on this important issue.

Post-Katrina/Rita SBA Disaster Assistance

Following Hurricane Katrina and the resulting levee breaks, SBA, like many Federal agencies, was slow in its response to these disasters. It lacked sufficient pre-disaster planning and post-disaster execution. SBA also lacked necessary tools to fully respond to business and homeowner needs. The result was bureaucratic delays and mismanagement led to disaster loan applicants waiting six to eight months for approvals - even longer for disbursals on their loans. In short, SBA's response to these natural disasters was a manmade disaster.

Let me explain how frustrating this process was for my constituents. In advising Louisiana applicants on how to more quickly get resolution on their SBA applications after the storms, my staff regularly told them, "Find one SBA customer service representative, get his/her name (and direct number if possible) and harass that person every day until they approve your loan or disburse your funds." We found, along with our office personally shepherding through applications, this was the only way to get SBA staff to move loans through the process - to hound them every day until the loan was approved, declined, or disbursed. That demonstrates to me a philosophy at SBA that "the squeaky wheel gets the oil" instead of having staff who are focused on efficiency, accountability and most importantly, customer service.

Today's testimony from a former SBA loan officer only corroborates the countless stories of frustration, inaction, and mismanagement that I have heard from Katrina/Rita victims seeking assistance from SBA after the storms. In my opinion, it is also the main reason why we have Mr. Preston sitting here with us today - and not the former Adminstrator. We needed strong, efficient leadership at SBA which was simply not there following the storms. What was needed was a champion for small businesses instead of a cheerleader; a "work horse", not a "show horse" so to speak. I do not think any of my colleagues here today, nor Inspector General Thorson, would disagree with me when I say that Adminstrator Preston took over an agency at a crossroads and, along with the rest of his team, has accomplished a great deal in a short time. That is not to say that is not still a great deal of work to do, but I it is only fair to give credit where it is due.

'90 in 45 Campaign'

The testimony today highlights some serious problems regarding SBA loan employee procedures, practices, and goals. Unfortunately, as I mentioned, the testimony of Ms. Martin only corroborates what I have heard from countless Louisiana disaster victims – shortly after the storms SBA was unprepared, unresponsive, and more focused on quotas than actual people. It is my belief, however, that the new Administrator brought with him a new focus and mission for the Disaster Loan Program and that he had the necessary tools to quickly deal with these problems which really gave the SBA a 'black eye' after Katrina/Rita. For example, the '90 in 45' campaign which was discussed in testimony might have had some problems, but it was a major step in the right direction. We should focus on the problems, both after Katrina and those which occurred more recently, and ensure that they do not occur in the future. That said, I would like to get to the bottom of some of the issues raised today.

For example, Mr. Thorson's testimony seems to indicate that the Buffalo call center employees were overworked and/or overstressed which may have led to some of the oversights that occurred there. I intend to ask him to clarify this issue but, for my part, I ask unanimous consent to to submit for the record, the Loan Closing Procedures and Agenda for this "Triage Project." Both of these documents were distributed to Buffalo Call Center staff in September 2006. If you look at these documents, staff was required to work 10 hour shifts, 7 days a week. They also had a quota of calling 40-60 borrowers per 10-hour shift. As a senator from the hardest-hit Gulf Coast state who was frustrated beyond measure to see these applications sitting for months on end, I was one of the first people to urge SBA to implement such an aggressive program to be proactive in getting these funds out. This is because, under the former Administrator's watch, these funds were sitting undisbursed in the Treasury for five to six months when they should have been down in the Gulf Coast rebuilding homes and businesses. However, it seems like the process set up was initially flawed if a small group of employees were tasked to handle this large project under difficult circumstances and questionable procedures.

Along these lines, I understand that it is common SBA practice, once a loan has been inactive for a certain period of time, to send out a letter giving borrowers 14 calendar days to respond before their loan is cancelled. For the '90 in 45' campaign, as seen in the documents I just submitted, customer service staff was told to make three calls within a 24-hour period, then to document their actions in the computer system, and a letter would be sent out announcing the loan was cancelled. This does not follow the common practice of giving borrowers 14 days before the loan is cancelled. Now, certainly these loans had been inactive for 120 days or more but, at this point, what would 13 additional days mean to the process? I ask unanimous consent to include three letters in the record. The first letter is what SBA sent out to borrowers who were not contacted by the Buffalo customer service staff. It tells borrowers that their loans were cancelled because loan documents were not received and that they had six months to request reinstatement. As I understand it though, it is somewhat more difficult to reinstate a loan after it has been cancelled, especially given the additional paperwork and justifications required.

The second letter was sent out to borrowers who requested that their loans be cancelled, however, some borrowers who were not contacted by the team, received these letters in error. It contains much of the same information, including the six month deadline for reinstatement. Lastly, I would like to submit the standard 14-day letter that is normally sent out to borrowers having their loans cancelled. In particular, the letter says, "...and action must be taken on your part within the next 14 days in order to continue with your disaster loan. If we do not hear from you, SBA will cancel or reduce your loan to the amount that has already been disbursed." This is a far cry from the letters I previously described - it even includes the name and extension of an SBA case manager, hours of operation, and in the body of the letter includes the mailing address/toll free number. In short, it is quite accommodating while the other two letters sent out under '90 in 45' come across as a formality or means to an end, which should not be the case. I would like to know why the decision was made to not send 14-day letters, and if, in the future, that policy will be continued as it seems to be contrary to the best interest of borrowers.

Duplication of Benefits

As you may know, I have introduced multiple pieces of legislation this Congress to address a major issue affecting recovery in my state - namely the 'duplication of benefits' issue between SBA Disaster Loans and Louisiana Road Home recovery grants. This is because, the SBA interpretation that Road Home proceeds on top of SBA disaster loan proceeds overlooks the unique nature of Hurricanes Katrina and Rita. For example, the unanticipated massive flooding caused by these hurricanes covered vast areas not required to carry Federal flood insurance. Because private windstorm insurance is paying for only a small fraction of the flood-damaged home losses, this disaster is the largest uninsured property loss in recent memory.

It has been my consistent position that the Congress provided the States hit by these hurricanes with Community Development Block Grant (CDBG) funding to provide housing grants to those homeowners who suffered losses, but did not have flood insurance. But because these are Federal funds, they trigger the non-duplication of benefits prohibition, requiring immediate cancellation of the SBA loans and immediate repayment of already disbursed loan proceeds. As I see it, this is essentially a one-time problem because the areas subject to these SBA loans and CDBG grants are being required to purchase flood insurance.

In particular, S. 1071, the "Catastrophic Disaster Recovery Fairness Act" which is cosponsored by Senator Trent Lott, would waive the SBA duplication of benefits requirement for Hurricanes Katrina, Rita and Wilma. Under this bill, borrowers will still have to repay their SBA loans. They will just be able to repay them under the extended time frame they originally agreed to when they got the loans. The waiver in the bill allows homeowners to use their Louisiana Road Home grant money and Mississippi home recovery grant money for its intended purpose: rebuilding their homes and moving forward with their lives, rather than sending it back up to Washington, DC. Despite bipartisan support, this bill has been blocked from Senate passage for months due to Administration objections.

More recently, with Senate Banking Committee Chairman Chris Dodd, I introduced S. 1668, the "Gulf Coast Housing Recovery Act" which would also address this issue. S. 1668 includes a provision that clearly states that the 'duplication of benefits' requirement will not apply to Louisiana Road Home proceeds, except to the extent that the inapplicability of the requirement would result in borrowers receiving more than is necessary to repair or rebuild their homes or property, and to pay for temporary relocation necessities. In effect, this provision would allow Road Home applicants to keep their Road Home grant proceeds, so long as there is no 'windfall' or instance where they are benefitting from the storms, which is the Congressional intent of the 'duplication of benefits' requirement under both the Stafford Act and Small Business Act. I understand that the Administration may have concerns over this particular provision as well, which is very frustrating for my constituents who call my office every day asking for the latest update on our progress on this issue. We will do our part to work in good faith with the Administration to come to an agreement on this issue but, at some point, it is my hope that they will realize the well-intended regulations are stifling the pace of recovery in Louisiana.

Necessary Disaster Reforms

To his credit, Administrator Preston, rather than being an obstacle, has been a valued partner in our work to reform SBA's disaster assistance program. For example, per my request, SBA submitted the SBA's Disaster Response Plan to this committee in time for the start of this hurricane season. SBA lacked a comprehensive plan for Katrina/Rita which led to its many problems.

This committee has also been working closely with SBA on securing passage of S. 163, a comprehensive SBA disaster reforms package. This legislation includes many provisions based on the recommendations of the two GAO reports cited today and we feel it is a vital component to creating a better, more efficient SBA. I understand my colleague Senator Kerry has been in discussions with the lone Republican senator holding up this bill from Senate passage and I am working alongside him to pass this bill before August recess.

As we have seen in the aftermath of the 2005 hurricanes, SBA is important to our communities not just in normal times, but also when disasters strike. For example, according to the latest data a majority of my state's businesses were small businesses - 95,000 total and for many of these businesses SBA is their only lifeline if another hurricane struck. This is why I am so focused on ensuring that post-Katrina problems are never repeated and that SBA is more prepared, efficient for future disasters.

This particular hearing is extremely helpful because it reminds us of major areas where SBA failed following Katrina/Rita and areas where SBA has made reforms/improvements to address these issues. Today's hearing also highlights areas where Congress and SBA need to provide new tools and enact more reforms. For my part, I will continue working on this issue on behalf of my constituents impacted by Katrina/Rita and those who may face disasters in the future.

I thank the Chair and ask that a full copy of my statement appear in the record.

Post Hearing Questions:

Chairman Kerry:

Mr. Preston: I understand that the policy at SBA is now that any Gulf Coast loan applicant who had a loan cancelled or withdrawn can now apply for reinstatement, regardless of when the loan was cancelled or withdrawn. Is that accurate? If so, when was this change in policy initiated, since the standard policy is a 6 month period for reinstatement? How is SBA conveying this message to borrowers who have cancelled or withdrawn loans?

Response: On August 3, 2007, SBA issued a policy memo allowing for applicants to request reinstatement on Gulf Coast Hurricane loans cancelled prior to August 1, 2007 without having to justify the reason why the request is beyond the traditional 6 month period allowed in the notice of cancellation. The grace period for requesting reinstatement will end on January 31, 2008. This message has been conveyed primarily through press releases and media advisories.

Mr. Preston: Following the hearing, was any effort made by the SBA to reach the population of roughly 3,500 applicants who had their loans cancelled without notice, according to Mr. Preston's testimony? If so, how many of these applicants requested reinstatement?

Response: SBA had a team of customer service representatives attempting to reach the estimated 3,187 applicants whose loans were cancelled after unsuccessful attempts to reach them during the 90/45 campaign. As of August 30, 2007, we had attempted to contact 1,944 of these applicants and found that 60 had been reinstated prior to this project based on responding to the cancellation letter; 48 of the 60 have since cancelled their loans. 778 of the 1,944 have indicated they are not interested in a disaster loan (40%), 558 have told us they will request reinstatement (29%), and 548 we are still unable to contact (28%). This is an ongoing project and will continue until we have attempted to contact all of the 3,187 on our list.

Mr. Preston: Of the 422,000 loan applications that were received following Hurricanes Katrina, Rita and Wilma, 68,550 were withdrawn. How many of these withdrawals occurred at the request of the borrower, and how many occurred at the request of the agency? How many approved loans were cancelled at the request of the borrower, versus at the request of the agency? To date how many cancelled loans have been reinstated at the borrower' request?

Response: As of July 25, 2007 there were 68,550 actions to withdraw loan applications. As of August 27, 2007, there were 69,211 actions to withdraw (an application can be withdrawn more than once).
How many of these withdrawals occurred at the request of the borrower? 39,051
How many of these withdrawals occurred at the request of the Agency? 30,160
How many approved loans were cancelled at the request of the borrower? 27,846
How many approved loans were cancelled at the request of the Agency? 12,552
To date, how many cancelled loans have been reinstated at the Borrowers request? 2,601

Senator Olympia J. Snowe:

General

Under your leadership, many changes have been made to improve SBA's internal process – but what is the SBA doing to improve the Agency's culture as it relates to an efficient and effective response to future disasters.

Response: Our focus has been on improving the efficiency and effectiveness of the operations as well as empowering employees to be fully engaged in this process. Please see our response to question 3 for details.

In addition to providing small business owners with advice on rebuilding and restarting their businesses, what specifically is the SBA doing to help small businesses better prepare for future catastrophes?

Response: SBA's website provides information on disaster preparedness; we do public service announcements on disaster preparedness; and we have partnered with public and private agencies to get the message out to the business community on the need for disaster preparedness.

What are some key things the SBA has done to better prepare for future disaster? Specifically, how does the SBA's Disaster Response Plan fit in?

Response: *Disaster Credit Management System (DCMS) improvements* (Now capacity of concurrent users is at least 8,000.)
Disaster Reserve Corps – We have approximately 1,200 trained individuals in various categories that are available to address the surge requirement of disaster similar in scope to the Gulf Coast Hurricanes within 48 hours of being called up.
The Disaster Recovery Plan outlines procedures for agency wide engagement in responding to catastrophic events.

What has the SBA done to leverage private support in preparation for future disasters?

Response: SBA created the Disaster Loan Partners Initiative and selected three private sector firms to assist with SBA's loan processing and loan closing activities. This unique partnership with the private sector provides the Agency with additional experienced personnel to enhance program delivery to disaster victims. This model can be expanded to include additional service providers which can support various aspects of the lending operations. SBA is actively evaluating the alternatives for expanding private sector support to serve the needs of disaster victims.

What concerns, if any, does the SBA have about the combination of state and Federal programs to assist hurricane victims?

Response: The timing and implementation of programs is critical to ensure an effective response.

How is the SBA ensuring that employees are properly trained to use the Disaster Credit Management System? What continuing education and training does SBA provide its employees?

Response: SBA has developed DCMS training around the particular function an employee needs to perform within the system. The length and scope of training depends on the function that the employee will be performing. The new employee training classes include program knowledge and hands-on DCMS training. The classes range from one to two weeks. As training needs are identified, SBA provides refresher training that concentrates on the identified weaknesses.

SBA Disaster Program

In a report titled, "Actions Needed to Provide More Timely Disaster Assistance," published in July 2006, the Government Accountability Office (GAO)reported on several significant limitations in DCMS's capacity and other system deficiencies

What changes have been made by the SBA to address these limitations reported by the GAO?

Response: SBA has expanded the capacity of the Disaster Credit Management System (DCMS) to support a minimum of 8,000 concurrent users. This expansion represents a four-fold increase in capacity over peak usage during the 2005 Gulf Coast hurricanes. The system also enables users to work remotely, thus expanding the geographic alternatives for recruiting the workforce.

Is the DCMS system ready for the SBA to use in the event of a future catastrophic disaster?

Response: Yes

On July 23, 2007 the SBA Inspector General issued a report "Quality Assurance Reviews of Loss Verification." This report addresses actions of one specific SBA employee who altered results in order to avoid penalties and retain work under an A-76 contract.

How would you characterize the results that were altered by this employee? Were these alterations significant in nature? Did they impact a borrowers (sic) ability to secure a loan?

Response: We are currently reviewing the results and the changes made, which the employee had the authority to make, to determine the appropriateness and justification for doing so. The changes did not impact the ability of any borrower to secure a loan.

Does the SBA agree with the Inspector General about the finding of this report? If not please explain.

Response: We concur with the need to improve our Quality Assurance Review (QAR) process to include written procedures and to fully document all actions taken by the QAR Team. We also agree that oversight of the QAR process for A-76 contracts needs to be independent.

What has the SBA done since Administrator Preston has come on board to specifically address this situation?

Response: SBA is currently evaluating independent sources to oversee the QAR process for A-76 contract performance.

In the GAO reports titled, "Actions Needed to Provide More Timely Disaster Assistance," and "Additional Steps Needed to Enhance Agency Preparedness for Future Disaster," the SBA Inspector General noted that The Federal Emergency Management Agency (FEMA) referred many disaster loan applications to SBA even though they did not meet SBA's creditworthiness standards.

For what reasons were these applications slipping through the cracks and being referred by FEMA to the SBA? What type of system does SBA currently have in place to ensure that only credit-worthy applicants make it into the SBA Disaster Lending process?

Response: Files were being referred to SBA that showed a "0" income on the FEMA registration. SBA and FEMA have worked together to ensure that only applicants that meet the "minimum income" test will be referred to SBA. FEMA will ensure that the income question is correctly answered before determining if the SBA referral is appropriate.

Has the SBA considered implementing an automated underwriting system? Why or why not?

Response: SBA currently uses automation to underwrite the credit worthiness of a home loan applicant. Additionally, SBA is reviewing the feasibility of automating other processes, including business loans.

The SBA's "Disaster Recovery Plan" includes reforms that are being implemented by the SBA since Administrator Preston took over. Although allegations raised by the Inspector General and Ms. Martin are deeply troubling, I appreciate the SBA's work on reforming the Disaster Loan Program.

Overall, are you pleased with the progress SBA has made in responding to disasters during your tenure? Specifically, which areas do you feel have been most improved and what do you still need to work on?

Response: Improvements have all been in an effort to improve customer service. Reducing the time from submitting an application to a decision, reduction in loan modification backlog and cycle times and, assigning case managers so borrowers always have a point of contact are just some of the improvements instituted to improve customer service. We continue to look for ways to improve the disbursement process. Our goal is to have the disaster loan funds available when the disaster loan borrower is in a position to start the rebuilding process.

Do you believe that the SBA is in a better position to aid disaster victims than it was immediately following the devastating Gulf Coast Hurricanes in 2005? If so, please elaborate.

Response: Yes, we believe that SBA is in a better position today as a result of a number of changes, including:

1) DCMS improvements (Now capacity of concurrent users is at least 8,000.)
2) Disaster Reserve Corps – We have approximately 1200 trained individuals in various categories that are available to address the surge requirement of another Gulf Coast Hurricane within 48 hours of being called up.
3) Agency wide Disaster Recovery Plan – we now have an Agency wide plan in place to provide disaster assistance.

According to the testimony of the SBA Inspector General and Ms. Martin, if a loan canceled during the "90-45" campaign wasn't reinstated within 6 months of the cancellation date, the borrower is limited in the form of future Federal disaster assistance they can receive. If their testimony is true, many borrowers who were improperly "cancelled" would not be able to receive disaster assistance after losing their homes and businesses.

Response: This is not correct. Failure to reinstate a cancelled loan does not impact a disaster victim's ability to receive Federal disaster assistance in the future. Additionally, SBA has been very flexible with needs of the Gulf Coast Applicants and in many cases has allowed reinstatements beyond the six month cancellation date.

How difficult was it for the 3,300 applicants that the Buffalo office may have improperly canceled during the "90-45" campaign to reinstate their loans during the allowed 6 months? What is the SBA's official reinstatement policy and were there any concessions made for the 3,300 whose loans may have been improperly canceled?

Response: While SBA's normal policy for reinstatement is that the borrower must make the request in writing and provide a justification for the reinstatement, we would accept a verbal request for reinstatement of the cancelled loan.

For those applicants who weren't contacted over the phone, was the letter of cancellation the only other way they would have been informed of the cancellation and 6 month reinstatement policy? If so, was the SBA expeditiously providing this letter to ensure that the applicant had the full 6 months to reinstate their loan?

Response: It is SBA's policy to send a letter containing the reason for cancellation and to explain the requirements for reinstatement. The letter is generated the day the action is approved. The date on the letter is generally the date the letter is mailed.

What happens to applicants who contact the SBA after the six month time frame and want to reinstate their loan? Do the applicants have to start the process over? Are SBA disaster loans still available to these applicants?

Response: Applicants are asked to send in written confirmation of their wish to reinstate their loan and to provide a justification for not meeting the six month deadline to request reinstatement. Generally, we can reinstate without additional action by the applicant.

The SBA Inspector General estimates that the SBA improperly awarded approximately 21,803 loans, totaling $1.5 billion, to high-risk applicants who may not be able to repay their loans.

Shouldn't higher credit risk applicants be more appropriately referred to FEMA for grant assistance? If so, what steps is the SBA taking to ensure that higher-risk applicants are properly funneled through the FEMA process rather than the SBA?

Response: Our underwriting process ensures that applicants that have unsatisfactory credit histories are referred to FEMA as appropriate.

What type of system is now in place to ensure that loans are given to only credit-worthy recipients? What is the SBA's plan to ensure that loan defaults are minimized?

Response: The automated underwriting system now in use (2007 pilot) is designed to ensure that loans are given only to creditworthy individuals and that loan defaults are minimized. That is not to say, of course, that prior to the pilot SBA's underwriting was not focused on determining credit-worthiness. This has always been a goal of SBA, and the automated system will help the agency accelerate and standardize that process.

In 2006 SBA's Fort Worth Processing Center forwarded approximately 33,000 approved by (sic) undisbursed loans to the Buffalo Center, where staff was directed to call borrowers within an expedited time frame to determine whether their loans could be closed or canceled. This effort was referred to as the "Triage Project."

The Inspector General alleges that during the Triage Project more than 3,300 applicants, whose loans were canceled by the Buffalo Center never even received a phone call.

How did you track the number of phone calls made to those applicants and has that process changed since the 2005 hurricanes?

Response: SBA's policy is to record the telephone call and/or each attempt in the appropriate section of the loan file. The procedure has not changed.

Since the Gulf Coast Hurricanes has the SBA ensured that procedures will be followed and applicants will be properly contacted?

Response: SBA has re-emphasized the need to properly record telephone conversations or attempts to contact applicants. The IG report has been shared with Center management and staff. This has served as reinforcement of the need to record all contacts and attempts to contact applicants.

If an applicant unknowingly had their loan canceled what type of process do they have to go through to be reinstated? Does the applicant have to fill out paperwork and be re-verified, or can the applicant simply ask to have their loans reinstated?

Response: Applicants are asked to send in written confirmation of their wish to reinstate their loan and to provide a justification for not meeting the six month deadline to request reinstatement. Generally, we can reinstate without additional action by the applicant.

During her testimony, Ms. Martin, along with written testimonies from eight other loan offices (sic) testified about an abhorrent "culture" in the SBA's Fort Worth, TX processing center. For example she testified that:

- **Loan officers were forced by management at the threat of keeping their job to cancel, decline, and withdraw application unnecessarily and unjustly in order to make the numbers look good to the public, the press, and Congress;**
- **Applicants were rarely sent their decline letters, cancellation letters, or withdrawal letters;**
- **Applicants were rarely notified of decisions made on their files; and**
- **A former reconsideration loan officer was told to change the dates on the DCMS system to reduce the aging time of the files.**

The SBA should be doing everything in their power to fix these problems and I hope you're working with Ms. Martin and others within the SBA, including in the Fort Worth center to root out the bad actors in that center.

What have you done to ensure that the culture is changed in the Fort Worth, TX center? Have their (sic) been disciplinary actions taken against manager that were unfairly threatening peoples jobs?

Response: We have been assessing our work environment in all of our offices in hopes of making the Office of Disaster Assistance (ODA) an optimal place for people to work. In addition, we are providing formal supervisory training to new managers and have set up a process for employees to obtain answers to policy questions and to enhance communication.

SBA takes the actions of managers and employees very seriously. Each department has established procedures for following up on complaints regarding the actions and attitudes of managers. As such, all instances of alleged misconduct by a manager are thoroughly reviewed and the appropriate steps are followed. We continue to assess allegations of wrong-doing in connection with the Ft. Worth Center and will take disciplinary action if appropriate.

Were any loan officers, permanent or temporary, actually fired from the Fort Worth center? If so, have you investigated to make sure that they were fired for legitimate reasons?

Response: Yes, some loan officers were terminated at the Fort Worth Processing and Disbursement Center. All terminations are processed through the Human Resources employees that report to ODA headquarters and not the Fort Worth PDC. Terminations are thoroughly discussed and documented; all terminations were for legitimate reasons.

Senator Joseph I. Lieberman:

Administrator Preston: Although the Small Business Administration has improved its disaster loan program considerably since Hurricane Katrina's aftermath, what are the existing weaknesses in the system? How do you propose to address them? What do you need from Congress to fix any remaining problems?

Response: The Accelerated Disaster Response Initiative (ADRI) was initiated in September 2006 to modernize and improve the business processes that SBA uses to assist disaster victims. We have completed many improvements to delivering the disaster loan program through the first two phases of ADRI. We continue to streamline the system in Phase 3 and beyond. In development is an electronic loan application for deployment in 2008. Additionally, we are working on the ability of applicants to monitor the flow of their application via an on-line system. We believe that through our business process re-engineering we have already identified inefficiencies and weaknesses. Many action projects have already been completed and implemented and others are still being executed. Since many of the improvements involve changes to DCMS, they take longer to implement because they need to be developed and tested prior to implementation.

Administrator Preston: I was alarmed by Ms. Martin's testimony, which claimed that wealthier disaster victims from Hurricane Katrina moved through the loan application process with ease, while those exhibiting the most need often fell through the cracks. What has the Small Business Administration done to ensure this problem does not continue? Do you believe you have corrected the previous errors that occurred?

Response: The automation of the loan approval process allows individuals who have better credit and easily documented income to move through the system faster with fewer people having to "touch" the file. This automation allows us to allocate more resources to addressing the needs of those individuals who most need the help. The improvements put in place through ADRI have corrected problems that resulted in the backlogs we experienced during the processing of the Gulf Coast files.

Administrator Preston: In your effort to process disaster loan applications during the 90/45 initiative, did you sacrifice quality for the quantity of applications reviewed? Please frame you comments in light of Ms. Martin's testimony.

Response: The 90/45 initiative emphasized personal contact with applicants to identify the issues being faced by the disaster victims and to ascertain the intent of the disaster victims to draw on their approved loans. The use of case managers was instituted to give the disaster victims a point of contact and improve customer service. Was quality sacrificed for quantity? No, in fact quality was improved as case managers took ownership of the file and worked with applicants to get the necessary documents in to disburse the loans. We acknowledge that errors were made along the way and that we could have handled some things differently. However, these were exceptions, not the norm. We are working diligently to correct any problems that have arisen under the program.

Administrator Preston: Can you comment on Ms. Martin's claim that Senior Loan Officers used a management style capitalizing on "fear and intimidation" to run their organization? What, if anything, has been done to improve a hostile working environment? You testified that you have vowed to put the "compassion" back into disaster loan program. How have you done this?

Response: SBA has not and will not condone management by fear and intimidation and has specific procedures that are followed when dealing with a complaint from an employee. In an attempt to resolve any issues and possible hostile work environments, the Processing and Disbursement center follows the following guidelines:

How Complaints from employees about their SLO are handled:

The Loan Processing Department extends and exercises an *"open door"* policy to the staff. That means employees can express their concerns directly to management. This is the appropriate method if the immediate supervisor is perceived to be the problem.

Employees can address the management staff regarding issues they feel are impacting their ability to perform their job or impacting the ability of their co-workers to perform their jobs effectively.

The Processing Department has a chain of command that includes:

I. Supervisory Loan Officer
II. Manager
III. Senior Supervisory Loan Officer *(GS-13 Level Employee)*

In addition, the employees are afforded the opportunity to address their issues directly to the Loan Processing Manager or Deputy Loan Processing Manager.

When a complaint is received by the Loan Processing Management about a Supervisory Loan Officer (SLO), the complaint is immediately investigated.

Issues involving supervisors are elevated to the level of the Senior Supervisory Loan Officer and/or the Loan Processing Manager. The Senior Supervisory Loan Officer will generally interview the employee who brings the complaint. Depending on the complaint and the type of complaint, the Senior Supervisory Loan Officer may interview other members of the group to obtain additional information, especially if the employee bringing the complaint suggests that management speak with other employees. Once the interview is complete, the Senior Supervisory Loan Officer will report the finding to the Loan Processing Manager who directs the next course of action. Once the employees are interviewed, the Supervisory Loan Officer is interviewed. Depending on the issue, the supervisor is counseled, given helpful hints on how to handle the same situation and other situations more effectively in the future and/or provided a verbal warning about the perception of inappropriate conduct, behavior or performance. The Loan Processing Manager or designee will always evaluate the concern and listen to both sides of the story before acting.

In determining the type of action needed, the loan processing management will fully evaluate the issue, the employee and the supervisor. The manager will evaluate the track record of the supervisor; determine if the issue is a first time occurrence or if there is a pattern. Supervisors may be counseled verbally or provided a written warning and in some cases removed from the supervisory position. Depending on the findings, the issue may be directed further to the Personnel Department for other actions.

Regardless of whether the complaint was founded or unfounded, the supervisor is given the counseling session about the perception that their actions created. Often times, the supervisor may be unaware of the impact and or result of their actions. Often times, the employee misunderstood the actions of the supervisor. The complaining employee is always given a second meeting to address how the situation will be resolved. Sometimes, the issues are personality and style related and there are times when both the subordinate and the supervisor need to modify their style of communication and behavior. There have been cases where the personality and supervisory style is not effective and in these cases, the supervisor may be relieved of their supervisory responsibilities. Every situation is different depending on the facts, the supervisor and the subordinate employee. If the supervisor demonstrates that there is no hope for improvement in performance or behavior, the supervisor is removed from the supervisory position.

The Loan Processing Management Team addresses concerns that are brought forth. Unfortunately, all issues are not immediately brought to the attention of the management. There have been many cases where the employees opted not to bring issues forward and occurrences where the employee delayed the reporting of the issues until the situation had advanced to critical stages.

In summary, the Loan Processing Management addresses concerns brought forth. Any patterns are addressed one on one or in SLO meetings. During the height of the Hurricane Katrina processing, due to the significant amount of inexperienced supervisors and issues that were occurring, the PDC requested Personnel conduct supervisory training for all supervisors. The feedback from the supervisors was positive, and many commented they wished they had the training prior to stepping into the position of supervisor. The training was provided to supervisors in all departments.

Senator Mary L. Landrieu

What were the specific production goals for Case Manager, Loan Processors, Attorneys, Senior Loan Officers, and Grants Team respectively, before Hurricane Katrina and Rita struck?

Response: Before the Gulf Coast Hurricanes SBA did not have Case Managers or a Grants Team. Attorneys had no specific goals. If by Senior Loan Officer, you mean Supervisory Loan Officer, their goal was to keep up with their group's production. Loan Processors have always had production goals which depended on the type of file processed. Prior to the centralization of the processing and disbursement function, SBA had four Area Offices that processed files and disbursed approved loans. All four offices had established their own processing standards.

Were these production goals increased after the storms and, if so, what were the production goals in late 2005 and early 2006?

Response: The production goals were the same as shown in the chart below except that prior to the Gulf Coast Hurricanes, SBA did not have an expedited Business loan program.

TABLE #1

Loan Processing-8 Hour 5 Day Week/10 Hour 6 Day Week

Processing Loan Applications	Units Per Day 8HR/ 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
HOME	4.0 / 5.0	20 / 30	2.0
HOME EXPEDITE	6.4 / 8.0	32 / 48	1.25
BUSINESS/EIDL and NON-PROFIT	1.6 / 2.0	8.0 / 12	5.0
BUSINESS EXPEDITE	4.0 / 5.0	20 / 30	2.0
STAND ALONE EIDL	.5 / .7	2.5 / 4.2	14.2
EIDL EXPEDITE	2.4 / 3.0	12.0 / 18	3.3

Processing Loan Modifications-8 Hour 5 Day Week/10 Hour 6 Day Week

TYPE	Units Per Day 8HR / 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
ROUTINE	16.0 / 20.0	80.0 / 120.0	.50

NON-ROUTINE	5.30 / 6.60	27.0 / 40.0	1.50
HOME INCREASE	4.70 / 5.70	24.0 / 34.0	1.75
BUSINESS INCREASE	4.0 / 5.0	20.0 / 30.0	2.0
EIDL INCREASE	2.50 / 3.0	12.0 / 18.0	3.25
RELOCATIONS	2.60 / 3.30	13.0 / 20.0	3.0

What are the current production goals for these staff?

Response: The current production goals for all staff are attached.

Do these production goals include number of approvals?

Response: No, production standards do not include number of approvals.

I understand that SBA has not always had these production goals, but in the past had a more "customer service" focused management style. From Ms. Martin's testimony, it sounds as if one document is missing, a loan Officer can choose to withdraw or decline the application but a Loan Officer needs all of the required documents in order to recommend an approval. In your opinion, do these production goals influence Loan Officers and Senior Loan Officers to focus more on declines (which take a few hours) instead of approvals (which usually take three to five days)? For example, is it easier to withdraw, decline, or cancel an application than it is to approve an application?

What sort of checks and balances are in place to stop instances where Loan Officers may take "short cuts" to decline an application, rather than make the extra time and effort to work with borrowers for an approval?

What sort of quality controls are in place to measure performance?

Are these metrics in printed form and can you please provide them to my office?

Response: Loan Processing has had production goals going back to the 80's. Production goals were instituted to improve customer service by decreasing the time it took to get a decision to the applicant. We have checks in the system to ensure that loan officers are not unjustly declining or withdrawing files. The supervisory loan officer is responsible for assuring that the decision is correct. Department management monitors the portfolio as a second layer of oversight and finally we have a group that does quality assurance reviews on files processed. Part of the improvements we are making through the ADRI process is better tracking of individual performance. This will include the number and type of loans processed and the type of decision reached.

Is it common practice for SBA to send out letters giving borrowers 14 days to respond before their loan is cancelled?

If so, why was this policy not followed for the '90 in 45' campaign?

Can you explain why that decision was made to not send 14-day letters, and if, in the future, that policy will be continued?

Response: It is our policy to send out a notice giving the applicant 14 days to respond prior to cancelling a loan with some exceptions. For the 90/45 campaign we decided to be more proactive and personally contact all applicants. The majority of the applicants were contacted on the first round of calls. After the first round of calls had been completed and actions taken, we decided that we should make a second attempt to contact those applicants that we had not reached in the first campaign.

We are following our policy of sending out a notice prior to actually cancelling a loan.

I am concerned about the seemingly short window of time given to contact borrowers regarding the status of their loans. In your opinion, was three calls within a 24-hour period enough time to adequately get a hold of borrowers who are displaced from their homes, living in FEMA trailers, or in some instances commuting long distances to jobs far from their homes?

Response: We did not just try to contact applicants at home. We used all of the contact numbers available, include work numbers, cell phone numbers, and any alternate number provide by the applicants in their SBA application or FEMA registration. SBA was unable to contact only 3,200 (10%) of the 33,000 applicants.

Of the 3,000 borrowers who were not contacted after repeated attempts, did you receive any responses from them after they were sent the cancellation letters?

Please provide my office with information on how many of these 3,000 eventually responded, how many loans were reinstated, how many loans were requested to be cancelled, and how many borrowers did not respond.

Response: As of August 30, 2007, we had reviewed 1,944 files. 57 files were reinstated after 90/45 and 45 of these later cancelled. 558 applicants are requesting reinstatement. We have been unable to contact 548.

Can you explain the incentives provided under the '90 in 45' campaign for employees to disburse loans?

Was this a new practice or was it in place already under the former Administrator?

Response: While awards were distributed to recognize and reward employees for their performance, the employees were not immediately aware of Management's plans to provide cash awards. The 90-in-45 campaign was rolled out on September 22, 2006. It was not until October 17, 2006 when 3,297 disbursements for $479,663,700 were made, that Management recognized employees for their efforts. Subsequent to that, Management recognized employees on November 9, 2006 when 3,494 disbursements for $632,477,000 had been reached.

Issuing cash awards for performance has been a practice of SBA for many years.

It is my understanding that there was a 42 question Disaster Employee survey conducted in August 2006 by a former SBA employee, Andrew Clark. Please provide my office with the survey, the general findings of this study, and copies of the employee responses.

Response: Andrew Clark was never employed or compensated by SBA. He was a senior at Virginia Tech College and was doing the study for a school project. SBA provided him with office space, a computer and the ability to post the survey and get the results of the survey. Mr. Clark's student paper is not an official document commissioned by the Agency and, therefore, has no official status. As a result, the Agency can take no responsibility for the accuracy or scientific validity of the methodology employed, the views expressed, nor of the contents of the paper in general. Accordingly, ODA is providing a hardcopy of the student paper which includes the survey, with the understanding that it be kept confidential and not released to the public. SBA does not have copies of the employee responses.

Can you explain the process for a borrower who has their loan cancelled?

Administrator Preston has indicated in the press that these borrowers can request that their loan be restated (sic) but I have already heard of borrowers who are having difficulty obtaining this reinstatement. What is SBA doing to make this process and is there still time for borrowers cancelled under this program to reinstate loans?

Response: To reinstate a cancelled loan the applicant needs to submit a written request along with a signed IRS Form 8821. For most borrowers, no further action is needed from them. However, in some instances, SBA may request other financial documentation to ensure repayment ability still exists for the loan. This is generally a current pay stub for an individual employed by the current employer for less that a year or current profit and loss statement for a business. Applicants canceled prior to August 1, 2007 have until January 31, 2008 to request reinstatement.

Will you commit to me that you will work with the Inspector General to hold accountable any Disaster Loan Processing or Customer Service staff proven to be grossly negligent either shortly after the storms or as part of the 90/45 campaign?

Response: We will continue to cooperate with the Inspector General and will take appropriate action where warranted.

Please provide me with the current number of Katrina/Rita CDBG – funded homeowner recovery grant files reviewed by SBA, broken down by state (LA, MS), and the number in which a duplication was identified. Also provide the average amount of duplication for each state.

Please provide my office with the current number of Katrina/Rita CDBG – funded business recovery grant files reviewed by SBA, broken down by state (LA, MS), and the number in which a duplication was identified. Also provide the average amount of duplication for each state.

Response: In MS, as of August 25, 2007, 16,924 homeowner files have been reviewed, finding 6,416 Borrowers with duplication; average amount of duplication was $31,470.08.

In LA, as of August 25, 2007, 51,173 homeowner files have been reviewed, finding 10,171 Borrowers with duplication; average amount of duplication was $18,258.90.

In MS, as of August 25, 2007, 0 business files have been reviewed.

In LA, as of August 25, 2007, 3,729 business files have been reviewed, finding 22 Borrowers with duplication; average amount of duplication was $1,392.31.

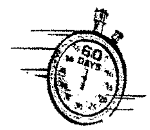
The Administration is opposed to waiving the duplication of benefits provision. Federal assistance should not exceed the amount of losses, and should not place the disaster victim in an improved position. Under this provision, a disaster victim could receive as much as twice the amount of Federal assistance for the same loss.

Loan Closing Project Procedures

- Project Team members should not log-on to the ACD queue for this project
- The DCMS file should be researched prior to making the call to understand the specific loan and any special conditions that may need to be met prior to disbursement (i.e. flood insurance requirements). <Check the Terms & Conditions tab for a scheduled closing.>
- Agents will receive a list of borrowers to call daily. Every loan on the list must be resolved within 24-hours. Your list must be returned to the Project Coordinator within 24-hours of assignment.
- Call Expectations: Each CSR is expected to contact between 40-60 borrowers per 10-hour shift. Call management is essential to meeting this quota. Stay focused on the issues and control the call.
- If you can not reach a borrower, leave a message (if applicable) with your name and extension and try again over the course of 24 hours.
- If all contact information is bad (check NEMIS also), take action to cancel loan.
- The DCMS will need to be documented with an "Action and Result" to reflect the outcome of each call. This step is critical for proper follow-up of the case file after our call. Comments also must be entered.
- If a file is currently in loan mod, **do not call** (the loan officer will be in contact with the borrower and will work to resolve undisbursed issue). Complete action/result (see below).
- If an initial disbursement has already been made (or LCDs have been received, **do not call.** Complete action/result in DCMS.
- If Borrower is interested in loan mod, advise B to send written request with required supporting documentation (e.g. 8821)
- Always check for Companion files.

September 7, 2006 – Triage Team formed and Kick-off meeting held at DACSC with approximately 75 attendees. Pam Cohen designated as Project Coordinator. The agenda, procedures and script distributed at this initial meeting is attached below:

"90 in 45 Campaign"



<u>**Objective:**</u> To clear the current Legal backlog of 90,000+ undisbursed loans within 45 days.

<u>**CSC's Role**</u>: To contact all borrowers who have not yet returned their Loan Closing Documents and bring the file to resolution by either arranging to have the loan closed or canceling the loan. The CSC will be coordinating closely with other teams in the PDC (Relocation, Appointment Setters, Disbursement, etc..) to "hand-off" files based on the outcome of our calls.

Loan Mods for Cancellation and DDR Extensions will be completed at the CSC by the standing loan mod teams.

<u>**Method:**</u> A project team of approximately 75 CSC agents has been assembled to contact these borrowers for purposes of "triaging" the file. There are approximately 30,000 borrowers that need to be contacted. Our deadline for completing this project is **September 23rd**.

The Project Team will be working 10:00am-8:30pm 7-days during this time. <u>Overtime is mandatory</u>.

The Project Coordinator is Pam Cohen

U.S. SMALL BUSINESS ADMINISTRATION
Disaster Assistance
Processing and Disbursement Center
14925 Kingsport Road
Fort Worth, Texas 76155

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1(800)366-6303
Hearing Impaired
TDD (800) 877-8339

July 24, 2007

John S. Jones
500 Main Street
Ft. Worth, Texas 76155

RE: SBA Disaster Loan Number: 09876543-21

Dear Mr. Jones:

In accordance with your Loan Authorization and Agreement, SBA allows two months for the return of the Loan Closing Documents. As of the date of this letter, these documents have not been received. As a result, your disaster loan is cancelled in its entirety.

You may request reinstatement of the cancelled loan funds. Your request for reinstatement must include the following:

1. Be **in writing** and received by this office **within six (6) months** from the date of this letter.

2. Show that SBA's action to cancel your loan funds was in error or provide justification acceptable to SBA for reinstatement of your loan.

3. A completed, signed and dated (with current date), Federal Income Tax Information Authorization, IRS Form 8821, (enclosed).

4. If previously received and not submitted, a signed and dated Loan Authorization and Agreement, Promissory Note, and, if applicable, Assignment of Insurance Proceeds and Certification of Federal Flood Insurance.

If you have any questions about this action, please contact our office at the above address or toll free number.

Sincerely,

Steven Redding
Supervisory Loan Officer

SBA Application Number: 0123456789

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TDD (800) 877-8339

July 24, 2007

John S. Jones
500 Main Street
Ft. Worth, Texas 76155

RE: SBA Disaster Loan Number: 09876543-21

Dear Mr. Jones:

We received your request to cancel your approved SBA disaster assistance loan. In accordance with your request, we have cancelled your loan in its entirety.

You may request reinstatement of the cancelled loan funds.. Your request for reinstatement must include the following:

1. Be **in writing** and received by this office **within six (6) months** from the date of this letter.

2. Show that SBA's action to cancel your loan funds was in error or provide justification acceptable to SBA for reinstatement of your loan.

3. A completed, signed and dated (with current date), Federal Income Tax Information Authorization, IRS Form 8821, (enclosed).

4. If previously received and not submitted, a signed and dated Loan Authorization and Agreement, Promissory Note, and, if applicable, Assignment of Insurance Proceeds and Certification of Federal Flood Insurance.

If you have any questions about this action, please contact our office at the above address or toll free number.

Sincerely,

Steven Redding
Supervisory Loan Officer

SBA Application Number: 0123456789

SMALL BUSINESS ADMINISTRATION
DISASTER ASSISTANCE-LEGAL
P.O. BOX 156089
FORT WORTH, TEXAS 76155

(Phone) 800-366-6303
Ext[redacted]
(Fax) 202-741-6914

January 22, 2007

[redacted]

Re: SBA Application No.[redacted]

Dear [redacted]

There has been no disbursement activity on your file for the last sixty (60) days, and action must be taken on your part within the next 14 days in order to continue with your disaster loan. If we do not hear from you, SBA will cancel or reduce your loan to the amount that has already been disbursed.

If you wish to proceed with your loan, please contact me between the hours of **8:00AM-4:30PM** Central Standard Time. My contact number is **1-800-366-6303**, at extension[redacted]

I look forward to hearing from you and assisting you in any way possible. In any correspondence or contact you make regarding your loan, please verify your mailing address and phone contact numbers, so that we can insure we have all updated information needed to keep in touch.

If you would like to cancel the undisbursed loan funds, please indicate with your dated signature. You may return this letter to the address below, or fax it to (817) 868-2332. Remember that if we do not hear from you in 14 days, we will cancel or reduce unused loan funds.

SEND MAIL TO: U.S. Small Business Administration
Attn: Legal – Kingsport II, Team 19
P.O. Box 156089
Fort Worth, TX 76155

I/We do not want the remaining funds. Please cancel the undisbursed portion of the loan.

SIGNATURE:________________________ DATE: ________

Sincerely,

[redacted]
Case Manager
Small Business Administration –Legal Department

Senator Vitter:

Does your new disaster plan ensure that the SBA is able to process and disburse a loan well before the 120 days that many of these borrowers waited before the 90/45 campaign?

What in the new disaster plan will help insure the SBA can handle a surge in applications like what we saw after Katrina so that we will not need a catch-up system similar to the 90/45 campaign?

Response: The Disaster Recovery Plan covers a wide array of improvements and enhancements to the Agency's response to disasters of all sizes. Additionally, the Agency has enhanced the capabilities of the DCMS computer system and has formed a ready and active reserve of reservist employees that are already trained. With the improvements overall, we feel confident that our processing and disbursement cycle times will improve and work will flow through our assistance process with greater ease in the event of a surge of applications from another large scale disaster.

The Disaster Recovery Plan also supports the following outcomes:

Faster decisions on disaster loan applications, closing and disbursement;

A customer-focused, transparent, outcome-driven model of performance;

A strong, standing, Core Capability supplemented by Surge Capacity; and

Processes coordinated with federal guidance and protocols for disaster recovery (e.g., the National Response Plan (NRP) and the National Incident Management System (NIMS), where applicable).

Are you confident that the current staff and case management teams at the SBA Office of Disaster Assistance is well-prepared to deal with a potential workload resulting from a major disaster?

Will the process work to eliminate referral of your offices that are not trained to deal with disaster loans?

Or, are you working to ensure that all offices are trained to process these types of loans?

Response: SBA is prepared to respond. Based on process improvements and lessons learned, SBA has a much improved organization infrastructure to respond to catastrophic disaster activity swiftly and effectively.

SBA is trained to respond. Training and coordination are the keys to preparedness. The vast majority of employees involved in SBA's catastrophic disaster response have been trained and will continue to be trained in their roles. They also will receive clear guidance on how the recovery plan will be implemented.

For major, large-scale disasters, SBA's response requires an "all hands on deck" approach. Employees across the entire SBA organization will have key roles to play in core functions and will be valuable assets to help SBA achieve the level of performance America requires and expects.

SBA takes pride in quality assurance and customer service. The Agency will continuously strive to deliver the highest level of quality in service. Customers will be provided with the necessary support and communication channels to minimize confusion and ensure a positive experience during their time of greatest need.

SBA's response will be coordinated with its government partners. The Agency will communicate with local, state, and federal government agencies including Congress, to deliver timely assistance.

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Date: **February 24, 2006** *[Revised & Re-issued]*

To: **All Loan Officers**

From: **Elsie Collins/ Director of Loan Processing**

Subject: **Production & Performance Standards** *(Interim)*

Our mission is to help people recover from disasters and rebuild their lives by providing affordable, timely and accessible financial assistance to homeowners, renters and businesses. In order to accomplish this mission, we must assure the Loan Processing Department has a performance standard in place to measure productivity, loan quality, and customer service. The performance standard also holds each loan officer accountable for the organization's success in meeting its goals and accomplishing its mission.

This memo will serve to supplement and formally outline the expected production and performance standards. All standards are initially discussed in training classes and by the Supervisory Loan Officers in their loan groups weekly.

All loan officers will be evaluated on a monthly basis and are expected to regularly meet and exceed the production and performance goals.

Performance ratings for Loan Officers rely upon individual production results. Employee productivity is determined by measuring *unit output* over *time* and comparing the result to a reasonable standard. Productivity is an integral part of the monthly ratings and has a bearing on the year-end evaluations. In addition to amount of loans processed, other important components used for evaluating performance are: *accuracy, quality, customer service skills, attitude, adaptiveness, dependability, workload, cooperation, grade level, program knowledge, and implementation of related policies, procedures, rules and regulations.* Effective *portfolio management* is also an integral component for formulating the performance rating of every loan officer.

All employees are rated on the following scale:
* *See attachment for explanation of each level*

Level 5 **Extraordinary**
Level 4 **Exceeds Expectations**
Level 3 **Meets Expectations**
Level 2 **Below Expectations**
Level 1 **Fails to Meet Expectations**

Existing production standards were recently reviewed and compared with productivity results for the electronic DCMS processing. Based on our review and input from the Senior Staff, we have developed the following Production Standards for DCMS processing. It is essential that accurate reporting of production, SLO returns, legal returns, inventory and review backlogs are maintained in determining productivity of individual loan officers.

Production Standards

In **TABLE #1,** the minimum unit measurement required to obtain a productivity level of Meets Expectations. The table and calculations for original processing and loan modification represent an 8-hour day, 5 days week and 10-hour day, 6 days week matrix.

TABLE #1

Loan Processing-8 Hour 5 Day Week/10 Hour 6 Day Week			
Processing Loan Applications	Units Per Day 8HR/ 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
HOME	4.0 / 5.0	20 / 30	2.0
HOME EXPEDITE	6.4 / 8.0	32 / 48	1.25
BUSINESS/EIDL and NON-PROFIT	1.6 / 2.0	8.0 / 12	5.0
BUSINESS EXPEDITE	4.0 / 5.0	20 / 30	2.0
STAND ALONE EIDL	.5 / .7	2.5 / 4.2	14.2
EIDL EXPEDITE	2.4 / 3.0	12.0 / 18	3.3

Processing Loan Modifications-8 Hour 5 Day Week/10 Hour 6 Day Week			
TYPE	Units Per Day 8HR / 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
ROUTINE	16.0 / 20.0	80.0 / 120.0	.50
NON-ROUTINE	5.30 / 6.60	27.0 / 40.0	1.50
HOME INCREASE	4.70 / 5.70	24.0 / 34.0	1.75
BUSINESS INCREASE	4.0 / 5.0	20.0 / 30.0	2.0
EIDL INCREASE	2.50 / 3.0	12.0 / 18.0	3.25
RELOCATIONS	2.60 / 3.30	13.0 / 20.0	3.0

In **TABLE # 2** the following percentage ranges are to be used as general guidelines for assessing productivity and issuing performance feedback:

TABLE #2

Extraordinary	150.0%	And	ABOVE
Exceeds Expectations	120.0%	To	149.9%
Meets Expectations	80.0%	To	119.9%
Below Expectations	60.0%	To	79.9%
Fails to Meet Expectations	0.0%	To	59.9%

Example : Loan Officer Calculation
Over a one week period, a loan officer accumulated 40.0 processing hours and completed the following units:

- 5 BE x 5 hours =25 hours
- 4 homes x 2 hours =8 hours
- 2 EIDL Expedites =6.6 hours
- Total Productive HRS =39.6 hours

Step 1: Multiply the total of each separate production unit by its corresponding factor:

Step 2: Divide the total productive hours (39.6) into the accumulated processing hours (40.0) = 99% the percentage of goal

Step 3: Productivity conversion from Monthly Production Chart (Table#2) = **99% "Meets Expectations"**

Monthly Performance Ratings:

Generally, the threshold to attain a "Meets Expectations" rating will coincide with the lower end of the Meets Expectations range noted above (80%). However, during periods of low inventory, production ratings will also consider individual performance in relation to the departmental average. During slow periods, it is quite possible that the standard for attaining a monthly production rating of "Meets Expectation Levels" will be set below the 80% of goal figure noted above. Overall monthly ratings will incorporate not only production ratings, but also other important factors cited above (i.e. quality of work, communication skills, computer proficiency, portfolio management, etc.). Year-end ratings will conform to the Extraordinary, Exceeds Expectations, Meets Expectations, Below Expectations, Fails to Meet Expectations scale.

Quality Issues:

Each loan produced will be evaluated for quality of work. Consideration is given to exceptionally good work and work needing improvement. Quality will be measured by a combination of SLO Returns, Legal Returns, Periodic Quality Reviews, Headquarters Quality Assurance Review and various other reviews conducted through loan modifications, reconsiderations and final appeals.

The individual Loan Officer's grade level and the type of work completed during the rating period will also be considered when determining overall quality. The Supervisory Loan Officer has the discretion to increase the unit of work by 10% for *exceptional quality* and may decrease the unit of work by 10% for work *needing improvement.* When an SLO has to return files for repetitive mistakes and corrections, a 10% additional deduction will be made to the value of the file. Files having to be returned for the 3rd time usually will not be given credit depending on the SLO's judgment of the situation. Work produced of unacceptable quality will not receive processing credit. An example of quality issue would be if the *eligibility* or *credit decision* was completely incorrect.

We will consider grade level when evaluating quality. For example a GS-7 loan Officer that is processing Business and Stand Alone EIDLs will generally have a longer learning curve and be given a little more time to obtain the performance standard for businesses as opposed to a GS-11 or GS-12 loan officer. Along the same lines, a GS-07 loan officer processing Business and EIDL loans who has demonstrated the ability to grasp the processing concepts, work independently and produce well documented and fully justified reports could receive a higher quality rating. Conversely, a GS-11 or GS-12 loan officer producing high quality, but routine *Home* loans would generally only receive a "Meets" rating for quality for the same type of work of the GS-07 loan officer. A GS-11 loan officer is expected to consistently meet and exceed the production standards for routine business processing. Further, a GS-11 loan officer processing only home loans is expected to consistently exceed the home loan processing production goals if the GS-11 loan officer is assigned to home loan processing. Minor errors will not be considered in the quality analysis unless it is habitual errors. It is imperative that each SLO use a feedback sheet.

Quality work is always considered in each month's rating. Unfortunately, these issues are often not detected until after the rating period is completed. Blatant mistakes discovered after a rating period is over will be considered in the overall year end rating of the Loan Officer in a reasonable manner.

- For newly hired employees, the expectations are that there would be gradual improvement each week. We generally expect new employees to meet or show the potential to meet the goals four weeks out of training. *(Inventory levels are considered.)*

- For our experienced loan officers, the expectations are that production and quality standards would be consistently met and exceeded. *(Inventory levels are considered.)*

By adhering to the performance standards, we can better serve our applicants by delivering expeditious disaster assistance. Thank you in advance for support of the processing standards.

Thank you in advance for helping to deliver the program in the most efficient and customer service oriented manner. If you have any questions, please feel free to contact Blane Wentlent or myself.

Rating Level Definitions
Level 5 – Extraordinary. An employee who receives this rating is proactive, anticipates programmatic or administrative issues/problems and, within the scope of their authority, executes in a manner that resolves those issues/problems independently. He/she is viewed as a resource to the Agency and may perform work not immediately related to his/her principle area of responsibility. When the opportunity exists, he/she may serve as a member on task forces, work groups, or integrated work teams. He/she demonstrates an extraordinary degree of initiative and self-reliance in resolving problems or requirements of the work situation, developing, recommending or executing innovative solutions to successfully accomplish tasks ahead of target; works independently to accomplish program objectives, in difficult and complex situations; is extremely adaptable in adjusting to, and resolving, any new or unusual situation or problems; or is extremely capable of preparing difficult material. Level 4 – Exceeds Expectations. An employee who receives this rating performs all of the requirements of the position, and demonstrates a willingness to accomplish additional work outside their usual scope of responsibility. This employee anticipates problems and issues and when necessary, reacts successfully and in a timely manner to assignments made by the supervisor. He/she demonstrates a high level of skill and abilities in developing and executing sound solutions; meets all requirements of the position throughout the appraisal cycle; produces a more than satisfactory volume of work within established timeframes; works relatively independently in accomplishing program objectives (or requires minimal guidance); is capable of adjusting to, and/or resolving most new or unusual situations or problems; or is capable of preparing relatively difficult material in a well coordinated manner. Level 3 – Meets Expectations. The employee independently performs the requirements of the position and produces a set volume of work within the required timeframes and in accordance with established policies, procedures, or supervisory instructions. The employee accomplishes the full range of job-related requirements through the appraisal cycle. Develops and implements solutions to supervisor-identified or routine and/or recurring problems with guidance from the supervisor, or independently in areas within delegated authority of job responsibility. Level 2 – Below Expectations. The employee demonstrates limited ability in producing an acceptable volume of work within established timeframes; limited sense of personal responsibility and accountability in some work assignments, or requires frequent guidance and assistance from supervisor or others; experiences difficulty in adjusting to, coping with, or resolving, most new or unusual situations or problems under normal pressure and within their area of responsibility; or experiences difficulty in preparing material in a well-organized, logical, precise, and concise manner. Level 1 – Fails to Meet Expectations. The employee demonstrates a lack of ability to produce an acceptable volume of work within established timeframes; a lack of personal responsibility and accountability in most work assignments, or requires constant guidance and assistance; experiences frequent difficulty in adjusting to, coping with, or resolving most new or unusual situations or problems under normal pressure; or has great difficulty in preparing material in a well-organized, logical, precise, and concise manner.

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Date: August 14, 2007

To: All Team Leads

From: Blane M. Wentlent / Accounts Manager
Rob Goodson / Deputy Accounts Manager / Chief Legal Advisor

Re: Performance Standards

Performance Standards

Our mission is to help people recover from disasters and rebuild their lives by providing affordable, timely and accessible financial assistance to homeowners, renters and businesses. In order to accomplish this mission, we must assure the Accounts Department has performance standards in place to measure productivity, quality, and customer service. The performance standards also hold staff accountable for the organization's success in meeting its goals and accomplishing its mission.

This memo will serve to supplement and formally outline the expected performance standards. All standards will be initially discussed in training classes and by the leads in their weekly meetings.

Employees are given a rating at the end of the fiscal year. All employees are rated on the following scale:

Level 5 **Extraordinary**
Level 4 **Exceeds Expectations**
Level 3 **Meets Expectations**
Level 2 **Below Expectations**
Level 1 **Fails to Meet Expectations**

The definitions of what it takes to meet these rating standards, as found on the year-end evaluation SBA form 2223, are attached hereto as **Exhibit A**. These ratings are based upon individual results. The definitions refer to an individual producing a volume of work within required timeframes. This memo will clarify what exactly those phrases mean. Producing a "volume of work" "within the required timeframe" is not the only measure of employee performance. Employee performance is determined by measuring *quality, output* over *time* and comparing the result to a reasonable standard. This reasonable standard was recently reviewed by senior staff. With their input, a performance standard for each role has been developed. These performance standards are outlined below.

Monthly performance is an integral part of the PBC evaluation and has a bearing on the year-end evaluations. All accounts staff will be evaluated on a monthly basis and are expected to regularly meet and exceed the goals set in the performance standards for their specific role. It is essential that accurate reporting is maintained in determining performance of individua employees.

Role Specific Performance Standards

Case Managers("CM's")

Evaluations are based on both performance benchmarks and management assessments by the leads, Senior Attorneys, and Supervisory Attorneys.

Performance Benchmarks

These benchmarks are obtained from a combination of data reported by the PALS systen and obtained from DCMS. Specifically, the number of disbursements, mail reviewed and borrower contacts are measured. We recognize that depending on the circumstances the time it takes to complete one of these actions can vary greatly. As such, these action are not weighted similarly to Attorney/Advisors ("A/A's") actions. Instead, CM's havi performance benchmarks in the form of a daily goal. **Given an average full caseload the baseline expectation is that CM's will average at least 10 phone calls and make : disbursements a day.**[1] In addition, CM's who are licensed attorneys will also b measured based on the criteria set for below for A/A's. Those licensed attorney assigned case manager duties will not be measured against employees performing A/ duties, but these actions will be accounted for in addition to their CM goals.

Management Assessments are based on the following:

- **Caseload Management** and **Customer Service** based on the last contact date report and borrower complaints.
- **Quality** of work and **Program Knowledge** based on number and severity o rejections from the title desk, file forwarding, Doc Gen, QAR exceptions report, an personal review of files submitted for attorney opinions.
- **Workload** based on DCMS reports and personal observation of special assignments, if any.
- **Interpersonal skills** based on review of intra-office emails and personal observation of team interaction.
- **Grade level** and **experience**

CM's that would "meet expectations" based on these performance benchmarks, assumin that all other requirements to meet expectations have been met, can rise to "exceed expectations" by having higher performance benchmarks, or a management assessmen that their work is of higher quality or more complex than other similarly situated CM's Likewise, a CM that meets or exceeds the production expectations but whos

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[1] Obviously given the life cycle of a disaster and workload, these numbers will change. These performance standard are heavily dependent on an adequate and workable inventory. For instance- right now Gulf Storm CM's have very full caseload, but are averaging about 1 disbursement and 12 phone calls a day, while New Work CM's, witl smaller but "fresh" caseloads are averaging more than 2 disbursements a day with the same phone call averages CM's assigned to special teams will have different benchmarks.

There is not a specific benchmark for mail review, but this is measured as production. In the strictest sense, th amount of mail reviewed is not entirely within the control of the CM. However, it's a direct reflection on follow-up and is generated by phone calls, which are measured both by number reported and in the last contact date report.

management assessment is that their work is of poorer quality can be determined to only "meet expectations" or be given an even lower performance rating based on the criteria above.

Attorney Advisors ("A/A's")

Evaluations are based on both performance benchmarks and management assessments with input from the leads, Senior Attorneys, and Supervisory Attorneys.

Performance Benchmarks

These benchmarks are obtained from a combination of data reported by the PALS system and obtained from DCMS. Specifically, the number of several actions is obtained and a value assigned to those actions. These actions, and their subsequent values, are listed below.

Opinion of Counsel ("attorney opinion")	.5	(1/2 hour)
LMod Concur	.33	(20 minutes)
LMod Post Review	.33	
Endorsement Review	.083	(5 minutes)
Vesting/ Deed Review	.25	(15 minutes)
Obligation	.5	

The evaluation process recognizes that Attorneys on special teams concentrating on LMODs or drafting, for instance, will generate higher production numbers than those on disbursing teams.[2] Just as licensed attorneys acting as CM's are given credit for A/A functions, in an effort to encourage cooperation and teamwork, A/A's assisting the team by performing CM functions will be given credit for those actions as well, with the following values.

Borrower contact	.25
Disbursement	.5
Mail Review	.25

Given an average workload, the expectation is that the total action values for an A/A should average 8.0 per day.[3]

Management Assessments are based on the following:

- **Quality** of work and **Program Knowledge** based on number and severity of rejections from the title desk, file forwarding, Doc Gen, QAR exceptions reports, and personal review of attorney opinions/drafts, and LMODs.
- **Workload** based on DCMS reports and personal observation of special assignments, if any.
- **Interpersonal skills** based on review of intra-office emails and personal observation of team interaction.

[2] Again, the stage of the disaster will likely affect the actual time it takes to complete these actions. LMOD #7 will require more time be reviewed than LMOD #1. Complex files will take substantially more time than simple home files… these circumstances will be taken into account in the performance assessment by the lead when evaluating production numbers.

[3] For example, an A/A that performs 6 LMOD reviews (concur and post), 6 attorney opinions, 3 phone calls, and 4 endorsements would be slightly over the 8.0 performance benchmark.

- **Communication** to the team conveying high legal and program knowledge.
- **Grade level** and **experience**

A/A's who would "meet expectations" based on these performance benchmarks, assuming that all other requirements to meet expectations have been met, can rise to "exceeds expectations" by having higher performance benchmarks, or a management assessment that their work is of higher quality or more complex than other similarly situated A/A's. Likewise, an A/A that meets or exceeds the performance benchmarks but whose management assessment is that their work is of poorer quality may be determined to only "meet expectations."

<u>**Team Leads**</u>
Evaluations are based on both performance benchmarks for them individually[4] and for their team, and management assessments by the Senior and Supervisory Attorneys.

Performance Benchmarks

These benchmarks are obtained from a combination of data reported by the PALS system and obtained from DCMS. Specifically, the number of disbursements and borrower contacts per team are measured, along with the team lead's individual production in the same manner as A/A's, as described above. There is an expectation that the team not fall significantly below similarly situated teams in terms of performance benchmarks, and that the lead's individual production be proportionate and adequate given their assigned duties.

Management Assessments are based on the following:

- **Quality** of work and **Program Knowledge** based on number and severity of rejections from the title desk, file forwarding, Doc Gen, QAR exceptions reports, and personal review of attorney opinions/drafts, and LMods.
- **Quality** of work and **Program Knowledge** *of the team* based on number and severity of rejections from the title desk, file forwarding, Doc Gen, QAR exceptions reports, and personal review of attorney opinions/drafts, and LMODs; **development** of good employees under the lead's supervision.
- Lead's individual performance and follow through with **special assignments**, if any.
- Team's **responsiveness** to management direction reflecting their team's buy-in of management objectives.
- **Ability to handle interpersonal issues** arising on the team in a professional manner, and to properly recognize and escalate issues needing to be addressed at a higher level.
- **Communication skills**
    - Communication with the team members relating to on-going training, responsiveness to issues, and interpersonal skills.
    - Communication abilities as demonstrated with supervisors and other department personnel.

There is an expectation that each of the management assessment criteria set forth above reflect positively on the lead.

[4] It is acknowledged that a highly productive lead may have very low personal production numbers; individual production numbers for leads are measured and play a role as part of the complete picture, but less so than for A/A's.

Monthly Performance Ratings
Every effort will be made so that on a monthly basis, Leads will let their team members know where they stand in terms of meeting, exceeding, or falling short of their expectations. Constructive feedback on ways to improve will be given, if needed. Senior Attorneys will meet with their team leads and do the same. Similarly, on a quarterly basis CM's and A/A's will meet with their Senior Attorneys, and leads will meet with their Supervisory Attorneys. All Monthly performance assessments will be documented on the attached forms. (**Exhibits B-D**.)

Management Assessment considerations common to every Role

Quality Issues
Quality will be an integral part of the Management Assessment for every role specific performance standard. Quality will be measured by a combination of the number and severity of rejections from the title desk, file forwarding, and Doc Gen; in-house Quality Assurance Review exceptions reports; personal reviews of attorney opinions, drafts, LMOD's, and files submitted for attorney opinions; Periodic Quality Reviews; Headquarters Quality Assurance Reviews and various other reviews as required by management. Minor errors will not be considered in the quality analysis unless they become habitual errors.

Quality work is always considered in each month's evaluation. Unfortunately, these issues are often not detected until after the evaluation period is completed. Blatant mistakes discovered after an evaluation period is over will be considered in the overall year end rating of the employee in a reasonable manner.

Grade Level/Experience
The individual employee's grade level and the type of work completed during the rating period will also be considered when determining overall performance. We will consider grade level when evaluating quality. For example, a GS-9 Case Manager that has a Business and EIDL inventory will generally have a longer learning curve and be given a little more time to obtain the performance standard as opposed to a GS-11 or GS-12 Case Manager. Along the same lines, a GS-9 case manager with Business and EIDL loans who has demonstrated the ability to grasp the case file management concept, work independently and produce well documented and fully justified file resolution could receive a higher performance rating. Conversely, a GS-11 or GS-12 case manager producing high quality, but routine *Home* loans would generally only receive a "meets expectations" rating for quality for the same type of work of the GS-9 case manager. A GS-11 case manager is expected to consistently meet performance standards for more complex files.

Experience also plays a role in an employee's ability to meet the performance standards. Particularly with newer employees, or employees that are new to their role, amount of experience is a factor in their Management Assessment. For newly hired employees, or employees that are new to their role, the expectations are that there would be gradual improvement each week. We generally expect new employees to meet or show the potential to meet the goals four weeks out of training. For our experienced staff, the expectations are that standards would be consistently met and exceeded. *(Inventory levels are considered.)*

By adhering to the performance standards, we can better serve our borrowers by delivering expeditious disaster assistance. Thank you in advance for support of the processing standards.

As changes to workload, workflow, and reporting occur, and with implementation of new efficiencies developed, these performance standards are subject to change, and management may re-issue this document or update it as necessary.

Thank you in advance for helping to deliver the program in the most efficient and customer service oriented manner. If you have any questions, please feel free to contact me.

Exhibit A

Rating Level Definitions
Level 5 – Extraordinary. An employee who receives this rating is proactive, anticipates programmatic or administrative issues/problems and, within the scope of their authority, executes in a manner that resolves those issues/problems independently. He/she is viewed as a resource to the Agency and may perform work not immediately related to his/her principle area of responsibility. When the opportunity exists, he/she may serve as a member on task forces, work groups, or integrated work teams. He/she demonstrates an extraordinary degree of initiative and self-reliance in resolving problems or requirements of the work situation, developing, recommending or executing innovative solutions to successfully accomplish tasks ahead of target; works independently to accomplish program objectives, in difficult and complex situations; is extremely adaptable in adjusting to, and resolving, any new or unusual situation or problems; or is extremely capable of preparing difficult material.
Level 4 – Exceeds Expectations. An employee who receives this rating performs all of the requirements of the position, and demonstrates a willingness to accomplish additional work outside their usual scope of responsibility. This employee anticipates problems and issues and when necessary, reacts successfully and in a timely manner to assignments made by the supervisor. He/she demonstrates a high level of skill and abilities in developing and executing sound solutions; meets all requirements of the position throughout the appraisal cycle; produces a more than satisfactory volume of work within established timeframes; works relatively independently in accomplishing program objectives (or requires minimal guidance); is capable of adjusting to, and/or resolving most new or unusual situations or problems; or is capable of preparing relatively difficult material in a well coordinated manner.
Level 3 – Meets Expectations. The employee independently performs the requirements of the position and produces a set volume of work within the required timeframes and in accordance with established policies, procedures, or supervisory instructions. The employee accomplishes the full range of job-related requirements through the appraisal cycle. Develops and implements solutions to supervisor-identified or routine and/or recurring problems with guidance from the supervisor, or independently in areas within delegated authority of job responsibility.
Level 2 – Below Expectations. The employee demonstrates limited ability in producing an acceptable volume of work within established timeframes; limited sense of personal responsibility and accountability in some work assignments, or requires frequent guidance and assistance from supervisor or others; experiences difficulty in adjusting to, coping with, or resolving, most new or unusual situations or problems under normal pressure and within their area of responsibility; or experiences difficulty in preparing material in a well-organized, logical, precise, and concise manner.
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Exhibits below:

Exhibit B (CM monthly Performance Assessment)

Exhibit C (A/A monthly Performance Assessment)

Exhibit D (Team Lead monthly Performance Assessment)

Monthly Performance Assessment

Name:____

Team:____

Assessment given by:____

Case Manager

Performance Benchmarks	☐ **Satisfactory** ☐ **Needs improvement**
Caseload Management/Customer Service	☐ **Satisfactory** ☐ **Needs improvement**
Quality/Program Knowledge	☐ **Satisfactory** ☐ **Needs improvement**
Interpersonal Skills	☐ **Satisfactory** ☐ **Needs improvement**

Comments:

Monthly Performance Assessment

Name:____

Team:____

Assessment given by:____

Attorney/Advisor

Performance Benchmarks
☐ **Satisfactory**
☐ **Needs improvement**

Quality - Legal/Program Knowledge and communication of these to the team
☐ **Satisfactory**
☐ **Needs improvement**

Interpersonal Skills
☐ **Satisfactory**
☐ **Needs improvement**

Comments:

Monthly Performance Assessment

Name:____

Team:____

Assessment given by:____

Team Lead

Individual production
☐ **Satisfactory**
☐ **Needs improvement**

Team's Performance Benchmarks
☐ **Satisfactory**
☐ **Needs improvement**

Individual Quality - Legal/Program Knowledge
☐ **Satisfactory**
☐ **Needs improvement**

Team's Quality - Legal/Program Knowledge
☐ **Satisfactory**
☐ **Needs improvement**

Performance and follow through on special assignments, if any
☐ **Satisfactory**
☐ **Needs improvement**
☐ **Not applicable**

Team's responsiveness to management direction
☐ **Satisfactory**
☐ **Needs improvement**

Handling of interpersonal issues
☐ **Satisfactory**
☐ **Needs improvement**

Communication skills with team
☐ **Satisfactory**
☐ **Needs improvement**

Communication skills with management and other departments
☐ **Satisfactory**
☐ **Needs improvement**

Comments:

U.S. SMALL BUSINESS ADMINISTRATION
Disaster Assistance
Processing and Disbursement Center
14925 Kingsport Road
Fort Worth, Texas 76155

(817)868-2300
1(800)366-6303
Hearing Impaired
TDD (817)267-4688

Date: August 14, 2007

To: All Case Managers

From: Blane M. Wentlent / Accounts Manager
Rob Goodson / Deputy Accounts Manager / Chief Legal Advisor

Re: Performance Standards

Performance Standards

Our mission is to help people recover from disasters and rebuild their lives by providing affordable, timely and accessible financial assistance to homeowners, renters and businesses. In order to accomplish this mission, we must assure the Accounts Department has performance standards in place to measure productivity, quality, and customer service. The performance standards also hold staff accountable for the organization's success in meeting its goals and accomplishing its mission.

This memo will serve to supplement and formally outline the expected performance standards. All standards will be initially discussed in training classes and by the leads in their weekly meetings.

Employees are given a rating at the end of the fiscal year. All employees are rated on the following scale:

Level 5 **Extraordinary**
Level 4 **Exceeds Expectations**
Level 3 **Meets Expectations**
Level 2 **Below Expectations**
Level 1 **Fails to Meet Expectations**

The definitions of what it takes to meet these rating standards, as found on the year-end evaluation SBA form 2223, are attached hereto as **Exhibit A.** These ratings are based upon individual results. The definitions refer to an individual producing a volume of work within required timeframes. This memo will clarify what exactly those phrases mean. Producing a "volume of work" "within the required timeframe" is not the only measure of employee performance. Employee performance is determined by measuring *quality, output* over *time* and comparing the result to a reasonable standard. This reasonable standard was recently reviewed by senior staff. With their input, a performance standard for each role has been developed. These performance standards are outlined below.

Monthly performance is an integral part of the PBC evaluation and has a bearing on the year-end evaluations. All accounts staff will be evaluated on a monthly basis and are expected to regularly meet and exceed the goals set in the performance standards for their specific role. It is essential that accurate reporting is maintained in determining performance of individual employees.

Role Specific Performance Standards for Case Managers("CM's")

Evaluations are based on both performance benchmarks and management assessments by the leads, Senior Attorneys, and Supervisory Attorneys.

Performance Benchmarks

These benchmarks are obtained from a combination of data reported by the PALS system and obtained from DCMS. Specifically, **the number of disbursements, mail reviewed, and borrower contacts** are measured. We recognize that depending on the circumstances, the time it takes to complete one of these actions can vary greatly. As such, these actions are not weighted similarly to Attorney/Advisors ("A/A's") actions. Instead, CM's have performance benchmarks in the form of a daily goal. **Given an average full caseload, the baseline expectation is that CM's will average at least 10 phone calls and make 2 disbursements a day.**[1] In addition, CM's who are licensed attorneys will also be measured based on the criteria set out for A/A's[2]. Those licensed attorneys assigned case manager duties will not be measured against employees performing A/A duties, but these actions will be accounted for in addition to their CM goals.

Management Assessments are based on the following:

- **Caseload Management** and **Customer Service** based on the last contact date report and borrower complaints and compliments.
- **Quality** of work and **Program Knowledge** based on number and severity of rejections from the title desk, file forwarding, Doc Gen, QAR exceptions report, and personal review of files submitted for attorney opinions.

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[1] Obviously given the life cycle of a disaster and workload, these numbers will change. These performance standards are heavily dependent on an adequate and workable inventory. For instance- right now Gulf Storm CM's have a very full caseload, but are averaging about 1 disbursement and 13-15 phone calls a day, while New Work CM's, with smaller but "fresh" caseloads are averaging more than 2 disbursements a day with 12 phone calls per day on average. CM's assigned to special teams will have different benchmarks.

There is not a specific benchmark for mail review, but this is measured as production. In the strictest sense, the amount of mail reviewed is not entirely within the control of the CM. However, it's a direct reflection on follow-up, and is generated by phone calls, which are measured both by number reported and in the last contact date report.

[2] These benchmarks are obtained from a combination of data reported by the PALS system and obtained from DCMS. Specifically, the number of several actions is obtained and a value assigned to those actions. These actions, and their subsequent values, are listed below.

Opinion of Counsel ("attorney opinion")	.5	(1/2 hour)
LMod Concur	.33	(20 minutes)
LMod Post Review	.33	
Endorsement Review	.083	(5 minutes)
Vesting/ Deed Review	.25	(15 minutes)
Obligation	.5	

- **Workload** based on DCMS reports and personal observation of special assignments, if any.
- **Interpersonal skills** based on review of intra-office emails and personal observation of team interaction.
- **Grade level** and **experience**

CM's that would "meet expectations" based on these performance benchmarks, assuming that all other requirements to meet expectations have been met, can rise to "exceeds expectations" by having higher performance benchmarks, or a management assessment that their work is of higher quality or more complex than other similarly situated CM's. Likewise, a CM that meets or exceeds the production expectations but whose management assessment is that their work is of poorer quality can be determined to only "meet expectations" or be given an even lower performance rating based on the criteria above.

Monthly Performance Ratings

Every effort will be made so that on a monthly basis, Leads will let their team members know where they stand in terms of meeting, exceeding, or falling short of their expectations. Constructive feedback on ways to improve will be given, if needed. On a quarterly basis CM's will meet with their Senior Attorneys. All Monthly performance assessments will be documented on the attached form. (**Exhibit B**)

Management Assessment considerations common to every Role

Quality Issues

Quality will be an integral part of the Management Assessment for every role specific performance standard. Quality will be measured by a combination of the number and severity of rejections from the title desk, file forwarding, and Doc Gen; in-house Quality Assurance Review exceptions reports; personal reviews of attorney opinions, drafts, LMOD's, and files submitted for attorney opinions; Periodic Quality Reviews; Headquarters Quality Assurance Reviews and various other reviews as required by management. Minor errors will not be considered in the quality analysis unless they become habitual errors.

Quality work is always considered in each month's evaluation. Unfortunately, these issues are often not detected until after the evaluation period is completed. Blatant mistakes discovered after an evaluation period is over will be considered in the overall year end rating of the employee in a reasonable manner.

Grade Level/Experience

The individual employee's grade level and the type of work completed during the rating period will also be considered when determining overall performance. We will consider grade level when evaluating quality. For example, a GS-9 Case Manager that has a Business and EIDL inventory will generally have a longer learning curve and be given a little more time to obtain the performance standard as opposed to a GS-11 or GS-12 Case Manager. Along the same lines, a GS-9 case manager with Business and EIDL loans who has demonstrated the ability to grasp the case file management concept, work independently and produce well documented and fully justified file resolution could receive a higher performance rating. Conversely, a GS-11 or GS-12 case manager producing high quality, but routine *Home* loans would generally only receive a "meets expectations" rating for quality for the same type of work of the GS-9 case manager. A

GS-11 case manager is expected to consistently meet performance standards for more complex files.

Experience also plays a role in an employee's ability to meet the performance standards. Particularly with newer employees, or employees that are new to their role, amount of experience is a factor in their Management Assessment. For newly hired employees, or employees that are new to their role, the expectations are that there would be gradual improvement each week. We generally expect new employees to meet or show the potential to meet the goals four weeks out of training. For our experienced staff, the expectations are that standards would be consistently met and exceeded. *(Inventory levels are considered.)*

As changes to workload, workflow, and reporting occur, and with implementation of new efficiencies developed, these performance standards are subject to change, and management may re-issue this document or update it as necessary.

By adhering to the performance standards, we can better serve our borrowers by delivering expeditious disaster assistance. Thank you in advance for your support of these standards and helping to deliver the program in the most efficient and customer service oriented manner. If you have any questions, please feel free to contact me.

Exhibit A

Rating Level Definitions
Level 5 – Extraordinary. An employee who receives this rating is proactive, anticipates programmatic or administrative issues/problems and, within the scope of their authority, executes in a manner that resolves those issues/problems independently. He/she is viewed as a resource to the Agency and may perform work not immediately related to his/her principle area of responsibility. When the opportunity exists, he/she may serve as a member on task forces, work groups, or integrated work teams. He/she demonstrates an extraordinary degree of initiative and self-reliance in resolving problems or requirements of the work situation, developing, recommending or executing innovative solutions to successfully accomplish tasks ahead of target; works independently to accomplish program objectives, in difficult and complex situations; is extremely adaptable in adjusting to, and resolving, any new or unusual situation or problems; or is extremely capable of preparing difficult material. Level 4 – Exceeds Expectations. An employee who receives this rating performs all of the requirements of the position, and demonstrates a willingness to accomplish additional work outside their usual scope of responsibility. This employee anticipates problems and issues and when necessary, reacts successfully and in a timely manner to assignments made by the supervisor. He/she demonstrates a high level of skill and abilities in developing and executing sound solutions; meets all requirements of the position throughout the appraisal cycle; produces a more than satisfactory volume of work within established timeframes; works relatively independently in accomplishing program objectives (or requires minimal guidance); is capable of adjusting to, and/or resolving most new or unusual situations or problems; or is capable of preparing relatively difficult material in a well coordinated manner. Level 3 – Meets Expectations. The employee independently performs the requirements of the position and produces a set volume of work within the required timeframes and in accordance with established policies, procedures, or supervisory instructions. The employee accomplishes the full range of job-related requirements through the appraisal cycle. Develops and implements solutions to supervisor-identified or routine and/or recurring problems with guidance from the supervisor, or independently in areas within delegated authority of job responsibility. Level 2 – Below Expectations. The employee demonstrates limited ability in producing an acceptable volume of work within established timeframes; limited sense of personal responsibility and accountability in some work assignments, or requires frequent guidance and assistance from supervisor or others; experiences difficulty in adjusting to, coping with, or resolving, most new or unusual situations or problems under normal pressure and within their area of responsibility; or experiences difficulty in preparing material in a well-organized, logical, precise, and concise manner. Level 1 – Fails to Meet Expectations. The employee demonstrates a lack of ability to produce an acceptable volume of work within established timeframes; a lack of personal responsibility and accountability in most work assignments, or requires constant guidance and assistance; experiences frequent difficulty in adjusting to, coping with, or resolving most new or unusual situations or problems under normal pressure; or has great difficulty in preparing material in a well-organized, logical, precise, and concise manner.

Exhibit B (CM monthly Performance Assessment)

Monthly Performance Assessment

Name:____

Team:____

Assessment given by:____

Case Manager

Performance Benchmarks	☐ **Satisfactory** ☐ **Needs improvement**
Caseload Management/Customer Service	☐ **Satisfactory** ☐ **Needs improvement**
Quality/Program Knowledge	☐ **Satisfactory** ☐ **Needs improvement**
Interpersonal Skills	☐ **Satisfactory** ☐ **Needs improvement**

Comments:

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Date: August 14, 2007

To: All Attorney Advisors

From: Blane M. Wentlent / Accounts Manager
Rob Goodson / Deputy Accounts Manager / Chief Legal Advisor

Re: Performance Standards

Performance Standards

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Monthly performance is an integral part of the PBC evaluation and has a bearing on the year-end evaluations. All accounts staff will be evaluated on a monthly basis and are expected to regularly meet and exceed the goals set in the performance standards for their specific role. It is essential that accurate reporting is maintained in determining performance of individual employees.

Role Specific Performance Standards for Attorney Advisors ("A/A's")

Evaluations are based on both performance benchmarks and management assessments with input from the leads, Senior Attorneys, and Supervisory Attorneys.

Performance Benchmarks

These benchmarks are obtained from a combination of data reported by the PALS system and obtained from DCMS. Specifically, the number of several actions is obtained and a value assigned to those actions. These actions, and their subsequent values, are listed below.

Opinion of Counsel ("attorney opinion")	.5	(1/2 hour)
LMod Concur	.33	(20 minutes)
LMod Post Review	.33	
Endorsement Review	.083	(5 minutes)
Vesting/ Deed Review	.25	(15 minutes)
Obligation	.5	

The evaluation process recognizes that Attorneys on special teams concentrating on LMODs or drafting, for instance, will generate higher production numbers than those on disbursing teams.[1] Just as licensed attorneys acting as CM's are given credit for A/A functions, in an effort to encourage cooperation and teamwork, A/A's assisting the team by performing CM functions will be given credit for those actions as well, with the following values.

Borrower contact	.25
Disbursement	.5
Mail Review	.25

Given an average workload, the expectation is that the total action values for an A/A should average 8.0 per day.[2]

Management Assessments are based on the following:

- **Quality** of work and **Program Knowledge** based on number and severity of rejections from the title desk, file forwarding, Doc Gen, QAR exceptions reports, and personal review of attorney opinions/drafts, and LMODs.

[1] It is recognized that the stage of the disaster will likely affect the actual time it takes to complete these actions. LMOD #7 will require more time be reviewed than LMOD #1. Complex files will take substantially more time than simple home files… these circumstances will be taken into account by your leads in the performance assessment when evaluating production numbers.

[2] For example, an A/A that performs 6 LMOD reviews (concur and post), 6 attorney opinions, 3 phone calls, and 4 endorsements would be slightly over the 8.0 performance benchmark.

- **Workload** based on DCMS reports and personal observation of special assignments, if any.
- **Interpersonal skills** based on review of intra-office emails and personal observation of team interaction.
- **Communication** to the team conveying high legal and program knowledge.
- **Grade level** and **experience**

A/A's who would "meet expectations" based on these performance benchmarks, assuming that all other requirements to meet expectations have been met, can rise to "exceeds expectations" by having higher performance benchmarks, or a management assessment that their work is of higher quality or more complex than other similarly situated A/A's. Likewise, an A/A that meets or exceeds the performance benchmarks but whose management assessment is that their work is of poorer quality may be determined to only "meet expectations."

Monthly Performance Ratings
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Grade Level/Experience
The individual employee's grade level and the type of work completed during the rating period will also be considered when determining overall performance. We will consider grade level when evaluating quality. For example, a GS-9 A/A that is working with a Business and EIDL inventory will generally have a longer learning curve and be given a little more time to obtain the performance standard as opposed to a GS-11 or GS-12 A/A. Along the same lines, a GS-9 A/A with Business and EIDL loans who has demonstrated the ability to grasp the concepts and particulars, work independently and produce well documented and fully justified actions could receive a higher performance rating. Conversely, a GS-11 or GS-12 A/A producing high quality, but routine work on *Home* loans would generally only receive a "meets expectations" rating for quality for the same type of work as the GS-9 A/A. A GS-11 A/A is expected to consistently meet performance standards for more complex files.

Experience also plays a role in an employee's ability to meet the performance standards. Particularly with newer employees, or employees that are new to their role, amount of experience is a factor in their Management Assessment. For newly hired employees, or employees that are new to their role, the expectations are that there would be gradual improvement each week. We generally expect new employees to meet or show the potential to meet the goals four weeks out of training. For our experienced staff, the expectations are that standards would be consistently met and exceeded. *(Inventory levels are considered.)*

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Exhibit B (A/A monthly Performance Assessment)

<u>Monthly Performance Assessment</u>

Name:____

Team:____

Assessment given by:____

Attorney/Advisor

Performance Benchmarks

☐ **Satisfactory**
☐ **Needs improvement**

Quality Legal/Program Knowledge and communication of these to the team

☐ **Satisfactory**
☐ **Needs improvement**

Interpersonal Skills

☐ **Satisfactory**
☐ **Needs improvement**

Comments:

Office of Inspector General's Response to Questions from the Senate Small Business Committee Hearing on Gulf Coast Disaster Loans and the Future of the Disaster Assistance Program

Questions from Chairman Kerry

Question: After carefully reviewing all of the facts collected through these audits, as well as the witness accounts provided by Ms. Martin and her colleagues, do you believe that the "90 in 45 Campaign" left victims in need of assistance behind in the name of improving a public relations problem?

Answer: No. Based on our audits we do not believe that victims in need of assistance were "left behind." We believe the "90 in 45 Campaign" was implemented as a good faith effort by the SBA to contact all borrowers with undisbursed and partially disbursed loans. We did find, however, that some managers were eager to clear the books in order to meet production goals. Our audit of cancelled loans showed that SBA quickly cancelled loans when borrowers could not be reached and without advance notice. Written direction was provided to the Buffalo Call Center employees to make 3 attempts within 24 hours to contact each borrower, and to cancel the loan if they did not receive a response from the borrower within that time frame.

Individuals with cancelled loans were not left behind because SBA made subsequent efforts to contact borrowers who were not notified of the cancellations to inform them that they could apply for reinstatement. However, there may be an unnecessary burden placed on applicants to re-qualify for loans. Applicants whose loans were cancelled that are seeking reinstatement have to begin the time-consuming loan application process all over again.

Question: Do you believe there is a need to revisit the cases that were withdrawn, cancelled, and declined as a result of the massive effort?

Answer: Yes. The Agency should revisit those loans that were cancelled as some borrowers may still be in need of SBA assistance. Nearly 8,000 of the 11,893 loans cancelled during SBA's campaign were cancelled without sending borrowers the required 14-day letter notifying them of the pending cancellation and without contacting them by phone. Other borrowers cancelled their loans because they could not secure the documents needed to close on their loans within SBA's time frames. Therefore, SBA should contact the 6,557 borrowers who had their loans cancelled without being contacted whose loans have not been reinstated.

Although SBA has reported that it later informed borrowers that they could reapply, it is not clear whether the Agency adequately communicated this information to all borrowers affected by the cancellations. SBA should notify all borrowers by letter that they can apply to have their loans reinstated and that the deadline for reapplying has been extended. SBA will also need to re-examine its policy on reinstatements and ensure that additional burdens are not placed on borrowers in reapplying for their loans.

Question: Have you spoken to current loan officers or former loan officers, who can attest to what Ms. Martin is telling us about coercion, intimidation and quotas?

Answer: My audit staff and I have spoken with Ms. Martin and a few other former and current loan officers who have expressed concerns regarding coercion, intimidation, and quotas. These individuals have reported to us that managers have intimidated employees about meeting loan processing quotas and that employees are afraid to lose their jobs if the quotas are not met.

Question: Was this widespread across the agency, or is it your impression that these tactics were not systematic problems?

Answer: We do not know if the problems reported by current and former loan officers are widespread across the agency as we have not surveyed employees.

Question: What have you advised the SBA to do about this organizational problem?

Answer: We have not made any recommendations to SBA about this issue as we have not performed audit work to determine whether issues raised about the work environment are widespread.

Question: Will your office conduct an investigation based on the allegations made by Ms. Martin and her colleagues?

Answer: In July 2007, we completed a review of complaints by Ms. Martin and her colleagues that loans were unnecessarily cancelled, and are currently looking into their complaint that loans were inappropriately withdrawn. We are also in discussion with the Agency to work out a satisfactory plan to assess the work environment at the Fort Worth Center to determine if it is as represented by Ms. Martin and her colleagues.

Answers to Questions from Senator Landrieu

Question: Your testimony seems to indicate that the Buffalo call center employees were overworked/overstressed which may have led to some of the oversights that occurred there. I would like to submit for the record, the Loan Closing Procedures and Agenda for this "Triage Project." If you look at these documents, staff was required to work 10 hour shifts, 7 days a week. They also had a quota of calling 40-60 borrowers per 10-hour shift. Mr. Thorson, do you think these conditions contributed to the issues outlined in your testimony?"

Answer: We do not believe the issues raised in my testimony were caused by employee error brought on by the pressures of meeting production quotas. Our audit determined that loans were cancelled based on management's desire to quickly dispose of the undisbursed or partially disbursed loans. Our auditors obtained documents showing that direction was given to the Buffalo Call Center employees to make 3 attempts to contact borrowers within a 24-hour period, and if no response was received, to cancel the loans.

Question: Have you investigated Ms. Martin's claims on employee conduct in 2005 to early 2006? If so, have there been any indictments, findings, or other actions for employees found to be at fault?

Answer: We have not investigated Ms. Martin's claims on employee conduct, although our auditors have interviewed some loan officers about it. We are in discussion with the Agency to work out a satisfactory plan to assess the work environment at the Fort Worth Center to determine if it is as represented by Ms. Martin and her colleagues.

Question: If not, will you commit to investigate these claims?

Answer: Upon completion of our initial review of this issue, we will coordinate with the Committee on our future plans.

Question: Is it your recommendation, based on your investigation of the "90 in 45 campaign" that SBA should reconsider the cancellations for the 3,000+ applications that were mishandled in Buffalo? If so, in your opinion, has SBA taken sufficient actions following these revelations to address the issues raised in your report?

Answer: Based on our findings, it is our recommendation that SBA reconsider the loans that were cancelled by Buffalo. We found that nearly 8,000 of the 11,893 loans cancelled during this campaign were cancelled without sending borrowers the required 14-day letter notifying them of the pending cancellation and without contacting them by phone. Most of these loans were cancelled after the SBA's Customer Service Center made only one attempt to contact the borrowers. Other borrowers were persuaded to cancel their loans until they could secure the documents needed to close on their loans.

The SBA is working to resolve the issues discussed in our testimony. Borrowers were later informed by SBA that they could request reinstatement of their loans if they were ready to close. However, it is not clear whether the Agency adequately communicated this information to all borrowers affected by the cancellations. SBA should notify all borrowers by letter that they can reapply and that the deadline has been extended. SBA will also need to re-examine its policy on reinstatements and ensure that additional burdens are not placed on borrowers who reapply for loans.

We believe that in revisiting the cases, SBA should also reach out to the 6,557 borrowers who had their loans cancelled without being contacted whose loans have not been reinstated. We will continue to work with the SBA to resolve these issues.

Answers to Senator Vitter's Questions

Question: In your audits, did you find any loans that are already in default, or is there only a fear that there may be in the future?

Answer: We are aware that some loans have defaulted, although we have not conducted any audit work on this specific issue, to date. There is currently no clear indication on how many loans will default due to the 1-year grace period granted to borrowers before they must begin repayment of their loans. However, given the economic environment that existed post- and pre-Katrina in which these loans were made, we are very concerned that the default rates will greatly exceed the normal default rate for disaster loans.

Question: Do you have any suggestions on what the SBA could do to help ensure the government is not making risky loans but that the standard is not so high that people are denied the opportunity to borrow money after a disaster?

Answer: SBA should conduct a repayment analysis on each applicant to determine whether the applicant is creditworthy and has the means to repay the loan. SBA should conduct a repayment analysis on each applicant to determine whether the applicant is creditworthy and has the means to repay the loan. While SBA has a control to identify applicants during the initial screening and to make pre-processing declines based on repayment ability and income requirements, this control was bypassed without justification for many of the applicants approved under expedited procedures. Further, when those loans were flagged for expedited processing under SBA's Expedited Loan Program, applicant income was not verified because a repayment analysis was not required by the program. Based on recommendations in our audit report, SBA subsequently implemented a requirement that a repayment analysis be made for new applications processed under expedited procedures. SBA should also take steps to ensure that employees cannot bypass controls it has established to prevent applicants who lack repayment ability from being approved for a loan.

Chairman Kerry
Questions for the Record
Hearing: Gulf Coast Disaster Loans and the Future of the Disaster Assistance Program

Mr. Shear: Can you provide an assessment of SBA's Disaster Recovery Plan? Does the plan as currently drafted take into consideration recommendations made in the GAO reports titled "Actions Needed to Provide More Timely Disaster Assistance" (July 2006) and "Additional Steps Needed to Enhance Agency Preparedness for Future Disasters" (February 2007)? What further steps should SBA take to ensure that this Disaster Recovery Plan is a comprehensive set of operating procedures that will guide the agency through future large scale disasters?

In June 2007, SBA released a disaster plan, and the plan was recently provided to us. While we have not evaluated the process SBA followed in developing its plan, the plan discusses actions that are consistent with the recommendations in our reports. For example, the plan states that (1) SBA has significantly expanded the Disaster Credit Management System's (DCMS) capacity to 8,000 concurrent users; (2) SBA is incorporating catastrophe models into its planning process, an effort that appears to be at an early stage; and (3) SBA anticipates training and using 400 staff who are not normally involved in disaster assistance programs to provide backup support in an emergency. Such steps sound encouraging.

In looking at SBA's disaster plan, we are hopeful that the agency is working to address deficiencies we reported on in our prior work. As an audit agency, in following up on the recommendations we made in our two disaster assistance reports, we are looking for evidence of detailed, substantive actions that SBA has taken that may not necessarily be contained in the agency's plan, and we also seek documentation of such substantive actions. We have posed a number of questions to SBA and provided suggestions on the types of documentation we need to substantiate and further assess the reasonableness of steps the agency has taken. For example, with regard to SBA's enhancement of DCMS to support a minimum of 8,000 concurrent users, we have requested documentation pertaining to the stress test performed and the results of the test to verify such capacity. We certainly hope to receive the type of detailed information on what has occurred, and we hope that the information will demonstrate that SBA is making progress in developing a robust system that will be able to process claims in future disasters. Perhaps such information will become available in what SBA refers to as its disaster scalability preparedness tool. Here, the Administrator has stated that the agency is refining detailed action plans to determine the appropriate resource needs outlined in different application volume scenarios and to establish protocols for action to respond accordingly. However, SBA has yet to provide us such detailed information.

Your question on what further steps SBA should take to ensure that its disaster plan is a comprehensive set of operating procedures that will guide the agency through future large scale disasters gets to the heart of the issues our reports have addressed. I will refer to three of our recommendations and the types of steps we think can help to ensure positive outcomes. First, from our July 2006 report, we recommended that SBA reassess DCMS's maximum user capacity and related loan processing resource needs based on such things as lessons learned from the Gulf Coast hurricanes, a review of information available from catastrophe risk modeling firms and disaster simulations, and related cost considerations. Second, from our February 2007 report, we recommended that SBA develop time frames for completing key elements of the disaster management plan and a long-term strategy for acquiring adequate office space, and direct staff involved in developing the disaster management plan to further assess whether the use of disaster simulations or catastrophe models would enhance the agency's disaster planning process. Third, from our July 2006 report, we recommended that SBA expedite plans to resume business process reengineering efforts to analyze the disaster loan process and identify ways to more efficiently process loan applications including an evaluation of the feasibility of implementing a secure Internet-based application feature for home loan applicants.

With respect to our first and second recommendations, the plan states that SBA now has FEMA's catastrophe model, called HAZUS, in house. On pages 43 and 44 of SBA's plan, the agency states,

> "SBA uses HAZUS to evaluate the various impacts that hurricane, flood, and earthquake disaster scenarios will have on different parts of the United States. The results from the evaluation of these scenarios provide essential information that SBA uses to determine the scope of its disaster response effort and to further refine its disaster response processes. Specifically, starting during the hurricane season 2007 SBA will cull information about disaster scope; uninsured property loss; persons displaced; businesses displaced; physical property loss; and demographic information. This information will be useful both for relative adjustments to the specific disaster response and for long-term refinement to the entire SBA disaster response process."

The agency goes onto state that HAZUS will be used in "what if" scenarios to help predict what SBA's response must be in such situations. In addition, on pages 47 through 54 SBA discusses different levels of response, and simulations are discussed on page 55. We hope to obtain information from SBA that will specify more clearly what resources would be in place before a catastrophic disaster occurs in addition to what resources would be needed to respond at the time of a catastrophic event. However, the steps discussed in SBA's plan can facilitate SBA's ability to think strategically about how to prepare for potential catastrophic disasters in a cost effective manner. In these efforts, we encourage SBA to reach out to entities that take a lead in making risk assessments, such as FEMA and the Geological Survey, to help facilitate its strategic planning. Furthermore, the plan also contains discussion of SBA's efforts to cross-train staff not involved in disaster assistance to provide back up support in the event of a catastrophic event, which is also a positive step. Likewise, just as with DCMS capacity, SBA should evaluate potential needs for office capacity and reserve corps resources. For example, a strategic planning assessment is needed of how SBA should manage its reserve corps, especially over periods of time when catastrophic disasters do not occur, so that this human capital capacity does not decline as drastically as it did in the years after 9/11.

With respect to the third recommendation, one of the lessons learned from SBA's experience with Hurricanes Katrina, Rita, and Wilma is that reliance on paper files during a catastrophe can be detrimental in serving victims of a disaster. As stated in our July 2006 report, DCMS provides benefits, and we identified applications, such as a secure Internet-based application feature for home loan applicants, where it could provide additional benefits in serving the victims of natural catastrophes. We have been told that an SBA contractor is working on an electronic loan application. As SBA develops this application, the agency's considerations should include how to ensure the security of the application as well as plans for how applicants can gain access.

Gale Martin's Answers
To Questions for the Record from
Senator Mary L. Landrieu for the Small Business Committee Hearing on
"Oversight: Gulf Coast Disaster Loans and the Future of the Disaster Assistance Program"

Question #1 – Post-Katrina/Rita SBA Loan Processing

- **Question** - *You mention that Loan Officers routinely changed computer fields, made loan decisions without notifying borrowers, and generally lied to close out loans to hit quotas. To your knowledge, were any SBA employees reprimanded or fired for negligence, fraud, or performing such actions?*

- **Answer** - I know of no case were an employee was reprimanded or fired for negligence or fraud. Remember, Senior Staff were encouraging quotas *only*. They turned a blind-eye toward irregular means staff might be using to achieve these quotas.

  Within my time in the Legal/Escrow Department of SBA, I saw loan officer's worst work at short-cutting on files to meet production quotas. There was no information in the files to support the cases, and they barely scratched the surface in helping the applicants: They didn't offer the applicant refinancing when they qualified for it; or they didn't offer a manufactured home purchaser the $5,000 to $10,000.00 they needed and qualified for, to set up their manufactured home. If the borrower's insurance company showed thousands of dollars more in damages, they didn't take the time to question the Verification Department and ask for re-verification of the damaged property. Personal property was often understated. Applicants were in shock when their homes were first verified. They only guessed at what their personal property was worth. Later when they scheduled the loss for their insurance appraisers or for their tax returns, they came up with a more realistic number. Their files had not been adjusted to give them maximum benefit. It wasn't a question of giving away the store, but it was a question of giving the borrowers what they were entitled to and needed to get back up on their feet. My work in the Legal/Escrow Department had nothing to do with title and collateral issues, as Senator Kerry assumed within the hearing. *I spent my time rewriting loans that had been badly done or withdrawn unnecessarily. It takes time to correct and adjust files, time to collect the information needed, and time to have the changes made. Many loan officers were not doing more than the basics for the applicants. Their main concern was in meeting their daily production quotas.*

Former Loan Officer, Gale Martin's statements in response to Senator Landrieu's "Questions for the Record."

- **<u>Question</u>** - *In your testimony, you mention that "the approval guidelines used after Katrina and Rita were very relaxed...many of these applicants would probably not be able to qualify for a loan again." Please explain this comment and why applicants who would have been approved shortly after the storm would not be approved now.*

- **<u>Answer</u>** - As I explained in my testimony, loan processing guidelines were relaxed directly after Katrina. Early on in loan processing, two senior loan officers warned me of the importance of getting people through quickly, because of the relaxed rules that were in effect. For the most part the rules remained relaxed through the "90 in 45 day" campaign; however, as this campaign reached a conclusion in late October, I found it was becoming increasingly more difficult to have loans approved. Senior loan officers were already applying more stringent regulations on the borrowers. These were borrowers who had already been approved once. Many of them had even signed closing documents. They thought they had a "legal and binding contract" with the government at an agreed upon amount. They were always astounded to find that they may not have a contract at all. Many times, I had to counsel an angry borrower that was faced with losing their loan in relocation processing. They would argue that they had already returned notarized loan documents. They *had* a legal contract. I could only explain that some senior loan officer was not satisfied with the provisions of their loan and wanted to go through the whole approval process again. - ***The problem was that each time the borrower's loan had to be seen by a new reviewer; they faced losing their loan, altogether.***

- Steve Preston's comment during the hearing caught my attention: He suggested that a borrower's case would only be income qualified again, if the borrower's circumstances had "*substantially changed.*" To make sure my statements in the hearing were correct, I called a close friend who is still loan processing with SBA and asked at what point a borrower's income needed to be qualified again. *She said, **"Any changes resulting in an increase to the loan of <u>five hundred dollars or more</u> would result in qualifying the borrower's income and credit again.**"* She, also, explained how much she hated to rework her borrower's income qualifications, because most borrowers could not meet the current requirements. A five-hundred dollar swing upward on a loan is a far cry from a "substantial change" in a borrower's financial position, which is what Mr. Preston was suggesting as the current guideline.

- There are several major stumbling blocks for applicants requiring a second look into their income qualifications. One of these is usually the change downward in the borrower's credit rating due to the hurricanes. Applicants were expected to keep up with *all* their regular payments during the *entire* process, whether they had lost their

Former Loan Officer, Gale Martin's statements in response to Senator Landrieu's "Questions for the Record."

jobs or not. This included the mortgages on their damaged property, auto loans, student loans, and all their credit card payments. Most applicants could not do this without using their insurance proceeds, and that created yet another problem for them. What saved many applicants was the fact that SBA pulled their credit reports within a few days of receiving their applications and did not pull their credit report again for over a year. This meant that we were, justifiably, looking at pre-Katrina credit ratings to loan process. This helped many applicants who were struggling to keep up with their normal responsibilities, while fighting to find a new job, a stable place to live, and every basic necessity of life, in a strange place. ***Currently, their hurricane-effected credit ratings are being used in qualifying the borrowers for a second time.***

- Another stumbling block for borrowers who require a second income qualification, maybe their hurricane-effected 2005 and 2006 tax returns. Directly after Katrina we were allowed to take the applicant's 2002 and 2003 tax return income, couple it with their 2004 W-2 wage income, and *average* the three to meet income guidelines. If the applicant chose to volunteer his 2005 W-2's, we would consider this information as part of the equation; however, it was not a requirement since this was a hurricane affected year. This gave the applicant a much better shot at meeting income requirements. ***Currently, the borrower's 2005 & 2006 hurricane-effected tax returns are being used to redo the income qualification on their loan.***

- A third stumbling block might be the applicant's inability to replace their pre-Katrina job with a similar position. Directly after Katrina and Rita, the applicant's unemployment was forgiven, if caused by the hurricane. We considered that the applicant would find a similar position, at a similar rate of pay. Many applicants have not been able to achieve this, especially in the hardest hit areas of Louisiana. While current repayment ability should not be forgotten, it is important to consider that as infrastructure is repaired, business opportunities will increase, and this should allow the borrower to return to their pre-Katrina income. The fact that a teacher is being forced to work as a sales clerk, due to the closing of schools in New Orleans, does not give consideration to the fact that this borrower is a trained professional, who *will* be returning to their usual occupation as soon as the position becomes available. They cannot reapply for a loan, when their circumstances change back. - ***Currently, the most significant point in qualifying a borrower for a loan is their current available income. This might give borrowers who chose not to relocate, but to work at rebuilding their damaged communities a major problem in qualifying again.***

Former Loan Officer, Gale Martin's statements in response to Senator Landrieu's "Questions for the Record."

- A fourth stumbling block for the borrowers coming back in for income qualification, maybe additional debts that borrowers may have taken on to replace automobiles, furnishings, and other personal property. SBA's maximum personal property loan of $40,000.00 for combined auto and household effects was barely enough to replace basic necessities of life, and often the borrower's insurance company only paid a depreciated amount out for both. The initial funding of $10,000.00, which was done at the onset of loan processing, was intended to help the applicant back up on their feet with funds for basic necessities, while waiting for their loan to be processed. However, as months rolled into years on the loan processing floor, applicants had to use their initial funding, as well as, a portion of their insurance proceeds to supplement their family's temporary existence, and then resort to other higher-interest notes to cover their replacement purchases. ***The result is that many borrowers may not qualify again for their loan due to additional debt taken on while waiting for their loans to be processed.***

- A final possible stumbling block will be for the borrowers who were originally processed under the "Credit Score Expedited" program. ***If previously "expedited" borrowers, need to have their loans modified, and they are expected to meet normal income guidelines, many of these borrowers will not qualify again.***

- **<u>Question</u>** – *Furthermore, in your testimony you mention that the "bad press" and "Congressional pressure" the agency was receiving put pressure on management to consistently raise daily production quotas to reduce loan backlogs. What would be the standard response from management if a loan officer did not meet these quotas?*

- **Answer – Loan officers who did not meet their production quotas were "released" very quickly.** I have included the statements of two reconsideration loan officers. One explains his personal experience with being threatened with a release, if his numbers didn't go up. I submitted the testimony of former loan officer, Bill Russell, who had a senior loan officer pull all of his files and reassign them to another loan officer, because she was not satisfied with his production on that day. This man was a CPA, with 35 years experience with small business owners. Another statement I submitted was from former loan officer, Jennett Smith, she also states that supervisors threatened to release her if she didn't raise her production. Jennett, had 20 years experience as a loan processor and underwriter in private industry.

- **I would also like to share my experience with threats and production releases:** At the end of my first quarter, I was promoted to the main processing floor of the business loan section for having a high "*approval rating*." This was still early on in Katrina processing when "*approval ratings*" still mattered.

Former Loan Officer, Gale Martin's statements in response to Senator Landrieu's "Questions for the Record."

At the end of my second quarter I was told I "*Exceeded Expectations.*" My review was conducted by a veteran department head of the relocation department. She said: "*Gale, we have responded terribly to this hurricane. Applicants are very angry. It has taken months to help them at all. It wasn't always like this; we used to be focused on customer service, but a few years ago after a change in Administration the Agency's focus moved to production standards as the measurement of success. Now we have to meet the same daily production goals as you do, and we haven't had the ability to focus on helping the applicants.*"

*My third quarterly review in mid August '06 stated that I had "Exceeded Expectations." I remember my Senior Loan Officer's closing remarks, "Gale, when I started here about seven years ago, I thought it was **quality** of files that they were interested in. Then I finally realized that it wasn't **quality** they wanted, it was **quantity** that they wanted."* She was warning me to take less time on the phone with my applicants.

My fourth review in mid October '06, again stated, "*Exceeded Expectations.*" I was told by my reviewer that they were very satisfied with my job performance. I even earned a production award which was approved on the 10/27/06. - *Then* I was given a weeks notice on the fourteenth of November '06. The reason that I have mentioned this is because I received a letter from SBA after the hearing. The letter arrived on August 8th and was dated July 17, 2007 (which is eight months after I had left SBA). The letter stated: "Gale was counseled concerning loan processing performance deficiencies – production was below standard." Amazing, I moved from "Exceeded Expectations" and receiving a production bonus to being "below standard" and pushed out the door in two weeks. These people are ruthless, completely ruthless! ***In answer to your question: Yes, I know of several loan officers who were released for their production.***

I have included a copy of the production guidelines used in normal processing. It shows that in an eight hour day a loan officer would be expected to complete **four** home loans. During the height of the Katrina home campaign this number was moved to **five** home loans per day. This is a **20% increase**. The business loans moved on a ten hour shift, from **two** loans per day to **three** loans per day, which is a **33% increase**. I worked in the business loan department; this was a hard nut to crack. In the relocation loan department (which is the most difficult loan to write), the guideline moved from **2.6** loans on an eight hour shift, to **4** loans on an eight hour shift. This was a **35% increase and all but impossible to do.** They took loan officers into training classes to teach them how to pre-set their information for the files to try to help them meet this production goal. It was still unattainable for most relocation loan officers.

Existing production standards were recently reviewed and compared with productivity results for the electronic DCMS processing. Based on our review and input from the Senior Staff, we have developed the following Production Standards for DCMS processing. It is essential that accurate reporting of production, SLO returns, legal returns, inventory and review backlogs are maintained in determining productivity of individual loan officers.

Production Standards

In **TABLE #1,** the minimum unit measurement required to obtain a productivity level of Meets Expectations. The table and calculations for original processing and loan modification represent an 8-hour day, 5 days week and 10-hour day, 6 days week matrix.

TABLE #1

Loan Processing-8 Hour 5 Day Week/10 Hour 6 Day Week

Processing Loan Applications	Units Per Day 8HR/ 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
HOME	4.0 / 5.0	20 / 30	2.0
HOME EXPEDITE	6.4 / 8.0	32 / 48	1.25
BUSINESS/EIDL and NON-PROFIT	1.6 / 2.0	8.0 / 12	5.0
BUSINESS EXPEDITE	4.0 / 5.0	20 / 30	2.0
STAND ALONE EIDL	.5 / .7	2.5 / 4.2	14.2
EIDL EXPEDITE	2.4 / 3.0	12.0 / 18	3.3

Processing Loan Modifications-8 Hour 5 Day Week/10 Hour 6 Day Week

TYPE	Units Per Day 8HR / 10HR	Units Per Week 5 Day / 6 Day	Hours to Complete 1 Unit
ROUTINE	16.0 / 20.0	80.0 / 120.0	.50
NON-ROUTINE	5.30 / 6.60	27.0 / 40.0	1.50
HOME INCREASE	4.70 / 5.70	24.0 / 34.0	1.75
BUSINESS INCREASE	4.0 / 5.0	20.0 / 30.0	2.0
EIDL INCREASE	2.50 / 3.0	12.0 / 18.0	3.25
RELOCATIONS	2.60 / 3.30	13.0 / 20.0	3.0

In **TABLE # 2** the following percentage ranges are to be used as general guidelines for assessing productivity and issuing performance feedback:

TABLE #2

Extraordinary	150.0%	And	ABOVE
Exceeds Expectations	120.0%	To	149.9%
Meets Expectations	80.0%	To	119.9%
Below Expectations	60.0%	To	79.9%
Fails to Meet Expectations	0.0%	To	59.9%

Example : Loan Officer Calculation
Over a one week period, a loan officer accumulated 40.0 processing hours and completed the following units:

- 5 BE x 5 hours =25 hours
- 4 homes x 2 hours =8 hours
- 2 EIDL Expedites =6.6 hours
- Total Productive HRS =39.6 hours

Step 1: Multiply the total of each separate production unit by its corresponding factor:

Step 2: Divide the total productive hours (39.6) into the accumulated processing hours (40.0) = 99% the percentage of goal

Step 3: Productivity conversion from Monthly Production Chart (Table#2) = **99% "Meets Expectations"**

Monthly Performance Ratings:

Generally, the threshold to attain a "Meets Expectations" rating will coincide with the lower end of the Meets Expectations range noted above (80%). However, during periods of low inventory, production ratings will also consider individual performance in relation to the departmental average. During slow periods, it is quite possible that the standard for attaining a monthly production rating of "Meets Expectation Levels" will be set below the 80% of goal figure noted above. Overall monthly ratings will incorporate not only production ratings, but also other important factors cited above (i.e. quality of work, communication skills, computer proficiency, portfolio management, etc.). Year-end ratings will conform to the Extraordinary, Exceeds Expectations, Meets Expectations, Below Expectations, Fails to Meet Expectations scale.

Quality Issues:

Each loan produced will be evaluated for quality of work. Consideration is given to exceptionally good work and work needing improvement. Quality will be measured by a combination of SLO Returns, Legal Returns, Periodic Quality Reviews, Headquarters Quality Assurance Review and various other reviews conducted through loan modifications, reconsiderations and final appeals.

The individual Loan Officer's grade level and the type of work completed during the rating period will also be considered when determining overall quality. The Supervisory Loan Officer has the discretion to increase the unit of work by 10% for *exceptional quality* and may decrease the unit of work by 10% for work *needing improvement.* When an SLO has to return files for repetitive mistakes and corrections, a 10% additional deduction will be made to the value of the file. Files having to be returned for the 3rd time usually will not be given credit depending on the SLO's judgment of the situation. Work produced of unacceptable quality will not receive processing credit. An example of quality issue would be if the *eligibility* or *credit decision* was completely incorrect.

We will consider grade level when evaluating quality. For example a GS-7 loan Officer that is processing Business and Stand Alone EIDLs will generally have a longer learning curve and be given a little more time to obtain the performance standard for businesses as opposed to a GS-11 or GS-12 loan officer. Along the same lines, a GS-07 loan officer processing Business and EIDL loans who has demonstrated the ability to grasp the processing concepts, work independently and produce well documented and fully justified reports could receive a higher quality rating. Conversely, a GS-11 or GS-12 loan officer producing high quality, but routine *Home* loans would generally only receive a "Meets" rating for quality for the same type of work of the GS-07 loan officer. A GS-11 loan officer is expected to consistently meet and exceed the production standards for routine business processing. Further, a GS-11 loan officer processing only home loans is expected to consistently exceed the home loan processing production goals if the GS-11 loan officer is assigned to home loan processing. Minor errors will not be considered in the quality analysis unless it is habitual errors. It is imperative that each SLO use a feedback sheet.

Quality work is always considered in each month's rating. Unfortunately, these issues are often not detected until after the rating period is completed. Blatant mistakes discovered after a rating period is over will be considered in the overall year end rating of the Loan Officer in a reasonable manner.

- For newly hired employees, the expectations are that there would be gradual improvement each week. We generally expect new employees to meet or show the potential to meet the goals four weeks out of training. *(Inventory levels are considered.)*

- For our experienced loan officers, the expectations are that production and quality standards would be consistently met and exceeded. *(Inventory levels are considered.)*

By adhering to the performance standards, we can better serve our applicants by delivering expeditious disaster assistance. Thank you in advance for support of the processing standards.

Thank you in advance for helping to deliver the program in the most efficient and customer service oriented manner. If you have any questions, please feel free to contact Blane Wentlent or myself.

Rating Level Definitions

Level 5 – Extraordinary. An employee who receives this rating is proactive, anticipates programmatic or administrative issues/problems and, within the scope of their authority, executes in a manner that resolves those issues/problems independently. He/she is viewed as a resource to the Agency and may perform work not immediately related to his/her principle area of responsibility. When the opportunity exists, he/she may serve as a member on task forces, work groups, or integrated work teams. He/she demonstrates an extraordinary degree of initiative and self-reliance in resolving problems or requirements of the work situation, developing, recommending or executing innovative solutions to successfully accomplish tasks ahead of target; works independently to accomplish program objectives, in difficult and complex situations; is extremely adaptable in adjusting to, and resolving, any new or unusual situation or problems; or is extremely capable of preparing difficult material.

Level 4 – Exceeds Expectations. An employee who receives this rating performs all of the requirements of the position, and demonstrates a willingness to accomplish additional work outside their usual scope of responsibility. This employee anticipates problems and issues and when necessary, reacts successfully and in a timely manner to assignments made by the supervisor. He/she demonstrates a high level of skill and abilities in developing and executing sound solutions; meets all requirements of the position throughout the appraisal cycle; produces a more than satisfactory volume of work within established timeframes; works relatively independently in accomplishing program objectives (or requires minimal guidance); is capable of adjusting to, and/or resolving most new or unusual situations or problems; or is capable of preparing relatively difficult material in a well coordinated manner.

Level 3 – Meets Expectations. The employee independently performs the requirements of the position and produces a set volume of work within the required timeframes and in accordance with established policies, procedures, or supervisory instructions. The employee accomplishes the full range of job-related requirements through the appraisal cycle. Develops and implements solutions to supervisor-identified or routine and/or recurring problems with guidance from the supervisor, or independently in areas within delegated authority of job responsibility.

Level 2 – Below Expectations. The employee demonstrates limited ability in producing an acceptable volume of work within established timeframes; limited sense of personal responsibility and accountability in some work assignments, or requires frequent guidance and assistance from supervisor or others; experiences difficulty in adjusting to, coping with, or resolving, most new or unusual situations or problems under normal pressure and within their area of responsibility; or experiences difficulty in preparing material in a well-organized, logical, precise, and concise manner.

Level 1 – Fails to Meet Expectations. The employee demonstrates a lack of ability to produce an acceptable volume of work within established timeframes; a lack of personal responsibility and accountability in most work assignments, or requires constant guidance and assistance; experiences frequent difficulty in adjusting to, coping with, or resolving most new or unusual situations or problems under normal pressure; or has great difficulty in preparing material in a well-organized, logical, precise, and concise manner.

Former Loan Officer, Gale Martin's statements in response to Senator Landrieu's "Questions for the Record."

- ***Question**: In your experience, after Katrina/Rita, did SBA send out letters to applicants, with no activity on their loans within 60 days, advising them they had 14 calendar days until their loan was cancelled?*

  Answer: Within my personal experience as a loan officer, I could not answer this question. However, I have included a statement written by two Reconsideration Department loan officers, who could answer this question within their experience in looking at hundreds of files, which were being considered for reinstatement after being declined, withdrawn, or cancelled.

  ***Question**: This was done sporadically after the storms but was definitely not done under the "90 in 45" campaign; even though it would have been borrowers one last shot at avoiding a loan cancellation. Do you believe this was a mistake, especially given that only placing three calls within 24 hours still left 3,000 borrowers out of touch at the end of the campaign?*

  Answer: Minimal effort was *always* made by the Agency to contact borrowers. We were *encouraged* to withdraw or decline files after three calls in 24 hours. We were *expected* to be quietly, compliant with their unmerciful procedures. Uncooperative loan officers were immediately released.

  Every *"file"* represented *a family* living in a FEMA trailer or on temporary rental assistance. Most of these families waited for seven months to over a year, just to speak to a loan officer. They did not receive their decline letters, their withdrawal letters, or their cancellation letters. So many borrowers just gave up on the process after faxing their information in six or seven times, and after dealing with three, four, or five loan officers. - And this brings me to another bone of contention. A friend who is still loan processing, explained to me after the hearing, that when the Inspector General's audit was ordered in March a giant **"paper project"** was frantically being worked on at the Agency. Loan officers with low production were pulled off the processing floor to scan documents into DCMS. The project took over a month. There was an entire mailroom full of box, after box, of unscanned documents which the Agency did not want the I.G. to see. *Now we know what happened to the many faxes these poor disaster victims faxed in!* ***Is all of this just poor management, criminal, or just negligence on the part of SBA, and how much more will have to be said to set these poor applicants free?***

September 5, 2007

A Statement made by two Reconsideration Department loan officers: Brad Durtschi and a second loan officer wishing to remain anonymous. The statements are in response to Senator Landrieu's "Questions for the Record."

Question: *You mention that Loan Officers routinely changed computer fields, made loan decisions without notifying borrowers, and generally lied to close out loans to hit quotas. To your knowledge were any SBA employees reprimanded or fired for negligence, fraud, or performing such actions?*

- As to changing computer fields, making loan decisions without notifying borrowers, and lying to close out loans to hit quotas, all of these actions were encouraged not discouraged. No one was reprimanded or fired for doing these things. Again, the quota, the production numbers were the key to the operation.

  After Katrina, the SOP (Standard Operating Procedures) was only used as a suggestion, not as a guideline. I am sure the I.G.'s office would be interested in looking into this issue. The SOP was ignored if it got in the way of productivity. If quick, expedited approvals could be obtained, then they were. If quick cancellations, declines, or withdrawals were available, this was the route taken. The SOP took a back seat to productivity.

Question: *Furthermore, in your testimony you mention that the "bad press" and "Congressional pressure" the agency was receiving put pressure on management to consistently raise daily production quotas to reduce loan backlogs. What would be the standard response from management if a Loan Officer did not meet these quotas?*

Answered by the anonymous Loan Officer:

- If a loan officer did not meet production quotas, they were consistently threatened with termination. I saw and also experienced this firsthand many times. Early on, I was called into a manager's office and told what would happen if my numbers didn't go up. No mention was ever made verbally or in writing of quality, customer service or trying to approve as many loans as possible. The number of decisions was the important thing.

  At various times during the first 6 months, groups of 100 or 200 would be laid off and another one or two hundred hired to replace them. This was to replace workers who were not producing enough.

Question: *Do you know of any employees who lost their jobs because of not meeting these quotas? If so, how many?*

- I personally know of two employees who lost their jobs because of not meeting these production quotas.

A Statement made by two "reconsideration" loan officers: Brad Durtschi and a second loan officer wishing to remain anonymous. The statements are in response to Senator Landrieu's "Questions for the Record."

Question: *In your experience, after Katrina/Rita, did SBA send out letters to applicants, with no activity on their loans within 60 days advising them they had 14 calendar days until their loan was cancelled?*

This was done sporadically after the storms but was definitely not done under the "90 in 45" campaign, even though it would have given borrowers one last shot at avoiding a loan cancellation. Do you believe this was a mistake, especially given that only placing three calls within 24 hours still left 3,000 borrowers out of touch at the end of the campaign?

- The practice of sending out letters advising applicants that they had 14 days until their loan was cancellation was a common practice. In the Reconsideration Dept., we saw this over and over again, when applicants then tried to get their loan application reinstated. During the "90 in 45" campaign, whatever it took to reduce the backlog was done. The discontinued usage of these 14 day letters was just one example of trying to process as many loan applications as possible in this short timeframe. This was a mistake from the applicant's perspective, but was a good thing from the SBA perspective, since they didn't have to wait to decision the loan application. Productivity always ruled the day, and helping people put their lives back together was secondary. Not only was this a mistake, but immoral and wrong.

COMMENTS FOR THE RECORD

TESTIMONY FROM CAPITAL ONE

DELIVERED TO THE U.S. SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENUERSHIP

ON THE OCCASION OF ITS HEARING ENTITLED "OVERSIGHT: GULF COAST DISASTER LOANS & THE FUTURE OF THE DISASTER ASSISTANCE PROGRAM"

JULY 25, 2007

Background

The unprecedented demand for SBA Disaster Loans caused by the hurricanes of 2005, coupled with the SBA serving as the sole source for this lending product, severely strained the program as it is currently structured and resulted in a bottleneck effect that significantly delayed the application process for tens of thousands of small businesses that desperately needed assistance in the weeks and months following Hurricane Katrina and Hurricane Rita.

The SBA's Work to Address the Post-Katrina Disaster Loan Bottleneck Effect

The SBA worked to address this severe problem in several ways, two of which involved attempts to leverage private banks to improve the agency's delivery of loans to disaster affected small businesses.

First, at great expense to the American taxpayer, the SBA hired 3,200 new employees, on top of the 800 it had already, to process the surge in applications. Even with a 400% increase in personnel, the massive Disaster Loan application backlog at the SBA created costly delays that had real economic consequences for small businesses across the Gulf Coast.

Second, the SBA created the GO Loan program for private banks to offer small businesses expedited loans that carried an 85% guaranty from the SBA. Unfortunately, this program proved to be unpopular due to the $150,000 loan limit and the lack of a rate subsidy which meant that the rate was close to market. Instead of accessing this new program, many recovering small businesses turned to regular bank loans that allowed for higher loan limits offered at market rates similar to the rates available through the GO Loan program. In their August 2006 report on the SBA's response to Hurricane Katrina, the Democratic staff from the House Small Business Committee stated, " ... given the [GO Loan] program's high interest rates (up to 13.5 percent) it did not meet the needs of businesses impacted by the hurricanes. In fact, six months after the program was implemented, only 222 loans had been approved for only $19 million – a paltry amount when compared to the $10 billion in disaster loan approvals."

Third, the SBA solicited private banks on the Gulf Coast to contract to process Disaster Loan applications and be compensated through a fee paid by the agency to those banks. At a hearing on the Disaster Loan program before the House Small Business Committee on February 14, 2007, the SBA's Associate Administrator for Disaster Assistance testified that zero private banks accepted the agency's offer to outsource the Disaster Loan program's administrative functions following Hurricanes Katrina and Rita. It should be noted that this concept is the same way in which Section 208 of H.R. 1361, "The RECOVER Act" seeks to leverage private banks to improve the delivery of Disaster Loans to affected small businesses.

Private Disaster Loan Program as a Solution to the Bottleneck Effect

Since the SBA is the sole source for Disaster Loans, when events occur that quickly increase demand for this product, the agency is forced to increase its capacity to process applications and deliver loans. Alternatively, if the SBA operated a Private Disaster Loan (PDL) program in a way similar to the SBA 7(a) program, it could significantly increase its capacity to rapidly respond to surges in demand without having to multiply its workforce at great expense to the American taxpayer. Small businesses have long benefited from the 7(a) program in which private banks lend their own funds and in which the SBA guarantees up to 85% of the loan. Banks that participate in the 7(a) program expand the SBA's capacity for making small business loans, strictly adhere to the agency's underwriting guidelines, carefully make their own lending decisions, and assume 15% of the risk of each loan.

Section 202 of S. 163, "The Small Business Disaster Response and Loan Improvements Act of 2007," provides a framework for a PDL program. This section creates a PDL program that allows private banks to make Disaster Loans to affected businesses for up to $2 million. The program includes a SBA guaranty of 85% and a rate subsidy of up to 3%, which allows the private banks participating in the PDL program to offer lower rates to the small businesses borrowing funds. It is important to note that the primary differences between the GO Loan program, which proved to be unpopular, and the proposed PDL program are the loan limits and the rate subsidy. While the GO Loan program did not have a feature to lower the rate for borrowers, the PDL program does.

The PDL program would supplement, rather than eliminate, the SBA as a source for Disaster Loans.

Savings Delivered Through the Private Disaster Loan Program

The PDL program will deliver substantial savings through lower loss rates and elimination of the need for the SBA to hire supplemental employees to process Disaster Loan applications in the wake of large-scale disasters.

The historical performance of loans made directly by the SBA ("direct") versus those made by private institutions on behalf of the SBA ("indirect") suggests that the PDL program could experience loss rates as much as 50% lower than the current Disaster Loan program. The "2004 SBA Loss Report" found that SBA direct loans, which include Disaster Loans, had a loss rate of 10.25%; while SBA indirect loans, those made by private institutions on behalf of SBA (e.g., 7(a), 504(b)), had a loss rate of 5.23%. Although difficult to quantify in advance, the implication of a 50% improvement in loss rate performance over time could yield savings (in the form of cost avoidance) of more than 5% of the value of loans issued, or approximately $50 million per $1 billion in loans issued.

The PDL program will also eliminate the need for the SBA to hire large numbers of supplemental employees to process Disaster Loan applications following large-scale disasters. In the wake of the hurricanes of 2005, the SBA increased its staff from 800 to

4,000 in order to process the massive influx of Disaster Loan applications. A reasonable, if not conservative, estimate of the costs to the American taxpayer for the SBA's 400% personnel increase in the wake of Katrina are as follows:

Salaries for 3,200 employees at $50,000 per year	=	$160,000,000
Benefits for 3,200 employees at $5,000 per year	=	$16,000,000
Offices for 3,200 employees at $5,000 per year	=	$16,000,000
Computers for 3,200 employees at $500 per year	=	$1,600,000
Travel for 250 employees at $2,500 per year	=	$625,000
Total	=	$194,225,000

The Private Disaster Loan Innovative Online Application System

Section 202 of S. 163 allows for the SBA to create an online application system for the PDL program. Such a system would provide needed innovation and speed to the Disaster Loan application process, including more flexibility to help manage initial volumes, greater fraud protection available through cross-referencing technology, expedited processing, improved inter-agency coordination, expedited decisions and funding, enhanced credit expertise and local market knowledge, additional infrastructure to support peak volumes, and lower support costs.

Participation in the PDL Program is Open to All Banks

A key aspect of Section 202 of S. 163 is that participation in the PDL program would be open to all banks wishing to become qualified lenders. The American Bankers Association, which represents banks of all sizes, in a letter to Senator Olympia Snowe dated July 26, 2006, stated, "we applaud you for including language authorizing a private disaster loan program. ABA has advocated the creation of an alternative disaster loan program that would allow banks to play a more active role in assisting disaster victims. Providing an additional source of loans for disaster victims will also enhance SBA's ability to process their loans in a more expeditious manner. We commend you and your colleagues for your diligence in addressing this important issue."

A Different Approach to Leveraging Private Banks

While the sponsors of H.R. 1361, "The RECOVER Act," deserve credit for seeking to address the SBA Disaster Loan bottleneck, this proposed solution falls short of its intended purpose by not providing private banks with enough incentive to participate in this way. Section 208 of H.R. 1361 provides private banks the opportunity to process Disaster Loans for the SBA and be compensated at a rate equal to 2% of the loans they handle. To be clear, this proposal only envisions private banks providing outsourced administrative assistance to the SBA and does not allow private banks to make Disaster Loans. Unfortunately, when a private bank in a disaster affected area is fully engaged in a recovery effort, a 2% fee is not a meaningful enough incentive to divert the company's resources away from other critical activities essential to reestablishing its operations and working to get its customers back on firm financial footing. As noted above, the SBA's well intentioned effort to leverage private banks to assist in the processing of Disaster Loans in the wake of Hurricane Katrina proved to be unappealing, and consequently, zero financial institutions accepted the SBA's invitation.

Addressing Critiques of the Private Disaster Loan Program

It has been suggested that the SBA Administrator may be granted too much latitude in designating disasters in which the PDL program could be used as a source for Disaster Loans. To address that concern, the legislation could be amended to have the PDL program triggered only in response to "Incidents of National Significance" such as the hurricanes of 2005 and the terrorist attacks of September 11, 2001.

It has been suggested that the rate subsidy included in the PDL legislation is a give-away to private banks. To the contrary, the rate subsidy mostly benefits the borrower by allowing lenders to provide small businesses with a rate lower than it would be absent the subsidy. The unpopularity of the GO Loan program among borrowers demonstrates the ineffectiveness of offering a Disaster Loan through private banks without providing a rate subsidy.

It has been suggested that the PDL program's 85% guaranty would provide an incentive for private banks to make risky loans. To the contrary, banks would have significant "skin in the game" by having to absorb 15% of the cost of any PDL loans they make that go into default. Additionally, as noted above, the SBA loans made indirectly to borrowers through banks, such as through the 7(a) program, have a loss rate that is 50% lower than SBA loans made directly to borrowers.

It has been suggested that the PDL program would cause private banks to "cherry pick" Disaster Loan applications and leave the SBA with the most undesirable loan requests. Since private banks would have a duty to only make loans in which they have a reasonable expectation to be repaid, and especially since the banks will have 15% of every loan at stake, private banks will not accept every Disaster Loan application. For this reason, it would be important to preserve the SBA as a secondary source for Disaster Loans. While the SBA would have a pool of more unfavorable applications, that pool will be far smaller than if the agency had to process every Disaster Loan application, and the historically lower loss rates generated by the SBA's indirect lending programs would likely provide an overall reduction in loss rates for all Disaster Loans.

Finally, while the legislation to create the PDL program carries a budget score of $160 million, that cost would be more than offset from the savings that American taxpayers would realize through avoiding the SBA's need to significantly multiply its internal personnel to respond to a surge in Disaster Loan applications similar to what occurred following Hurricane Katrina.

Conclusion

The federal government's February 2006 report titled, "*The Federal Response to Hurricane Katrina, Lessons Learned*," made a strong case for the principle behind the PDL program. It said, "The Federal government must develop the capacity to conduct large-scale logistical operations...by leveraging resources within both the public sector and the private sector."

Our nation's small businesses would be best served by a Disaster Loan program that is able to quickly inform loan applicants of their status and reliably distribute needed funds in a short timeframe, especially when the most severe disasters strike.

The PDL program will enhance the SBA's capacity to make Disaster Loans, increase the speed with which borrowers receive their application determination and funds, allow banks that know their customers best to make more informed lending decisions, reduce the federal government's risk on each loan, and allow the private sector to play a more significant role in recovery from the most significant disasters.

Finally, the PDL program will mean real savings for the American taxpayer because indirect SBA lending programs, such as 7(a), have historically outperformed SBA direct lending, such as Disaster Loans, and because the program will eliminate the need for the SBA to multiply its workforce.

8-14-2007

My name is Glenn Trainor and I resided at 316 38th St. N.O.La.70124 until Hurricane Katrina struck on August 29,2005. My father contacted the insurance company and others along with FEMA on September 8,2005 because I was still on duty for the New Orleans Fire Department. There were many problems with FEMA and especially my former insurance company (which should be investigated for dishonest practices) but the following is how the SBA handled my request for assistance.

I received the SBA application packet in the mail on 9/27/2005 and returned it in October 2005. On 12/1/2005, I received a call from an SBA adjuster who had inspected my house and stated that it was a total loss. He issued me an application number and stated that he would call back in about 10days to give more information about the claim. I then called the SBA on 12/27/2005 since I had not received any more information and was told that they would call when the application was reviewed.

On 1/5/2006, I received a call from the SBA stating that my loan was approved and was given the relevant information. It was originally approved for $93,000, including contents. I asked the representative if there was any way to appeal the amount and explained to her that I only received $90,000 from my Flood policy and the mortgage was $82,000 leaving me $8000 after the payout of the mortgage, which is not enough to buy or rebuild. I explained that this amount would force me to acquire two mortgages to buy another home and the lady stated that there was no appeal process and either take this amount or go to a bank. When I told a coworker who was going through the same situation, he told me that I could appeal the loan amount if I could get a letter from my mortgage company showing it was a mandatory payout. I received this letter from 5th District Savings Bank on 1/17/2006 and the SBA received a copy on 1/20/2006.

I was scheduled for the loan closing at the John Slidell Park DRC on 1/24/2006. Here I explained that I was not going to rebuild but relocate. Then I was asked if I had put this in writing. I explained that I had told the people with whom I had phone conversations and had not been told of this requirement. I was given a sample letter of the request to relocate and told to write one with my information.

I called SBA on 2/6/2006 and was told that they received my letter to relocate and appeal but they would have to start over and could not give a time frame. I called the SBA on 2/27/2006 and was told that all documents have been received and it would be under review.

I was told to continue to call every few days to check the progress and continued during March, April and into May only to receive no information. On 5/2/2006, I was told that there was a backlog of more than 30,000 loan modifications and did not know where my application was located. All of this time had passed and still no one could be of any assistance.

On May 2, 2006, I had no choice but to call my Congressman Bobby Jindal and explain the situation and ask for whatever assistance they could provide to get the SBA moving on my loan because I could not search for a house until I knew how much the loan would be and how much I could afford to pay.

Wednesday 5/3/2006, I was contacted by the SBA who was now ready to get my application processed. The new loan officer gave a list of documents that they wanted and I faxed it to him from the local Kinkos. On 5/5/2006, I faxed my contents list to the SBA as now required. On 5/12/2006, I faxed an estimate to replace the house from a local contractor. This took several attempts and a couple of different fax numbers due to problems or complicated procedures at the SBA. On 5/15/2006, I received a call from my loan officer who stated that I would be able to get the maximum loan to relocate. On 5/16/2006, I contacted the Loss Verification officer and was told that I was approved for the contents portion of my loss. On 5/18/2006, I received the call I had hoped for all of this time, I was approved for my loan and would be able to begin the search for a new home. The two SBA representatives, Jim Sarra and Barry Hubbard, in this process were professional, courteous and extremely helpful and made these trying times a little more bearable.

On 6/3/2006, I requested a preapproval letter from the SBA upon advice from my realtor because his would help speed up the purchase of a new home. This letter was received on 6/11/2006 and on 6/14/2006, I received SBA paperwork for the loan closing.

I came to terms on the purchase of a home on 6/17/2006 in Madisonville,La. I called the SBA that day and was told that Mr.Sarra was no longer my loan officer and was referred to three different people who now may have my loan. On 6/19/2006, I faxed the purchase agreement and the legal description of the home which I placed a $2500 deposit to the number that I was directed. On 6/19/2006, I visited the local SBA office at 365 Canal St. N.O.La to speak with someone in person since I could not get anyone to answer my calls. I was then forced to call Congressman Jindal's office again since I had placed a $2500 deposit to purchase another home and could not get anyone from the SBA to acknowledge or assist me. On 6/28/2006, I visited the Congressman's local office in person to explain my ordeal with the SBA so that they had the correct information. I explained that the loan was approved and I had a deposit that I might lose if the SBA would not complete the loan.

On 7/3/2006, I called the SBA again and spoke with Legal and was told that they had assigned a new loan officer to my application. Later that morning, I received a call from the SBA who stated that she would have my paperwork assigned to another loan officer. Congressman Jindals office called and stated that the SBA gave me the information that was required but I explained that was incorrect and they would call the SBA again.

On 7/7/2006, I again visited the local SBA office and was told that now I needed the legal description of the damaged property and who was the newly assigned loan officer. On 7/8/2006, I faxed to the SBA my cancelled mortgage, mandatory mortgage payout letter, cash sale for the damaged property (when I purchased it in 1995) and SBA paperwork stating that they already held a lien on my damaged property. At this point, I still have not received my loan from the SBA but they placed a lien on my property. I visited Congressman Jindal's office when they again tried to contact the SBA.

On 7/17/2006, I was contacted by the SBA (Gale Martin) and was told to fax more paperwork, most of which the SBA already had received but apparently did not forward to the new loan officer. On 7/18/2006, I had to refax the paperwork because it was lost or discarded at the SBA office communal fax machine area. Later that day, I received a call from my former loan officer stating that he would again handle my loan. I then received a call from my current loan officer an was told to not send any paperwork to the former loan officer and that she would be my loan officer to the closing. I was also told that the loan would not be completed before the purchase agreement expired and lost the $2500 deposit I placed on 6/17/2006. I was also told that I should seek a loan with the bank because we did not know when the SBA loan would go to closing. Or if! Later that day I received a call from the SBA Verification Department stating they would try to rush the paperwork to the Legal Department and back to my loan officer. My loan officer later called to state that she was awaiting approval from a reviewer so that it could be returned back to legal and she keep me updated. The next morning, 7/19/2006, I received a call and was told that my loan officer's supervisor did not sign off on the application as of this call.

On 7/20/2006, I was notified that my loan request with 5th Dist Savings Bank was approved would schedule the closing when possible. 10 months after I applied with the SBA for a home loan, I was still waiting for the loan process to be completed, but my bank was able to get this entire process completed in about 1 week. There are lessons to be learned here!

Saturday 7/22/2006, I was notified by my loan officer, Gale Martin, that there is a problem with the SBA computer system and that is holding up the loan approval. She apologized and explained that there were thousands of applications being held up due to this problem and she would inform me as soon as the problem was resolved. In the meantime, I had to proceed with the loan from my bank so that did not lose my deposit and the house.

On 7/31/2006, I received a call from the SBA requesting the name of the Title Company that I would like to use for the SBA closing. Also on 7/31/2006, I went to the private bank closing which cost me $16,755.32. This is more money which I lost due to the arduous task of negotiating through the SBA Bureaucracy.

On 8/1/2006, I finally received a call from another person with the SBA in regards to setting up the closing of the SBA loan. I called the SBA on 8/10/2006 since I had not received any more information and received a call on 8/11/2006 requesting additional copies of paperwork that I previously faxed to the SBA. As this process was still not completed, I reached an agreement to sell my damaged property and this process was completed in less than a month and before the SBA loan was completed.

On 9/1/2006, I received a call from the SBA stating that they were waiting for the Title Commitment and the check would be ordered. On 9/5/2006, I received a call from the SBA stating that they received the Title Commitment but it contained the wrong mortgage holder. This was corrected later the same day and I was told the check would finally be released and should be here within 4 business days. I received a call on 9/11/2006 confirming that the check had been sent by FedEx to the closing attorney. I was finally scheduled by the attorney's office to close the loan on 9/21/2006.

At the closing on 9/21/2006, there were three checks, one for the contents, one for $82,000 and the other for 118,000. I asked why they had divided the property into two checks and the only thing we could figure was that the SBA thought I still owed on the mortgage of the damaged property which was $82000. I had explained throughout this year long ordeal that the mortgage was paid out when I received my flood insurance settlement in November 2005.

Also at the closing I returned to the SBA the $121,399.90 from the closing sale of the damaged property on 9/12/2006. On 9/22/2006, I received a call from 5th District Savings Bank stating that they received the mortgage payout from the SBA and would forward the paperwork to me.

I left a message with Kyla Duncan on 10/12/2006 trying to verify that the SBA received the check for $121,399.90 from the closing attorney for the sale of my damaged property. I called back on 11/9/2006 and was told that they had not yet received the check but she would review the file. I called several more times and on 12/13/2006 I was asked to send a copy of the missing check and the settlement statement from the sale of the damaged property. On 12/17/2006, Mrs Duncan called to inform me that the check was still at the attorney's office in Belle Chasse La. and gave me the tracking number for the shipment of the check to the SBA. On 1/5/2007, I received a call from the SBA with the new terms of the loan since they had finally received the $121,399.90 I returned through the closing lawyer's office.

The entire process of applying to the SBA to the closing took over a whole year with numerous phone calls, a few visits to a local SBA Office, countless and redundant paperwork faxed, securing a bridge loan through a private bank in about 10 days and cost me an additional $16,755 that I would have been able to use to replace clothes, furniture and other personal items lost in Katrina, additional stress and aggravation and then having to turn to a Congressman for help in getting the process completed.

I would like to thank the four SBA employees who were of great assistance during this ordeal as follows: Jim Sarra, Barry Hubbard, Gale Martin and Kyla Duncan who located the check for $121,399.90 which I returned to the SBA from the sale of my damaged property. This was an error on the attorney's side but Mrs.Duncan resolved this problem.

This is just my story about the ordeal of trying to get help from the Government after the Katrina disaster. I am sure there are thousands of other people who had more problems trying to attain a loan and or were denied. The SBA process needs to be streamlined so that these problems do not occur after the next disaster.

A Statement by Gale Martin
A Former Loan Officer of the U.S. Small Business Administration, Office of Disaster Assistance
Dated: July 21, 2007

As my original letter of testimony stated, I was a loan officer for the Small Business Administration, Office of Disaster Assistance in Fort Worth, Texas for one year, beginning in early December 2005 and ending in late November 2006. During my tenure with the SBA, I worked for four months as a business and home-companion loan processor, two months as a home loan processor, three months as a relocation home loan processor, and three months as a "triage" loan processor in the legal and escrow department, cleaning up problems on loans which were about to be disbursed. This gives me experience in almost every part of the loan processing procedures of SBA.

After leaving the SBA, I was fortunate to be hired into the Communications Department of the Federal Emergency Management Agency (FEMA) in Denton, Texas. I feel privileged to now have experience with both federal agencies in charge of disaster assistance for our country. This also allows me to compare the management, administration, operations and relative customer service between the two organizations. The unfortunate truth is that the difference between the two is as night is to day. I find it difficult to believe that the two federal agencies married in the mission of disaster assistance can be so diverse in "***attitude.***" This leads us to a discussion of the social culture within the workforce of each organization.

Most loan officers at SBA considered the organization an extremely hostile environment. Department heads and Senior Loan Officers had adopted a military style of running the organization. Senior staff barked orders off to loan officers in an abruptness that would put a marine core drill sergeant to shame. All of us hesitated to take our questions to "SLOs" for fear of being rudely, and loudly embarrassed in front of the rest of our teammates. Management used a high level of "***fear and intimidation***" to control the actions of their staff. It was rare to find an SLO who hadn't adopted this management technique.

FEMA, on the other hand, uses a reversed technique of managing their departments. Supervisors use a kind and gentle hand to motivate their staff. A "mentoring" system is used by management to train new employees. This gives the newcomer the benefit of one-on-one training by a skilled, long-standing employee. I have personally found my mentors to be excellent teachers, who are sharing their wealth of information with me, kindly and comfortably, in an effort to groom me into the type of FEMA employee that will succeed and be of the greatest value to the entire Agency. I have yet to meet a staff

Statement by Gale Martin
July 22, 2007

member at FEMA that felt the need to communicate to me in a way that would be uninviting or offensive. Any correction needed it is done privately, with constructive criticism, and careful concern to find out why the employee's performance might have diminished.

It can be done well. I think FEMA demonstrates this. There is a fundamental "*attitude adjustment*" that needs to take place within the U.S. Small Business Administration. Their focus needs to move back toward "***customer service***" and away from "***production and performance standards***." As we saw in the catastrophic event of Katrina the public's needs were barely served at all. However, to outsource the government's responsibility of administering loans to "for profit" organizations might be overlooking the obvious resolution of correcting, regrouping, and reorganizing the existing staff within the SBA. There are a lot of good people at SBA. ***Their hands are tied to a numbers game***. If they are allowed to put their eyes back on the mission of assisting the American public in their recovery efforts, they can succeed!

Why am I taking the time to say all of this? - Because the ***attitudes*** of the management staff of the Small Business Administration during the Katrina/Rita/Wilma crisis were so detrimental to the mission of assisting disaster victims to recovery that the entire process **failed. No one is satisfied with what took place.** That is why these investigations have been called. I am a witness to what did take place. ***I was there***. I am trying to inform *you* of what took place on the loan processing floor of the SBA during these disasters. I have also brought with me the testimonies of eight other loan officers. They share my opinion on what failed the entire process. It wasn't training issues, or software issues, or even the multitude of new staff. **It was the decision of the Agency to force files through the system at a rate that did not allow for proper processing. Their concentration was on making the numbers look good to the public and Congress at the expense of possibly over a hundred thousand applicants.**

We could not process each file to a <u>correct</u> "decision" in the amount of time we were given. We were forced to rush files through at a ridiculously, unreasonable rate or be faced with losing our jobs immediately. The bar of daily production quotas was raised often and directly correlated with the amount of "bad press" the Agency was receiving.

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March 8, 2007

Dear Senator Kerry:

This is a copy of a statement forwarded to the Small Business Committee on February 20, 2007 by Gale Martin, a Former Loan Officer for the SBA - Office of Disaster Assistance in Ft. Worth, Texas.

I have a problem I would like to discuss with you concerning the Federal Government's method of handling many thousands of applications which were submitted to the Small Business Administration – Office of Disaster Assistance in Fort Worth, Texas last year. It has taken me quite awhile to step out in faith and make a statement concerning what I had witnessed while working for the SBA. I am a member of the Republican party, and I do not wish to see our lovely, Christian President hurt by the unfortunate irresponsibility and apparent lack of good judgment of a fairly, large group of government employees. However, eighteen months after the disaster the gulf coast remains in ruins, and many of the families who were turned away are now indefinitely dependent on the government for some other form of federal aid.

By December 2006, all original loan applications, and most relocation applications had already been processed. In addition, most "declined" and "withdrawn" files were already beyond their six-month reconsideration processing deadline. At this point, the Agency's published statistics still showed 64% of the applications to have been "declined" or "withdrawn." It is my point of contention that many of these families qualified for loans, but were turned down, unjustifiably, by inexperienced and "production-motivated" loan officers trying to keep their statistics up in order to preserve their jobs.

From December 5, 2005 to November 25, 2006 I worked as a loan officer for the Small Business Administration – Office of Disaster Assistance. I was *so* happy to be part of the Federal team and *so* hopeful, as a Christian, to be invited to participate in the clean-up of the Katrina/Rita/Wilma tragedy. However, all my naive hopes of sufficiently helping disaster victims were completely destroyed, within the first 45 days of my loan processing career with SBA.

The Agency is run with a strong <u>military</u> attitude. Senior Loan Officers and most department heads are very tyrannical in attitude and control the loan officers in their charge by rudeness and intimidation. Loan Officers are embarrassed into submission to their superiors and forced to make decisions on files that *<u>are not</u>* in the favor of applicants in order to protect their jobs.

However, the Agency *did* pick their Loan Officers wisely. Most loan officers who were hired had a mortgage, credit, real estate, or accounting background which made their lending decisions very sound. We were given just five days training on government lending polices and one days training on their (then new) DCMS software before being moved onto the loan processing floor. Most of us were able to get our feet on the ground fairly quickly, using our many years of related experience in private industry as our main tool. However, despite our credibility in private industry, we were treated like illiterate fools by Seniors Loan Officers who seemed to have an *opposing* goal to ours of helping applicants. *We* were trying to process and approve secure and reasonable loans for the government, while our Senior Loan Officers seemed to be looking for any excuse to reverse our decisions and make the process impossible. Orders were barked in our faces without *any* regard to normal social behavior and acceptable management techniques. The heartless truth is that this same behavior was also being demonstrated by Senior Loan Officers and department heads to applicants. I can remember countless conversations with crying applicants who simply sobbed on the other end of the phone saying, "You people have no heart! You don't know how to speak to people who have lost *absolutely everything!* I don't mean you, Gale, but every person I have spoken to in your office up to now, has treated me indifferently and cruelly."

Daily production quotas were unreasonable and destroyed the morale of overworked loan officers. There was no way to work through the loan files as quickly as the administration was demanding. We were patted on the back for *numbers processed* only. People were boasting of moving 26 files through their queue within a week, however, only three to five files were actually approvals. Senior Loan Officers did not care. They openly validated this type of statistic and insulted any loan officers who would not cooperate in the same way. I was told by my Senior Loan Officer that quality of the file was not a priority, only the quantity of files processed.

To keep from losing their jobs, Loan Officers would pick-off the weak applicants in their queue. This was an applicant with credit issues, missing transcripts and other documents, or someone who was difficult to get in contact with. These files were declined and withdrawn immediately in order to meet the unreasonable daily production standards which we were all forced to adhere to. Since intimidation and anger were the main tools used to force loan officers into complying, the administration could not be found at fault for the unreasonable decisions stressed-out loan officers were making. After all, they were just *agreeing* with the decisions *already* made on a file at the senior approval level. Rarely were declined or withdrawn files reversed by Senior Reviewers.

There were four main processing campaigns we suffered through. The first was to process all business files by the end of March 2006. The second campaign was to process all home files by the end of May 2006. The third was to process all relocation files by the end of August 2006, and the fourth was to disburse ninety-thousand loans within the forty-five days *before the election.* During these campaigns loan officers worked 8 to 10 hours per day, for six to seven days per week trying to complete these impossible goals. Even though we worked these extended hours there was no way to give the individual applicants and borrowers the necessary attention to complete their files properly. They were simply pushed aside in order to make the numbers look good to the public. For example, during the relocation campaign, loan officers were told they needed to process between three and four relocation loans per day. Under normal procedures, one-to-two relocation loans would be expected from each loan officer per day. Again, it was irrelevant as to whether the file was processed to an approval, a decline, or a withdrawal. We were simply told to "make a decision on the file," and to do so within a week.

We were also simply <u>ordered</u> to withdraw files. During the main thrust of each of the four production campaigns, we were not allowed to hold files beyond a week's time. Please bear in mind that our applicant's had lost *absolutely* everything in the world. They could not give us the documentation necessary to process their files within that time period. An example was during the business loan processing campaign which ended in March, we were very behind in securing the tax transcripts for applicant's from the IRS. Up to this period, the applicant was not considered responsible for securing their own tax transcripts. We suddenly were ordered to inform our applicants that they would have to secure their own tax transcripts within five days, or their files would be withdrawn. Applicants were frantically calling in, crying and begging for their files not to be withdrawn. We simply gave them a direct-line number to the IRS and suggested that they call and recall the IRS until they found a sympathetic ear who was willing to process their request before the deadline. For the most part, the applicants were told by the IRS that it would take up to six weeks to process their transcript requests. As a result, these files were unreasonably withdrawn.

If we could not contact an applicant within three phone calls made in two consecutive days, we were told we could withdraw the file. Many "production-motivated" loan officers took advantage of this opportunity to gain their production points for the day. Our applicants were moving around from hotel to hotel, and friend to friend, it often took a little detective work to find their current telephone numbers. After the first six months many applicants had lost all hope of hearing back from us and simply stopped updating their file information altogether. These unfortunate applicants were unreasonably withdrawn as well.

Another problem for our applicants was timing. When a file was withdrawn or declined, the applicant had six months from the date of their letter informing them of this decision to remedy the concerns on the file, and *then* apply for "reconsideration." They were also told to wait for a copy of their letter before reapplying. During the height of the processing backlog, the letters were not being released to the applicants for as many as three months after the decisions were made. This gave them too short a time period to correct credit issues, secure documents that were washed away, and to generally prove their case to the Agency. The reconsideration process was also very backlogged, and as one Senior Loan Officer explained to me, the criteria used for approval in the reconsideration process was even more stringent than the rules used in original loan processing. This meant that the majority of booted-out applicants were without a loan.

The end result was that many, many families were shocked that their applications were turned down. Many of these families are still living in FEMA trailers and hotel rooms with nowhere to go. Only the 35% who were financially solvent and could sustain themselves for a year until we managed to process their application and disburse any money at all, survived the process. The crème of the crop made it through. Out of 422,000 applications only 166,000 were approved with a possible 22,000 still pending. What these statistics do not also consider is the adequacy of the loan. A $10,000.00 loan would still be listed as an approved loan; however $200,000.00 may have been necessary to restore the borrower's home to its pre-disaster condition. Most people are also assuming that a majority of the 256,000.00 applicants turned away had credit or income problems that blocked their chance for a loan, when truthfully they just may not have been at home for two days to receive our phone calls.

I spent my last three months with SBA in their legal escrow department as a loan officer with their "triage unit." We were there to clean up approved loans before disbursement. The condition of the loans were terrible! All the short-cuts loan officers were taking to finish files quickly were now being looked at and needed to be fixed! We were told to fix a simple legal stipulation on the file, when truthfully, the entire file needed to be re-written. For example, real estate and personal property damage verifications were often totally inadequate. This was proven by the borrower's insurance company's verification which was much higher. This meant the applicant was given a smaller loan than they were actually entitled to. We didn't take the time to fix all these errors, since the focus was on pushing money out into the field to appease irate borrowers who had been waiting for over a year for any disbursement above $10,000.00. In theory, they could came back in and request more funds if needed, however, most applicants were so disillusioned and depressed after their initial experience with the process that they would not put themselves through trying again.

Another issue which is worth mentioning as a problem is the way federally-sponsored grants are being applied against borrower's loans and "eligibility." Currently borrowers receiving grant funds from such programs as the "Road to Recovery" or the "Road Home" grant could even find themselves in a worse position than if they had not received the grant at all. I had a case that exposed this problem. The borrower was a single parent on a limited income, who was told that she would be receiving a state grant check in the amount of $98,000.00. She still had a first and second mortgage on her damaged property which totaled $93,000.00. She was told that her grant check would be addressed to both mortgage companies and herself. Both mortgage companies intended on paying off their loan, since the property had been totally destroyed, and then remitting the difference of $5,000.00 over to the borrower. If this had been an insurance recovery the amount used to pay off both mortgages would be considered a "mandatory payoff" and this amount would not have been taken away from the borrower's loan eligibility. SBA's grant team in this case subtracted the entire $98,000.00 from the borrower's approved loan of $138,000.00. The residual loan was revised to be a $40,000.00 loan for personal property only. All hopes of the borrower being able to refinance both mortgages with SBA were also removed. Under this scenario the borrower would be left with no means to purchase their new home, but their debt would have been cleared. However, this story did have a happy ending, and I express this in the words of the borrower: "By the good graces of God, the check came in my name only, which is the *only* way that I would be purchasing a home at all." The downside of this case was that instead of the borrower having a 2.687% mortgage with SBA to help her get back on her feet, she will be suffering through keeping both her former mortgages which had an interest rate of between 8.5 and 9.9%. She was already stepping down into a manufactured home, since she could not afford to rebuild her stick and frame home, and her remaining loan with the SBA for personal property would now have to be used to help purchase the new house.

A better way to do this and a more consistent way to help borrowers rebuild their life in the gulf coast is to follow the same principles that are followed with insurance recoveries. The applicant would be allowed to refinance their former mortgages up to their loan eligibility. Any enforced mortgage pay down with grant proceeds would be considered a "mandatory payoff" and would not reduce the amount of the borrower's loan. This would provide the greatest benefit to the borrower and would be entirely consistent with the procedures used with insurance recoveries.

There are many individual incidents I could site: One would be Stacy Hodges. Her family was living in a storage trailer which her husband had built-out after Katrina with temporary plumbing and electrical wiring. She had a newborn baby and a toddler. The 2006 winter was approaching and they had no heat in the trailer. The temporary electrical wiring would not even support a space heater. She was very concerned with the health of her children and called in daily looking for help. I couldn't get anyone to help her and my superiors were very hostile with me for even trying. Every time I turned around they dropped the ball on this file and its progress was stopped. Stacy's mobile home dealer was also threatening to give the new trailer she was trying to purchase away to another buyer, since no deposit had been placed on the unit. SBA had neglected to offer this family an initial disbursement of $10,000.00, which is a standard procedure on most approved files. This would have given the family the money to put down on their new trailer which had taken months to secure. After a month of going back and forth on this file, a long-term employee in the disbursements department picked up the baton and managed to get a deposit on Stacy's trailer before it was lost. Why was helping this poor family so difficult?

My concerns for the government's methods of processing were so strong that on October 25, 2006 I called an FBI agent in Louisiana and asked to make a formal statement of complaint. The agent I spoke to was one of my borrowers. I had fought very hard to secure a relocation loan for this woman in the month of September. Even though she had been an agent with the FBI for over 26 years, she seemed very nervous and concerned with the information I was giving her. We spoke for over an hour, going over specific cases that I was concerned about, as well as, my general concerns with the whole loan process. She said she would "check around her office" and get back to me with their suggestions as to what to do next. I decided to leave the matter at rest until after the election, since we were on our fourth production focus to disburse to borrowers their funds and were working ten-hour-days, seven days per week. When I called Mrs. Williams back in the beginning of November, she said she was unwilling to run the information through her office, but instead would take complaints from borrowers, who had been turned down, collecting this information *outside* of her office. I felt that this was a "cover-up" effort on the part of the FBI and did not press the issue further with her, for fear of the possible ramifications that might occur in a courtroom or within my future career with the government.

It is my deepest hope and my purpose for disclosing this information to see all the "declined" and "withdrawn" applicants invited back in to be reconsidered for a loan. I considered that it was a *privilege* to serve the public in my duties with SBA, but I would be neglectful in my social responsibilities by not trying to correct these issues. I couldn't imagine what it would be like to have my home under 14 feet of water for six weeks or to live in a FEMA trailer with my children for over a year. However, the courageous attitudes of many of my applicants were often an inspiration to me.

Up to Katrina, the Northridge, California quake, in 1994, was the country's worst natural disaster. I happened to have lived and worked in Northridge just prior to that quake. In my return to the city just two years later, there was absolutely no visible evidence of there ever having been a problem. The entire rebuilding process was complete. We can limp along in *the gulf coast* rebuilding process for another six to seven years, or just bite the bullet, loan the funds, and get the job done.

CC: Chairperson Nydia M. Velasquez
House Small Business Committee Office
Senator Daniel Inouye
Senator Hillary Clinton
Governor Babineaux Blanco
Governor Haley Barbour
Senator David Vitter
Congressman Rodney Alexander
Congressman Bobby Jindal
Congressman Chip Pickering
Congressman Charlie Melancon
Congressman Jim McCrery
President George W. Bush
Senator John Kerry
Senate Small Business Committee Ofc.
Mayor Ray Nagin, New Orleans
Representative Charles Gonzalez
Senator Thad Cochran
Senator Trent Lott
Congressman Richard Baker
Congressman Charles Boustany
Congressman William Jefferson
Congressman Roger Wicker
Congressman Bennie Thompson
Congressman Gene Taylor
Vice President Richard Cheney

Written Statement for the U.S. Senate Committee on Small Business, Prepared By Brad Durtschi, Former SBA Loan Officer – 7/22/07

I wish to thank John Kerry and his committee members for allowing me this opportunity to participate in the hearing being held on Wednesday, July 25. I also want to thank you for your work on Senate Bill 163. Between this bill and House Bill 1361, it appears good progress is being made toward resolving the large issues that the SBA is facing.

I am currently employed by the Federal Emergency Management Agency, and in my current position I am able to help disaster victims, some of which are likely victims of the SBA also. My goal from the beginning has been to help disaster victims who were declined, withdrawn or cancelled by the SBA to receive a **"second look"**, because they are still unable to put their businesses, their homes and their lives back together.

The SBA Office of Disaster Assistance suffers from long-standing systemic issues having to do with their culture, their work environment and the focus of the Agency. These systemic issues were identified and corroborated by **eight** other former loan officers, who have submitted written statements to the Inspector General's Office, the House Committee on Small Business and the Senate Committee on Small Business.

The common threads stated in various ways are as follows:

a) A work environment where productivity reigns as king.
b) Management decisions are based on the need to process as many loans as possible **"to a decision."**

The key management tactic used to accomplish this is fear and intimidation.

When I was first hired by the SBA after the four Florida hurricanes in 2004, I spent six months in the field taking loan applications from individuals and business owners. It was a joy to know that what I was doing was making a small but important contribution toward putting homes and businesses back together. After being called back by the SBA in 2005 to help the victims of the three Gulf Coast hurricanes, I was sent to Fort Worth, TX, for what I thought was training and I would then be sent out into the field like the previous year. I was very excited to return to "disaster assisting" and my expectations were similar to 2004. Then I found out I would be staying in Fort Worth to process and recommend decisions on loan applications. Virtually everyone was excited to be back or maybe to be there for the first time, but in either case, to help disaster victims, to make a difference. I stayed for nine months before being laid off, as most all of us were.

For hundreds of others, as well as myself, these expectations were to be dashed very soon. The ill-timed re-organization of the Agency, the new and unwieldy computer processing system and the woeful lack of training have all been discussed in previous hearings and beaten to death by the media. This is not what needs to be focused on. What is important now is the culture of the SBA, where the disconnect begins between the new employee's expectations and the reality of the workplace. How it can be fixed is the key.

The eight loan officers referred to previously and myself were shocked to find out that the Office of Disaster Assistance seemed not to be the least bit interested in helping disaster victims. Most of the managers were mean-spirited, intimidating and uncaring. I expected an atmosphere of caring and compassion and instead found one of fear of losing one's job if I didn't produce high numbers or if I asked for a day off, and being forced to do tasks that hurt applicants, not helped them. I was continually amazed by this, and when the news was released that the SBA was next to last in morale among 31 federal agencies, I began to see why. (For three years running they have ranked last or next to last) There is a total disconnect between employee assumptions when they walk in the door and what they actually go through once there. The biggest assumption of all is that the needs of the disaster victim come first and that the Agency is there to meet those needs. This seems so obvious that it appears unworthy of any discussion. However, the opposite soon became apparent. What was most important was not "disaster-assisting," approving applicants and helping them to rebuild their lives, but processing applications to a decision. The quickest way to do this was by declining, withdrawing or cancelling their loan application. It was so much easier than taking the time to go through all the steps to approve someone. This is why 66% (**two-thirds**) of all 421,000 applications were originally declined, withdrawn or cancelled. In other words, two out of every three disaster victims were **not approved**. (This percentage has since dropped to 62%).

There were numerous projects undertaken after the new Agency Director took over in July, 2006 to process loans to a decision. Groups were put together in Fort Worth and Buffalo, NY with the expressed purpose of cancelling as many loan applications as possible. Elsie Collins, one of top management in Fort Worth, in an email dated July 6 told employees to "get loan decisions to the borrower as soon as possible. How many loans have you done? Move the files." Does this sound like the person that you would want handling your application if you were living in a FEMA trailer with 2 small children and a cat, and your home and all your possessions were destroyed?

Tens of thousands of loan applications were cancelled, 13,000 in one month alone in Buffalo. It was simple and easy, but wrong. It makes me upset to see people treated the opposite of the way I would want to be treated. The loan officer called the applicant and if he or she did not respond within 24 hours their application was cancelled. If they did answer they were asked to send in certain documents. They were told if they couldn't get them in within 24 hours their application would be cancelled, and later they could go to the front of the line. This entire statement was absolutely untrue and against agency policy. The truth is that a majority of the 13,000 families, with their lives already on hold, would not make it back in at all. Eventually many who heard news like this just gave up and did not reapply.

Nowhere in any emails that I ever saw or any conversations that I had heard, was there ever any incentive to approve any loans. The Supervisory Loan Officers (SLO's) had every motivation and incentive to "process loans to a decision." This had to have come from somewhere else besides Fort Worth.

The other phrase that never appeared in any emails was **"customer service."** If the goal is to serve the customer (loan applicant, disaster victim, etc.) again, there is a total disconnect between this and reality. Only three small lines are devoted to this topic on the ODA website. I not once ever heard it used in nine months. The reality is that fear and intimidation are used on applicants the same as they are on employees. Employee relations and customer relations are both simply human relations. This includes: caring, compassion, and treating others the way you want to be treated. The SBA culture has it backwards. They are not outwardly-focused on the customer but inwardly-focused on the priority of numbers and "productivity." This is the real reason for the failure to serve the disaster victims in the Gulf Coast. The situation that we find ourselves in two years after the hurricanes is not due to inefficiency or incompetence. It is not solely a bureaucratic fiasco. It is not a training issue, not a computer system issue, not a re-organization issue. It is not even a political issue. It is plain and simple a historical and ingrained culture that is incapable of doing the right thing. It is a moral issue. The philosophy of productivity at all costs is the reason why 119,000 FEMA trailers are still occupied.

When I was told to change the dates on the DCMS system to reduce the aging time of the file, does that sound like inefficiency? When the Reconsideration Department withheld hundreds of files *for two weeks* that had been recommended for approval to make the total number of files not processed a smaller number, (thereby making the numbers processed look better), does that sound like incompetence? Is it only a bureaucratic issue, when the head of the department asks a new employee, "Why do you care?" when a loan officers shows concern for his applicants. When a 15 year SBA veteran SLO talks to his group of employees and the topic is "How to get rid of a file," is this just a lack of communication? When another supervisor says he uses a three-minute egg timer and when it goes off, that is the maximum time that he and his group of employees are allowed to be on the telephone with an applicant, does that sound like excellent customer service? I submit to you that something is badly broken, and it is much worse than anything that increased training, or a better computer system is going to fix.

Over 12 current loan officers or supervisors (SLO's) were contacted to try and elicit their testimony, but they were afraid of losing their jobs. One had been with the SBA in the field for ten years and was literally put in the hospital by her bosses after being told to do things that she just couldn't stomach during six months in Ft. Worth.

There was a survey done by Andrew Clark around September of 2006 that employees participated in. I urge you to get a copy of the results of this survey if you think the nine written statements that have been submitted today are an aberration. The SBA needs fundamental changes. Even a second look if granted to the 250,000 applicants that did not get approved, will be time wasted if the same work environment is still in place. The same people with the same motivations are going to do the same thing, which is to withdraw, decline, or cancel the files again. If the culture is still inwardly-focused, the results will remain the same.

Possibly, employees should go to a disaster area when FEMA does and talk to disaster victims who have just lost everything. They need to see the damage firsthand in order to comprehend what people on the other end of the phone are going through. This would encourage them to become more outwardly-focused, more caring, and more compassionate. Hopefully, with that new viewpoint they will look for ways to approve loans and not decline them. This is an example of the fundamental changes that I am talking about.

I have been to New Orleans, as well as other parts of Louisiana, Mississippi, and Alabama numerous times and have talked to the disaster victims. I have seen thousands of families still living in travel trailers that measure no more than 400 square feet. I have seen the lack of rebuilding of homes and businesses in the gulf coast. All of this has only convinced me to continue my efforts to seek help for the many disaster victims who were unjustly sent away without any help.

Thank you for your willingness to keep this issue alive, for your consideration, and again, for the opportunity to be heard on behalf of those in the Gulf Coast.

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February 16, 2007

Dear Senator Kerry:

My name is Brad Durtschi and I worked with the U.S. Small Business Administration after the Florida hurricanes of 2004 (for 6 months) and after the Gulf Coast hurricanes of 2005 (for 9 months). I was a temporary employee, as are over 80% of all Small Business Administrations employees. We are called to work as needed after disasters occur.

My one and only purpose in writing this is to try to obtain additional help to Gulf Coast hurricane victims by telling what happened after they applied for loans.

I worked in the field (in a disaster recovery office) in Florida, taking loan applications from individuals and business owners who had suffered damage from the hurricanes (dozens of these disaster recovery offices were opened in the state). The loan applications were checked for accuracy by a supervisor and sent to be processed in Orlando. I had little idea of what happened to them after they left our office. We were told very little of the application process as a whole. Little did I know, until this past year, what actually occurred after those applications left our office.

Before addressing this topic, a bit of additional background information is required. After the Florida hurricanes, a massive reorganization was undertaken by the SBA. Before the structural changes, there were four regional centers, each performing 4 major tasks. These centers, after the changes, were each now responsible for only one major function. The loan processing function was now solely the responsibility of the center in Ft. Worth, TX. A few hundred employees were now responsible for processing all loan applications for the entire country.

While this restructuring was taking place, another monumental, and even more impactful change, was being implemented. A change from a manual processing environment to an entirely computerized one was taking place. This new computer system early on was to quickly gain a reputation as an extremely complex and unreliable one. After arriving in Ft. Worth, I was told repeatedly of high levels of downtime, a long learning curve, and systems processing glitches that led to high levels of frustration by the small group of loan officers in place when the Gulf Coast storms hit in 2005. Due to the structural reorganization and the new computer system, many experienced workers decided to retire. They did not want to relocate, learn an entirely new way of doing their jobs, or a combination of both. The SBA has not been a stranger to turnover and this is certainly a symptom of systemic issues within the agency, as opposed to isolated ones. This agency for at least the last 2 years has ranked last in morale among the 30+ governmental agencies participating in the survey.

And then Katrina and Rita struck. No one agency or relief organization (either public, non-profit or private) could have possibly been prepared for the magnitude of what occurred in the Gulf Coast.

The SBA began hiring hundreds of data entry operators, application screeners, loan processors and loan officers, and turning them loose with minimal training to try and keep up with the sheer volume of applications. I was re-hired in October 2005, 60 days after Katrina, and spent less than one week in training on the new computer system. The time was not nearly sufficient. Downtime and other systems problems were daily occurrences. Processing time was at least doubled from the manual environment of one year earlier. It quickly became obvious that getting the work out and processing the maximum number of applications was the most important goal. We repeatedly heard that "Washington" or "headquarters" (in Herndon, VA) wanted more productivity, which translated into processing so many applications by the end of whatever month it was. Productivity was absolutely the top priority. Unfortunately, this resulted in disaster victims being declined or having their applications withdrawn unnecessarily. Quality processing and needs of the applicants were unfortunately not even on the list, or so it seemed. This lack of continuity between what the Agency stands for and what actually happened after Katrina and Rita is one ***big*** reason why the morale is so low. All the temporary employees eventually became aware of this and our reaction ranged from being incredulous, to shocked, to finally resigned, to the situation and deeply saddened because of seeing disaster victims' lives being put on hold.

The temporary workforce grew to over 4,000 employees, since this was the only way to overcome a computer system that wasn't performing as expected. All of us were working 12 hour days, seven days a week, at the peak of application volume which was before the end of 2005. Most loan officers, myself included, became fearful that if we didn't produce enough, or move enough applications off our desks, we would be replaced with someone else who was faster. These threats were not empty ones either. This was communicated by generally, mean-spirited, hostile supervisors who were focused only on productivity due to pressure from above. Daily productivity goals became comical, unreachable, and de-motivating. Again, a total disconnect was seen between the type of supervisors hired and the type of people that one would expect to be in the middle of an unprecedented disaster relief effort, namely caring and compassionate ones. We thought that it might be of some benefit to the Agency to have all employees spend a few days in the field so that they could see first-hand some of what we were hearing on the phone from the applicants who had lost everything, including loved ones in some cases.

The problem with this intense focus on productivity was that the loan applicants and disaster victims were the losers. Time-after-time their files would be rejected or withdrawn without good cause. I, personally, was told to call applicants three times, in a two-day period, and if I couldn't reach them, their file was to be withdrawn. This was policy. Other times, if certain tax documents were not received within two days, the same result occurred. We were trying to reach people who had moved, had no phones, or mail service. They had lost all of their vital papers to flood waters, and after finally getting their applications sent in, spent 6 to 8 months in the queue. They were then being given 48 hours only, to fax in the documentation that would determine whether they were eligible for a loan at all. If they could not comply, their file would be withdrawn and put back at the end of the queue, again.

The bottom line is that not hundreds, not thousands, not even ten thousands, but approximately **70%** of the more than 400,000 loan applications were either declined or withdrawn due to lack of information provided by applicants. Out of this huge number, some were a legitimate credit risk due to previous credit problems, or didn't have sufficient income to qualify for a loan, but many just gave up and didn't pursue their reconsideration options within 6 months of the original decision. Of those who did try to be reconsidered, which is to be given a second chance at a loan, once again, productivity carried the day.

My last three months with the SBA were spent in the reconsideration department that I just referred to. Even in this department, which was the last chance for an applicant to try to get approved, it seemed as if holding on to the government's money won out over going out of our way to help disaster victims. As deadlines approached, once again, only 24 hours were allowed many times for the receipt of tax documents, credit references or income verification. It seemed as if reasons for *not approving* loan applications were far more important to the Agency, than reasons to *approve* loan applications which would help disaster victims rebuild the gulf coast. Time and time again I would try to help applicants gather all the information that was needed for the entire reconsideration and approval process, only to be told by my senior loan officer to discard the additional information. This information explained their situation and remedied their application. However, the senior loan officers would only refer to the original letter stating what additional documentation was needed. Many times this letter was incomplete or incorrect, in other words, many times there was still additional documentation that was needed to complete the package so that loan officers could make a decision. The letter might state that only one or two items were needed from the applicant, when in reality four or five items might be needed. Many times the applicants simply gave up at this point.

I saw many examples of files being withdrawn before the applicant even had a chance to send in the required documents. In many other cases, I saw notes in the file stating that applicants called in and requested their file to be withdrawn. However, when I called the applicant back, time after time, they would say they did NOT request their file withdrawn.

CC: Chairperson Nydia M. Velasquez
House Small Business Committee Office
Senator John Kerry
Senate Small Business Committee Office
Senator Daniel Inouye
Senator Hillary Clinton
Congressman Rodney Alexander
Congressman Charles Boustany
Congressman Richard Baker
Governor Kathleen Babineaux Blanco
Governor Haley Barbour
Mayor Ray Nagin
Congressman Charles Gonzalez
Congressman Bobby Jindal
Congressman William Jefferson
Senator Thad Cochran
Senator Trent Lott
Senator Mary Landrieu
Congressman Charlie Melancon
Congressman Jim McCrery
Senator Mel Martinez
Congressman Chip Pickering
Congressman Bennie Thompson
Congressman Gene Taylor
Senator David Vitter
Congressman Roger Wicker
Vice President Richard Cheney
President George W. Bush

The other comment that I frequently heard is that their files were withdrawn before they had a chance to send in requested documentation. For example, if they were given three days to send in documents, one or two days later their file would be withdrawn. Even in this reconsideration department, which was the applicant's last hope, only 50% of the applicants were sent back to a loan officer for a new decision (their documentation was satisfactory, in other words). Of this 50%, the final approval rates were no better than for any other applicant. One would think that it would be higher due to the "special handling" in the reconsideration department. This was not the case.

There could be literally hundreds of examples provided as to productivity overruling any other goal. It is almost inconceivable to me that we would *not* have been instructed to do whatever it took, with all caring and compassion, to get loans approved for disaster victims! In fact, it was just the opposite. The supervisors that were hired had little compassion and were mainly focused on (and proficient at) turning out numbers, large numbers of decisions (again, only 30% approvals).

Employees are simply thought of as short-term cogs in the wheel. This must be why very little time and expense is spent on training. People are expendable. If one can't produce, someone new will be found who can. Any hint of caring about employees is seen very rarely. The same attitude is displayed about disaster victims by the permanent staff. Fear and intimidation was the main tool used to "motivate" us. After a year of non-stop 24/7 disaster assisting, one can expect to be dismissed with one or two days notice.

Because of this culture of fear, intimidation and ever-higher productivity, huge numbers of applicants have not gotten the attention and the full-look that they deserve. They don't understand the entire loan application process, with its steps of reconsideration and modification. They became more and more frustrated and angry with the agency and the process. The SBA has not been able to communicate this process to the general population in affected areas. It would likely take a total culture change to allow the Agency to properly and effectively deal with future disaster relief situations, both as to the type of employees and as to the handling of applicants, each with their large, individual needs. It would take a de-emphasis of productivity and numbers and a new focus on doing whatever it takes to help disaster victims.

My request is for a full review so that as many as possible of the 250,000+ individuals and business owners that were originally declined and withdrawn be given another look, another chance to get the help that they need to recover from the devastating losses that they have suffered.

I can be reached at my cell phone number which is (386) 341-7266. Thank you for your consideration.

Brad Durtschi
(Originally drafted 10/29/06)

To Whom it May Concern:

The following recollections are in response to your inquiry regarding our loan officer efforts at the Disaster Relief Center in Ft. Worth.

Never in the history of lending has so much been thrust on so few who were so little prepared. The entire staff of the career SBA lending officers and support staff are dedicated, and, under the circumstances, did a monumental job.

Problems that hindered the effort too often brought major areas of the operation to a complete halt continually depressed or destroyed moral, came from without---beyond the control of center management.

Here are several examples of hindrances from without.

The loan packaging computer software, from the beginning, was, at best, mediocre and totally inadequate. Apparently designed using obsolete dos language and routing. The system had layered information and computation input levels--- with information input links hidden behind unidentifiable program windows. I was told by one in the know, that the system had been three years in development and was designed to handle disaster loan capacity of that equal to the California earthquake, which generated approximately 25,000 disaster relief loans.
If I remember correctly, SBA sent out 1,200,000 loan packages and received approximately 450,000 loan requests. These to be processed by about 400 loan officers -- over one thousand each. The system was so unstable, during the first couple of months, the system was probably down 20 to 25 percent of the time. Often we sat for hours on end waiting, hoping, that the system would come back up so we could return to processing loans. I am reminded of my first automobile, if the battery went dead and I could not use the starter, I had a backup hand crank to get me started. In the disaster relief effort there were no backups. If the computer did not work, you were dead in the water until the contractor fixed it. And, system operation was simply too complex. If I had bought that computer system, I would have fired the service company, hired a top-level replacement, and sued for damages due to product design and application.

Upon arrival, loan officers were not allowed the luxury of SBA's normal two week training program for loan package processing. We were given a two-day -- two-and-a-half day cram course with no practice exercises. Much like reading a drivers handbook and then having never before been in an automobile except as passenger, attempting to drive through the city during late Friday afternoon rush traffic. Keep in mind, although many of those hired for loan processing had some degree of credit or financial background, none had ever before seen any software system like the one they were to get into step with. It is a unique system. Difficult and frustrating to work with. Fault with the computer system was an outsider contribution.

Once situated at a loan officer's station we were assigned loan files. To often these were only an assigned client number and a name.
We often had to wait weeks for the accompanying paperwork--supporting documents--to find there way to the assigned loan officer. And while loan officers were waiting for necessary (without exception) data to process a loan, we came under heavy fire for productivity!
Never mind that the computer was down more than it was up; that we lacked documentation from which we must build and document our loan

effort; that a first requirement was personal contact with the client--who may be living anywhere since their home was destroyed--we were hounded for production--at one time, 6.5 finished loans per day.

At one point were were gathered together during which time our senior (team leader) announced that somehow the scanned document files of a thousand or more applications had been lost from the computer and apparently the hard copies of the files had been lost of destroyed. We were informed to check each file for which we had no documents except the initial loan application form and call the client. We were to tell the client we were very busy, somewhat overloaded, and that documents for their files were trailing our processing effort. We were to ask the client if he or she had saved a copy of what they had submitted with their application; and to tell them that if would help our effort and speed loan processing if they would fax us a copy of the copy they kept. We specifically instructed not to tell them documents were misplaced, lost, and possibly destroyed. At that, I asked the supervisor -- So we are to lie? He reply was, Certainly, this is the government isn't it.

On more than one occasion when the computers were down, after a hasty supervisors meeting, our supervisor would gather us together to let us know that some "big-wigs" from Washington were coming through and that we were to act busy. You know, backs to the isles, heads down, no newspapers in sight, computers on .... whatever, just make sure you look busy.

And, there was the constant reminder that if we got a file that had a congressional letter included it was to go straight to a supervisor.

Yes, I had a personal experience that was most disappointing.. degrading and insulting. I did not go to Ft. Worth for the job. After working with disaster victims in Houston, I went to Ft Worth to contribute to the effort of securing business loans for those in need. I am a semi-retired CPA with about 35 years experience working with small business owners. I have lost count of the number of loan packages I have prepared--many of which were SBA loans. During Carla and Alicia, my clients reported to me that my loan packages were the finest SBA had seen, and on one occasion I was told one of my packages was being used as a training example in the Houston office. I have never assisted with a loan request that was not approved and fully funded.

Well, it seems that an SBA employee was brought in from California to beef-up the administration and increase production. One [redacted] It was announced at the end of a day that the [redacted] __(?)______ or [redacted] would be coming around to visit the loan officers to see what could be done to help us increase production. Our supervisor asked us to prepare a memo report of the number of "stand-alone" loans we had; listing their age, file number and the information we needed to complete them. Stand-a-lones were a priority. They were expected to be--not always the case--the easiest and quickest to process. Assuming you had the data of course. Concentration on stand-a-lones helped reported production.

At the time, I was working about 16 files, 8 of which were stand-a-lones. My assigned loans were 23, 28, 61 (3 of them), 73, 77 and 80 days old. Four of them I had receive the afternoon of the previous day. I had already contacted the clients of the other four and, together we were pulling together required files and supporting information.

For one, the borrower was a corporation. I was waiting on personal financial statements of all the owners, lists of liabilities and monthly sales breakdowns. Another was a start-up LLC when the disaster hit, so we need projected balance sheet, income, cash flow and supporting schedules. I had educated the borrower, given instructions as to just what we needed, and contacted his accountant.
Another was also a corporation. I had visited with the owner(s) and was waiting for corporate returns, personal financial statements.
On the bottom of my memo to the supervisor I noted, "I have visited with each applicant. Their need does not seem sufficient to make providing data a priority (at this time, since we were instructed to push out at least 3 stand-a-lones a day). Keep in mind, of my older files, most were about 60 days old, or older, when I got them--such as the ones I received (were assigned to me) yesterday."
The next day, January 13th, about 9:30 am, Ms. [redacted] enters our work area, walked past the others, straight to me, and asked me,
"How many stand-a-lones do you have?" I gave her a copy of my prior memo, shared with her that I had visited with every client, and that as the material came in for me to compete the file, I would be getting them out. Beyond her only question, her only other comment was, "Okay, you may get a re-appointment."

This with no introduction (I had never seen or met Ms [redacted]), no statement of purpose, problem, or goal. Simply, how many do you have?
As she exited the work area one of the women of our team came to me and remarked, "What was that woman's problem? There was no call for that kind of action." That was about 9:30 AM. At noon, we generally check our eMail for possible new file assignments of the morning. When I checked mine, my file list was blank. Everyone of my files had been pulled away and reassigned to some other loan officer.
I was an employee with no work and no indication of future work. At that, I left SBA and returned to Houston. I was scheduled to leave the next week anyway because my boy (a Marine) was returning from Afghanistan combat and I was going to be there upon his arrival home.

The regular SBA staff nurturing the disaster office impressed me as hard-working, dedicated and conscientious employees. Overall, the scanning operation and loan processing software was every bit as much a disaster as the one we were trying to help relieve. It was hard enough working with incomplete data and continuing system failures while being pressured for production. But worse yet were the times we were threatened with dismissal if we could not meet what everyone new to be unrealistic production within almost impossible circumstances.

To get production up, part of the game was to "deny" loans. There are several denial codes we used to identify the dismissal of a loan application. Among the favorites was Code 51 (SOP 50 305, Appendix 3)--REQUESTED INFORMATION WAS NOT FURNISHED. We were pushed to send out letters requesting information and if we did not receive a reply within so many days we were to immediately deny the loan so the file could be closed. Another "closed file" for satisfactory performance statistics. To meet production standards, a denied loan was a completed file. A completed file was a "closed" one. And the loan officer got credit for finishing a file toward meeting his production expectation. Between Appendix 3 and Appendix 4 if would be interesting to see a compilation of all denials by classification.

Overall, due to pressure from without, the general management strategy seemed to become, "Don't give me more men, give me a bigger whip!"

I honestly believe, had the disaster relief center been allowed to operate free from outside directives and pressure--assuming a workable Computer system--production and moral would have always been at an acceptable and praiseworthy level. Now, is it fair to report or criticize without making some suggestion for improvement based on observation and experience. I believe that with each disaster, as FEMA moves in, there should also be made available folks who can work with victims to package as much loan documentation--even to the extent of estimates or expected pro forma results--to go along with the signed loan application to Disaster Center. Victims should be given--in the field--a check list of what is need to process and approve a loan. This would allow loan officers to fill in gaps for completion of loan files and expedited funding.To get the most qualified to expedited loan support from the field, a call for field loan application assistants could be made to every professional CPA state and local chapter. Effort should be directed to doing as much toward package presentation from the field as possible.

And, I believe there should be an exception to determining loans for small businesses based solely on tax return information. Tax returns are generally prepared on a cash basis to minimize income (including gross profit, the primary indicator of loan amounts) and tax liability. If a loan applicant presents financial statements compiled by a Certified Public Accountant, along with his or her tax returns, the basis of a loan should be on that information supported by the accountant's association. It is not uncommon for a taxpayer to show two or three years of losses on a cash basis tax returns and accumulating wealth on financial statements. Loan officers are information processors, not accountants or credit analysts. On at least two occasions when I scheduled a reconciliation between tax returns and financial statements to increase loan qualification, I was informed "There is nothing in the regulations at allows you to prepare a loan package on that basis." When I responded, "It is according to GAAP." I was told "We go by tax returns."

I hope this contributes to your effort.

Bill

William L. Russell, MBA, CPA
Houston, Texas
July 20, 2007
Phone: 1-713-680-8131
Cell: 1-832-875-2717

Please send me a note that you received this

Bill Russell

A Statement by Former Loan Officer
Steve McClure

I quit a job in October of 2005 to take the temporary position with SBA to assist in their efforts to aid the victims of the hurricanes in the gulf. It seemed to be a place to finally use some of the knowledge I had gained over the years to actually do some good.

I arrived in Ft. Worth on Nov 14 and immediately started on-the-job training with the SBA loan software for businesses and homeowners. The training was not thorough nor did I expect it to be with the pressures put upon the organization but most of us seemed to muddle through.

Ten-hour days and six or seven-day weeks started in December. Again, most seemed not to mind the hours if one could keep the goal in sight. However, someone in Washington decided the relief process was not moving fast enough and the emphasis was turned from getting loans approved for victims to getting applications processed to a decision regardless of what the decision was just to build up the number of apps processed.

We could recommend an application for approval, denial or withdrawal--a withdrawn application being one which is deemed lacking sufficient information to reach a decision. It was not hard to find reasons to withdraw any application and it was much faster than working with the applicant to get the info in.

Sometime in January, 2006 the director of processing, Elsie Collins had numerous group meeting with staff members to outline the immediate goals for the effort. I was rather taken back with her statement that it is more important to decision the loan, whatever the decision, in a hurry, so the victims can get on with their lives because the agency had promised 90 percent of the apps processed by March 1 (or thereabouts). I sort of thought that someone living in a tent with no money and no home or possessions might have a hard time getting on with their life after their loan was denied or shelved for three or four months waiting for modification or rework.

There did not seem to be time to work with the victims to help them understand what we needed to get them their money because they wanted us to decision a half dozen or more loans per day. It did not matter that most of these would be coming back for modifications or as a re-app; it just meant that we got to chalk up another app off the chart.

Pressures built and some supervisory personnel would just walk around scowling at the staff members as an intimidation factor, I suppose. Supervisory Loan Officers (SLO's) were instructed to kick back any file with even the slightest oversight in it, even though some could have been fixed with one or two keystrokes. SLO's were searching the completed files to find the denials or withdrawals because they were quicker to sign off and their numbers could look better.

All in all, my 10 months with SBA was an eye-opening experience. It went from feelings of anticipation to be able to do something noble, to working under the pressures of politics, and under conditions fraught with efforts to intimidate staff, feed rumors, and push an agenda most felt had its priorities in the wrong place.

Perhaps this dissertation will help SBA get it right the next time.

Steve McClure
1-913-271-5171

Jennett S. Smith
4055 Gatwick Ct. #1001
Fort Worth, TX 76155
214-728-8888
April 18, 2007

To Whom It May Concern:

I would like to tell you about some of my experiences as a loan officer for the Small Business Administration Disaster Assistance. First I would like to give you some of my background. I have been in the residential mortgage business for 20+ years; I have been a realtor, processor, loan officer and underwriter. I have 12 years in Quality Assurance which includes fraud detection and another 5 years in due diligence reviews, which includes legal documents.

I accepted the position of loan officer with the SBA because I wanted to help the victims of the Katrina/Rita/Wilma disaster and I felt I had the background to be of assistance. I was given 2 ½ days of training, then sent to stuff envelops with applications for 3 weeks and another week or so of prequalifying based on initial information from the field. Then I was placed on a team to process the loans. I felt like I had forgotten everything I learned in training after a month of not processing.

I have seen the horror statements received from the applicants, heard their cries and cried with them. I have also been called heartless, screamed at, cursed and called a few names I won't mention. I have also been thanked for my help. I have been told by my supervisors I need to increase my production if I want to keep my job, and given unreasonable quotas to meet.

The people involved in this crisis needed our assistance and I can only imagine what they have been through with the loss of everything they own. I was required to decline or withdraw applications based on lack of information provided by applicants when the applicant had nothing left to provide. I remember one applicant who could not provide proof of ownership as his home was destroyed in a 12 ft wall of water. I ask if he could get a copy of his Warranty Deed from the County Courthouse and he told me it was under water and no records were available. This loan request was declined. I don't know how many loans were declined for failure to provide a Mandatory Payoff letter. So many of these people received their insurance checks that were made payable to both the applicant and the mortgage holder. They endorsed the check and sent it to the mortgage company, who promptly applied the funds to their loan and refused to issue a Mandatory Payoff letter. After I was transferred to the Reconsideration/Reacceptance Dept., I found out that we could use the wording in the Deed of Trust as a substitute for the Mandatory Payoff letter if it was a FNMA/FHLMC form. I don't know how many loans I had to decline for this reason, but a lot.

I remember being told we were to call the applicant for missing information and if it was not received by the next day we were to decline the application. I know of one Loan Office that would call the applicant, tell them they had 30 minutes to fax over whatever information was needed or he would decline the loan. AND HE DID! I heard him make the calls and then in the Recon/Reaccept Dept. I would receive request to be reconsidered where they told me he had declined them before they could send the information. His name is [redacted] and he is a Loan Officer on the year and a day program. I know he had a decline rate of approx. 65% of his production and received bonuses for having a high volume of production. That is just not right.

I can never forget the man I talked to the day before Thanksgiving 2006. I received his request for reacceptance with a copy of his last 3 years Federal Tax return. At that time I was told I could not reaccept a loan without a current profit and loss statement which he did not send. I called him and ask for the document. I was told that he did not have any income since the storm. I don't remember exactly where he lived, but somewhere SW of Lafayette LA which is an extremely low income area. He was a handy man and told me he lost his tools in the storm and did not have any money to buy more therefore he could not get work. He had lived in a mobile home that was destroyed and was now living in his truck eating out of garbage cans. I had to ask this man to write me a statement that he did not have any income since the storm and to please fax it to me as soon as possible. He stated he would have to walk the 8 miles to town, and did not have money for a fax or gas for his truck. I tried to give him my fax number and he wrote is down in the dirt by the side of his truck because he had nothing to write with or on. I then ask him when was the last time he ate and he said it had been about 2 days ago. I had to put him on hold and cry. He had managed to keep his cell phone that his daughter had given him (she paid the bill on it), but neither had the money for him to get to her home the North East. He had spent the last money he had to have his tax returns prepared (which showed very little income and not enough to have to pay any taxes). Thanksgiving Dinner will never be the same for me. I begged him to please go to a Church, Red Cross someone, anyone as get some help. I don't know what happened to this man, but I told my supervisor his story and I pleaded with her to approve him for reacceptance to processing so he could be denied and receive a FEMA grant. She did approve my request and it was sent back for processing.

This story will stay with me the rest of my life and I can only hope that someone somewhere can change the guidelines to include the human factor. I know you have heard it before, but these people did not ask for this disaster, and need assistance that was denied over and over again. I am 66 years old and the 12 hours a day 7 days a week were very difficult to maintain, but I would do it again in a heartbeat if I could help someone in need.

James A. Young
2909 Forest Hollow Ln #2206
Arlington, TX 76006

July 18, 2007

U. S. House of Representatives
Committee for U. S. Small Business Administration

Dear Mr. [redacted]

The first order of business for this letter is to explain that I am not a disgruntled U. S. Small Business Administration (SBA) Disaster Recovery Assistance employee. My prior government service before my November 2005 start with U. S. SBA was with U. S. Department of Treasury (IRS). I was a full time permanent employee with the IRS from October 2001 to my start with SBA in November 2005.

My reason for going to SBA was first to give back to my country during the aftermath of hurricanes Katrina, Rita, and Wilma. My role of Loan Officer and other duties performed was a way to offer my tax law expertise and enhance my personal skill set by learning the Loan Officer role.

The environment and work conditions at SBA were understandably chaotic due to the scope of work inherited by the operations management department. My concern for the customers or affected parties while at SBA was that many times I felt a disservice was extended to many of them. In addition to what will be stated in this letter, please find a copy as an attachment of a proposal I completed in February 2007 about the culture at the SBA and how I feel it needs to be changed. I am currently finishing my MBA at University of Dallas and felt compelled to write this document.

I worked for approximately one year, November 2005 through November 2006, two to three months in business loans, three months in home loans, and six months in loan modifications for home loans. Average files to complete per day per management directive was four to seven files depending on the specific area which meant that to keep management satisfied, some loan applicants were rushed out of the system. I must express that I experienced some long work hours there and some short, sleepless nights. My belief is that there is something broken in the system of the disaster loan completion process within the SBA. Many of my customers on numerous occasions had waited for three to four months for their papers to reach my desk but managerial pressures rushed them out of my queue within twenty-four to forty-eight hours. A common theme communicated there was three phone calls in twenty-four hours to the applicant and withdraw the file if no response from the applicant or if the additional needed documents were not received within the allotted forty-eight hours of the loan officers requests. My belief is that personally the speed of my work was questionable because I would literally push up against management deadlines for my customers to get documents in to me.

The letter presented here is not written to in any manner, bash our President nor our government. I am a Republican who has voted for President Bush twice so I am definitely not bashing him. I just wanted these individuals who were affected by the disaster to get a fair chance for recovery. Anyone reading this letter as well as myself could just as easily been involved in such a disaster and I tried daily to put myself in their unfortunate positions. By writing this letter, I merely wanted to make a few statements that may help some of the people affected who have not yet experienced closure to the whole ordeal. My parents raised me to understand that I am not any better than the person standing next to me but that the deeds I choose to embark upon could very well be considered better than the next person. Just as I left my somewhat secure government job with the IRS in November 2005 to help those in need through the services of the SBA, I am now once again trying to go that extra step to help at least one more deserving family.

Maybe these few words can be my way of finishing the job of helping these individuals banned together as one big family now so compassionately known as the Gulf Coast Family. Please let me know if I can be of any further assistance. Thanks for your time and attention to these few words. Have a great day!

Sincerely,

James A. "Jay" Young
A Concerned U. S. Citizen

Attachment: proposal#1rl

James A. Young
2909 Forest Hollow Ln #2206
Arlington, TX 76006

July 18, 2007

U. S. Senate Committee
for the U. S. Small Business Administration

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My reason for going to SBA was first to give back to my country during the aftermath of hurricanes Katrina, Rita, and Wilma. My role of Loan Officer and other duties performed was a way to offer my tax law expertise and enhance my personal skill set by learning the Loan Officer role.

The environment and work conditions at SBA were understandably chaotic due to the scope of work inherited by the operations management department. My concern for the customers or affected parties while at SBA was that many times I felt a disservice was extended to many of them. In addition to what will be stated in this letter, please find a copy as an attachment of a proposal I completed in February 2007 about the culture at the SBA and how I feel it needs to be changed. I am currently finishing my MBA at University of Dallas and felt compelled to write this document.

I worked for approximately one year, November 2005 through November 2006, two to three months in business loans, three months in home loans, and six months in loan modifications for home loans. Average files to complete per day per management directive was four to seven files depending on the specific area which meant that to keep management satisfied, some loan applicants were rushed out of the system. I must express that I experienced some long work hours there and some short, sleepless nights. My belief is that there is something broken in the system of the disaster loan completion process within the SBA. Many of my customers on numerous occasions had waited for three to four months for their papers to reach my desk but managerial pressures rushed them out of my queue within twenty-four to forty-eight hours. A common theme communicated there was three phone calls in twenty-four hours to the applicant and withdraw the file if no response from the applicant or if the additional needed documents were not received within the allotted forty-eight hours of the loan officers requests. My belief is that personally the speed of my work was questionable because I would literally push up against management deadlines for my customers to get documents in to me.

The letter presented here is not written to in any manner, bash our President nor our government. I am a Republican who has voted for President Bush twice so I am definitely not bashing him. I just wanted these individuals who were affected by the disaster to get a fair chance for recovery. Anyone reading this letter as well as myself could just as easily been involved in such a disaster and I tried daily to put myself in their unfortunate positions. By writing this letter, I merely wanted to make a few statements that may help some of the people affected who have not yet experienced closure to the whole ordeal. My parents raised me to understand that I am not any better than the person standing next to me but that the deeds I choose to embark upon could very well be considered better than the next person. Just as I left my somewhat secure government job with the IRS in November 2005 to help those in need through the services of the SBA, I am now once again trying to go that extra step to help at least one more deserving family.

Maybe these few words can be my way of finishing the job of helping these individuals banned together as one big family now so compassionately known as the Gulf Coast Family. Please let me know if I can be of any further assistance. Thanks for your time and attention to these few words. Have a great day!

Sincerely,

James A. "Jay" Young
A Concerned U. S. Citizen

Attachment: proposal#1rl

How the ODA changes will be implemented

Item Description	Duration	Units	Start Date*	End Date*	3/1/2007	4/1/2007	5/1/2007	6/1/2007	7/1/2007	8/1/2007	3/1/2008
Notify/communicate employees- change plans	5	Days	3/1/2007	3/5/2007							
Plan location consolidations	10	Days	3/1/2007	3/10/2007							
Write new Policies/Procedures/adjust levers	45	Days	4/1/2007	5/15/2007							
Implement DCMS - full blown	90	Days	3/5/2007	6/5/2007							
Move employees to new locations/form teams	30	Days	6/10/2007	7/10/2007							
Training for Mgmt - All employees, staggered	10	Days	7/25/2007	8/5/2007							
Notify Public of changes - various media	5	Days	8/1/2007	8/5/2007							
Start operations as Cross-Functional Teams	1	Days	8/1/2007	8/1/2007							
Monitor progress monthly for 6 mos	180	Days	8/1/2007	3/1/2008							
Go Live with all new operations	1	Days	3/1/2008	3/1/2008							

Current picture of ODA's processes and turnaround times

Item Description	Durati	Units	Start Date*	End Date*	4/1/2006	4/8/2006	4/14/2006	4/21/2006	4/28/2006	5/5/2006	5/12/2006	5/19/2006
Application screening	1	Days	4/1/2006	4/1/2006								
Pre-approval for expedite	1	Days	4/2/2006	4/2/2006								
Verification dept - loss appraisal chk	2	Days	4/4/2006	4/6/2006								
Production Coordinator assignment	2	Days	4/6/2006	4/8/2006								
Loan Officer	5	Days	4/8/2005	4/13/2006								
Supervisory Loan Officer review	3	Days	4/13/2006	4/16/2006								
Legal Dept	5	Days	4/16/2006	4/21/2006								
Loan Modification	7	Days	4/21/2006	4/28/2006								
Back to Verification If necessary	2	Days	4/28/2006	4/30/2006								
Supervisory Loan Officer 2nd review	2	Days	4/30/2006	5/1/2006								
Escrow Closing	5	Days	5/1/2006	5/6/2006								
Disbursement	3	Days	5/6/2006	5/9/2007								
Task13	0	Days	5/9/2007	1/10/2007								
Task14	0	Days	2/16/2007	2/16/2007								
Task15	0	Days	2/16/2007	2/16/2007								
Task16	0	Days	2/16/2007	2/16/2007								

A Statement by Former Loan Officer **Melissa Robison**

To Whom it May Concern,

And, frankly it should concern any and all tax paying citizens that the conditions of employ at SBA following the nation's biggest disaster were less than conducive to fulfilling the needs of disaster victims. Based entirely on my experience there should I ever have the misfortune of being a disaster victim SBA is the last, very last, place from which I would expect to actually received assistance.

Training:
Training consisted of 4 days of someone reading PowerPoint slides off to a classroom containing about 80 new employees. The last half of the fourth day we got 'instruction' on using the SBA's loan processing software from someone who had never actually processed loans using that software. He is a person that has moved up in the ranks since my training class and his only advice about processing the backlog of loans? "Don't worry, you'll pick it up as you go along, really all you need to remember is to be on time every day and follow the dress code." As it happens there was quite a bit to worry about. The software (Daybreak) was chiefly unknown to most of the staff. To say the least about it that software: It IS NOT user friendly. Most supervisory loan officers I encountered in my tenure there knew less about it than we rookies. Worse still, they had us 'just doing it', i.e., making loans without an education into SBA policies. Sure they hit the big stuff: credit score, tax records, no federal liens. But the byzantine way the Disaster Assistance program ACTUALLY works was a mystery. This alone caused countless loans to be kicked back to the loan officer. Frustrating as it was to get a loan finished and be told 'you can't do it that way' to the loan officer I was always upset for the victims. Imagine being contacted by a loan officer, going through your details on insurance, etc. with them, going over terms of a loan, told it would be finalized in written correspondence only to get a call a few days later telling them I'm sorry I made a mistake and your loan is now withdrawn, canceled, you're not eligible, etc. False hope on a platter.

Work conditions:
I spent most of my time working in the Buckingham facility. It was a wreck. There was no comfortable place. You were either seated in hot zone or a cold zone. The ac/heat vents were covered with dusty muck as were the sprinkler heads in 2 of the women's bathrooms. Employees were consistently getting sick there. It is a bad building. And, the parking was unreliable. 30-50 spaces (maybe) for two full shifts of employees. Many of the spaces devoted to handicap parking. Rightly so. Many more spaces devoted to senior personnel. So, they didn't have to schlep the half-mile (many folks tracked on their odometers) from the nearest parking lot in all weathers and conditions. Having us come in at 6am and walk half a mile in the dark in an industrial area was not a wise choice. At least one person was hit by a car crossing the street at that hour. Of course they will tell you they offered a shuttle. Really. A six passenger van (on the days when they actually had a driver show up) circling the parking lot every 10 minutes to get a shift of hundreds to the building on time. As if.

Teams:
SBA has no idea what the word team actually means. People were moved in and out of 'teams' willy nilly. It tore down any team cohesion. There was no function as a team. Just a beleaguered group of individuals whom happened to be seated in the same area. My first team had over twenty members. We had 2 supervisory loan officers assigned to us. One of whom was never present lest he be asked questions and the other who was overworked by the massive amount of paperwork & reports to file that she had little time to answer our questions. Mostly we just made mistakes and got knocked down. Or once someone in the group had encountered a problem and found a solution we shared it with each other. But only on breaks and in emails because we weren't allowed to meet together or talk with each other more than a passing hello.

From the get go the mentality was 'pass the file further up the line'. We were encouraged to make our numbers by withdrawing the file at the least sign of a problem. Many, many disaster victims had their files withdrawn because they weren't able to be contacted within 7 days from the time the loan officer received the file in their queue. This would have been an affront to me as a disaster victim. To have my loan application sit in a backlog for months and months and suddenly (from their p.o.v.) have it withdrawn due to lack of available contact in an arbitrary 7-10 day period. Worse yet worse yet when it came to relocations. You don't have contract on a new house yet? Out of the queue. Most of these poor souls were trying to find out what if any assistance they would get from SBA in order to make their offers on a new home. Catch 22.

Legal:
Loan officers and legal personnel were set up to be adversarial. Chiefly, that was due to lack of understanding and communication at the higher levels of management. No one would delineate who/what could affect a file in which area. Legal was constantly asking loan officers to complete functions they were not trained nor had software access to do but it was out of their lack of understanding about how loan processing functioned.

Management:
Clearly those in charge had no idea how to manage people. They may have made many a loan back in their day, but, that is no education in how to treat and effectively manage people. The only management style they knew was intimidation. In two different departments I worked in the staff went on 12 hour days / 7 day weeks. Once for a month. Once for over three months. There comes a time when you are no longer gaining anything by overtime because the staff are too weary to move quickly and too emotionally stressed to make the best possible decisions. Worst of all during each of these 7/12s there were shortages of files. Imagine if you will working all those hours and having only 10 files in your queue for the majority of the time. If you're waiting for deeds, tax returns, auto registrations, etc. there comes a point where you can no longer work the file until those items arrive. Why then were we put on such extensive overtime? Budget. SBA wanted to make sure it looked like they were putting in so many man hours to help the victims but in essence they were trying to make sure they kept the figures high so when budget cuts did come it would cut from a false high balance and they'd still have plenty of money assigned to SBA. If like me you were stroppy enough to ask for further files to work you might get one or two more. More likely you'd just get the party line of "just sit at your desk.. they pay is the same whether you work the files or not". As an employee I was appalled by that sentiment. As a taxpayer, I was outraged. As so we all should be.

Sincerest regards,
Melissa Robison
(817) 298-6906

Wallie Simien

July 20, 2007

To Whom It May Concern:

My name is Wallie Simien, I was employed as a Business Loan Officer with SBA as a result of the Katrina and Rita Hurricanes. I was truly honored to have the opportunity of utilizing my knowledge to assist both SBA and the hurricane evacuees. I must first state that the overall concern and motivation for the job at hand was definitely expressed by the Management Staff. What a great task it was to try an implement a course of action in such an overwhelming event.

The following statements are being made in an effort to voice my experience and hopefully share my opinion regarding areas in need of improvement and/or reconstructing a more effective course of action in providing aide to those in need.

Training Session

The foundation of any successful program I believe begins with effective training. It's my belief that this was the major point of discord. [redacted], a Disaster Manager, and our first instructor was awesome and very effective in verbalizing the class material, but unfortunately not the instructor throughout the training sessions. The others were not as effective in their presentations and lost control of the session due to too many interruptions with individual questions. Much of what was taught was not applied in the same way by the floor supervisors.

Material Application

My first supervisor was, [redacted]..., he was very rude to me and a few others, as a matter of fact four of the six of us were either moved or terminated that were apart of his group. The break down in communication between what was not taught well during training and what the Supervisor did not communicate effectively was a huge problem. [redacted] was offended by the constant questions and even loud-talked me about being argumentative with him. I sat much of the time trying to figure out the problem rather than ask him or I'd walk over to [redacted], another supervisor to get the answer. He obviously did not have a problem understanding my questions nor in guiding me down the path of understanding. I tried to explain to Larry, that as a Loan officer (LO) in the Retail Market, I felt that the in-house application conflict with what decisions an Underwriter (UW) would normally make. I worked primarily with Sub-Prime Borrowers and although the scores were low it was not necessarily an indication that they would not be good borrowers.

One loan in particular was for a Guy that owned a Mariner in Metairie, LA. I was told to turn it down, but in this case I did stress my concerns for not being able to approve it. After I persisted to express my concerns about not approving it...he, Larry, wrote an exception in the notes and then approved the Loan (excellent scores). In addition, I was told in other situations that I was not applying the information correctly, but I showed him my notes from the class as proof, but he still stated that he had another way of handling things. His resistance to my questions influenced him to never understand anything I asked him. I explained that my questions were sincere and not argumentative. I was asking because I truly did not understand and had no way of knowing how to ask the questions any differently. He also expected me to ask questions I didn't know to ask. Wow...that was difficult...I finally explained to [redacted] my situation, and he offered to move me to another section.

As a result of my experience with [redacted], I lost my confidence to apply what was taught by [redacted] in the Class. The experience was on going as each Supervisor seemed to have their own method for applying the information. The next section was with [redacted]..., he stated that his opinion would be his own and to ask whatever I needed at anytime, but I caught him expressing his frustration with another Supervisor concerning me as he was walking away.

A day or so later Management moved [redacted] to another section. Then they moved in a guy from New York....he bragged about being chosen to move this group of people along because we just weren't meeting the quotas....At this point, I was stressed about being told get it done or people would be terminated. He too had a different approach. I don't consider myself to be the most intelligent person, but I'm capable of passing State Exams....! My belief is if the missing links that weren't effectively communicated at the foundational level, and the fact that the Supervisor's needed to apply the same methods explained during the training session, then the "Unity" would have been the link to a successful effort in implementing the goals of the Disaster Unit.

Last, I was told, by the Supervisor from New York, to stop trying, and to just cancel things when a customer had not responded, even though I'd explained that I was waiting on things to be returned. He said they could reapply later. After that I began cancelling so many files that someone in management noticed and questioned my intentions. He didn't support the instructions that I had been given. For example: There was an investment group out of Beaumont, TX...[redacted] Investment...I believe it was called. I believe they deserved an approval, but I was not sure of what the complications were. He told me to terminate the file. The customer was really frustrated with me, and how was I to explain, since I was having trouble getting a clear understanding on how to make appropriate decisions.

Resignation

Due to the on the job stress, long hours, and the extremely cold air in the building, I began to be sick and couldn't get rid of a cold and sore throat. After taking off for illness a couple of times and with my problems with production, I was then targeted for lay-off. About a month prior to being out sick, I'd asked [redacted] for a week off to be with my daughter who was having a C-Section to deliver her baby. I also had some unfinished business in Beaumont as a result of being a Rita Evacuee out of Beaumont (mail in a P.O. Box, etc.) I needed time off to take care of these things. At the time, I was told this wasn't a problem. I could have the time off. Then after being off sick, going to the doctor, even faxing in a doctor's excuse as well, I was called at home by [redacted] (HR director). He stated that he was sorry to call while I was not feeling well, but I would need to withdraw my request to be off when my daughter had her surgery or resign. He now would not allow me to take the time off. He said that in two weeks we are going to start laying-off. You need to be here, or we will need to fire you.

Please note that the letter is not intended to be vengeful, but are merely the facts. My main reason for writing is to express the need for a better training system, better Supervisors, and Unity among those implementing disaster assistance. Finally, I also believe, as an experienced loan officer in the private sector, that it would be more timely and effective to have the Legal Dept. apply all lien codes to the loans rather than burden the Loan Officers with this responsibility. The lien codes are a closing decision, not a processing decision. The SBA puts too many closing responsibilities on their Loan Officers. Loan Officers should mainly be responsible for credit decisions.

Sincerely,

Wallie Simien
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A Statement by A Loan Officer

Currently Working With

The SBA Who Asked to Remain Anonymous

7-23-2007

[redacted]

Last Friday, I overnight mailed 50+ pages of information to [redacted], which included: my personal notes and observations over the last 18 months of employment at the SBA, emails received from Disaster Center management, and other types of information for presentation at your hearing on Wednesday, July 25, 2007.

I think that everyone that works at the SBA Disaster Recovery Center in Fort Worth, Texas, is just "carrying-out orders" to keep their jobs. Unfortunately, those "orders" concerning unrealistic quotas had a very motivational effect. The quotas had more to do with "Looking Good" to the American Public and Congress and "Making a Press Release Statistic" than it did with trying to help the disaster victims. What do I mean by this?

It's very simple!
Loan Officers were motivated, by management production quotas, to Decline, Withdraw or Cancel loan applications.

This may not have been management's initial intention, but it did produce the results published in January, 2006, an email sent by the SBA to the employees, that 90% of the initial loan applications were Withdrawn, Declined or Cancelled during the first 90 days after Hurricane Katrina hit. And, the results and re-caps of the 3 employee surveys in 2006 show that management was aware of what these "Superstar Loan Officers" were doing to get their high production numbers and they didn't put a stop to it. As a matter of fact, the high-production Loan Officers were given cash awards. My guess is that top management at the Fort Worth Disaster Recovery Center is just "carrying out the orders" that they were given so that they can keep their jobs.

INTIMIDATION

Loan Officers were constantly threatened that they would be fired if they didn't meet production goals. A 14 year SBA Veteran pulled me aside to tell me that "it's all about the numbers. It's always been all about the numbers, not the disaster victims. If you want to keep your job, you have to make your numbers."

The "numbers" are how many loans you processed that day. If you Decline 10 applications you get a production number of 10.
The same goes for Withdrawals, Cancellations or Approvals.

It's so much faster and easier to Decline or Withdraw an application than it is to Approve it!

APPROVALS

To Approve a disaster loan, many details and documents have to be in the file. It takes a lot of time to produce legal documents that were just washed away in the hurricane. And, it takes resources, like a telephone, fax and money to generate and submit the requested documents.

But, it only takes 1 detail or document missing from the file to "process that application to the decision" of Decline or Withdraw!

Loan Officers were supposed to "process to a decision" Home loan applications within 48 hours and Business loan applications within 96 hours. That's not much time! It takes most people longer than that to file their taxes even when they weren't involved in a natural disaster.

HELPING THE DISASTER VICTIM

I never could figure out how Declining or Withdrawing an application was "helping the disaster victim?" Many Supervisors told me that I would be "helping the victim" by Withdrawing or Declining them. They were just trying to get my "numbers up" so they could get their "numbers up!"
I don't think it was the SLO's fault that they had to constantly "beat me or any other loan officer up" about our numbers. They were just carrying out the "orders" that they were given so that they could keep their jobs!

WITHDRAWALS

If a Loan Officer wasn't able to contact the disaster victim in 48 hours of the file being assigned to them, the application was "Withdrawn."

If we did make contact with the disaster victim, we would tell them which documents they needed to provide to us within 48 hours so that we could move their application to the next level, closer to being "Approved." More often than not, the disaster victims were unable to comply with the Loan Officers strict time requirements...so they were "Withdrawn."

6-MONTH CLOCK

Being "Withdrawn" starts the "6-month" clock. From the date on the Withdrawal Letter, the disaster victim has 6 months to apply for Reacceptance of their loan application. During the 6-month time period, the applicant needs to send a "Request for Reacceptance" in writing, along with any needed documents. The Loan Officer would review the application and the documents submitted and then make the decision to "recommend the application for "Reacceptance" or Withdraw it a second time if all of the documents were not submitted. The Processing Loan Officer's had the file on their desk for 48 hours or until it was "processed to a decision," which ever came first.

One technique that some Loan Officers used to meet their production number was to just, "say" that they spoke to the disaster victim and that the victim indicated that they didn't want the loan or couldn't provide the requested information within 48 hours. The result is the same: that was "processed to a decision" of Withdrawal.

It's so much faster to "process an application to a decision" when you don't take the time necessary to contact the victims. Keep in mind; all applicants were not living at their homes after the hurricane. Electricity, phone service, etc., was not available. So trying to reach a disaster victim that moves around a lot, is not easy. A few Loan Officers would call all contact #'s on the application and call all relatives listed to track down the victims. I did hear of more than one Loan Officer getting terminated for "lying" about having contact when they didn't. Most Loan Officers got a way with it.

In a 2 week period in May or June, 2006, I assisted 10 different disaster victims that never received a call so they didn't know their application had been Declined or Withdrawn until they received notice in the mail. Several of these victims stated this very clearly in their "Request for Reconsideration" letters.

Some applicants were Declined within 2 hours of being assigned to a processing Loan Officer. They told me that they were never contacted so they didn't have a chance to produce the docs needed to Approve their loan request.

QUICK NUMBERS

If the original Loan Officer didn't do a thorough job in analyzing the qualifications of the applicant, they could miss some key data that the next Loan Officer would need. In otherwords, to get a quick production number, all you have to do is find one thing wrong or missing so that you're justified in Declining or Withdrawing an application.
What happens to the victim is this: if they are told about one problem and fix that deficiency, they could be Declined a second time for a different problem that the original Loan Officer should have told them about. It wastes everybody's time and really frustrated the disaster victims.

After 2 Declines, the Appeal process begins. The victim only has 30 days to fix the deficiency. They must write a letter to "Appeal their Decline or Withdrawal Status" of their application. They only get 1 "Appeal." If the documents aren't sufficient to "Recommend Reconsideration or Reacceptance," the victim won't get another chance......unless the victim gets a member of Congress to request an inquiry.
We have a separate team that deals exclusively with Congressional Inquiries.

DECLINES

The next easiest way to "make your production number" was to "Decline" the application for derogatory credit, insufficient income, etc. If any of these types of documents were not in the computer file ("Scanned Docs") or in the paper file, the Loan Officer would request that the missing documents be in the Loan Officers hand within 48 hours, otherwise, they'll have to Decline your loan application until you can provide the needed documents.

I was told, in November, 2005, that we had 250,000 IRS Tax Transcripts stacked up in a corner of the building waiting to be scanned into DCMS, into electronic format.
If the applicant didn't have tax transcripts scanned into their file, they could be Declined or Withdrawn through no fault of their own.

Forty-eight hours is not a lot of time to try and get your paperwork submitted when your house has been underwater, many Post Offices were not operating, no electricity and you don't have a fax machine in your tent, brother-in-laws house, FEMA trailer or wherever you are staying.

"Making the numbers" had little to do with helping the disaster victims. Everyone from the Loan Officer to SLO to Pod Manager to Center Management all received the same credit for "processing to a decision" an application for a disaster loan. The quotas were so high that most Loan Officers focused on looking for ways to Decline or Withdraw the applications because that was easier and less time-consuming than looking for what it would take to be able to Approve the loan.

SUPERVISORS

The Supervisors usually had very little, if any, management or supervisory skills or experience. One supervisor told me that to be a SLO (Supervisory Loan Officer) meant that you had to work a minimum of 12 hour per day, some worked 14 or more; you get more pressure from management to make your production goals and you didn't get paid any more money. That supervisor told me that the main benefit to being an SLO is that you're the last people to be "let go!" She said, regular LO's (Loan Officers) will be the first to go as the disaster recovery workload decreases.

Andy, I hope these comments and my notes help you with your work.
I assure you that a thousand other Loan Officers have had the same experience as I.
And they would love to share with you their experiences but they won't… for fear of retaliation, of being "Black-Listed" and never being able to get another government job.

You have an honorable task ahead of you.
Good Luck!

Please Keep Me Anonymous