



United States  
General Accounting Office  
Washington, D.C. 20548

Resources, Community, and  
Economic Development Division

B-271933

June 5, 1996

The Honorable Christopher S. Bond  
Chairman, Subcommittee on VA, HUD  
and Independent Agencies  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

This letter responds to your request for information on the history and status of loans made by the Federal Emergency Management Agency (FEMA) under its Community Disaster Loan Program, which is administered by FEMA's Response and Recovery Directorate. The Stafford Act authorizes FEMA to make loans to a community whose government's ability to perform its functions has been hampered because a major disaster has significantly reduced tax and other revenues.

In summary, since the authorization of the Community Disaster Loan Program in 1974, the federal government has disbursed nearly \$100 million on 52 loans as of December 31, 1995.<sup>1</sup> Of this amount, nearly \$3 million has been repaid on 18 of the loans and about \$7 million—nearly \$4 million in principal and about \$3 million in interest—has been canceled on 11 of the loans.

While the \$4 million in canceled principal represents only 4 percent of the total amount disbursed through December 31, 1995, much of the remaining principal balance of about \$93 million is for loans that FEMA expects will be fully or partially canceled. By law, a community cannot seek to, and FEMA cannot, cancel a loan until that community demonstrates an inability to meet its operating budget for the 3-year period following a disaster. The communities

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<sup>1</sup>As measured in nominal (actual) dollars, rather than inflation-adjusted dollars. As of April 24, 1996, the status of the 52 loans remained largely unchanged from December 31, 1995, and FEMA had not approved any new loans. However, FEMA had not calculated accrued interest beyond December 31, 1995.

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holding most of the larger loans have only recently become eligible to seek cancellation. FEMA officials estimate that some percentage of the outstanding loan balance will be canceled.

### BACKGROUND

Section 417 of the Stafford Act (P.L. 93-288, as amended by P.L. 100-707 (42 U.S.C. 5184)) authorizes FEMA to make loans to any community whose government's ability to perform its functions has been hampered because a major disaster has significantly reduced tax and other revenues.<sup>2</sup> The loan must be used exclusively to provide existing functions of the local government or to expand them to meet needs arising from the disaster for such things as increased police and fire protection, trash collection, revenue collection, maintenance of public facilities, and flood and other hazard insurance. A community may not use the loan to repair or restore damaged public facilities or to cover the nonfederal share of any federal program. State governments and private nonprofit organizations are not eligible for community disaster loans.<sup>3</sup>

A loan may not exceed 25 percent of the borrowing community's operating budget for the fiscal year in which the disaster occurred. Although the loans are generally for 5 years, the repayment period can be extended. The Stafford Act also permits canceling these loans, in full or in part, to the extent that the community's revenues during the 3 full fiscal years following the disaster are insufficient to meet its operating budget. Interest rates are established by the Treasury Department and reflect the rate for 5-year maturities of U.S. obligations at the time the loan is made. The rate on the most recent loans, in 1993, was 5.47 percent, down from a high of 13.75 percent in 1981.

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<sup>2</sup>FEMA also makes loans to state governments for the states' share of the costs of Stafford Act programs. These loans are made under a different statutory authority and are not discussed in this report.

<sup>3</sup>For the purposes of this program, territorial governments, such as the Virgin Islands and American Samoa, are considered as carrying out the functions of a local government and are therefore eligible for community disaster loans, as are certain political subdivisions of a state, such as special tax districts.

STATUS OF LOANS

From the authorization of this loan program in 1974 through December 31, 1995, the federal government disbursed nearly \$100 million on 52 loans.<sup>4</sup> Of that amount, FEMA has been repaid nearly \$3 million in principal (and about \$2 million in interest) and has canceled nearly \$4 million in principal (and about \$3 million in accrued interest). Thirteen loans have been fully repaid; 7 were fully canceled; 3 were partially canceled with the balance repaid; and 29 remain outstanding, of which 1 has been partially canceled. Table 1 shows the repayment status of the 52 loans and their total outstanding balance of about \$93 million in principal and \$26 million in accrued interest.

**Table 1: Repayment Status of 52 Disbursed Loans, as of December 31, 1995**

Loan status	No. of loans	Principal disbursed	Principal canceled	Principal repaid	Unpaid principal balance	Interest paid	Interest canceled	Unpaid accrued interest
Fully repaid	13	\$2,105,117	0	\$2,105,117	0	\$453,071	0	0
Totally canceled	7	3,649,768	\$3,649,768	0	0	0	\$3,013,428	0
Partially canceled and balance repaid	3 <sup>a</sup>	519,881	132,125	387,756	0	213,700	160,411	0
Outstanding	29	93,303,373	55,528	329,231	\$92,918,614	998,620	21,304	\$26,372,668
<b>Total</b>	<b>52</b>	<b>\$99,578,139</b>	<b>\$3,837,421</b>	<b>\$2,822,104</b>	<b>\$92,918,614</b>	<b>\$1,665,391</b>	<b>\$3,195,143</b>	<b>\$26,372,668</b>

<sup>a</sup>Includes one loan that had interest canceled, but no principal canceled.

Source: GAO's analysis of FEMA's data.

Enclosure I shows all totally or partially canceled loans (including one that had interest, but not principal, canceled), and enclosure II shows the funding history of the Community Disaster Loan Program and the status of all loans approved under the program through December 31, 1995.

<sup>4</sup>While \$150 million in loans has been approved, in many cases the borrower does not request disbursement of the full approved amount.

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To justify canceling a loan, FEMA requires a community to submit financial statements showing that its revenues have been insufficient to meet its operating budget for the 3 full fiscal years following the disaster. While the \$3.8 million in canceled principal represents only 4 percent of the total amount disbursed, much of the remaining principal balance of \$92.9 million is from loans that are just becoming eligible for cancellation.

Most of the 29 outstanding loans are quite small and were made primarily to borrowers affected by the 1993 Midwest floods. Fifteen of these loans range from \$500 to \$10,000. However, seven loans, resulting from hurricanes Hugo, Andrew, and Iniki as well as typhoon Val, are much larger and cover more than 99.2 percent of the current unpaid balance. According to an official of FEMA's Response and Recovery Directorate, most of the borrowers of these loans, listed in table 2, are expected to ask FEMA to cancel them.

Table 2: Major Outstanding Loans, as of December 31, 1995

Local government borrower	Eligible for cancellation	Principal outstanding	Accrued interest	Total
U.S. Virgin Islands	9/30/92	\$ 50,100,000	\$ 20,164,120	\$ 70,264,120
Homestead City, FL	9/30/95	10,325,000	2,196,775	12,521,775
Florida City, FL	9/30/95	1,046,000	226,519	1,272,519
City of Miami, FL <sup>a</sup>	9/30/95	5,000,000	707,981	5,707,981
City of Miami, FL <sup>a</sup>	9/30/95	5,000,000	506,308	5,506,308
County of Kauai, HI	6/30/96	10,363,434	1,207,365	11,570,799
American Samoa	9/30/95	10,179,089	1,272,502	11,451,591
<b>Total</b>		<b>\$ 92,013,523</b>	<b>\$ 26,281,570</b>	<b>\$ 118,295,093</b>

<sup>a</sup>The city of Miami applied for one \$5 million loan in October 1992 and applied for a second \$5 million loan in July 1993.

Source: FEMA.

All of the borrowers listed in table 2 except American Samoa have expressed their intention to apply for cancellation of their loans, and the Virgin Islands has already applied. None of the seven borrowers has repaid any principal or interest on the loans, and FEMA officials expect that some percentage of the outstanding loan balance will be canceled. The officials said they have no

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control over cancellations because the Stafford Act is quite specific as to when and how a community qualifies to have its loan forgiven.

FEMA's budget proposal to the Congress for fiscal year 1997 requested no additional funds for the program and stated that the agency does not anticipate making any loans in 1997, in part because the subsidy rate for these loans would be nearly 97 percent.<sup>5</sup> This estimate reflects the timing and amounts of principal and interest that FEMA anticipates existing borrowers will repay.

According to a recent report by FEMA's Office of Inspector General, converting the loan program to a grant program should be considered because so few funds will apparently be repaid and because administering a grant program requires much less time, effort, and expense.<sup>6</sup> In response to this report, FEMA stated that it intended to resist making new loans in fiscal years 1996 and 1997 while seeking approval to terminate the program.

#### AGENCY COMMENTS

We provided a draft of this report to FEMA for its review and comment. In commenting on the report, FEMA's Director, Office of Policy and Regional Operations, stated that the factual information is correct. He also offered several minor modifications, which we incorporated into the report.

In addition, the Director noted that the Community Disaster Loan Program is subject to the Credit Reform Act of 1990 and its loans incur administrative costs over their life, including the costs of audits to determine whether loans qualify for cancellation under the Stafford Act. Because of the nature of this loan program, however, compliance with the Credit Reform Act of 1990 has been problematic. With a subsidy rate of close to 90 percent for fiscal year 1996 and close to 100 percent for fiscal year 1997, the continuation of this financial aid as a loan program does not appear to be justified. He further stated that FEMA's goal is to terminate the loan program. According to the Director, if the program is not terminated, it would be more appropriately administered as a grant program.

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<sup>5</sup>The subsidy rate is the difference between the present value of expected cash inflows to the government and the present value of cash outflows; essentially, it reflects the extent of nonperformance by the borrowers. It is based on actual and anticipated repayments by borrowers under the program.

<sup>6</sup>Audit of FEMA's Disaster Relief Fund, H-16-95 (July 27, 1995).

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In performing our work, we reviewed relevant laws and regulations, obtained data on loan funding from FEMA officials at headquarters, and discussed the Community Disaster Loan Program with officials at FEMA's Response and Recovery Directorate and Office of Financial Management. We did not attempt to independently analyze the eligibility of individual borrowers for full or partial loan cancellations. We conducted our work from November 1995 through April 1996 in accordance with generally accepted government auditing standards.

Copies of this report are being sent to the Director, Federal Emergency Management Agency; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request. If you or your staff have any questions about this report, please call me at (202) 512-7631.

Sincerely yours,



Lawrence J. Dyckman  
Associate Director, Housing and  
Community Development Issues

Enclosures - 2

CANCELED COMMUNITY DISASTER LOAN AMOUNTS,  
AS OF DECEMBER 31, 1995

Local government borrower	Principal canceled	Interest canceled	Total
Rexburg, ID	\$260,000	\$249,302	\$509,302
Williamson, WV	0	86,339	86,339
Matewan, WV	7,000	3,659	10,659
Johnstown, PA	1,680,000	699,782	2,379,782
Franklin Borough, PA	50,000	30,965	80,965
Dale Borough, PA	47,000	24,250	71,250
Prichard, AL <sup>a</sup>	1,540,000	1,983,789	3,523,789
Clifton, AZ	112,979	69,926	182,905
Wheatland Borough, PA	65,768	21,681	87,449
Albion Borough, PA	19,146	4,146	23,292
Vassar, MI <sup>b</sup>	55,528	21,304	76,832
<b>Total</b>	<b>\$3,837,421</b>	<b>\$3,195,143</b>	<b>\$7,032,564</b>

<sup>a</sup>Technically defaulted, rather than canceled.

<sup>b</sup>Is currently repaying uncanceled principal and associated interest.

Source: FEMA.

FUNDING HISTORY OF FEMA'S COMMUNITY DISASTER LOAN PROGRAM, AS OF DECEMBER 31, 1995

Local government	Amount approved	Interest rate (percent)	Amount disbursed	Amounts canceled			Amounts collected			Amounts outstanding		
				Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Madison Co., ID	\$375,000	7.25	\$275,000	0	0	0	\$275,000	\$117,633	\$392,633	0	0	0
Rexburg, ID	260,000	7.25	260,000	\$260,000	\$249,302	\$509,302	0	0	0	0	0	0
Fremont Co., ID	321,409	7.25	300,000	0	0	0	300,000	94,315	394,315	0	0	0
Bingham Co., ID	854,000	7.25	0	0	0	0	0	0	0	0	0	0
Williamson, WV	127,000	7.13	127,000	0	86,339	86,339	127,000	47,645	174,645	0	0	0
Matewan, WV	12,000	7.13	7,000	7,000	3,659	10,659	0	0	0	0	0	0
Hull, MA	1,369,000	8.75	785,108	0	0	0	315,284	962,567	1,277,581	\$469,824	\$6,838	\$476,661
Johnstown, PA	1,680,000	8.75	1,680,000	1,680,000	699,782	2,379,782	0	0	0	0	0	0
Franklin Borough, PA	50,000	9.50	50,000	50,000	30,965	80,965	0	0	0	0	0	0
Dale Borough, PA	47,000	11.63	47,000	47,000	24,250	71,250	0	0	0	0		
Gulf Shores, AL	239,000	9.63	239,000	0	0	0	239,000	80,830	319,830	0	0	0
Gulf Shores, AL (sewage bond)	16,100	10.38	16,100	0	0	0	16,100	6,538	22,638	0	0	0
Prichard, AL	1,540,000	9.63	1,540,000	1,540,000	1,983,789	3,523,789	0	0	0	0	0	0
Gulf Shores WWB, AL	44,000	10.38	44,000	0	0	0	44,000	15,940	59,940	0	0	0
Hurtsboro, AL	29,000	13.75	29,000	0	0	0	29,000	21,281	50,281	0	0	0
Clifton, AZ	344,639	11.00	344,639	112,979	69,926	182,905	231,660	161,280	392,940	0	0	0



Local government	Amount approved	Interest rate (percent)	Amount disbursed	Amounts canceled			Amounts collected			Amounts outstanding		
				Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Wheatland Borough, PA	65,768	9.25	65,768	65,768	21,681	87,449	0	0	0	0	0	0
Marlington, WV	84,436	7.50	84,436	0	0	0	84,436	6,020	90,456	0	0	0
Albright, WV	16,232	<sup>a</sup>	0	0	0	0	0	0	0	0	0	0
Pendleton City, WV	113,581	7.50	113,581	0	0	0	113,581	10,881	124,462	0	0	0
Albion Borough, PA	48,242	6.75	48,242	19,146	4,146	23,292	29,096	4,775	33,871	0	0	0
Albion, PA (mun. authority)	79,996	<sup>a</sup>	0	0	0	0	0	0	0	0	0	0
Vassar, MI	124,115	6.50	124,115	55,528	21,304	76,832	13,947	36,053	50,000	54,640	1,593	56,233
U.S. Virgin Islands	89,912,000	8.25	50,100,000	0	0	0	0	0	0	50,100,000	20,164,120	70,264,120
Port of Tillamook, OR	172,318	8.38	172,318	0	0	0	0	0	0	172,318	70,799	243,117
Homestead City, FL	10,325,000	6.73	10,325,000	0	0	0	0	0	0	10,325,000	2,196,775	12,521,775
Florida City, FL	1,046,000	6.73	1,046,000	0	0	0	0	0	0	1,046,000	226,519	1,272,519
Miami, FL	5,000,000	5.68	5,000,000	0	0	0	0	0	0	5,000,000	707,981	5,707,981
Miami, FL	5,000,000	5.47	5,000,000	0	0	0	0	0	0	5,000,000	506,308	5,506,308
Key Biscayne, FL	1,000,000	5.68	1,000,000	0	0	0	1,000,000	99,361	1,099,361	0	0	0
Kauai Co., HI	15,000,000	5.47	10,363,434	0	0	0	0	0	0	10,363,434	1,207,365	11,570,799

Local government	Amount approved	Interest rate (percent)	Amount disbursed	Amounts canceled			Amounts collected			Amounts outstanding		
				Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
American Samoa	10,680,000	5.47	10,179,089	0	0	0	0	0	0	10,179,089	1,272,502	11,451,591
Quincy, IL	700,000	5.47	1,000	0	0	0	1,000	36	1,036	0	0	0
Brussels Comm. Sch. #42, IL	11,600	5.47	0	0	0	0	0	0	0	0	0	0
Calhoun Co., IL	162,000	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Calhoun Comm. Sch. #40, IL	543,000	5.47	0	0	0	0	0	0	0	0	0	0
Bluffdale Twp., IL	10,000	5.47	1,000	0	0	0	1,000	86	1,086	0	0	0
Bluffdale Rd. Dist., IL	10,700	5.47	1,000	0	0	0	1,000	86	1,086	0	0	0
Carrollton Sch. Dist., IL	762,000	5.47	0	0	0	0	0	0	0	0	0	0
Columbia Levee Dist., IL	10,000	5.47	10,000	0	0	0	0	0	0	10,000	673	10,673
Green Co., IL	270,000	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Hillview, IL	16,725	5.47	13,500	0	0	0	0	0	0	13,500	746	14,246
Patterson Twp., IL	11,600	5.47	6,000	0	0	0	0	0	0	6,000	437	6,437
Patterson Rd. Dist., IL	11,600	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Walkerville Twp., IL	6,000	5.47	6,000	0	0	0	0	0	0	6,000	479	6,479

Local government	Amount approved	Interest rate (percent)	Amount disbursed	Amounts canceled			Amounts collected			Amounts outstanding		
				Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Walkerville Rd. Dist., IL	8,300	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Woodville, IL	9,582	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Woodville Rd. Dist., IL	13,235	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Grafton, IL	92,000	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Chouteau Twp., IL	24,867	5.47	500	0	0	0	0	0	0	500	45	545
Chouteau Rd. Dist., IL	48,283	5.47	500	0	0	0	0	0	0	500	45	545
Maeystown Fire Dist., IL	10,957	5.47	1,000	0	0	0	0	0	0	1,000	91	1,091
Monroe Co. Rd. #8, IL	10,053	5.47	1,000	0	0	0	1,000	64	1,064	0	0	0
Monroe Co. Rd. #9, IL	13,109	5.47	13,109	0	0	0	0	0	0	13,109	647	13,756
Monroe Co. Rd. #10, IL	18,776	5.47	10,000	0	0	0	0	0	0	10,000	667	10,667
Valmeyer, IL	97,200	5.47	97,200	0	0	0	0	0	0	97,200	4,513	101,713
Valmeyer Sch. #3, IL	652,295	5.47	0	0	0	0	0	0	0	0	0	0
Valmeyer Fire Dist., IL	7,500	5.47	7,500	0	0	0	0	0	0	7,500	504	8,004
Hull, IL	15,694	5.47	0	0	0	0	0	0	0	0	0	0

Local government	Amount approved	Interest rate (percent)	Amount disbursed	Amounts canceled			Amounts collected			Amounts outstanding		
				Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Harrisonville Levee, IL	67,308	5.47	36,000	0	0	0	0	0	0	36,000	2,385	38,385
<b>Total</b>	<b>\$149,590,220</b>	<b>*</b>	<b>\$99,578,139</b>	<b>\$3,837,421</b>	<b>\$3,195,143</b>	<b>\$7,032,564</b>	<b>\$2,822,104</b>	<b>\$1,685,391</b>	<b>\$4,487,495</b>	<b>\$92,918,614</b>	<b>\$26,372,668</b>	<b>\$119,291,282</b>

Note: Since December 31, 1995, Kauai County has drawn the remainder of its approved amount of \$15,000,000 and some communities have made interest payments. Otherwise, the status of the loans in the program remained unchanged from December 31, 1995, through the completion of our review.

<sup>a</sup>Not applicable.

Source: Information as provided by FEMA's Response and Recovery Directorate.

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