

GAO

Briefing Report to the Honorable
Paul S. Trible, Jr., United States Senate

October 1986

FEDERAL DISASTER ASSISTANCE

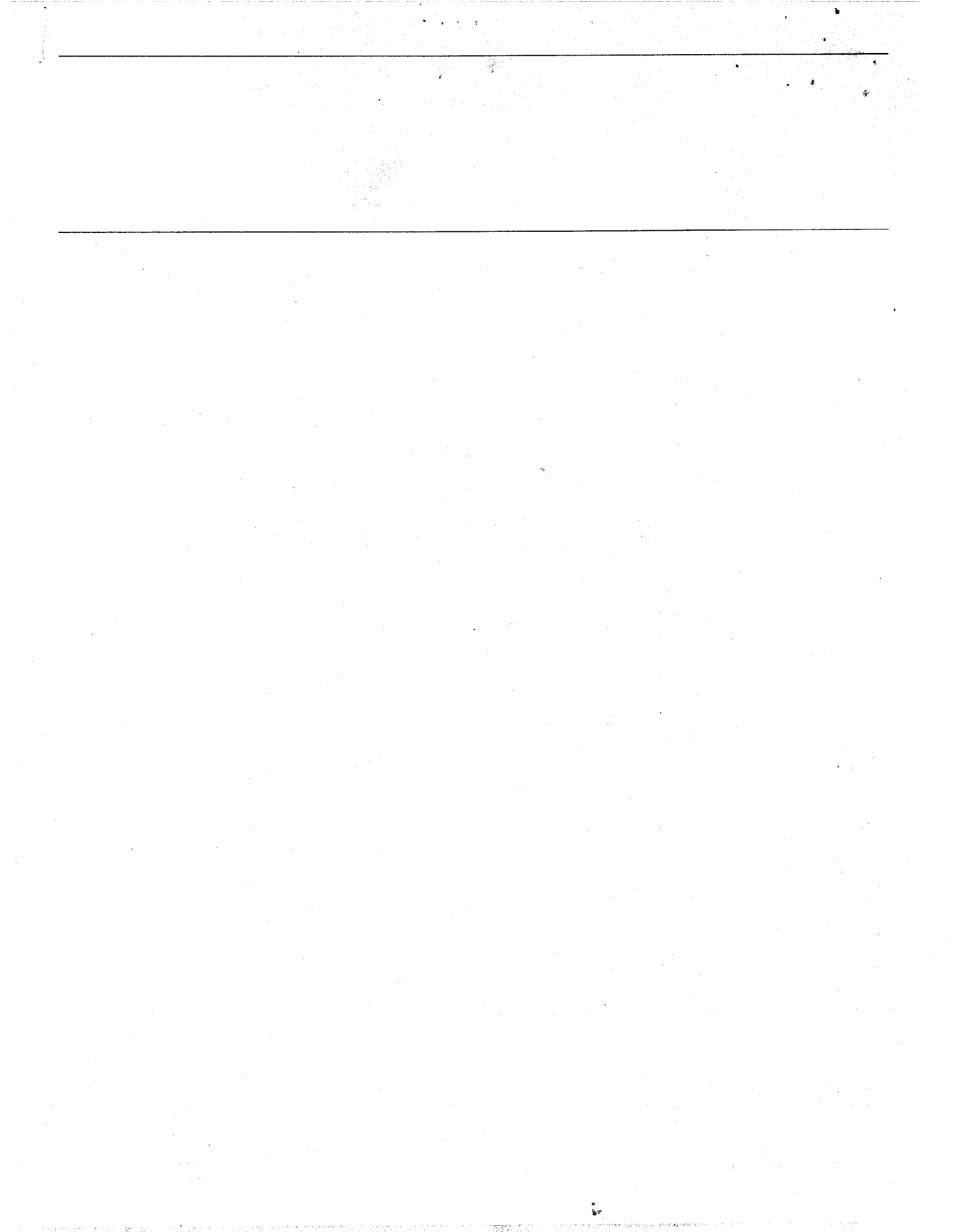
Relief to 1985 Virginia Flood Victims—Process and Alternatives



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

Resources, Community, and
Economic Development Division

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October 3, 1986

The Honorable Paul S. Trible, Jr.
United States Senate

Dear Senator Trible:

On January 25, 1986, you requested that we review the adequacy and timeliness of federal disaster assistance provided to Virginia victims of the November 1985 flood. This request was prompted by numerous complaints regarding the timeliness of assistance. You asked that we perform a limited analysis of five programs, identifying alternatives that might enhance their timeliness and adequacy, rather than develop firm conclusions and recommendations.

We reviewed the following five programs:

- the Federal Emergency Management Agency's (FEMA's) public assistance,
- the Small Business Administration's (SBA's) disaster loans,
- FEMA's National Flood Insurance Program,
- FEMA's Temporary Housing Assistance Program, and
- the Federal Highway Administration's highway repairs.

We found that disbursements under FEMA's National Flood Insurance Program were relatively prompt. Payments had begun by December 1, 1985, and by March 6, 1986, 88 percent of the claims had been closed, with payments of over \$23 million. Similarly, the issue of concern regarding temporary housing--FEMA's policy of not setting up mobile homes in a flood-prone area--was found to be no longer of concern to the complainant. Also, the issue of funding responsibility for highway repairs was found to be an isolated instance that was resolved to the satisfaction of those concerned.

On the basis of subsequent discussions with your office, we concentrated our efforts on FEMA's public assistance program and SBA's Physical Disaster Loan Program because of their relatively slower disbursements. Because of the close relationship between SBA's disaster home loans and

FEMA's Individual and Family Grant (IFG) Program, we considered certain aspects of the latter program, particularly the impact that SBA has on the timeliness of IFG disbursements. We briefed your office on July 8, 1986, and as requested, we are now providing this briefing report on the results of our work.

On the basis of our review of assistance provided to victims of the recent flooding in Virginia, several matters appear to warrant further examination as possible ways in which more assistance, or more timely assistance, might have been provided. These matters include:

- ° How existing provisions for advancing funds to SBA home loan applicants could be used. (See p. 19.)
- ° Possibly modifying the criteria used by SBA to identify victims who need not apply for a loan, but can instead immediately seek IFG assistance. (See p. 20.)
- ° How provisions for giving partial advances to all public assistance recipients, and making immediate total disbursements to eligible recipients whose grants total less than \$25,000, could be used. (See pp. 30 and 32.)
- ° The extent to which the maximum \$5,000 IFG assistance available meets the necessary expenses and serious needs of the victims. (See p. 26.)
- ° Considering ways to reduce the number of separate loss-verification inspections being performed under various programs. (See p. 22.)
- ° The impact of staffing levels and the extensive use of temporary employees on backlogs at SBA. (See p. 15.)
- ° The differences in assistance available through SBA versus the IFG Program, and the impact that assistance provided or not provided under one program can have on the other. (See p. 25.)
- ° Procedures to identify SBA home loan recipients who may be eligible for and are in need of supplemental IFG assistance. (See p. 26.)
- ° The extent of aid available to businesses severely affected by a disaster. (See p. 27.)

It should be noted that action on some of the aforementioned matters would result in increased costs through more or larger grants, hiring more personnel, or

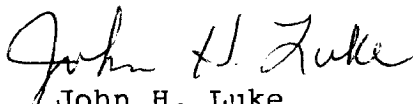
making occasional inappropriate grants. There may, however, be potential for at least some off-setting savings from any merging of the loss inspection function and from any expedited disbursements, since many SBA loan applicants are staying in federally funded temporary housing and need the loan proceeds to repair and move back into their homes.

This briefing report is divided into six sections. Section one contains a brief description of the flooding that occurred in Virginia; section two contains our specific objectives, scope, and methodology; and section three provides a description of SBA's loan review process and the relationship between SBA loans and the IFG Program. Section four discusses factors affecting the timeliness of SBA and IFG assistance, and section five, the amount of assistance provided. Section six discusses the timeliness of assistance to communities and other public-assistance recipients.

The matters included in this report were discussed with appropriate federal and state officials, and their comments have been incorporated as appropriate. However, as requested by your office, we did not obtain official agency comments on a draft of this report.

Unless you publicly announce its contents earlier, we will not distribute this report further until 30 days from the date of this letter. At that time, copies will be sent to the Director, Federal Emergency Management Agency; the Administrator, Small Business Administration; the Director, Office of Management and Budget; the Coordinator, Department of Emergency Services, Commonwealth of Virginia; the Director, Division of Field Operations, Department of Social Services, Commonwealth of Virginia; and other interested parties. If you have any questions or if I can be of further assistance, please contact me at 275-6111.

Sincerely yours,


John H. Luke
Associate Director

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ABBREVIATIONS

DAC Disaster Application Center
DAO Disaster Area Office
DFO Disaster Field Office
DSR Damage Survey Report
FEMA Federal Emergency Management Agency
GAO General Accounting Office
IFG individual and family grant
SBA Small Business Administration

SECTION 1

INTRODUCTION

SEVERE, WIDESPREAD FLOODING IN VIRGINIA

On November 4, 1985, severe and widespread flooding occurred in the headwaters of the Roanoke, James, and Potomac rivers in Virginia, and along rivers flowing into the Chesapeake Bay.

According to preliminary estimates, nearly 8,000 homes and businesses were damaged or destroyed. Twenty-two deaths were attributed to the flooding, as was property damage exceeding \$700 million.

The President declared a major disaster in the Commonwealth of Virginia on November 9, 1985, which eventually encompassed 52 counties and cities.

OVERVIEW OF DISASTER ASSISTANCE PROCEDURES

After a presidential declaration of a major disaster, a disaster field office (DFO) is established, from which relief is coordinated and directed by the Federal Emergency Management Agency (FEMA). Disaster application centers (DACs) are then established at various locations throughout the area, comprised of stations staffed by representatives of the various programs and organizations through which residents and business owners can apply for assistance. Through the news media and other means, victims are instructed to go to any convenient DAC, where they are interviewed and referred to the station at the DAC providing the type of assistance they need. A wide range of assistance is available, including temporary housing for those whose homes were destroyed or are uninhabitable, low-interest Small Business Administration (SBA) loans for homes and businesses, and individual and family grants (IFGs) to households with serious needs and major expenses.

Federal officials also brief state and local governments and certain private, nonprofit organizations on the assistance available to them and the procedures for obtaining it. The state government is also eligible for federal assistance.

RELIEF DURING THE FIRST THREE MONTHS

By November 18, 1985, FEMA had begun placing families in temporary housing; by December 1, some IFG checks had been issued.

Table 1.1 shows that as of January 17, 1986, little or no disbursements had been made under SBA's Physical Disaster Loan Program (home and business loans) or FEMA's public assistance program.

Table 1.1

Level of Relief Provided Under Selected Disaster Programs^a

<u>Program</u>	<u>Applications/Claims Received^b</u>	<u>Number Receiving Funds or Assistance</u>	<u>Disbursements (\$000)</u>
Individual and Family Grants	1,714	788	\$2,200
Temporary Housing Assistance	2,769	2,752	NA
SBA Home Loans	1,289	3	6
SBA Business Loans	334	0	0
Public Assistance	101	0	0

^aAs of January 17, 1986; about the time of Senator Tribble's request to GAO.

^bNet of those withdrawn or declined.

SECTION 2

OBJECTIVES, SCOPE, AND METHODOLOGY

We were asked to examine the current process under which federal disaster assistance was provided to Virginia victims of the November 1985 flood, along with alternative processes that might offer improvement.

We initially examined, in particular:

1. FEMA's public assistance program
2. SBA's Physical Disaster Loan Program, and
3. FEMA's National Flood Insurance Program.

Disbursements under FEMA's National Flood Insurance Program were relatively prompt. Payments had begun by December 1, 1985; 88 percent of the claims had been closed by March 6, 1986, with payments of over \$23 million. Other initial concerns--involving temporary housing assistance and highway repairs--were similarly quickly resolved. As a result, it was agreed with your office that we would concentrate our inquiry on FEMA's public assistance and SBA's disaster loan programs. Because of the interrelationship between SBA's disaster home loans and FEMA's Individual and Family Grant Program, we obtained information on the latter program as well. While we did not examine these programs in the depth necessary to make any definitive judgment on their adequacy, we did identify areas that warrant further attention.

We contacted a number of applicants for assistance to obtain information on the assistance they received; we examined policy and procedure manuals for the various programs, various statistical reports and correspondence, and selected IFG case files. We spoke with FEMA officials in Washington, D.C.; at Region III in Philadelphia, Pennsylvania; and at the DFO in Roanoke, Virginia. We also spoke with SBA personnel in Washington, D.C.; at the DFO in Roanoke; and at the disaster area office in Atlanta, Georgia. In addition, we discussed the situation with officials of the Commonwealth of Virginia's Departments of Emergency Services and Social Services in Richmond and Roanoke.

We discussed the results of our work with federal and state officials and incorporated their comments as appropriate. As requested by your office, we did not obtain official agency comments on a draft of this report. We also did not perform a

reliability assessment of computerized data used, nor did we examine individual SBA loan files because access to them was not granted until after our audit work was essentially completed.

Our review was conducted between February and May 1986.

SECTION 3

SBA LOAN PROCEDURES AND IMPACT ON IFG

SBA makes low-interest disaster loans of 4 or 8 percent (depending on the borrowers' ability to obtain credit elsewhere) to individuals and businesses to repair or replace most uninsured property damage. SBA will, however, only make loans to those considered capable of repaying them. As a result, the potential borrower must apply to SBA just as to any commercial lending institution, submitting various financial and personal information. SBA physically verifies the loss, and examines the applicant's credit history, character, ability to repay the loan, and collateral. Virginia loan applications are processed by the disaster area office (DAO) in Atlanta. Loan disbursements are ordered by SBA's fiscal office in Denver, Colorado, and the checks are mailed from the Treasury Department's disbursing office in San Francisco, California.

SBA's home loans to individuals and FEMA's individual and family grants are interrelated in that a household will generally be eligible for one or the other, but not both.¹ An individual or family may be eligible for IFG assistance of up to \$5,000 if--and only if--SBA declines to cover its losses with a loan. Since IFG funds may be a household's only source of financial aid, and because IFG assistance is only available to those who cannot obtain assistance from SBA, an applicant's financial condition is quickly determined by the registrar at the DAC. If found clearly unable to repay a loan, the applicant is given a "summary decline" (declined for a loan without having to submit a loan application) by SBA and immediately referred to IFG. Otherwise, the registrar gives the applicant an SBA loan application. If the applicant applies for a loan, the application is reviewed by SBA personnel in the appropriate area office; if declined, the individual may then apply for IFG assistance. A loan applicant may be determined by SBA to be financially capable of repaying a loan, but not to the full extent of the eligible losses, in which case the applicant may still be eligible for supplementary IFG assistance.

As of April 25, 1986, 1,361 SBA home loans had been approved in Virginia, for a total of \$21.4 million. Loans were declined to

¹Exceptions are medical and funeral expenses, which are provided for under IFG but not SBA. An applicant in need of these services will be referred to the IFG station at the DAC, irrespective of an SBA loan application.

370 applicants (nearly 90 percent for lack of repayment ability or a poor credit history), most of whom sought IFG assistance. As of the same date, 360 business loans had been approved, for a total of \$23.1 million; 149 applications were declined, also primarily for lack of repayment ability.

Most IFG applicants had been assisted by the end of March. As of March 28, 1986, \$5.1 million had been provided to 1,747 applicants. Those denied totaled 316.

TIME FRAMES FOR PROCESSING
VIRGINIA LOAN APPLICATIONS

SBA's goal is to process 90 percent of its loan applications (defined as notifying the applicant on the action determined) within 60 days of SBA's acceptance of the application, excluding time spent waiting for the applicant to provide additional information needed to process the loan. As of March 25, 1986, 72 percent had been processed within 60 days and another 18 percent within 2 weeks of the 60-day goal.

The following table shows, for those loans acted upon by March 25, 1986, that most took from 16 to 75 days, or 2 to 10 weeks.

Table 3.1

Calendar Days for SBA Loan Processing in Virginia
as of March 25, 1986

<u>Time Spent in Processing^b</u>	<u>Loans Acted Upon</u>			
	<u>Withdrawals</u>	<u>Declines^a</u>	<u>Approvals</u>	<u>All</u>
1-15 days	26	40	4	70*
16-30 days	140	155	50	345*
31-45 days	121	144	259	524*
46-60 days	75	81	407	563*
61-75 days	34	40	299	373
76-90 days	5	10	145	160
91-105 days	<u>2</u>	<u>1</u>	<u>54</u>	<u>57</u>
Total	<u>403</u>	<u>471</u>	<u>1,218</u>	<u>2,092</u>

*1,502, or 72 percent, within 60 days.

^aExcludes summary declines.

^bNet of applicant-caused delays.

An SBA analysis shows that after a loan is approved, an additional 2 to 8 weeks is usually spent waiting for an applicant to sign and return the loan closing documents, at which time the Atlanta DAO requests the fiscal office in Denver to initiate disbursement.

We were advised that after disbursement is ordered, the applicant generally receives payment in 10-15 days. Thus, with 2-10 weeks to process the loan, 2-8 weeks to close the loan, and 2 weeks to issue the check, a total time frame of 3 or more months from receipt of application to disbursement is not unusual.

It should also be pointed out that most applications were not received until December and January, 1-2 months after the flood, and that SBA's loan processing goal (1) is measured from receipt of application, not the date of the disaster declaration, and (2) that it also excludes the time to close and disburse the loan, as well as any applicant-caused delays. As a result, by late March 1986, for example, of 1,543 loans approved, for \$35.8 million, 252 applicants had received a total of \$1.2 million, and 280 applications were still in process. Thus, with an appreciable number of SBA loans not being disbursed several months after the flood, and in response to a number of complaints made to Senator Tribble's office, the following section discusses alternative ways in which assistance might have been provided more quickly.

SECTION 4

ALTERNATIVES FOR IMPROVING THE TIMELINESS OF SBA AND IFG ASSISTANCE

It is SBA's position that its disaster loans cannot be considered a source of immediate relief. The Deputy Associate Administrator for Disaster Assistance pointed out that the objectives of (1) timely aid to disaster victims and (2) fiscal accountability and control over federal funds are, to a degree, mutually incompatible; a move to change one generally is made at the expense of the other. The emphasis in recent years, he said, has clearly been on accountability, such as Congress' elimination of debt forgiveness, imposition of the "credit elsewhere" test, and a general tightening of disbursement procedures.

However, there are certain actions that FEMA and SBA are planning, as well as others we identified, that could provide either SBA or IFG assistance more quickly. These are discussed in this section.

BACKLOGS IN SBA's DAO- DELAYED LOAN PROCESSING

An SBA loan application goes through the following review process:

1. Screening and docketing. The application package is examined at the DFO for completeness. If complete enough to accept, it is logged in and the applicant notified in writing of any additional information that is needed.
2. Verification. SBA employees visit the applicant's property to verify the disaster-related damages and estimate the cost of repair or replacement.
3. Loan processing. The application is sent to the DAO, where loan officers examine the applicant's repayment ability, credit history, character, etc., and, if approved, set the terms and amount of the loan.
4. Legal review. The loan package is reviewed from a legal standpoint and the loan closing documents are typed and mailed to the applicant to sign and return.

Following are SBA's time-frame goals for each step, and the actual average time required, based on our examination of the first 200 Virginia loan applications accepted for processing:

Table 4.1

SBA Loan Processing Steps
(Calendar Days)

<u>Step</u>	<u>Goal</u>	<u>Actual</u>
Screening and docketing	1	5.5 ^a
Verification	14	17.3 ^a
Loan processing	33	23.6
Legal review	<u>12</u>	<u>21.5</u>
Total	<u>60</u>	<u>67.9</u>

^aThe data we were provided actually showed an average of 22.8 days for verification, but we were advised by the Area 2 assistant supervisory construction analyst that the computer data were in error and that the actual average verification time was 17.3 days. We were told that the difference (5.5 days) was attributable to delays in moving the loan application out of docketing.

The Atlanta DAO already had a backlog of 4,400 applications stemming from six concurrent hurricane-related declarations of disaster when the flooding occurred in Virginia and other mid-Atlantic states, generating several thousand more applications. We were advised that backlogs were a factor contributing to the total time required for processing. For example, although a number of factors can affect the verification process--such as weather, accessibility, and making an appointment with the applicant--the verification itself actually takes only a couple of hours. Similarly, SBA advised that while its goal for the loan processing step is 33 days, only 5 of those 33 days are actually needed for processing; the remaining 28 represent anticipated "dead time," i.e., waiting for needed information from the applicant. However, data we examined indicate that processing was taking a total of 17.8 days, or 12.8 days beyond the 5-day objective. Again, we were advised that it was due to a backlog of applications. Lastly, we were told that the legal step actually required only 2 to 3 days, and that most of the 21.5 days needed was due to a shortage of typists. SBA's Deputy Associate Administrator for Disaster Assistance advised us that when he became aware of the typing backlog in the legal section, he immediately took action to hire more typists.

According to the Area 2 assistant supervisory construction analyst, the number of verifiers is sufficient, but the operation could be improved with more permanent and less temporary help, since temporaries must be trained and are seldom used in more than one disaster. There are only ten permanent construction analysts

in Area 2, which covers 19 states. This staffing was augmented by over 80 temporary personnel and details from other area offices as of late 1985.

In addition, a procedure is being devised for the future in which much of the construction analysts' paperwork duties will be done by computer. This, we were told, should enable a verifier to complete ten verifications per day, rather than the present four.

There may, however, be little that SBA can do to eliminate the loan processing backlog. The DAO hired and/or trained virtually every qualified loan officer it could find to deal with the unusually large number of disaster-related cases. It brought several in from other area offices, increasing in staffing from 92 in November to 141 by mid-December.

LATE AND INCOMPLETE PACKAGES HAMPER SBA

The loan application packages, particularly for business loans, require considerable financial and other information. The applicant must provide data on income and expenses, assets and liabilities, taxes, insurance coverage, and damage descriptions.

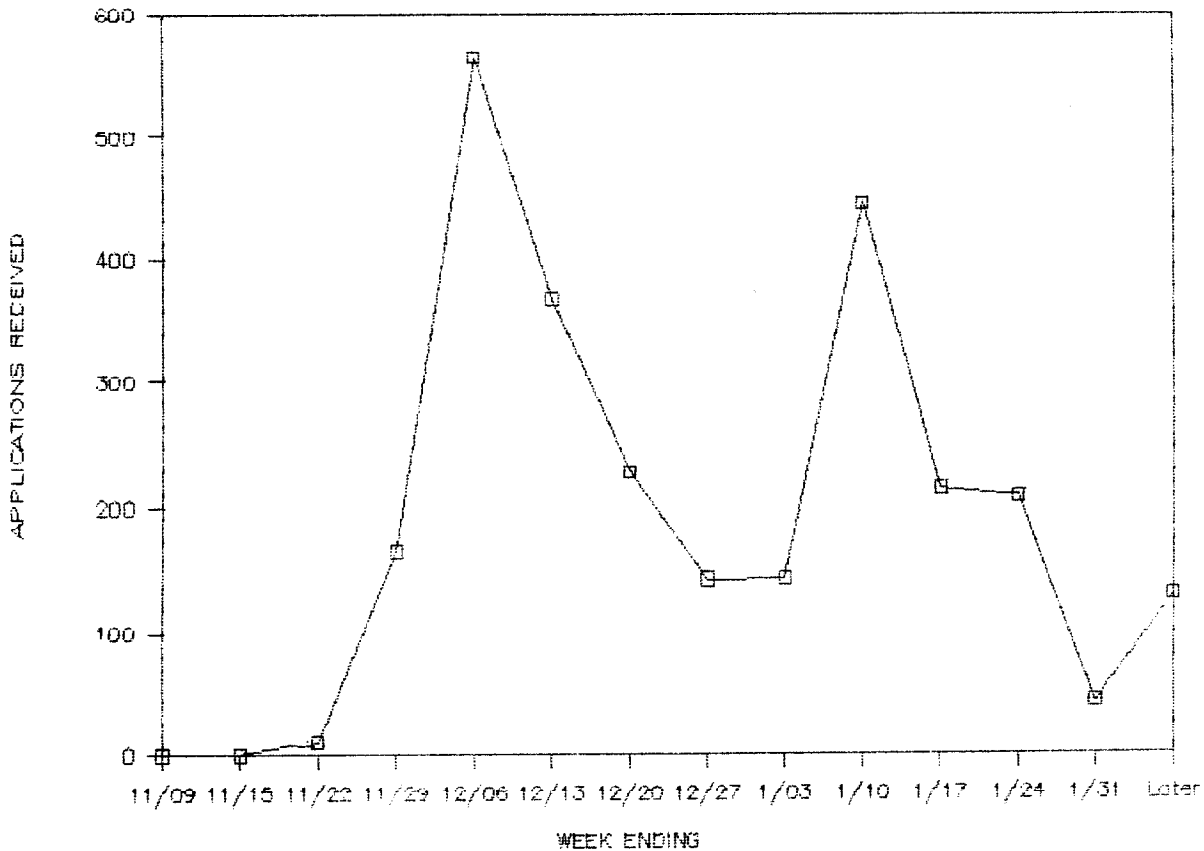
According to an SBA official, the agency has considerable difficulty in obtaining complete application packages. The loan processing branch manager in Atlanta said that, historically, 90 percent of the applications received are incomplete. SBA accepts most of these incomplete applications and advises applicants in writing of the additional information needed. SBA does whatever processing it can, and follows up its letters with phone calls; it periodically visits affected communities to offer assistance to applicants, but considerable amounts of time are still spent waiting for essential information.

A related problem is the applicants' delay in initially submitting the loan applications. Barring circumstances beyond the control of the applicant, SBA requires most loan applications to be submitted within 60 days of the date of the disaster declaration. Usually there is an influx of applications just before the deadline, creating an uneven work load for SBA.

Data provided by SBA show the surge in Virginia applications received just before the application filing deadline of January 10, 1986, as shown in figure 4.1:

Figure 4.1

Loan Application Filing Times



Increased assistance to applicants

One problem with receiving applications after the DACs close is that there is little on-scene technical assistance for applicants, the loan officers being needed in Atlanta for their normal loan-processing duties. The last DAC in Virginia closed November 27, before any appreciable number of Virginia loan applications had been submitted.

SBA does periodically use "circuit rides," in which SBA personnel visit a community to aid anyone who has problems or questions. To help alleviate the problems of incomplete and untimely applications in the future, SBA's Atlanta DAO intends to set up workshops shortly after the DACs close to help people fill out their applications. These will differ from the circuit rides in that they will provide more of a classroom approach directed at achieving a completed application at the time. Future plans call

for referring all potential home loan applicants to the SBA station at the DAC, where they will have the opportunity to view an instructional videotape prepared by SBA and ask questions of SBA personnel.

Untimely loan closings

A related problem of concern to SBA is the time it takes the borrowers to sign and return the loan-closing documents, since no disbursements can be made before then.

An analysis done by SBA shows that it often waited up to 8 weeks for Virginia applicants to return the loan-closing documents. Eighty percent of those contacted by SBA in a telephone survey indicated that they "had not gotten around to it."

To encourage faster return of the loan-closing documents in the future, SBA/Atlanta plans to mail the documents to an SBA office near the applicant, rather than directly to the applicant. An appointment will then be made for the applicant to come in and close the loan, in the hope that this will expedite the closing.

ADVANCES TO LOAN APPLICANTS COULD BE MADE

Another action that might be taken to expedite assistance to disaster victims involves the IFG Program. FEMA/IFG procedures provide that the states (which actually administer the program for FEMA, and contribute 25 percent of the grant) "may make grants for emergency needs in instances where there is an unreasonable delay in receiving assistance from other means." Thus a person who will likely be eligible for either SBA or IFG assistance can be provided all or part of the IFG funds while the SBA loan application is being processed. If the loan application is denied, the applicant has already gotten some or all of the IFG grant. If the loan is approved, the applicant has in effect gotten an advance on the loan, in which case SBA reimburses the IFG program and the borrower receives the balance. This procedure was not, however, used in Virginia; the states generally do not like it, according to FEMA. Many states are reluctant to provide IFG money in advance because of the possibility that some of the money may have to be recovered--an invariably difficult and unpopular process.

Commonwealth of Virginia officials see several problems with providing advances, including the possible need for duplicative loss verification work under both the SBA and IFG programs, and the effort and ill feelings caused by occasionally having to seek recovery of the advance. They did agree, however, that with some loss verification, it may be possible to provide some advance.

SBA's Deputy Associate Administrator for Disaster Assistance also expressed concern over possible duplicate processing by IFG and SBA personnel, as well as marked increases in applications, and applicants making a conscious attempt to be turned down for a loan.

We were advised by FEMA that it is not the agency's intention that the procedure be too stringently applied. Moreover, FEMA would like to see all SBA home-loan applicants receive advances, recognizing the time required to review an SBA loan application and the fact that IFG is often a family's only source of assistance.

FEMA officials recognize that while making such advances may occasionally result in inappropriate grants and unrecoverable losses, they are willing to tolerate its occasional occurrence in an effort to expedite what may be the recipients' only available source of assistance. If such unrecoverable losses occur, FEMA absorbs 75 percent and the state 25 percent.

More timely assistance may have been given by using the provision for advances to SBA home-loan applicants. Bypassing SBA's loan-review process could have affected assistance not only to the nearly 400 SBA home-loan applicants who were turned down, but also to the nearly 1,400 who were approved. This can be seen from the fact that IFG disbursements began before the end of November, were over half complete by the end of January, and essentially complete by the end of March; while SBA disbursements did not begin until January and totaled less than \$2 million by the end of March, out of a total of \$39 million in applications received.

SHOULD THE SUMMARY DECLINE
CRITERIA BE MODIFIED?

As indicated earlier, summary declines are another way in which SBA's loan-review process can be bypassed and the applicants immediately considered for IFG assistance. The following financial criteria for a summary decline is applied to all applicants in the 48 contiguous states and was set at 25 percent above the 1985 nationwide poverty level. Applicants whose incomes exceed the prescribed levels must apply for an SBA loan, but those with lesser incomes can be given a summary decline and be considered immediately for IFG assistance.

Table 4.2

SBA Summary Decline Criteria

<u>Number in Household</u>	<u>Minimum Annual Income</u>
1	\$ 7,875
2	8,813
3	11,063
4	13,312
5	15,563
6	17,812
7	20,062
8	22,312

SBA said that because of geographic variation in income levels, regional rather than nationwide criteria would be desirable, but knew of no such data being published in recent years. The extent to which SBA's summary decline criteria is applied at the same rate regardless of geographic location may cause individuals who have little chance of approval to apply for a loan.

We examined the case files of 24 IFG recipients who had not been summarily declined but who, after applying for SBA loans, had been turned down. Twenty-one of the 24 were declined for an inability to repay, unsatisfactory credit history, or both. The remaining three were for policy reasons, such as ineligible losses. SBA took an average of 27 days to deny these loans; the Virginia IFG Program spent an average of 41 additional days after an IFG request to make payment.

Two of the 24 IFG recipients had incomes that were below the minimum income level. We were unable to determine why they were not summary declines. Another six had incomes that exceeded the criteria by less than \$100 per month, and four others exceeded the criteria by less than \$200 per month. In other words, 12 of the 24 IFG recipients missed receiving a summary decline by less than \$200 per month. It would, however, be desirable to know whether individuals at such income levels are generally declined a loan. Since we did not review SBA's individual loan files, we were unable to determine how many applications of people with incomes only slightly above the summary decline cutoff criteria were approved or declined. We cannot, therefore, estimate the extent to which program costs might be increased by giving grants where loans might otherwise have been approved. However, it would enable more IFG recipients to receive their grants more quickly, and would reduce SBA's work load in Atlanta.

MULTIPLE LOSS VERIFICATIONS AND INSPECTIONS

An additional way to expedite assistance, under consideration by FEMA, is the merger of the verification functions. In the past, there have been four independent verification functions, and a home or business could easily receive two or more of these verifications:

1. Under the National Flood Insurance Program, insurance adjusters visit the property of policyholders reporting losses to verify the flood damage and estimate the cost of the allowable damages.
2. Under the Temporary Housing Assistance Program, FEMA contractors visit the property to verify the uninhabitability of the home and to determine if minimal repairs could be made quickly to make the home habitable again (in which case a grant is provided to do so, rather than incur long-term temporary housing costs).
3. If an SBA loan is applied for, SBA construction analysts visit the property to identify flood-related damages and estimate repair costs.
4. Under the IFG Program, state employees visit the property to verify the applicant's damages and needs.

Some consolidation of loss verification work is being achieved

In Virginia, the state IFG Program personnel relied on the SBA damage verification for those whose SBA loan applications were not approved and then became eligible for IFG consideration. Proposed regulations will make this a standard practice.

FEMA is also taking another significant step toward reducing duplicate verification work. After testing in Pennsylvania and Illinois, a form has been devised to merge the temporary housing and IFG inspections (and also simplify and streamline the requirements for IFG application review). It will be used for all temporary housing applicants, and all IFG applicants who are given a summary decline by SBA. Because the IFG Program will rely on the SBA verification for those who apply for an SBA loan and are declined, the number of independent inspections would be reduced from four to three. FEMA expects the merger to speed and simplify the process and reduce administrative costs.

An attempt was made about 10 years ago to devise a mutually acceptable inspection form, but no agreement could be reached. FEMA intends, however, to pursue further mergers. We believe it

is a matter worth pursuing, for reasons of cost-effectiveness and timeliness of assistance. For example, most SBA loan applications were not submitted until a month or more after the flood, and their verification process takes over 2 weeks, ranging as high as 2 months or more. If, as appears likely, many of these applicants had already been visited by flood insurance adjusters and/or temporary housing representatives, and if SBA could use these verifications, the loan-review process could presumably be reduced by up to 2 weeks.

Multiple loss verification still exists

Multiple verification efforts will still exist, however, among them:

- any individual or business with flood insurance that applies for an SBA loan;
- anyone with flood insurance who applies for IFG, and
- anyone in need of temporary housing who has flood insurance and/or applies for an SBA loan.

A property could, therefore, still be subject to multiple verification visits. Data were not readily available on the extent to which this occurs, but we were advised that a previous study showed that 85 percent of the applicants participate in two or more programs. On the basis of the volume of applications in Virginia, the number of multiple verifications could be significant, because by June 1986 there were:

1,427	flood insurance claims
2,812	SBA loan applications
2,341	IFG applications
4,418	temporary housing applications

We discussed with officials of FEMA and SBA the idea of a merged or consolidated verification inspection and were told that it would be desirable, but some doubted that it could be accomplished. Concerns of FEMA and SBA officials who were skeptical included the following:

- Flood insurance verifications do not include all basement contents and landscaping, information that others need.
- A belief that few holders of flood insurance policies also seek SBA loans.
- Flood insurance adjusters calculate depreciation, which others do not need.

- Different eligibility considerations make the inspections incompatible.
- Different standards of valuation (i.e., flexibility in pricing losses) make one agency reluctant to rely on the decisions of another.

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Action on some of these matters that may provide more timely assistance would result in increased costs through such expenses as more or larger grants, the hiring of more personnel, or the making of occasional inappropriate grants. There may, however, be some potential for at least some off-setting savings from any merging of the loss inspection function and a reduction of federally funded temporary housing costs from any expedited disbursements, since many SBA loan applicants need the loan proceeds to repair their homes. According to the Director, FEMA Region III Disaster Housing Program, of 62 Virginia flood victims still receiving housing assistance from FEMA as of May 5, 1986, 25 were SBA loan applicants whose loan proceeds are needed to enable them to repair and move back into their permanent residences. Each of the 25 applicants has been receiving temporary housing assistance since November 1985 at a total cost of \$108,134.

SECTION 5

ALTERNATIVES FOR INCREASING THE AMOUNT OF SBA AND IFG ASSISTANCE

SOME SBA LOAN RECIPIENTS MAY STILL BE ENTITLED TO IFG

Circumstances exist under which an SBA loan recipient may also be entitled to IFG assistance above and beyond any medical, dental, or funeral costs. An example is a case in which a loan applicant may have some repayment ability but cannot be approved for a loan sufficient to cover all eligible losses incurred. In such a case an SBA loan may be supplemented by an IFG grant. SBA advises the state of all loan denials, which trigger the IFG process. SBA also advises state personnel of loan approvals, including the amount of the loan relative to the amount of the eligible loss. According to state officials, while such information is screened to identify and contact SBA loan recipients who may still need and be eligible for IFG assistance, Virginia identified no such cases in the recent flood.

Also possible is the situation in which an individual could be approved for a loan for all SBA-eligible losses and still be entitled to IFG assistance. This is due to a somewhat subtle distinction between SBA loans and IFG in that the former is geared to replacing losses and the latter to meeting needs. SBA's disaster-loan procedure manual states that it will make loans "to rehabilitate or to replace damaged or lost physical property. . . ." FEMA's IFG handbook, on the other hand, states that

A necessary expense or serious need is not restricted to an incurred loss. An applicant may have a need or incur an expense that is not a direct replacement of a lost or damaged item. For example, . . . as a result of the disaster, an applicant is unemployed. In order to accept a new job he/she must have a uniform and specific tools. Although these items were not owned by the applicant before the disaster, they may be eligible items for the purposes of the grant program.

The material provided by SBA would not identify these situations, but state officials will help such individuals when they become aware of them.

Another effect of this distinction can be seen from the fact that 6 of the 24 IFG recipients in our sample received grants that were larger than the amount of the loan for which they had been

turned down.¹ In four of the six cases, it resulted from the state giving the IFG applicant \$2,500 to purchase a car, even if a car had not been owned previously, whereas SBA would have considered the value of the car actually lost in the flood.

Denying these applicants a loan was presumably prudent from SBA's point of view, but it placed the federal government in the somewhat unusual position of being willing to give outright as much or more money than it considered prudent to lend.

If the goal is to maximize assistance to the victims, it may be desirable to identify at the DAC those needs--other than medical and dental expenses--that may not be covered by SBA, and/or to advise applicants that if they believe they still have necessary expenses or serious needs even after receiving an SBA loan, they should seek further assistance from IFG. Alternatively, it may be desirable to make IFG and SBA coverage consistent so that any item likely to be considered for a grant under IFG would have also been considered for a loan by SBA.

Not all losses covered
by disaster assistance

Both the SBA and IFG programs have property eligibility and maximum amount standards that restrict the amount of actual damages or losses disaster victims can claim. For instance, SBA does not allow loans for secondary homes or recreational vehicles, and limits allowable amounts for other categories such as books, phonograph records, and audio and video equipment.

In addition to the IFG Program having a \$5,000 maximum grant limit, the state's FEMA-approved IFG plan has established maximum amounts for eligible items. For example, the maximum amount for automobiles is \$2,500.

It is not the purpose of the IFG Program to replace all losses or restore the recipients to a pre-disaster condition, but to cover "necessary expenses or serious needs." The following table shows the extent to which the losses of the 24 IFG recipients in our sample were covered by IFG and other assistance.

¹Two other recipients received grants larger than their loan applications, but smaller than the loan amounts for which they were eligible.

Table 5.1

Extent of Relief Provided to
24 Selected Disaster Victims

	<u>Losses Eligible for SBA Assistance</u>	<u>Losses Eligible for IFG Assistance</u>	<u>IFG Disbursements</u>	<u>Relief from Other Sources^a</u>
Total	\$258,699	\$127,663	\$90,050	\$68,868
Average	10,779	5,319	3,752	2,870
Percentage of SBA eligible losses		49%	35%	27%

^aNon-IFG assistance included FEMA's Temporary Housing Program, American Red Cross, and insurance.

Thus only 49 percent of the victims' losses verified by SBA were eligible for IFG assistance and only 35 percent of the verified losses were ultimately covered by IFG. Total assistance from all sources (column 3 + column 4) covered only 62 percent of verified losses.

Of the first 1,855 IFG cases, 540 were maximum grants of \$5,000. This means that, aside from ineligible losses, 29 percent of the Virginia victims of the November 1985 flood receiving IFG money had eligible losses in excess of payments received.

To illustrate the potential impact, one family in our sample, with an income of less than \$9,500 per year, sustained SBA-verified losses of nearly \$17,000. Losses appeared to cover virtually the entire contents of their home--living room, bedroom, and kitchen furniture; clothes; carpeting; television and most other appliances, wood stove, vacuum cleaner, refrigerator, and so forth. SBA judged only \$10,187 of this to be eligible for an SBA loan--largely because of limits on certain types of items--but the loan was eventually declined. Many of the remaining items were further reduced under IFG criteria, with the result that the IFG payment was only a little over \$3,000, part of which had to be used to buy flood insurance. State officials said that \$5,000 was clearly inadequate to meet many households' needs.

Impact of SBA disaster-loan
process on affected businesses

SBA loans are the only federal disaster assistance available to non-agricultural businesses, and SBA agreed that a business

truly devastated by a disaster would likely be judged unable to repay a loan. We contacted 12 business-loan applicants in April 1986 to learn of their experiences, and to determine the extent of aid available to them.

Although 8 of the 12 businesses had been approved for SBA disaster loans, none had received any proceeds from such loans. Most of the businesses cited a need for the loan and/or adverse impact while awaiting the proceeds. One firm indicated it had no recourse other than SBA, and another (which was declined) said it needed the loan to survive. Eight of the 12 firms used a combination of personal savings, internal funds, and interim financing for clean-up, repairs, employee wages, and other costs.

Conversely, four of the eight businesses approved for loans said that SBA's terms and conditions were unacceptable. Concerns cited included the 8-percent interest rate, collateral value in excess of the loan amount, and the amount of time allowed in which to repay the loan.

SECTION 6

ALTERNATIVES FOR EXPEDITING DISBURSEMENT OF PUBLIC-ASSISTANCE GRANTS

FEMA provides public-assistance grants to state governments, local governments, and certain nonprofit organizations for repair, restoration, or replacement of facilities and equipment. FEMA pays 75 percent of the eligible costs and the Commonwealth of Virginia pays varying amounts of the remaining 25 percent, depending on the applicants' financial conditions. As of May 30, 1986, 95 Virginia public-assistance applications had been approved, for \$19.1 million in federal funds; ten had been disapproved, and one was pending.

The key document in the public-assistance process is the damage survey report (DSR). A team of federal and state officials inspects the damages and prepares the DSRs, which contain a description of the damages, the scope of work needed to rectify the damages, and the estimated cost of the work. An applicant may have a number of DSRs, each one describing a particular item of damage. There were over 2,000 DSRs relating to the Virginia flood disaster.

The DSRs are reviewed by FEMA for completeness, to ensure that the proposed work is eligible and reasonable, and to determine whether any of the proposed work is covered by insurance. Once approved by FEMA, federal funds are made available to Virginia through a letter of credit, the state making the actual disbursement to the recipient of both the federal and state share.

Public-assistance disbursements have not been rapid, however. Some public-assistance grants had been approved by late November 1985, and all communities had some applications totally or partially approved by December 17. But only one disbursement of public-assistance funds was made by February 1986; by late March 1986, only 32 of 99 approved applicants had received any funds--\$1,167,589 of an estimated \$19 million program. FEMA public-assistance officials characterized the disbursements in Virginia as slower than typical.

Although we did identify some ways in which disbursement of the grants might have been expedited, it should be noted that we were unable to identify any pressing need for the funds by the applicants, or any other adverse effect resulting from the slow rate of disbursement. We spoke with 21 of the applicants who had applied for assistance and received comments such as the following:

The city has sufficient resources such that immediate reimbursement is not crucial.

The city's creditors are local firms that are willing to wait to be paid.

The applicants would prefer to be reimbursed after all work is completed.

While we did not talk with all of the applicants, it would not be difficult to envision a situation in which the need for funds could be pressing. Therefore, some ways in which funds might be disbursed more quickly are discussed below.

STATE INSTRUCTIONS ON REIMBURSEMENTS FOR PUBLIC ASSISTANCE

FEMA reviews and approves the DSRs and makes the federal share available to the state through a letter of credit. The applicant then requests funds as needed from the state's Department of Emergency Services, which has its headquarters in Richmond but which also established an office in Roanoke. According to state officials, they do not conduct an in-depth review of the FEMA-approved DSRs. They review the applicants' requests for funds to ensure that the paperwork is mathematically correct and that the work to be done is within the scope and dollar value contained on the FEMA-approved DSRs.

FEMA attempted--successfully--to assure that some funds were available for disbursement to local governments by Christmas 1985. The state, however, did not issue its instructions to the applicants on how to apply for the funds until January 14, 1986. As state officials pointed out, however, even several weeks after the instructions were issued, virtually no requests for funds came in, so it is difficult to conclude that the delay in issuing instructions in turn delayed disbursements.

RESTRICTIVE PROCEDURE FOR PUBLIC-ASSISTANCE ADVANCES

One aspect of the state's reimbursement procedures that may have more likely affected the timing of disbursements is the state's general policy of not making disbursements until after the applicant has made at least some expenditures (i.e., reimbursement rather than advances). The state's instructions to applicants state:

Please limit your requests to cover reimbursement for paid expenditures to date. If you are unable to proceed with approved work due to internal funding problems, you may include invoices which are due for payment within 30 days of the date of your request. As a reminder, advances will not exceed 75 percent of the federal and State share (if the State is contributing to your share of the application).

We were told by the Coordinator of Virginia's Department of Emergency Services that, in practice, the state generally requires, as indicated above, that the first disbursement to each applicant be limited to reimbursement for expenditures made, but that subsequent disbursements are to be a reimbursement of any additional expenses paid, plus any due within the next 30 days. Thus no advances would be disbursed until some expenses had been incurred and paid.

State officials said this was in accordance with their understanding of FEMA's requirements, and that they in fact believed they had achieved some liberalization of FEMA's policy in only requiring an applicant's certification of expenditures and obligations, rather than a submission of actual contracts and invoices.

FEMA headquarters officials advised us that they do not require an outlay of funds by the applicant prior to the time the applicants receive grant assistance. FEMA's current guidance on public-assistance eligibility procedures (published in 1981) states that "funds may be advanced to meet the current obligations for eligible work and those anticipated for the next 60 days." A separate handbook on letter of credit procedures, dated February 1984, states that cash advances should be given to recipients but that they shall be (1) limited to the minimum amount needed and (2) timed to be in accordance only with the actual cash payment requirements. It further states that advances to local units should be correlated to the actual disbursement needs. FEMA officials stated that they therefore currently endorse making some advance to the applicant, but probably for about 30 rather than 60 days. They said that in the 5 years since their public-assistance guidance was published, there has been a general tightening up of advancing federal funds before they are needed. FEMA has also instituted the letter-of-credit procedure. As a result, FEMA's 1981 guidance is no longer adhered to with respect to making advances.

Without current policy statements, and because there was no documentation as to any agreements between FEMA and the state on reimbursement procedures, we can only assume that there may have been some miscommunication with respect to advances.

NONUSE OF SMALL PROJECT GRANTS

FEMA provides for three types of public-assistance grants:

- a categorical grant. Funds are made available to restore the damaged or destroyed facilities to their pre-disaster condition. The applicant can build a bigger or better facility but will not receive any additional grant aid.
- a flexible funding grant. An applicant with damages exceeding \$25,000 may determine that it would be more in the public interest to have some facility other than the one destroyed. It may then do so by taking a grant equal to 90 percent of what would have been available as a categorical grant.
- a small project grant (not available for private, nonprofit facilities). If all the applicant's damages total less than \$25,000, it may apply for a small project grant. The applicant can use the funds to repair the damages incurred, or can use some of the funds for other projects, but--unlike the flexible funding grant--without the 10-percent reduction in the amount granted. FEMA guidance also provides that a "one hundred percent grant to the applicant follows as soon as possible after [FEMA's] approval. . . ."

The small-project grant was, in effect, not used in Virginia, with the result that those eligible did not receive their funds at the time of approval, but instead received periodic reimbursements as obligations were incurred. According to Commonwealth officials, they advised the applicants that there could be possible difficulties in obtaining additional funds if warranted. However, this possibility seems to be provided for. FEMA's Handbook for Applicants and 44 CFR 205.113 both state: "The only permissible basis for increasing Federal funding in a small project grant is a substantive error or omission in defining the approved scope of work or in the approved estimated reasonable costs of such work. . . . If a supplement to a project application is warranted, and it would increase the small project grant to an amount exceeding \$25,000, the entire grant shall revert to a categorical grant or a flexible funding grant, as approved by the Regional Director." According to FEMA, there were 29 applicants in Virginia eligible for a small-project grant.

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