



Explanation Memo:
Small Business Administration (SBA) Disaster Assistance Programs
House Committee on Small Business
May 2013

The United States Small Business Administration (SBA) is the federal agency responsible for providing long-term assistance to homeowners, renters and businesses. SBA performs this mission by offering low interest rate loans to help disaster victims repair or replace uninsured property lost or damaged as a result of a disaster, such as a tornado or hurricane. Small Businesses may also be eligible for financial assistance to recover from business interruptions that result from a storm.

Disaster Declaration

After a major disaster, the governor of the affected state is responsible for requesting a disaster declaration. By requesting a disaster declaration, the governor is affirming that the response is beyond the capability of the state to adequately respond to and that federal assistance is required. Once approved, the disaster declaration will set out the type of assistance available, the interest rate for SBA disaster loans, and the eligible recipients. Only victims located in the designated geographical area are eligible for assistance.

Physical Disaster Home Loans

Homeowners who suffer damage in a geographic area designated by the disaster declaration are eligible for loans of up to \$200,000 to restore or replace their primary residence to the condition before the disaster occurred. Loan proceeds may not be used to make improvements to property. Borrowers must demonstrate to SBA that they are creditworthy, have sufficient character, and have the ability to repay the loan. Borrowers are also required to pledge collateral for loans over \$14,000. The interest rate on the loan is determined based on whether the borrower has credit available elsewhere. If a borrower has no credit available elsewhere, the interest rate is capped at a maximum of four percent. If the borrower does have credit available elsewhere, the interest rate is capped at eight percent.

Physical Disaster Business Loans

Business owners suffering damage in a declared disaster area may also apply for assistance from the SBA of up to \$2 million. Business assistance is not limited to small businesses; businesses of all sizes are eligible for SBA disaster loans. The interest rate on the loan is again determined based on whether the borrower has credit available elsewhere. If a borrower has no credit available elsewhere, the interest rate is capped at a maximum

of four percent and if the borrower does have credit available elsewhere, the interest rate is capped at eight percent.

Economic Injury Disaster Loan (EIDL)

Businesses located in a declared disaster area which suffer an economic loss as a result of the disaster are eligible for SBA assistance. Unlike Physical Disaster Business Loans, EIDL are only available to small businesses.

Application Process

In the aftermath of a disaster, victims are encouraged by SBA to submit an application for assistance to FEMA. Applications can either be submitted on paper or electronically. If the applicant is not eligible for FEMA assistance, the application is automatically transferred to SBA for review.

After the SBA reviews the application for completeness, an appointment is scheduled for a loss verifier to visit the property and make an estimate of the cost to repair the property to its pre-disaster condition. After the inspection is complete, an SBA loan officer will determine whether the applicant is eligible for assistance and finalize the terms and conditions.

Once the loan is approved, SBA can disburse the first \$14,000. Additional loan amounts can be disbursed after the paperwork securing the collateral is completed. Disbursements are not made in a lump sum, rather borrowers draw down the loan balance as repairs are completed.

For More Information

To find out more about the SBA disaster assistance program, please visit the SBA Website at www.sba.gov/disaster. To apply for assistance, storm victims should sign-up with the Federal Emergency Management Agency (FEMA) at www.disasterassistance.gov.