



SMALL BUSINESS ADMINISTRATION DISASTER ASSISTANCE PROGRAM

Overview

Disaster Assistance has been part of the U.S. Small Business Administration’s mission since 1953 when Congress passed the Small Business Act creating the SBA. Through the agency’s Office of Disaster Assistance, SBA provides affordable and timely financial assistance to disaster victims.

The SBA’s disaster loan program is the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses. For this reason, the disaster loan program is the only form of SBA assistance not limited to small businesses, but offered to homeowners and renters, and private nonprofits. This program provides low-interest loans and working capital to businesses and homeowners affected by virtually any federally declared disaster.

When an area is declared a disaster by the President, various forms of federal assistance, including SBA’s disaster loan program, become available. If FEMA declines a request for a declaration or if the state determines the damage is not extensive enough to request FEMA assistance, the state can request an “Administrative/Agency Declaration” from SBA’s Administrator. If the request meets SBA’s damage requirements, residents and business owners will be eligible to apply for SBA disaster assistance in the declared area.

The SBA disaster relief program is not an immediate emergency relief program such as Red Cross assistance or FEMA temporary housing assistance. Instead, the SBA disaster loan program is intended to help victims with long-term repair and rebuilding of their homes and businesses. For this reason, the SBA first performs a damage assessment of the disaster area and for each disaster aid applicant before it will make disaster assistance available. Additionally, because the SBA disaster assistance program is administered as a loan that must be repaid, the agency requires applicants to satisfy basic credit standards and demonstrate a capacity to repay the loan. The SBA tries to make a decision on each application within 14 days.

These direct federal loans are the only form of SBA assistance not limited to small businesses. The majority of SBA disaster loans approved after natural disasters—about 80 percent—go to homeowners and renters.

In Presidentially declared disasters, residents and business owners must first begin the disaster application process by registering with the Federal Emergency Management Agency.

SBA and FEMA “Other Needs Assistance”

During Presidential disaster declarations, the one phone call to FEMA (1-800-621-FEMA) registers the disaster victim for assistance and provides critical information on the various forms of federal assistance available after a major disaster. Online registration is also available at www.fema.gov. Homeowners and renters must call FEMA to register for assistance. Although businesses are not required to register with FEMA, SBA suggests they do so as a matter of record. If any further assistance might be made available to businesses, the registered business will already be in the FEMA system.

During the registration process, disaster victims will be asked several questions about their circumstances, including income. Most homeowners and renters will be referred to the SBA and sent disaster loan application packages. If homeowners or renters are issued applications, they must fill out and return the applications to the SBA to be considered for other forms of assistance, including grants. If the SBA declines a home loan request, or cannot make a loan for all of the disaster victim’s losses, SBA will refer the applicant to FEMA to be considered for its “Other Needs Assistance” grant program.

Assistance Available from SBA

Businesses and individuals are eligible for the following assistance from SBA:

Home Disaster Loans – Loans to homeowners or renters to repair or replace disaster damages to real estate or personal property owned by the victim. Renters are eligible for their personal property losses. Home loan amounts are limited by SBA regulation to \$200,000 to repair/replace real estate and \$40,000 to repair/replace personal property. The actual amount of each loan, up to these maximums, is limited to the verified uninsured disaster loss.

Business Physical Disaster Loans – Loans to businesses to repair or replace disaster damages to property owned by the business, including real estate, machinery and equipment, inventory and supplies. Businesses of any size are eligible. Non-profit organizations such as charities, churches, private universities, etc. are also eligible. Business physical disaster loan amounts are limited by law to \$2,000,000 for real estate, machinery and equipment, inventory and all other physical losses. The amount of each loan, up to this maximum, is limited to the verified uninsured disaster loss.

Economic Injury Disaster Loans (EIDL) – Loans for working capital to small businesses and small agricultural cooperatives to assist them through the disaster recovery period. EIDL assistance is available only to applicants with no Credit Available Elsewhere – if the business and its owners cannot provide for their own recovery from non-government sources. EIDL amounts are limited by law to \$2,000,000. The actual amount of each loan, up to this maximum, is limited to the actual economic injury as calculated by SBA, not compensated by business interruption insurance or otherwise, and beyond the ability of the business and/or its owners to provide.

The \$2,000,000 statutory limit for business loans applies to the combination of physical and economic injury, and also applies to all disaster loans to a business and its affiliates. If a business is a major source of employment, SBA has authority to waive the \$2,000,000 statutory limit.

Credit Requirements

Credit History: Applicants must show a credit history acceptable to SBA.

Repayment: SBA's disaster assistance is in the form of loans. Applicants must show the ability to repay all loans.

Collateral: Collateral is required for all physical loss loans over \$25,000 and all EIDL loans over \$25,000. SBA takes real estate as collateral where it is available. Applicants do not need to have full collateral; SBA will take what is available to secure each loan.

Interest Rates

By law, the interest rates depend on whether each applicant has Credit Available Elsewhere. An applicant does not have Credit Available Elsewhere when SBA determines that the applicant does not have sufficient funds or other resources, or the ability to borrow from non-government sources, to provide for its own disaster recovery.

An applicant that SBA determines can so provide for its own recovery has Credit Available Elsewhere. Generally, SBA determines that over 90 percent of disaster loan applicants do not have Credit Available Elsewhere.

Interest rates are determined by formulas set by law, and may vary over time with market conditions. Currently (for disasters, which occurred on or after August 1, 2005) the applicable interest rates are:

	No Credit Available Elsewhere	Credit Available Elsewhere
Home Loans	1.75%	3.5%
Business Loans	3.305%	6.61%
Non-profit Organizations	2.5%	2.5%
Economic Injury Loans		
1. Businesses/Small Agricultural Cooperatives	3.305%	N/A
2. Non-profit Organizations	2.5%	N/A

Loan Terms

The law authorizes loan terms up to a maximum of 30 years. However, for businesses with Credit Available Elsewhere, the law limits the loan term to a maximum of 7 years.

SBA determines the term of each loan in accordance with the borrower's ability to repay. Based on the financial circumstances of each borrower, SBA determines an appropriate installment payment amount, which in turn determines the actual term.

Loan Eligibility Restrictions

Uninsured Losses: Only uninsured or otherwise uncompensated disaster losses are eligible. Any insurance proceeds which are required to be applied against outstanding mortgages are not available to fund disaster repairs and do not reduce loan eligibility. However, any insurance proceeds voluntarily applied to any outstanding mortgages do reduce loan eligibility.

Ineligible Property: Secondary homes, personal pleasure boats, airplanes, recreational vehicles and similar property are not eligible, unless used for business purposes. Property such as antiques and collections is eligible only to the extent of its functional value. Amounts for landscaping, swimming pools, etc. are limited.

Noncompliance: Applicants who have not complied with the terms of previous loans are not eligible. This includes prior borrowers who did not maintain required flood insurance.

Refinancing

SBA can refinance all or part of prior mortgages, evidenced by a recorded lien, when the applicant (1) does not have Credit Available Elsewhere, (2) has suffered substantial uncompensated disaster damage (40% or more of the value of the property or 50% or more of the value of the structure), and (3) intends to repair the damage. Refinancing of prior debts improves the victim's ability to afford the SBA disaster loan.

Relocation

Use of SBA disaster loans for relocating is subject to limitations. Generally, victims may relocate where they need to do so for reasons beyond their control. If the victim is forced by state or local authorities to relocate, the amount of eligibility is the replacement cost of the property that must be abandoned.

Insurance Requirements

SBA requires borrowers to obtain and maintain appropriate insurance. Borrowers of all secured loans must purchase and maintain full hazard insurance for the life of the loan. Borrowers whose property is located in a special flood hazard area must purchase and maintain flood insurance for the full insurable value of the property for the life of the loan.