

Physical Disaster Business Loans

If your business — large or small — has suffered physical damage as a result of a disaster, you may be eligible for financial assistance from the U.S. Small Business Administration.

Any business that is located in a declared disaster area and has incurred damage during the disaster may apply for a loan to help repair or replace damaged property to its pre-disaster condition. The SBA makes physical disaster loans of up to \$1.5 million to qualified businesses.

Use of Proceeds

Repair or replacement of real property, machinery, equipment, fixtures, inventory and leasehold improvements may be included in the loan. In addition, disaster loans to repair or replace real property or leasehold improvements may be increased by as much as 20 percent to protect the damaged real property against possible future disasters of the same type.

SBA loans will cover uninsured physical damage. If you are required to apply insurance proceeds to an outstanding mortgage on the damaged property, you can include the amount applied in your disaster loan.

Interest Rates

The interest rate that the SBA charges on a disaster loan is determined by your ability to obtain credit elsewhere — that is, from nonfederal sources.

If You Cannot Obtain Credit Elsewhere

If the SBA determines that the business (or nonprofit organization) is unable to obtain credit elsewhere (considering the cash flow and assets of the business, its principals and affiliates), the law sets a maximum interest rate of 4 percent per year.

The maximum maturity for such business disaster loans is 30 years. However, the actual maturity is based on your ability to repay the loan.

If You Can Obtain Credit Elsewhere

For businesses that the SBA has determined are able to obtain credit elsewhere, the interest rate cannot exceed that being charged in the private market at the time of the physical disaster or 8 percent, whichever is less. The maturity of this loan cannot exceed three years.

Note: Charitable, religious, nonprofit and similar organizations with the ability to obtain credit elsewhere are eligible for physical disaster loans for up to 30 years at an interest rate based upon a different statutory formula. The nearest SBA disaster office can supply you with the interest rate.

Frequently Asked Questions about Physical Disaster Business Loans

Q. I've heard that SBA loan applications are complicated and hard to complete. Is this true?

A. No. The application form asks you for the same information about the business and its substantial owners and managers that generally is required for a bank loan. If you need help, SBA personnel will explain the forms and give you assistance at no charge. You may use the services of accountants, attorneys or other representatives if you wish, but be sure they are reliable and that their fees are reasonable. You must report the use of a representative and the fees charged on your loan application.

Q. If I receive a disaster loan, may I spend the money any way I want?

A. No. The disaster loan is intended to help you return your property to its pre-disaster condition and, under certain circumstances, for mitigating devices. Normally, SBA funds cannot be used to expand or upgrade a business. If, however, city or county building codes require such upgrading, then you can use the SBA loan for that purpose. Your loan will be made for specific and designated purposes. Remember that the penalty for misusing disaster funds is immediate repayment of one-and-a-half times the original amount of the loan. The SBA requires that you obtain

receipts and maintain good records of all loan expenditures as you restore your damaged property, and that you keep these receipts and records for three years.

Q. I already have a mortgage on my business. Can the SBA refinance my mortgage?

A. In certain cases, yes. The 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 percent or more of the value of the property); and 3) intends to repair the damage. An SBA disaster loan officer can provide more detailed information on your specific situation.

Q. Is collateral required for these loans?

A. Loans of \$10,000 or less do not require collateral. Loans in excess of \$10,000 require the pledging of collateral to the extent it is available. Normally the collateral would consist of a first or second mortgage on the damaged business property. In addition, personal guaranties by the principals of a business are required. The SBA will not decline a loan for lack of collateral, but you must pledge available collateral.

Q. When will I know if I get the loan?

A. That depends on when you file a complete SBA loan application. To make a loan, we must estimate the cost of repairing the damage, be satisfied that the business can repay the loan from its operations and take reasonable safeguards to help ensure that the loan is repaid. Since we process applications in the order received, the faster you return it with all the needed information, the faster we can work on it. We try to make a decision on each application within seven to 21 days. Be sure the information in your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect the money?

A. After we approve the loan, we will tell you what documents are needed to close the loan. Once we receive these documents, we can disburse the funds. Because our disaster loans are subsidized, the SBA provides the money in installments, as you need it to repair or replace the damage.

Q. Will the SBA check the losses I claim?

A. Yes. Once you have returned your loan application, an SBA loss verifier will visit you to determine the extent of the damage and the cost to repair or replace it.

Q. What information do I need to help me complete the loan application form?

A. Necessary information is specified in the loan application and includes: a) an itemized list of losses with your estimate of the repair or replacement cost of each item; b) a copy of certain federal income tax information (as specified on the application); c) a brief history of the business; and d) personal and business financial statements. A contractor's estimate for repairing structural damage may be desirable, but you may make your own cost estimate if you wish. Remember to sign and date each part of the application; we cannot process it if you omit any form that requires your signature.

Q. I had to remove debris from my property after the disaster. Can this expense be included in my loan application?

A. Yes, but your own labor and that of family members cannot be included. Amounts paid to others and any equipment rental can be listed as part of repairs to real estate. Remember that the maximum loan limit on physical damage is \$1.5 million, and debris removal is included in that limit.

Q. I am a farmer. Am I eligible to apply for SBA assistance for damage to my farm?

A. No, not for damage to farms. However, you may apply to the SBA only for a loan to cover the damage to your home and its contents. It may be in your interest to seek assistance first from the U.S. Department of Agriculture.

Q. I would like to get a contractor's estimate for the cost of repairing damage to my business, but I'm having difficulty in finding a contractor. Should I hold up my application until I get the estimate?

A. No. You might miss the deadline for filing your application by waiting for a contractor's estimate. If you have a contractor's estimate, include it; otherwise include your own. The SBA will verify the damage estimate in your application. The sooner you file a complete application, the faster the SBA can process it.

Q. Should I wait for my insurance settlement before I file my loan application?

A. No. Don't miss the filing deadline by waiting for an insurance settlement. The application should be returned to the SBA right away; final insurance information can be added when a settlement is made. We can approve a loan for the total replacement cost; however, you must assign the insurance proceeds to the SBA settlement.

Q. Must I use my own money or try to borrow from a bank before I come to the SBA?

A. No. The resources of the business and its principals will be considered in determining the ability of the business to obtain credit elsewhere.

Q. If my business is completely destroyed, can the SBA lend me money to relocate my business?

A. Yes. In certain circumstances, limited relocation costs can be included in the loan amount. Whenever relocation is involved, you should contact the SBA disaster office before making any commitments.

Q. Besides the damage to my property, my business suffered economically from the disaster. Do SBA loans cover these economic losses?

A. Yes they do, but only if you and your business do not have credit available elsewhere, and your business qualifies as small as defined by the SBA. The same application is used together with a supplementary form for the economic injury. The maximum amount the business and any affiliates may borrow for any one disaster is limited to \$1.5 million for both physical damage and economic injury combined. (See SBA Publication DA-3, *Economic Injury Disaster Loans for Small Business*.)

Q. Is flood insurance needed to get a loan?

A. If the business is in a special flood hazard area, or if the disaster damage was caused by flooding, it must have flood insurance before we can disburse a loan. If the business was legally required to maintain flood insurance but did not, then the SBA will not make a disaster loan.

For More Information

The SBA delivers loans through four disaster area offices located in Niagara Falls, N.Y.; Atlanta, Ga.; Fort Worth, Texas; and Sacramento, Calif. When a disaster occurs, information on SBA assistance is available through a toll-free number published locally.

SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:

- Phone: 1-800 U ASK SBA
- Fax: 202-481-6190
- E-mail: answerdesk@sba.gov
- TDD: 704-344-6640
- Your rights to regulatory fairness: 1-888-REG-FAIR
- Internet:

SBA Home page: <http://www.sba.gov>

Gopher: <http://www.sba.gov/gopher>

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.