

U.S.

# After Disaster, Speed Matters for Small Business

Eight years after congressional efforts to hasten cash infusions, not a single loan has been made



Complaints about delays in disaster-recovery lending to Gulf Coast businesses after Hurricane Katrina led Congress to authorize two programs to speed such relief, but the Small Business Administration has been criticized for dragging its feet.

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*By Ruth Simon*

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Congress in 2008 authorized two federal programs to provide small businesses with quick infusions of cash in response to complaints after Hurricane Katrina about delays with disaster-recovery lending.

One Small Business Administration program promised to provide small firms with quick government-backed “bridge loans” of up to \$25,000 and a 36-hour decision.

But eight years after the law was enacted, not a single loan has been made under either program. A 2015 report by the U.S. Government Accountability Office criticized the SBA for dragging its feet.

“Lenders have not been interested because of the cost of participation, loan terms and conditions contrary to conventional lending practices,” an SBA spokeswoman said, noting that the loans have 10-year terms. SBA loan processing times “have fallen dramatically” since the law was passed, she added.

A 2015 analysis of small business relief after Hurricane Ike gave the highest marks to a bridge loan program set up by local banks because it quickly moved money to a large number of small firms. “The incredible part of the bridge loan program is the fact that none of the banks had a loan default, even though they loaned primarily off of good faith,” according to the report, by Yu Xiao and Maria Watson of Texas A&M University.

Defaults have also been minimal for low-interest loans issued to small businesses hit by Hurricane Sandy under a partnership between New York City and local banks. Just 16 of the 797 firms that received \$18.3 million in loans defaulted, according to the New York Business Development Corp., which administered the program.

In Louisiana, the Baton Rouge Area Chamber is using private donations to fund \$350,000 in grants to 57 small local businesses. But because of funding limitations, less than 10% of the initial 630 applicants have received money, leaving out at least 200 other firms that would have otherwise qualified. Another 155 businesses have since submitted funding requests.

“A small amount of aid will be a really good incentive for [small businesses] to come back,” said Nina Lam, a professor at Louisiana State University who studied how small businesses fared after Katrina. But if it takes “longer than six months, businesses have already made the decision not to come back.”

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