Order Code RS21061
Updated November 29, 2001

CRS Report for Congress

Received through the CRS Web

Small Business Disaster Assistance: Responding to the Terrorist Attacks

Bruce K. Mulock
Specialist in Government and Business
Government and Finance Division

Summary

In addition to causing the loss of more than 4,000 human lives, the September 11th terrorist attacks destroyed or shut down an estimated 15,000 businesses—the vast majority being small businesses—in and around New York City's World Trade Center complex. Staggering as these business losses were, they account for only a small fraction of the impact nationwide. Serious economic injury resulting from the attacks quickly spread to countless firms across the United States.

On the whole, start-ups and other small businesses have been particularly hard-hit because they are generally less prepared financially and otherwise to deal with crisis. In contrast, virtually all large firms already had written disaster plans. Certain types of small businesses have been disproportionately affected. Those especially hard hit: suppliers, service providers, or firms in complementary industries to those sectors most adversely affected, notably the financial, hospitality, and travel and tour industries.

The U.S. Small Business Administration (SBA) has long-standing disaster loan programs as well as other loan and managerial assistance programs that can help businesses deal with the aftermath of the terrorist attacks. (Details on SBA's response to the September 11 terrorist attacks can be accessed from the agency's home page at [http://www.sba.gov/].) Subsequent to the attacks, several emergency relief bills were introduced to make additional firms eligible for SBA assistance under more favorable terms. This report discusses the impact of the terrorist attacks on small businesses, provides an overview of the types of relief assistance currently available from the SBA, notes the agency's response to date, summarizes proposed legislation, and analyzes policy options for Congress. It will be updated as events warrant.

Impact of Terrorist Attacks on Small Businesses

The image that typically comes to mind when one thinks about the people who were working in and around the World Trade Center when the terrorist attacks took place is that of stockbrokers and others associated with large financial services companies. That image, however, is misleading. The 375,000 or so people who commute to the area around the twin Trade Towers were more likely to be florists and jewelers, card-shop owners and newsstand workers, clothing-store clerks and shoe-repairmen. Thus, in addition to a host of major firms, a large number of small businesses in and around "ground zero" have been destroyed, damaged, or significantly disrupted since the September 11th attacks. The potential number is high.

Approximately 14,600 businesses inside and around the World Trade Center have been affected, according to the Empire State Development Corporation, New York State's economic development agency. Also, tens of thousands of people who rented or owned housing in the area have incurred losses—thousands were forced to abandon their dwellings. Economic injury extends further.

Nationwide, some experts say that many thousands of small businesses—with combined losses in the billions of dollars—are suffering from the financial impact of the terrorist attacks. Restaurants, hotels, and other businesses associated with the tourist industry, for example, are experiencing sharp declines in revenue. According to a survey conducted for the National Federation of Small Businesses (NFIB) during the week ending October 18, 2001, a third of small businesses in the U.S. and two-thirds in New York City have seen their sales drop primarily as a result of the events of September 11.[1]

In absolute numbers, many damaged, destroyed, or economically injured firms had some type of insurance coverage. The amount of insured losses will not be known for some time, but according to a CRS report, credible industry-wide loss estimates for insurers range from $30 billion to $70 billion, making the terrorist attacks of September 11 the costliest insured catastrophic loss in the history of property/casualty insurance—surpassing Hurricane Andrew in 1992, which resulted in $19.7 billion in claims.[2]

Current SBA Disaster Loan Programs: Overview

The legislation creating the U.S. Small Business Administration (SBA) was signed into law (P.L. 83-163) in 1953. It declared it to be "the policy of Congress that the federal government should aid, counsel, assist, and protect insofar as is possible the interests of small-business concerns in order to preserve free competitive enterprise, to ensure that a fair proportion of the total purchases and contracts for supplies and services for government be placed with small business enterprises, and to maintain and strengthen the overall economy of the nation." Since its inception, the SBA has included disaster assistance as an integral part of fulfilling its mission.[3]

---

[1] National Federation of Independent Businesses, "Sales Drop for One-Third of Small Businesses, Survey Says," NFIB Issues in the News, [http://www.nfib.com], visited Oct. 30, 2001.

[2] For an insurance industry perspective on the events of September 11th, see CRS Report RS21053, *Impact of Terrorist Attacks on the U.S. Insurance Industry*, by Rawle O. King; or see the CRS Terrorism Briefing Book, *Insurance Industry*, under the heading "Economic Repercussions," at [http://www.congress.gov/brbk/html/ebter1.shtml].

[3] Section 207(b) of P.L. 83-163 [15 U.S.C. 636(b)] officially authorized the SBA "to make such loans as the Administration may determine to be necessary or appropriate because of floods or other catastrophes."

SBA's disaster loans are a key component of the overall federal disaster recovery effort and they are the primary form of federal assistance for nonfarm, private sector disaster losses caused by hurricanes, floods, earthquakes, and the like.[4] The agency offers both Physical Disaster Loans to repair or replace disaster-damaged property and Economic Injury Disaster Loans (EIDL) to cover operating expenses that businesses could otherwise have afforded to pay if the disaster had not occurred.

SBA physical disaster assistance is not limited to small firms. The agency makes such loans to businesses of all sizes, nonprofit organizations, homeowners, and renters. It is also the agency's largest direct loan program. The loan program's low interest rates and long terms (up to 30 years) are intended to make recovery affordable.[5] Disaster victims repay the loans to the Treasury.

In addition to the Physical Disaster and EIDL programs, the agency also administers a Military Reservists EIDL program. The purpose of the MREIDL program is to provide funds to eligible small businesses to meet the ordinary and necessary operating expenses they could have met, but are unable to meet because of essential employees being "called up" to active duty as military reservists.

SBA Response to Terrorist Attacks

The agency is working in partnership with the Federal Emergency Management Agency (FEMA) and other federal, state, and local agencies, as well as the American Red Cross, in support of the New York City Mayor's Office of Emergency Management (NYOEM) to assist city residents who were stricken by the recent terrorist attacks.[6]

Following the terrorist attacks on the World Trade Center, the SBA dispatched employees from its headquarters and regional offices to augment its staff in New York. Experienced SBA loan officers are available in Disaster Assistance Service Centers located throughout the disaster area to assist business owners and individuals.

As of November 26, 2001, FEMA had referred more than 15,000 businesses to SBA's New York Disaster Assistance Service Centers; and, as of November 27, the agency (SBA) reported that it had received 5,172 business applications (844 for physical damage and 4,328 for economic injury) and approved 629 loans for a total of $64.3 million (average size loan: approximately $102,000). By comparison, in Virginia, SBA

---

[4] For a brief descriptive overview of federal programs that both specifically and generally apply to disasters caused by terrorists, see CRS Report RL31125, *Recovery from Terrorist Attacks: A Catalog of Selected Federal Assistance Programs*, coordinated by Ben Canada.

[5] Currently, interest rates fluctuate according to statutory formulas: a lower rate, not to exceed 4 % is available to those applicants unable to obtain credit elsewhere, while a higher rate, not to exceed 8 % is charged when other sources of credit are available.

[6] The Federal Emergency Management Agency (FEMA) administers assistance authorized by the Stafford Act and is responsible for coordinating the response efforts of all federal agencies to major disasters declared by the President. For additional information see the CRS Terrorism Briefing Book, *FEMA Role and Responsibility*, at [http://www.congress.gov/brbk/html/ebter76.html], as well as FEMA's website at [http://www.fema.gov].

had approved 17 loans for $2.3 million in connection with the attack on the Pentagon (average size loan: approximately $136,000).[7]

The SBA assistance provided after September 11 may be compared to other catastrophes. In response to California's Northridge earthquake in 1994, SBA made 51,688 loans to homeowners and renters totaling $1.167 billion, and 13,328 loans to businesses totaling $6.545 billion. Specifically regarding loans made in response to terrorism, SBA made 172 loans for $10.4 million for the Oklahoma City Bombing, and nine loans for $512,400 for the World Trade Center Bombing in 1993. Prior to the September 11 attacks, these are the only disaster loans made by the agency in response to terrorism.

In response to the needs of victims of September 11, SBA officials provided greater access to Economic Injury Disaster Loans (EIDL) effective October 22, 2001. Previously, only businesses located in declared disaster areas were eligible for the EIDL program. Under the new regulations, EIDL assistance will be available nationwide to eligible small businesses that have suffered substantial economic injury as a direct result of the September 11 attacks or a federal action taken in response to the attacks. EIDLs will provide eligible firms with the working capital needed to pay ordinary and necessary operating expenses that they would have been able to pay had the disaster not occurred.

Legislation

While the SBA has several disaster loan programs available to businesses and individuals that have suffered physical and economic damage as a result of the September 11 terrorist attacks, Congress may decide to modify or expand authority for those programs to respond to the losses resulting from the attacks.

In the Senate, S. 1499, introduced by Senator Kerry on October 9, 2001, and cited as the "American Small Business Emergency Relief and Recovery Act of 2001," would make several significant changes designed to strengthen and expand existing SBA loan programs, including the agency's principal non-disaster lending and venture capital programs. S. 1499 addresses three categories of small businesses:

- Small businesses directly affected because they are physically located in or near the building or areas attacked or closed for security measures, or are located in national airports. Such firms would be eligible for SBA economic injury disaster loans—under more favorable terms than are currently available—such as deferring the payments and forgiving the interest on these loans for two years, as well as increasing the loan caps and extending the deadline for applying for disaster loans to one year.

- Small businesses not physically damaged or destroyed, or in the immediate vicinity of the World Trade Center or the Pentagon, but directly or indirectly affected because they are suppliers, service providers, or complementary industries, especially the financial, hospitality, travel and tour industries.

[7] Alan Escobar, U.S. Small Business Administration, email to the author, Oct. 29, 2001.

- Small businesses in need of capital and investment financing, procurement assistance, or management counseling in the economic aftermath of September 11. Such businesses would be eligible for a number of SBA programs with enhanced incentive features, e.g., waiving the borrower's fee for a regular 7(a) loan for working capital or a 504 loan to buy equipment to increase productivity or lower operating costs.

In the House, H.R. 3230, introduced by Representative Manzullo and others on November 6, 2001, and cited as the American Small Business Emergency Relief and Recovery Act, was identical to S. 1499, discussed above. On November 14, the bill was approved by the House Small Business Committee by voice vote. As modified by amendments offered by Representative Velazquez, the legislation would allow the SBA to: offer grants to small businesses that are in such dire financial straits that they cannot afford to secure loans, lower interest rates on SBA disaster loans, and permit the SBA to forgive disaster loans for borrowers suffering the greatest financial hardships.

Also in the House, H.R. 2961, introduced by Representative LaFalce and others on September 25, 2001, and cited as the Terrorist Disaster Relief for Small Business Act, would allow the Administrator of the Small Business Administration to authorize providing loans under the EIDL program to firms located in all areas of the United States, not just those that have already been declared disaster areas. H.R. 3011, introduced by Representative Velazquez on October 3, 2001, and cited as the Small Business Emergency Relief Act of 2001, would authorize SBA's Administrator to make certain changes in the agency's disaster loan programs, including the making of loans without regard to the ability of small business concerns to obtain credit elsewhere as well as waiving loan amount limitations and size standards. Some of the bill's provisions were, as noted above, incorporated into H.R. 3230.

Concluding Observations

The loan authorities proposed in response to the attacks are without precedent and will be costly according to economic analysts. SBA's disaster loans, unlike its 7(a) *guaranteed* loans, come directly from the Treasury. Further, with regard to proposed legislative changes making the 7(a) business loans available at more favorable terms to borrowers (lower interest rates and longer repayment times), such program changes could necessitate substantial increases in appropriations for the agency. Some analysts have stated that the more favorable terms proposed for the 7(a) program would lead to increased subsidy rates and larger default rates for the program.

Many small firms suffering economic injury resulting from the terrorist attacks are expected to seek SBA assistance. Many small businesses typically purchase "businessowner" insurance policies that include broad coverage provisions similar to a homeowner's policy that automatically cover basic losses when business is interrupted. However, as Donald Griffin, director of business and personal lines with the National Association of Independent Insurers, notes, "[b]usiness interruption insurance is very complicated and not everyone buys it."[8]

---

[8] Donald Griffin, National Association of Independent Insurers, Chicago, IL, telephone

(continued...)

As noted above, some of the legislative proposals are designed to mitigate bankruptcies, business closures, and layoffs directly related to the attacks. They also address the shrinking availability of credit and venture capital to small businesses through traditional lenders and investors, a condition that has been exacerbated by the attacks. Many small businesses would welcome the legislative changes these bills contain, including the opportunity to borrow money under the SBA's 7(a) program at lower interest rates, with the option of deferring the principal payments for one or two years. On the other hand, on October 10, 2001, National Federation of Independent Businesses' (NFIB) chief economist, William Dunkelberg, testified that, "regarding capital markets, credit has been widely available and getting cheaper."[9] He went on to point out that in a recent NFIB survey only 3% of respondents reported credit availability as their most important business problem. It may be argued, of course, that the legislation is intended target a specific group of firms, i.e., those suffering economic distress as a direct result of the terrorist attacks, not the entire universe of U.S. small business.

[8] (...continued)
conversation with the author, Oct. 31, 2001.

[9] Testimony of William Dunkelberg on behalf of NFIB before the House Committee on Small Business, *The Role of Small Businesses in Jump-Starting the Economy*, October 10, 2001, available at [http://www.house.gov/smbiz/hearings/107th/2001/011010/dunkleberg.html], visited Nov. 9, 2001.