115TH CONGRESS
2d Session

SENATE

REPORT
115–453

TO EXTEND THE EFFECTIVE DATE FOR THE SUNSET FOR COLLATERAL REQUIREMENTS FOR SMALL BUSINESS ADMINISTRATION DISASTER LOANS

DECEMBER 20, 2018.—Ordered to be printed

Mr. RISCH, from the Committee on Small Business and Entrepreneurship, submitted the following

REPORT

[To accompany S. 3554]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business and Entrepreneurship, to which was referred the bill (S. 3554) to extend the effective date for the sunset for collateral requirements for Small Business Administration disaster loans, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. INTRODUCTION

A bill to extend the effective date for the sunset for collateral requirements for Small Business Administration disaster loans (S. 3554) was introduced by Senator John Kennedy for himself, and Senator Marco Rubio on October 5, 2018. Senator Cory A. Booker is also a cosponsor.

This bill amends the RISE After Disaster Act of 2015 to extend the sunset for collateral requirements for Small Business Administration disaster loans from three to four years.

The bill was approved unanimously by a roll call vote as part of a manager's package.

II. HISTORY (PURPOSE & NEED FOR LEGISLATION)

In August of 2005, Hurricane Katrina struck the Southeastern United States, significantly impacting the New Orleans, Louisiana area. The devastation and loss of life left in its wake was catastrophic, making it one of the worst natural disasters in U.S. history. In the aftermath of a disaster of this scale, the recovery proc-

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ess is extensive. Recovery efforts were prolonged, and thousands of small businesses were shuttered.

The primary provider of federal disaster assistance loans for private sector, non-agricultural, disaster victims is the Small Business Administration's Office of Disaster Assistance. Following Hurricane Katrina, a series of hearings and roundtables highlighted shortcomings in the recovery process following large disasters and found that small businesses require additional aid in their recovery.

In October of 2012, Hurricane Sandy hit the Northeastern United States, causing widespread damage to businesses and residents. A 2014 Government Accountability Office report assessed the disaster response efforts found deficiencies in the Small Business Administration's loan processing speed and staff allocation, as well as various information technology issues. In an effort to improve the small business lending system after these disasters, Congress passed the Recovery Improvements for Small Entities After Disaster Act of 2015, or RISE Act, to address the shortcomings with disaster loans. The RISE Act, which was signed into law on November 25, 2015, eased the credit requirements for small business disaster lending to ensure that small businesses could quickly access capital after a disaster. One provision of the RISE Act raised the unsecured limit from $14,000 to $25,000 for physical damage loans made in response to disasters that are declared by the Administrator of the SBA. If the provision is not extended, the collateral threshold for these loans would revert back to $14,000 on November 25, 2018.

Towards the end of the 115th Congress several senators, particularly those from states that had been recently effected by hurricanes, advocated for an extension, by one year, of the reduced collateral requirements to help small business owners in these coastal states that were still in the process of rebuilding. After the Committee markup, the full Senate passed the bill unanimously on November 15, 2018. The next day the full House passed the bill unanimously and President Trump signed it into law on November 29, 2018 (P.L. 115–280).

III. HEARINGS & ROUNDTABLES

In the 115th Congress, the Committee held a hearing on September 27, 2017, entitled, "An Early Review of SBA's Response to the 2017 Hurricanes." During the hearing, Mr. Daniel Davis, President and CEO of the JAX Chamber of Commerce in Jacksonville, Florida, stated his concern that small businesses have less collateral after a disaster, making it more difficult to obtain loans.

IV. DESCRIPTION OF BILL

This bill would extend, by one year, changes to collateral requirements for unsecured disaster loans for physical injury made under the 2015 RISE Act (P.L. 114–88). The disaster loan collateral section of the RISE Act included a 3 year sunset clause under Sec. 2102(b), meaning that the changes to the disaster loan program expire on November 25, 2018. This change has a minimal impact on subsidy costs.

V. COMMITTEE VOTE

In compliance with rule XXVI (7)(b) of the Standing Rules of the Senate, the following vote was recorded on October 11, 2018.

A motion to adopt S. 3554, a bill to extend the effective date for the sunset for collateral requirements for Small Business Administration disaster loans, was approved unanimously by a roll call vote as part of a manager's package. Senators Risch, Rubio, Paul, Scott, Ernst, Inhofe, Young, Enzi, Rounds, Kennedy, Cardin, Cantwell, Shaheen, Heitkamp, Markey, Booker, Coons, Hirono, and Duckworth voted for the bill.

VI. COST ESTIMATE

In compliance with rule XXVI (11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be will be equal to the amounts discussed in the following letter from the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, October 31, 2018.

Hon. JAMES E. RISCH,
Chairman, Committee on Small Business and Entrepreneurship,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 3554, a bill to extend the effective date for the sunset for collateral requirements for Small Business Administration disaster loans.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Stephen Rabent.

Sincerely,

KEITH HALL,
Director.

Enclosure.

S. 3554—A Bill To Extend the Effective Date for the Sunset for Collateral Requirements for Small Business Administration Disaster Loans

Under current law, the Small Business Administration (SBA) does not require collateral for loans of $25,000 or less under its disaster loan program. That threshold reverts to $14,000 on November 25, 2018, for home or business loans for nonmajor physical disasters. S. 3554 would extend the $25,000 threshold for those loans for one year.

Using information from the SBA, CBO expects that implementing S. 3554 could slightly increase the volume of loans made under the disaster loan program in 2019. However, the SBA generally does not deny a loan application if a borrower lacks the specified collateral, as long as the agency is reasonably sure that the loan can be repaid. For those reasons, CBO estimates that the bill would have an insignificant effect on the estimated subsidy cost of disaster loans; such spending would be subject to the availability of appropriated funds.[1] Using information from the SBA on the costs of similar activities, CBO estimates that implementing the bill would cost the agency less than $500,000 to update program requirements.

Enacting S. 3554 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting S. 3554 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

S. 3554 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Stephen Rabent. The estimate was reviewed by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

VII. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI (11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant additional regulatory impact will be incurred in carrying out the provisions of this legislation.

VIII. SECTION-BY-SECTION ANALYSIS

Section 1: Extension of sunset for collateral requirements for SBA disaster loans

This section amends the sunset clause in section 2102(b) of the RISE After Disaster Act of 2015, by striking "3 years" and inserting "4 years".

[1] The estimated subsidy cost is the estimated long-term cost to the government, calculated on a net-present-value basis. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time. That value depends on the rate of interest (called the discount rate) used to translate future cash flows into current dollars.