Strengthening Business and Community Recovery

Lessons Learned from Implementing Regional and Local Disaster Recovery Loan Programs
The H-GAC Region

- 6.6 million people
- 12,500 square miles
- 13 counties
- 120 cities
Hurricane Ike
Hurricane Ike Impact Area
Ike Storm Damage

- Over $7 billion damage - region
- Over 200,000 homes damaged or destroyed – $2.7 billion
- $2.5 billion in critical infrastructure
- Roughly $4 billion in aid
Why H-GAC?

- Responsible for allocating CDBG Disaster Recovery Funds
- EDA Economic Development District
- Experience with SBA504 loans and micro-financing
Outreach and Action

- Outreach to SBA Borrowers
  - Deferrals – breathing room
  - Referrals – disaster assistance

- Convened Economic Development District
  - Revised CEDS
  - Applied for EDA Loan Fund

- Partnered with Local Development Corporation
  - Provided local funds to most impacted city
  - Enhanced private loan fund

- Provided 501c(3) mechanism

- Collaborated with State on CDBG Eligibility
Key Partners

- Economic Development District
- Local Economic Development Staff
- Community Banks
- Small Business Development Centers
Variety of Products

- **Bridge Loans**
  - banks
  - cover gap - insurance
  - short-term fixed rate
  - existing customers
  - default < 1%
  - $40 million

- **Small loans**
  - Local/donations
  - unsecured
  - 5-10 year term fixed rate
  - default 43%
  - $220 thousand

- **Forgivable loans**
  - CDBG-DR
  - 1 year term, zero interest
  - performance based
  - zero payment
  - zero interest
  - Default 2%
  - $2 million

- **Medium loans**
  - EDA
  - secured
  - 10-15 year term fixed rate
  - Lender of last resort
  - Default 27%
  - $3 million
Challenges

- Financially strong applicants served by banks
- Less experienced applicants uncomfortable with requirements of federal loans
- Lack of collateral for secured loans
- Large service area difficult to cover
- Case management intensive
Challenges

- **CDBG Disaster Recovery Funding**
  - Prevent duplication of benefits
  - Meet at least one national objective

- **EDA Funding**
  - Pre-pays – watch the fund balance

- **Unexpected competition**

- **Managing expectations**
Observations

- Small loans quickly after the storm have the most impact
- Easy to become the “bad deal” clearinghouse
- Three types of performance
  - Outperformed and paid off early
  - Underperformed and defaulted
  - Doing fine and on time
Future Considerations

- **Build Capacity**
  - Regional standards and guidelines
  - Local marketing and disbursement

- **Share Accountability**

- **Strive for small forgivable-loans**
  - Partial v. full
  - 1-3 year
  - simple security agreement