LOUISIANA RECOVERY AUTHORITY

Small Business Administration Resolution

November 6, 2006

Summary: To request that the Small Business Administration (SBA) or Congress change the calculation method regarding duplication of benefit for SBA loans as it relates to the Road Home program

The Louisiana Recovery Authority (LRA) recognizes and is appreciative of the contributions that the SBA has made through its loan programs to support the recovery of small businesses and housing lost to Hurricanes Rita and Katrina. In addition, the SBA has worked recently to make the current calculations of SBA funds regarding duplication of benefit simpler and somewhat more favorable for homeowners' needs.

However, the LRA Board believes that homeowners recovering from the worst natural disaster in US history should be provided the greatest flexibility as can be provided under the policies set forth by the federal government for the use of disaster funding resources. SBA loan funds are an affordable source of capital for homeowners who are rebuilding their lives and their lost personal assets and provide a much needed financing gap to those who are eligible for these funds.

The Stafford Act requires that funds provided for disaster recovery may not be duplicated by other funds. Currently, the SBA implements the Stanford Act requirement by demanding that grant funds, such as those provided by the *Road Home,* be used to repay SBA loans to the extent that *The Road Home* funds and other compensation plus SBA loan funds exceed the estimated damages to a property. For example, if the estimated cost to repair a property equals $125,000 and SBA has disbursed a loan of $100,000 and the *Road Home* has approved assistance of $30,000, *Road Home* proceeds must be used to repay $5,000 of the SBA loan.

However, as the state's investment of Community Development Block Grant (CDBG) dollars through the *Road Home* program is implemented, the Louisiana Recovery Authority Board asks that the SBA reconsider the relationship between benefits provided through the Road Home and SBA.

The LRA Board respectfully requests that the SBA reconsider it policy related to duplication of benefits. Specifically, the Board requests that the SBA define the "value" of the SBA loan for the purpose of considering duplication of benefits not as the value of the **principle** amount loaned, but the **difference** between the government's **subsidized interest rate** and what the homeowner could have borrowed at **market interest rate** as valued over a period of time, otherwise known as the "net present value" of the interest rate savings.

According to the current interpretation of the SBA, a loan carries the same value to the homeowner as a grant. However, as SBA loans require repayment of the full principle borrowed plus interest and the Road Home benefits don not require repayment, the LRA submits that there should be a difference in how they are viewed. Unlike insurance proceeds, which a homeowner does not repay and which funds are provided for the same damages as a *Road Home* grant, an SBA loan is not provided as a grant for uninsured damages or losses. In essence then, the only cost to the federal government of these funds should be the value of the interest rate subsidy of the loan over time.

The LRA would suggest an alternate means of calculating duplication of benefit.

In the example, rather than using *Road Home* funds to repay $5,000 of the outstanding principle balance of the SBA note, the homeowner could elect to instead ask that their assistance from the SBA or the Road Home program be reduced by the value associated with the difference between the SBA's subsidized interest rate and the market interest rate as calculated over the period of the loan.

THEREFORE BE IT RESOLVED THAT, the LRA Board recommends that the SBA and Congress reconsider the SBA's interpretation of how to value the benefit of an SBA loan for the purposes of complying with the Stafford Act's "non-duplication" requirements as it relates to the Road Home Homeowner Assistance programs and other similar disaster recovery compensation programs.

BE IT FURTHER RESOLVED THAT, because the LRA's proposed policy more appropriately reflects the cost of the federal government's SBA loan for recovery and allows the homeowner the maximum flexibility to invest Road Home in housing redevelopment, the Board requests that the SBA define the "value" of the SBA loan for the purpose of considering duplication of benefits not as the value of the principle amount loaned, but the difference between the government's subsidized interest rate and what the homeowner could have borrowed at market interest rate as valued over a period of time.