

**Affordable  
Europe**



[Check out these money-saving tips  
for the European traveler](#)

**The New York Times**  
**Travel**  
[nytimes.com/travel](http://nytimes.com/travel)

## Operating Costs Are Imperiling Disaster Fund

- [Sign In to E-Mail or Save This](#)
- [Print](#)
- [Reprints](#)
- [Share](#)
- [Digg](#)
- [Facebook](#)
- [Newsvine](#)
- [Permalink](#)

ARTICLE TOOLS  
SPONSORED BY



By [RON NIXON](#) and [LESLIE EATON](#)

Published: January 18, 2007

The federal government's biggest program to help people rebuild after natural disasters is on the verge of running out of operating money because of budgeting problems at the agency that runs it, the [Small Business Administration](#).

[Skip to next paragraph](#)

### Blog

### The Caucus



[Kate Phillips and The Times's politics staff report on the latest political news from around the nation.](#)

- [More Politics News](#)

If Congress does not intervene in the next month or so to cover the administrative costs of the program, it will have to shut down, according to an internal agency memorandum given to The New York Times by a critic of the agency.

Agency officials say, and Congressional leaders agree, that the legislature will almost certainly act to keep the program running. "It would be very surprising to us if they wouldn't address this," said Steven C. Preston, the administrator of the S.B.A.

But even a temporary shutdown could delay aid to victims of the ice storms in the Midwest and other recent natural disasters, and would further hamper a program that was widely criticized for its slow response to the [hurricanes](#) that hit the Gulf Coast in 2005.

The current money shortage is related to what agency officials concede was an unusual decision in early 2005 not to ask Congress for any money to pay for running the disaster program in the 2006 fiscal year, relying instead on money left over from previous disasters. The program also ran into financial trouble last year and required an emergency infusion of money in February.

Longtime critics of the agency said the current problem highlighted a continuing pattern of mismanagement and poor planning at the S.B.A.

"We need to look at a comprehensive overhaul of the agency as well as the disaster loan program," said Representative Nydia M. Velázquez, Democrat of New York and the new chairwoman of the House Small Business Committee. "Something has to change in the management of this agency."

After the 2005 hurricanes, the agency did not have enough employees to handle the 423,000 loan applications it ultimately received from homeowners and businesses, and had switched to a troubled computer system that slowed its disaster response. The [Government Accountability Office](#) cited the agency's poor planning as a factor in "significant delays and backlogs in processing loan applications."

In the face of withering criticism from disaster victims, government officials and even agency employees, the director of the agency, Hector V. Barreto, resigned last April. His successor, Mr. Preston, has pledged to improve the disaster response.

The small-business agency has now approved more than \$8 billion in loans to homeowners trying to rebuild after the hurricanes, according to its own data, but has distributed less than half of that amount. Businesses have received loans of about \$1.2 billion, although the agency has approved almost \$2.6 billion in loans.

In the Senate, Democrats have proposed major changes to the disaster assistance program, including allowing banks to make disaster loans, rather than funneling them all through the S.B.A.'s staff.

"The administration mismanaged the response to Katrina from Day 1," Senator [John Kerry](#), Democrat of Massachusetts and the new chairman of the Committee on Small Business and Entrepreneurship, said in a statement yesterday. "We need legislation to overhaul the program and make it work efficiently for every business owner and homeowner in the country."

But Senator [Olympia J. Snowe](#), Republican of Maine and the former head of the committee, blamed Congress for the current financial problem, saying it stemmed from lawmakers' failure to approve the agency's budget request for the fiscal year that began Oct. 1, which agency officials said included about \$200 million to run the disaster program.

"It is unacceptable that at a time when we are all too aware of how valuable these programs are to American families whose lives have been turned upside down by disaster, we were unable to provide the S.B.A. with the funding it requested for this fiscal year," Ms. Snowe said in a statement yesterday.

The Republican-led Congress passed 2 of 11 spending bills last year. The new Democratic leadership decided to keep most government agencies operating by extending their current budget levels and is expected to continue those spending levels until fall.

The 2006 budget is the one that did not ask for money to operate the disaster program. According to the internal memorandum, which was prepared by the agency's chief financial officer, Jennifer Main, the agency needs \$306 million for administrative costs in the current fiscal year but had only \$157 million left as of Sept. 30.

The short-term problem could be solved, as in the past, if Congress allows the agency to cover administrative costs by dipping into some of the money it has allocated for loans, said C. Edward Rowe III, the agency's chief liaison to Congress.

But Ms. Velázquez said she would oppose such a measure. "I am not willing to take money out of disaster money intended for victims to cover administrative costs," she said.

The agency is also facing a shortfall of about \$20 million in its regular budget, which has dropped by about 30 percent since 2001. According to the memorandum, the shortfall could require the agency to take drastic steps, including furloughing every one of its employees one day a month until the end of September.

"We don't really think Congress will forget to fund disaster assistance," said Joel Szabat, the agency's chief of staff. "The real issue is the \$20 million."

Under the disaster loan program, homeowners can borrow up to \$200,000 at low interest rates to repair houses; owners and renters can borrow up to \$40,000 to replace damaged furnishings. Businesses of any size can borrow up to \$1.5 million to cover physical losses, and some small businesses are eligible for loans to cover economic losses. Maximum interest rates range from 4 percent to 8 percent.

The disaster loan program also serves as a screening mechanism for some grants from the [Federal Emergency Management Agency](#), which referred 2.4 million people to the S.B.A after the hurricanes. Only after they are rejected by the S.B.A. do applicants become eligible for some FEMA grants.

The homeowner loan program has come under fire in Louisiana and Mississippi because it is requiring people who receive federally financed recovery grants through state-run programs to use the money to repay S.B.A. loans.





[More Articles in Washington »](#)

Need to know more? [50% off home delivery of The Times.](#)

## Tips

To find reference information about the words used in this article, hold down the ALT key and click on any word, phrase or name. A new window will open with a dictionary definition or encyclopedia entry.

## Related Articles

-  [GETTING THE WORK; Seeking a Bigger Slice Of an \\$85 Billion Pie](#) (September 12, 2006)
-  [Clinton Fills Cabinet After Scramble to Diversify](#) (December 21, 1996)
-  [Clinton Friend Gets Sentence Of Two Years](#) (August 21, 1996)
-  [TRANSITION IN WASHINGTON; Bush Names Choice for Information Agency](#) (January 19, 1989)

## Related Searches

- [Small Business Administration](#)
- [United States Politics and Government](#)
- [Finances](#)
- [Senate](#)

[More Articles in Washington »](#)