Episode 4: Meeting Earthquake Recovery Expenses with an SBA Disaster Loan

Introduction:	Welcome to *Ready to Recover*, a podcast series in which guest experts take a closer look at what people may experience when seeking to finance their recovery after a damaging earthquake. These discussions consider common challenges and options, including what can be done to prepare before disaster strikes. This podcast series is produced by CREW@crew.org with funding from the National Earthquake Hazards Reduction Program.
Kyra (CREW)	In this podcast, we look at federal disaster loans as a way to pay for post-earthquake repairs and other costs not covered by insurance—which could include the deductible of an earthquake insurance policy. Remember that standard homeowners and renters insurance policies exclude earthquake coverage, so earthquake insurance must be added or purchased separately. This episode features a conversation with Corey Williams, who is a public information officer at the Small Business Administration's Office of Disaster Recovery and Resilience. The Small Business Administration (SBA) is a federal agency that supports U.S. small businesses by providing counseling, capital, and contracting expertise as well as disaster loans. SBA's disaster assistance program also provides disaster loans to eligible homeowners and renters. Corey Williams has been with SBA since 2006. Welcome!
Corey Williams	Well, thank you, Kyra. It's an honor to be on the podcast this afternoon.
Kyra (CREW)	Why don't we start with a question about just how does SBA work with FEMA disaster assistance programs to address people's needs following an earthquake or other disaster?
Corey Williams	Well, you know, Kyra, that's a perfect opening question. And anytime we have what's called a presidential declaration, which comes from the state—so let's just say we have a situation with, you know, with a declaration request in Seattle: it's, you know, they had a major [disaster] declaration. So, the first thing they're going to do, the county is going to respond to the state, and they're going to say, oh, we had this amount of damage, and we feel like it meets a certain criteria in order to at least be reviewed by FEMA and SBA. So, in that situation, they'll actually send loss verifiers out to actually determine the amount of damage. And if the damage is sufficient enough, then that–, then the state, on behalf of the

	counties that were damaged, they will request what's called a presidential declaration. So, as a part of a presidential declaration, it can be two forms of presidential assistance under the declaration: you have what's called public assistance, and then you have what's called individual assistance. So public assistance is for the cities, the counties, the schools, any kind of, you know, entities that are involved with the state as far as roads and different things that disasters may destroy. So, the public assistance is direct assistance to those counties, and it's administered through the state. Now, we also have what's called individual assistance, which opens up direct federal assistance to not only businesses of all sizes, but homeowners, renters, and nonprofits. And that's administered through FEMA, so FEMA is the lead agency in any presidential declaration. And usually what they will do, they will open up what's called disaster recovery centers. And having those FEMA state disaster recovery centers, it will be FEMA staff there, as well as SBA staff. So, the first step also in, you know, when there's an individual assistance declaration, is to actually register with FEMA by going to *disasterassistance.gov*. And then they can come into the disaster recovery centers and get the help they need. But what–. They'll see FEMA first, but then, once they see FEMA, *they*'ll say, well, let's go see our friends at the US Small Business Administration, and we'll be able to provide those services. So we work hand-in-hand in the disaster recovery centers with FEMA in that regard.
Kyra (CREW)	Great. So following an earthquake, what would be—for a homeowner or a renter, for example—what would be the pros and cons of an SBA disaster loan?
Corey Williams	You know, another great question, Kyra. So, the first step we always say—and this is on our three-step flyer—is to make sure that you register with FEMA by going to *disasterassistance.gov*. Because the one thing is SBA–, we want to make sure that if you are eligible for a grant, then we want you to receive that grant. But most people don't realize that whenever there's a grant assistance that's offered by FEMA, it may be limited in the scope and the amount and, as a result, it may not create or make that homeowner or renter whole. So the pros of the US Small Business Administration is that, one, it's a low-interest disaster assistance loan for homeowners [for] up to $200,000 to repair or replace disaster-damaged real estate, and up to $40,000 to repair or replace disaster-damaged personal property, which could include any vehicles that may have been damaged as well.

	So–. And for renters, they could borrow up to $40,000 to repair or replace disaster-damaged personal property, which would also include any vehicles as well.
	So, the major pro is that SBA is a long-term recovery partner. And, you know, unlike with the FEMA grants, of course, the con is that you have to pay the money back. You know. But there are a lot of great programs in place currently. Our administrator, Isabella Casillas Guzman, has initiated two programs to help out homeowners and renters. One, it's a 0-percent interest accrual for the entire first year of the loan, and it's a 12-month deferment. So for those homeowners that may have been waiting for insurance recovery, they can now go ahead and get an SBA loan, because if it takes, let's say, 60 days or 90 days, or even 120 days to get the insurance check, because that interest clock has not started for the first year, when they get their insurance recovered, they can just turn around and pay the SBA loan and there is no loan. So this allows that homeowner or renter to start their road to recovery faster.
Kyra (CREW)	So, are there common hitches or pitfalls or things that people have not planned for or anticipated when they're seeking SBA financing in a disaster situation? I mean, what do people often not expect?
Corey Williams	Well, so the biggest thing here that people probably don't expect is that, one, they are to apply for a loan. So, we do look at credit history, we do look at repayment ability, and, as a federal government entity, we have to make sure that, to be eligible for the programs, that they are a federal taxpayer. So, if they haven't filed their taxes or if they may have credit issues, or they may have lost a number of contracts and don't have the ability to pay, or maybe lost their job recently, well, SBA unfortunately cannot approve them for a loan. Now, even if we decline them for a loan, though, we do let them know that they have up to six months to apply for reconsideration. So, a “no” is never a final “no,” and, similar to FEMA, where FEMA has an appeal process as well. So, if someone is referred to SBA, we strongly recommend that they go ahead and complete that application, because, again, if they are a homeowner or renter, then we can actually refer them back to FEMA. So that's actually a good thing, initially, because they've kind of proverbially checked that box of applying for SBA assistance.
Kyra (CREW)	So what timeline should people anticipate for the process of applying? So, the disaster—the earthquake or other disaster—happens, and what does the timeline usually look like for applying and then receiving the funds? You know?

Corey Williams	Another outstanding question, Kyra. So actually, the average turnaround for homeowners is about seven to ten days. I'm currently working a disaster declaration in Tulsa, Oklahoma, and I've been here since July 6. And, what, today is July 19, and we've actually already approved $785,000 of loans in less than a two-week period. So, the first amount that actually is dispersed is the unsecured amount. And at this point, that unsecured amount for homeowners and renters is $25,000. For businesses, they can get an unsecured $25,000 for their physical loss and an unsecured $25,000 for their economic injury, which is working capital funds. So, once they get past that unsecured threshold, then it may be other documents that need to be completed, such as recording a mortgage or adding SBA as a lost payee on insurance policies to actually ensure or protect SBA's collateral interest in the property. So, we are able to usually get that first $25,000 out here very quickly. I would say for homeowners, I would think 10 to 14 days max for the unsecured amount; for your sole proprietorships, probably in that 14- to 20- or 21-day range, which would also include, probably, single-member LLCs. Now for the more complicated—you know, S Corps or C corps—that may require a little bit longer processing time, but I would still say, processing wise, we'd be looking at about 30 days, and funding probably no later than 45 days.
Kyra (CREW)	What happens in a situation such as an earthquake where the person comes in and applies for the loan and gets approved, and then—because earthquakes notoriously work this way—there's an aftershock that does even more damage. Do they–, is there some way in which they can increase the amount of the loan? Do they have to go through the process again? I mean, what would be...?
Corey Williams	You know, you are a professor Kyra, when it comes to these great questions you're asking. So, actually, under the SBA program, one—and that's another great thing for homeowners as well as business owners—is that they can actually request increases in the loan amount for up to two years from the date of the loan authorization and agreement. So, we have that many times, Kyra, where somebody, you know, especially impacted by the aftershocks, and the initial damage estimate may have shown $50,000 of damage, and then they only had $40,000, let's say, of insurance because of a $10,000 deductible. So they, you know, now, you know, really have that $10,000 loan that they're eligible for, but then they have an aftershock and it causes a little more residual damage, and now they need another $30,000. Well, all they have to do once approved for the loan is contact their case manager and let them know, "Hey, you

	know, we had some additional damage. And we also want to do mitigative measures." Because another thing with mitigation (you know, as a part of the Office of Disaster Recovery and Resilience), you know, a homeowner can be approved for up to 20 percent of their total loss for mitigative measures, and especially in an earthquake-prone area, to try to safeguard and, you know, prevent and mitigate as much damage. That's a great benefit for anyone impacted by an earthquake.
Kyra (CREW)	So what would be, you know–. Given that timeline, is there, after the, you know, the initial event or even the second event, is there a timeline or a deadline for applying? I mean, do they need to make sure that they get this application process done?
Corey Williams	Yes, there is a timeline. So, once there's a presidential declaration approved, it opens up what's called a 60-day physical deadline period to apply for physical damage. So I always say you can see your roof blown off, you can see windows blown out. You can see water in the building: that is your physical damage. Now, if a business owner has lost revenue or they have a drop in sales, or they have to lay off employees due to an earthquake incident, now that's a little bit different. That's covered under our economic injury disaster loan program, which provides the working capital for the businesses to sustain themselves during the recovery period. So that working capital, if it's only working capital, they actually have a nine-month deadline for that. But if there's any physical damage at all, they need to apply within the 60 days. Now, what happens a lot of times, depending on the amount of damage and also the timing, if the state and FEMA determine that there may be a need for a longer period of time, FEMA and the state has the discretion to request additional deadline times for the physical. It won't move back the economic injury of the nine months, but they do have the discretion to extend the deadline up to 30 days. And, you know, we've seen for major disasters, you know, up to 30, up to 60 days extended, like a Hurricane Harvey or a Hurricane Katrina or something like that. I think it was extended almost, I think 60, 90, or maybe even 120 days, even past the initial 60-day deadline.
Kyra (CREW)	So are there any recommendations that you would give to people prior to experiencing a disaster that would make them a little readier to initiate this kind of a process if they needed to jump in? What would help put them in a good position to start that?

Corey Williams

Well, and that's a great question, Kyra. The biggest part for us at SBA with our Office of Disaster Recovery and Resiliency, as we've been rebranded, we are big on being resilient and actually using mitigative measures to prepare for the next potential disaster. So, for small businesses, a lot of small businesses probably don't realize that you can get business interruption insurance, and usually you can set the time period to where it's as low as 24 hours, where you may be out of power—because when you have an earthquake, you've got to think about power lines are impacted, roads are impacted. So you may be out of business at least, minimum, you know, let's say 72 hours to maybe 96 hours: three, four days. So the one thing that I would suggest, and as an agency we would suggest, is getting business interruption insurance for your small business: that could pay dividends later.

And yes, it may be a little more expensive to get the policy that has the 24-hour coverage, but that expense on the forefront or early may actually benefit you more. Because if you can actually get covered from one day out, versus being covered after four days out, you know, you may not have as much lost revenue to cover. I mean–, and so if you have, I mean, you know, for one day for a business owner, it's not that bad. Four days for a small business owner is–, could be pretty detrimental. I mean, you may be talking about, you know, $10,000 a day that could be $40–, $50,000 of revenue that they may be missing out on, and that's hard for a small business to recoup.

Kyra (CREW)

Any tips for homeowners or renters?

Corey Williams

Yes. Yeah, definitely. So, the one thing I would recommend, especially in the earthquake prone area, is to make sure that you review your insurance policies. A lot of homeowners policies do not have what's called RCV. Let me repeat that one more time: RCV. That stands for *replacement cost value*. Because of COVID, and, you know, the shortage of labor and supplies, the cost of rebuilding a home these days is a little more expensive than it was pre-COVID. So, if you have any kind of policy that–, let's say it's $250,000, let's say for the real estate, and now, because of the cost of labor and supplies, to rebuild that home, now, it's going to be $450,000. Now you have a $200,000 shortfall because you didn't have the *replacement cost value*. So, for a homeowner, it is very, very vital to review your insurance policy, talk with your insurance agent, and ask them, do you have a *replacement cost value* on my policy, or am I just covered for this $250,000 as a blanket?

	For the renters, the biggest thing for them (because they're not dealing with any real estate): Review the policy, make sure that there is an earthquake rider, because some policies may not put that rider in the insurance policy. They may cover for fire, they may cover for theft, they may cover for flood, but they may not have an earthquake rider. So at least make sure, if you are in an area where you potentially could be earthquake prone, you know, try to make sure you have that rider. And also, there's what's called ALE: *additional living expenses*. So, if someone is displaced–. So if somebody's renting an apartment, and say they're impacted by the earthquake and they can't return to that apartment complex for the next, let's say, three or four weeks, well, if you have *additional living expenses*, then that policy will cover you to relocate to a hotel or whatever may be the case. So you definitely want to make sure, as a renter and a homeowner, that you have *additional living expenses* as a rider on the policy. But for the homeowners, I can't emphasize enough the actual *replacement cost value*. In fact, I'll give you an example. We had the Boulder fires in 2022: and of course, you know, very devastating fires that ran through Boulder, Colorado. And a number—I can't give you an exact percentage—but a number of those homeowners did not have *replacement cost value*; and, literally, there were \$200–, \$300,000 shortfalls that were created. And SBA actually had to up our statutory limit for that disaster only, to be able to help those homeowners in Boulder, to where we actually–, I think we increased our loan amounts to \$300,000 for homeowners, because it was that much of a deficit. So, you know, *RCV*: remember those three–, that acronym: *replacement cost value*.
Kyra (CREW)	So is there a threshold value of damage beyond which SBA would not consider financing repairs? I mean, are there restrictions that people should be aware of?
Corey Williams	You know, great question. Most of the time when our loss verifiers actually come out and review—you know, kind of survey a property—we're actually going to have, usually have, a much higher estimate than the insurance itself, because a lot of times with the insurance, they're trying to–. You know, you don't want to miss one payment when it comes to making your premium, they'll cut us off; but then when it comes for them paying us out, they'll try to be, you know, really tight and cut all kinds of, you know, expense: “Well, you don't need to replace this roof, you can do this or do that.” So, when those situations occur—actually, most of the time, like I say—our SBA programs are going to give you a much higher loss value or loss estimate than the insurance provider. So most of the

	time, as long as it's not a depreciated property where the, you know, our loss verifier can tell that, you know, this was already in bad shape kind of before any kind of situation occurred, or what we call *deferred maintenance*, if it's a *deferred maintenance* situation and our loss verifiers can determine that, then that may be somewhat of a restriction. But most of the time, again, we are going to come in much higher on our estimates than the insurance companies.
Kyra (CREW)	I think you've already answered this one, and I just want to follow up with you and see if you have anything to add to that. And that would be the incentives for mitigation associated with the SBA disaster loans. So seismic strengthening would be the one, of course, that would be of keenest interest in earthquake country.
Corey Williams	Yes, definitely. And, you know, Kyra, I definitely would strongly recommend that homeowners really take advantage of the mitigative measures. Because, again, it's the similar peril, so anything, that when you're rebuilding, or actually, if you're having to build from scratch, you know if they have an entire project and it includes any mitigative measures, then that 20 percent can be a game changer. Because let's say someone had $300,000 in damage. Well, now that opens them up for that additional $60,000 as a homeowner. So that may be the difference in completing all those projects for mitigative measures, such as the seismic strengthening or any energy efficiency upgrade. So we definitely recommend, you know, submitting a mitigation plan whenever you're doing your rebuilding project, or if your home is totally destroyed and you have to build brand new.
Kyra (CREW)	So what do you think earthquake preparedness and response professionals at the, you know, like the local level, the state level, should be aware of or anticipate with, you know, the populations that they're working with in the disaster context? I mean, what should they prepare people for? What messages do you want to get out–, have them share and get out to the public?
Corey Williams	Great question. So, just like I emphasized about the insurance: I can't really emphasize that enough. If a homeowner has that *replacement cost value*, that literally might save them hundreds of thousands of dollars. So yes, it may be a little bit more on your policy to get *replacement cost value*, but I promise you that that will pay extreme dividends later on in the process by them having *replacement cost value*. And, messaging wise, “always review your insurance policies.” If

you know your property has increased in value and you're still sitting at a value from 1997 of what your property was worth, then you need to increase your actual policy to reflect the value of your home. I mean, you'd be surprised. I mean, I've seen homeowners at different places, and they have a $400- or $500,000 home that they've done extensive renovations on and different things like that, and they're only insured for $150,000, because they inherited the property and they're like, oh, we're, well, you know, our insurance . . . we're just going to keep everything status quo when–, how we got it.

I'm like, well, now if you have that damage, now, you not only have a $300,000 shortfall, you haven't even accounted for *replacement cost value*. So now that $150,000 coverage on what may be a $600- or $700,000 project, it's going to probably create an extreme shortfall. So, you know, we always say that a homeowner's best friend is insurance, and making sure that your insurance policy is in–, you know, covers everything, you know, from the personal property replacement to your additional living expenses if you have to relocate, because many times, during a disaster, you know, homeowners are going to have to relocate for at least, you know, two or three weeks, usually longer—months sometimes, if they have extensive damage to their home. So to be able to have that *additional living expenses* in their policy (as well as renters), that's a game changer. And that's really the biggest thing that I would say is a benefit.

And messaging wise, we want to emphasize to homeowners, renters, business owners—business owners, I can't state enough: business interruption insurance is vital, because if you're going to be out of business for three, four months and you're rebuilding or having to repair your business, then you know, if you had that business interruption insurance, now you're covered at least from day four. But you know, like I say, you might be able to get a policy that shows business interruption from 24 hours on. So, imagine that one: let's say we have two business owners, and—give you a hypothetical—and we have one business owner who has the business interruption insurance. Let's even say from day four. Now his billing is totally destroyed; so now he has, you know, coverage for that, you know, for whatever amounts of money, you know, that's necessary for three or four months being out of business. But what we see with most businesses—probably about, I would guess, about 80 percent of businesses who don't have the business interruption insurance—now, not only have they lost the revenue, now they're having to come out-of-pocket to actually rebuild. So now they're really kind of . . .

and that's why a lot of small businesses, unfortunately, within the course of a year actually fail because they don't have the mechanisms in place to protect themselves. You know, i.e., business interruption insurance.

Kyra (CREW) So I want to make sure before we conclude the podcast, that I also invite you to share anything that we have not talked about that you really think that either the public or the seismic preparedness community ought to understand about SBA and how SBA works or SBA loans.

Corey Williams Well, you know, a lot of people—and I'm glad you have this opportunity for me to kind of expound, with the SBA program—yes, it is a loan, but we are not the bad guys. Yeah, I mean, you know, you go to the bank to get a loan, when you go buy a new car, you get a loan. So, a lot of people may feel like, oh, I've been–, my home has been destroyed. I need FEMA to write me a check and make me totally whole. Well, unfortunately that's not the case. FEMA has limited grant assistance to be able to kind of—what they say is, "safe, sanitary, and secure." You'll hear those words if we ever have a presidential declaration for any earthquake incident: "safe, sanitary, secure." You'll never hear FEMA say, "we're here to make you whole"—that is not their role.

SBA's programs for businesses of all sizes, homeowners, renters, and nonprofits, is designed to make those, whether you're a homeowner, business owner, renter, or nonprofit, to make you whole. Yes, it is a loan program that you have to repay.

Also, whenever you have any kind of insurance recovery, don't wait—If you're actually trying to deliberate, if you think, oh, I don't know if I want a loan or not—go ahead: apply. Have it. Put yourself in the system. And keep in mind that a lot of these mechanisms probably will still be in place with a 0% interest accrual and the 12-month deferment. Now it ends currently at the end of this fiscal year, which would be September 30th, 2023, but most likely, I think that, because of the response that we've had, I would hope and anticipate that our administrator, Isabella Casillas Guzman, will continue to extend it, and I do believe that she will. So, if that's extended, you have a chance to literally get money, you know, to actually start your project on day one versus day 120, then take advantage of the programs. You know, we're not a bad guy. We are here to really be that long-term recovery partner, and the rates, whenever we do have them, although they fluctuate by the treasury note, they're usually very low interest. So, we try to make sure we're not putting people in a position where they cannot actually take on a low interest loan.

Kyra (CREW)	Thank you very much for taking the time to communicate with our audience today and sharing your expertise on SBA loans. We really appreciate your contribution.
Corey Williams	Well, it's been an honor to be on the show, and I look forward to any other disaster preparedness podcast we'd like to have in the future.
Kyra (CREW)	Thank you.
Corey Williams	Thank you.
Pascal (CREW)	This episode of the Ready to Recover podcast series was produced by CREW.org, with funding from the National Earthquake Hazards Reduction Program. The podcast transcript and show notes—including links to resources mentioned by the speakers—are available at podcasts.crew.org. You can continue to explore this and related topics by tuning in to the other episodes in the Ready to Recover series. Thank you for listening.