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Congress of the United States
House of Representatives

June 11, 2015

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DEAN, NEW JERSEY DELEGATION

The Honorable Julián Castro
Secretary
U.S. Department of Housing & Urban Development
451 7th Street S.W.
Washington, D.C. 20410

The Honorable Maria Contreras-Sweet
Administrator
U.S. Small Business Administration
409 3rd St, S.W.
Washington, D.C. 20416

Dear Secretary Castro and Administrator Contreras-Sweet:

I am writing to express my deep concern over policies that have blindsided victims of Superstorm Sandy—depriving them of the relief they deserve—and to request your immediate assistance in providing an effective remedy.

In the wake of Sandy, tens of thousands of homeowners were pressured to apply for Small Business Administration (SBA) disaster assistance, not only to determine their eligibility for home disaster loans but also to qualify for additional future relief. I have since heard from several constituents who accepted home disaster loans but were never informed that such assistance could preclude them from the additional future relief, such as grants through the U.S. Department of Housing & Urban Development's (HUD) Community Development Block Grant Disaster Relief (CDBG-DR) program.

It is clear that this problem is widespread. The enclosed *Associated Press* (AP) report details the complete lack of information and disclosure many Sandy victims faced as they applied for federal assistance. After surviving a 100-year storm, people made great sacrifices to try to salvage and rebuild—but they did so with incomplete or misinformation.

Take for instance a family from Manasquan, New Jersey who liquidated their retirement savings to pay down debts taken to finance their children's college education—just to qualify for a home disaster loan. This not only decimated their savings, but also resulted in a substantial tax penalty for the early retirement withdrawal. It was not until the final stages of the application process for New Jersey's Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program that they learned of their ineligibility for a grant award (to pay down the SBA loan) solely because they had qualified for and accepted the SBA loan.

HUD rightfully provided guidance in July 2013 allowing CDBG-DR grantees to provide assistance to Sandy victims who had previously declined SBA loan assistance. Unfortunately this guidance did nothing for families who acted to good faith to immediately begin the rebuilding process. Had they been fully informed of the potential adverse consequences of taking out an SBA

loan, these homeowners would have opted to secure a CDBG-DR grant award, leaving them in a much more secure financial situation.

Considering the pressure placed upon Sandy victims to apply for SBA loans—without adequate warning of potential preclusion from other disaster assistance—I respectfully request that HUD issue guidance permitting CDBG-DR grantees to provide grant awards to Sandy victims who previously accepted an SBA loan, at least for the purposes of paying down the loan. I also request that HUD and SBA establish a streamlined process for the paying down of loans. Doing so would provide much-needed equitable relief to homeowners now facing heavy financial burdens they could have never foreseen. I also request that this matter be referred to SBA's Office of Inspector General (OIG) to determine what action or inaction led to so many Sandy victims being left in the dark in regards to critical information.

I look forward to working with HUD and SBA to resolve this issue. Thank you for your time and consideration.

Sincerely,



CHRISTOPHER H. SMITH
Member of Congress

Buyer's remorse: Loans impacting grant money for Sandy victims



By **The Associated Press**

on December 14, 2014 at 1:10 PM, updated December 14, 2014 at 1:17 PM

NEW YORK (AP) — When Superstorm Sandy left Denise Erickson's home with a collapsed foundation, a loan from the Small Business Administration looked like the best deal in town.

She got more than \$150,000 from the SBA to help fix her family's Bellmore home, but the loan has left her with a \$651 monthly payment and a serious case of buyer's remorse.

"It was either stop construction or take the loan and get home," said Erikson, whose family lived in a hotel and a rental while displaced. "Everything washed out and the entire house was compromised."

Some of the thousands of Sandy victims who jumped at SBA's offer in the storm's immediate aftermath say they didn't fully understand the potential repercussions of their loans. Now they regret taking them, saying they say ruined their chances for recovery grants and left them with monthly loan payments their neighbors don't have.

The confusion storm victims like Erickson experienced is emblematic of the convoluted nature of disaster recovery.

"It's a complicated process and not terribly user-friendly," said James W. Fossett, a senior fellow at Rockefeller Institute of Government and a professor at Rockefeller College of Public Affairs and Policy at University of Albany. "It wouldn't surprise me at all if people are frustrated and the rules are sometimes conflicted."

Immediately after a disaster, the Federal Emergency Management Agency offers help on the ground. FEMA also manages the National Flood Insurance Program so homeowners in flood-prone areas can get be prepared to rebuild before disaster strikes. And SBA loans can quickly get help to affected homeowners.

But relief money doled out as grants must be approved by Congress, which took months to do so after Sandy — unlike after Hurricane Katrina, when supplemental federal funding was approved within 10 days. Federal rules count loans as aid when applicants seek grants.

Erickson, who has two children and manages duty-free shops at Kennedy International and LaGuardia airports, applied to the New York Rising program for a grant once it got up and running with money from the U.S. Department of Housing and Urban Development, knowing she might get a smaller grant because of the loan. But she was surprised when she was told the loan was the only aid she was entitled to.

"There was never the understanding that we would be pushed out of the (grant) program," said Erikson, who has tapped in retirement savings to help pay for losses uncovered by the loan and a flood insurance payout of more than \$250,000.

Staten Island Taxpayers' Association president Dee Vandenburg, who has been helping residents with rebuilding, is among those critical of how grants are being handled.

"It's almost like anybody who took an SBA loan is being penalized," she said.

Erickson and the more than 32,000 other homeowners who took out \$1.9 billion in SBA loans got aid right away — "If I didn't take the loan I would have lost the house," she said — but now can't get as much in grants, if they get any at all.

Though she is mindful that she is back home and many still awaiting grant money are not, Erickson said the loan payments are difficult to manage for her and her husband, a contractor.

"They should have never approved me for a loan," she said.

But federal officials say the programs have worked as they should. HUD funds, known as Community Development Block Grant disaster recovery allocations, can be the only lifeline for some disaster victims.

Those who have the "financial wherewithal" to take loans free up later relief money for those who need it, HUD Regional Administrator Holly M. Leicht said.

"That is a good thing from a public policy perspective if it means our money goes to serve more low- or moderate-income folks who probably couldn't afford a loan," she said.

Loan applicants were told the money could impact other funding availability, SBA spokeswoman Carol Chastang said. But advocates say people were forcefully encouraged to get loans without understanding the potential fallout.

"They felt pressure or they felt it was just a necessary part of the process," said Thomas Maligno, executive director of William Randolph Hearst Public Advocacy Center at Touro Law Center, which opened a law clinic for Sandy victims.

The loans can be costly even if people qualify. "Families very rarely can take on the extra money of an SBA loan," he said.

It used to be worse for disaster loan recipients. In the past, grant applicants who also got loans had the full value of those loans counted toward their aid entitlement, even if they didn't take the entire amount.

In 2013, HUD allowed states or municipalities distributing the funds to provide hardship assistance to people who also had SBA loans, in part because far more Sandy victims qualified for the loans compared to other disaster victims, HUD officials said.

In New York, for instance, a hardship waiver is available to SBA loan recipients if homeowner expenses - mortgage, utilities and the SBA loan payback amount - are equal to or more than 30 percent of total household income.

More than 1000 waivers have been approved by Build it Back and New York Rising. New Jersey offers the waivers also, though figures were not available.

Jordan Farkas, a day trader who also breeds and raises horses, took a \$14,000 loan after his Long Beach house was flooded by a backed up sewer line and flood insurance would not cover many of his losses. He said he didn't want a loan but was told repeatedly to apply in order to be eligible for future federal aid.

Farkas paid off the loan eight months later, in part because the loan payback amount, with interest, would surpass \$28,000. The \$14,000 he got in a loan was deducted from his New York Rising award.

"Loans are not benefits," said Farkas, who has a wife and two children. "For us, especially for us, we took it and paid it right back. There was no benefit."