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Transparency and Full Relief Needed for Sandy Victims

U.S. Rep. Chris Smith (NJ-04)
Excerpts of Testimony
House Committee on Small Business
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I would like to thank my good friend and colleague Chairman Chabot for convening this hearing today. It has been more than two and a half years since Superstorm Sandy devastated New Jersey, and so many of my constituents—especially those in hard-hit Monmouth and Ocean Counties—are still recovering today.

As many are well aware, the federal response was far from perfect. The Federal Emergency Management Agency (FEMA) recently reopened all Sandy-related flood claims due to widespread fraud and a complete lack of oversight over the National Flood Insurance Program (NFIP). Bipartisan delegations from New Jersey and New York fought hard to secure critical funding from the U.S. Department of Housing and Urban Development (HUD). Despite huge remaining unmet needs, HUD chose to make nearly \$1 billion in Sandy supplemental funding through the Community Development Block Grant Disaster Relief Program (CDBG-DR) available to applicants unaffected by Sandy.

With that in mind, I am here today to shed light on a hardship now faced by homeowners who were actively encouraged—and in many cases pressured—to apply for Small Business Administration (SBA) disaster assistance. They did so not only to determine their eligibility for home disaster loans but also to qualify for additional future relief. Due to a complete lack of information and disclosure in the loan process, many Sandy victims now find themselves ineligible for further relief through various grant programs.

To illustrate, consider a family from Manasquan, New Jersey whose home was destroyed. They 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—\$52,000—for the early retirement withdrawal. They subsequently applied for relief through New Jersey's Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program, only to be shocked to learn of their ineligibility for

a grant award solely because they had qualified for and accepted the SBA loan—a circumstance that they were never informed of during the loan process.

As they emphasized in their letter to me, this begs the question—if they had been fully informed of the potential consequences, would they have taken the SBA loan? Of course not. With more than 32,000 SBA disaster home loans approved following Sandy, there is no telling how many homeowners have found themselves in a similar situation. I am sure that today's witnesses can speak to the pile of papers presented to the homeowner during the loan closing, and it would be helpful to hear whether SBA has had any discussions with HUD and their state grantees on this issue.

While HUD provided guidance in July 2013 allowing grantees to provide assistance to Sandy victims who had qualified for but declined an SBA loan, they have done nothing to assist the families who acted in good faith to immediately begin the rebuilding process. Last month I sent a letter to both SBA and HUD requesting further guidance specifically 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 asked 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 regarding this critical information.

This very issue should not have been overlooked by SBA, nor should it have come as a surprise. Following the Gulf Hurricanes of 2005 and Midwest flooding in 2008, SBA's OIG released a report entitled "*SBA's Role in Addressing Duplication of Benefits between SBA Disaster Loans and Community Development Block Grants*," detailing a serious lack of communication and agreement between federal agencies regarding the Stafford Act's duplication of benefits requirements. If the federal government itself failed to understand the implications of these requirements, how can they be counted on to explain it to disaster survivors?

While SBA has taken steps to improve its coordination with FEMA and HUD, it has failed to communicate with the survivors it is tasked to assist. Homeowners considering home disaster loans must be made fully aware of their potential preclusion from further assistance. In the post-Storm chaos, these loans were the primary option for homeowners needing to rebuild. Those who accept home disaster loans should not be precluded from future HUD assistance—subject to the grantee's policies and procedures—merely because such assistance is not yet available.

Sandy victims made great sacrifices to rebuild and recover—and unfortunately did so with incomplete or misinformation, through no fault of their own. No two disasters are the same and the recovery process will vary based on the level of federal support provided, but we must not continue to ignore the lessons learned from prior experiences. It is egregious what these Sandy victims have been put through, and they must be provided an equitable solution.

I look forward to the testimony from our witnesses today and to working with my colleagues in continuing to assist the victims of Superstorm Sandy and other disasters.