

# Small Business Administration

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# Eliminate the Small Business Administration Disaster Loans Program

## RECOMMENDATION

Congress should eliminate the Small Business Administration's (SBA's) Disaster Loans Program (DLP).

## RATIONALE

After federally declared disasters, SBA disaster loans offer taxpayer-funded direct loans to assist businesses, nonprofit organizations, homeowners, and renters in repairing damaged and replacing destroyed property. Unfortunately, the generous federal disaster relief offered by the DLP creates a "moral hazard" by discouraging individuals and businesses from purchasing insurance for natural catastrophes. Currently, SBA disaster loans are awarded regardless of whether the beneficiaries previously took steps to reduce their exposure to losses from natural disasters.

While SBA disaster loans are intended to help applicants return their property to the same condition as before the disaster, the unintended consequence of this requirement is that borrowers are forced to rebuild in disaster-prone locations. For example, instead of moving from a town located in a major flood zone, applicants are required to rebuild in the exact same location. Thus, applicants are still located in a high-risk area. In many cases, the loans fail to offer a long-term solution.

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## ADDITIONAL READING

- David B. Muhlhausen, "Business Disaster Reform Act of 2013: Review of Impact and Effectiveness," testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate, March 14, 2013.