Eliminate the Small Business Administration Disaster Loans Program (DLP)

Heritage Recommendation:
Eliminate the Small Business Administration’s (SBA’s) Disaster Loans Program (DLP). This proposal saves over $33 million in 2016, and $354 million over 10 years. Actual savings could be significantly higher as spending amounts vary significantly based on the number of declared disasters. For example, budget authority for the Disaster Loans Program totaled $887 million in 2013, while estimated at $230 million and $187 million, respectively, for 2014 and 2015.

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 sitting 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.

Additional Reading:

Calculations:
Savings are expressed as budget authority as reported on page 369 of “Analytical Perspectives, Budget of the United States Government, Fiscal Year 2015, Table 29-1. Federal Programs by Agency and Account,” http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/29_1.pdf. Budget authority is not provided for 2025, but is assumed to increase at the same rate as the geometric mean of the previous nine years.