

**House Committee on Small Business
Subcommittee on Finance and Tax**

“Disaster Savings Accounts: Protections for Small Businesses During a Disaster”

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Statement by

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Dear members of the committee, I am deeply honored to be here and speak to the topic of Disaster Savings Accounts. This is an especially appropriate topic in light of the freshly riveting images of Hurricane Ike’s path of devastation over the past several days.

With that destruction, I am reminded of our Charlotte County, Florida 2004 experience with category four, Hurricane Charley. Our beautiful, waterfront Southwest Florida community experienced a direct hit.

Hurricane Charley cut a 10 mile swath through our community. Of the approximately 700 commercial buildings in its path, 12% were destroyed, 77% were damaged, and only 10% went unscathed.

In terms of homes, there were 16,000 homes in the path of impact. Of those homes, 15% were destroyed, 74% were damaged and only 9% were undamaged. Blue tarps were everywhere, and approximately 13,000 residential roofs needed replacing.

The backdrop of my remarks will be based on the experiences in the aftermath of that catastrophic event.

My remarks will also have the imprint of my active role in three facets of our business community:

1. Commercial Real Estate Lender: I have been with a local hometown community bank, Charlotte State Bank, for 19 years. My area of expertise is Commercial Real Estate Lending. As a hometown banker, we were actively engaged in many facets of the relief, recovery and rebuilding in the post hurricane environment.

As an aside, our bank had a disaster recovery plan, and thanks to excellent, dedicated leadership and staff, the disaster plan worked. Our Bank was open the day after the hurricane providing needed services to our customers and our community.

2. Chamber of Commerce: As the 2005 president of the Charlotte County Chamber of Commerce I served our business community in the aftermath of the hurricane. Our Chamber has an 83 year legacy, with 1300 members representing 14,000 employees.

Additionally in 2005 it was named the Chamber of the Year by the Florida Chamber of Commerce.

Furthermore, our Chamber is accredited by the U. S. Chamber of Commerce and has the distinction of four stars.

As an aside, I commend Congressman Buchanan in his many roles within Chamber's of Commerce, including past leadership with the State of Florida's Chamber of Commerce.

I am very proud of the leadership role that the Charlotte County Chamber of Commerce took in the aftermath of Hurricane Charley and the advocacy that we performed for our community on a local, state and national level.

3. CCIM designation: As a longtime commercial real estate practitioner, I hold the Certified Commercial Investment Member designation, and am an active member and instructor in this 19,500 member organization.

In summary, in addition to being a 19 year resident of Charlotte County, Florida, you will see the imprint of being a commercial lender at a community bank, Chamber President and the CCIM designation in my remarks.

Going back to Friday, August 13, 2004, at 4:30pm, I recall looking out over our devastated community from my 5th floor place of refuge.

The devastation was clear from my vantage point. Houses were destroyed or damaged. Businesses had their plate glass windows shattered. Power lines strewn like tinker toys across the streets. Schools were destroyed, including a High School, Middle School and three elementary schools. There was no electricity, running water or phones.

I knew that our lives and our community were going to be very different from that point on.

In light of this devastation, what would be our priorities? They can be best categorized with two words: People, and then things. Relief and Rescue efforts went first to people, then to the property.

People were our first priority: family, friends and coworkers – were they ok? Did they have shelter, food, water?

“People” were also the first priority of our bank, and at the Chamber of Commerce.

Isn't the welfare of our family, friends and co workers the most valuable component of our lives?

Rescue and relief efforts, for both people and their property (homes and businesses) required both manpower and funds to accomplish.

Once the immediate needs were cared for, the next phase began: Recovery and rebuilding. This process could not effectively begin without access to capital.

While access to capital during the rescue and relief phase was important, it appeared that many of our residents had access to either a credit card, their liquidity, and/or relied on the excellent response of FEMA, the Salvation Army, the Red Cross and other non-profit or governmental entities.

As noted earlier, our bank was open for business the day after the hurricane. That first day after hurricane provided us with an immediate realization that access to capital was going to be a critical component to the recovery and rebuilding of our community.

That realization was to be re-confirmed over the coming weeks and months.

In the first two weeks after the hurricane life was very primitive: no running water, phones, electricity or cell phones. I clearly recall our Chamber executive director Julie Mathis, and her staff going door to door delivering critical information for businesses about the availability of Bridge Loans, an excellent source of capital that was available after the storm. Julie recalled that duct tape was an effective tool in posting the information sheets on the doors, windows or stoops of businesses, if the business owner wasn't on site.

To summarize the first line of funding for small businesses and individuals in the immediate aftermath (rescue and relief phase) came primarily from three sources:

1. Grant money: The Chamber, United Way, and other non-profits banded together and had access to grant money. One of the primary businesses targeted for assistance were small home based day care facilities. Day care facilities were a critical need since businesses could not adequately staff themselves without a safe environment for their employee's children.
2. Bridge Loans: Bridge Loans are funded from the State of Florida and are short term, interest free loans made available to business owners in the immediate aftermath of an emergency. The maximum loan amount is \$25,000 and with the help of our Chamber, the Charlotte County Office of Economic Development and local banks (including ours), we were able to approve and fund \$3.6 Million in loans to 196 Charlotte County businesses! These funds were approved and

funded within 3 to 4 weeks after the event. To date, the repayment rate for these loans made in our county is 96.7%.

3. Liquidity/personal resources: Many individuals and business owners used their personal and business savings to pay for the endless expenses that go along with the relief and recovery effort after a catastrophic event. However in many cases, these funds were in short supply and soon gone.

As the need for rescue and relief efforts waned, the focus turned to recovery and rebuilding. The key component to both individuals and businesses at that time was securing their property, debris removal, and determining if or how they could be restored to normalcy. Another key component was access to capital.

At this recovery and rebuild stage, the three typical methods for access to capital were: insurance proceeds, SBA loans, and conventional bank loans.

In summary:

Liquidity and access to capital proved to be critical in the aftermath of a catastrophic event for small businesses.

Disaster Savings Accounts would be a beneficial tool in recovering from a catastrophic event.

This was true for our community four years ago, and in an effort to provide more recent, 2008 feedback to this committee, I contacted a CCIM colleague in the Cedar Rapids, Iowa area to capture feedback from this recently flood ravaged city.

Christian Fong, CFA, is a managing director with AEGON USA Realty Advisors, Inc., and an “on loan” executive serving as the CEO for the not-for-profit Corridor Recovery, a non-profit entity created to respond to the 2008 floods. He states, “Just as our community's individuals with healthy savings levels were best able to weather the Flood of 2008 disaster, without having to lean heavily on federal or state aid, businesses with savings were able to bounce back. Tax-advantaged disaster savings accounts, funded to an adequate level, would lead to saved businesses, less business interruption and a way to immediately pump cash back into a recovering city. The end result is jobs. People with jobs stay in the community, maintain hope and can help their neighbors recovery.”

Recommendations:

In light of these experiences, I respectfully offer the following feedback to the committee regarding enhancements to Disaster Savings Accounts:

Disaster Savings Accounts:

Disaster Savings Accounts are innovative, and a good idea. To improve on this already great initiative, I offer the following enhancements for consideration:

1. Size Limitations:

- a. **\$15,000 size limitation:** This limitation appears to be too low, and may not be a relevant safety net for the challenges faced by many individuals and businesses.

As examples: One of the many issues businesses are facing is prohibitively high cost of insurance. Therefore, many businesses are currently going “bare” which means they no longer cover insurance.

Another example is the ever increasing insurance deductibles. It is currently not uncommon to see a 10% deductible. For illustrative purposes, on a \$1,000,000 building, a small business owner would need to pay the first \$100,000 of expenses before making a claim.

How to ascertain the balance limit? Consider taking into consideration the deductible, percentage of gross sales or percentage of gross income. These avenues might provide a better benchmark and provide a more relevant safety net.

- b. **Benchmarking annual increases vs. static limits:** Consider benchmarking annual increases to both the dollar limit and annual contributions based on the CPI. This will help ensure that the program keeps pace with inflation and remains a relevant safety net.

2. **Broadening the scope of the program:** In addition to small businesses, include **individuals and investors in commercial real estate.** The success of small business works hand and glove with the owners as individuals, and the landlords of their businesses.

To illustrate these points I offer just one of many, many examples of the complexities of a post hurricane recovery.

Mr. Jeff Fehr, has lived in the area for more than 30 years, is a respected local appraiser, and the owner of commercial retail/office building housing small business owners as tenants. The hurricane impacted every facet of all three dimensions of his life.

The hurricane did extensive damage to his home, the building that housed his business, and his commercial retail strip center.

I'll never forget the first business day after the hurricane Jeff stopping in at the bank to see how we were doing and to give us a gift. The gift was a can of “Fix a Flat” along

with the prophetic words – you are going to need it (*and we did – we had numerous flat tires from the debris filled streets*). After thanks and pleasantries, we asked how he was doing, learned the sad truth regarding the scope of his devastating losses. Despite this Jeff remained focused, and outlined his plan to immediately rebuild.

And that's exactly what he did.

When I asked Jeff what his thoughts were on the Disaster Savings Accounts, his immediate response was "I'll be an early adopter, and will encourage others to do likewise."

Jeff's story illustrates the importance of including individuals and commercial real estate investors in the program:

Putting people first – Human capital is the most important asset of a business. Employees need to have their basic needs met before they can be productive. They need to recognize the importance of saving for a disaster. Having the availability of Disaster Savings Accounts to individuals is important.

Don't forget commercial real investors: Many small businesses are located in leased space. Access to capital for these investors through Disaster Savings Accounts will speed the recovery of their buildings, and defacto, the small businesses.

Additionally, as the working paper mentioned insurance and SBA Disaster Loans, I provide the following feedback for consideration:

SBA Disaster Loans were appreciated and utilized in the aftermath of Hurricane Charley. However, a frequent refrain heard then was the difficulty in making application, getting approval, and then actually making it to a loan closing.

Specific areas for improvement with SBA Disaster Loans:

1. Lack of continuity and accountability of staff caused unnecessary delays.
2. Lack of adequate training of staff resulted in staggered requests of volumes of repetitive documentation.
3. Shortcomings in the execution of the delivery of the product probably resulted in limitations in access to the program. I wonder if the SBA tracked the relationship between the number of applications received to the number of actual loans that closed?

The best, most eloquent illustration of the challenges with this program came from a second generation Ace Hardware store owners Joe and Geri Waksler. Established in 1979 Morton's Ace Hardware was and is an institution in our community and the

building was destroyed in the hurricane. If that wasn't enough, the remaining inventory was heavily looted. Additionally, their home experienced hurricane damage.

They did have business interruption coverage, this would ensure that they could pay their long time loyal employees for one year. Despite the heavy losses to their business, and the damage to their home, they swiftly began making plans to rebuild. Their plan was to have the building complete within a one year time. Those plans also included making application for an SBA Disaster Loan.

According to Ace Hardware store co-owner, Geri Waksler, "The entire process was disheartening. The endless request for volumes of documentation, the revolving door of staff that handled our file created far more challenge than necessary. Thankfully we had records off site and could comply with their requests. What about those businesses that couldn't come up with the information SBA was requesting?"

Additional frustration came from spending countless, unnecessary time ramping up each new SBA employee that was put in charge of our file. Why couldn't there be continuity with staff assigned to our file?"

In summary Mrs. Waksler stated "We are very appreciative for the SBA Disaster Loan. It made the restoration of our business possible. However, it took a longtime to accomplish when we needed to make it happen much faster."

Insurance Companies:

There appeared to be little oversight over the responsiveness of insurance companies. A common comment was "I've been paying for my insurance for years, and now when I need them, they are taking as long as possible to release the insurance proceeds check."

Conclusion:

In conclusion, thank you for the honor of letting me share my thoughts.

I applaud this committee for their innovative concept.

I support Disaster Savings Accounts.

A frequently heard quip in Florida to remind citizens to make the right decision in preparing for a storm is: "Be Smart", "Be Safe", and to that I add "Save".

Having funds set aside for a disaster is critical to individuals and businesses.

Disaster Savings accounts is a great way to accomplish that goal.