The Brookings Institution

Metropolitan Policy Program

Barriers to Capital Access in Rebuilding the Gulf Coast

The Role of Credit Scores on Access to Capital in Post-Disaster Situations

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Katrina Index: Tracking Variables of Post-Katrina Reconstruction

by Bruce Katz, Matt Fellowes, and Mia Mabanta
April 2006

FullReport in PDF (1097KB)

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FINDINGS

Days Since Katrina Made Landfall: 220

Over the past thirty days, the number of new building permits filed in the metro area more than quadrupled, and the first of thousands of homes destroyed by Katrina finally started being demolished in Orleans Parish. Meanwhile, the most recent population statistics released by the city of New Orleans in March showed that over 180,000 people now live in New Orleans. But, little or no progress was made in rebuilding many key components of the area's infrastructure and hospitality industry.

- **New housing construction took off throughout the state of**

Additional Resources

- In Focus: Hurricane Katrina
- New Orleans after the Storm: Lessons from the Past, a Plan for the Future
- Katrina's Window: Confronting Concentrated Poverty Across America
- Competitive Cities

Selected Media Coverage

- Bush Recovery Chief Says He Has Enough Clout to Do Job
- Federal Aid Key to Recovery
- FEMA Money Still Slow to Gulf Region
- The State of New Orleans

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MOST RECENT RELATED CONTENT

Analysis & Commentary
- Transformative Investments: Unleashing the Potential of American Cities
- The National Trend of Downtown Revitalization
- Making Sense of Clusters: Regional Competitiveness and Economic Development

Books & Journals
- Brookings-Wharton Papers on Urban Affairs: 2005
- Inside Game/Outside Game

Events
- The Road to the 2010 Census
- Exploring the Role of Census Information for Urban Markets
- What Will a Cut in U.S. Census Bureau Funding Mean for America's Cities?

Entrepreneurship

- An Idea
- The Market
- The People
- The Capital

RISK

The level of perceived risk sets the price and availability of capital

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Credit Quality Scores

- Credit scores measure perceived risk
- Critical to enabling capital flows to:
  - Business restarts and recapitalization
  - Rebuilding facilities, homes
  - Acquiring inventory, supporting restart costs
  - Financing long-term assets and infrastructure
- Credit scores reflect a community's financial well-being, the economic performance of its households and the health of its businesses

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The Credit Consequences of Disaster

- Left unadjusted, using credit scores to measure risk after disasters moves every participant in the credit market into a parasitic spiral, stifling access to capital when the "restart" most needs it
  - Outstanding payables have an impact on each and every individual and business credit score, and access to capital
  - For most small businesses, the personal credit score has a dual impact—for both personal and business rebuilding

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Impact of Katrina and Rita on Payments and Credits to Suppliers

- 635,000 businesses were in areas affected by Katrina and Rita
- $40 billion in payables were outstanding when Katrina hit
- More than 50% of businesses were in business for less than 5 years
- 48% of payables were outstanding to businesses of 10 employees or less

Source: Experian, 2006

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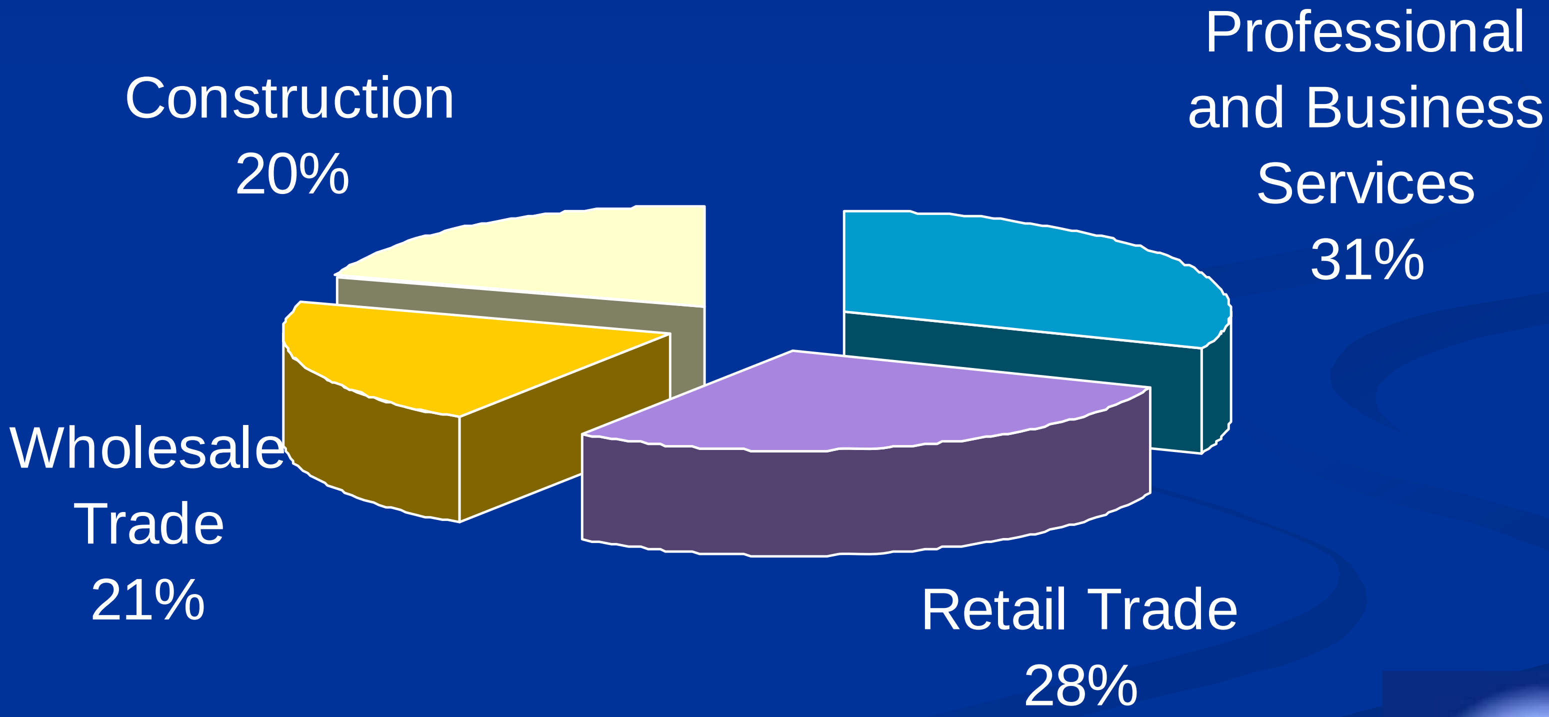
Outstanding Payables by Sector



Source: Experian, March 2006

Small Businesses Hurt Most

Employee Size	Share of O/S Balance	Cumulative
1-5	31%	31%
6-10	17%	48%
11-25	11%	59%
26-50	14%	72%
51-100	8%	80%
101-250	8%	88%
251-500	4%	92%
501-1000	3%	95%
1001-10000	5%	100%

Source: Experian 2006

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Geographic Dispersion

Parish/County	Percentage
Baton Rouge LA	13.5%
Mobile AL	12.8%
Orleans LA	9.8%
Hinds MS	6.9%
St. Tammany LA	4.9%
Baldwin AL	3.9%
Iberia LA	3.6%
Ascension LA	3.2%
Harrison MS	3.1%
Terrebonne	3.0%

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The Credit Consequences of Disaster

- False positives—based upon payment patterns, not consistent with prior behavior
- Credit squeeze will have an impact on
  - Size, structure and ownership of businesses remaining after the disaster
  - Ability of individuals to secure capital
- Key Concept: Resiliency--the ability of economies to react to change and start the cycle of creation and construction anew

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The Challenge Before Us

- If credit system is the way we measure risk…
  - Then the credit score is the currency that spurs entrepreneurship and new business starts
- Impact of Katrina and Rita demonstrated that we need credit models that deal more sensibly with disasters:
  - Assure that they are not generating “false positives”
  - Adjust models to come up with a score based upon the impact of disaster
  - Help measure resiliency: severity/scope/impact of disaster on economy

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The Credit Consequences of Disaster

- Proposed Brookings-Information Policy Institute Study will examine the impact of disasters on credit and the financial well-being of businesses and individuals
  - Identify and prioritize financial concerns for relief agencies
  - Provide benchmarks to financial institutions for payment and deferral policies in case of disaster

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