sblf | small business lending fund

Cost Report

Report to Congress submitted pursuant to Section 4106(2) of the Small Business Jobs Act

March 2017

Cost Report

Report to Congress submitted pursuant to Section 4106(2) of the Small Business Jobs Act of 2010

Introduction

Small businesses are a vital part of the American economy, and their success is a critical component of the economic recovery. Established by the Small Business Jobs Act of 2010 (the Act), the Small Business Lending Fund (SBLF) is a dedicated fund designed to provide capital to qualified community banks[1] and community development loan funds to encourage small business lending. The purpose of the SBLF is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in communities across the nation.

This report is submitted as a requirement of Section 4106(2) of the Act, which directs the Secretary of the Treasury to provide a semiannual written report to Congress on all projected costs and liabilities, all operating expenses, including compensation for financial agents, and all transactions made for the SBLF program. This report reflects the estimated lifetime returns on the program's investments and the outlays and obligations for the period ending March 31, 2016.

Investments made through the SBLF program are currently expected to generate a positive return of $51 million, excluding administrative costs. In addition, Treasury incurred $3.7 million in obligations during fiscal year 2016 for the SBLF program, $13.6 million less than the operating budget of $17.3 million as presented in the President's Budget for fiscal year 2016.

Estimated Cost of SBLF Investments

Treasury invested more than $4 billion in 332 institutions through the SBLF program. These amounts include investments of $3.9 billion in 281 community banks and $104 million in 51 community development loan funds. Collectively, these institutions operate in more than 3,000 locations across 48 states. Initial disbursement of SBLF funding occurred on June 21, 2011, with subsequent transactions until the program's September 27, 2011, statutory funding deadline.

As of December 31, 2016, 264 institutions with aggregate investments of $3.63 billion have fully redeemed their SBLF securities and exited the program compared with 250 institutions with aggregate investments of $3.5 billion in the previous reporting period and 4 institutions have partially redeemed $20.19 million (or 59.43 percent of their SBLF securities) while continuing to participate in the program.[2]

As of September 30, 2016, institutions participating in SBLF had made important progress in increasing small business lending, helping to support small businesses and local economies across the nation. In total, current SBLF participants have increased small business lending by $3.3 billion over a $3.7 billion

[1] In this report, the terms "banks" and "community banks" include banks, thrifts, and bank and thrift holding companies with consolidated assets of less than $10 billion, as of December 31, 2010.
[2] Only redemptions through fiscal year 2015 are included in the calculation of the lifetime subsidy.

baseline.[3] Since the program started, the total increase in small business lending reported by current and former SBLF participants is $18.7 billion over the baseline.

Treasury currently estimates that investments made through the SBLF program will generate a lifetime positive return of $51 million for the Treasury General Fund. The figures in the following table reflect Treasury's calculation of the estimated cost of SBLF investments, as presented in the President's Budget for fiscal year (FY) 2017.

Estimated Cost of SBLF Investments
(Dollars in millions)

	Subsidy Rate	Projected/Actual Investment Amount	Projected Lifetime Cost (Savings)
Original estimate	7.24%	17,399	1,260
President's Budget for fiscal year (FY) 2013	-2.08%	4,028	-84
President's Budget for FY 2014	-1.26%	4,028	-50
President's Budget for FY 2015	-0.63%	4,028	-25
President's Budget for FY 2016	-0.26%	4,028	-10
President's Budget for FY 2017	-1.27%	4,028	-51

Treasury estimated the budgetary cost of investments made through the program in conformance with the Federal Credit Reform Act methodology using actual program data for FYs 2011, 2012, 2013, 2014, and 2015. This data, combined with the expected future cash flows, results in a subsidy rate of -1.27 percent compared to an original subsidy rate of 7.24 percent.

As required by the Credit Reform Act, Treasury estimated the lifetime cost and subsidy rate of the SBLF program on a present value basis. Assumptions used to estimate future cash flows included: (1) the forecasted cumulative default rate for program participants; (2) the actual and projected cash flows received by Treasury from the participants' dividend, interest, and other payments; and (3) Treasury's cost of raising funds to make the SBLF investments.

The current estimate of the program's projected lifetime savings incorporates a forecasted cumulative default rate (i.e., lost principal, interest, and dividends) of 0.42 percent compared to 2.32 percent in the previous year's estimate. This lower rate reflects an overall improvement in the financial condition of program participants. The current year estimate also incorporates a reduction in expected lifetime dividend and interest payments to Treasury as a result of increases in SBLF security redemptions. Including these changes, the program's projected lifetime positive return is $51 million.

[3] As established in the Act, the baseline for measuring the change in small business lending is the average of the amounts that were reported for each of the four calendar quarters ended June 30, 2010. The aggregate baseline lending decreases as participants redeem and those participants' baseline lending is removed from the aggregate baseline. The default rate is estimated based on the financial condition of program participants relative to the historical performance of institutions rated by the major ratings agencies. To date , the SBLF portfolio has had no defaults.

Outlays and Obligations for Operating Expenses

Treasury is committed to implementing the SBLF in a cost-effective manner to protect taxpayer interests while achieving the program's objectives of encouraging small business lending. The outlays for fiscal year 2016 primarily reflect the costs of monitoring the performance and compliance of participating institutions, reporting on program performance and expenses, maintaining program accounts, and managing the portfolio and the disposition of securities purchased. In total, as of March 31, 2016, outlays for fiscal year 2016 totaled $1.95 million.

The figures shown in the following table reflect outlays and obligations for operating expenses incurred as of March 31, 2016. Descriptions of the expense categories follow the Outlays and Obligations table.

SBLF Outlays and Obligations through March 31, 2016

	Budget for Fiscal Year 2016[a]	Outlays as of March 31, 2016[b]	Obligations as of March 31, 2016[c]	Total Obligations and Outlays as of March 31, 2016[c]
Salaries and benefits	2,816,000	1,008,211	0	1,008,211
Travel	20,000	806	0	806
Contracts and other				
Legal support	n/a	0	0	0
Custodian and infrastructure provider	n/a	0	0	0
Asset management	n/a	0	0	0
Internal controls	n/a	0	0	0
Office of the Treasury Inspector General	n/a	167,730	792,270	960,000
Other (equipment, supplies, rent)	14,525,000	777,215	1,031,720	1,808,935
Subtotal (contracts and other)	14,525,000	944,945	1,823,990	2,768,935
$ Total	17,361,000	1,953,963	1,823,990	3,777,952

[a] Represents the total budget for the Small Business Loan Fund program for fiscal year (FY) 2016, according to the 2016 President's Budget.

[b] Includes outlays from Oct. 1, 2015, to March 31, 2016. There are no outlays reported for custodian and infrastructure provider, asset management, and internal controls because there were no new obligations for these providers during this period.

[c] Includes all FY 2016 obligations from Oct. 1, 2015, to March 31, 2016. New obligations for custodian and infrastructure provider, asset management, and internal controls were not made during this period because funding remained on previous year obligations.

On September 27, 2011, the SBLF program's core investment activities were completed. SBLF is now staffed primarily to monitor, manage, and report on these investments and related participant lending and program activities.

Contract and other expenses are reported in the period obligated. Descriptions of costs related to legal support, financial agents, internal controls, and the Treasury's Office of the Inspector General (OIG) follow:

- **Legal Support:** These expenses are for legal services for transactions related to the management of the investments.

- **Custodian and Infrastructure Provider:** These expenses relate to bank custodial services for SBLF securities and documents and payments processing for SBLF participants.

- **Asset Management:** These expenses are for financial analysis and monitoring of SBLF participants and applicable market research regarding the community banking sector.

- **Internal Controls:** These expenses relate principally to the design and implementation of processes and internal controls associated with the program's asset management, operating, reporting, and compliance functions. This activity includes work performed by consultants to develop procedures, systems, information databases, and other documentation for monitoring and managing program activities.

- **Office of the Treasury Inspector General:** These expenses reflect reimbursements to the Treasury's OIG for audits of the SBLF program. The OIG is required to issue reports on the SBLF no less than two times each year. The FY 2016 budgeted amount for audit related activities was $960,000.