sblf | small business lending fund

Report on SBLF Participants' Small Business Lending Growth

Submitted to Congress pursuant to Section 4106(3) of the Small Business Jobs Act of 2010

July 2015

OVERVIEW

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 (CDLFs) in order 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 provides information on changes in small business lending by SBLF participants as of March 31, 2015, relative to baseline levels.[2] As of March 31, 2015, institutions participating in SBLF have made important progress in increasing their small business lending, helping to support small businesses and local economies across the nation.

- **In total, current SBLF participants have increased their small business lending by $15.4 billion over a $31.3 billion baseline. This reflects a $280 million increase over the prior quarter.**
- **To date, the total increase in small business lending reported by current and former[3] participants amounted to $16.4 billion.**
- **Increases in small business lending are widespread across SBLF participants, with 97.8 percent of participants having increased their small business lending over baseline levels.**
- **Most participants report that their small business lending increases have been substantial, with 93 percent increasing small business lending by 10 percent or more.**

This report also provides information on changes in business lending and other lending by SBLF banks relative to (i) a representative peer group of 398 community banks that were selected to match the specific size, geography, and financial condition of SBLF banks and (ii) a broader comparison group of the 5,647 similarly-sized community banks that are headquartered in the same states as SBLF banks.

- **SBLF banks have increased business loans outstanding by a median of 73.6 percent over baseline levels, versus a 23.1 percent median increase for the representative peer group and a 17.8 percent median increase for the broader comparison group.**
- **SBLF banks have increased business lending by substantially greater amounts across median measures of size, geography, loan type, and financial condition versus the peer and comparison groups.**
- **SBLF banks that refinanced CPP funding have increased business lending by a median of 70.9 percent since their initial receipt of CPP funding from Treasury versus a 26.7 percent increase for the peer group and an 23.3 percent increase for the comparison group over the same period.**

Please see Appendix A for additional information regarding the methodology employed in this report.

[1] In this report, the terms "banks" and "community banks" encompass banks, thrifts, and bank and thrift holding companies with consolidated assets of less than $10 billion.
[2] 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.
[3] Lending growth reported by former participants in the final quarter of participation is held constant through subsequent periods

BACKGROUND

This report is submitted to Congress pursuant to Section 4106(3) of the Act, which directs the Secretary of the Treasury to provide a quarterly written report on how institutions participating in the SBLF program have used the funds they received under the program.

Treasury invested more than $4.0 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 CDLFs. Collectively, these institutions operate in more than 3,000 locations across 47 states and the District of Columbia. This report includes information on the 267 institutions that continued to participate in the program as of March 31, 2015 and submitted quarterly supplemental reports for the fourth quarter, including 219 community banks and 48 CDLFs. The initial disbursement of SBLF funding to banks occurred on June 21, 2011, with subsequent transactions completed thereafter until the program's September 27, 2011 statutory funding deadline.

As of June 1, 2015, 63 institutions with aggregate investments of $1.0 billion have fully redeemed their SBLF securities and exited the program, and 30 institutions have partially redeemed $300 million (or 54 percent of their SBLF securities) though continue to participate in the program.

The SBLF program encourages lending to small businesses by providing capital to community banks and CDLFs with less than $10 billion in assets.

- For community banks, the SBLF program is structured to encourage small business lending through a dividend or interest rate incentive structure. The initial rate payable on SBLF capital is, at most, 5 percent, and the rate falls to 1 percent if a bank's small business lending increases by 10 percent or more. [4] Banks that increase their lending by amounts less than 10 percent pay rates between 2 percent and 4 percent. If a bank's lending does not increase in the first two years, however, the rate increases to 7 percent. If a bank has not repaid the SBLF funding after four and a half years, the rate increases to 9 percent.

- For CDLFs, the SBLF program is structured to encourage small business lending through access to low-cost capital at a 2 percent interest rate. These non-profit loan funds play a critical role in distressed communities across the country that lack access to mainstream financial services. CDLFs engage in activities including offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics.

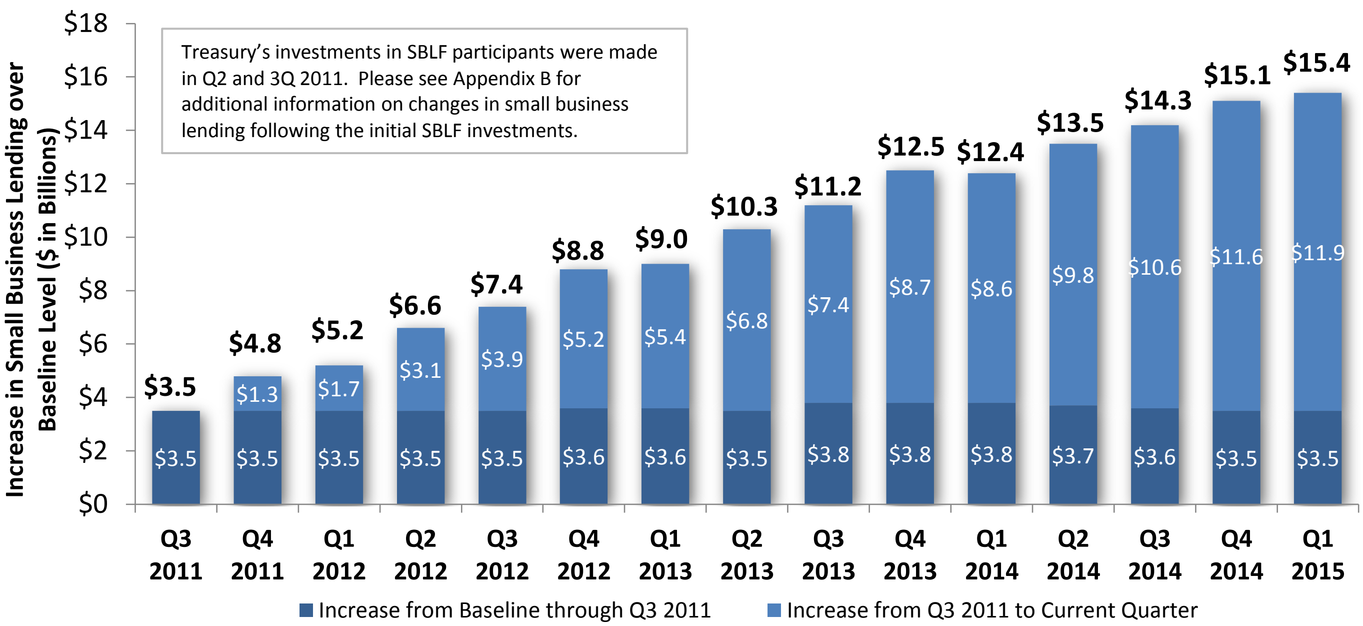
As established in the Act and described above, the SBLF program operates through an indirect mechanism to achieve policy outcomes. The additional lending capacity provided by SBLF capital – coupled with the program's dividend or interest rate incentives in the case of community banks – encourages institutions to increase small business lending. Because of the program's structure, increases in small business lending cannot be directly linked to the use of SBLF funds. However, the program's impact can be observed indirectly. Accordingly, this report provides information regarding aggregate increases in small business lending as well as a comparison of outcomes between program participants and a peer group matched on key characteristics. For additional information regarding the methodology employed in this report, please see Appendix A.

[4] The initial interest rate paid by S corporations and mutual institutions is, at most, 7.7 percent. If these institutions increase their small business lending by 10 percent or more, then the rate falls to as low as 1.5 percent. These interest rates equate to after-tax effective rates (assuming a 35% tax rate) equivalent to the dividend rate paid by C corporation participants.

INCREASES IN SMALL BUSINESS LENDING OVER BASELINE LEVELS

As of March 31, 2015, SBLF participants have increased their small business lending by $15.4 billion over their aggregate baseline of $31.3 billion. Bank participants have increased their small business lending by $14.9 billion (or 49 percent) over a $30.5 billion baseline, and CDLFs increased their small business lending by $510.7 million (or 68 percent) over a $749.8 million baseline. The following graph shows the aggregate increase in qualified small business lending reported by SBLF participants as of March 31, 2015. Increases in small business lending reflect that of current participants only and exclude institutions that have exited the program prior to the end of the quarter.

Increase in Small Business Lending over Baseline by SBLF Participants[5]
(Reported as of March 31, 2015)



Increases in small business lending are widespread among SBLF participants. To date, 216 of the 219 participating community banks (or 99 percent) and 45 of the 48 CDLFs (or 94 percent) have increased their small business lending. In addition, 249 of the 267 SBLF participants (or 94 percent) have increased their small business lending by 10 percent or more.

These figures reflect changes in small business lending over baseline levels as specified by the Act (defined as the loan balances that were reported for each of the four calendar quarters ended June 30, 2010). The first four of Treasury's investments in SBLF participants were made in the quarter ended June 30, 2011, with all subsequent investments made in the quarter ended September 30, 2011.

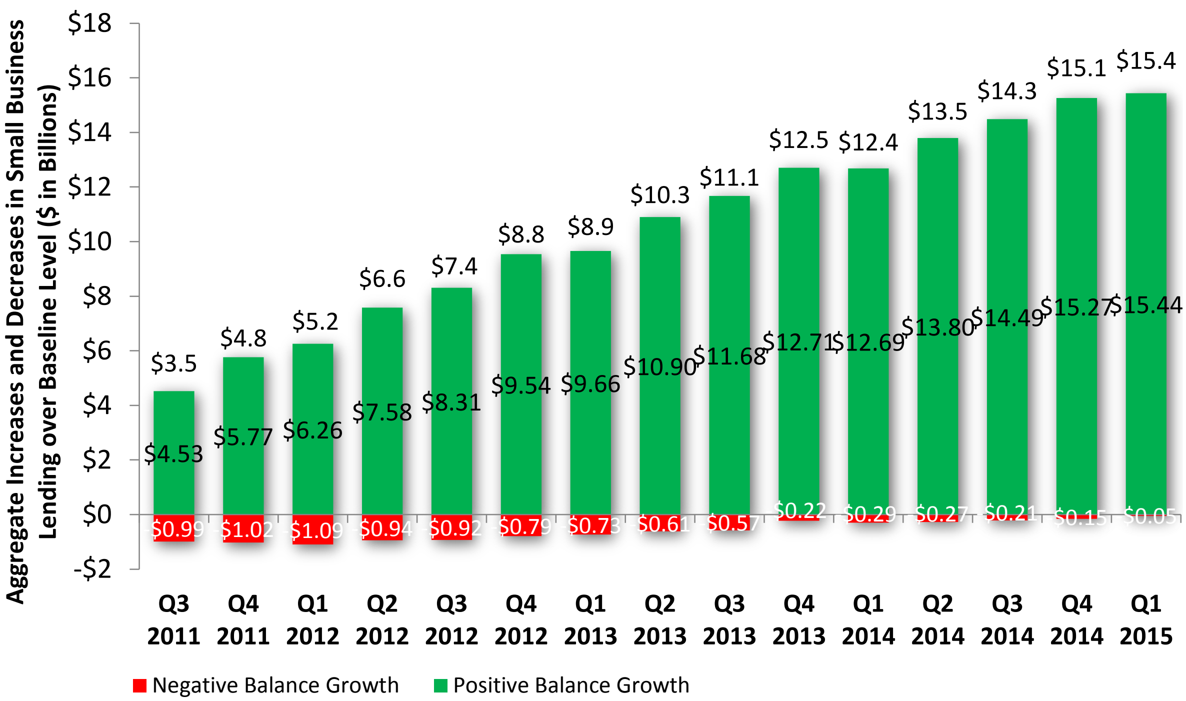
[5] The increase in lending for each quarter is representative of only those institutions participating in the quarter listed. Figures reflect the total aggregate net dollar amount of reported increases and decreases in small business lending. The increase over time of the baseline through Q3 2011 amount is driven by redemptions from institutions which reported decreases in small business lending outnumbering those which reported increases.

In the period between the baseline and the investment date, some participants increased lending, while others decreased. The Act, and the associated program terms, specified that an institution's initial dividend or interest rate shall be based on call report data published in the quarter immediately preceding the date of the SBLF investment. Among other effects, this provision may have encouraged institutions to increase small business lending prior to entering the SBLF program, as they would receive the associated dividend or interest rate benefit immediately upon entry. At the same time, some institutions took actions (e.g., sales of loans or branches or reductions in loans outstanding) that reduced the amount of reported small business lending, such that their initial change in small business lending over their baseline was negative.

In total, 262 (79 percent) of SBLF participants increased lending by $4.5 billion and 70 (21 percent) participants decreased lending by $991 million from the baseline period until the time of Treasury's initial investments in the quarter ended September 30, 2011. Of the 6 participants (2.3 percent) that presently report negative changes in small business lending, two had reduced their small business lending in the period between the baseline and the investment date, though have since increased their lending above that initial level. Please see Appendix B for additional information on changes in small business lending following the initial SBLF investments.

The following chart displays the aggregate positive and negative qualified small business lending growth[6] reported by current SBLF participants. The sum of these balances reflects the total increase in qualified small business lending reported.

Aggregate Increases and Decreases in Small Business Lending over Baseline by SBLF Participants
(Reported as of March 31, 2015)



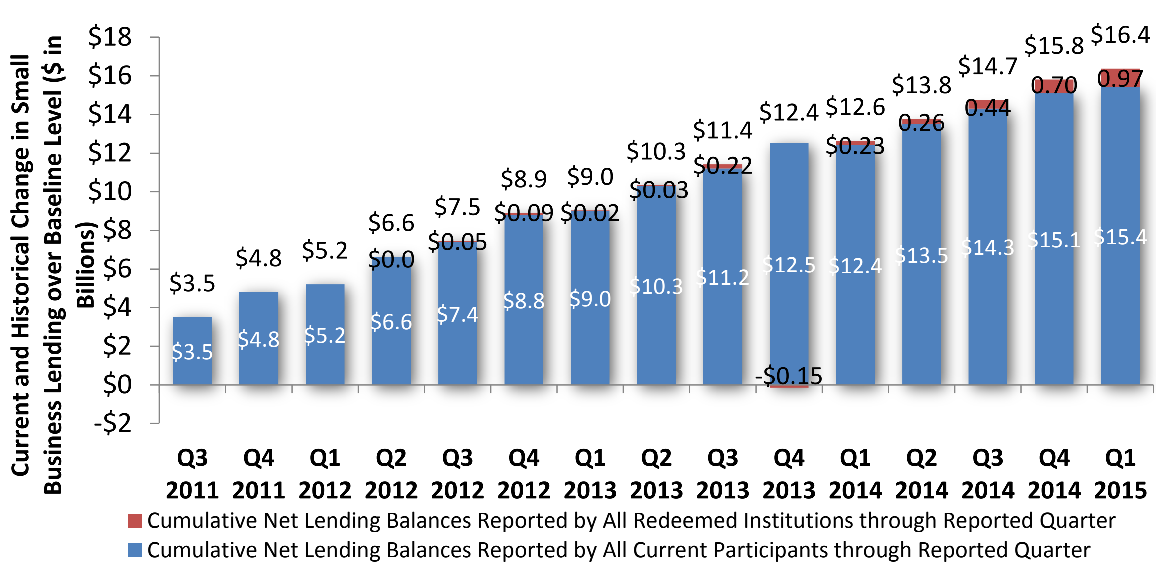
6 Increases and decreases of lending balances are affected by both new originations and loan runoff at participant institutions.

Changes in the net qualified small business loan growth reported are driven largely by positive and negative changes in qualified small business lending balances at SBLF participants. To date, the vast majority, or 98 percent, of SBLF participants have increased qualified small business lending, for a total of $15.4 billion in positive qualified small business loan growth over baseline. The remaining three percent of SBLF participants evidenced a decrease in qualified small business lending balances over baseline of $50 million, such that the net of these positive and negative qualified small business growth balances is equal to $15.4 billion across all SBLF participants (see also chart on page four).

Redemptions also impact the total qualified small business lending reported in a given quarter. As institutions redeem from the SBLF program, their respective increases or decreases in lending over baseline are removed for future reporting purposes. For example, should an SBLF institution with $100 million in qualified small business lending growth over baseline redeem from the program, the growth associated with that institution would be omitted from total qualified small business loan growth calculations going forward, such that remaining participants would need to generate a net increase in qualified small business lending of at least $100 million for the total qualified small business loan growth level to remain the same as reported in the previous quarter. The redemption of institutions with negative changes in qualified small business lending over baseline can have the inverse effect where, due to netting effects, the impact of the redemption is an increase in the total qualified small business lending reported.

The chart below shows the cumulative net impact of all current and former participants in the program by incorporating changes in qualified small business lending over baseline for former SBLF participants at the amount reported in the final quarter of program participation and holding those balance changes constant in future quarters. For example, if an SBLF participant reported a total increase in small business lending of $10 million over baseline in the final quarter prior to a full redemption, that amount is held constant and included in the net small business lending growth calculation in each quarter thereafter, instead of being removed as under the current method, as outlined in the chart on page three. This approach captures the cumulative lending by all participants, both current and redeemed, and more comprehensively displays total historical program impact.

Current and Historical Change in Small Business Lending over Baseline by SBLF Participants
(Reported as of March 31, 2015)



As prescribed under the Small Business Jobs Act, SBLF rates became fixed beginning in Q3 2013, such that participants that evidenced minimal or negative changes in qualified small business lending over the baseline were unable to take advantage of SBLF lending incentives.

The redemption of several participants with declines in small business lending balances in Q4'13 (just following the dividend rate set period) resulted in a negative cumulative net effect of small business lending for redeemed participants totaling approximately -$150 million through that quarter, and therefore led to a respective increase of the same amount in total measured qualified small business lending during Q4'13 under the standard methodology, as outlined in the chart on page 3.

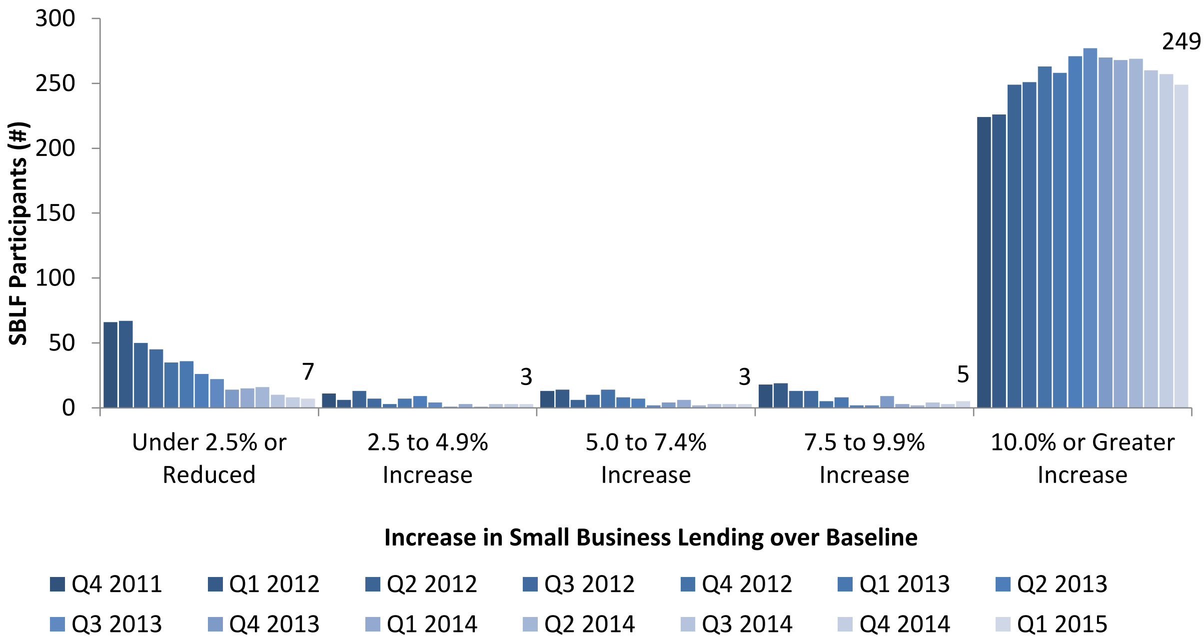
Subsequently, in the first quarter of 2014 that trend reversed, with several institutions reporting strong positive lending over baseline (totaling $380 million) redeeming during that period, such that the net effect of cumulative small business lending growth at redeemed institutions totaled a positive $230 million through that quarter. As such, this led to a respective decrease of the same amount of total measured qualified small business lending under the standard methodology, as outlined in the chart on page 3.

All subsequent analysis reflects current SBLF participants only.

Distribution of Small Business Lending Increases

The following graph shows quarter-over-quarter changes in the number of participants reporting lending in the five ranges of small business loan growth that correspond to various dividend or interest rates payable on SBLF securities.

SBLF Participants Reporting Increases in Small Business Lending over Baseline[7]
(Reported as of March 31. 2015)



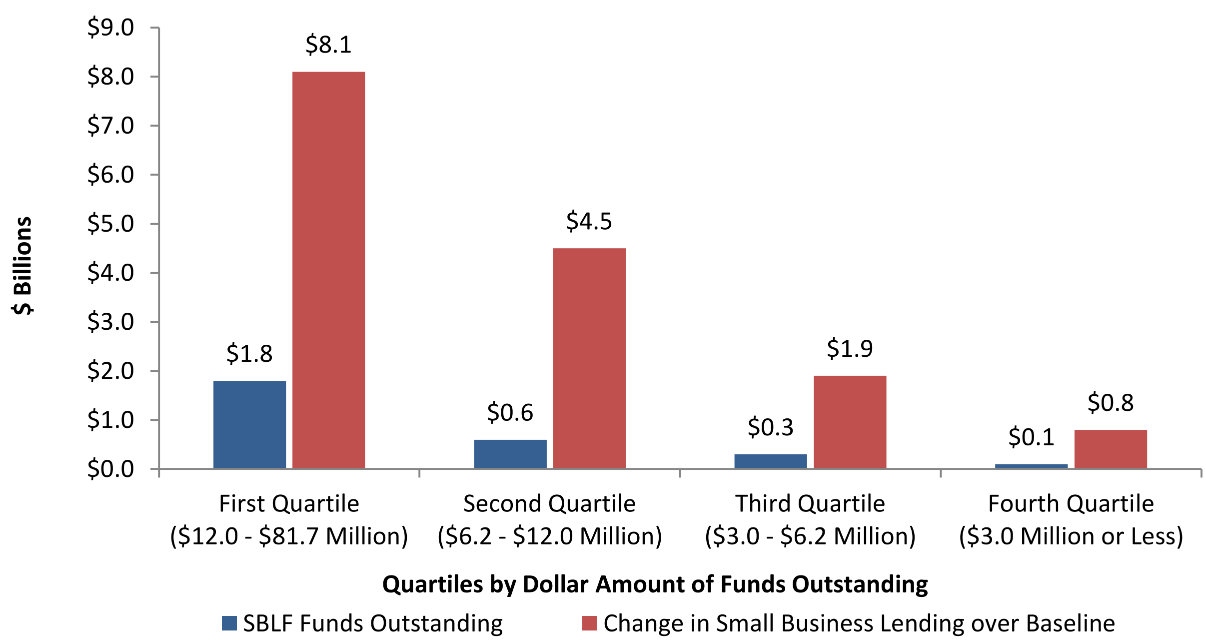
[7] As a result of redemptions, the total number of SBLF institutions was 267 as of Q1 2015, 274 as of Q4 2014, 280 as of Q3 2014, 290 as of Q2 2014, 295 as of Q1 2014, 298 as of Q4 2013, 307 as of Q3 2013, 315 as of Q2 2013, 317 as of Q1 2013, 320 as of Q4 2012, 326 as of Q3 2012, 328 as of Q2 2012, and 332 as of Q1 2012 and Q4 2011.

To achieve the lowest available dividend or interest rate under the SBLF program terms (the "program incentive"), current participants would have needed to increase small business lending in aggregate by at least $3.24 billion.[8] As of March 31, 2015, the $15.4 billion increase achieved over baseline levels is approximately 4.8 times greater than the $3.4 billion program incentive.[9]

Distribution of Small Business Lending Increases by Quartile
Increases in small business lending are widespread among SBLF participants. The largest dollar value increases in small business lending have been made in aggregate by participants with the largest amount of SBLF funds outstanding. Funds outstanding is defined as the amount of funds received from SBLF minus funds that have been redeemed.

If ranked and grouped by the amount of SBLF investment outstanding, the 67 institutions that held $12.0 million or more of outstanding SBLF investment accounted for $8.1 billion of the total reported increase in small business lending with $1.8 billion of total investment outstanding. The following graph shows the changes in small business lending over baseline levels across four equally-sized groups of SBLF participants based on the dollar amount of their SBLF investments outstanding.

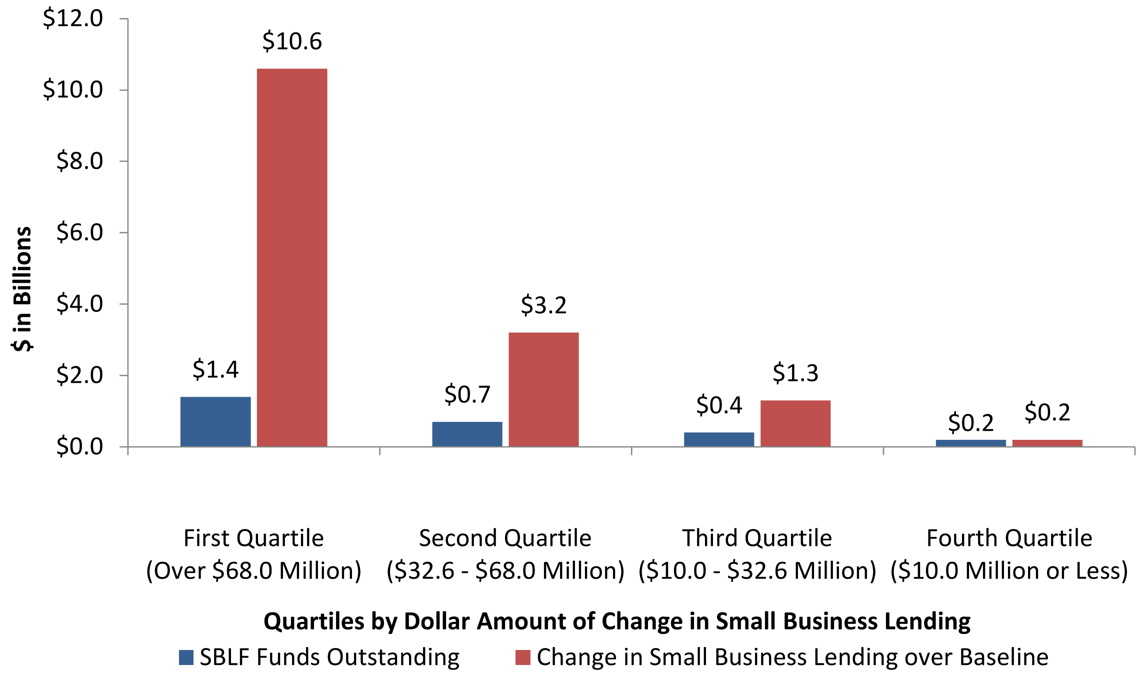
Changes in Small Business Lending by Dollar Amount of SBLF Funds Outstanding
(Reported as of March 31, 2015)



[8] Throughout this report, the term "program incentive" is defined as the aggregate increase that would be required for current participants to receive the lowest available dividend or interest rate under the SBLF program terms.
[9] As of March 31, 2015, some institutions have increased lending by more than their maximum program incentive, while others have increased by less or decreased. Please see Appendix C for institution-specific reporting of small business lending by SBLF participants.

If ranked and grouped by the dollar value of changes in small business lending, the top quartile of participants accounted for $10.6 billion of the gross reported increase in small business lending with $1.4 billion of SBLF funds outstanding. The following graph shows the change in small business lending over baseline levels across four equally-sized groups of SBLF participants based on the dollar amount of their change in lending.

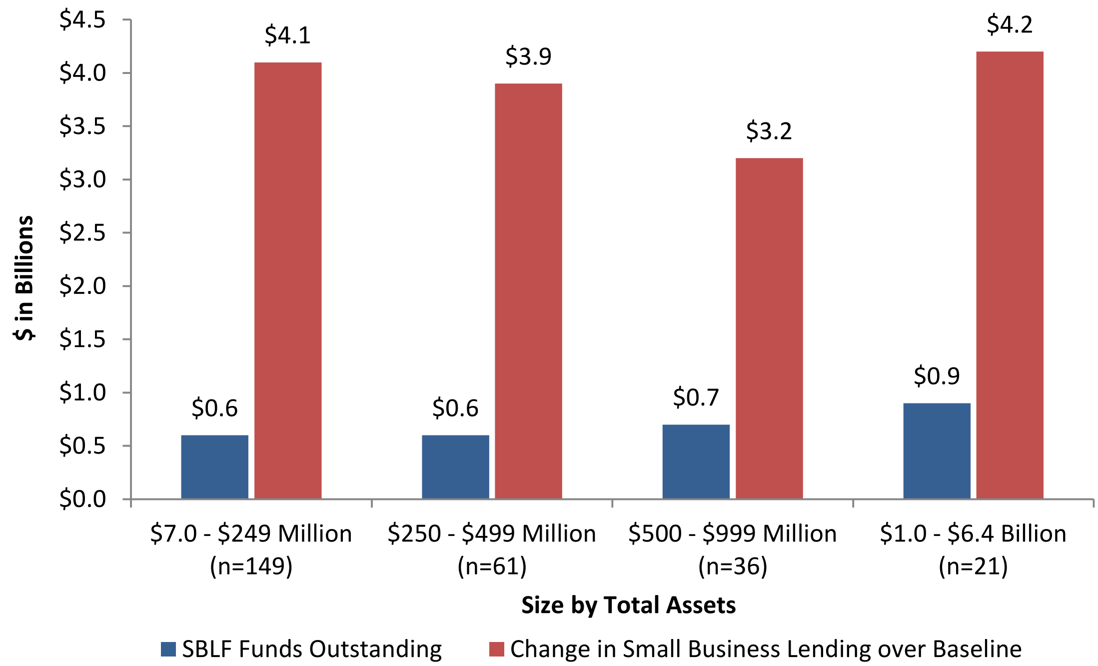
Increase in Small Business Lending by Dollar Amount of Lending Change
(Reported as of March 31, 2015)



Distribution of Small Business Lending Increases by Institution Size

Small business lending increased among groups of institutions of all sizes (as defined by total assets), with the largest aggregate increases in dollar value reported by the largest institutions.[10] The largest institutions (defined as those participants with more than $1.0 billion in total assets) increased small business lending by $4.2 billion while the smallest institutions (defined as those participants with less than $250 million in assets) increased small business lending by $4.1 billion. The following graph shows increases in small business lending over baseline levels and SBLF funds outstanding across four categories of institution size.

Increase in Small Business Lending by Institution Size
(Reported as of March 31, 2015)

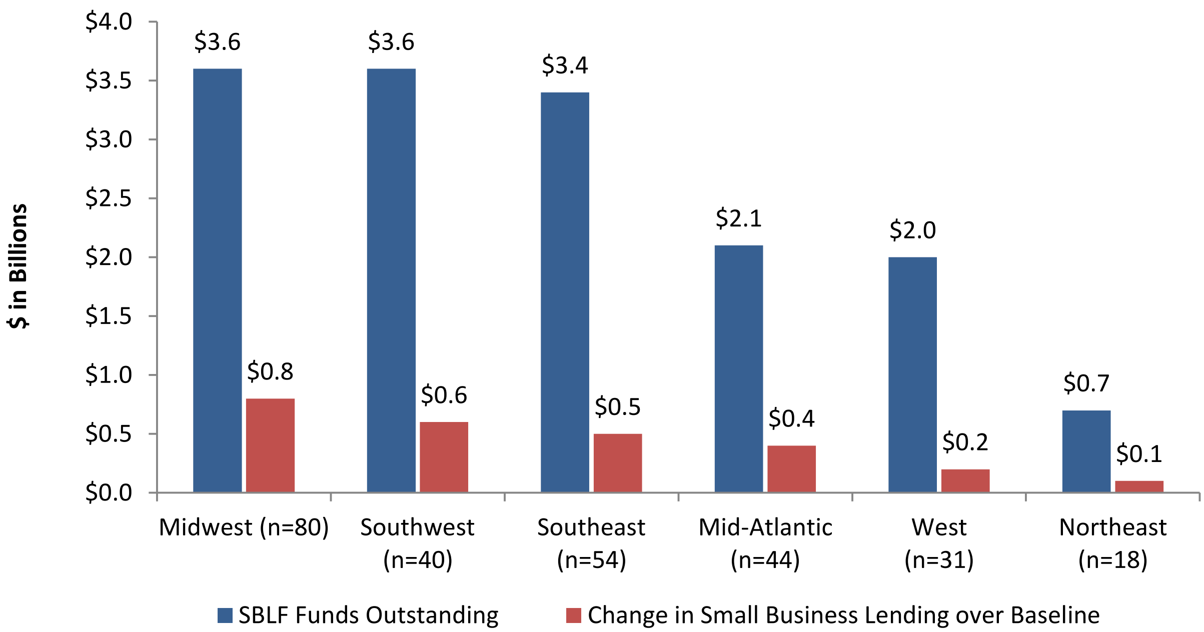


[10] In this report, institution size (including the size ranges in this graph and the segmentation of institutions) is based on the total assets reported by banks as of March 31, 2011, the quarter immediately prior to Treasury's first SBLF investment.

Distribution of Small Business Lending Increases by Regional Geography
In each region of the country, SBLF participants reported aggregate increases in small business lending. Institutions in the Midwest reported the largest aggregate increase ($3.6 billion) with one of the larger shares of SBLF funds outstanding ($835 million).

The following graph shows increases in small business lending over baseline levels and SBLF funds outstanding across six geographic regions. [11]

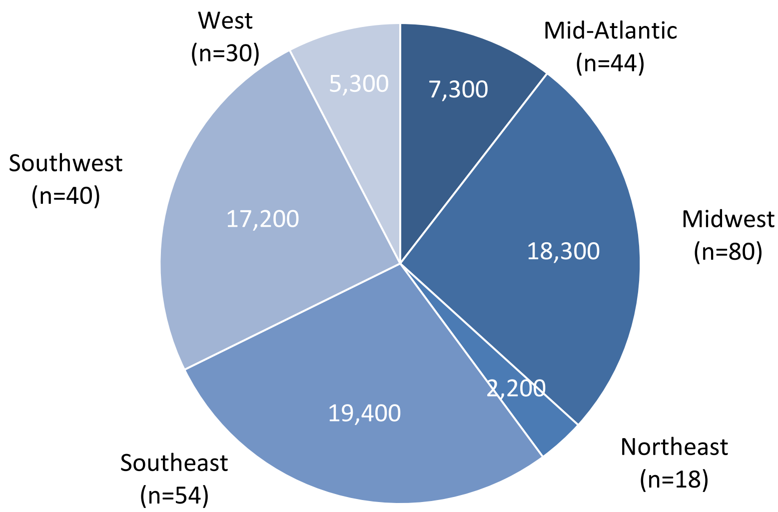
Increase in Small Business Lending by Regional Geography
(Reported as of March 31, 2015)



[11] In this report, the Midwest region includes: IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, and WI. The Southwest region includes: AZ, CO, LA, NM, OK, TX, and UT. The Southeast region includes: AL, AR, FL, GA, MS, NC, TN, SC, VA, and WV. The Mid-Atlantic region includes: DC, DE, MD, NJ, NY, and PA. The West region includes: CA, ID, MT, NV, OR, WA, and WY. The Northeast region includes: CT, MA, ME, NH, RI, and VT.

Based on the average loan size reported by participants in the *August 2014 Results of the Second Annual Lending Survey*, the $14.3 billion aggregate increase in small business lending represents an estimated 69,700 additional loans to small businesses.[12] The following graph shows the estimated number of additional loans to small businesses by regional geography.

Estimated Number of Additional Loans to Small Businesses by Regional Geography
(Reported as of March 31, 2015)



[12] The number of additional small business loans is calculated by dividing each participant's change in small business lending as of September 30, 2014 by the average loan size the participant reported on its SBLF lending survey for the year ended June 30, 2013 and aggregating the resulting loan counts. The resulting aggregate is rounded to the nearest hundred loans.

COMPARISON OF LENDING BY SBLF BANKS AND NON-SBLF BANK GROUPS

This section compares changes in business lending and other lending by SBLF banks relative to (i) a representative "peer group" of 398 community banks that were selected to match the specific size, geography, and financial condition of SBLF banks and (ii) a broader "comparison group" of all 5,647 similarly-sized community banks that are headquartered in the same states as SBLF banks and engaged in business lending. Please see Appendix A for additional information regarding the composition of the peer group and comparison group.[13]

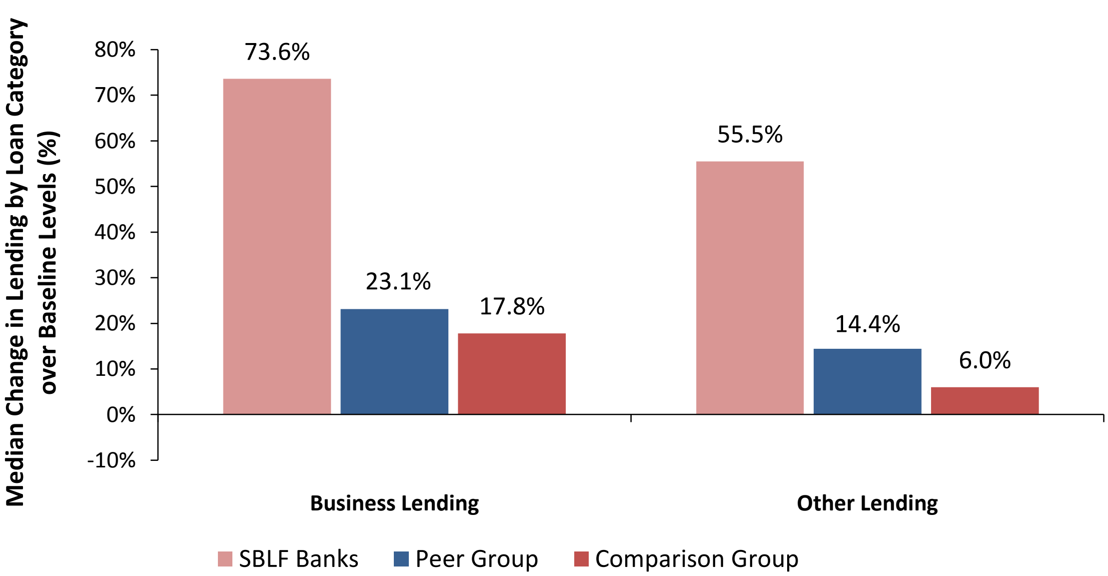
SBLF banks have increased business lending by substantially greater amounts than both the peer and comparison groups across median measures of size, geography, and loan type. SBLF banks also report a median increase in other (non-business related) types of lending, while both the peer group and comparison group show a smaller median increase in such lending.

Overall Changes in Business Lending and Other Lending

Comparing the level of loans outstanding as of March 31, 2015 to their baseline levels, SBLF banks increased business lending by a median of 73.6 percent, versus a 23.1 percent median increase for the peer group and a 17.8 percent median increase for the comparison group. In addition to increasing business lending, SBLF banks increased other types of lending by a median of 55.5 percent over baseline levels, versus a median increase of 14.4 percent among the peer group and 6.0 percent among the comparison group. The following graph shows changes in business lending and other lending by SBLF banks, the peer group, and the comparison group.

Changes in Business Lending and Other Lending

(Reported as of March 31, 2015)

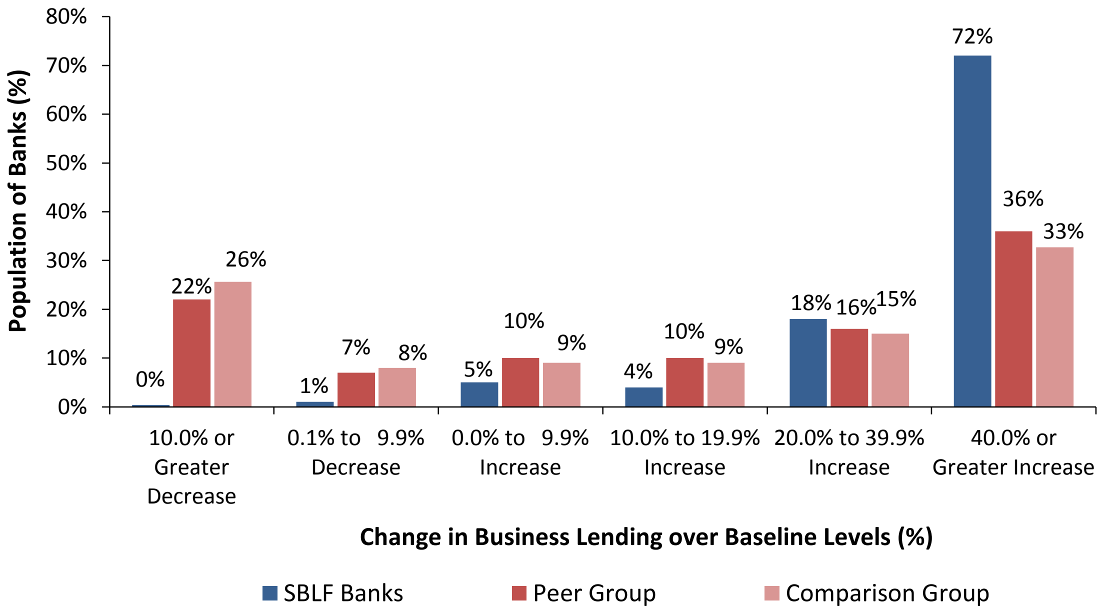


[13] Treasury also used a statistical methodology called propensity score analysis to identify a peer group. This analysis of participant lending growth was performed for the quarter ending September 30, 2013. Consistent with the previously reported findings from the peer and comparison group analysis in the quarterly SBLF Lending Growth Reports, the results of this additional analysis suggested that the SBLF program supported increased business lending among program participants. The results of that analysis can be found at http://www.treasury.gov/resource-center/sb-programs/Pages/sblf_transactions.aspx

Distribution of Changes in Business Lending

A substantially greater percentage of SBLF banks than banks in the peer and comparison groups report significant increases in business lending. In total, 93 percent of banks participating in SBLF have increased their business lending by 10 percent or more versus 62 percent for the peer group and 57 percent for the comparison group. 28 percent of the peer group and 34 percent of the comparison group have reduced business lending versus 2 percent of SBLF bank participants.

Distribution of Changes in Business Lending
(Reported as of March 31, 2015)



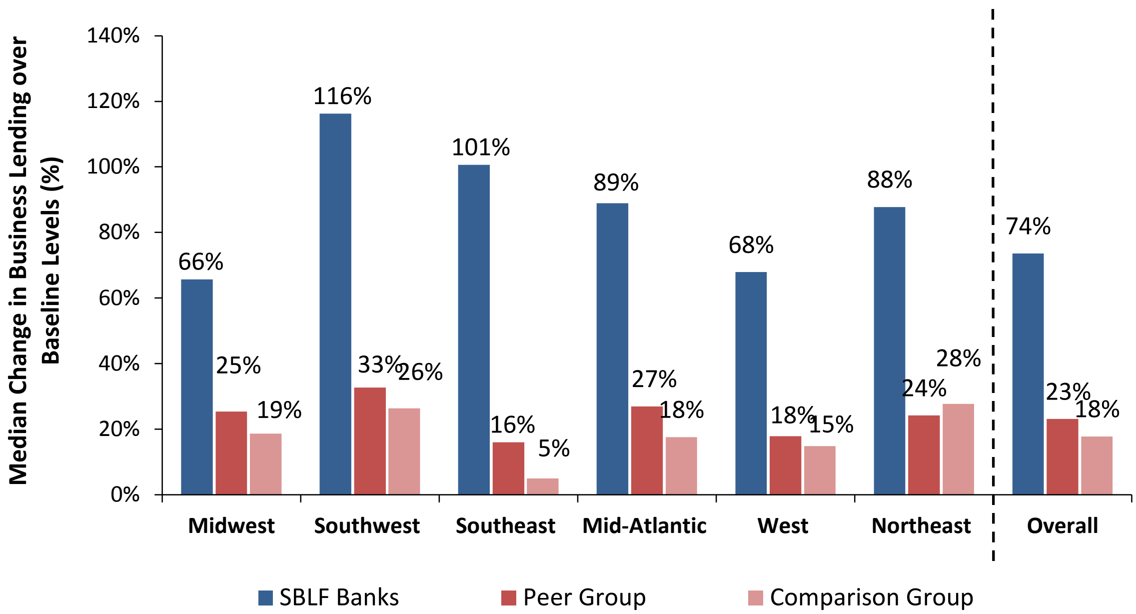
SBLF banks increased business lending to a greater extent than both the peer and comparison groups as measured by the proportion of institutions reporting increases, as well as the percentage increases reported. SBLF banks increased business lending by a mean of 123 percent with a standard deviation of 121 percentage points.[14] The peer group of non-SBLF banks increased business lending by a mean of 46 percent with a standard deviation of 79 percentage points while the comparison group increased business lending by a mean of 32 percent with a standard deviation of 65 percentage points.

[14] The calculations of the mean and standard deviation for each group apply a 90 percent winsorization (i.e., all data below the fifth percentile is set to the value of the fifth percentile and all data above the 95th percentile is set to the value of the 95th percentile). Winsorization is a statistical transformation used to limit the effect of extreme values in a sample. The standard deviation is a measure of the variation of data points from their mean. In these results, the large standard deviations indicate that the percentage increases in business lending by SBLF banks and the peer and comparison groups are distributed over a large range of values and not concentrated around the mean.

Changes in Business Lending by Regional Geography

In each region of the country, SBLF banks reported median increases in business lending while both the peer group and the comparison group reported smaller median increases. The following graph compares median changes in business lending by SBLF banks and the peer and comparison groups across six regions.

Changes in Business Lending by Regional Geography
(Reported as of March31, 2015)

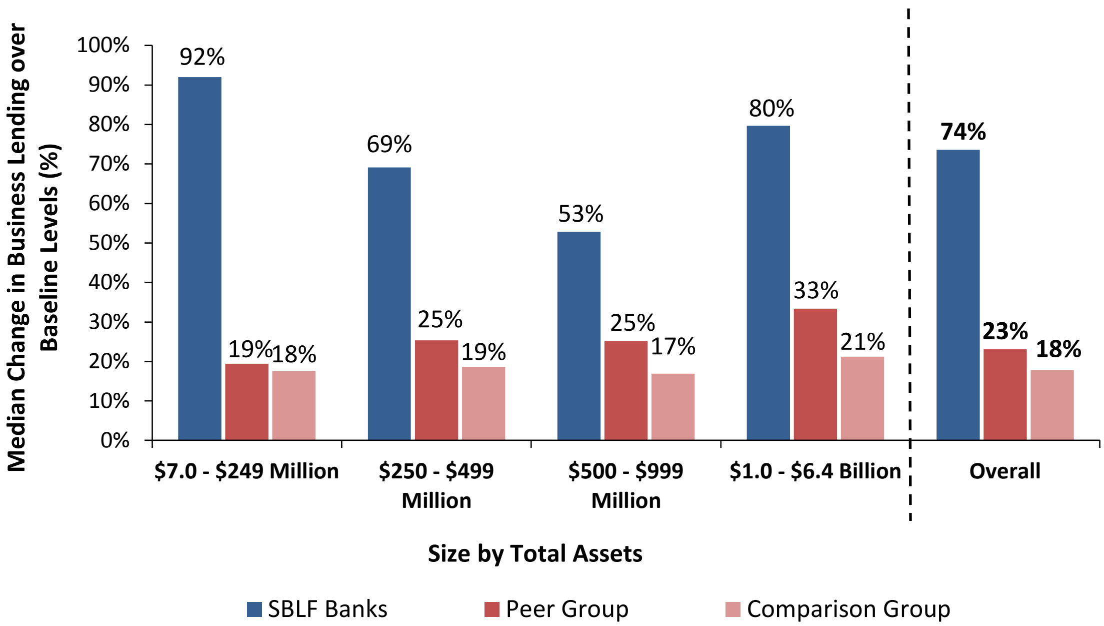


Changes in Business Lending by Institution Size

Across nearly all ranges of institution size as defined by total assets, SBLF banks reported median increases in business lending. The peer group reported a slight median change in business lending increases across the majority of ranges of institution size, while the comparison group reported smaller median increases. The following graph compares median changes in business lending by SBLF banks and the peer and comparison groups across four categories of institution size.

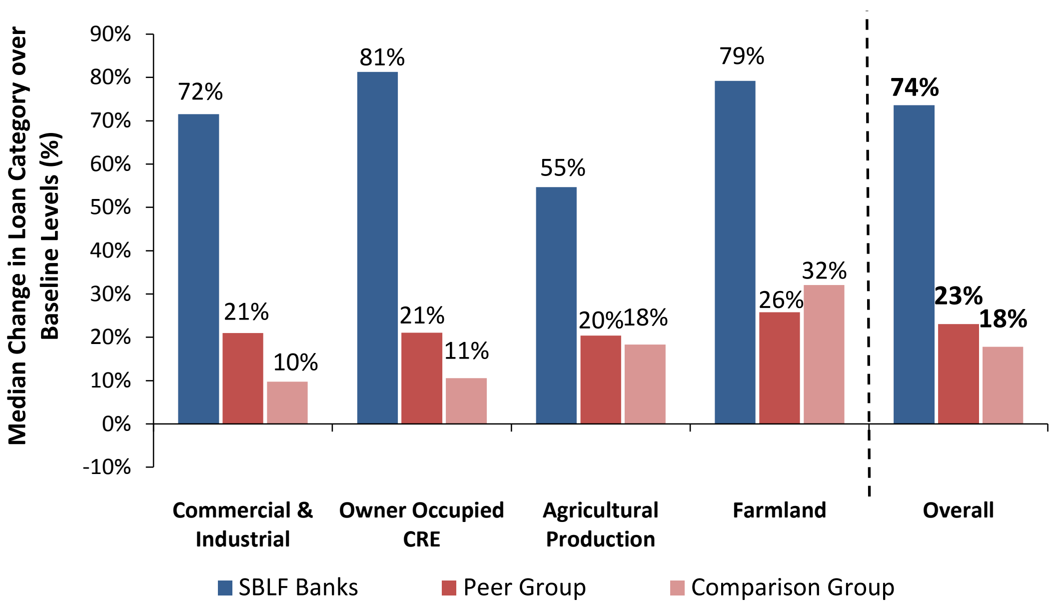
Changes in Business Lending by Institution Size

(Reported as of March 31, 2015)



Changes in Business Lending by Loan Category
Across all of the four loan categories that comprise business lending, SBLF banks reported median increases in business lending while both the peer group and comparison group generally reported smaller median increases. The following graph compares median changes in business lending by SBLF banks and the peer and comparison bank groups across the four loan categories.

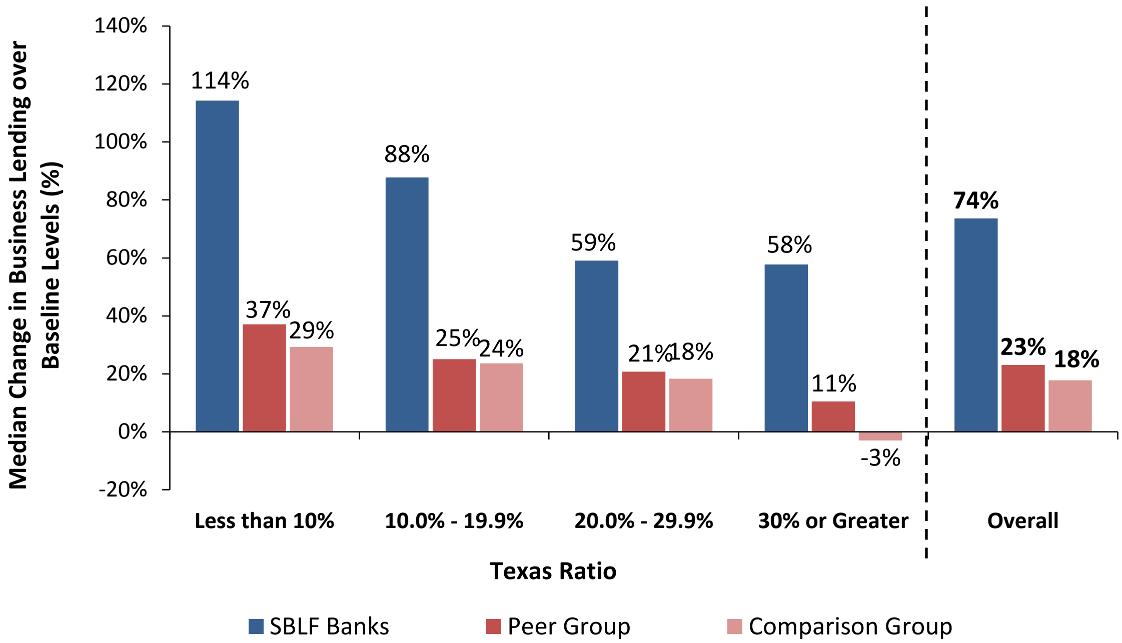
Changes in Business Lending by Loan Category
(Reported as of March 31, 2015)



Changes in Business Lending by Financial Condition

Across all ranges of financial condition as measured by Texas ratio[15], SBLF banks reported higher median increases in business lending than both the peer group and the comparison group. The following graph compares median changes in business lending by SBLF banks and the peer and comparison groups across four categories of Texas ratios.

Changes in Business Lending by Financial Condition
(Reported as of March 31, 2015)



[15] The Texas ratio is used as a proxy for the financial condition of the institution, and is defined as the institution's nonperforming assets plus loans 90 days or more past due all divided by the institution's tangible equity plus loan loss reserves.

LENDING BY FORMER CAPITAL PURCHASE PROGRAM (CPP) PARTICIPANTS

The Act authorized Treasury to allow CPP participants that met certain requirements to refinance CPP investments into SBLF. In total, 137 institutions repaid a CPP investment in connection with an SBLF closing. These banks received $2.7 billion in SBLF funding and used $2.2 billion of this capital to repay outstanding CPP balances. This section of the report includes information on the 100 institutions that repaid a CPP investment in connection with an SBLF closing and continue to participate in the program.

Small Business Lending Increases by Former CPP Participants

In total, institutions that received CPP funding and refinanced these investments reported a $6.8 billion increase in small business lending over baseline levels, with a median increase of 39 percent. By comparison, these institutions would have needed to increase small business lending by at least $1.9 billion in aggregate to achieve the maximum program incentive (as defined previously).

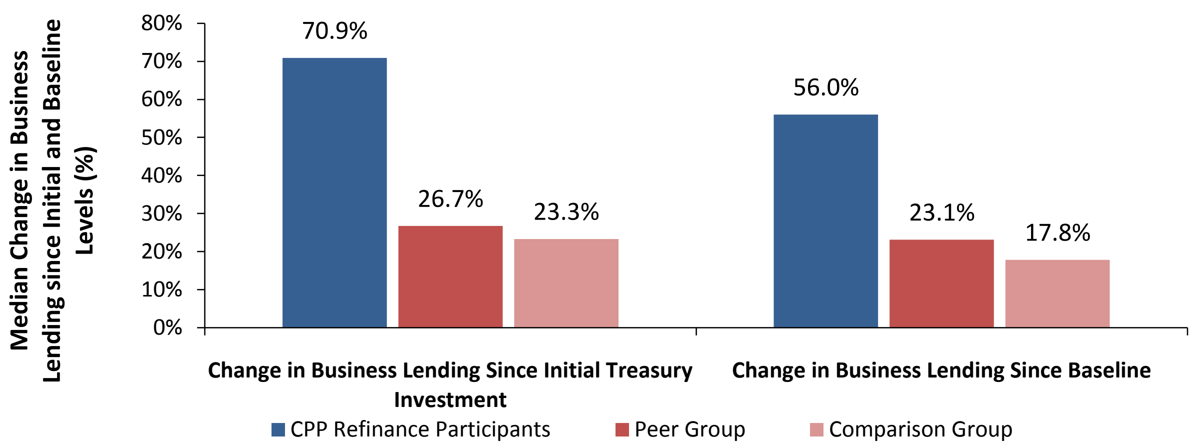
To date, 97 percent of institutions that refinanced CPP investments have increased their small business lending over baseline levels and 90 percent have increased their small business lending by 10 percent or more. Of the 3 institutions (3 percent) that report decreases in small business lending over baseline levels, one has increased lending in the period between the baseline and Treasury's investment by the amount of $3.5 million.

Changes in Business Lending by Former CPP Participants

Banks that received CPP funding and refinanced these investments through SBLF reported a significant median increase in business lending following receipt of the initial CPP investments. These institutions also reported a median increase from the SBLF baseline period.

SBLF banks that refinanced CPP funding reported a median increase in business lending of 70.9 percent since their initial receipt of CPP funding from Treasury. These participants also reported that their business lending has increased by a median of 56 percent since the baseline period. The peer group of non-SBLF banks reported a median increase in business lending of 26.7 percent since the reporting date following the CPP closings and the comparison group reported a median increase in business lending of 23.3 percent over the same period. Since the baseline period, the peer group has increased business lending by a median of 23.1 percent and the comparison group has increased business lending by 17.8 percent, as previously noted. Increases in business lending following the CPP investment prior to the baseline period would generally have the effect of increasing the reported baseline, thereby reducing the percentage increase in business lending reported since the baseline period.

Changes in Business Lending by Former CPP Participants[16]
(Reported as of March 31, 2015)



Dividend Rates Payable by Institutions that Refinanced CPP Investments

Institutions that refinance capital from CPP benefit from the dividend or interest rate incentive provided by SBLF only if they increase their small business lending over baseline levels. As of March 31, 2015, banks that refinanced CPP capital pay an average dividend or interest rate of 1.33 percent on SBLF funding, whereas other bank participants pay an average rate of 1.12 percent.[17]

[16] For the 108 former CPP participants, the median increase in business lending reflected in the first column is measured from the first reporting date after each participant received its initial CPP capital to March 31, 2015. Because the median CPP refinance participant received this capital during the first quarter of 2009, the median increase in business lending for the peer and comparison groups is measured from March 31, 2009 to March 31, 2015 for this calculation. This calculation excludes two SBLF participants that were former CPP participants but were subsequently acquired following the receipt of SBLF funding.

[17] These figures are adjusted to account for differences in the rates paid by subchapter S corporations and mutual institutions.

APPENDICES

A. Report Methodology
B. Changes in Lending Since Initial SBLF Investments
C. Institution-Specific Reporting on Small Business Lending by SBLF Participants
D. Institution-Specific Reporting on Business Lending by SBLF Banks

APPENDIX A: REPORT METHODOLOGY

This report provides information on changes in small business lending, business lending, and other (non-business related) lending by SBLF participants as of March 31, 2015, relative to baseline levels. For each institution analyzed for this report, changes in lending are measured as the dollar value or percentage change, as noted, in lending between March 31, 2015 and the baseline period, unless otherwise specified. The baseline is calculated as the average of the applicable loan amounts that the institution reported for each of the four calendar quarters ended June 30, 2010.

Measurement of Small Business Lending
SBLF participants, which include banks and community development loan funds (CDLFs), report changes in small business lending by submitting quarterly reports to Treasury. This information is aggregated and presented in summary form in the "Increases in Small Business Lending Over Baseline Levels" section of this report.

The Act defines "small business lending" as business loans that are (i) $10 million or less in amount to businesses with $50 million or less in revenue and (ii) included in one of the following categories:

- Commercial and industrial loans
- Owner-occupied nonfarm, nonresidential real estate loans ("owner-occupied CRE")
- Loans to finance agricultural production and other loans to farmers ("agricultural production")
- Loans secured by farmland ("farmland")

The SBLF program terms provide for additional adjustments to the calculation of small business lending relating to net charge-offs and portions of loans guaranteed by the U.S. government or for which risk has been assumed by third parties, as well as mergers and acquisitions and purchases of loans.

Changes in small business lending are calculated as the difference between the level of loans outstanding as of March 31, 2015 and the baseline amount. Participants report their baseline and changes in small business lending by submitting quarterly supplemental reports to Treasury. The most recent supplemental report includes lending information as of March 31, 2015. Participants are required to revise prior period submissions of small business lending data if inaccuracies are identified. Treasury publishes this updated information quarterly in its Report on SBLF Participants' Small Business Lending Growth (previously titled the SBLF Use of Funds Report). This report includes restatements of prior period institution-specific information in the report appendices, which are also available in Microsoft Excel format. These resubmissions may yield minor differences in reporting, with each report including the most recent available data for the then-current period as well as all prior periods. Because the most recent information available for all periods is included in each quarterly report, Treasury does not generally revise prior period reports to reflect these resubmissions.

When a SBLF participant exits the program, the associated changes to qualified small business lending are removed from the total qualified small business growth calculation in the quarter of redemption, as well as all future reporting periods.

Institution-specific reporting on changes in small business lending by SBLF participants is presented in Appendix C.

Measurement of Business Lending and Other Lending

This report provides information on changes in "business lending" and "other lending" by SBLF bank participants relative to (i) a representative peer group of 398 community banks that were selected to match the specific size, geography, and financial condition of SBLF banks and (ii) a broader comparison group of all 5,647 similarly-sized community banks that are located in one of the 44 states in which SBLF banks are headquartered and that engaged in business lending. The report also analyzes changes in business lending for the subset of SBLF banks that refinanced into the program from Treasury's Capital Purchase Program (CPP).

To obtain information regarding business and other lending by SBLF banks and the two non-SBLF bank groups, Treasury accessed information from SNL Financial, a private financial database that contains publicly-filed regulatory and financial reports.

In contrast to small business lending, "business lending" refers to the same four categories of loans referenced in the definition of small business lending without exclusions for loans to businesses that are more than $10 million and loans to businesses with more than $50 million in revenue, and without the additional adjustments used in SBLF's calculation of small business lending. Because the banks in the non-SBLF bank groups are not program participants and do not report small business lending as defined by the program terms, this analysis uses business lending as proxy for small business lending activities. Most business lending reported by SBLF banks qualifies as small business lending. For example, as of March 31, 2015, small business lending totaled 95.0 percent of business lending by dollar value for the median SBLF bank.

Changes in business and other lending are calculated as the difference between the level of loans outstanding as of March 31, 2015 and the baseline amount. The baseline is calculated as the average of the business loans outstanding that the institution reported for each of the four calendar quarters ended June 30, 2010. Changes in other lending are calculated based on the institution's total loans and leases, including loans held for sale, less the amount of business loans outstanding.

For former CPP participants, this report includes a calculation of the median increase in business lending since they received their initial CPP investment in the "Lending by Former Capital Purchase Program (CPP) Participants" section. For this section, bank-specific changes in lending for this calculation are measured from the first quarterly reporting date after the bank received its initial CPP investment to March 31, 2015. This section also includes a calculation of the median increase in business lending by the non-SBLF bank groups from March 31, 2009 (the first reporting date after the median CPP participant received its initial CPP investment) to March 31, 2015.

As noted, the definition of "banks" in this report encompasses both banks and thrifts. Prior to March 31, 2012, many thrifts reported lending on Thrift Financial Reports (TFRs), rather than the Call Reports used by banks. Call Reports segment nonfarm, nonresidential real estate loans into separate owner-occupied and non-owner occupied categories, and only those loans classified as owner-occupied are eligible for inclusion in business lending. This distinction, however, is not readily accessible in TFR filings. To adjust for this difference, the analysis in this report calculates owner-occupied nonfarm, nonresidential real estate as a percentage of total nonfarm, nonresidential real estate as of March 31, 2012 for each thrift institution. The resulting percentage is applied to nonfarm, nonresidential real estate loan balances from TFRs filed prior to March 31, 2012, including those used in the calculation of baseline values. As of the quarter ended March 31, 2012, all banks, thrifts, and bank and thrift holding companies file Call Reports.

This comparative information will be updated periodically. Institution-specific reporting on changes in business lending by SBLF banks is presented in Appendix D.

Calculation of Median Changes in Lending

In comparing SBLF banks to the non-SBLF bank groups, this report generally describes the median percentage change in lending. The median measure is used for these comparisons because it more closely describes the lending activities of the typical institution in each group than would a calculation of the arithmetic mean (which is subject to skew by outlying measures) or the weighted average (which is subject to concentration effects, given the distribution of institution asset sizes within the SBLF portfolio). Institutions that report a baseline value of zero for the relevant measure are excluded from the median calculation.

Selection of Non-SBLF Bank Comparison Group and Peer Group

In describing changes in business lending, this report compares the group of 222 banks that continue to participate in the SBLF program to a broad comparison group of non-SBLF banks and a representative peer group selected from the broader comparison group:

- ***Comparison Group.*** The comparison group is comprised of the 5,677 non-SBLF insured depository institutions that (i) were established prior to March 31, 2009, (ii) had total assets between $7.0 million and $6.4 billion (the range of total assets for SBLF banks) as of March 31, 2011, which is the end of the first quarter prior to SBLF banks receiving funding, (iii) are located in one of the 44 states in which SBLF banks are headquartered, and (iv) reported a positive amount of business lending in the baseline period.

  Each quarter, institutions are removed from the initial comparison group if they are merged into another institution or closed. As of March 31, 2015, a total of 740 institutions have been removed from the initial 6,417 institution comparison group for these reasons. While the comparison group includes banks that share the aforementioned characteristics with SBLF banks, the selection criteria for the group does not imply that it has the same distribution with respect to size, geography, or financial condition as the portfolio of SBLF banks.

- ***Peer Group.*** The peer group is comprised of 398 non-SBLF insured depository institutions that share certain size, geographic, and financial characteristics with the group of SBLF bank participants.

  For each SBLF participant bank, two peer banks were selected from the comparison group. The institutions selected were generally the two banks with the closest Texas ratios that were located within the same state and asset size category as the SBLF participant as of March 31, 2011 (the quarter immediately prior to Treasury's first SBLF investment). The five categories of asset size in this analysis are (i) $7 to $99 million, (ii) $100 to $249 million, (iii) $250 to $499 million, (iv) $500 to $999 million, and (v) $1.0 to $6.4 billion. The Texas ratio is used as a proxy for the financial condition of the institution, and is defined as the institution's nonperforming assets plus loans 90 days or more past due all divided by the institution's tangible equity plus loan loss reserves.

  For example, an SBLF bank based in Ohio with $750 million in assets and a Texas ratio of 20 percent would be matched with the two, Ohio-based banks in the $500 to $999 million asset size category that have Texas ratios closest to 20 percent.

  In those instances in which SBLF banks have an overlapping peer bank, the same peer is not used in the peer group more than once. Instead, the peer is assigned to the SBLF bank with the closest Texas ratio and the other SBLF bank is assigned to its next closest peer.

Peer institutions were selected as of March 31, 2011. This analysis removes institutions from the peer group if (i) the corresponding SBLF bank fully redeems its SBLF securities and exits the program or (ii) in the case of the acquisition of the peer, its merger into another institution, or closure. As of March 31, 2015, a total of 93 institutions have been removed from the peer group as a result of SBLF participants exiting the program and 35 have been removed as a result of mergers or acquisitions of the peer institutions.

The following table is a summary of the size, Texas ratio, and geographic distribution of SBLF bank participants, the peer group, and the comparison group.

Summary of the Characteristics of SBLF Banks, the Peer Group, and the Comparison Group

	SBLF Banks	Peer Group	Comparison Group
Number of institutions	222	398	5,647
Increase in business lending (median)	73.6%	23.1%	17.8%
Increase in other lending (median)	55.5%	14.4%	6.0%
Assets ($000s)			
Median	$297,204	$275,296	$145,351
Mean	$534,283	$440,981	$310,807
Texas Ratio			
Median	15.2%	15.5%	16.5%
Mean	17.8%	18.6%	28.6%
Region (% of institutions)			
Midwest	65.7%	26.3%	19.0%
Northeast	86.4%	25.9%	23.0%
South	100.6%	20.0%	14.3%
West	69.5%	13.9%	15.7%

APPENDIX B: CHANGES IN LENDING SINCE INITIAL SBLF INVESTMENTS

The table on this page includes the aggregate increases in qualified small business lending by participants since the initial SBLF investments.[18] Additionally, it shows quarter-over-quarter changes in the number of participants reporting lending in the five ranges of small business loan growth that correspond to various dividend or interest rates payable on SBLF securities. Please see Appendix D for institution-specific reporting of small business lending by SBLF participants.

Participant Changes in Qualified Small Business Lending Since Initial SBLF Investments (Q3 2011)

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Cumulative Increase in Small Business Lending ($ in Billions)	$1.3	$1.7	$3.1	$3.9	$5.2	$5.4	$6.8	$7.4	$8.7	$8.6	$9.8	$10.6	$11.6	$11.9
Change in Small Business Lending (# of Participants)														
Under 2.5% or Reduced	156	137	93	84	65	70	47	40	31	34	26	20	17	15
2.5 to 4.9% Increase	46	37	39	20	17	17	6	10	9	8	13	5	6	3
5.0 to 7.4% Increase	45	31	26	22	17	18	18	9	8	9	3	9	6	6
7.5 to 9.9% Increase	27	27	26	31	20	12	16	15	12	9	8	7	4	8
10.0% or Greater Increase	58	100	147	169	201	200	228	233	238	235	240	239	241	235

[18] In this analysis, the point of SBLF investment is defined as Q3 2011 and is measured as the change in lending between September 30, 2011 and September 30, 2014. The first four of Treasury's investments in SBLF participants were made in the quarter ended June 30, 2011, with all subsequent investments made in the quarter ended September 30, 2011.

The table on this page includes results for the SBLF banks, peer group, and comparison group for business lending since the initial SBLF investments. The information reported herein is based on Call Report data from December 2013 and the methodology described in Appendix A.

Measurement of Lending by SBLF Banks, Peer Group, and Comparison Group Since Initial SBLF Investments (Q3 2011)

	SBLF Banks	Peer Group	Comparison Group
Number of institutions	**222**	**396**	**5,638**
Changes in Business and Other Lending	**%**	**%**	**%**
Increase in Business Lending (median)	50.0	15.1	14.6
Increase in Other Lending (median)	44.2	15.3	9.5
Increase in Business Lending (mean)	64.5	27.8	22.7
Increase in Business Lending (standard dev.)	52.9	47.6	44.1
Institutions that Increased Business Lending by 10% or more	91.0	58.6	55.9
Institutions that Reduced Business Lending	4.1	29.0	32.1
Distribution of Changes in Business Lending			
10.0% or Greater Decrease	1.8	18.2	21.4
0.1% to 9.9% Decrease	2.3	10.9	10.7
0.0% to 9.9% Increase	5.0	12.4	12.0
10.0% to 19.9% Increase	10.8	13.4	12.4
20.0% to 39.9% Increase	21.6	17.4	18.5
40.0% or Greater Increase	58.6	27.8	25.0
Changes in Business Lending by Regional Geography			
Midwest	42.7	15.4	15.1
Southwest	65.3	23.2	24.1
Southeast	55.7	8.8	5.8
Mid-Atlantic	54.0	19.7	13.8
West	37.7	28.8	17.7
Northeast	49.1	15.8	17.7
Changes in Business Lending by Institution Size			
$7.0 to $249 Million	52.1	13.1	14.2
$250 to $499 Million	51.9	14.2	14.2
$500 to $999 Million	36.6	18.1	16.8
$1.0 to $6.4 Billion	63.3	30.1	18.7
Changes in Business Lending by Loan Category			
Commercial & Industrial	48.3	20.1	13.2
Owner-Occupied CRE	49.9	13.5	6.5
Agricultural Production	41.6	14.4	16.4
Farmland	45.2	24.4	22.1
Changes in Business Lending by Texas Ratio			
Less than 10%	55.6	21.7	20.0
10.0% to 19.9%	51.4	15.8	18.6
20.0% to 29.9%	44.8	13.2	15.3
30.0% or Greater	45.8	11.7	4.5
Changes in Business Lending by Former CPP Participants			
Increase in Business Lending since SBLF Investment	41.1	15.1	14.6

APPENDIX C: INSTITUTION-SPECIFIC REPORTING ON SMALL BUSINESS LENDING BY SBLF PARTICIPANTS

APPENDIX D: INSTITUTION-SPECIFIC REPORTING ON BUSINESS LENDING BY SBLF BANKS