

Small Business Lending Fund

FY 2013

President's Budget Submission

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Section 1 – Purpose

1A – Mission Statement

The Small Business Jobs Act of 2010 (P. L. No. 111-240) (the “Act”) established the Small Business Lending Fund (“SBLF”). The SBLF is a program designed to increase the availability of credit to small businesses by providing capital to eligible financial institutions with assets of less than \$10 billion, which are an important source of credit for small businesses.

1.1 – Program Account Summary

Dollars in thousands

	FY 2011	FY 2012	FY 2013
	Actual	Estimated	Estimated
Administration Costs			
Obligations	\$42,539	\$25,590	\$25,640
Budget Authority	\$54,649	\$25,590	\$25,640
Outlays	\$33,262	\$24,822	\$24,871
SBLF Program Investments Direct Loan Subsidy			
Obligations	\$292,000	\$0	\$0
Budget Authority	\$292,000	\$0	\$0
Outlays	\$292,000	\$0	\$0
Total Obligations	\$334,539	\$25,590	\$25,640
Total Budget Authority	\$346,649	\$25,590	\$25,640
Total Outlays, net	\$325,262	\$24,822	\$24,871

1B – Mission, Priorities and Context

Summary of SBLF Program Activity - FY2011

SBLF received 933 applications from institutions requesting a total of \$11.8 billion in funding, which includes 850 applications for \$11.6 billion from banks and thrifts and 83 applications for \$160 million from community development loan funds (CDLF).

SBLF sent preliminary approval letters to 400 applicants (349 banks and 51 CDLFs) requesting approximately \$4.8 billion in value. SBLF completed transactions with 332 institutions, which totaled just over \$4.0 billion in program funding.

Participating institutions estimate that they will increase their small business lending by more than \$9 billion over the next two years. In addition, Treasury currently projects that the SBLF will generate a positive return for taxpayers of approximately \$80 million, excluding administrative costs.

SBLF submitted transaction reports, a cost report and a use of funds report to Congress.

Summary of SBLF Program Goals for 2012, 2013 and Forward

SBLF supports the Treasury strategic goal, “repair and reform the financial system and support the recovery of the housing market.” In FY 2011, the program’s focus was on application processing and making investments. SBLF transitioned to a new phase and is focusing on asset management, dividend and interest operations, compliance and oversight, and outreach and reporting. For FY 2012 and forward, the SBLF program office plans to focus on the following activities:

Asset Management: SBLF plans to monitor the SBLF investment portfolio and make recommendations to senior Treasury officials on decisions related to investment performance and activities.

Operations: SBLF plans to manage the program’s data and information in connection with participant reporting, dividend and interest payments, capital repayments, and correspondence.

Compliance and Controls: SBLF is developing a compliance program which will monitor participant conformance with program terms, including lending data, certification requirements, and other requirements imposed by the SBLF Securities Purchase Agreement. SBLF is also developing internal controls for processes across SBLF program office functions.

Reporting and Outreach: SBLF plans to continue its outreach and reporting efforts in FY 2012. These activities include reporting to Congress on the program’s transactions, costs, and the participants’ use of funds as well as developing and publishing the program’s first annual lending survey.

Subsidy Rates and Cost

Section 4108 of the Act provides that the cost of purchases of preferred stock and other financial instruments made as capital investments shall be determined as provided under the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.). A total of \$4.03 billion in investments occurred in FY 2011. Pursuant to the Act, the statutory funding phase of the program ended September 27, 2011, and as such, no further investments will be made. In the FY 2012 President’s Budget, Treasury calculated that, using FCRA methodology, the program’s subsidy cost would be \$1.26 billion assuming a program volume of \$17.40 billion. For FY 2013, using the current reestimate rate, which was driven in part by the high credit quality of the participating institutions coupled with actual program volume of \$4.03 billion result in an overall projected budget savings of \$0.08 billion, representing a decrease in projected budget cost of \$1.34 billion.

The Act also provides for the reasonable costs of administering the program, including making, holding, managing, and selling the capital investments. These activities occurred in FY 2011, and Treasury will incur continuing expenses with respect to SBLF portfolio management, operations, compliance and controls, and outreach and reporting.

Summary of Office Inspector General (OIG) Activities

In FY 2012 and 2013, the OIG will continue to provide audit and investigative oversight of SBLF. The Act requires the OIG to conduct, supervise, and coordinate audits and investigations of the SBLF program and to issue a program oversight report no less than twice a year to the Congress and the Secretary of the Treasury.

In 2010, the OIG established the SBLF Program Oversight Office headed by a Special Deputy Inspector General with responsibility for all audit and investigative activities relating to the SBLF and State Small Business Credit Initiative (SSBCI) programs. The office will hire a total of 19 full time equivalent employees, the majority of whom will be on term appointments. The FY 2013 budget request, funded with both SBLF and SSBCI administrative funds, will both support the 19 employees and allow the OIG to augment its resources with contractors, as needed, to perform audits of financial institutions receiving SBLF investments and recipients of SSBCI funds. In FY 2012, OIG expects to utilize approximately \$4.4 million in SBLF administrative funding. In FY 2013, the amount is estimated at \$4.1 million.

Because Treasury will have made all of its investments from the SBLF fund by the end of FY 2011, the OIG's efforts in FY 2012 and FY 2013 will primarily focus on audits of selected financial institutions to determine whether they accurately reported their levels of small business lending activity to Treasury. Because the dividend rate that participants pay on Treasury's investment is based on the unverified lending activity reported by each institution, the OIG's audits will provide Treasury with assurance that participant reports can be relied upon when determining dividend rates and when assessing the effectiveness of the SBLF program.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Operating Levels Table

Dollars in Thousands

Small Business Lending Fund	FY 2011 Actual	FY 2012 Estimated	FY 2013 Estimated
Direct FTE	23	30	28
Object Classification			
11.1 Full-Time Permanent Positions.....	\$2,810	\$3,048	\$2,819
12.0 Personnel Benefits.....	\$742	\$1,071	\$990
21.0 Travel.....	\$38	\$30	\$30
23.1 Rental Payments to GSA.....	\$271	\$462	\$462
25.1 Advisory & Assistance Services.....	\$37,610	\$16,504	\$17,164
25.3 Purchase of Goods/Serv. from Govt. Accts.....	\$987	\$4,400	\$4,100
26.0 Supplies and Materials.....	\$81	\$75	\$75
33.0 Investment, Loans.....	\$292,000	\$0	\$0
Total Operating.....	\$334,539	\$25,590	\$25,640
Budget Activities:			
SBLF Program	\$292,000	\$0	\$0
SBLF Administration	\$42,539	\$25,590	\$25,640
Total Budget Authority	\$334,539	\$25,590	\$25,640

2.2 – Financing Accounts – Non-Budgetary Summary

Dollars in Thousands

	FY 2011 Actual	FY 2012 Estimated	FY 2013 Estimated	FY 2013 \$ Change	FY 2013 % Change
Small Business Lending Fund					
Obligations finance	\$4,367	\$462	\$76	(\$386)	-84%
Collections finance	\$631	\$572	\$122	(\$450)	-79%
Financing Authority (net)	\$3,736	(\$110)	(\$46)	\$64	-58%
Financing Disbursements (net)	\$3,736	(\$100)	(\$46)	\$54	-54%

2A – Appropriations Language and Explanation of Changes

SBLF does not receive any discretionary appropriation authority from Congress. Therefore, no appropriations language is proposed.

2B – Legislative Proposals

SBLF has no legislative proposals.

Section 3 – Budget and Performance Plan

3A – SBLF Program

(\$0 of obligations in FY 2012 and FY 2013):

All investment activity occurred in FY 2011. The cost of purchases of preferred stock and other financial instruments made as capital investments are required by law to be determined as provided under FCRA.

The total program volume and anticipated repayments are reflected in the SBLF financing account (table 2.2). This non-budgetary account records all cash flows to and from the federal government resulting from direct capital obligated in 2011 and beyond. The amounts in this account are a means of financing and are not included in the budget totals.

Treasury completed investments in 332 institutions for a total of \$4.03 billion in capital invested. Based on reports from participating institutions as of the third quarter 2011, program participants have increased their qualified small business lending by \$3.5 billion over baseline levels.

The Small Business Jobs Act of 2010 includes specific reporting requirements for SBLF. The legislation requires the quarterly reporting of funds use by participating banks, a semi-annual report on administrative costs and a report on the program's impact on small business lending among women-, minority-, and veteran-owned businesses.

In accordance with these statutory requirements, Treasury has published 15 transaction and program reports, including a detailed study of the impact of the SBLF program on women-, minority-, and veteran-owned businesses, as well as two quarterly "Use of Funds" reports. In addition, Treasury plans to expand program reporting with respect to how SBLF funds were used with an annual lending survey completed by all program participants.

The SBLF program office is developing a comprehensive set of performance measures to continually monitor the impact of the Fund's investments and the efficiency of its operations. The measures address two aspects of program performance:

1. Efficiency Measures (to assess the administrative aspects of the program)
 - a. The completion of application processing and funds disbursement by the program deadline.

The SBLF program completed the review and, if applicable, funding of all eligible program applicants by the September 27, 2011 statutory deadline.

2. Outcome Measures (to assess the impact of the program on small business lending)
 - a. Total number of participating institutions and amount invested.
 - b. Increase in small business lending by participating banks.

3.1.1 – SBLF Program Budget and Performance Report and Plan

Dollars in Thousands

SBLF Program								
Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Estimated	FY 2013 Estimated
SBLF Program	\$0	\$0	\$0	\$0	\$0	\$292,000	\$0	\$0
Total Resources	\$0	\$0	\$0	\$0	\$0	\$292,000	\$0	\$0
Budget Activity Total	\$0	\$0	\$0	\$0	\$0	\$292,000	\$0	\$0

3B – SBLF Administration

(\$25,590,000 of obligations in FY 2012; \$25,640,000 of obligations in FY 2013)

The authority to pay administrative expenses is provided by Section 4108(b) of the Act. Administrative expenses will include the costs of government employee salaries, contract support, and reimbursement to the Treasury Office of Inspector General for program audits. Treasury is required by law to submit semi-annual reports to the appropriate committees of Congress detailing administrative expenses.

3.1.2 – SBLF Administration Budget and Performance Report and Plan

Dollars in Thousands

SBLF Administration								
Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Estimated	FY 2013 Estimated
SBLF Administration	\$0	\$0	\$0	\$0	\$0	\$42,539	\$25,590	\$25,640
Total Resources	\$0	\$0	\$0	\$0	\$0	\$42,539	\$25,590	\$25,640
Budget Activity Total	\$0	\$0	\$0	\$0	\$0	\$42,539	\$25,590	\$25,640

Section 4 – Supplemental Information

4A – Capital Investment Strategy

SBLF uses Departmental Offices' (DO) systems and is part of DO's capital investment strategy.