

Small Business Lending Fund

2014 President's Budget

Table of Contents

Section 1 – Purpose	3
1A – Mission Statement.....	3
1.1 – Program Account Summary.....	3
1.2 – Financing Account Summary	3
1.3 – Program Disbursement, Repayments, and Cost/Savings.....	3
1B – Vision, Priorities and Context	4
Section 2 – Budget Adjustments and Appropriation Language	6
2.1 – Budget Adjustments Table.....	6
2A – Budget Increases and Decreases Description.....	6
2.2 – Operating Levels Table.....	7
2B – Appropriations Language and Explanation of Changes.....	7
2C – Legislative Proposals.....	7
Section 3 – Budget and Performance Plan	8
3A – SBLF Program	8
3B – SBLF Administration	10
Section 4 – Supplemental Information	11
4A – Summary of Capital Investments	11

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 dedicated fund designed to provide capital to qualified community banks (including banks, thrifts, and bank and thrift holding companies) and community development loan funds (CDLFs) with consolidated assets of less than \$10 billion 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.

1.1 – Program Account Summary

Dollars in Thousands

	FY 2012	FY 2013	FY 2014	FY 2012 to FY 2014	
	Actual	Estimated	Estimated	\$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Small Business Lending Fund Program Account	22,831	24,707	20,469	(2,362)	-10.35%
Total Obligations	\$22,831	\$24,707	\$20,469	(2,362)	-10.35%
Budget Authority					
Small Business Lending Fund Program Account	22,831	24,707	20,469	(2,362)	-10.35%
Total Budget Authority	\$22,831	\$24,707	\$20,469	(2,362)	-10.35%
Outlays					
Small Business Lending Fund Program Account	23,000	24,000	20,000	(3,000)	-13.04%
Total Outlays	\$23,000	\$24,000	\$20,000	(3,000)	-13.04%

*Amounts may differ from those printed in the FY 2014 President’s Budget Appendix due to rounding.

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2012	FY 2013	FY 2014	Change	% Change
	Actual	Estimated	Estimated	FY 2012 to FY 2014	FY 2012 to FY 2014
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Small Business Lending Fund Finance Account					
Obligations	0	0	0	0	0.00%
Collections	164,000	975,000	457,000	293,000	178.66%
Financing Authority (net)	376,000	(967,000)	(381,000)	(757,000)	-201.33%
Financing Disbursements (net)	298,000	(889,000)	(381,000)	(679,000)	-227.85%

1.3 – Program Disbursement, Repayments, and Cost/Savings

Dollars in Billions

	Cumulative Obligated	Cumulative Disbursed	Cumulative Outstanding (Includes Realized Losses)	Total Cumulative Income	Total Cumulative Repayments	Total Estimated Life Costs
SBLF Program Investments	4.03	4.03	3.98	0.11	0.05	-0.05
Total	\$4	\$4	\$4	\$0	\$0	(\$0)

1B – Vision, Priorities and Context

Summary of SBLF Program Activity – FY 2012

SBLF supports the Treasury strategic goal, “repair and reform the financial system and support the recovery of the housing market.” In total, the SBLF invested \$4.03 billion in 332 community banks and CDLFs.

In FY 2012, the SBLF program office transitioned from its FY 2011 focus on application review and transaction execution activities to investment management, operations, compliance and controls, and outreach and reporting activities.

Specifically, the SBLF program office focused on the following activities:

Investment Management: SBLF monitored the SBLF investment portfolio and made recommendations to senior Treasury officials on decisions related to investment performance and activities.

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

Compliance and Controls: SBLF developed a compliance program which monitors participant conformance with program terms, including lending data, certification requirements, and other requirements provided for by the SBLF Securities Purchase Agreement. SBLF also developed and executed internal control procedures for processes across SBLF program office functions.

Reporting and Outreach: SBLF continued its outreach and reporting efforts in FY 2012. These activities included reporting to Congress on the program’s transactions, costs, and the participants’ use of funds, correspondence, and developing and distributing the program’s first annual lending survey.

Summary of SBLF Program Goals for FY 2013, FY 2014 and Forward

For FY 2013 and forward, the SBLF program office plans to continue its focus on investment management, dividend and interest operations, compliance and oversight, and outreach and reporting.

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

Compliance and Controls: SBLF plans to continue to execute a compliance program to monitor participant conformance with program terms, including lending data, certification requirements, and other requirements provided for by the SBLF Securities Purchase Agreement. SBLF also plans to continue executing internal control procedures for processes across SBLF program office functions.

Reporting and Outreach: SBLF plans to continue its outreach and reporting efforts. These activities include reporting to Congress on the program’s transactions, costs, and the participants’

use of funds, correspondence, and publishing the results of the program's first annual lending survey and issuing the second annual survey.

Summary of Office of Inspector General (OIG) Activity

In FY 2014, the OIG will continue to provide audit and investigative oversight of the SBLF. The authorizing legislation for this small business lending initiative 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.

The 2014 budget request will support the 12 SBLF-OIG employees and allow the OIG to augment its resources with contractors, as needed, to perform audits of financial institutions receiving SBLF investments. The OIG's efforts in FYs 2014 and beyond will primarily focus on audits of selected financial institutions to determine whether they accurately reported their levels of small business lending activity to Treasury and how they have used their funds. 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. The OIG's efforts will also focus on Treasury's management of securities purchased with SBLF funds.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Small Business Lending Fund	FTE	Amount
FY 2012 Actual	27	\$22,831
FY 2013 Estimated	28	\$24,707
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$444
Pay-Raise	-	\$29
Non-Pay	-	\$415
Subtotal Changes to Base	-	\$444
Total FY 2014 Base	28	\$25,151
Program Changes:		
Program Decreases:	(3)	(\$4,682)
Staff/Contract Update	(3)	(\$4,682)
Total FY 2014 Estimated	25	\$20,469

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$444,000 / +0 FTE

Pay-Raise +\$29,000 / +0 FTE

The President’s Budget proposes a one percent pay raise for Federal employees in 2014.

Non-Pay +\$415,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment.

Program Decreases -\$4,682,000 / -3 FTE

Staff/Contract Update -\$4,682,000 / -3 FTE

Reductions in contract support and other adjustments.

2.2 – Operating Levels Table

Dollars in Thousands

Small Business Lending Fund Object Classification	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated
11.1 - Full-time permanent	3,074	2,819	2,655
11.9 - Personnel Compensation (Total)	3,074	2,819	2,655
12.0 - Personnel benefits	814	990	954
Total Personnel and Compensation Benefits	\$3,888	\$3,809	\$3,609
21.0 - Travel and transportation of persons	20	20	20
23.1 - Rental payments to GSA	505	505	505
25.2 - Other services	13,226	17,309	13,480
25.3 - Other purchases of goods & serv frm Govt accounts	5,056	2,949	2,740
26.0 - Supplies and materials	136	115	115
Total Non-Personnel	18,943	20,898	16,860
Total Budgetary Resources	\$22,831	\$24,707	\$20,469
Budget Activities:			
SBLF Administration	22,831	24,707	20,469
Total Budgetary Resources	\$22,831	\$24,707	\$20,469
FTE	27	28	25

*Amounts may differ from those printed in the FY 2014 President's Budget Appendix due to rounding.

2B – Appropriations Language and Explanation of Changes

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

2C – Legislative Proposals

SBLF has no legislative proposals in the FY 2014 budget.

Section 3 – Budget and Performance Plan

3A – SBLF Program

(\$0 of obligations in FY 2013 and FY 2014)

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 the Federal Credit Reform Act (FCRA).

The total program volume and anticipated repayments are reflected in the SBLF financing account (table 1.2). 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 2012, program participants have increased their qualified small business lending by \$7.4 billion over baseline levels. As of March 13, 2013, 12 institutions with aggregate investments of \$112.6 million have fully redeemed their SBLF funding and exited the program, and nine institutions have partially redeemed \$107.8 million of their SBLF funding though continue to participate in the program.

The Small Business Jobs Act of 2010 includes specific reporting requirements for SBLF. The legislation requires the quarterly reporting of funds used 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 34 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 five 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 completed the review and, if applicable, funding of all eligible program applicants by the September 27, 2011 statutory deadline.

The SBLF program office developed a set of asset management 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. Monitoring of investment portfolio condition
 - b. Review of compliance and supplemental report submissions by participants
 - c. Publication of reports as required by statute

In FY 2012, the SBLF program office has (a) produced, on a quarterly basis, portfolio monitoring reports that include institution-specific credit scores, dashboards, and watch lists; (b) maintained a record of compliance submissions and implemented an analytical

process for identifying errors in supplemental report submissions; and (c) published all reports required by the Small Business Jobs Act of 2010.

2. Outcome Measures (to assess the impact of the program on small business lending)
 - a. Increase in small business lending by participating institutions
 - b. Increase in business lending by participating banks versus comparable institutions
 - c. Receipt of expected interest and dividend payments by participating institutions

As of September 30, 2012, SBLF participants have increased their small business lending by \$7.4 billion over a \$36.5 billion baseline, and by \$740 million over the prior quarter. Increases in small business lending are widespread across SBLF participants, with 89 percent of participants having increased their small business lending over baseline levels. Over three-quarters of SBLF participants (78 percent) have increased small business lending by 10 percent or more. Over the same period, banks participating in SBLF have increased business loans outstanding by a median of 32.2 percent over baseline levels, versus a 5.7 percent median increase for a representative peer group of non-SBLF banks and a 2.1 percent median increase for a broader comparison group non-SBLF banks. As of December 31, 2012, all participants have made all expected interest and dividend payments for a total of \$82 million in payments received.

Treasury currently estimates that the investments made through SBLF will generate a lifetime positive return of \$50 million for the Treasury General Fund. The figures in the following table reflect Treasury’s calculation of the estimated cost of SBLF investments in the President’s Budget for FY 2014.

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 2013	-2.08%	4,028	-84
President’s Budget for fiscal year 2014	-1.26%	4,028	-50

Treasury estimated the program’s budget cost in conformance with the FCRA methodology using actual program data for fiscal years 2011 and 2012. This data, combined with the expected future cash flows, results in a subsidy rate of -1.26 percent compared to an original subsidy rate of 7.24 percent.

Per FCRA requirements, the lifetime cost and subsidy rate of the SBLF program is estimated on a present value basis. Assumptions used to estimate future cash flows include, but are not limited to: (1) the cumulative default rate for program participants, (2) the cash flows received by Treasury from the participants’ dividend, interest, and other payments, and (3) Treasury’s cost of raising funds to make SBLF investments.

The current estimate of the program's projected lifetime savings incorporates a forecasted cumulative default rate (i.e., lost principal investments) of 3.78 percent compared to a 4.29 percent rate in the prior year's estimate.^[1] This lower rate reflects an overall improvement in the financial condition of program participants and, independent of other factors, would result in greater projected lifetime savings for the program. The current year estimate also incorporates, however, a reduction in expected lifetime dividend and interest payments to Treasury as a result of higher-than-projected increases in small business lending by program participants, in accordance with the lending incentives provided for by the Act. Changes in economic projections also contributed to the decrease in program cost. Inclusive of these changes, the projected program lifetime savings is \$50 million.

3B – SBLF Administration

(\$24,707,000 of obligations in FY 2013; \$20,469,000 of obligations in FY 2014)

The authority to pay administrative expenses is provided by Section 4108(b) of the Act. Administrative expenses 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.

^[1] The forecasted cumulative default rate represents the projected investment amounts not repaid by program participants as a percentage of all SBLF investments. The rate is estimated based on the financial condition of program participants relative to the historical performance of institutions rated by the major ratings agencies.

Section 4 – Supplemental Information

4A – Summary of Capital Investments

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