

State Small Business
Credit Initiative

FY 2013

President's Budget
Submission

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Section 1 – Purpose

1A – Mission Statement

To increase the availability of credit for small business, to generate jobs and other economic development benefits for states, Treasury has implemented the State Small Business Credit Initiative.

1.1 – Resource Detail Table

Dollars in thousands

	FY 2011 Actual		FY 2012 Estimated		FY 2012 Estimated		% Change FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Unobligated balances, Start of year		\$1,500,000		\$235,707		\$25,267		-89.28%
Total Budgetary Resources Available		\$1,500,000		\$235,707		\$25,267		-89.28%
Expenses/Obligations								
SSBCI Program		\$1,258,900		\$204,210				-100.00%
SSBCI Administration	5	\$5,393	12	\$6,230	12	\$6,629	0.00%	6.40%
Total Expenses/Obligations	5	\$1,264,293	12	\$210,440	12	\$6,629	0.00%	-96.85%

1B – Mission, Priorities and Context

The SSBCI was created to fund new and existing state programs that support lending to small business in order to stimulate economic growth and new jobs. Under the SSBCI, participating states use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. The SSBCI will allow states to build on successful models for state small business lending and investment programs, including capital access programs (CAPs), collateral support programs, loan guarantee programs, and venture capital funds.

Priorities:

- To provide direct funding support to states for use in programs designed to increase access to credit for small businesses.
- To support state CAPs and other credit support programs (OCSP) that support lending to small businesses and small manufacturers.
- To monitor the deployment of SSBCI funds among approved state programs and to ensure adherence to all Treasury compliance standards.
- To promote best practices in program design, operations, and marketing among state-run programs.
- To provide dedicated technical assistance to states as they implement these programs and deploy funds to eligible small businesses.

SSBCI Program Activities

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the Act). Section 3003 of the Act authorized and directed the Secretary of Treasury to establish a seven-year SSBCI, which was funded with \$1.5 billion to support state programs that support lending to small businesses and small manufacturers. The SSBCI is expected to support new small business lending through local programs that help entrepreneurs expand their businesses and create new jobs.

Under the SSBCI, states were offered the opportunity to apply for federal funds for programs that partner with private lenders to extend greater credit to small businesses. States were required to demonstrate a reasonable expectation that a minimum of \$10 in new private lending will result from every \$1 in federal funding. Accordingly, the \$1.5 billion funding commitment that the federal government has made for this program is expected to result in \$15 billion in new private lending and investment to small businesses, aligning with Treasury's strategic goal to repair and reform the financial system and support the recovery of the housing market.

The SSBCI allows states to build upon existing, successful state-level small business lending programs, including examples such as CAPs, collateral support programs, and loan guarantee programs.

- Capital Access Programs: CAPs, which are already up and running in over 20 states, are loan portfolio insurance programs in which states provide a matching contribution to bank loan loss reserves when lenders extend credit to qualified small businesses. These reserve enhancements allow lenders to expand credit to new borrowers at a time when many of these lenders might otherwise pull back.
- Collateral Support Programs: Collateral support programs help viable businesses that are struggling to get credit because the value of the collateral they hold has fallen, often due to the decline in commercial real estate values. These programs – which set aside funds to augment collateral the borrower already holds – provide banks greater confidence in extending credit to these borrowers, particularly in some of the communities hardest hit by the economic downturn.
- Loan Guarantee Programs: Under loan guarantee programs, states provide partial guarantees on small business loans to give lenders greater confidence to extend credit.
- Venture Capital Programs: State-run venture capital programs provide equity to emerging businesses before they meet typical lending criteria or to support business investment in new or emerging sectors.

If a state did not have an existing small business program, the state could establish one in order to access this funding.

The funding a state was eligible to apply for is determined based on formulas in the Small Business Jobs Act that take into account each state's unemployment rate and decline in employment relative to other states. Pursuant to the Act, funds are allocated to all fifty states

along with the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands.

In FY 2011, over \$435 million was approved for disbursement to approved applicants. Treasury plans to outlay most of the remaining funds in FY 2012 and FY 2013. Once approved, all funding for each respective entity is obligated. Outlays occur as tranches are received by the entities. In addition, less than 3% of the appropriation has been allocated to administrative expenses. The administrative costs will be expended over the seven-year life of the program.

Office of Inspector General (OIG) Activities

In FY 2013, the OIG will continue to provide audit and investigative oversight of SSBCI. The Act directs the OIG to audit the use of SSBCI funds by participating states so that Treasury can recoup any misused funds identified by such audits. 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 Small Business Lending Fund (SBLF) and SSBCI programs. The office will hire a total of 19 full time equivalent (FTE) employees, the majority of whom will be on term appointments.

The FY 2013 budget request, funded with both SSBCI and SBLF administrative funds, will support the 19 full time equivalent employees and allow the OIG to augment its resources with contractors, as needed, to perform audits of recipients of SSBCI funds and financial institutions receiving SBLF investments. In FY 2012, OIG expects to utilize approximately \$2.2 million in SSBCI administrative funding. In FY 2013, the amount is estimated at \$2 million.

The budget level requested for FY 2013 will also allow the OIG to conduct a significant number of audits of the use of SSBCI funds. The OIG plans to audit both how the states are carrying out their oversight responsibilities and whether the institutions and businesses participating in the state programs funded by SSBCI are in compliance with loan-use restrictions and requirements. Because the OIG is legislatively mandated to audit whether states are appropriately using the SSBCI funds, and Treasury must provide states their entire funding allocation within 2 years of their entrance into the program, the OIG is expecting a significant level of audit activity in 2012. Further, since the majority of the allocated funds will be disbursed to states in three tranches, the OIG's audits will occur after states expend or obligate their first or second tranches to ensure that Treasury does not disburse the full state allocation when prior fund transfers have been misused. Therefore, the OIG expects a greater level of audit effort in FY 2012 and FY 2013 than in subsequent years.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

State Small Business Credit Initiative	FY 2011 Actual	FY 2012 Estimated	FY 2013 Estimated
Direct FTE	5	12	12
Object Classification			
11.1 Full-Time Permanent Positions.....	\$660	\$1,749	\$1,749
12.0 Personnel Benefits.....	\$184	\$386	\$477
21.0 Travel.....	\$17	\$155	\$155
23.1 Rental Payments to GSA.....		\$231	\$231
25.1 Advisory & Assistance Services.....	\$2,830	\$1,500	\$2,000
25.3 Purchase of Goods/Serv. from Govt. Accts.....	\$1,700	\$2,207	\$2,015
26.0 Supplies and Materials.....	\$2	\$2	\$2
41.0 Grants, Subsidies.....	\$1,258,900	\$204,210	\$0
Total Operating.....	\$1,264,293	\$210,440	\$6,629
Budget Activities:			
SSBCI Program	\$1,258,900	\$204,210	
SSBCI Administration	\$5,393	\$6,230	\$6,629
Total Budget Authority	\$1,264,293	\$210,440	\$6,629

2A – Appropriations Language and Explanation of Changes

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

2B – Legislative Proposals

SSBCI has no legislative proposals.

Section 3 – Budget and Performance Plan

3A – State Small Business Credit Initiative Program

(\$204,210,000 of obligations in FY 2012 and \$0 in FY 2013)

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the "Act"). Section 3003 of the Act authorized and directed the Secretary of Treasury to establish a seven-year SSBCI, which was funded with \$1.5 billion to support state programs that support lending to small businesses and small manufacturers. The SSBCI is expected to support new small business lending and investment through innovative state and local programs that help entrepreneurs expand their businesses and create new jobs. The goal owner for this budget activity is the Assistant Secretary of Financial Institutions Cyrus Amir-Mokri.

Under the SSBCI, participating states will use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs. The SSBCI will allow states to build on successful models for state small business programs, including CAPS, collateral support programs, and loan guarantee programs. Existing and new state programs are eligible for support under the SSBCI.

In FY 2011, Treasury established the SSBCI office, accepted applications from over 58 eligible entities by the statutory due dates, and over \$435 million was approved for disbursement to approved applicants. SSBCI estimates disbursing cumulative totals of \$1.219 billion by end of FY 2012 and \$1.463 by the end of FY 2013, as states draw down their approved allocations under the program. Through November 30, 2011, Treasury has already obligated nearly \$1.4 billion of the \$1.46 billion apportioned for funding to states. As a result, SSBCI anticipates that states will use these funds to support loans and investments made through approved state programs during FY 2012 and FY 2013.

In FY 2012 and FY 2013, Treasury will continue to monitor the performance of state programs, tracking loans and investments made with SSBCI funds, and disbursing the remaining obligated funds to states once funds have been deployed to eligible small businesses. SSBCI plans to disposition 99 percent of all state requests for subsequent disbursements within 90 calendar days of receipt. Treasury will also be providing on-going technical supports to states as state programs evolve. Finally, Treasury will be promoting national best practices among states on such elements as program design, operations, and marketing.

3.1.1 – State Small Business Credit Initiative Program Budget and Performance Report and Plan

Dollars in Thousands

SSBCI 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
SSBCI Program Outlay Levels	\$0	\$0	\$0	\$0	\$0	\$366,000	\$853,000	\$244,000
Total Resources	\$0	\$0	\$0	\$0	\$0	\$366,000	\$853,000	\$244,000
Budget Activity Total	\$0	\$0	\$0	\$0	\$0	\$366,000	\$853,000	\$244,000
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Target	FY 2013 Target
Cumulative Value of SSBCI Funds Transferred to States (\$M)	N/A	N/A	N/A	N/A	N/A	\$366M	\$1,219 M	\$1,463 M
State Subsequent Disbursement Requests Dispositioned w/in 90 days (%)	N/A	N/A	N/A	N/A	N/A	N/A	99	99

Key: DISC - Discontinued, and B= Baseline

Approved amounts are fully obligated, but outlayed in one-third tranches. For FY 2011 actuals, though \$366 million was outlayed, over \$435 million was approved for disbursement to approved applicants.

3B – State Small Business Credit Initiative Administration

(\$6,230,000 in FY 2012 and \$6,629,000 in FY 2013)

The authority to pay administrative expenses is provided by Section 3009 (b) of the Act which appropriates \$1.5 billion to carry out the state small business credit program "including to pay reasonable costs of administering the program." Administrative expenses include the costs of government employee salaries, contract support, and reimbursement to the Treasury Office of Inspector General for program audits.

3.1.2 – State Small Business Credit Initiative Administration Budget and Performance Report and Plan

Dollars in Thousands

SSBCI 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
SSBCI Administration	\$0	\$0	\$0	\$0	\$0	\$5,393	\$6,230	\$6,629
Total Resources	\$0	\$0	\$0	\$0	\$0	\$5,393	\$6,230	\$6,629
Budget Activity Total	\$0	\$0	\$0	\$0	\$0	\$5,393	\$6,230	\$6,629

Section 4 – Supplemental Information

4A – Capital Investment Strategy

SSBCI uses Departmental Offices systems and is part of DO’s capital investment strategy. SSBCI also, through an interagency agreement of approximately \$275 thousand, utilizes the Community Development Financial Institutions Fund Community Investment Impact System (CIIS). The Act requires the states, territories, District of Columbia, and municipalities receiving SSBCI funds (“recipients”) to submit quarterly and annual reports, and the SSBCI Allocation Agreement—which clarifies the terms and conditions governing the transfer of funds to the recipient—specifies the exact data elements that recipients must provide in these reports. These quarterly and annual reports are similar to the surveys that CIIS collects from CDFI recipients. As a result, SSBCI is leveraging this existing system to meet its data collection needs.