

# State Small Business Credit Initiative

2014 President's Budget

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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 (SSBCI).

### 1.1 – Resource Detail Table

Dollars in Thousands

State Small Business Credit Initiative Budgetary Resources	FY 2012		FY 2013		FY 2014		FY 2012 to FY 2014			
	Actual		Estimated		Estimated		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>Budgetary Resources:</b>										
Unobligated Balances from Prior Years	0	235,708	0	42,578	0	24,633	0	(211,075)	0.00%	-89.55%
Recoveries	0	0	0	3,400	0	0	0	0	0.00%	0.00%
<b>Subtotal Budgetary Resources</b>	<b>0</b>	<b>\$235,708</b>	<b>0</b>	<b>\$45,978</b>	<b>0</b>	<b>\$24,633</b>	<b>0</b>	<b>(211,075)</b>	<b>0.00%</b>	<b>-89.55%</b>
<b>Other Resources:</b>										
SSBCI Program	0	\$188,384	0	\$13,000	0	\$0	0	(188,384)	0.00%	-100.00%
SSBCI Administration	9	\$4,746	14	\$8,345	16	\$6,905	7	2,159	77.78%	45.49%
<b>Subtotal Other Resources</b>	<b>9</b>	<b>\$193,130</b>	<b>14</b>	<b>\$21,345</b>	<b>16</b>	<b>\$6,905</b>	<b>7</b>	<b>(186,225)</b>	<b>77.78%</b>	<b>-96.42%</b>
<b>Net Results</b>	<b>9</b>	<b>\$42,578</b>	<b>14</b>	<b>\$24,633</b>	<b>16</b>	<b>\$17,728</b>	<b>7</b>	<b>(\$24,850)</b>	<b>77.78%</b>	<b>-58.36%</b>

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

### 1B – Vision, Priorities and Context

The SSBCI funds new and existing state programs that support lending to and investment in small businesses 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, loan participation programs and venture capital programs.

#### **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 and investment in 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 and investing programs, including examples such as CAPs, collateral support programs, loan participation programs, loan guarantee programs, and state-sponsored venture capital 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 Participation Programs: Loan participation programs are a risk-sharing arrangement between the participating state and a financial institution lender. The first type uses SSBCI funding to purchase a portion of a loan originated by a lender to a small business borrower. The second type uses SSCBI funding to provide a direct loan to the borrower that is a companion loan to one originated by a lender. In addition, states may structure their purchased participation or companion loan at a lower interest rate than the financial institution's loan which reduces the cash flow burden on the small business borrower.
- 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 was 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 were available to all 50 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 the event a state chose not to participate in SSBCI, then municipalities in that state could apply for the state's allocation. Ultimately, 47 of 50 states applied to participate in SSBCI (North Dakota, Wyoming and Alaska did not apply).

Through FY 2012, Treasury approved allocations to 47 states, the District of Columbia, five U.S. territories, and four municipalities in Alaska, North Dakota and Wyoming. (In December 2012, Treasury completed the obligation of all state allocations by awarding the final allocation to municipalities in Wyoming.) Once approved, all funding for each respective entity is obligated. Treasury transfers funds to participating states in three disbursements (outlays). Outlays occur as the participating states use the funds and submit disbursement requests to Treasury. In addition, less than 3 percent of the appropriation has been allocated to administrative expenses. Treasury will expend administrative costs over the seven-year life of the program.

The SSBCI will expand individualized technical assistance to state-level program managers in order to increase the effectiveness and rate of deployment of SSBCI funds. Treasury staff and contractors will provide services that include training and support for program design, operations, and outreach to financial institutions. Estimated obligations for FY 2014 of \$1.4 million do not include a \$2 million request for SSBCI technical assistance support that is included in the Treasury Departmental Office appropriation request.

By the end of FY 2012, 47 states and three territories reported using SSBCI funds to support loans or investments in businesses using disbursed funds. In FY 2012, Treasury disbursed (outlaid) over \$137 million to approved applicants. Treasury plans to outlay most of the remaining funds in FY 2013 and FY 2014.

#### ***Office of Inspector General (OIG) Activities***

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

The FY 2014 budget request will support the 8 SSBCI-OIG employees and allow the OIG to augment its resources with contractors, as needed, to perform 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 Act authorizes Treasury to terminate any allocation to a state not transferred within 2 years of its entrance into the program and many states did not receive their first disbursement until FY 2012, the OIG is expecting a significant level of audit activity in FY 2014.

## **Section 2 – Budget Adjustments and Appropriation Language**

### **2.1 – Budget Adjustments Table**

Dollars in Thousands

<b>State Small Business Credit Initiative</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2012 Actual</b>	<b>9</b>	<b>\$4,746</b>
<b>FY 2013 Estimated</b>	<b>14</b>	<b>\$8,345</b>
Changes to Base:		
Adjustments to Estimate:	-	-
Maintaining Current Levels (MCLs):	-	\$101
Pay-Raise	-	\$17
Non-Pay	-	\$84
Subtotal Changes to Base	-	\$101
<b>Total FY 2014 Base</b>	<b>14</b>	<b>\$8,446</b>
Program Changes:		
Program Decreases:	-	(\$1,787)
Contract and Other Adjustments	-	(\$1,787)
Program Increases:	2	\$246
Staffing Level Adjustment	2	\$246
<b>Total FY 2014 Estimated</b>	<b>16</b>	<b>\$6,905</b>

### **2A – Budget Increases and Decreases Description**

**Maintaining Current Levels (MCLs) ..... +\$101,000 / +0 FTE**  
Pay-Raise +\$17,000 / +0 FTE

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

Non-Pay +\$84,000 / +0 FTE

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

**Program Decreases .....-\$1,787,000 / +0 FTE**  
Contract and Other Adjustments -\$1,787,000 / +0 FTE

In order to accelerate the provisions of technical assistance in FY 2013, SSBCI proposes reductions in contract support and other adjustments in the SSBCI multi-year account. Estimated obligations for FY 2014 do not include the \$2,000,000 request for SSBCI technical assistance support that is included in the Treasury Departmental Office appropriation request.

**Program Increases .....+\$246,000 / +2 FTE**  
Staff Level Adjustment +\$246,000 / +2 FTE

States with low use of SSBCI funds often do not have robust working relationships with financial institutions. SSBCI will add relationship managers to monitor the engagement of financial institutions in SSBCI-funded programs, support state outreach to the lending industry, and provide technical assistance. Treasury will devote more resources to communicating directly with smaller regional lenders and interfacing with financial trade groups.

## 2.2 – Operating Levels Table

Dollars in Thousands

State Small Business Credit Initiative Object Classification	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated
11.1 - Full-time permanent	1,142	1,756	2,027
<b>11.9 - Personnel Compensation (Total)</b>	<b>1,142</b>	<b>1,756</b>	<b>2,027</b>
12.0 - Personnel benefits	318	492	568
<b>Total Personnel and Compensation Benefits</b>	<b>\$1,460</b>	<b>\$2,248</b>	<b>\$2,595</b>
21.0 - Travel and transportation of persons	58	125	250
23.1 - Rental payments to GSA	233	262	270
25.2 - Other services	626	3,367	1,352
25.3 - Other purchases of goods & serv frm Govt accounts	2,362	2,333	2,427
26.0 - Supplies and materials	7	10	12
41.0 - Grants, subsidies, and contributions	188,384	13,000	0
<b>Total Non-Personnel</b>	<b>191,670</b>	<b>19,097</b>	<b>4,311</b>
<b>Total Budgetary Resources</b>	<b>\$193,130</b>	<b>\$21,345</b>	<b>\$6,905</b>
<b>Budget Activities:</b>			
SSBCI Program	188,384	13,000	0
SSBCI Administration	4,746	8,345	6,905
<b>Total Budgetary Resources</b>	<b>\$193,130</b>	<b>\$21,345</b>	<b>\$6,905</b>
<b>FTE</b>	<b>9</b>	<b>14</b>	<b>16</b>

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

\*\*FY 2014 estimate does not include \$2M in additional funding proposed in the Treasury Departmental Offices budget for contracted technical assistance support.

## 2B – Appropriations Language and Explanation of Changes

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

## 2C – Legislative Proposals

SSBCI has no legislative proposals.



## **Section 3 – Budget and Performance Plan**

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### **3A – State Small Business Credit Initiative Program**

*(\$13 million of obligations in FY 2013 and \$0 in FY 2014)*

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.

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 2012, Treasury approved \$137 million for disbursement to approved applicants. Cumulatively, through FY 2012, SSBCI has approved disbursements of \$553 million. SSBCI estimates disbursing cumulative totals of approximately \$1.1 billion by the end of FY 2013 and \$1.46 billion by the end of FY 2014, as states request disbursement of their approved allocations under the program.

In FY 2013, Treasury will continue to monitor the performance of state programs, tracking loans and investments made with SSBCI funds, and disbursing obligated funds to states. In addition, Treasury will process requests from states to modify their programs in order to improve performance. SSBCI plans to approve or deny 90 percent of all state requests for modifications and subsequent disbursements within 90 calendar days of final receipt. Additionally, Treasury plans to collect 90 percent of all quarterly reports within five days of the deadline to report. Treasury will also provide on-going technical support to recipients, including the dissemination of practices among recipients on such elements as program design, operations, and marketing.

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

Dollars in thousands

SSBCI Program				
Resource Level	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Estimated	Estimated
Expenses/Obligations	\$1,258,900	\$188,384	\$13,000	\$0
<b>Budget Activity Total</b>	<b>\$1,258,900</b>	<b>\$188,384</b>	<b>\$13,000</b>	<b>\$0</b>
Measure				
	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Target	Target	Target
Cumulative Value of SSBCI Funds Transferred to States	\$366,000	\$553,000	\$1,084,000	\$1,463,000
State Subsequent Disbursement Requests Approved or Denied within 90 days	N/A	100	90	90
State Requests to Modify Allocation Agreements Approved or Denied within 90 days	N/A	100	90	90
Receive State Quarterly Reports within five business day of reporting deadline	N/A	100	90	90

Key: N/A - Not in Effect

\*Excludes modification or disbursement requests and reports delayed due to unresolved OIG audits.

### 3B – State Small Business Credit Initiative Administration Program

(\$8,345,000 in FY 2013 and \$6,905,000 in FY 2014)

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 Plan

Dollars in Thousands

SSBCI Administration				
Resource Level	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Estimated	Estimated
Expenses/Obligations	\$5,393	\$4,746	\$8,345	\$6,905
<b>Budget Activity Total</b>	<b>\$5,393</b>	<b>\$4,746</b>	<b>\$8,345</b>	<b>\$6,905</b>

For detailed information about each performance measure, including definition, verification and validation, please go to: <http://www.treasury.gov/offices/management/dcfo/accountability-reports/>

## **Section 4 – Supplemental Information**

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### **4A – Summary of Capital Investments**

SSBCI uses Departmental Offices systems and is part of DO's capital investment strategy. SSBCI also, through an interagency agreement of approximately \$110 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 and 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.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded here:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>