

Small Business Lending Fund

FY 2016

President's Budget

February 2, 2015

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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 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 program 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 2014	FY 2015	FY 2016	FY 2015 to FY 2016	
	Actual	Estimated	Estimated	\$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Subsidy Re-estimate	25,008	14,499	0	-14,499	-100.00%
Interest	1,610	1,137	0	-1,137	-100.00%
Small Business Lending Fund Admin Account	16,541	16,309	15,039	-1,270	-7.79%
Total Obligations	\$43,159	\$31,945	\$15,039	-16,906	-52.92%
Budget Authority					
Small Business Lending Fund Admin Account	15,541	14,809	15,039	230	1.55%
Small Business Lending Fund Program Account	26,618	15,636	0	-15,636	-100.00%
Total Budget Authority	\$42,159	\$30,445	\$15,039	-15,406	-50.60%
Outlays					
Small Business Lending Fund Admin Account	14,556	16,952	16,534	-418	-2.46%
Small Business Lending Fund Program Account	26,618	15,636	0	-15,636	-100.00%
Total Outlays	\$41,174	\$32,588	\$16,534	-16,054	-49.26%

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2014	FY 2015	FY 2016	Change	% Change
	Actual	Estimated	Estimated	FY 2015 to FY 2016	FY 2015 to FY 2016
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Small Business Lending Fund					
Finance Account					
Obligations	0	0	0	0	0.00%
Collections	538,000	216,000	2,408,000	2,192,000	1,014.81%
Financing Authority (net)	472,000	124,000	2,332,000	2,208,000	1,780.65%
Financing Disbursements (net)	472,000	124,000	2,332,000	2,208,000	1,780.65%

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	3.13	0.27	0.90	-0.03
Total	\$4	\$4	\$3	\$0	\$1	(\$0)

1B – Vision, Priorities and Context

SBLF supports the Treasury strategic goal, “Promote domestic economic growth, and stability while continuing reforms of the financial system.” In total, the SBLF invested \$4.03 billion in 332 community banks and CDLFs.

In FY 2014, the SBLF program office continued its FY 2013 focus on investment management, operations, compliance and controls, 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, interest and fee payments, and capital repayments.

Compliance and Controls: SBLF monitored 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: SBLF continued its reporting efforts in FY 2014. These activities included reporting to Congress on the program’s transactions, costs, and the participants’ lending growth, correspondence, and publishing the results of the program’s second annual lending survey.

Summary of SBLF Program Goals for FY 2015 and Forward

For FY 2015 and forward, the SBLF program office plans to continue its focus on investment management, operations, compliance and controls, and reporting.

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

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

Compliance and Controls: SBLF will 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: SBLF will continue its outreach and reporting efforts. These activities include reporting to Congress on the program's transactions, costs, and the participants' lending growth, correspondence, and publishing the results of the program's third annual lending survey.

Summary of Office of Inspector General (OIG) Activity

In FY 2016, 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 FY 2016 budget request will support six OIG employees through a reimbursable agreement and will 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 FY 2016 will primarily focus on audits of selected financial institutions to determine whether they accurately reported their levels of small business lending activity, which Treasury uses to set the final lockdown dividend rate that participants will pay on Treasury's investment. Because the lockdown rate 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 and payment of dividends by Community Development Loan Funds.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Small Business Lending Fund	FTE	Amount
FY 2015 Estimated	19	\$16,309
Adjustments to Estimate:	-	-
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$314
Pay-Raise	-	\$36
Pay Annualization	-	\$9
FERS Contribution Increase	-	\$10
Non-Pay	-	\$259
Subtotal Changes to Base	-	\$314
Total FY 2016 Base	19	\$16,623
Program Changes:		
Program Decreases:	-	(\$1,584)
Contract and other reductions	-	(\$1,584)
Total FY 2016 Estimated	19	\$15,039

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$314,000 / +0 FTE

Pay-Raise +\$36,000 / +0 FTE

Funds are required for the proposed January 2016 pay-raise.

Pay Annualization +\$9,000 / +0 FTE

Funds are required for annualization of the January 2015 pay-raise.

FERS Contribution Increase +\$10,000 / +0 FTE

Funds are required for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

Non-Pay +\$259,000 / +0 FTE

Funds are required for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Program Decreases -\$1,584,000 / +0 FTE

Contract and other reductions -\$1,584,000 / +0 FTE

Reductions in contract support.

2.2 – Operating Levels Table

Dollars in Thousands

Small Business Lending Fund Object Classification	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
11.1 - Full-time permanent	1,659	2,062	2,089
11.3 - Other than full-time permanent	71	149	149
11.5 - Other personnel compensation	19	31	31
11.9 - Personnel Compensation (Total)	1,749	2,242	2,269
12.0 - Personnel benefits	494	537	547
Total Personnel and Compensation Benefits	\$2,243	\$2,779	\$2,816
21.0 - Travel and transportation of persons	2	20	20
23.1 - Rental payments to GSA	369	426	426
23.3 - Communication, utilities, and misc charges	19	0	0
25.1 - Advisory and assistance services	1,664	2,000	2,000
25.2 - Other services	9,166	8,077	6,733
25.3 - Other purchases of goods & serv frm Govt accounts	2,956	2,932	2,969
26.0 - Supplies and materials	122	75	75
Total Non-Personnel	14,298	13,530	12,223
Total Budgetary Resources	\$16,541	\$16,309	\$15,039
Budget Activities:			
SBLF Administration	16,541	16,309	15,039
Total Budgetary Resources	\$16,541	\$16,309	\$15,039
FTE	15	19	19

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 2016 budget.

Section 3 – Budget and Performance Plan

3A – SBLF Program

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 FY 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 fourth quarter FY 2014, program participants have increased their qualified small business lending by \$14.3 billion over baseline levels. As of January 1, 2015, 52 institutions with aggregate investments of \$759.5 million have fully redeemed their SBLF funding and exited the program, and 26 institutions have made partial redemptions totaling \$261.1 million but continue to participate in the program.

The Small Business Jobs Act of 2010 includes specific reporting requirements for SBLF. The legislation requires a monthly written report describing all of the program transactions, 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 60 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 14 quarterly "Lending Growth" (formerly "Use of Funds") reports. In addition, Treasury released the results of the second annual SBLF lending survey, which expanded program reporting with respect to how SBLF funds were used by 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 2014, 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 receiving corrected 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 dividend, interest and fee payments by participating institutions

As of September 30, 2014, SBLF participants have increased their small business lending by \$14.3 billion over a \$31.6 billion baseline, which was a \$720 million increase over the prior quarter. Increases in small business lending are widespread across SBLF participants, with 97 percent of participants having increased their small business lending over baseline levels. Most SBLF participants (93 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 69.5 percent over baseline levels, versus a 20.4 percent median increase for a representative peer group of non-SBLF banks and a 15.1 percent median increase for a broader comparison group non-SBLF banks. As of January 1, 2015 SBLF has received dividend, interest and fee payments totaling \$277.6 million. One institution has missed four dividend payments totaling \$244.1 thousand.

Treasury currently estimates that the investments made through SBLF will generate a lifetime positive return of \$10 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 2016.

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
President's Budget for fiscal year 2015	-0.63%	4,028	-25
President's Budget for fiscal year 2016	-0.26%	4,028	-10

Treasury estimated the program's budget cost in conformance with the FCRA methodology using actual program data for FY 2011 – FY 2014. This data, combined with the expected future cash flows, results in a subsidy rate of -0.26 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 2.7 percent compared to a 3.28 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, increased repurchase rates of SBLF investments which results in a reduction in expected lifetime dividend and interest payments to Treasury. Inclusive of these changes, the projected program lifetime savings is \$10 million.

3B – SBLF Administration

(\$15,039,000 from mandatory appropriations):

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.

3.1.2 – SBLF Administration Budget and Performance Plan

Dollars in Thousands

SBLF Administration Budget Activity						
Resource Level	FY 2009	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Estimated	Estimated
Mandatory Resources	\$0	\$22,831	\$18,705	\$16,541	\$16,309	\$15,039
Budget Activity Total	\$0	\$22,831	\$18,705	\$16,541	\$16,309	\$15,039

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.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at <http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.

^[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 a major ratings agency.