

Small Business Lending Fund

2015 President's Budget

## Table of Contents

<b>Section 1 – Purpose.....</b>	<b>3</b>
1A – Mission Statement .....	3
1.1 – Program Account Summary .....	3
1.2 – Financing Account Summary .....	3
1.3 – Program Disbursement, Repayments, and Cost/Savings .....	4
1B – Vision, Priorities and Context.....	4
<b>Section 2 – Budget Adjustments and Appropriation Language .....</b>	<b>6</b>
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
<b>Section 3 – Budget and Performance Plan .....</b>	<b>8</b>
3A – SBLF Program .....	8
3B – SBLF Administration.....	10
<b>Section 4 – Supplemental Information .....</b>	<b>11</b>
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 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

	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated	FY 2014 to FY 2015 Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>Obligations</b>					
SBLF Administration	18,704	20,469	17,361	-3,108	-15.18%
SBLF Subsidy Reestimate	33,679	27,000	0	-27,000	-100.00%
<b>Total Obligations</b>	<b>\$52,383</b>	<b>\$47,469</b>	<b>\$17,361</b>	<b>(\$29,817)</b>	<b>62.81%</b>
<b>Budget Authority</b>					
SBLF Administration	24,707	20,469	17,361	-3,108	-15.18%
SBLF Subsidy Reestimate	33,679	27,000	0	-27,000	-100.00%
<b>Total Budget Authority</b>	<b>\$58,386</b>	<b>\$47,469</b>	<b>\$17,361</b>	<b>(\$30,108)</b>	<b>63.4%</b>
<b>Outlays</b>					
SBLF Administration	16,645	15,352	13,239	-2,113	-13.76%
SBLF Subsidy Reestimate	33,679	27,000	0	-27,000	-100.00%
<b>Total Outlays</b>	<b>\$50,324</b>	<b>\$42,352</b>	<b>\$13,239</b>	<b>(\$29,113)</b>	<b>68.74%</b>

### 1.2 – Financing Account Summary

Dollars in Thousands

	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated	Change FY 2014 to FY 2015	% Change FY 2014 to FY 2015
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>Small Business Lending Fund Finance Account</b>					
Obligations	0	0	0	0	0.00%
Collections	477,190	483,618	457,000	(26,618)	-5.50%
Financing Authority (net)	322,000	381,000	381,000	0	0.00%
Financing Disbursements (net)	385,017	407,618	381,000	(26,618)	-6.53%

### 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	3.63	0.21	0.40	-0.03
<b>Total</b>	<b>\$4</b>	<b>\$4</b>	<b>\$4</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$0)</b>

### 1B – Vision, Priorities and Context

#### Summary of SBLF Program Activity – FY 2013

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 2013, the SBLF program office continued its FY 2012 focus on 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, 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 and Outreach: SBLF continued its outreach and reporting efforts in FY 2013. 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 first annual lending survey.

#### Summary of SBLF Program Goals for FY 2014 and Forward

For FY 2014 and forward, the SBLF program office plans to continue its focus on investment management, operations, compliance and controls, and reporting and outreach.

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, interest and fee 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' lending growth, correspondence, and publishing the results of the program's second annual lending survey.

### **Summary of Office of Inspector General (OIG) Activity**

In FY 2015, 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 2015 budget request will support the 6 OIG-SBLF 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 2015 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 final lockdown dividend rate that participants will 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 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
<b>FY 2014 Estimated</b>	<b>19</b>	<b>\$20,469</b>
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$347
Pay-Raise	-	\$27
Non-Pay	-	\$320
Other Adjustments	-	(\$1,157)
Reduction in OIG Reimbursable	-	(\$1,157)
Subtotal Changes to Base	-	(\$810)
<b>Total FY 2015 Base</b>	<b>19</b>	<b>\$19,659</b>
Program Changes:		
Program Decreases:	-	(\$1,983)
Contract and other reductions	-	(\$1,983)
<b>Total FY 2015 Estimated</b>	<b>19</b>	<b>\$17,361</b>

### 2A – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs)** ..... +\$347,000 / +0 FTE

Pay-Raise +\$27,000 / +0 FTE

Funds are requested for the proposed January 2015 pay-raise and annualization of the January 2014 pay raise.

Non-Pay +\$320,000 / +0 FTE

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

**Other Adjustments** ..... -\$1,157,000 / +0 FTE

Reduction in OIG Reimbursable -\$1,157,000 / +0 FTE

Reduction in cost reimbursable to the OIG.

**Program Decreases** ..... -\$1,983,000 / +0 FTE

Contract and other reductions -\$1,983,000 / +0 FTE

Reductions in contract support and other costs such as rent and supplies.

## 2.2 – Operating Levels Table

Dollars in Thousands

Small Business Lending Fund Administration	FY 2013	FY 2014	FY 2015
Object Classification	Actual	Estimated	Estimated
11.1 - Full-time permanent	2,546	1,925	2,870
11.3 - Other than full-time permanent	149	113	0
11.5 - Other personnel compensation	31	23	0
<b>11.9 - Personnel Compensation (Total)</b>	<b>2,726</b>	<b>2,061</b>	<b>2,870</b>
12.0 - Personnel benefits	718	463	857
<b>Total Personnel and Compensation Benefits</b>	<b>\$3,444</b>	<b>\$2,524</b>	<b>\$3,727</b>
21.0 - Travel and transportation of persons	14	20	20
23.1 - Rental payments to GSA	402	414	434
25.1 - Advisory and assistance services	1,934	2,260	0
25.2 - Other services	10,498	12,185	11,364
25.3 - Other purchases of goods & serv frm Govt accounts	2,368	2,891	1,741
26.0 - Supplies and materials	45	175	75
<b>Total Non-Personnel</b>	<b>15,275</b>	<b>17,945</b>	<b>13,634</b>
<b>Total Budgetary Resources</b>	<b>\$18,704</b>	<b>\$20,469</b>	<b>\$17,361</b>
<b>Budget Activities:</b>			
SBLF Administration	18,704	20,469	17,361
<b>Total Budgetary Resources</b>	<b>\$18,704</b>	<b>\$20,469</b>	<b>\$17,361</b>
<b>FTE</b>	<b>24</b>	<b>25</b>	<b>25</b>

\*Table includes direct and reimbursable FTEs. Reimbursable support moved from direct payroll charge to reimbursable payroll charge in FY 2014.

## 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 2015 budget.

## Section 3 – Budget and Performance Plan

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### 3A – SBLF Program

*(\$27,000,000 of obligations in FY 2014 and \$0 in FY 2015)*

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 2013, program participants have increased their qualified small business lending by \$11.2 billion over baseline levels. As of January 31, 2014, 32 institutions with aggregate investments of \$472 million have fully redeemed their SBLF funding and exited the program, and 16 institutions have made partial redemptions totaling \$131 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 55 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 10 quarterly "Lending Growth" (formerly "Use of Funds") reports. In addition, Treasury released the results of the first 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 2013, 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, 2013, SBLF participants have increased their small business lending by \$11.2 billion over a \$35.1 billion baseline and by \$819 million over the prior quarter. Increases in small business lending are widespread across SBLF participants, with 93 percent of participants having increased their small business lending over baseline levels. Most SBLF participants (90 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 52.1 percent over baseline levels, versus a 11.4 percent median increase for a representative peer group of non-SBLF banks and a 7.2 percent median increase for a broader comparison group non-SBLF banks. As of January 31, 2014, SBLF has received dividend, interest and fee payments totaling \$238.5 million. One institution has missed a dividend payment of \$40,000.

Treasury currently estimates that the investments made through SBLF will generate a lifetime positive return of \$25 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 2015.

### **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

Treasury estimated the program's budget cost in conformance with the FCRA methodology using actual program data for fiscal years 2011, 2012 and 2013. This data, combined with the expected future cash flows, results in a subsidy rate of -0.63 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 3.28 percent compared to a 3.78 percent rate in the prior year's estimate.<sup>[1]</sup> 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 \$25 million.

### **3B – SBLF Administration**

*(\$20,469,000 of obligations in FY 2014; \$17,361,000 of obligations in FY 2015)*

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.

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<sup>[1]</sup> 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.

## **Section 4 – Supplemental Information**

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