sblf | small business lending fund

Cost Report

Report to Congress submitted pursuant to Section 4106(2) of the Small Business Jobs Act

December 2015

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Introduction

Small businesses are a vital part of the American economy, and their success is a critical component of the economic recovery. Established by the Small Business Jobs Act of 2010 (the Act), the Small Business Lending Fund (SBLF) is a dedicated fund designed to provide capital to qualified community banks[1] and community development loan funds (CDLFs) 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.

This report is submitted pursuant to Section 4106(2) of the Act, which directs the Secretary of the Treasury to provide a semiannual written report to Congress on all projected costs and liabilities, all operating expenses, including compensation for financial agents, and all transactions made with respect to the SBLF program. This report reflects the estimated lifetime returns on the program's investments and the outlays and obligations for the period ending March 31, 2015.

Investments made through the SBLF program are presently expected to generate a positive return of $10 million, excluding administrative costs. In addition, Treasury incurred $11.1 million in fiscal year 2015 obligations for the SBLF program, which is $6 million less than the operating budget of $17.3 million as presented in the President's Budget for fiscal year 2015.

Estimated Cost of SBLF Investments

Treasury invested more than $4.0 billion in 332 institutions through the SBLF program. These amounts include investments of $3.9 billion in 281 community banks and $104 million in 51 CDLFs. Collectively, these institutions operate in more than 3,000 locations across 48 states. The initial disbursement of SBLF funding occurred on June 21, 2011, with subsequent transactions completed thereafter until the program's September 27, 2011 statutory funding deadline.

As of September 1, 2015, 79 institutions with aggregate investments of $1.3 billion have fully redeemed their SBLF securities and exited the program, and 32 institutions have partially redeemed a total of $348 million but continue to participate in the program.[2]

As of June 30, 2015, institutions participating in SBLF had made important progress in increasing their small business lending, helping to support small businesses and local economies across the nation. In

[1] In this report, the terms "banks" and "community banks" encompass banks, thrifts, and bank and thrift holding companies with consolidated assets of less than $10 billion as of December 31, 2010.
[2] Only redemptions through FY 2015 are included in the calculation of the lifetime subsidy.

total, SBLF participants have increased their small business lending by $14.8 billion over a $30 billion baseline.[3].

Treasury currently estimates that the investments made through the SBLF program 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, as presented in the President's Budget for fiscal year 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 budgetary cost of investments made through the program in conformance with the Federal Credit Reform Act (FCRA) methodology using actual program data for fiscal years 2011, 2012, 2013 and 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, Treasury estimated the lifetime cost and subsidy rate of the SBLF program on a present value basis. Assumptions used to estimate future cash flows include, but are not limited to: (1) the forecasted cumulative default rate for program participants, (2) the actual and projected cash flows received by Treasury from the participants' dividend, interest, and other payments, and (3) Treasury's cost of raising funds to make the SBLF investments.

The current estimate of the program's projected lifetime savings incorporates a forecasted cumulative default rate (i.e., lost principal, interest, and dividends) of 2.32 percent compared to a 4.03 percent rate in the prior year's estimate. 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 a reduction in expected lifetime dividend and interest payments to Treasury as a result of increases in SBLF security redemptions. Inclusive of these changes, the program's projected lifetime positive return is $10 million.

[3] As established in the Act, the baseline for measuring the change in small business lending is the average of the amounts that were reported for each of the four calendar quarters ended June 30, 2010. The aggregate baseline lending decreases as participants redeem and those participants' baseline lending is removed from the aggregate baseline. The default rate is estimated based on the financial condition of program participants relative to the historical performance of institutions rated by the major ratings agencies. The SBLF portfolio has had no defaults to date.

Outlays and Obligations for Operating Expenses

Treasury is committed to implementing the SBLF in a cost-effective manner to protect taxpayer interests while achieving the program's objectives of encouraging small business lending. The outlays for fiscal year 2015, reported herein, primarily reflect the costs of monitoring the performance and compliance of participating institutions, reporting on program performance and expenses, maintaining program accounts, and managing the portfolio and the disposition of securities purchased. In total, as of March 31, 2015, outlays for fiscal year 2015 totaled $4.6 million.

The figures shown in the following table reflect outlays and obligations for operating expenses incurred as of March 31, 2015. Descriptions of the expense categories follow the table.

SBLF Outlays and Obligations for Fiscal Year 2015

	Budget for fiscal year 2015[1]	Outlays as of 3/31/15[2]	Obligations as of 3/31/15[3]	Projected outlays for fiscal year 2015
Salaries and benefits	3,727,000	1,106,088	1,106,088	2,212,176
Travel	20,000	397	1,604	2,002
Contracts and other				
Legal support	n/a	0	0	0
Custodian and infrastructure provider	n/a	542,007	453,833	995,840
Asset management	n/a	2,040,367	1,940851	3,981,218
Internal controls	n/a	0	0	1,390,520
Office of the Treasury Inspector General	n/a	0	0	628,108
Other (equipment, supplies, rent)	n/a	946,577	1,012,692	1,959,865
Subtotal (contracts and other)	13,634,000	3,528,951	3,407,376	8,955,551
Total	17,361,000	4,635,314	4,513,189	11,167,620

[1] Represents the total budget for the SBLF program for fiscal year 2015 per the 2015 President's Budget.

[2] Includes outlays from 10/1/2014 to 3/31/2015 for fiscal year 2015 obligations only.

[3] Includes all fiscal year 2015 obligations as of 3/31/2015

On September 27, 2011, the SBLF program's core investment activities were completed. SBLF is now staffed primarily to monitor, manage, and report on these investments and related participant lending and program activities.

Contract and other expenses are reported in the period obligated. Descriptions of costs related to legal support, financial agents, internal controls, and the Treasury's Office of the Inspector General (OIG) are presented below:

- **Legal Support:** These expenses are for legal services incurred in connection with transactions related to the management of the investments.

- **Custodian and Infrastructure Provider:** These expenses relate to bank custodial services with respect to SBLF securities and documents, and payments processing for SBLF participants.

- **Asset Management:** These expenses relate to financial analysis and monitoring of SBLF participants and applicable market research regarding the community banking sector.

- **Internal Controls:** These expenses relate principally to the design and implementation of processes and internal controls associated with the program's asset management, operating, reporting, and compliance functions. This activity includes work performed by consultants to develop procedures, systems, information databases, and other documentation for monitoring and managing program activities. Because internal controls work performed in fiscal year 2014 and 2015 was obligated in fiscal year 2013, no additional obligation for fiscal year 2015 was required.

- **Office of the Treasury Inspector General:** These expenses reflect reimbursements to the Treasury's OIG for audits of the SBLF program. Per the Act, OIG is required to issue reports on the SBLF no less than two times each year. The fiscal year 2015 budgeted amount for audit related activities was $628,000.