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Highlights

Highlights of GAO-12-183, a report to congressional committees

December 2011

SMALL BUSINESS LENDING FUND

Additional Actions Needed to Improve Transparency and Accountability

Why GAO Did This Study

The Small Business Jobs Act of 2010 aimed to stimulate job growth by establishing the Small Business Lending Fund program (SBLF) within the U.S. Department of the Treasury (Treasury), among other activities. The SBLF program was designed to encourage community banks and community development loan funds with assets of less than $10 billion to increase their lending to small businesses.

The act also requires GAO to audit SBLF annually. This initial report examines (1) Treasury's procedures for evaluating applications for SBLF funds, (2) characteristics of institutions that applied for and received funds from SBLF and factors that influenced banks' decision to participate, and (3) Treasury's plans to monitor participants and measure SBLF's progress in increasing small business lending. GAO reviewed documents on Treasury's procedures and controls; analyzed data on applicants; compared SBLF banks with a peer group of nonparticipating banks; surveyed a representative sample of banks (for a weighted response rate of 66 percent); and interviewed Treasury, federal banking regulators, and representatives from industry associations.

What GAO Recommends

To improve transparency and accountability, Treasury should (1) enhance its strategy for communicating with participants and other stakeholders, (2) finalize procedures for monitoring participants' compliance with program requirements, and (3) complete plans for assessing the program's effectiveness. Treasury agreed with GAO's recommendations.

View GAO-12-183. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

What GAO Found

Treasury adopted procedures to help ensure that applicants were evaluated consistently and were likely to repay funds, but its lack of clarity in explaining program requirements and decisions created confusion among applicants. The evaluation process included input from federal and state regulators, reviews of small business lending plans, and estimates of the applicants' ability to repay funds. GAO's analysis of the inputs Treasury relied on for its decisions showed that Treasury generally followed its process, although additional steps were taken for some applicants, such as revising repayment estimates to include updated information provided by federal regulators. Also, Treasury's initial announcement of program requirements did not make clear that applicants could not have restrictions on paying dividends, affecting over 200 applicants. Treasury also did not explain the rationale for its funding decisions to applicants and other stakeholders, and many applicants who were not approved were not notified until September 2011—almost 4 months after the application deadline and initial disbursements of funds. Although Treasury had several outreach efforts to communicate with the public about SBLF, such efforts have not always been timely or clear to applicants and other stakeholders and could contribute to SBLF being poorly understood by the public and Congress.

Fewer institutions applied to SBLF and received funding than initially anticipated, in part because many banks did not anticipate that demand for small business loans would increase. SBLF was authorized to invest up to $30 billion, but Treasury funded just 332 of the 935 applications, investing about $4 billion, or 13 percent, of the authorized funds. The institutions that applied to and were funded by SBLF were primarily institutions with total assets of less than $500 million. In addition, GAO's analysis showed that compared with banks that did not apply to SBLF, funded banks had fewer problem loans and small loans (under $1 million) and less capital. GAO's nationally representative survey of community banks showed that respondents' most common reason for not applying to the SBLF program was a lack of demand for small business loans.

Treasury has not finalized plans for assessing SBLF's impact on small business lending or procedures for monitoring recipients for compliance with program requirements. GAO's analysis shows that credit is still difficult to obtain, although it has eased some compared with 2009, confirming that the lending environment remains challenging. Such an environment makes Treasury's planned monitoring and assessments increasingly important. Treasury officials told GAO that they have been developing procedures for monitoring compliance, but they are not yet finalized. Similarly, Treasury is considering various options for evaluating SBLF's performance, but complex economic relationships will make linking the SBLF program to job growth difficult. Treasury officials said that they had been focused on approving applicants and disbursing funds by the statutory deadline of September 27, 2011, and that finalizing procedures and performance indicators had lagged as a result. Now that funding decisions and disbursements have been made, finalizing plans for monitoring compliance and assessing SBLF's progress can take precedence. Without a full and robust assessment, Treasury will not be able to provide useful information to policymakers about the participants' compliance and the effectiveness of a capital infusion program as a means of increasing small business lending.