



December 2014

SMALL BUSINESS CREDIT PROGRAMS

Treasury Continues to
Enhance Performance
Measurement and
Evaluation but Could
Better Communicate
and Update Results

GAO Highlights

Highlights of [GAO-15-105](#), a report to congressional committees

Why GAO Did This Study

The Small Business Jobs Act of 2010 established the SBLF and SSBCI programs within Treasury to enhance credit opportunities for small businesses. SBLF aims to stimulate job growth by encouraging community banks and community development loan funds with assets of \$10 billion or less to increase their small business lending. SSBCI provides direct funding to participants for programs that expand access to capital to small businesses.

The act mandates that GAO conduct an audit of both programs annually. GAO's prior audits examined program implementation, monitoring of performance and compliance, and usage of program funds. This fourth report examines (1) the status of SBLF and SSBCI and (2) the extent to which Treasury has enhanced efforts to measure and evaluate program performance. GAO analyzed the most recently available financial and performance information and interviewed officials from Treasury, nine states, one municipality, and trade associations. GAO selected the states and municipality based on usage of SSBCI funds, unique program characteristics, number of programs, and geographic dispersion, among other things.

What GAO Recommends

Treasury should make the results of its SBLF impact evaluation more prominent and update its estimate of the impact of SBLF in future reports. In its written comments, Treasury agreed to implement both recommendations.

View [GAO 15-105](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

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SMALL BUSINESS CREDIT PROGRAMS

Treasury Continues to Enhance Performance Measurement and Evaluation but Could Better Communicate and Update Results

What GAO Found

The Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI) have continued to support small business lending. According to the Department of the Treasury (Treasury), as of June 30, 2014, SBLF participants had increased their qualified small business lending by \$13.5 billion over their aggregate 2010 baseline, and SSBCI participants had used 60 percent of the \$1.5 billion in allocated funds.

In response to prior GAO recommendations, Treasury has taken steps to enhance performance measurement and program evaluation for SBLF and SSBCI but has not effectively communicated or updated its SBLF evaluation.

- **SBLF.** Treasury conducted an impact evaluation, using statistical methods to compare lending among SBLF banks to a control group of non-SBLF banks that are as similar as possible to participating SBLF banks. This rigorous approach is a significant improvement over Treasury's previous analyses because it is designed to isolate the impact of the program and provides greater confidence that any differences observed between SBLF and non-SBLF banks are attributable to the program rather than to other factors. Treasury's impact evaluation estimated that 23 percentage points of the increase in small business lending among SBLF banks is attributable to the program. Although Treasury's previous, less rigorous analyses suggested that SBLF banks increased lending by as much as 45 percentage points more than non-SBLF banks, these analyses did not attempt to isolate the impact of SBLF from other factors. Treasury published its impact evaluation in appendixes in its three most recent *Lending Growth Reports*. However, it did not discuss the results of the evaluation in the summary or body of the reports and has not utilized the control group to update the results. Relevant resources on program evaluations indicate that the most rigorous evidence should be presented most prominently. Because Treasury has not effectively presented or updated its impact evaluation results, stakeholders may not benefit from the most rigorous and recent information on the effect of SBLF.
- **SSBCI.** Treasury established targets for selected measures to monitor program performance and has taken steps to enhance the design of its planned program evaluation. Treasury established a target for one of its existing performance measures and also developed new performance measures and targets. For example, Treasury established a target for its existing performance measure on the amount of private-sector funds leveraged using SSBCI funds and created a new performance measure and target related to the amount of funds disbursed to states. To select and establish the new performance measures and targets, agency officials stated that they used the program objectives stated in the Small Business Jobs Act of 2010 and information from participants' annual 2013 reports. Treasury officials stated they have obtained input from experts on the design of their SSBCI program evaluation and have begun to reach out to congressional staff for feedback on the proposed design.

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Abbreviations

CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market rates
CAP	capital access program
CDLF	community development loan fund
CPP	Capital Purchase Program
FDIC	Federal Deposit Insurance Corporation
OCSP	other credit support programs
OMB	Office of Management and Budget
SBA	Small Business Administration
SBLF	Small Business Lending Fund
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program

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December 11, 2014

Congressional Committees

In 2008 and 2009, disruptions of business credit markets made accessing credit difficult for small businesses. To address these difficulties, Congress passed the Small Business Jobs Act of 2010, which the president signed on September 27, 2010.¹ Among other things, this legislation aimed to stimulate job growth by establishing the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) programs.

The SBLF program was designed to encourage banks and community development loan funds (CDLF) with assets of \$10 billion or less to increase their lending to small businesses with up to \$50 million in annual revenues.² The act authorized the Secretary of the Treasury to make up to \$30 billion of capital available and offered incentives to increase small business lending. However, interest in SBLF was lower than anticipated, with 935 financial institutions applying to the program for a combined funding request of \$11.7 billion. The Department of the Treasury (Treasury) approved 332 institutions for a total of \$4 billion in funds. No additional SBLF funds will be awarded to banks or CDLFs.

Funded with \$1.5 billion, SSBCI is designed to strengthen state programs that support private financing to small businesses and small manufacturers that, according to Treasury, are not obtaining the loans or investments they need to expand and to create jobs. The 57 program participants are expected to use their SSBCI funds to leverage private financing and investment that is at least 10 times the amount of their

¹Pub. L. No. 111-240, 124 Stat. 2504 (2010).

²In this report, "banks" refers to banks, thrifts, and bank and thrift holding companies. For purposes of the SBLF program, a CDLF is an entity that is certified by Treasury as a community development financial institution (CDFI) loan fund. A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions.

SSBCI funds (a leverage ratio of 10 to 1) by December 31, 2016.³ Participants' Allocation Agreements are set to expire on March 31, 2017. Treasury's authorities to implement and administer SSBCI terminate on September 27, 2017. The fiscal year 2015 president's budget proposed reauthorizing the program for a second round of SSBCI funding, which would extend the program through 2021. In addition, legislation has been introduced in Congress that would also provide additional SSBCI funding.

The Small Business Jobs Act of 2010 mandated that we conduct an annual audit of the SBLF and SSBCI programs.⁴ In our prior reports, we reviewed the implementation of these programs as well as efforts to measure and evaluate program performance, and we made recommendations to enhance Treasury's efforts.⁵ This fourth annual review examines (1) the status of SBLF, (2) the status of SSBCI, and (3) the extent to which Treasury has enhanced performance measurement and program evaluation.

To determine the status of SBLF as of June 30, 2014, we examined agency documents and analyzed data on participants' small business lending, interest and dividend payments Treasury received, and redemptions. We also interviewed Treasury officials and reviewed agency survey information on participants' plans for exiting the program and other

³Forty-seven states, the District of Columbia, the municipalities of Carrington, North Dakota; Mandan, North Dakota; Anchorage, Alaska; Laramie, Wyoming; and the territories of American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands currently participate in the program. For purposes of this report, when we refer to "states" we are referring to all SSBCI participants unless otherwise noted.

⁴§ 3011(b), 124 Stat. at 2581 and § 4107(c), 124 Stat. at 2594 (codified at 12 U.S.C. § 5710(b) and 12 U.S.C. § 4741 note, respectively). On November 26, 2014, the President signed into law the Government Reports Elimination Act of 2014, which repealed GAO's annual reporting requirement for SBLF and SSBCI. See Pub. L. No. 113-188, § 901(d)-(e), 128 Stat. 2016.

⁵GAO, *State Small Business Credit Initiative: Opportunities Exist to Improve Program Oversight*, [GAO-12-173](#) (Washington, D.C.: Dec. 7, 2011); *Small Business Lending Fund: Additional Actions Needed to Improve Transparency and Accountability*, [GAO-12-183](#) (Washington, D.C.: Dec. 14, 2011); *Small Business Lending: Opportunities Exist to Improve Performance Reporting of Treasury's Programs*, [GAO-13-76](#) (Washington, D.C.: Dec. 5, 2012); *Small Business Lending Fund: Treasury Should Ensure Evaluation Includes Methods to Isolate Program Impact*, [GAO-14-135](#) (Washington, D.C.: Dec. 11, 2013); and *State Small Business Credit Initiative: Opportunities Exist to Enhance Performance Measurement and Evaluation*, [GAO-14-97](#) (Washington, D.C.: Dec. 18, 2013).

relevant issues. To assess the reliability of SBLF data, we reviewed prior GAO work on the data and the systems that produced them, which included interviewing Treasury officials on how they assess the reliability of participants' quarterly data and the information they maintain on SBLF. In addition, we inspected data for missing observations and outliers. We determined that the data were sufficiently reliable for the purposes of describing the status of the program.

To determine the status of SSBCI as of June 30, 2014, we analyzed data on the amount of funds used by states and on how the states had allocated funds across the types of eligible programs. To assess the reliability of SSBCI data, we reviewed prior GAO work on the data and the systems that produced them. In addition, we performed electronic testing for obvious errors in accuracy and completeness. Where there were questions or discrepancies we identified related to the data, we clarified them through communication with Treasury officials. We determined that the data were sufficiently reliable for the purpose of describing the status of the program. To obtain information on participants' experiences with the program, we interviewed officials from 10 SSBCI participants: West Virginia; Washington; Minnesota; Massachusetts; Laramie, Wyoming; Connecticut; Nebraska; Oklahoma; Idaho; and Louisiana. Factors we used for selecting the SSBCI participants included their percentage of funds used, number of programs implemented, and geographic dispersion. We also interviewed representatives from three trade associations involved with the SSBCI program: (1) the Council of Development Finance Agencies because of its role in supporting SSBCI participants through webinars and other resources; (2) the Opportunity Finance Network because it is a national network of community development financial institutions; and (3) the Community Development Venture Capital Alliance because of its role in supporting venture capital investing. We also examined the president's budget request for additional SSBCI funds and interviewed agency officials about the budget request and lessons learned they would apply in a second round of funding.

To assess the status of Treasury's efforts to enhance performance measurement and program evaluation, we reviewed agency documents and interviewed agency officials. Specifically, to assess the extent to which Treasury's evaluation of SBLF isolates program impact, we interviewed agency officials on their approach, reviewed Treasury's methodology, and considered criteria from standard economic and statistical approaches. We also assessed how effectively Treasury communicated the results of its impact analysis based on our analysis of relevant resources on the use and presentation of program evaluations.

To assess the extent to which Treasury has made progress in establishing performance targets and obtaining input from stakeholders as part of its evaluation design process for SSBCI, we examined documents and interviewed officials on their planned activities. See appendix I for a more detailed discussion of our scope and methodology.

We conducted this performance audit from April 2014 to December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Small Business Lending Fund

For the purpose of the SBLF program, the Small Business Jobs Act of 2010 defines qualified small business lending—as defined by and reported in an institution’s quarterly regulatory filings, also known as Call Reports—as one of the following:

- commercial and industrial loans;
- owner-occupied nonfarm, nonresidential real estate loans;
- loans to finance agricultural production and other loans to farmers; and
- loans secured by farmland.

In addition, qualifying small business loans cannot be for an original amount of more than \$10 million, and the business may not have more than \$50 million in annual revenue. The act specifically prohibits Treasury from accepting applications from institutions that are on the Federal Deposit Insurance Corporation’s (FDIC) problem bank list or have been

removed from that list during the previous 90 days.⁶ The initial baseline small business lending amount for the SBLF program was the average amount of qualified small business lending that was outstanding for the four full quarters ending on June 30, 2010, and the dividend or interest rates paid by an institution are adjusted by comparing future lending against this baseline. Also, the institution is required to report any loans resulting from purchases, mergers and acquisitions so that its qualified small business lending baseline is adjusted accordingly.

Fewer institutions applied to SBLF than initially anticipated, in part because many banks did not anticipate that demand for small business loans would increase. The institutions that applied to and were funded by SBLF were primarily institutions with total assets of less than \$500 million. The amount of funding a bank received under the SBLF program depended on its asset size as of the end of the fourth quarter of calendar year 2009. Specifically, if the qualifying financial institution had total assets of \$1 billion or less, it was eligible for SBLF funding that equaled up to 5 percent of its risk-weighted assets.⁷ If the qualifying financial institution had assets of more than \$1 billion but less than \$10 billion, it was eligible for funding that equaled up to 3 percent of its risk-weighted assets. In the case of bank or thrift holding companies, assets were to be measured based on the total combined assets of the insured depository institution subsidiaries, and risk-weighted assets were to be measured based on the combined risk-weighted assets of the insured depository institution subsidiaries. The SBLF program provided an option for eligible institutions to refinance preferred stock or subordinated debt issued to Treasury through the Troubled Asset Relief Program's (TARP) Capital

⁶The problem bank list is a confidential list created and maintained by FDIC of banks that are in jeopardy of failing. In general, "problem" institutions are those institutions with financial, operational, or managerial weaknesses that threaten their continued financial condition. Depending upon the degree of risk and supervisory concern, they received a composite CAMELS rating of either "4" or "5." The CAMELS rating system is a U.S. supervisory tool that describes a bank's overall condition and that is used to classify the nation's banks. The composite rating is based on financial statements and regulators' on-site examinations and has six components—capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk—that make up the acronym. It rates banks on a scale of 1 to 5, with 1 being the strongest.

⁷Risk-weighted assets are weighted according to credit risk and are used in the calculation of required capital levels. Specifically, all assets are assigned a risk weight according to the credit risk of the obligor or the nature of the exposure and the nature of any qualifying collateral or guarantee, where relevant.

Purchase Program (CPP).⁸ At the time of application, the institution was required to submit a small business lending plan to its regulator describing how the applicant's business strategy and operating goals would allow it to address the needs of small businesses in the area it serves.

Participating SBLF C-corporation banks and bank holding companies paid dividends of up to 5 percent per year initially to Treasury, with reduced rates available if they increased their small business lending.⁹ Additionally, the dividend rate payable decreased quarterly as banks increased small business lending over their baselines. While the dividend rate was no more than 5 percent for the first 9 quarters (a little over 2 years), an institution could reduce the rate to 1 percent by generating a 10 percent or more increase in its lending to small businesses compared with its baseline. After 9 quarters, the dividend rate on the capital became fixed at the rate the participating banks were paying at that time if they had increased their small business lending; otherwise, the dividend rate increased to 7 percent if participating banks had decreased or not increased their small business lending. After 4.5 years, the dividend rate on the capital increases to 9 percent for all banks regardless of a bank's small business lending. For S-corporations and mutual institutions, the initial interest rate was at most 7.7 percent.¹⁰ The rate fell as low as 1.5 percent for the S-corporation and mutual institutions that increased their small business lending by 10 percent or more from the baseline. For S corporations and mutual institutions, the dividend rate on the capital increases to 13.8 percent after 4.5 years. For CDLFs, the initial dividend rate will be 2 percent for the first 8 years. After 8 years, the rate increases to 9 percent if the CDLF has not repaid the SBLF funding. This structure

⁸As the largest capital infusion program under TARP, CPP was designed to provide capital investments to financially viable financial institutions. Treasury received preferred shares and subordinated debentures, along with warrants.

⁹Some banking institutions are formed as C-Corporations. C-Corporations pay federal and state income tax on earnings. When earnings are distributed to shareholders as dividends, they are subject to taxation. C-Corporations, unlike S-Corporations, are taxed separately from their owners.

¹⁰Some banking institutions are formed as either S-corporations or mutual organizations. S-corporations elect not to pay income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders. A mutual organization is a company that does not issue capital stock and therefore does not have shareholders. In mutual companies, profits are set aside for the benefit of the depositors or are held as surplus reserves to maintain liquidity.

is designed to encourage CDLFs to repay the capital investment by the end of the 8-year period. Treasury allows an SBLF participant to exit the program at any time, with the approval of its regulator, by repaying the funding provided along with dividends or interest owed for that period.

Under the act, Treasury has a number of reporting requirements to Congress related to SBLF: (1) a monthly report describing all of the transactions made under the program during the reporting period; (2) a semiannual report (for the periods ending each March and September) providing all projected costs and liabilities and all operating expenses; and (3) a quarterly report, known as the *Lending Growth Report*, detailing how participants have used the funds they have received under the program.

State Small Business Credit Initiative

SSBCI was established to support existing and new state programs that support private financing to small businesses and small manufacturers that, according to Treasury, are not obtaining the loans or investments they need to expand and to create jobs. SSBCI provides direct support to participants for use in programs designed to increase access to credit for small businesses. Using a formula contained in the Small Business Jobs Act of 2010, Treasury calculated the amount of SSBCI funding for which each of the 50 states, as well as the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands, were eligible to apply. This formula takes into account a state's job losses in proportion to the aggregate job losses of all states. In addition to states, the act granted permission to municipalities to apply directly for funding under SSBCI in the event that their state did not apply for funding. Municipalities in Alaska, North Dakota, and Wyoming used this option.¹¹ Participants are expected to use their SSBCI funds to leverage private financing and investment that is at least 10 times the amount of their SSBCI allocation (a leverage ratio of 10 to 1) by December 31, 2016. Forty-seven states; the District of Columbia; the

¹¹The act allowed multiple municipalities in a state to collectively submit a joint application for funds. SSBCI policy requires that municipalities submitting joint applications had to designate a "lead applicant" to serve as the point of contact and to ensure that all parties to the application comply with program requirements. Carrington, North Dakota, is the lead applicant for 36 North Dakota communities that participate in SSBCI. Mandan, North Dakota, is the lead applicant for 38 municipalities in North Dakota, and Laramie, Wyoming, is the lead applicant for 17 Wyoming municipalities.

Commonwealth of Puerto Rico; the Commonwealth of the Northern Mariana Islands; Guam; American Samoa; the United States Virgin Islands; Anchorage, Alaska; Carrington, North Dakota; Mandan, North Dakota; and Laramie, Wyoming, currently participate in the program.

The act allowed Treasury to provide SSBCI funding for two state program categories: capital access programs (CAP) and other credit support programs (OCSP). For both CAPs and OCSPs, lenders are required to have a meaningful amount of their own capital at risk. Loan terms, such as interest and collateral, are typically negotiated between the lender and the borrower, although in some cases loan terms are subject to SSBCI participant approval and, in many cases, the SSBCI participant and lender will discuss and negotiate loan terms and options prior to reaching agreement.

A CAP is a loan portfolio insurance program wherein the borrower and lender, such as a small business owner and a bank, contribute to a reserve fund held by the lender. Under a CAP, when a participating lender originates a loan, the lender and borrower combine to contribute an amount equal to a percentage of the loan to a loan reserve fund, which is held by the lender. Under SSBCI, the contribution must be from 2 percent to 7 percent of the amount borrowed. Typically, the contribution ranges from 3 percent to 4 percent. The SSBCI participant then matches the combined contribution and sends that amount to the lender, which deposits the funds into the lender-held reserve fund. Under SSBCI, approved CAPs are eligible to receive federal contributions to the reserve funds held by each participating financial institution in an amount equal to the total amount of the contributions paid by the borrower and the lender on a loan-by-loan basis.

In addition, the following OCSPs are examples of programs eligible to receive funding under the act:

- *Collateral support programs:* A Collateral Support Program is designed to enable financing that might otherwise be unavailable due to a collateral shortfall. It provides pledged cash collateral to lenders to enhance the collateral coverage of individual loans. The SSBCI participant and lender negotiate the amount of cash collateral to be pledged by the SSBCI participant.
- *Loan participation programs:* SSBCI participants may structure a loan participation program in two ways: (1) through purchase transactions, also known as purchase participations, in which the SSBCI participant

purchases a portion of a loan originated by a lender, or (2) by participating in a loan as a co-lender, where a lender originates a senior loan and the SSBCI participant originates a second loan to the same borrower that is usually subordinate to the lender's senior loan should a default occur. SSBCI loan participation programs encourage lending to small businesses because the lender is able to reduce its potential loss by sharing its exposure to loan losses with the SSBCI participant.

- *Loan guarantee programs:* These programs enable small businesses to obtain a term loan or line of credit by providing the lender with the necessary security in the form of a partial guarantee. In most cases, the SSBCI participant sets aside funds in a dedicated reserve or account to collateralize the guarantee of a specified percentage of each approved loan. The guarantee percentage is determined by the participants and lenders but, under SSBCI, may not exceed 80 percent of loan losses.
- *Venture capital programs:* These programs provide investment capital to create and grow start-ups and early-stage businesses, often in one of two forms: (1) an SSBCI participant-run venture capital fund (which may include other private investors) that invests directly in businesses, or (2) a fund of funds, which is a fund that invests in other venture capital funds that in turn invest in individual businesses.
- *Direct loan programs:* Although Treasury does not consider these programs to be a separate SSBCI program type, it acknowledges that some states may identify programs that they plan to support with SSBCI funds as direct loan programs. The programs that some participants label as direct loan programs are viewed by Treasury as co-lending programs categorized as loan participation programs, which have lending structures that are allowable under the statute.

OCSPs approved to receive SSBCI funds are required to target small businesses with an average size of 500 or fewer employees and to target support toward loans with an average principal amount of \$5 million or less. In addition, these programs cannot lend to borrowers with more than 750 employees or make any loans in excess of \$20 million.

After their applications were approved, the SSBCI participants entered into Allocation Agreements with Treasury before they received their funds. SSBCI Allocation Agreements are signed by Treasury and participants, and they outline how recipients are to comply with program requirements. The act requires that each participant receive its SSBCI

funds in three disbursements or tranches of approximately one-third of its approved allocation. As part of its request to receive the second and third disbursements, a participant must certify that it has expended, transferred, or obligated 80 percent or more of the previous disbursement. When participants request subsequent disbursements, Treasury may also review a sample of the participant's transactions for compliance with SSBCI requirements. All SSBCI Allocation Agreements will expire on March 31, 2017. Treasury may terminate any portion of a state's allocation that Treasury has not yet transferred to the participant within 2 years of the date on which its SSBCI Allocation Agreement was signed. Treasury may also reduce, suspend, or terminate a state's allocation at any time during the term of the Allocation Agreement upon an event of default under the agreement. Under the act, participants are required to submit quarterly and annual reports on their use of SSBCI funds.

Changes to participants' Allocation Agreements generally must be approved by Treasury through a program modification. For example, participants must submit a program modification to Treasury for approval in order to use SSBCI funds for a new program that was not originally approved by Treasury, to materially change the scope or purpose of an approved program, or to reapportion and transfer allocated SSBCI funds among approved programs when the cumulative amounts transferred exceed 20 percent of the participant's total SSBCI allocation. Treasury has procedures for participants to apply for modifications and for its processing of modification approval requests. In general, the procedures require participants to submit, among other things, justification of the need for the modification and the impact of the change on program performance, including the 10 to 1 private leverage expectation. As of June 30, 2014, Treasury had approved 60 modifications of SSBCI participants' programs.

SBLF Participants Continue to Lend to Small Businesses and Additional Participants Have Exited the Program

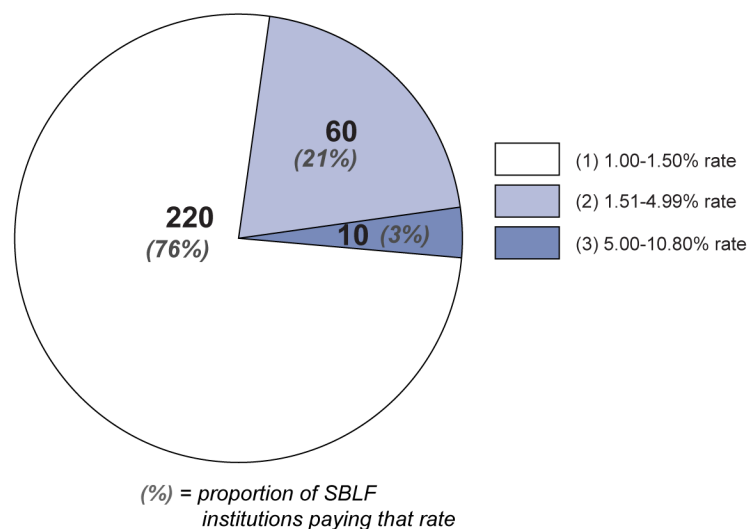
Treasury's 2014 second quarter *Lending Growth Report* showed that SBLF participants' aggregate qualified small business lending has continued to exceed their baseline levels since the program began. As of June 30, 2014, total qualified small business lending for SBLF participants increased by \$13.5 billion over an aggregate baseline of \$33 billion. Banks participating in the SBLF program increased their qualified small business lending by \$13.1 billion (41 percent) over a \$32.2 billion baseline. CDLFs participating in the SBLF program increased their qualified small business lending by \$394.6 million (50 percent) over a \$794.5 million baseline. Of the 241 participating banks, 229 (95 percent)

increased their qualified small business lending, and 45 out of 49 CDLFs (92 percent) increased their qualified small business lending.¹²

Banks and CDLFs had made about \$255 million in dividend, interest rate, and fee payments to Treasury as of June 30, 2014. Banks paid \$249 million and CDLFs paid \$5.6 million in dividend, interest, and fee payments. See figure 1 for the numbers of participants in different dividend or interest rate categories. Between July 1, 2013, and June 30, 2014, five SBLF participants were required to pay approximately \$427,000 in CPP lending incentive fees to Treasury.¹³

Figure 1: Distribution of Dividend or Interest Rates Paid by Small Business Lending Fund (SBLF) Participants, as of June 30, 2014

Number of SBLF Participants



Source: GAO analysis of Treasury data. | GAO-15-105

¹²As of June 30, 2014, there were 242 banks participating in the SBLF program. However, one participating bank repaid Treasury's investment in early July 2014 and did not submit its lending report because it discontinued its participation in the program before the report was due.

¹³Treasury may impose fees upon SBLF participants that refinanced CPP investments for failing to increase their small business lending relative to their baseline amounts.

From July 1, 2013, to June 30, 2014, the number of participants that had exited the program more than doubled. In our previous report, we found that as of July 1, 2013, 16 of the 332 institutions (5 percent) that received SBLF funds had fully redeemed Treasury's investment and exited the program. As of June 30, 2014, a total of 41 institutions (12 percent) had exited the program. These 41 institutions included 39 banks and 2 CDLFs. Of the 39 banks that exited, 23 had used SBLF funds to repay an earlier investment from TARP's CPP, according to Treasury.¹⁴ As of October 2014, Treasury had not had to write off any of its investments due to bankruptcy, according to agency officials.

In August 2014, Treasury reported in its Second Annual SBLF Lending Survey report that of the 299 institutions participating in SBLF at the time the survey was administered, 247 (83 percent) planned to fully redeem Treasury's investment.¹⁵ These 247 institutions included 208 banks and 39 CDLFs. Of the 208 banks that indicated in the survey that they plan to fully redeem, 168 (81 percent) reported that they are planning to redeem in full by the end of first quarter 2016 when the statutorily required rate increase to 9 percent begins.¹⁶ Of the 39 CDLFs that indicated in the survey that they plan to fully redeem, 35 reported that they plan to redeem Treasury's investment by the end of third quarter 2019, when the 9 percent interest rate begins.

¹⁴As of June 30, 2014 and according to Treasury, 137 institutions repaid a CPP investment in connection with an SBLF closing. These banks received \$2.7 billion in funding and used \$2.2 billion of those funds to repay outstanding TARP balances. Also as of June 30, 2014, 111 institutions that repaid their TARP investment with SBLF funds continued to participate in the SBLF program.

¹⁵The SBLF Lending Survey is an annual survey required of all institutions participating in the program. Treasury reports aggregate survey responses from participants on their small business lending, loan demand, credit standards, obstacles to small business lending, and outreach to small businesses in their community. Treasury has published two survey reports: the first in June 2013 and the second in August 2014.

¹⁶Four banks have a step up rate in fourth quarter 2015. The step up rate for S-corporations and mutual institutions is 13.8 percent.

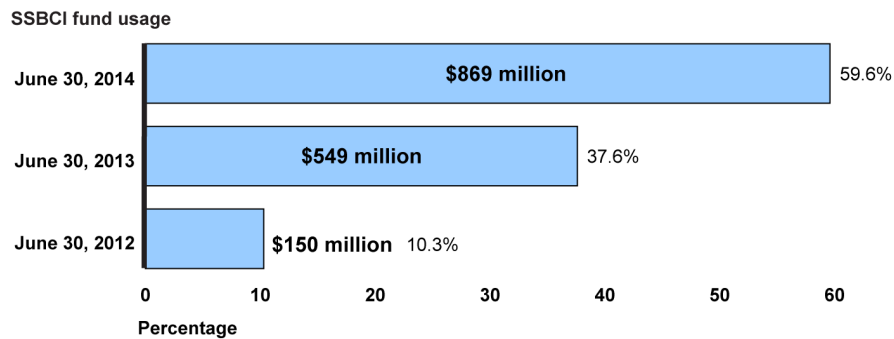
Participants Have Used over Half of the SSBCI Funds and Treasury Continues to Address Challenges in Using Program Funds

As of June 30, 2014, SSBCI participants have used over half of the total allocated funds, but the rate of funds used among participants continues to vary. Some of the SSBCI participants we interviewed for this report faced challenges using funds that were consistent with the challenges we previously reported, and Treasury and SSBCI participants have continued to undertake activities to address these challenges. The fiscal year 2015 president’s budget recommends legislation authorizing a \$1.5 billion extension of SSBCI funding.

SSBCI Participants Have Used over Half of the Total Allocated Funds, but Participants’ Rate of Fund Usage Continues to Vary

Overall, SSBCI participants have used about \$869 million (60 percent) of the \$1.5 billion in allocated funds, as shown in figure 2. Between June 30, 2013, and June 30, 2014, participants used about \$320 million in SSBCI funds.

Figure 2: State Small Business Credit Initiative (SSBCI) Fund Usage, June 30, 2012, to June 30, 2014



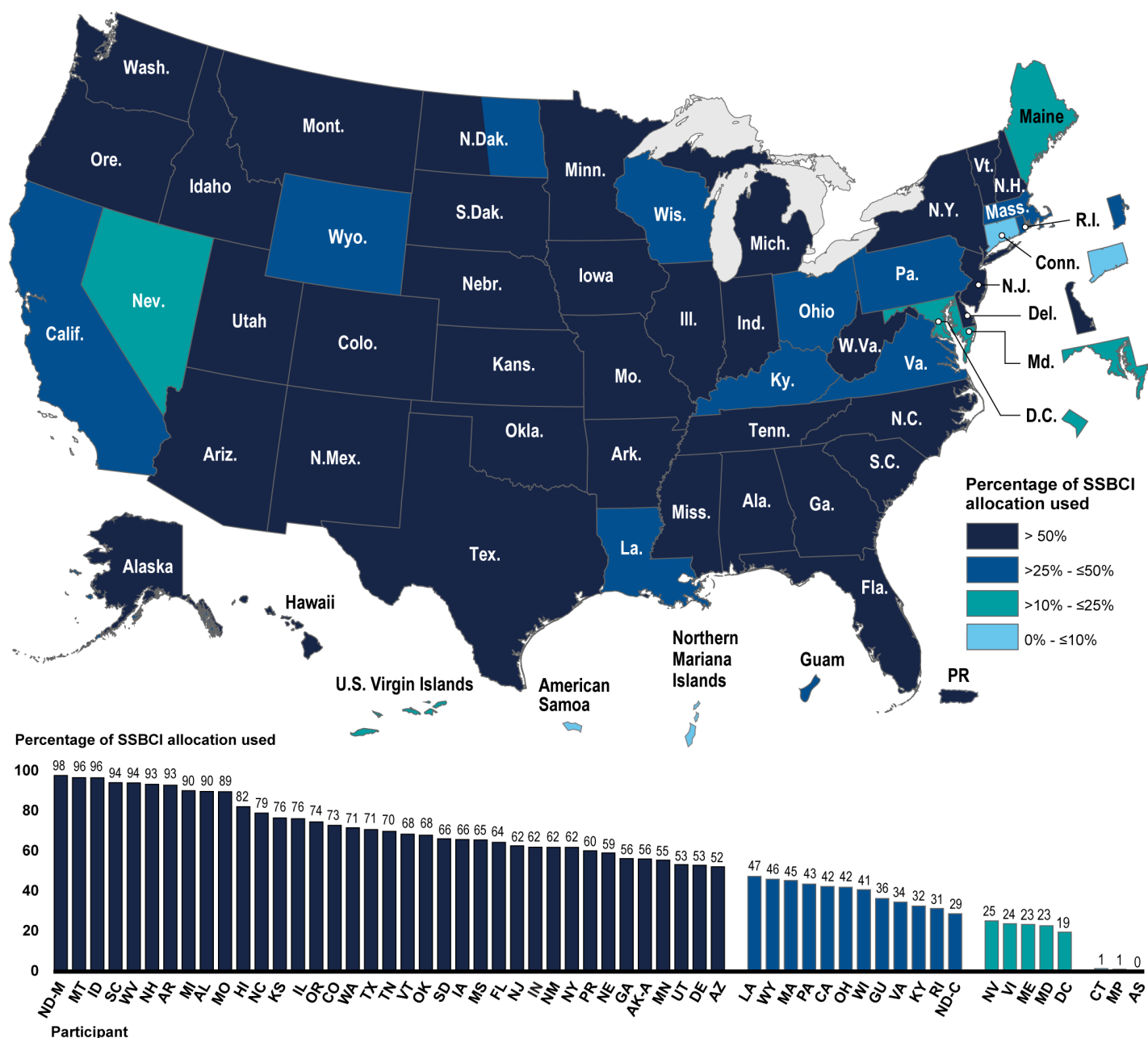
Source: GAO analysis of Treasury data. | GAO-15-105

Note: The amount of funds used does not include funds used by participants for administrative expenses.

As of June 30, 2014, participants' use of SSBCI funds continued to vary widely, as shown in figure 3.¹⁷ For example, 7 participants have used 25 percent or less of their allocations, while 10 have used 90 percent or more of their allocations. Three participants had used 1 percent or less of their allocations. According to Treasury officials, factors such as interest among local lenders, state marketing efforts, specific program design features, and local economies may account for differences in participants' use of funds.

¹⁷Throughout this report we use "funds used" to represent the amount of SSBCI funds participants have used to support small business lending and investments. This definition is similar to Treasury's definition of "funds expended, obligated, or transferred," except our definition of "funds used" does not include funds used by participants for administrative expenses. Treasury used the following definitions: (1) SSBCI "funds expended" are funds used to support loans or investments or for administrative expenses; (2) SSBCI "funds obligated" are funds legally committed to support loans or investments, including obligations to intermediaries, and for administrative expenses; and (3) SSBCI "funds transferred" are funds transferred to a contracting entity as reimbursement of expenses incurred or to fund a loan or investment.

Figure 3: State Small Business Credit Initiative (SSBCI) Participants' Usage of Allocated SSBCI Funds, as of June 30, 2014



Sources: GAO analysis of Treasury data; Map Resources (map). | GAO-15-105

Note: The four municipalities participating in SSBCI are Anchorage, Alaska (AK-A), Carrington, North Dakota (ND-C), Mandan, North Dakota (ND-M), and Laramie, Wyoming (WY). The five U.S. territories participating in SSBCI are American Samoa (AS), Guam (GU), the Northern Mariana Islands (MP),

Puerto Rico (PR), and U.S. Virgin Islands (VI). The amount of funds used does not include funds used by participants for administrative expenses.

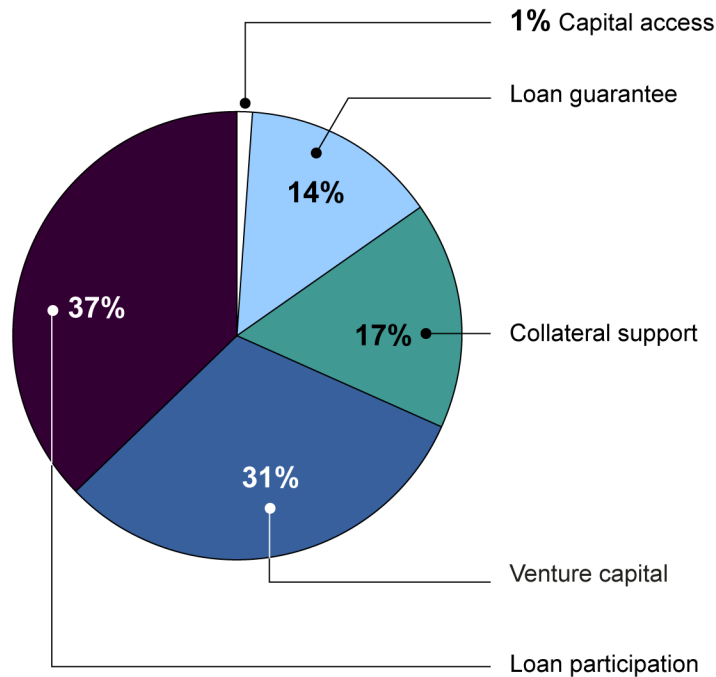
According to Treasury's quarterly report on participants' progress in using SSBCI funds, all 57 participants had received their first disbursement, 47 had received their second disbursement, and 20 participants had received their third disbursement, as of June 30, 2014. As previously discussed, participants can request subsequent SSBCI disbursements when they have used at least 80 percent of their current tranche of SSBCI funds. In addition, 13 states have reused SSBCI funds by using interest or principal repayments on existing SSBCI loans and investments to make additional financing available to other small businesses. As of June 30, 2014, Massachusetts had recycled about 40 percent of the SSBCI funds it had used. Following Massachusetts, Idaho and Michigan recycled about 20 and 12 percent of the funds they had used, respectively. According to a Massachusetts state official, the high rate of recycled funds in the state likely is attributable to, in part, the high interest rate on SSBCI-funded loans, which results in loans that are typically paid off before maturity. The official explained that the SSBCI-funded loan program in Massachusetts is a preexisting program intended to help small business owners who may not qualify for lower rate loans with typical lenders. These loans provide a source of financing for these borrowers until they are more stable and able to refinance at lower rates in the private market.

Participants used a variety of different program types to distribute their allocated funds. Figure 4 shows the number of different program types that had used SSBCI funds as of June 30, 2014. Similar to data we reported in our 2013 report, loan participation and venture capital programs continue to be the most common program types. Some participants chose to use only one program type, whereas others used multiple programs.¹⁸ For example, 14 participants used their allocation to fund one program type while others used up to five program types.

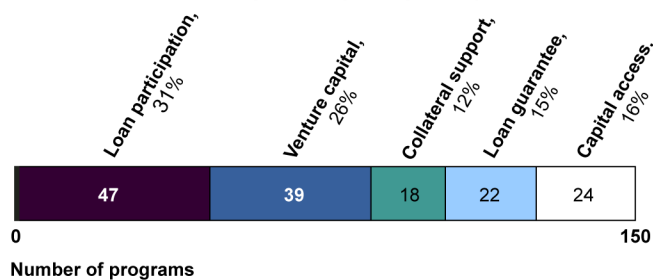
¹⁸GAO-14-97.

Figure 4: State Small Business Credit Initiative (SSBCI) Fund Usage and Number of SSBCI Programs by Program Type, as of June 30, 2014

SSBCI fund usage by program type



Number of SSBCI programs by program type



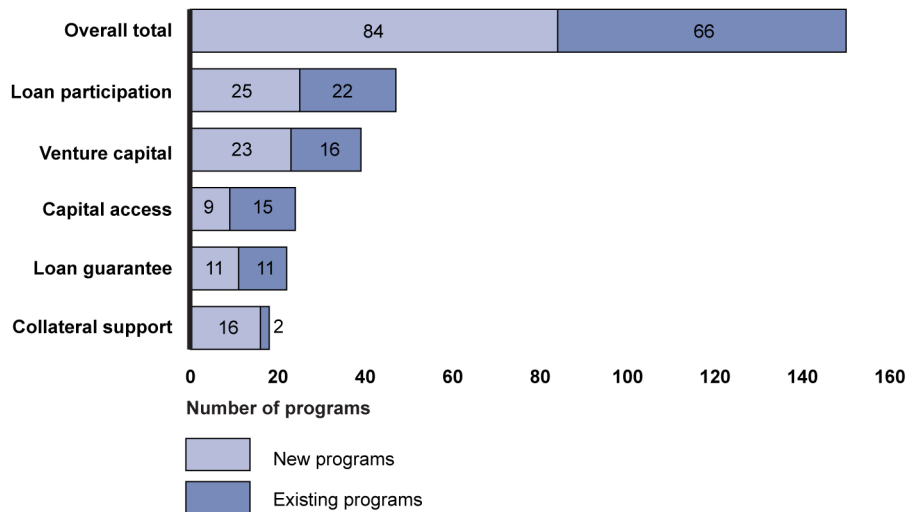
Source: GAO analysis of Treasury data. | GAO-15-105

Note: The amount of funds used does not include funds used by participants for administrative expenses.

SSBCI participants distributed their allocated funds using 150 programs. Participants had the option to use existing programs to distribute their allocated funds or create new programs specifically to utilize their SSBCI funds. As shown in figure 5, most of the programs using SSBCI funds are

new. Specifically, of the 150 programs, 84 (56 percent) were new programs compared to 66 (44 percent) existing programs.

Figure 5: Number of New and Existing State Small Business Credit Initiative Programs by Program Type, as of June 30, 2014



Source: GAO analysis of Treasury data. | GAO-15-105

Treasury and SSBCI
Participants Continue to
Address Challenges in
Using Program Funds and
Promoting the Program

Some SSBCI participants we interviewed for this report faced difficulties in using program funds that were consistent with some of the challenges we previously reported in 2013.¹⁹ Of the 10 SSBCI participants we interviewed for this report, 2 participants stated they did not encounter significant challenges in using program funds. Three participants we interviewed indicated that Treasury has improved its guidance since the program began, stating that the information on Treasury’s website has been helpful. Some participants, however, stated they continued to face challenges related to a lack of clarity in guidance and some banks’ reluctance to participate. Specifically:

- Treasury officials stated that they have established a process by which they provide written responses to questions raised by states, but officials from three participating states indicated that there

¹⁹GAO-14-97.

continues to be a lack of clarity in Treasury's guidance regarding the use of SSBCI funds for certain transactions. One participant explained that, while this lack of clarity is not unexpected since SSBCI is still a relatively new program, it may have resulted in some missed opportunities to use SSBCI funds. The participant stated that Treasury responded in writing to questions it raised but the additional guidance Treasury provided was still vague.

- According to officials in three participating states, some banks were reluctant to participate in the program because they were unfamiliar with it or perceived that it would increase scrutiny from regulators. Specifically, one participant stated that the local banking community generally was not familiar with state lending programs and some have been reluctant to participate in government loan programs overall. The participant explained that some local banks prefer to work with programs that they were more familiar with, such as programs from the Small Business Administration. Another participant highlighted the ongoing concerns about being subject to increased regulatory scrutiny for using SSBCI programs. The participant explained that, although regulators had made efforts to address banks' concerns about the potential for increased scrutiny from regulators because of the risk associated with loans needing SSBCI funds, banks continued to be reluctant to participate for this reason.

SSBCI participants have continued to undertake the types of activities we reported in 2013 to promote the use of SSBCI and address challenges in using program funds. Several of the SSBCI participants we interviewed for this report conducted activities, similar to those we reported in 2013, to promote the program, including holding face-to-face meetings, conducting presentations to interested parties, and maintaining websites, among other activities. In addition, similar to what we reported in 2013, some participants used program modifications to address challenges in using program funds. Specifically, 6 of the 10 participants we interviewed stated they had requested and received approval for program modifications to make use of SSBCI funds. For example, according to state officials, Treasury approved a program modification request from Connecticut in July 2014, which will allow the state to transfer funds from its CAP to a newly created venture capital program. As of June 30, 2014, Connecticut had used only 1 percent of its allocation within its CAP because, according to a state official, a Small Business Administration (SBA)

program and a new state program decreased demand for their SSBCI-funded CAP.²⁰ As a result of the modification allowing the state to transfer funds to a venture capital program, Connecticut officials told us they will partner with the state's quasi- public entity that supports small business financing that includes venture capital funding and expect to be able to deploy the remainder of the state's SSBCI allocation within 18 months.

Treasury has continued existing activities as well as undertaken new ones to address challenges states face in using program funds and promoting SSBCI. Specifically, Treasury officials stated that they have continued to offer technical assistance to states and utilize relationship managers, who are responsible for working with an assigned group of participants to support their outreach to the lending industry and help them successfully allocate funds to lenders and subsequently borrowers. In addition, Treasury has continued to facilitate information sharing among states through its national conferences and various working groups. For example, Treasury published reports summarizing the discussions and observations of its working groups on venture capital and addressing underserved communities in April and October 2014, respectively. Since our 2013 report, Treasury has undertaken new activities to facilitate information sharing among states such as organizing multistate sessions and other activities. To date, Treasury has facilitated three regional multistate sessions, which provide a forum for state officials and other stakeholders to share information and learn from each other. Officials explained that, although Treasury organizes the sessions, participants determine the content. Treasury officials also told us they facilitate information sharing on venture capital through quarterly calls for SSBCI program managers and contractors that administer venture capital programs. Treasury officials stated that they plan to publish a compilation of case studies on using SSBCI funds to target underserved communities, which is intended to complement its prior work on targeting underserved communities.

²⁰Connecticut received SSBCI funds for its existing state-funded CAP, which has existed since the early 1990s, according to state officials. However, officials explained that an SBA program and a new state program resulted in programs that competed with Connecticut's CAP. In response to the economic downturn and limited access to credit, Connecticut officials told us that the governor of Connecticut allocated \$100 million to a state loan program around the same time as the SSBCI funds were allocated. In addition, officials stated that SBA began to guarantee a higher percentage of the value of its loans than is guaranteed under Connecticut's CAP.

The Fiscal Year 2015 President's Budget Proposed an Additional \$1.5 Billion in SSBCI Funding

The fiscal year 2015 president's budget recommended new legislation that would reauthorize SSBCI and provide an additional \$1.5 billion in program funding. Under the proposal, \$1 billion of the funds would be awarded on a competitive basis and \$500 million would be awarded through a need-based formula. The budget justification states that a second round of funding, which would begin in 2015 and run through 2021, will expand on the success of the first round, capitalize on new working relationships between states and small business lenders and investors, and strengthen the federal government's relationships with state economic development agencies. In May 2014, members of the United States Senate and House of Representatives proposed companion bills, titled the Small Business Access to Capital Act of 2014, which would reauthorize SSBCI.²¹ The bills would reauthorize SSBCI and provide an additional \$1.5 billion to be allocated on a similar competitive and need-based formula basis.

In developing the budget justification and providing information to the Office of Management and Budget (OMB) on the amount and structure of the proposed additional SSBCI funding, Treasury officials stated they considered data on participants' progress in using SSBCI funds and considered other information, such as market conditions and lessons learned. In addition, Treasury officials stated they considered data from participants' quarterly reports and considered states' disbursement and modification requests to support the proposed \$1.5 billion in additional SSBCI funding. Treasury officials indicated that there is demand for additional funding as participants approach their third disbursement. In addition, the rate at which some participants are using their funds indicates additional demand. Specifically, Treasury officials stated they were confident that some participants could use the additional funding based on the 12-month rate of expended, obligated, and transferred funds among participants.

To support the proposal for both a competitive process and need-based formula, Treasury officials stated they considered the variation among participants regarding the speed at which funds were disbursed and the impact of the funds, as well as current market conditions in certain areas. Treasury officials stated that they introduced a competitive funding

²¹Legislation has been introduced in both the House and Senate. S.2285 and H.R. 4556, 113th Cong. In May 2014, both bills were referred to committees. To date, no additional action has been taken.

element because some participants were able to more quickly disburse SSBCI funds, demonstrated greater impact using the funds, and demonstrated greater capacity to establish relationships with private lenders and investors. The budget proposal states that the competitive funds would be awarded to states on the basis of their ability to target underserved groups, leverage federal funding, and evaluate results. Officials stated that they proposed maintaining a need-based allocation method because their analysis of market conditions indicated that some areas continued to have significant needs for increased access to capital. The proposal states that the need-based award would be allocated based on economic factors such as job losses and pace of economic recovery. Treasury has not proposed additional details regarding the structure of the proposed additional funding, according to agency officials. However, officials stated that they would recommend that certain features of the program be maintained, such as keeping the five program types, maintaining the 10 to 1 public to private leverage ratio, and emphasizing increasing access to underserved communities.

Some participants we interviewed said they were better positioned than others to continue their efforts in the absence of additional SSBCI funding. Participants recognized that additional funds would allow them to meet current demand for existing programs, provide funds more consistently, or explore adding additional programs to meet other economic development needs in the state. Eight of the 10 participants we interviewed stated that recycled funds would play a role in continuing their SSBCI-funded efforts. Two participants indicated that some discussions had been held at the state level about providing state funds to continue efforts currently funded by SSBCI. Conversely, two participants indicated that state funds were not an option for continuing their efforts. For example, one participant explained that the state constitution does not allow public state funds to be used for private lending.

Treasury Has Enhanced Performance Measures and Evaluation but Has Not Effectively Communicated or Updated Its SBLF Evaluation

Treasury has taken steps to enhance performance measures and evaluation, consistent with our prior recommendations.²² For SBLF, Treasury conducted an impact evaluation using statistical methods to compare lending between SBLF banks and a control group of non-SBLF banks that are as similar as possible to participating SBLF banks. This rigorous approach estimated the impact of the program and is a significant improvement over its previous comparison assessments of the SBLF program which did not attempt to isolate impact. However, while Treasury discussed the results of its previous comparisons in the body of its *Lending Growth Reports*, it discussed the results of its more rigorous impact evaluation less prominently and included them only in the appendixes of the reports. In addition, Treasury has not updated the results of its impact evaluation. For SSBCI, Treasury developed some new performance measures and also developed targets for some of its measures. In addition, officials stated they reached out to and received input from internal agency subject-matter experts and experts from OMB on the design of the planned SSBCI evaluation and have reached out to congressional staff for feedback on its proposed design.

Treasury Conducted an Impact Evaluation of SBLF Using a Generally Accepted and Rigorous Approach

Consistent with our prior recommendations to ensure Treasury could provide a useful assessment of SBLF that informs Congress and stakeholders of the effectiveness of SBLF, Treasury conducted an impact evaluation using a generally accepted and rigorous approach.²³ An impact evaluation assesses the net effect of a program (or its true effectiveness) by comparing the observed outcomes to an estimate of what would have happened in the absence of the program. To conduct its evaluation, Treasury used a propensity score matching approach, which attempts to isolate the impact of the program and estimate the program's net effect on small business lending. A propensity score matching approach is a quasi-experimental design that uses statistical methods to

²²See appendix II for a summary of Treasury's efforts to measure and evaluate performance.

²³In 2011 and 2013, we recommended that Treasury include in its evaluation of SBLF measures that isolate the net effect of the SBLF program apart from other factors that could also affect small business lending. See GAO-12-183 and GAO 14-135.

adjust for differences between treatment and control groups.²⁴ In this instance, SBLF banks are considered the treatment group, and banks that are similar to participating SBLF banks yet did not participate in the program are considered the control group. To conduct its propensity score matching approach, Treasury selected a control group of banks that are as similar as possible to participating SBLF banks along a number of relevant and observable participant characteristics. Specifically, Treasury incorporated a broad set of 71 observable financial and market variables that could affect a bank's likelihood of participating in the program. These variables include balance sheet measures, financial performance measures, capitalization, and loan composition, among others. Using the observable financial and market variables, Treasury achieved similarity between the two groups of banks by estimating the propensity to participate in the program for participants and nonparticipants alike and then matching nonparticipants to participants with a similar propensity to participate. Treasury officials stated they chose the propensity score matching approach because it makes similar comparisons as their previous assessments in that the propensity score matching approach also compares lending between SBLF banks and a selected control group of banks.

Treasury's impact evaluation of the program estimated that SBLF resulted in a median increase of 23 percentage points in small business lending, relative to the most similar control group of banks that did not participate in SBLF. In other words, when controlling for observable variables, the evaluation estimates that 23 percentage points of the increase in small business lending among SBLF banks is attributable to the program. Because the propensity score matching approach results in a carefully selected control group of non-SBLF banks that is as similar as possible to participating SBLF banks, lending among the control group banks can be used to estimate lending among SBLF banks if they had not participated in the program. Specifically, the propensity score matching approach estimated that the average lending of SBLF banks may have increased by 29 percent in the absence of the program (i.e., the median change in

²⁴A quasi-experimental design uses a treatment group and one or more comparison groups; however, unlike the groups in the true experiment, membership in these groups is not randomly assigned. As with any empirical approach, propensity score matching is based on a number of assumptions that are not always true in practice. In particular, propensity score matching can only establish that a program caused a particular outcome (i.e., isolate impact) if all relevant characteristics of participants and nonparticipants are observable and included in the statistical model.

lending over baseline among propensity score matched banks). However, the average lending of participating SBLF banks increased by 52 percent, 23 percentage points more than non-SBLF banks. This difference represents the estimated impact of SBLF. It is difficult to interpret the magnitude of the results of Treasury's impact evaluation as other evaluations on entrepreneurial assistance—including support for small businesses—are not comparable because they did not evaluate program impact on increasing small business lending.²⁵ However, because SBLF participants might have increased their lending by 29 percent in the absence of the program, 23 additional percentage points in small business lending is a meaningful increase.

Treasury has developed and refined its approach to assessing SBLF, and its impact evaluation is a distinct improvement over its previous comparisons between SBLF banks and groups of non-SBLF banks. While some differences between participants and nonparticipants may be unobserved, such as anticipated demand for small business lending, the control group Treasury developed based on propensity score matching addresses the observable differences among SBLF and non-SBLF banks in an effort to isolate the impact of the program. Previous assessments, however, did not adequately address observable differences between SBLF and non-SBLF banks and did not attempt to isolate the impact of the program. In its earliest approach to assess SBLF, Treasury has compared lending among SBLF banks to small and medium-sized banks, which suggested that SBLF banks increased business lending by 45 percentage points more than non-SBLF banks as of September 30, 2013

²⁵As part of our work reviewing 52 programs that support entrepreneurs administered by U.S. Departments of Agriculture, Commerce, and Housing and Urban Development and the Small Business Administration, we requested all studies conducted on these programs and identified 16 evaluations published between 2000 and 2012 that were sufficiently reliable to report high-level findings related to the program's overall effectiveness. None of these evaluations addressed program impact on increasing small business lending. See GAO, *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*, [GAO-12-819](#) (Washington, D.C.: Aug. 23, 2012). As of March 2014, agencies had taken steps to improve program evaluation but no additional program evaluations had been completed.

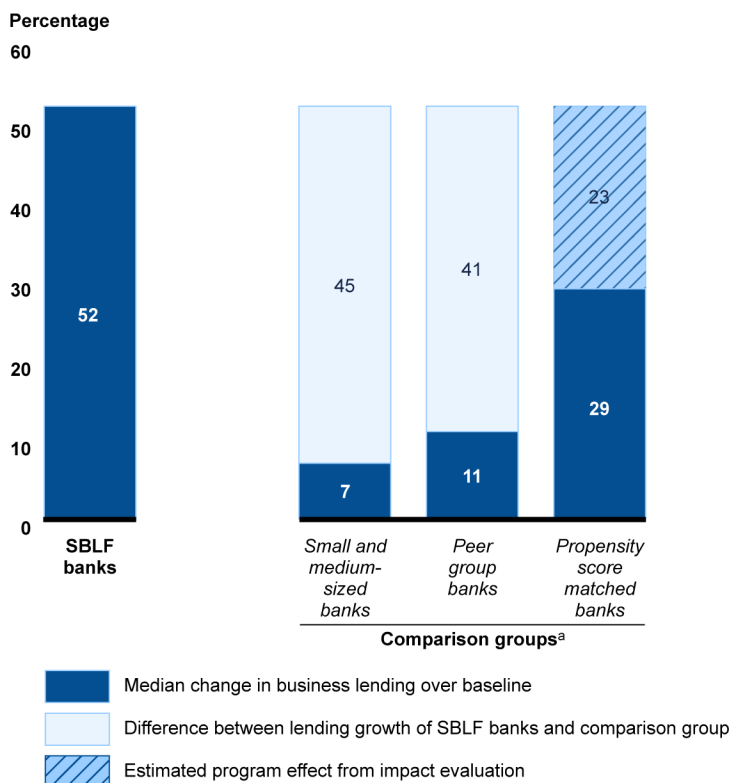
(see fig. 6).²⁶ To improve its approach to assessing the program, Treasury also conducted a peer group comparison by which it compared SBLF banks to a group of peer banks matched according to size, geography, and the Texas Ratio, a measure of asset quality.²⁷ Treasury officials described these characteristics as common and intuitive for comparing financial institutions. The peer group comparison suggested that SBLF banks increased business lending by about 41 percentage points more than peer group banks as of September 30, 2013. As we stated in our prior reports, these two analyses did not fully identify how SBLF has affected participants' lending compared to other factors that could explain the increase in lending.²⁸ While the peer group comparison method was valuable because the peer group was more similar to SBLF banks than the general population of small banks, it omitted important characteristics that could influence small business lending among SBLF participants and nonparticipants, such as liquidity or loan growth rate. The propensity score matching approach attempted to address these limitations because it identified a control group of banks that is similar to SBLF participants along a very broad set of characteristics, which provides greater confidence that any differences observed between participants and nonparticipants are attributable to the program.

²⁶The comparison group is comprised of non-SBLF insured depository institutions that were established prior to March 31, 2009, had total assets between \$7.0 million and \$6.4 billion (the range of total assets for SBLF banks) as of March 31, 2011 (which is the end of the first quarter prior to SBLF banks receiving funding), are located in one of the jurisdictions (44 states and the District of Columbia) in which SBLF banks are headquartered, and reported a positive amount of business lending in the applicable baseline period. We refer to this group as "small- and medium-sized banks." Small banks are banks with average assets of less than \$1 billion, and medium-sized banks are banks with average assets of at least \$1 billion and less than \$10 billion.

²⁷This peer group consists of non-SBLF insured depository institutions that share certain size, geographic, and financial characteristics. Generally, for each SBLF bank, two peer banks with the closest Texas Ratio that were located within the same state and asset size category as the SBLF participant as of March 31, 2011 (the quarter immediately prior to Treasury's first SBLF investment). The Texas Ratio is a measure of asset quality which helps determine a bank's likelihood of failure by comparing its troubled loans to its capital. The Texas Ratio is defined as nonperforming assets plus loans 90 or more days past due divided by tangible equity and reserves.

²⁸[GAO-13-76](#) and [GAO-14-135](#).

Figure 6: Comparison of Treasury's Assessments of the Small Business Lending Fund (SBLF) as of September 30, 2013



Source: GAO analysis of Treasury data. | GAO-15-105

^aTreasury has assessed lending by SBLF banks using three different comparison groups of non-SBLF banks: (1) "Small and medium-sized banks" includes banks with less than \$10 billion in assets and located in jurisdictions in which SBLF banks are headquartered. (2) "Peer group banks" includes banks matched to SBLF banks based on size, geography, and asset quality. (3) "Propensity score matched banks" includes banks matched to SBLF banks using a statistical technique that takes into account a wide range of financial and economic characteristics and ensures that the comparison group is as similar as possible to SBLF banks. This third technique is the only method that estimates the impact of the SBLF program.

Treasury Has Not Effectively Communicated or Updated the Results of Its Impact Evaluation

Treasury adopted a generally accepted and rigorous approach to conduct an impact evaluation, as we recommended, but its presentation did not communicate the results as effectively as possible. In its *Lending Growth Reports*, Treasury discussed the results of its prior, simpler assessments—those that compare lending among SBLF banks to that of small and medium-sized banks and peer matched banks—more prominently than the more rigorous results of its impact evaluation. Specifically, it discussed the simpler assessments in the body, but

published the results of its impact evaluation in the appendixes of its April, July, and October 2014 *Lending Growth Reports*.²⁹ Further, Treasury did not reference the results of the impact evaluation in the executive summary or body of the reports. GAO's *Designing Evaluations* guide states that how evaluation results are communicated can dramatically affect how they are used.³⁰ Our review of relevant resources on the use and presentation of program evaluations also indicates that rigorous evidence should be given prominence in comparison to less credible evidence so that the strongest evidence is used to inform policy and the allocation of resources. Further, SBLF's authorizing legislation requires, in part, that Treasury provide transparency with respect to its use of funds provided by the SBLF program.³¹ As we concluded in our prior report, it is important that Congress and stakeholders have information about the extent to which the program has a meaningful impact on small business lending.³²

Treasury officials stated that the results of the SBLF impact evaluation (i.e., the propensity score analysis) were included as appendixes instead of in the body of the reports because the evaluation was intended to be a one-time analysis of the program. They explained that the purpose of the evaluation was to serve as another objective method for assessing the program and validating the results of its previous analyses. According to agency officials, including the results as an appendix allowed the report's format to remain consistent with prior and future *Lending Growth Report* iterations, rather than revising the entire report for one quarterly issuance. However, as agency officials explained, the results of the propensity score matching approach are relatively comparable to their previous assessments because the propensity score matching approach also compares lending between SBLF banks and a selected control group of banks. As such, we determined it is unlikely that discussing the results of the impact evaluation in the body of its quarterly *Lending Growth Reports* would cause inconsistencies or major revisions.

²⁹Treasury did not update the results of its impact evaluation, but published the same results in its April, July, and October 2014 *Lending Growth Reports*.

³⁰GAO, *Designing Evaluations: 2012 Revision*, [GAO-12-208G](#) (Washington, D.C.: January 2012).

³¹Pub. L. No. 111-240, § 4105(6), 124 Stat. 2504, 2592.

³²[GAO-14-135](#).

Because Treasury presents the results of its simpler group comparison more prominently than the results of its impact evaluation in its *Lending Growth Reports*, readers may not be aware of the results of the more rigorous analysis or understand the differences between the various alternative control groups and what they might imply about the overall impact of the program. As previously discussed and shown in figure 6, Treasury's less rigorous comparisons suggested that SBLF banks increased lending by 45 and 41 percentage points more than all small and medium-sized banks and peer banks, respectively. The propensity score matching approach—which is designed to isolate the impact of the program—produced the smallest relative median increase in lending at 23 percentage points. However, these results are not discussed in the body of Treasury's *Lending Growth Reports*. As a result, readers—including Congress and other stakeholders—may not use the results of the more credible analysis to inform their conclusions about the program and the extent to which it has impacted small business lending.

In addition, Treasury has not updated the results of the impact evaluation. In our work on best practices that enhance the use of performance information, we found that communicating performance information frequently and routinely enhances the use of that information for making decisions that affect future strategies, planning and budgeting, identifying priorities, and allocating resources.³³ Frequently communicated performance information typically includes performance measures, such as the changes in small business lending that Treasury reports each quarter for SBLF banks. Program evaluations, however, are typically conducted less frequently to assess how well a program works. Treasury officials stated that they have not updated the results of the impact evaluation because they intended for the evaluation be a one-time analysis that captured the effect of the program through September 30, 2013—the period during which participating banks were incentivized to

³³In 2005, we identified how federal agencies can use performance information to make management decisions and practices that can facilitate agency use of performance information. While this work focused on agencies' use of performance information, these practices can be applied more broadly to the use of performance information by other stakeholders, including Congress. To identify practices that can facilitate agency use of performance information, we reviewed relevant literature, including previous GAO reports; spoke to experts in using performance information; and held group discussions with federal program managers. See GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, [GAO-05-927](#) (Washington, D.C.: Sept. 9, 2005).

increase small business lending over their baselines in order to reduce their dividend rates. Treasury published the same impact evaluation results in appendixes of its April, July, and October 2014 *Lending Growth Reports* and does not have plans to update the results in future reports. In contrast, Treasury updates the results of its simpler assessments in its quarterly *Lending Growth Reports* and anticipates continuing to update the results until 2016, when Treasury expects about 80 percent of participants to have exited the program as a result of the scheduled dividend rate increase to 9 percent for most participating banks.

Although program evaluations can be costly and time consuming, we determined that Treasury could adjust its existing propensity-matched control group to update the results of its impact evaluation without having to repeat the entire evaluation. Specifically, Treasury could take an approach similar to the one it uses to update the results of its peer group comparison. As SBLF banks exit the program, Treasury could remove similar non-SBLF banks from the control group and repeat its analyses using the updated groups of banks. Treasury officials acknowledged that they could update the results of their impact evaluation using this approach, but explained that they would need to obtain programming software to conduct the analysis and that considerable time and effort would be required to ensure the accuracy of the impact evaluation data and analyses.

By updating the results of its impact evaluation, Treasury could further enhance the performance information it provides on SBLF. As we have described in previous reports and summarize in appendix III, Treasury provides quarterly information on the performance of SBLF, including its simpler lending growth comparisons among SBLF and non-SBLF banks. Updated results from Treasury's most rigorous and accurate assessment of SBLF could enhance the performance information that readers and decision makers consider. For example, updated information on the impact of the program could be useful for observing any changes in the impact of the program over time. In addition, because SBLF capital could still promote small business lending even in the absence of dividend-based incentives, updated information on the effect of the program after the lending incentives expired in September 2013 could be useful.

Treasury Is Taking Steps to Improve Its Efforts to Measure and Evaluate Performance for the SSBCI Program

In our prior work, we recommended that Treasury enhance its efforts to measure and evaluate the performance of SSBCI. Consistent with our previous recommendation that Treasury set targets for selected performance measures related to monitoring program performance, Treasury established a target for its performance measure related to the amount of private-sector leverage. In addition, Treasury developed additional performance measures and targets related to the disbursement of funds to states and the extent to which OCSPs target small businesses with an average size of 500 or fewer employees and target support towards loans with an average principal amount of \$5 million or less (see table 1). Officials stated that because almost all SSBCI-funded programs became fully operational in 2014, they used the information from the 2013 annual reports to establish performance targets. Officials explained that they used the stated program objectives in the Small Business Jobs Act of 2010 to establish the additional measures and select the measures for which they established targets. OMB guidance defines performance indicators (or measures) as measurable values that agencies use to track progress toward set targets or goals within a time frame. The guidance defines indicators that do not require targets and time frames as “other indicators.” Consistent with this definition, Treasury officials stated that they intend to use the measures for which they did not establish targets as additional indicators of performance.

Table 1: Treasury’s State Small Business Credit Initiative (SSBCI) Performance Measures and Other Indicators

Program performance measure	Target
Amount, in dollars, of private-sector leverage	Cumulative private leverage ratio of 10 to 1 by December 31, 2016 ^a
Amount of funds available to states ^a	98 percent disbursement of the funds available to states by December 31, 2016 ^a
Number of Other Credit Support Programs (OCSP) ^b that target borrowers with 500 or fewer employees ^a	98 percent of OCSPs expend SSBCI funds to support an average borrower or investee size of 500 employees or fewer by December 31, 2016 ^a
Number of OCSPs that seek to make loans with an average principal amount of \$5 million or less ^a	98 percent of OCSPs expend SSBCI funds to support loans or investments with an average principal amount of \$5 million or less by December 31, 2016 ^a
Other indicator	
Amount of SSBCI funds used over time	None
Volume and dollar amount of loans or investments supported by SSBCI funds	None
Estimated number of jobs created or retained	None

Source: Treasury. | GAO-15-105

^a Treasury adopted these measures and targets in October 2014. Other measures and indicators listed above were previously established.

^b Other Credit Support Programs (OSCP) include collateral support programs, loan participation programs, state-sponsored venture capital programs, loan guarantee programs, or similar programs.

In response to our recommendation that Treasury seek input from Congress and other federal agencies on what information would be useful in assessing SSBCI's effectiveness as Treasury designs its program evaluation, officials stated they received input from internal agency subject-matter experts and experts from OMB and have reached out to congressional staff for feedback. Specifically, Treasury conducted meetings with experts in December 2013 and January 2014 on how it will evaluate the performance of SSBCI in 2017. Officials stated that they reached out to staff of two congressional committees in October 2014 for feedback on the proposed evaluation design.

OMB guidance and our prior work have emphasized the importance of performance information and program evaluations in decision making. Specifically, OMB guidance instructs agencies to include a thorough discussion of evidence, both positive and negative, for major proposed policies in its budget submission, including performance indicators, performance goals, and evaluation results.³⁴ In addition, our work on improving information to Congress found that information on how activities have been implemented and the extent to which the program reached the intended clients can be useful to inform reauthorization decisions.³⁵ Further, our work assessing duplication, overlap, and fragmentation looked across 52 programs supporting entrepreneurs and emphasized the importance of performance information for decision making and highlights that program evaluations can provide additional information about program performance and help gauge program effectiveness.³⁶ Specifically, we reported that several of these programs lacked adequate performance information and program evaluations, which resulted in limited information on program efficiency and effectiveness. We found that, without this type of information, Congress

³⁴ OMB, Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (Washington, D.C.: July 25, 2014).

³⁵ [GAO/PEMD-95-1](#).

³⁶ See [GAO-12-819](#).

and the agencies may not be able to better ensure that scarce resources are being directed to the most effective programs and activities.

Treasury's existing information on the performance of SSBCI, as well as information that will result from Treasury's efforts to enhance performance measures and evaluation, could provide useful information for decision makers on the proposed reauthorization of the program. As previously discussed, Treasury officials said they considered information on the performance of SSBCI, such as participants' progress in using funds, the speed at which funds were disbursed, and the impact of the program, to support the amount and structure of additional program funds under the proposed reauthorization. In addition, Treasury has published performance information on SSBCI that could be helpful for decisions related to the reauthorization of the program. Specifically, Treasury has published quarterly reports on participants' progress in using funds and two annual reports that summarize key findings from participants' 2012 and 2013 annual reports.³⁷ Treasury also published two reports it requested from outside experts on lessons learned from SSBCI loan programs and venture capital programs.³⁸ Treasury plans to publish its evaluation in 2017. Treasury officials said that they plan to use information from participants' final program assessments, which are due to Treasury in early 2017, to help them evaluate SSBCI to help them determine whether the program model for SSBCI was successful.³⁹ To determine the success of SSBCI, officials plan to focus on whether the program achieved its performance targets, whether state managers found the program to be effective for achieving their goals, and whether private lenders and investors found the program to be effective. While the evaluation will be useful for future decisions regarding programs that are intended to increase capital to small businesses in distressed credit

³⁷Under the Small Business Jobs Act of 2010, participants are required to submit quarterly and annual reports on their use of SSBCI funds. See Pub. L. No. 111-240, § 3007, 124 Stat. 2504, 2579.

³⁸Center for Regional Economic Competitiveness, *Filling the Small Business Lending Gap: Lessons from the U.S. Treasury's State Small Business Credit Initiative (SSBCI) Loan Programs* (Washington, D.C.: Jan. 21, 2014). While the report is addressed to state policymakers and program managers, the information may also be useful for federal policymakers and program managers. Cromwell Schmisser LLC, *Information and Observations on State Venture Capital Programs* (Washington D.C.: February 15, 2013).

³⁹As part of Treasury's SSBCI oversight and performance strategy, all SSBCI Allocation Agreements require participants to conduct a final assessment on their programs' performance at the end of the program in 2017.

markets, the information from Treasury's evaluation of SSBCI will not be available to inform decisions on the current request for additional funding.

Conclusions

Treasury's efforts to provide performance information on SBLF and SSBCI are positive developments that could help to ensure that agency decision makers and Congress have information to assist them in making programs more efficient and effective and allocating scarce resources. In response to our prior recommendations, Treasury conducted a rigorous impact evaluation, which is a distinct improvement over other analyses using comparisons because it uses statistical methods to compare SBLF banks to a carefully selected control group of banks that did not participate in the program but are as similar as possible to the participating SBLF banks along a broad set of characteristics. Treasury's impact evaluation is important particularly because it provides a rigorous assessment of the program's effects and indicates that SBLF increased small business lending by a smaller percentage than Treasury's other simpler analyses. However, because Treasury presents its impact evaluation in appendixes in its *Lending Growth Reports* rather than in the body, users of Treasury's lending reports may rely on less rigorous analyses to inform their conclusions.

Further, although Treasury intended for the impact evaluation to be a one-time analysis, the existing control group it used to estimate the impact of SBLF has the potential to be updated for future reports. Treasury officials stated that updating the impact evaluation results would require additional time and effort, and we acknowledge that costs and benefits would have to be considered in determining the frequency of the updates. However, Treasury has an opportunity to better utilize its impact evaluation to further enhance the performance information available on SBLF. Policymakers will likely face future constrained credit environments for small businesses and will seek options to address them. In such circumstances, the results of Treasury's impact evaluation, and any updates to those results, could provide a useful assessment of the effectiveness of SBLF as a capital investment program.

Recommendations for Executive Action

To help ensure that Congress and stakeholders can easily access the best information available to inform their conclusions about the effectiveness of SBLF as a capital investment tool, we recommend that the Secretary of the Treasury take the following two actions: (1) make the results of its SBLF impact evaluation more prominent, such as by discussing the results in the executive summary and body of future

Lending Growth Reports, and (2) update the results of its impact evaluation in future reports, taking into consideration the costs and benefits of doing so to determine the appropriate frequency of the updates.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for their comment and review. Treasury provided written comments, which are reprinted in appendix III. In its written comments, Treasury agreed to implement our recommendations regarding its SBLF impact evaluation and described the actions it plans to take. Treasury stated that it would publish a stand-alone report with its own link on the Treasury website to better communicate the results of the SBLF impact evaluation, which analyzed lending growth performance as September 30, 2013. In its comments, Treasury suggested that all three of its methods of evaluating the performance of SBLF indicate the program has had a positive impact. However, as we stated in our report, only one of its methods—the impact evaluation using the propensity score matching approach—estimates the impact of the program. Treasury also stated that it would update its impact evaluation in the future, taking into consideration the costs and benefits of doing so as well as the lending incentive structure of the program.

We did not make any new recommendations regarding SSBCI in this report, but Treasury noted that it appreciated prior GAO recommendations. Treasury stated that it accepted GAO's guidance on developing program evaluations and has sought to supplement this guidance with input from stakeholders for its planned SSBCI evaluation. Treasury also noted that its final assessment of SSBCI would include three sections: (1) a review of national program-wide outcomes, (2) review of the state-by-state variation in program outcomes, and (3) feedback from private sector lenders and investors. Treasury provided technical comments on the draft report, which we have incorporated in the final report, as appropriate.

We are sending copies of this report to appropriate congressional committees and Treasury. In addition, the report is also available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciaidiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

A handwritten signature in black ink, appearing to read "Daniel Garcia-Diaz", with a long horizontal flourish extending from the bottom of the signature.

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment

List of Committees

The Honorable Debbie Stabenow
Chairwoman
Committee on Agriculture, Nutrition and Forestry
United States Senate

The Honorable Thad Cochran
Ranking Member
Committee on Agriculture, Nutrition and Forestry
United States Senate

The Honorable Barbara Mikulski
Chairwoman
Committee on Appropriations
United States Senate

The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
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United States Senate

The Honorable Mike Crapo
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Committee on Finance
United States Senate

The Honorable Maria Cantwell
Chairwoman
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable James E. Risch
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Committee on Small Business and Entrepreneurship
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The Honorable Nydia Velázquez
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Committee on Small Business
House of Representatives

The Honorable Dave Camp
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) the status of the Small Business Lending Fund (SBLF), (2) the status of the State Small Business Credit Initiative (SSBCI), and (3) the extent to which Treasury's efforts enhance performance measurement and program evaluation.

SBLF Program Status

To examine the status of SBLF, we reviewed Treasury program data from Treasury's October 2014 *Lending Growth Report* and its June 2014 monthly transaction report. To show lending growth among SBLF participants, we analyzed Treasury data as of June 30, 2014. We reviewed Treasury's monthly transaction report to determine the dividend, interest, and fee payment received by Treasury and the number of participants that exited the SBLF program as of June 30, 2014. We also used responses from SBLF respondents to an item in Treasury's second annual SBLF survey to describe participants' plans for exiting the program.¹ To assess the reliability of SBLF data, we reviewed prior GAO work on the data and the systems that produced them, which included interviewing Treasury officials on how they assess the reliability of participants' quarterly data and the information they maintain on SBLF. In addition, we inspected data for missing observations and outliers. Where there were questions or discrepancies we identified related to the data, we clarified them through communications with Treasury officials. We determined that the data were sufficiently reliable for the purposes of describing the status of the program.

SSBCI Program Status

To examine the status of SSBCI, we analyzed Treasury program data on participants' allocation amounts and program types, and whether participants developed new programs to participate in SSBCI or expanded existing programs with SSBCI funds. In addition, we analyzed participants' June 30, 2014, SSBCI quarterly report data—the most recent quarter available—on the total amount of funds used and fund usage by program type. To assess the reliability of SSBCI data, we reviewed prior GAO work on the data and the systems that produced them that included interviewing knowledgeable Treasury officials on how they assess the

¹U.S. Department of the Treasury, *Results of the Second Annual SBLF Lending Survey*, August 2014. The SBLF lending survey is an annual survey required by Treasury for all SBLF participants as part of the agreement between Treasury and SBLF participants. The second annual survey covered from July 1, 2012, to June 30, 2013. The item from which we used responses from participants regarding their plans to exit the program was "Please estimate the calendar quarter and year in which your institution anticipates fully redeeming Treasury's investment and exiting the SBLF program."

reliability of participants' quarterly data and the information they maintain on SSBCI. In addition, we performed electronic testing for obvious errors in accuracy and completeness. Where there were questions or discrepancies we identified related to the data, we clarified them through discussions with Treasury officials. We determined that the data were sufficiently reliable for the purposes of describing the status of the program.

We also interviewed Treasury SSBCI officials and 10 purposively selected SSBCI participants on the use of funds, any challenges in using the allocations, and the president's request for additional program funds. We interviewed officials from Connecticut; Idaho; Louisiana; Massachusetts; Minnesota; Nebraska; Oklahoma; Washington; West Virginia; and Laramie, Wyoming. We selected a non-random sample of 10 participants from the total of 57 participants—which included 47 states; Washington, D.C.; four municipalities; and five U.S. territories—using participants' March 31, 2014, quarterly report data. We selected this nonrandom, purposive sample of participants because we assumed that the types of challenges related to using SSBCI funds would vary for participants characterized by a mix of fund usage histories and numbers of new and existing programs across all regions. We selected participants based on the following criteria: (1) the percentage of SSBCI funds participants had used as of March 31, 2014; (2) the percentage of SSBCI funds transferred to participants; (3) the percent of SSBCI funds recycled by participants; (4) the number of programs participants implemented and whether the programs were new or existing; (5) the number of program modifications; and (6) geographic dispersion. We purposively weighted the sample to approximate the distribution found in the population for percentage of funds used, percentage of funds transferred, and region to allow for a greater range of views that might also be found in the population. This sample does not represent the experience of the states that are not included in this sample.

To reduce respondent burden, we excluded from our selection (1) the four participants that the Treasury Office of the Inspector General told us it was in the process of auditing or was planning to audit at the time we selected the participants and (2) the nine participants we interviewed for

our 2013 SSBCI review.² When we selected participants to interview, the March 2014 data were the most recent available. We also reviewed testimonial evidence we obtained during our 2013 SSBCI report related to challenges SSBCI participants faced in using SSBCI funds. We also interviewed representatives from three trade associations involved with the SSBCI program: (1) the Council of Development Finance Agencies because of its role in supporting SSBCI participants through webinars and other resources; (2) the Opportunity Finance Network because it is a national network of community development financial institutions; and (3) the Community Development Venture Capital Alliance because of its role in supporting venture capital investing. To describe Treasury's request for additional funds, we reviewed the 2015 President's budget justification for SSBCI and interviewed Treasury officials about the budget request and lessons learned they would apply in a second round of funding.

Treasury's Efforts to Enhance Performance Measures and Evaluations

To assess the extent to which Treasury's efforts enhance performance measures and evaluations for SBLF and SSBCI, we interviewed agency officials on the activities they conducted to implement recommendations from our 2012 and 2013 reports and collected information related to these activities.³ For SBLF, we reviewed Treasury's impact evaluation presented in its April and July 2014 *Lending Growth Reports* and interviewed agency officials for additional information on the methodology and results of the evaluation. In addition, to assess the extent to which Treasury effectively communicated the results of the impact evaluation,

² In 2013, we interviewed representatives from the following SSBCI participants: SSBCI participants: Arizona; Iowa; Maryland; Missouri; Montana; New York; City of Carrington, North Dakota; Vermont; and Virginia.

³ In our 2011 report, we recommended that Treasury make plans for assessing the performance of the SBLF program, including measures that can isolate the impact of SBLF from other factors that affect small business lending. See GAO, *Small Business Lending Fund: Additional Actions Needed to Improve Transparency and Accountability*, [GAO-12-183](#) (Washington, D.C.: Dec. 14, 2011). In our 2013 report on SBLF, we recommended that Treasury ensure the analytical approaches identified by its contractors will isolate the role of SBLF from other factors that could affect small business lending to show the net impact of the program. See GAO, *Small Business Lending Fund: Treasury Should Ensure Evaluation Includes Methods to Isolate Program Impact*, [GAO-14-135](#) (Washington, D.C.: Dec. 11, 2013). In our 2013 report on SSBCI, we recommended that Treasury establish performance targets for selected performance measures related to monitoring program performance and seek input from program stakeholders—including other agencies involved in promoting small businesses and Congress—as it designs its SSBCI program evaluation. See GAO, *State Small Business Credit Initiative: Opportunities Exist to Enhance Performance Measurement and Evaluation*, [GAO-14-97](#) (Washington, D.C.: Dec. 18, 2013).

we reviewed its *Lending Growth Reports* to determine how other assessments are presented. We developed criteria and based our conclusions on professional judgment and consultation of a variety of relevant resources on the use and presentation of policy evaluations.⁴ For SSBCI, we reviewed the new performance measures and targets Treasury adopted in October 2014.

We conducted this performance audit from April 2014 to December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁴We consulted the following sources: GAO, *Designing Evaluations: 2012 Revision*, [GAO-12-208G](#) (Washington, D.C.: January 2012); *Program Evaluation: A Variety of Rigorous Methods Can Help Identify Effective Interventions*, [GAO-10-30](#) (Washington, D.C.: Nov. 23, 2009); American Evaluation Association, *An Evaluation Roadmap for a More Effective Government* (February 2009), accessed November 6, 2014, <http://comm.eval.org/home/>; GAO, *Program Evaluation: Improving the Flow of Information to the Congress*, [GAO/PEMD-95-1](#) (Washington, D.C.: Jan. 30, 1995); and National Science Foundation, *The 2002 User Friendly Handbook for Project Evaluation* (January 2002), accessed November 6, 2014, <http://www.nsf.gov/index.jsp>.

Appendix II: Summary of Treasury’s Efforts to Measure and Evaluate the Performance of the Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI)

Treasury has undertaken several efforts to measure and evaluate the performance of SBLF and SSBCI, as shown in table 2.

Table 2: Summary of Treasury’s Efforts to Measure and Evaluate the Performance of SBLF and SSBCI

SBLF	Quarterly Reports: Treasury collects and analyzes information on changes in small business lending by SBLF participants relative to baseline levels and assesses program performance by comparing lending by SBLF banks to non-SBLF bank groups. The reports also include other information, such as funds used to repay investments from the Troubled Asset Relief Program.
	Annual Surveys: Treasury collects and analyzes participants’ survey responses on the volume of small business loans originated over time and the use of SBLF funds. The survey covers other topics including changes in participants’ small business lending standards and demand; obstacles to increasing small business lending; actual increases in small business lending by industry, sector, number, and dollar value; actions associated with the use of SBLF funds; and small business outreach activities required by the Small Business Jobs Act of 2010.
	Program Impact Evaluation: Treasury evaluated the impact of SBLF using statistical methods to select a group of non-SBLF banks that are as similar as possible to SBLF banks along a broad set of characteristics and then compare lending between SBLF banks and non-SBLF banks. This approach attempts to isolate the impact of SBLF and determine the program’s net effect on small business lending. The results of this one-time evaluation are included in appendixes of Treasury’s April, July, and October 2014 <i>Lending Growth Reports</i> .
SSBCI	Quarterly Reports: Treasury collects and analyzes information from participants’ quarterly reports on the amount of SSBCI funds used. The reports also include information on the amount of funds recycled.
	Annual Reports: Treasury collects and analyzes information from participants’ annual reports on the volume and dollar amount of loans or investments supported by SSBCI funds, the dollar amount of private-sector leverage, and the estimated number of jobs created or retained. The reports also include information on loans and investments made to businesses in low- and moderate-income communities.
	Consultants’ Reports: Treasury commissioned two reports from external industry experts on the Venture Capital Programs and on the Loan Programs. Each report describes how states designed their approved SSBCI programs and identifies the promising practices that show preliminary success in deploying the funds.
	Program Evaluation (Planned): At the end of the program in 2017, Treasury plans to evaluate the performance of SSBCI to determine if the program model was successful. As of October 2014, Treasury was in the process of finalizing the evaluation design and planned to use information from participants’ final program assessments, case studies, and interviews with investors and lenders, among other information, to help evaluate SSBCI’s performance.

Source:Treasury | GAO-15-105.

Appendix III: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 24, 2014

Daniel Garcia-Diaz
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Garcia-Diaz:

Thank you for the opportunity to review the draft report entitled *Small Business Credit Programs: Treasury Continues to Enhance Performance Measurement and Evaluation But Could Better Communicate and Update Results* (the Report). This letter provides the official response of the Department of the Treasury (Treasury).

The Report examines two Treasury programs established by the Small Business Jobs Act of 2010: the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI). We are pleased that the Report acknowledges that SBLF and SSBCI have enhanced performance measurements and program evaluation, including conducting an impact evaluation of SBLF through use of the propensity score matching approach and developing additional performance measures and targets for SSBCI.

Treasury appreciated and accepted prior recommendations regarding both programs. SSBCI has improved the guidance it provides to participants since the program began and continues to foster many opportunities for information sharing. Treasury also accepted GAO's guidance on developing program evaluations and has sought to supplement this with input from stakeholders such as Congress, OMB, SBA, and other divisions of Treasury. Treasury is developing a final assessment framework for SSBCI that will include three key sections: 1) review of national program-wide outcomes; 2) review of the variation in programs outcomes state-by-state; and 3) feedback from private sector lenders and investors.

Treasury employed three objective methods to evaluate the performance of SBLF. The results indicate that the SBLF program continues to make a meaningful positive impact. As of June 30, 2014, SBLF participants had increased their qualified small business lending by \$13.5 billion over the baseline. The results of Treasury's impact evaluation, conducted using lending growth performance as of September 30, 2013, suggest that, on average, SBLF participants increased business lending by 23 percentage points more than a comparable group of non-participants.

In response to GAO's first recommendation, Treasury will better communicate the results of the impact evaluation that SBLF conducted using lending growth performance as of September 30, 2013 by publishing those results as a stand-alone report with its own link on the Treasury website. In response to GAO's second recommendation, Treasury will update the impact evaluation in the future, taking into

**Appendix III: Comments from the Department
of the Treasury**

consideration the costs and benefits of updating the results of the impact evaluation and the lending incentive structure of the program.

Thank you once again for the opportunity to review the Report. Treasury values GAO's review of its programs and looks forward to continuing to work with your team.

Sincerely,



Jessica Milano
Deputy Assistant Secretary
Small Business, Community Development, and
Affordable Housing Policy

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678, garciadiazd@gao.gov.

Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman (Assistant Director), Charlene Lindsay (Analyst-in-Charge), Bethany Benitez, Mark Braza, Pamela Davidson, Michael Hoffman, Robert Rieke, Jennifer Schwartz, Stephanie Shipman, and Jena Sinkfield made key contributions to this report.

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