Treasury Report Slams Banks for Misuse of TARP Funds

By Heather Anderson, *Credit Union Times*
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A scathing report this week from the Treasury's Special Inspector General takes banks to task for not increasing small business lending through the Small Business Lending Fund as required to repay TARP borrowings.

Community banks with fewer than $10 billion in assets that took TARP funds were provided with an opportunity to enroll in the SBLF and use the funds to repay TARP borrowings.

However, there was a catch: they were required to also increase small business lending or pay higher dividends.

Overwhelmingly, they did not.

TARP Special Inspector General Christy Romero said in the report that banks which took the TARP bailout money increased lending by just $1.13 for every $1 of SBLF capital they received from the Treasury Department.

In comparison, banks that did not participate in TARP but enrolled in the SBLF increased their small business lending by $3.45 for every SBLF dollar they received. And, the report said, 24 of the 137 TARP banks did not increase lending at all.

The report said the scope and scale of the SBLF were not as expected, with most of the money going to banks already in the TARP program.

Congress intended that banks taking TARP funds would increase their loans to small business, the report said, and as a safeguard required that participating banks submit to their regulator a lending plan that detailed how they planned to use the funds to increase lending.

The report partially blamed the Treasury and banking regulators, including the Federal Reserve, FDIC and Office of the Comptroller of the Currency, for inadequate oversight that led to the misuse of funds.

"SIGTARP found that Treasury and the federal banking regulators did not effectively communicate with each other, each claiming the other had responsibility to assess the banks' lending plans," the report said.

The news could give a boost to credit union lobbyists who are again attempting to advance legislation that would raise the member business lending cap to 27.5% of assets.

“This is a pretty damning indictment of the banking industry and their misuse of their taxpayer subsidies,” said John McKechnie, partner at the Washington-based lobby and strategy firm Total Spectrum.

What nerve: the banks make feeble efforts to help small businesses when they need it, but sure do a lot to stop credit unions from stepping in,” McKechnie said. “There’s got to be a point when Congress says to the banks, 'If you're not going to lend, step aside and let credit unions do the job.'"

Romero recommended that the Treasury establish new, achievable plans to increase lending going forward, and discouraged regulators from approving dividend payouts to shareholder of former TARP banks that did not increase small business lending while in the SBLF.

Additionally, the report recommended that the Treasury and federal regulators improve coordination on current and future initiatives.