Bailed-out banks haven’t met goals of small-business lending program, report says

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By Danielle Douglas

Banks used billions from a small-business lending program to repay government bailout funds, rather than on its intended purpose — making more loans to mom-and-pop operations, according to a watchdog report released Tuesday.

The Small Business Lending Fund dished out more than $4 billion to 332 community banks, credit unions and community development financial institutions to lend to Main Street businesses. It was especially appealing to small banks that received funds from the Troubled Assets Relief Program, the government’s rescue initiative.

By signing up for the lending program, banks could convert their TARP obligations into a lower-interest loan and escape restrictions on executive compensation. But in return, the banks were supposed to increase their lending to small businesses.

Instead, 132 TARP recipients participating in the small-business program used about $2.1 billion they were awarded to exit TARP, rather than increasing lending, according to the report from the TARP special inspector general.

“For some TARP banks, SBLF turned out to be little more than a TARP exit strategy,” said Christy Romero, special inspector general for TARP.

Twenty-four of those banks shared$501 million in small-business funding but have not boosted their lending at all, while the remaining banks have increased lending by $1.13 for each $1 in funding they received, according to the report. By comparison, banks in the program that did not participate in TARP have lent $3.45 for every $1 they received in funding.

“Despite Congress imposing a safeguard that banks submit a plan showing how they would increase small-business lending,” Romero said, “Treasury and the banking regulators did not adequately assess the plans, each claiming it was the responsibility of the other.”

Treasury officials refuted the inspector general’s findings, saying the program is subject to tremendous oversight and has been a success.

Former TARP recipients have upped their small-business lending by $3.6 billion, according to the Treasury. The banks in question have reported a median lending increase of 18.4 percent, well above the 10 percent that Congress set as the threshold for gaining access to the best loan terms.

“These banks are ahead of schedule in achieving the increases specified in their lending plans,” said Don Graves Jr., Treasury deputy assistant secretary. “There are numerous errors and omissions in the report.”

Graves took issue with the inspector general’s assertion that Treasury failed to catch deficiencies in the lending plans submitted by the banks. Treasury rejected numerous applications based on the banks’ financial condition. Only 36 percent of the 933 community banks that applied for money were approved.

Indeed, community banks complained that Treasury rejected their applications with little explanation and offered no formal appeal process. Banks were turned down if they could not pay dividends, had missed more than one TARP divided payment or were on the Federal Deposit Insurance Corp.’s problem bank list.

Applicants also griped about the number of months it took the agency to respond to requests — the first round of approvals was announced five months after the program launched.

Congress criticized Treasury for the delay in distributing the funds. The agency said that having each application be approved by a bank’s primary supervisor slowed the process. Although Congress allotted $30 billion to the lending fund, barely a quarter of the money was spent.