

July 19, 2011

Cost Report

**Report to Congress submitted pursuant to Section 4106(2)
of the Small Business Jobs Act of 2010**

Introduction

Small businesses are a vital part of the American economy. Their success is a critical component of the economic recovery. Currently, many small businesses face challenges in accessing the credit they need. Established by the Small Business Jobs Act of 2010 (the “Jobs Act”) to increase small business lending, the Small Business Lending Fund (“SBLF” or the “Fund”) is a dedicated fund designed to provide capital to qualified community banks and other eligible financial institutions. Its purpose is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in local communities across the Nation.

This report is submitted pursuant to Section 4106(2) of the Jobs Act, which directs the Secretary to provide a semiannual written report on all projected costs and liabilities, all operating expenses, including compensation for financial agents, and all transactions made by the Fund. It reflects these projected costs based on actual costs as of March 31, 2011, six months following the date of the statute’s enactment. As of that date, there were no transactions made by the Fund.

The application window for eligible institutions to participate in SBLF has closed. 926 institutions applied for \$11.8 billion in SBLF funding. As of July 8, Treasury has provided \$123 million in capital to six institutions through the Fund. The first funding occurred on June 21, 2011, with subsequent investments on June 30 and July 6. Treasury is currently reviewing and evaluating applications, and expects to complete all funding by September 27, 2011, the statutory deadline for funding.

Operating Expenses

Treasury is committed to implementing the SBLF in a cost-effective manner to protect taxpayers while achieving the program’s objectives.

The figures shown in the following table reflect costs and commitments incurred as of March 31, 2011 and projected operating costs for the remainder of FY 2011. These figures reflect significant savings versus budgeted amounts driven by Treasury’s ability to build upon existing resources and employ contract specialists for certain temporary and volume-dependent tasks.

With respect to future operating expenses, the Fund’s core investment activities will be completed by September 27, 2011. As a result, expenses for the Fund in FY 2012 will relate primarily to monitoring the performance and compliance of institutions participating in the program, reporting on program performance and costs, maintaining program accounts, and managing and disposition of securities purchased. Descriptions of the operating expenses follow the table.



Operating Expenses: Table

	[1]	[2]	[3]	[4]
	Expenditures FY 2011 Budgeted	Expenditures as of 3/31/11	Commitments, Obligations, and Expenditures as of 3/31/11	Expenditures FY 2011 Projected
Salaries and benefits	7,025,000	922,111	922,111	3,407,830
Travel	187,000	6,501	11,370	33,000
Contracts and other				
Legal support	n/a	104,744	9,793,466	9,438,742
Custodian and infrastructure provider	n/a	3,940,000	8,314,439	12,163,493
Asset managers	n/a	282,000	5,040,000	9,489,000
Internal controls	n/a	1,717,541	3,153,919	4,276,032
Office of the Treasury Inspector General	n/a	330,000	987,000	987,000
Other (equipment, supplies)	n/a	14,160	14,160	23,190
Subtotal (contracts and other)	47,437,000	6,388,445	27,302,984	36,377,457
Total	54,649,000	7,317,057	28,236,465	39,818,287

[1] As presented in the President's Fiscal Year 2012 Budget.

[2] Includes actual expenditures from the beginning of the program (9/27/10) through 3/31/11.

[3] Includes all financial commitments, obligations and expenditures as of 3/31/11. Reflects 1,000 SBLF closings.

[4] Includes all financial commitments, obligations, expenditures, and projections as of 3/31/11 through 9/30/11. Reflects 1,000 SBLF closings.

Operating Expenses: Descriptions

The Fund's program office is now fully staffed. Because many of these employees joined the Fund during the 2011 fiscal year, actual salary expense incurred to March 31 is substantially less than the budgeted amount. Treasury is utilizing existing administrative infrastructure available through the Treasury Departmental Offices to further minimize expenses.

Travel expenses to date relate primarily to outreach activities to build awareness and provide education to eligible institutions regarding the Fund.

The cost of legal services and financial agents (including custody of securities, payments, credit analysis, and market research) is largely proportionate to the volume of applications and the number of closings.

- **Legal Support:** These expenses are for legal services relating to investment transactions and reflect the potential for 1,000 transactions. Actual expenses will depend on the number of transactions completed.
- **Financial Agents (Custodian and Infrastructure Provider, Asset Managers):** These expenses relate to (i) Treasury's custodian bank, which handles securities certificates received by Treasury, outreach to eligible institutions, and payments processing for Fund participants, (ii) financial analysis, and (iii) sector-specific market research. These costs are primarily volume- and activity-dependent.



- **Internal Controls:** These expenses relate principally to the design of processes and internal controls associated with application review and decision making. This activity includes advice regarding the development of procedures, information databases and other documentation for the processing of applications. These contractual expenses will be significantly reduced in future years, as the Fund's operational processes and controls will have been established. This cost is not volume-dependent.
- **Office of the Treasury Inspector General:** These expenses relate to the internal cost of \$987,000 to the Treasury Inspector General for two audits of the SBLF program. This cost is not volume-dependent.

