AMENDMENT 279 – TO PROHIBIT ANY FEDERAL FUNDS FROM BEING USED TO PAY OFF FEDERAL TARP OBLIGATIONS

- **This Issue Was Predicted**
- **This is Not the First Time Federal Funds Have Been Used to Pay Off Federal Loans**
- **Congress Should Not Bailout Bailouts**

This amendment would prohibit any federal funds, including loans, from being used to repay federal TARP commitments.

Last fall, Congress passed the Small Business Jobs Act of 2010 (P.L. 111-240) with only three Republican votes combined. While many provisions within this measure were of questionable merit, one provision was the most controversial.

This provision created a $30 billion Small Business Lending Fund (SBLF). This fund was set up similarly to the Troubled Asset Relief Program (TARP) fund in that would loan federal taxpayer dollars to banks.

SBLF is administered by the Secretary of the Treasury "to make capital investments" in eligible community banks with assets less than $10 billion. Participating banks are charged dividends or interest of 5% annually initially, with reduced rates available if the bank increases its small business lending.

While the goal behind this fund was to increase small business lending in a fragile economy, according to recent news story reports, it appears that many banks are using this fund to refinance higher interest TARP loans.

According to an *AP* story,

> "While Treasury has yet to grant approval to any banks seeking to use money from SBLF to repay their bailouts, 'they will…' More than 500 small banks have applied for the loan program, according to Treasury figures. [Treasury officials] said less than $10 billion will ultimately be repaid to the bailout from the loan program."[1]

[1] http://hosted.ap.org/dynamic/stories/U/US_FEDERAL_BAILOUT_BANKS?SITE=FLSTU&SECTION=HOME&TEMPLATE=DEFAULT

The story goes onto explain that many bankers are eager to escape the stigma of having accepted TARP funds. Additionally, these banks could save money on interest payments if they increase lending to small businesses. Interest rates would generally stay the same if they didn't.

This Issue Was Predicted

During the debate of this provision last year, Members of Congress and the Senate TARP Congressional Oversight Panel complained that SBLF was unlikely to have any positive lending impact

Paul Atkins, of the Senate TARP Congressional Oversight Panel argued that the Small Business Lending Fund resembled the Capital Purchase Program (CPP) under TARP, which did not necessarily lead to greater lending by banks. According to Atkins,

> "In many ways the SBLF substantially resembles the CPP: it is a bank-focused capital infusion program that is being contemplated despite little, if any, evidence that such programs increase lending… After all, the largest CPP recipients did not lend more. Further, the SBLF imposes only a mild penalty on banks that take the funds but fail to increase lending, and there is nothing in the SBLF to create accountability or linkages between the receipt of funds and loans…[2]

In other words, SBLF would likely increase federal lending to banks and not much else. In many cases, the loans being refinanced would likely be high-risk loans.

Given the recent news, it appears that up to $10 billion of the $30 billion authorized for SBLF will be awarded to banks refinancing loans awarded through TARP. How much more of the $20 billion will be used to refinance other loans is unclear.

Senator Chuck Grassley in a recent letter to Secretary Geithner pointed out that it also appears that President Obama is using the small business program as "a bailout for banks and a pass-through to falsely show profits in the TARP program."

[2] Testimony of Paul Atkins, Member, Congressional Oversight Panel, in U.S. Congress, House Committee on Financial Services, *Initiatives to Promote Small Business Lending, Jobs and Economic Growth*, hearing on H.R. 5297, 111th Cong., 2nd sess., May 18, 2010, http://www.house.gov/apps/list/hearing/financialsvcs_dem/hrng_05182010.shtml.

This is Not the First Time Federal Funds Have Been Used to Pay Off Federal Loans

Last summer, GM claimed in advertisements it had fully repaid its TARP obligation to taxpayers. While this statement ignored the fact that billions more in TARP funds remained invested in company holdings, GM also failed to mention from where the repayment funding came.

After further review, it was determined that GM had paid its outstanding debt of $6.7 billion to the federal government with funds in its escrow account. This account contained $16.4 billion in funds that were once TARP funds. The Department of Treasury confirmed the fact that these formerly federal funds were used to repay another federal obligation.[3]

The escrow funds were part of the TARP money Treasury paid for GM stock coming out of the bankruptcy. The money was supposed to be used by GM for expenses. Treasury had the power to approve or disapprove GM's use of the money to repay the TARP taxpayer loan. Treasury approved, and GM pretended it was paying the loan back from revenue because business had improved.

Senator Grassley called this transaction, "an elaborate TARP money shuffle."

Congress Should Not Bailout Bailouts

While the passage of funds such as TARP and SBLF are questionable, it is completely inappropriate for SBLF funds to be used to pay off federal TARP commitments. The purpose of SBLF was to increase lending to small businesses, not to help banks clear their balance sheets or pay off other federal commitments.

This amendment would prohibit the use of any federal funding to pay off federal TARP commitments. Passage of this amendment could result in up to $10 billion in additional funds being used to encourage small business lending. It is likely that this amendment will result in additional savings through programs besides SBLF.

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[3] http://grassley.senate.gov/about/upload/2010-04-27-Letter-from-Treasury-Dept.pdf