Banks Using Small Business Funds to Repay Bailouts

Money that was allocated for increasing small business loans will instead be used to repay federal bailouts, according to an official at the Treasury Department who oversees the bailout program. The Associated Press explains:

Last years law creating the lending program lets banks use money from that program to repay their bailouts.

> The loan program was a response to the economic downturn, in this case an effort to help small businesses get capital that had become difficult for them to attain. The loan program provides money to smaller banks their assets must be under $10 billion and charges them lower interest rates if the money is used for loans to small businesses.

Treasury data indicate that over 500 banks have already applied for the program.

Timothy Massad, Acting Assistant Secretary for the Office of Financial Stability, noted that while the Treasury has not yet approved of using the money from the Small Business Lending Fund to repay bailouts, they will.

Indicating that less than $10 million will be repaid to the bailout program, Massad remarked, I do expect them to approve the applications of many TARP recipients to refinance their loans under the small business lending fund.

The *Associated Press* continues:

> Massads comments came shortly after he told Congress that Treasury is now running a profit on the portion of the $700 billion federal bailout that went to banks. None of the bank bailout repayments Treasury has received so far come from the loan program, he said.

Paul Merski, chief economist for Independent Community Bankers of America, claims that most small banks are interested in using the program to repay bailout debts, as bankers would ultimately save money in doing so, thereby lowering interest rates. Its almost a no-brainer, he added.

Treasury spokesman Colleen Murray asserts, however, that lower interest rates are not guaranteed. The banks must first increase their small business lending before seeing lower rates.

Senator Charles Grassley (R-Iowa) criticized the banks use of the small business lending funds to repay bailout money in a letter to Treasury Secretary Timothy Geithner, pointing out that using federal funds from one program to repay another is an egregious example of budget gimmickry.

Grassley also articulated concerns that the Obama administration is using the small business program as a bailout for banks and a pass-through to falsely show profits in the TARP program.

As banks begin to repay their bailouts, the Treasury Department stands to make an estimated profit of $20 billion. It has already received $251 billion back from the banks, surpassing the $245 billion in distributed bailouts. Massad indicates that 70 percent of the banks have repaid the bailout funds.

The profits are said to offset losses of $45.6 billion in housing programs, including a controversial initiative providing mortgage modifications that the House voted this week to end.

Linus Wilson, assistant professor of finance at the University of Louisiana, says of the profits, It means that taxpayers will not lose money on the banks. He adds, however, That doesnt mean all the banks are doing great; in fact, many of them are not doing great. Of the 164 banks and credit unions that received TARP funds, almost 25 percent of those who benefited from the aid have failed to make their most recent TARP repayments.

Wilson also contends that despite some of the positive outcomes of TARP, the program overall posted significantly fewer returns than private investors who made similar investments.

One outspoken critic of TARP is Neil Barofsky, the soon-to-be-former Special Inspector General of TARP, who has targeted the programs lack of transparency, particularly in regard to the Home Affordable Modification Program (HAMP). It fulfilled its promises to Wall Street, as reflected in the return to profitability of the nations largest banks, he noted. But unfortunately, its failed to live up to some of its promises to Main Street.

Overall, Barofsky declares that the program could lead to moral hazard as financial institutions may be encouraged to embark on risky endeavors.