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Congressional Oversight Panel Evaluates TARP's Impact on the Small Business Credit Crunch

May 13, 2010

For Immediate Release

WASHINGTON, D.C. - The Congressional Oversight Panel today released its May oversight report, "The Small Business Credit Crunch and the Impact of the TARP." Although the Troubled Asset Relief Program (TARP) has launched several initiatives aimed at restoring general credit availability, the Panel found little evidence that the TARP has spurred small business lending.

The Secretary of the Treasury recently designated small business credit as a primary focuses of the TARP, and he pledged TARP funds "for additional efforts to facilitate small business lending." The Panel found that:

Small business credit remains severely constricted. Data from the Federal Reserve show that lending plummeted during the 2008 financial crisis and remained sharply restricted throughout 2009. Although Wall Street banks had been increasing their share of small business lending over the last decade, between 2008 and 2009 their small business loan portfolios fell by 9 percent, more than double the 4 percent decline in their overall lending portfolios.

TARP has done little to restore stability to the smaller banks that provide the bulk of small business credit. With Wall Street banks pulling back, some small business borrowers looked to community banks to pick up the slack. Many of these banks, however, continue to struggle with their exposure to commercial real estate loans and other liabilities, constraining their ability to lend.

Treasury's new lending program for small banks, even if enacted by Congress, could have only limited success. The proposed Small Business Lending Fund (SBLF) would provide \$30 billion in low-cost capital to small and mid-sized banks, along with incentives to increase lending. The SBLF's prospects are far from certain. The program requires legislative approval, and even if Congress acts immediately, the program may not be fully operational for some time. Moreover, banks may shun the program for fear of being stigmatized by its association with the TARP, or banks may wish to avoid taking on SBLF liabilities at a time when their existing assets, such as commercial real estate, remain in jeopardy. To the extent that the lending contraction reflects a shortfall of demand rather than of supply, a supply-side solution like the SBLF may fail to gain traction.

The Panel called on Treasury to consider creative solutions that engage banks, state-based lending consortia, and other market participants, as well as to take active steps to gather more detailed and dependable data on small business lending. The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency

Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.

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