



Audit Report



OIG-20-026

SMALL BUSINESS LENDING FUND

Impact of Mandatory Dividend Rate Increases on Small Business Lending Fund Participants

January 29, 2020

Office of
Inspector General

Department of the Treasury

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Abbreviations

Act	<i>Small Business Jobs Act of 2010</i>
BNYM	Bank of New York Mellon
CDFI	community development financial institution
CIR	Collections Information Repository
CDLF	Community Development Lending Fund
FDIC	Federal Deposit Insurance Corporation
OIG	Office of Inspector General
QSBL	Qualified Small Business Lending
QSR	<i>Quarterly Supplement Report</i>
SPA	<i>Securities Purchase Agreement</i>
SBLF	Small Business Lending Fund
Treasury	Department of the Treasury

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*The Department of the Treasury
Office of Inspector General*

January 29, 2020

Gavin A. Beske
Deputy Assistant Secretary for Community and Economic
Development

This report presents the results of our audit of the impact of the mandatory dividend and interest rate increases on financial institutions participating in the Department of the Treasury's (Treasury) Small Business Lending Fund (SBLF) program (also referred to as SBLF participants). Between December 2015 and April 2016, the dividend or interest rate (hereinafter collectively referred to as dividend rate) for SBLF participants rose to 9 percent for C corporations and 13.8 percent for S corporations.¹ The objective of our audit was to evaluate the impact of these mandatory dividend rate increases on the remaining SBLF participants. Specifically, we determined the number of financial institutions that redeemed their securities (also referred to as SBLF program investments) and whether Treasury collected the additional dividends due from financial institutions remaining in the SBLF program.

The scope of our audit included 281 SBLF participants (comprised of 232 C corporations and 49 S corporations) of the 332 financial institutions participating in the SBLF program as of the September 27, 2011, statutory deadline for entering the program. This comprised \$3,923,424,880 (or 97 percent) of Treasury's \$4,027,703,880 total SBLF program investments. The remaining 51 SBLF participants were comprised of Community Development Lending Funds (CDLF),² which were not within the scope of this audit. For the SBLF participants within our audit scope, we tested

¹ Dividend rate increases were based on each SBLF participant's investment dates per the *Securities Purchase Agreement*.

² CDLFs are tax-exempt organizations that provide microloans, mezzanine financing, and finance community facilities and must be certified by the Community Development Financial Institutions (CDFI) Fund as a CDFI. Dividend rate increases to 9 percent for CDLFs begin in calendar year 2019.

all 269 investment redemptions beginning with the first redemption, in May 2012, through March 2018. We tested all 197 dividend payments totaling \$46,062,138 owed to Treasury subsequent to SBLF participants' respective dividend rate increases for the period January 2016 through March 2018. We conducted our audit from December 2017 through June 2019. Appendix 1 provides more detail of our audit objectives, scope, and methodology.

Results In Brief

In brief, we found that 227 of the 281 (or 81 percent) financial institutions participating in the SBLF program fully redeemed their investments, totaling \$3,416,196,880, prior to the dividend rate increase taking effect in the first quarter of calendar year 2016. Subsequent to the dividend rate increases, 54 financial institutions (or 19 percent) remained in the SBLF program with an outstanding balance totaling \$507,228,000. These remaining SBLF participants were required to make dividend payments at increased dividend rates (9 percent for C corporations and 13.8 percent for S corporations) until their investments were fully redeemed.

Subsequent to the SBLF participants' respective dividend rate increases, 197 dividend payments totaling \$46,062,138 were due during the period of January 2016 through March 2018 from the remaining 54 SBLF participants. The SBLF program office collected 182 dividend payments (or 92 percent) due totaling \$39,736,183. Fifteen missed dividend payments totaling \$6,325,955 were due from three financial institutions. One such financial institution fully redeemed its investment in July 2016 and paid a prorated dividend of \$20,344. For the remaining two financial institutions, SBLF program officials stated that they wrote off SBLF's investment of \$6,742,000 in one of them (with dividends of \$1,908,900 owed) since it was not expected to continue operations as its sole subsidiary was seized and sold in a public auction in August 2017. SBLF officials maintained its investment of \$37,935,000 on the SBLF program records for the other financial institution, which filed for bankruptcy protection in May 2017 after its sole subsidiary was placed in Federal Deposit Insurance Corporation (FDIC)

receivership.³ However, there was no expectation of its \$4,267,687 dividend owed being paid.

During the period of January 2016 through March 2018, another 42 financial institutions fully redeemed their investments totaling \$378,259,000. As of March 31, 2018, 269 of the 281 participating financial institutions (or 96 percent) had fully redeemed their investments and the 12 remaining participating institutions had unredeemed investments totaling \$200,832,000.

Overall, we concluded that financial institutions impacted by the 9 percent and 13.8 percent dividend rate increases exited the SBLF program at an accelerated pace prior to their respective dividend increases. Furthermore, we found that SBLF program officials and staff complied with the office's *Redemption Procedure* and *Dividend and Interest Procedures*. We verified the accuracy of all investment redemption amounts and total dividend payments collected by Treasury. In the case of missed dividend payments, SBLF program officials took appropriate actions. Since SBLF participants remaining as of March 31, 2018, were not required to redeem their investments, we make no recommendation in this report.

As part of our reporting process, we provided Treasury management an opportunity to comment on a draft of this report. In a written response, management stated that while it was not able to independently verify all numbers in the draft report, it was pleased that the audit concluded that SBLF program officials and staff complied with the office's *Redemption Procedure* and *Dividend and Interest Procedures* and that, in the case of missed payments, SBLF program officials took appropriate actions. We included Treasury management's response, in its entirety, as appendix 2 of this report.

³ Receivership is a process in which a legally appointed receiver acts as a custodian of a company's assets or business operations, as with bankruptcies. A bankruptcy court, creditor, or governing body may appoint a receiver.

Background

The SBLF program was created by the Small Business Jobs Act of 2010 (Act)⁴ to increase the availability of credit to small businesses. Section 4103(a) of the Act gave the Secretary of the Treasury temporary authority to make capital investments in eligible financial institutions in exchange for preferred shares of stock or other financial instruments. In return, financial institutions that received capital investments under the program are required to pay dividends or interest to Treasury. SBLF participants are corporation banks, holding institutions,⁵ mutual institutions,⁶ savings institutions, or CDLFs.

Of the \$30 billion available through the SBLF program, Treasury invested over \$4 billion in 332 financial institutions as of the September 27, 2011, deadline for entering the program. Initial investments were comprised of: (a) \$3,557,581,170 in 232 C corporations; (b) \$365,843,710 in 49 S corporations and mutual institutions; and (c) \$104,279,000 in 51 CDLFs.⁷ Under the Act, an investment in S corporations and mutual institutions must be repaid no later than the 10-year period beginning on the date the investment is made. Investments in C corporations are perpetual preferred shares and there is no set maturity date, although terms set in the *Securities Purchase Agreement* (SPA) signed by each SBLF participant include incentives to redeem at the 10 year investment anniversary.

In accordance with the Act, financial institutions participating in the SBLF program owed Treasury dividends at a rate determined by their increase in qualified small business lending over their baseline

⁴ Pub. L. No. 111-240, 124 Stat. 2582-2596 (September 27, 2010)

⁵ Holding institutions are any company that has direct or indirect control, either through ownership of voting shares or exercise of control in any manner in the election of a majority of the directors or trustees, over a financial institution.

⁶ Mutual institutions are legal entities with no stockholders that are owned by their depositors or policyholders and are generally thrifts and savings and loan associations.

⁷ C corporations are legal entities operating under state law whose profits are taxed to the corporation when earned, and taxed to the shareholders when distributed as dividends. S corporations are entities, as allowed by the Internal Revenue Code, which pass income, losses, deductions, and credits to their shareholders for Federal tax purposes. In so doing, the corporation avoids double taxation on corporate income.

level.⁸ Participating institutions' baseline levels of Qualified Small Business Lending (QSBL) were used to establish initial dividend rates. An institution's QSBL was calculated by summing all of the following types of lending: (1) commercial and industrial loans; (2) loans secured by owner-occupied non-farm, non-residential properties; (3) loans to finance agricultural production and other loans to farmers; and (4) loans secured by farmland. Then, that amount was subtracted by all lending with the following characteristics: (1) loans to the same borrower and its affiliates with an original principal or commitment amount greater than \$10 million; (2) loans to businesses with more than \$50 million in revenues; (3) loans guaranteed by the U.S. government; and (4) loans in which a third party has assumed an interest.

Each SBLF participant's SPA with Treasury legally required the payment of dividends on a quarterly basis based on applicable dividend rates. These SPAs established Treasury's position through non-cumulative preferred shares and/or subordinated debt. Dividends payments are payable quarterly in arrears on January 1, April 1, July 1, and October 1 of each calendar year.

For the first 2.5 years into the SBLF program, dividend rates ranged between 1 percent and 5 percent for participating C corporations and 1.5 percent and 7.7 percent for S corporations. After 2.5 years, dividend rates for all participating financial institutions became static based on small business lending increases as of September 30, 2013. After 4.5 years in the SBLF program, or the first quarter of 2016, dividend/interest rates increased to 9 percent for C corporations and 13.8 percent for S corporations.

After initial dividend rates were established using participating institutions' baseline QSBL levels, the majority of SBLF participants' dividends rate varied depending on the institution's type and increase in QSBL, as shown in **Table 1** and **Table 2**.

⁸ The baseline level for measuring changes in small business lending is the average of the amounts reported for each of the 4 calendar quarters ended June 30, 2010.

Table 1. C Corporation Banks and Holding Companies

Dividend Rates			
Increase in QSBL from the Baseline	First 9 Quarters	Quarter 10 to Year 4.5	After Year 4.5
0% or less	5%	7%	9%
More than 0%, but less than 2.5%	5%	5%	9%
2.5% or more, but less than 5%	4%	4%	9%
5% or more, but less than 7.5%	3%	3%	9%
7.5% or more, but less than 10%	2%	2%	9%
10% or more	1%	1%	9%

Source: Office of Inspector General (OIG) analysis of interest rate increases based on Treasury's *Summary of Terms*.

Table 2. S Corporation Banks, Holding Companies, Mutual Institutions, and Savings Institutions

Interest Rates			
Increase in QSBL from the Baseline	First 9 Quarters	Quarter 10 to Year 4.5	After Year 4.5
0% or less	7.7%	10.8%	13.8%
More than 0%, but less than 2.5%	7.7%	7.7%	13.8%
2.5% or more, but less than 5%	6.2%	6.2%	13.8%
5% or more, but less than 7.5%	4.6%	4.6%	13.8%
7.5% or more, but less than 10%	3.1%	3.1%	13.8%
10% or more	1.5%	1.5%	13.8%

Source: OIG analysis of interest rate increases based on Treasury's *Summary of Terms*.

Audit Results Eighty-One Percent of Participants Exited SBLF Program Prior to Dividend Rates Increasing

Prior to their respective dividend rate increases, 227 of the 281 SBLF participants within the scope of this audit (or 81 percent) fully redeemed their investments totaling \$3,416,196,880. The 54 financial institutions remaining in the SBLF program at the time their dividend rates increased had outstanding investment balances

totaling \$507,228,000. These remaining SBLF participants comprised 46 C corporations (\$468,103,000) and 8 S corporations (\$39,125,000), which owed dividend payments at increased rates of 9 percent and 13.8 percent respectively. From April 2016 through March 2018, another 42 financial institutions redeemed their investments for a total of 269 of the 281 financial institutions exiting the SBLF program. Of the 12 SBLF participants remaining as of March 31, 2018, two of them experienced financial difficulties, of which one was written off by SBLF program officials, as described below in more detail. That said, the remaining financial institutions had not reached their respective 10-year redemption date under the Act.

Of the 197 dividend payments totaling \$46,062,138 that were due subsequent to the dividend rate increases, the SBLF program office collected 182 payments (or 92 percent) totaling \$39,736,183. Payments included 166 dividends totaling \$38,943,841 from C corporations and 16 dividends totaling \$792,342 from S corporations. Treasury was owed \$6,325,955 from three financial institutions that missed 15 dividend payments due between April 2016 and January 2018. When asked about the impact of dividend rate increases and what actions, if any, would be taken on the remaining SBLF participants, SBLF program officials stated that the timing of redemptions was self-explanatory and no immediate action would be taken with respect to the unredeemed investments.

We reviewed financial institutions' investment redemptions and dividend payments for accuracy, and compliance with respective SPAs, as well as, the SBLF program office's related actions described as follows.

Investment Redemptions

The SBLF program office made investments in 281 financial institutions from June through September 2011. Financial institutions were redeeming their investments at an accelerated pace prior to their respective dividend rate increase dates (December 2015 through March 2016), which occurred as follows: (1) 9 redemptions in calendar year 2012; (2) 19 redemptions in calendar year 2013; (3) 21 redemptions in calendar year 2014; (4) 88 redemptions in calendar year 2015; and (5) 90 redemptions in

first quarter of calendar year 2016. In all, 227 of the 281 (81 percent) financial institutions had fully redeemed their investments totaling \$3,416,196,880 prior to their respective dividend rate increases.

Subsequent to the dividend rate increases, another 42 of the 54 remaining financial institutions exited the SBLF program having fully redeemed their investments between April 2016 and March 2018. Redemptions totaled \$378,259,000, which were comprised of 36 C corporations (\$342,376,000) and 6 S corporations (\$35,883,000). By March 2018, investments totaling \$3,722,592,880 were fully redeemed by 269 of the 281 SBLF participants. In all, we confirmed that 222 C corporations (with redemptions of \$3,367,399,170) and 47 S corporations (with redemptions of \$355,193,710) had exited the SBLF program in accordance with their respective SPAs. We verified the accuracy of all redemption payments remitted through the Bank of New York Mellon's (BNYM) FedWire system and reconciled to Treasury's records.

According to the SBLF program's SPAs, investment redemption payments must be made at the full stated value of the related investment shares (no discounts permitted) plus accrued and unpaid dividends as of the date of redemption for the quarter that includes the redemption date. Additionally, investment redemptions must be made in amounts equal to at least 25 percent of the number of originally issued shares/debentures⁹ or 100 percent of the then outstanding shares/debentures (if less than 25 percent of the number of originally issued shares/debentures).

Of the 12 financial institutions in the SBLF program as of April 2018, 10 were C corporations with total remaining investments of \$165,898,000 and 2 were S corporations with total remaining investments of \$7,742,000. Additionally, two of these financial institutions experienced financial difficulties. According to SBLF program officials, one entity (S corporation)¹⁰ was not expected to continue operations as its sole subsidiary was seized and sold in a

⁹ A debenture is an unsecured loan certificate issued by a company that is backed by general credit rather than by specified assets.

¹⁰ Treasury's investment of \$6,742,000 was written off in 2018.

public auction in August 2017. The other entity (C corporation)¹¹ filed for bankruptcy protection in May 2017 after its sole subsidiary was placed in FDIC-receivership. As for the remaining active SBLF participants, SBLF program officials stated that they were not taking any action with respect to their unredeemed investments. Under the Act, SBLF participants are not required to redeem their investments until 10 years after an executed SPA. Since investments were made from June through September 27, 2011, the repayment deadline has not passed for the remaining 12 SBLF participants.

Dividend Payments

The SPA signed by each SBLF participant legally required the quarterly payment of dividends in arrears on January 1, April 1, July 1, and October 1 of each calendar year. The amount of dividends due was computed based on a 360-day year consisting of four 90-day quarters, including proration for days elapsed in cases of payment prior to the end of a quarter. Dividend payments required for preferred shares (C corporation banks and holding companies) were non-cumulative. Dividend payments for senior securities (S Corporation Banks, Holding Companies, Mutual Institutions, Savings Institutions, and CDLFs) were cumulative.

For the period January 2016 through March 2018, 197 dividend payments totaling \$46,062,138 were due from the 54 financial institutions remaining in the SBLF program after their dividend rates increased. The SBLF program office collected 182 payments (or 92 percent) totaling \$39,736,183. We recalculated all dividend payments due and found no exceptions with the amounts. We reconciled the dividend payments due to amounts remitted through the BNYM FedWire system. Furthermore, dividends were paid in accordance with the due dates and amounts stipulated in SBLF participants' respective SPAs. The remaining 15 missed payments totaling \$6,325,955 were due from 3 financial institutions. One financial institution fully redeemed its investment in July 2016. As part of its investment redemption, in accordance with the SPA, this financial institution paid prorated dividends of \$20,344 after missing two preceding quarters' dividend payments totaling

¹¹ Treasury's investment of \$37,935,000 was maintained on Treasury's records pending the outcome of bankruptcy proceedings. This financial institution was still in bankruptcy proceedings as of August 2019.

\$149,368. As noted above, the SBLF program officials wrote off the investment of \$6,742,000 in one financial institution, which missed 8 quarterly dividend payments totaling \$1,908,900. Since this entity was not expected to continue operations, no action was taken by the SBLF program office. The financial institution in bankruptcy missed 5 payments totaling \$4,267,687. According to SBLF program officials, this financial institution remains in bankruptcy litigation.

The SBLF program officials took the following required actions for missed dividend payments in accordance with the SPAs.

- For any missed payment

The Chief Executive Officer(s) (CEO) and Chief Financial Officer(s) (CFO) of the financial institution “will be required to provide written notice, in a form satisfactory to Treasury, which is to include the rationale for the board of directors for not declaring dividends.” Furthermore, no repurchases may be effected and no dividends declared or paid during the current quarter and the next three quarters in the case of S corporations and not until all accrued dividends are paid in the case of C corporations.

For the three respective financial institutions with missed dividend payments, we confirmed that the SBLF program office received 11 of the 15 written notification letters due from the respective CEOs and the CFOs. The notices included the boards of directors’ rationale(s) for not declaring dividends. Overall, it was deemed imprudent to declare and pay dividends due to the insufficiency of funds. SBLF program officials acknowledged that they did not receive the other four missed payment letters due from the two financial institutions, one of which was not expected to continue operations and the other was in bankruptcy proceedings at the time of the missed payments. Since neither entity could

pay dividends, SBLF program officials stated that they did not make futile attempts to obtain notification letters.

- After four missed payments

After dividend payments have not been declared and paid for four quarters or more (whether or not consecutive) and the financial institution issuer was not subject to a regulatory determination prohibiting dividend declaration and payment, the board of directors must certify, in writing, that “best efforts” were used to declare and pay quarterly dividends consistent with safe and sound banking practices and the [financial institution] director’s fiduciary obligation.

For the three financial institutions that missed four quarterly dividend payments, SBLF program officials stated that they did not have “best efforts” certifications from them for the following reasons: (1) the institution that was not expected to continue operations no longer had an effectively functioning and operating issuer board of directors; (2) the institution in bankruptcy was prohibited from authorizing a dividend payment by their cognitive Federal Reserve Bank, “and such authorization and payment was necessary in order to allow” them to “make the interest payment to Treasury;” and (3) the third institution was not required to provide a “best efforts” certification since the entity was prohibited by State law from declaring and paying dividends. As noted above, this institution fully redeemed its securities and paid a pro-rated dividend in July 2016.

- After five missed payments

Whenever dividend payments have not been declared and paid for five quarterly dividends or more, whether or not consecutive, Treasury will have the right, but not the obligation, to appoint a representative to serve as an observer on the Issuer’s board of directors. This right will end when full dividends have been paid for four consecutive subsequent dividend periods.

We reviewed SBLF program office’s documentation supporting appointments of observers to the board of

directors of two organizations - the financial institution that redeemed its securities in July 2016 (they had missed dividend payments prior to their rate increase) and the financial institution that was not expected to continue operations - after they had accrued 5 missed payments. SBLF program officials stated that they chose not to institute any board observers or voting directors, as per their discretion, for the institution that went into bankruptcy.

- After six missed payments

Whenever dividend payments have not been declared and paid for six quarters or more, whether or not consecutive, and if the principle amount of the holder's securities is \$25 million or more, the holder will have the right, but not the obligation, to elect two directors to the financial institution's/issuer's board of directors. Treasury's investments in two of the three financial institutions that missed six dividend payments were under the \$25 million threshold, and therefore, no action was required related to the missed dividend payments. As allowed by the SPAs, SBLF program officials did not elect to appoint directors to the financial institution that was in bankruptcy.

Conclusion

Overall, we concluded that financial institutions exited the SBLF program at an accelerated pace prior to their respective 9 percent and 13.8 percent dividend increases. Furthermore, we found that SBLF program officials and staff complied with the office's *Redemption Procedure* and *Dividend and Interest Procedures*. We verified the accuracy of all investment redemption amounts and total dividend payments collected by Treasury. In the case of missed payments, SBLF program officials took appropriate actions. Since SBLF participants remaining as of March 31, 2018, were not required to redeem their investments, we make no recommendation in this report.

* * * * *

We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. Major contributors to this report are listed in appendix 3. A distribution list for this report is provided as appendix 4. If you have any questions, you may contact me at (202) 927-5784 or Nick Slonka, Audit Manager at (202) 927-8772.

/s/

Donna Joseph
Deputy Assistant Inspector General for Audit

Pursuant to Section 4107 of the Small Business Jobs Act of 2010, we initiated an audit of the impact of the mandatory dividend and interest rate increases on financial institutions participating in the Department of the Treasury's (Treasury) Small Business Lending Fund (SBLF) program (also referred to as SBLF participants). Between December 2015 and April 2016, the dividend or interest rates (hereinafter referred to as dividend rate) for SBLF participants increased to 9 percent for C corporations and 13.8 percent for S corporations. The objective of our audit was to evaluate the impact of these mandatory rate increases on the SBLF participants. Specifically, we determined the number of financial institutions that redeemed their securities (also referred to as SBLF program investments) and whether Treasury collected the additional dividends due from financial institutions remaining in the program.

The scope of our audit included 281 SBLF participants (comprised of 232 C corporations and 49 S corporations) of the 332 financial institutions participating in the SBLF program as of the September 27, 2011 statutory deadline for entering the program. This comprised investments of \$3,923,424,880 (or 97 percent) of the \$4,027,703,880 of total SBLF program investments. The remaining 51 of the 332 SBLF participants were not within the scope of this audit as they were Community Development Lending Funds, which did not have dividend rate increases for the period of this audit. For the 281 SBLF participants within our audit scope, we tested all 269 investment redemptions totaling \$3,722,592,880 for the period June 2012 through March 2018 and all 197 dividend payments owed totaling \$46,062,138 for the period January 2016 through March 2018.

To accomplish our audit objectives, we performed the following procedures.

- Reviewed applicable laws, regulations, policies, and procedures, as follows:
 - Small Business Jobs Act of 2010 (Pub. L. No. 111-240, 124 Stat. 2582-2596 (September 27, 2010));
 - *SBLF Redemption Procedure* (February 25, 2015)
 - *SBLF Dividend and Interest Procedure* (July 8, 2014);
 - and

- SBLF *Summary of Terms* for both Senior Preferred Stock and Subchapter S Corporation Senior Securities (May 2011).
- Reviewed documentation supporting investment redemptions and dividend payments as follows:
 - SBLF program’s investment redemption lists (July 2012 through December 2017);
 - SBLF program’s dividend payments lists (January 2016 through March 2018);
 - *SBLF Transaction Reports* for the months August 2012 through March 2018;
 - Bank of New York Mellon FedWire Message Summaries;
 - SBLF’s missed dividend payments lists April 2016 through March 2018
 - SBLF program office’s meeting minutes demonstrating exercise of its Board Observer rights
 - Notification letters from financial institutions stating intent not to declare dividends (missed payments);
 - *Quarterly Supplemental Reports* (QSRs) from the lending institutions (December 2015 to December 2017); and
 - *Securities Purchase Agreements* for the 12 institutions still participating in the program as of April 2018 and subject to the mandatory dividend rate increases.
- Tested 100 percent of investment redemptions and dividend payments owed as follows:
 - confirmed SBLF program office’s investment redemption lists agreed to the transactional data contained in the Bank of New York Mellon’s (BNYM) “Collections Information Repository” (CIR). The CIR, also called the FedWire message summary report, was completely reconciled to confirm that redemptions received per SBLF were the same as the transaction records receipts from BNYM; and
 - verified the accuracy of all 197 dividend payments owed, totaling \$46,062,138, from 54 financial institutions still participating in the SBLF program after

the first mandatory dividend rate increased in first quarter of calendar year 2016 by (1) determining the applicable dividend rate by comparing the CIR data, awardees' C or S corporation status per SBLF program office, and the *Summary of Terms* sheets; (2) reviewing the CIR data against the dividend payment list from the SBLF program office to ensure that payments received per BNYM were consistent and accurate; and (3) re-calculating each payment, based upon whether the entity was a C corporation subject to the 9 percent rate increase or an S corporation subject to a 13.8 percent rate increase.

- Interviewed key officials and personnel within the SBLF program office, to include SBLF's Director, Compliance Specialist, Investment Manager, and Counsel.

We conducted our audit work at the SBLF program office and the Office of Inspector General in Washington D.C. from December 2017 through June 2019.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 22, 2020

Donna Joseph
Deputy Assistant Inspector General for Audit
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Joseph:

Thank you for the opportunity to review and comment on your draft report entitled *Impact of the Mandatory Dividend Rate Increases on Small Business Lending Fund Participants*. This letter provides the official response of the Department of the Treasury (Treasury).

While we did not independently verify all of the numbers in the draft report, we are pleased that your audit concluded that SBLF program officials and staff complied with the office's *Redemption Procedure and Dividend and Interest Procedures* and that, in the case of missed payments, SBLF program officials took appropriate actions.

We appreciate your office's effort to work collaboratively with the SBLF team and look forward to working together on future SBLF program audits.

Sincerely,

A handwritten signature in black ink that reads "Gavin A. Beske".

Gavin A. Beske
Deputy Assistant Secretary for Community and
Economic Development

Appendix 3
Major Contributors To This Report

Nick Slonka, Audit Manager
Anita Smith, Auditor-In-Charge
Lynette Feliciano Del Valle, Auditor
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Director



Treasury OIG Website

Access Treasury OIG reports and other information online:

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