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United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, DC 20510–6275

March 22, 2011

The Honorable Timothy Geithner
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20003

Dear Secretary Geithner:

During the consideration of the Small Business Jobs Act in the 111th Congress I said that the so-called "Small Business Lending Fund" (SBLF) proposed under this legislation would become a "mini-TARP" because it allowed banks to access federal government funds at reduced costs.[1] The White House has pushed back strongly against this claim and denied that there is *any* link between the SBLF and TARP.[2] In fact, the administration even took it upon itself to "fact check" an Associated Press story on the SBLF, boldly labeling the claim that "The administration's haziness about whom the program benefits has fueled comparisons to the $700 billion bailout known as the Troubled Asset Relief Program, or TARP" as "FICTION."[3]

Given these facts, I was surprised to read an article in the Pittsburgh Post-Gazette that seems to contradict the White House's position on this issue and renews my fear that the White House is using the SBLF as a bailout for banks and a pass-through to falsely show profits in the TARP program.[4] The Pittsburgh Post-Gazette article, published on March 17, states:

> Executives at most …local banks said they were considering paying off the TARP funds with money borrowed from a new $30 billion federal program set up to spur community banks to lend more to small businesses and boost the economy. The program, called the Small Business Lending Fund, is open to banks with less than

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[1] Senator Charles E. Grassley, Press Release: "*Extend job-creating tax credit, no to another government spending program.*" September 16, 2010.
[2] White House Blog Post: *"Distorting the Small Business Jobs Act."* August 1, 2010. Available at: http://www.whitehouse.gov/blog/2010/08/01/distorting-small-business-jobs-act
[3] *Id.*
[4] Pittsburgh Post-Gazette, Patricia Sabatini; "*U.S. Breaking Even on its Bank Bailout*." March 17, 2011.

> $10 billion in assets. Banks have until the end of the month to apply. Bankers are expecting that in order to participate, they will be required to repay TARP with the proceeds. "We are considering participating in that fund," said Jeffrey Stopko, chief financial officer at Ameriserve Financial, based in Johnstown. "If we would do that, we would utilize those funds to repay TARP." Parkvale Financial's chief financial officer, Gil Riazzi, said the Monroeville-based institution had already applied for a piece of the new lending fund. "We fully expect to refinance TARP with the proceeds," he said this week.[5]

This is not the only example of the SBLF being used as a backdoor repayment mechanism for TARP. On March 8th, Nashville Public Radio reported that, "Nashville-based Pinnacle Financial is considering paying back one loan from the federal government by taking out another…. Pinnacle received $95 million from the Troubled Asset Relief Program, or TARP, during the financial meltdown. Now it's considering repaying that money by taking out up to $110 million from Small Business Lending Fund."[6] Further, New York City based Medallion Financial Corporation even went so far as to tout increased "profitability" in converting their TARP funds to SBLF funds in their quarterly earnings report.[7] These public statements fly in the face of the White House's claims that there is no link between the SBLF and TARP and are a great cause of concern.

First, I ask your assurance that any TARP funds repaid by SBLF-recipient banks will not be counted as funds "repaid" to the federal government. To claim that TARP funds are being "repaid" by government-lent SBLF funds would be an egregious example of budget gimmickry and also further demonstrate that the SBLF is simply another extension of TARP at lower interest rates and without executive compensation controls. In addition, in order to fully investigate the links between the TARP program and the SBLF, please provide a written reply to each of the following:

1. What the Treasury Department's oversight plans are for the SBLF?
2. Please provide a list of all banks which have applied for SBLF funds.
3. How much each bank has requested?
4. Which of those banks are TARP recipients?
5. How much they still owe in TARP funds?
6. For each TARP recipient bank applying for SBLF funds, what interest payments would each bank have to make on its TARP funds for the next four-and-a-half years

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[5] *Id.*

[6] Nashville Public Radio, Alberto Roldan; "*Pinnacle Looks to Repay TARP Funds*." March 8, 2011.

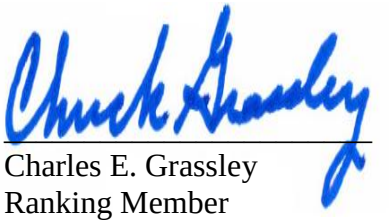
[7] Medallion Financial Corporation, 2010 Fourth Quarter and Full Year Results. March 10, 2011. "In addition, the new Small Business Lending Fund (SBLF) recently passed by Congress to help small banks could also be of benefit to us. Current TARP participants accepted into the SBLF program are permitted to convert their TARP funds into SBLF funds, and by doing so, exit the TARP program. Medallion Bank could also potentially receive additional government funds to leverage under the SBLF program and see the 5% dividend rate it is currently paying on its existing TARP funds decrease to as low as 1% under the SBLF program further aiding our capital retention, profitability, and growth."

and, if accepted into the SBLF program, what interest payments would each bank have to make over the next four-and-a-half years if it complies with the SBLF's increased lending requirements?

Thank you for your cooperation and attention in this matter. I would appreciate all the documents in response to this request by April 5, 2011. If you have any questions, please do not hesitate to contact Chris Lucas for the Committee on the Judiciary at (202) 224-5225.

Additionally, on October 6, 2010 Senator Coburn and I sent a letter to you regarding the Office of the Comptroller of the Currency denying the Office of the Inspector General access to information on fraud at failed financial institutions. This letter specifically requested a written response by October 20, 2010. It has been five months, and yet I have received nothing. Please provide a response to that letter as well as a written explanation as to why your reply is so long overdue.

Sincerely,



Charles E. Grassley
Ranking Member
Committee on the Judiciary