RSC Republican Study Committee

Financial Services Working Group

Congressman Scott Garrett (R-NJ), Chairman

Congressman Tom Price (R-GA), RSC Chairman

September 22, 2010

TARP: THE SEQUEL

WHEN YOU FAIL THE FIRST TIME, JUST TRY AGAIN

On September 16, 2010, the Senate passed the controversial TARP Junior, H.R. 5297, otherwise known as the "The Small Business Jobs and Credit Act of 2010," by a vote of 61-38. Originally passed by the House June 28, 2010, it now returns to the House for final passage.

This legislation is eerily similar to the original TARP bill signed into law October 3, 2008. Given the Democrats penchant for big government spending it makes sense for them to double down on the same failed policy – give taxpayer dollars to the Treasury Department, so that the Federal Government could inject itself into the private economy by essentially buying portions of banks all across the country.

The bill creates a $30 billion lending fund that will be distributed to regional banks that will in turn lend to small businesses they would not typically lend to at this time (see: *High Risk Investments*). While this bill is cloaked in the stated goal of helping small business, what small businesses need is not another government overreach program, they need certainty.

If Congress was truly interested in helping out small businesses, we would be cutting taxes and regulatory requirements on this sector. Instead, the Obama administration and the Democrats in Congress pass things like the government-run healthcare bill that raises taxes on small businesses and creates expansive new regulations that will choke off any potential growth in small businesses – regulations such as the provision found in the healthcare bill that would require that every small business file a 1099 with the IRS every time it makes a purchase of $600 or more. Does the majority not see how this regulatory requirement would put a tremendous strain on a small business?

TARP JUNIOR DOESN'T EVEN REQUIRE LENDING TO SMALL BUSINESSES

This legislation will inject capital into banks without requiring a guarantee that they will actually lend the money to small businesses. TARP Junior allows a bank that qualifies to obtain an infusion of credit from the government without even requiring the bank to make a loan for two years. If you examine the legislation to find the penalty for failure to lend within the first two years, you won't find one because there is none.

ELIZABETH WARREN: ON THE RECORD

TARP has a history of not lending to the intended recipients, Elizabeth Warren was the head of the TARP Congressional Oversight Panel when they released this Executive Summary of the Small Business Credit Crunch and the Impact of the TARP.

"Treasury has launched several TARP initiatives aimed at restoring health to the financial system, but it is not clear that these programs have had a noticeable effect on small business credit availability. The largest TARP program, the Capital Purchase Program (CPP), provided hundreds of billions of dollars in new capital to banks, but Treasury did not require recipients to use the money to improve credit access. ***In fact, after receiving the money, most recipients decreased their lending.*** *The Term Asset-Backed Securities Loan Facility helped to restore liquidity to the securitized lending market, but because relatively few small business loans are securitized, the program had little impact on small business lending. Although the Public-Private Investment Partnership program remains in its early stages, it has not targeted and will likely not target the smaller financial institutions that often serve small businesses."*
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Son of TARP

More politically directed credit, this time for small banks.

President Obama has been trying to rebut the claim that he's antibusiness by promoting something called the Small Business Jobs Act, which would provide loans and temporary tax cuts to small businesses. If you've been paying attention over the last 18 months, you're probably asking, what's the catch?

And sure enough, most of the tax cuts are so narrowly targeted as to be economically trivial. The list includes bonus depreciation, small business expensing and a temporary zero capital gains tax rate for small business start-ups. These would be in place for a year or two and then vanish, which means they'll do little to change business behavior. Only a small fraction of America's 40 million or so small businesses would even qualify for the capital gains cut. But at least all of this would do little harm.

The same can't be said for the most expensive provision of the bill, which creates a new Small Business Lending Fund. Hard as it is to believe, the fund would operate as a new TARP program in which Uncle Sam would take an ownership stake in small banks.

The bill authorizes Treasury to purchase up to $30 billion of stock in small, community banks across the country. The banks in turn would agree to issue as much as $300 billion in loans to small businesses that they wouldn't otherwise lend to. You can bet that many businesses that get the loans will be engaged in not very profitable, but politically correct activities, such as diversity investing and renewable energy. Sound at all like subprime mortgage loans?

Here's the best part: The whiz kids at the Congressional Budget Office and Joint Committee on Taxation estimate that this program will raise $1.1 billion for the federal government. So there really is a free lunch.

The assumption is that these banks will make such wise loans that they'll make a bundle and the Treasury will get its money back in dividends on its preferred stock. But then why not have Treasury invest $100 billion to leverage $1 trillion in new loans? Or why not $2 trillion? If government-directed investment and lending can conjure such returns, the deficit should vanish in no time.

The false assumption here is that banks are reluctant to lend because they lack the capital. This ignores that small business lending is also down because the business demand for loans is weak. Businesses don't typically expand when Washington is raising dividend, capital gains and personal income tax rates while piling on the new costs of ObamaCare and other regulations.

The tax cut in this bill will provide $12 billion in relief over 10 years. The tax increase that Mr. Obama favors for 2011 would raise what the Joint Committee on Taxation figures will be $600 billion of revenues, about half of which comes from the coffers of small business. So the tax hikes, which are permanent, are about 50 times larger than the tax cuts, which are temporary. And the Obama Administration wonders why some people think this President is antibusiness.

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