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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-824, a report to congressional committees

TREASURY'S BANK ENTERPRISE AWARD PROGRAM

Impact on Investments in Distressed Communities Is Difficult to Determine, but Likely Not Significant

Why GAO Did This Study

Established in 1994, the Department of the Treasury's Bank Enterprise Award (BEA) program provides cash awards to banks that increase their investments in community development financial institutions (CDFI) and lending in economically distressed communities. CDFIs are specialized institutions that provide financial services to areas and populations underserved by conventional lenders and investors. In 2005, Treasury provided nearly $10 million in BEA awards.

The BEA program has faced longstanding questions about its effectiveness and experienced significant declines in funding in recent years. This report (1) examines the extent to which the BEA program may have provided banks with financial incentives and (2) assesses the BEA program's performance measures and internal controls.

To complete this study, GAO reviewed relevant award data; interviewed Treasury, bank, and CDFI officials; and assessed the BEA program's performance measures and internal controls against GAO's standards for effective measures and controls.

What GAO Recommends

GAO recommends that Treasury strengthen its internal controls to ensure proper award payments. Treasury disagreed with aspects of GAO's analysis but agreed to implement the recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-06-824.

To view the full product, including the scope and methodology, click on the link above. For more information, contact George A. Scott at (202) 512-5932 or scottg@gao.gov.

What GAO Found

The extent to which the BEA program may provide banks with incentives to increase their investments in CDFIs and lending in distressed communities is difficult to determine, but available evidence GAO reviewed suggests that the program's impact has likely not been significant. Award recipients GAO interviewed said that the BEA program lowers bank costs associated with investing in a CDFI or lending in a distressed community, allowing for increases in both types of activities. However, other economic and regulatory incentives also encourage banks to undertake award-eligible activities, and it is difficult to isolate and distinguish these incentives from those of a BEA award. For example, banks may have economic incentives to lend in distressed communities because of the potential profitability of such lending. Although it is difficult to determine the BEA program's impact, available evidence suggests that the impact likely has not been significant. For example, the size of a BEA award for large banks (which was .0004 percent of assets in 2005) suggests that a BEA award does not have much influence on such banks' overall investment and lending decisions (see figure). However, BEA awards may allow large banks to incrementally increase their award-eligible investments and lending.

The BEA program's performance measures likely overstate its impact, and GAO identified weaknesses in certain program internal controls. To assess the BEA program's performance, Treasury, among other measures, annually aggregates the total reported increase in CDFI investments and distressed community loans by all applicants but does not account for other factors, such as economic and regulatory incentives that also affect bank decisions. GAO also found that Treasury has limited controls in place to help ensure that BEA program applications contain accurate information. In particular, Treasury provides limited guidance to application review staff to identify potential errors and does not require the reviewers to completely document their work. As a result, GAO found that the BEA program is vulnerable to making improper payments.

Average BEA Award as a Percentage of Large Banks' Assets,[a] 2003 through 2005

Year	Number of banks[b]	Average award as percentage of total assets
2003	21	.0005
2004	17	.0004
2005	22	.0004

Source: GAO analysis of Treasury data.

[a]Large banks, for purposes here, are those with assets of $1 billion or more.

[b]Large banks received 43 percent of all BEA dollars in 2003, 8 percent in 2004, and 38 percent in 2005.