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## Small-Business Lending Fund Finds Unexpected Support in Senate

American Banker | Monday, July 12, 2010

By [Cheyenne Hopkins](#)

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WASHINGTON — A drive to create a \$30 billion small-business lending fund — once thought headed to a quick death in the Senate — may now be on its way toward swift passage.

The bill has already passed a key vote in the Senate, and Democratic leaders have taken steps to try and block a host of amendments from being added to the measure. The legislation is likely to be taken up for final approval this week, where industry representatives said they expect it to pass.

Observers attribute the surprising turnaround to the bill's relatively low profile — regulatory reform has drawn most of the attention in recent weeks — and a connection to a politically popular effort to help small businesses.

"I just think there's a very strong need to help small-business expansion on every front possible," said Gene Sperling, counselor to the Treasury secretary. "As people see more that this is a program completely outside of Tarp and that's just for small banks whose lending tends to be the small businesses ... it's hard to object to."

Outside observers agreed.

"Everybody is sympathetic to small businesses," said Mark Calabria, director of financial regulations studies at the Cato Institute and a former staffer for Sen. Richard Shelby, R-Ala. "It's one of those constituencies that everyone cares about and it fits into the job-creation mantra. And I'm sure every senator has heard someone say they can't get a loan for their small business."

Senate Republicans had been expected to rally against the measure, which would create a \$30 billion fund that community banks could tap as capital to increase lending to small businesses.

In the House, GOP members had vigorously opposed the bill, branding it another Troubled Asset Relief Program. The House passed the bill June 17 by a 241-to-182 vote, with only three Republicans voting for it.

Senate Republicans had been expected to follow suit, but instead the bill easily cleared a June 29 procedural vote, 66 to 33, that limited debate on the legislation.

Adding further momentum, Senate Majority Leader Harry Reid filed an "amendment tree" on the bill, a controversial procedural maneuver designed to block senators from offering amendments and speeding up the bill's passage.

To combat criticism that it is just another Tarp, the bill would attempt to push lenders to use money from the fund to boost small-business lending. Banks would see their dividend on the capital they receive drop as they increased loans to small businesses. For example, if such lending rose by more than 10% during the year, the dividend rate would drop from an initial 5% rate to 1%. Other restrictions of Tarp, including executive compensation limits and warrants, are not part of the new program.

Jim MacPhee, the chief executive of the \$81.2 million-asset Kalamazoo County State Bank in Schoolcraft, Mich., said he does not think the Senate will accept the argument that this is another Tarp. "I think this bill will pass," he said. "My gut feeling is they know it's the right

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thing. They know it's not Tarp. This bill is not about injecting capital into failed banks. This bill is about getting lending started at the ground level."

Also helping the bill are additional provisions that would give tax relief to small businesses and provide federal funds to states with capital access programs, and other measures expected to be added that would extend the Small Business Administration's 7(a) and 504 programs. "Ultimately people are going to be voting on an overall package that's going to include tax relief for small business, SBA expansion, as well as these two lending initiatives," Sperling said.

Michael Stevens, senior vice president of regulatory policy at the Conference of State Bank Supervisors, agreed.

"At its core, it's an economic issue. So if there is a program that can be adopted that is not costly ... that can be used to stimulate the economy and generate jobs, then that could generate everyone's interest as they are thinking of going home and running for re-election," he said.

The SBA provisions will also help the legislation, many said.

"I have to believe that everyone is concerned the SBA programs — the 7(a) and 504 programs — have ground to a standstill," said Jane Butler, executive vice president of lender relations at the National Association of Government Guaranteed Lenders. "And it's a shame that it takes having the Recovery Act benefits expire for people to recognize their importance to the economic recovery effort."

Some said the bill was helped by a lack of attention during the regulatory reform debate.

"With so much going on in D.C., the small-business lending fund has flown under the radar, which has been to its benefit," said Jon Winick, the president of Clark Street Capital. "It's not been discussed in great detail on the Sunday-morning talk shows and the blogosphere. ... It has not yet become a political issue which has allowed this initiative to proceed without much opposition. However, if one senator decides to make this a political issue and characterize it as a Tarp 2.0, it could run into resistance."

It is also helped by the active support of community bankers, who remain more politically popular than large institutions.

Community banks "are the ones that need a little help, a little financing to help them, not on their bottom lines in terms of their stability, because they are quite stable," Sen. Mary Landrieu, the chairman of the Small Business and Entrepreneurship Committee, said on the Senate floor two weeks ago. "I am extremely proud of our small banks around this country that did not go belly up. They are strong. They have money to lend. We want to give them some additional funding to lend."

The only potential threat to the bill's passage may be an amendment pushed by credit unions to raise their small-business lending limits. If such a measure were added to the bill, community bankers would likely pull their support for the bill.

Small banks "would not support the small-business lending bill if it, in fact, opened up the lending limit for tax-exempt credit unions," said Paul Merski, senior vice president and chief economist at the Independent Community Bankers of America.

It's unclear if the measure will be included, but sources said Friday it was supported by the Treasury Department. Merski said bankers were fighting to keep it out of the bill. "It's a serious threat to the legislation because the broad financial sector will peel off their support of the package if it gets added," he said.

Also unclear is whether all six Republicans who voted for cloture on June 29 will continue to support the bill. Merski warned that some senators may object to Reid's procedural maneuver to limit amendments to the legislation. "It may be complicated by senators who wanted to amend the bill that now will find that difficult," he said.

Indeed, although Sen. Olympia Snowe, R-Maine, voted for cloture, her office indicated last week that she had concerns with parts of the bill, particularly the small-business lending fund.

"Having been calling for action on a bill since February, of course we supported getting on the bill to begin debate in the Senate," said Julie Lawless, a spokesman for Snowe. "Sen. Snowe believes the substitute amendment contains many of her long-standing small-business tax, lending, contracting, exporting and regulatory reform priorities, and is pleased that the majority leader has decided to consider this bill on the Senate floor. However, she continues to have deep reservations about the Treasury lending facility title to the bill."

Another outstanding concern is whether — even if Congress enacts the bill — community banks will use the new program.

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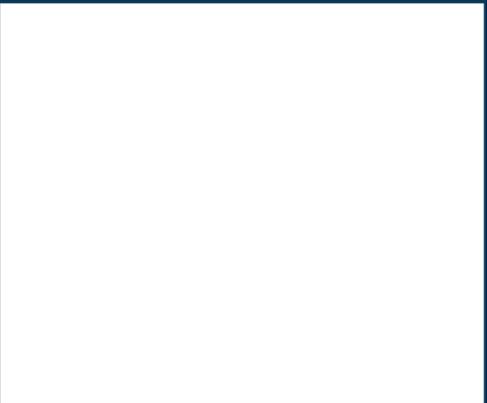
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Winick said it could be valuable for bankers needing to clean up their balance sheet to free capital for lending. "There's no question that the community banks we talk with are incredibly skeptical of government help," he said. "It's likely that this program will be used primarily by institutions that feel like they need it. For institutions that don't need capital, even though this is cheap capital, they may be reluctant to take it."

Stevens said participation would vary according to geographic recovery and loan demand. "The way it's structured, you are not going to participate in the program unless you feel it's going to succeed and you have the loan demand needed," he said.

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