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Small-Business Loan-Fund Effort Gets a Second Life

American Banker | Tuesday, May 18, 2010

By [Cheyenne Hopkins](#)

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WASHINGTON — Months after it was considered dead on arrival, a push to create a \$30 billion small-business lending fund for community banks has found new life.

The [House Financial Services Committee](#) is set today to examine the creation of such a program, followed by a panel vote on a bill on Wednesday. A full floor vote could come next week.

It is a significant turn of events for the proposal, initially suggested by President Obama in January but greeted then with hostility by Congress. While its overall chances for enactment remain unclear, many now see a surge of momentum in the [House](#).

"I believe its prospects in the [House of Representatives](#) are very good," said Cam Fine, president and chief executive of the Independent Community Bankers of America. "The fact that Chairman [Barney] Frank is marking up the bill fairly quickly shows there is broad support in his committee, and removing Tarp as a funding source greatly enhances the prospects for this bill. However, the bill faces an uncertain future in the Senate."

The proposal would create a \$30 billion [Small Business Lending Fund](#) to provide capital to community banks who agree to boost their lending to businesses.

While the original proposal said the money should be taken from the Troubled Asset Relief Program, such a move proved politically unpopular and spooked bankers who were leery of its added requirements.

But now, under the bill from House Financial Services Committee Chairman Frank, the Treasury Department would allocate \$30 billion in new funds for the program. Bankers would see the dividend they pay on any funds they receive drop as they increased their small-business lending.

House leaders are hoping to link the measure to a jobs bill to help the legislation's chances in the Senate and rebut criticisms that it is another bailout for banks.

"At the end of the day, if this is painted as an economic stimulus program and part of a jobs bill, then I don't know how you are against it. But if it's painted as a bailout, it's not going to have legs," said [Kip Weissman](#), a partner at [Luse Gorman](#). "It's really hard to gauge until you see what it's attached to, but I think the community banks still have credibility, and the way this is structured, the banks don't get all that benefit unless they increase their lending."

President Obama advertised the program in a speech on jobs in Buffalo last week. "I sent Congress this legislation, which now includes a new state small-business credit initiative — an initiative that will help expand lending for small businesses and manufacturers at a time when budget shortfalls are leading a lot of states to cut back on vitally important lending programs."

Community banks have complained about unfair treatment under Tarp, which generally went to the largest institutions. They see the new program as a way to balance that out.

"I think it's an opportunity to put some dollars at the community level," [Jim MacPhee](#), CEO of [Kalamazoo County State Bank](#). "After all, community banks like mine only loan to people in our defined lending area, so if they can bring capital right now to well-run banks that have historically done very, very well but are short on capital, I think it can do a tremendous

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amount of good."

[Mike Stevens](#), senior vice president of regulatory policy for the [Conference of State Bank Supervisors](#), blamed the initial poor response on a lack of detail on the plan.

"The reaction was probably appropriate at the time," [Stevens](#) said. "There were a lot of questions. There wasn't any text to go along with it. So to a lot of people it sounded like Tarp 2, whereas this legislation says it is not Tarp. It will not have the Tarp restrictions on it, and it has the strong incentives to increase lending."

Even without the Tarp association, however, any bank-capitalization program could still face opposition.

Tarp Congressional Oversight Panel Chairman [Elizabeth Warren](#) released a report last week questioning the effectiveness of the program.

"It's the same kind of capital-infusion program, and it has only the most modest restrictions on lending ... so it's not clear this new program would be much better than Tarp," Warren said.

[Gene Sperling](#), counselor to the Treasury secretary, said the fund is completely separate from Tarp.

The [Small Business Lending Fund](#), he said, is being created "so that smaller and community banks will feel more comfortable participating in a program that could bolster their ability to lend to small businesses that are seeking to expand and create new jobs."

But the stigma of Tarp is likely to persist "even though the bill explicitly states this is not Tarp," said [Diane Casey-Landry](#), senior executive vice president and chief operating officer of [American Bankers Association](#). Bankers felt burned after Congress began adding more restrictions to that program after money had already been distributed, including restrictions of executive compensation.

Whether that would keep bankers away is unclear. If enacted, the program would create the potential for a relatively cheap source of funds. Under the plan, banks would receive a percentage-point drop in their initial 5% dividend for every 2.5% increase in lending over a year with a minimum dividend of 1%.

[Rusty Cloutier](#), president of [MidSouth Bank](#) in Lafayette, La., said that will appeal to some community banks. "I think the community bank that needs capital, each bank that needs it will look at it a little bit and decide," he said. "All community banks do is small-business lending, so anything you can do to help community banks can help small-business lending."

But [Jon Winick](#), president of [Clark Street Capital](#), a seller and purchaser of owner-occupied commercial real estate loans, was skeptical the bankers would flock to the program. "We are actively promoting the initiative, but when I raise this with community banks, they roll their eyes," [Winick](#) said. "They are so weary of the government changing the rules midgame, so they don't think it will work, even though it may be in their best interests. I don't think it has much grassroots support."

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