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## Sluggish start for small business loan program

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### Community bankers say fund hasn't had impact on lending

The Small Business Lending Fund is a \$30 billion federal investment aimed at enabling community banks to lend more money to small businesses, but it has had a hard time gaining traction in Minnesota.

"I haven't talked to any bankers in our state who are excited about this, who said this would have an impact on their small business lending," said Joe Witt, president of the Minnesota Bankers Association. "I'm sure there are some, but I haven't heard about them."

The fund was created as part of the Small Business Jobs Act, which was signed into law in September in the hope that it could hasten the creation of jobs coming out of the recession.

Its role is to make sure that community banks, which traditionally finance the small enterprises that generate many of the nation's jobs, have sufficient capital to make those loans. The program sweetens the offer by discounting the price of that capital - banks pay a 5 percent annual dividend, but that can drop to as low as 1 percent if the bank expands its small business loan portfolio by 10 percent.

That should be especially good news for community banks given the current yields that private investors demand now.

"The capital markets for small to mid-sized banks are largely frozen," said Paul Merski, chief economist with the Independent Community Bankers of America, which supports the program. "You'd easily be paying double-digit dividend rates if you could get capital," he said.

But at least in Minnesota, banks are not queuing up.

"My sense is that it's not being very well received at all, so far," said Craig Mueller, an investment banker who specializes in the community bank sector.

Bankers have been left with a sour taste in part because of the program's slow rollout. President Barack Obama outlined the idea in his State of the Union speech in January 2010, and it passed Congress and was signed into law in late September.

By January the rules for banks incorporated under Chapter C of the tax code were released, but the rules for subchapter S corporations and savings and loans, which make up the majority of Minnesota institutions, still have not been issued - seven months after the law was created.

“That’s a big frustration,” Merski said. “People are wondering why, for a program targeted at helping small business, you don’t get the terms out to the banks that are most likely to do that.”

Banks eligible to apply in the first round have been left in the dark about their applications, too, said Marshall MacKay, president of the Independent Community Bankers of Minnesota. “As far as I know, there have been no approvals or disapprovals of any applicants yet. The second bank in the nation to apply was a Minnesota bank, and they haven’t heard a word from Treasury.”

MacKay said Treasury officials have told him that financial regulatory changes included in the Dodd-Frank Act passed in October forced the department to revise some of its rules and slowed the launch.

But the uncertainty creates an impression that will probably drive potential participants away, he said. “They see banks fall into a black hole, similar to what people said about TARP [the Troubled Asset Relief Program],” MacKay said.

The residue from TARP, which many community bankers say saddled them with an unwarranted stigma, is another reason bankers are slow to embrace the new fund, Witt said. “Banks are leery about getting more involved with the federal government,” he said.

David Rom understands that frustration, but he is looking at the program as a timely source of cheap capital. Rom is the chief executive officer of the four-year-old Platinum Bank, based in Oakdale, and he said the program could help growth. “We grew 22 percent in loans last year,” and he said he is confident the bank will maintain that pace, focusing on making operating loans to small businesses and financing owner-occupied commercial buildings.

But not many banks are seeing that much loan demand, Witt said. “Traditionally, business borrowers utilize 50 percent or more of their approved lines of credit, but that’s been hovering around 20 percent recently. Borrowers are being extremely conservative,” and banks will not buy capital if their customers aren’t borrowing, he said.

Despite the rocky startup, the loan fund still has many backers, including U.S. Sen. Al Franken, D-Minn., who wrote a commentary piece in Finance & Commerce in January urging banks to join.

He said in an email message on Thursday that he is still eager to see the fund work in Minnesota. “I know that Minnesota banks are interested in the Small Business Lending Fund, and I’ve been working with the Treasury Department to remove any roadblocks that have prevented Minnesota banks from accessing the fund,” he wrote.

Although the program is shadowed by uncertainty, a Treasury spokeswoman, Colleen Murray, said in an email message on Thursday that S corporation banks and savings and loans can be confident that they will find money available when the doors finally open.

“There is ample capital to meet requests of all eligible applicants,” she said. “There will also be ample time

for all eligible applicants to apply.”

And that could still be a big benefit for many community banks, MacKay said. “It’s a good idea,” he said. “It’s just been challenged by a process that’s been far too slow.”

**By the numbers**

**\$30B**

Capital available in the Small Business Lending Fund

**\$9B**

Amount of capital in current SBLF applications

*Source: U.S. Department of Treasury*