

# Finally Help for Small Businesses?



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As I write this at the end of January, the Obama Administration is finalizing plans on a government program that would lend \$30 billion to community banks and would include incentives to boost small business lending. Although details of the plan are still being worked out, one leading version of the bill proposes that the government allow banks with less than \$1 billion in assets to borrow an amount equal to 5 percent of their assets from the government. The banks would have to pay a 5 percent dividend on the loan, but that would be reduced to as low as 1 percent if the bank substantially increased lending to businesses. Banks with \$1 million to \$10 million in assets could borrow up to 3 percent of their assets. The White House hopes that a plan such as this will help alleviate the credit crunch for small businesses.

Many banks are still reluctant to loan money to small businesses because the value of assets that are typically used for collateral, like real estate, has fallen, which makes them risky borrowers. And, we all know that banks are making sure to dot every "I" and cross every "T" right now; they certainly don't want to lend a penny to any business—or anybody for that matter—that may be labeled "risky." Unfortunately, that means that most small businesses are left to fend for themselves.

One bright spot is that the number of government-backed loans through the Small Business Administration increased 37 percent in the last quarter than the same quarter the previous year, and in the quarter ending at the end of December, their leading program processed 12,393 loans totaling \$3.8 billion. However, that's not even close to the 20,000-plus loans the SBA backed during the same time in 2007. And, these loans are only a very small part of the overall picture.

But, wait, here's another bright spot: Bank of America has pledged to loan an additional \$5 billion to small businesses this year; Chase plans on increasing small business lending by \$4 billion this year, as well as hiring

an additional 325 small business bankers and providing more credit and more one-on-one advice to small businesses; Wells Fargo has also said it will increase lending to small businesses, and they are increasing lending by 25 percent compared to last year; and US Bancorp and Chase have promised to take another look at loans that they previously rejected. Bank of America and Wells Fargo are expanding their “second look” programs this year and are both hiring more staff, as well as creating a formal appeals process for those loans that are rejected.

So, even though the amount of small business lending is increasing slowly, it is increasing. Small businesses are what drives the economy, so it’s nice to see that the government and the banks are starting to care about what happens to the firms that provide jobs for more than half of the nation’s private workforce. Finally, it looks as though there will be more opportunities for small business owners to get a piece of the “recovery” this year.

My only hope is that it’s not too little too late.



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