



## **What Will Move the Business Lending Needle?**

*Uncertainty over legislation, regulation dampens bankers' spirits*

By Neil Cotiaux, Issue 14, Volume 4

Four days after Christmas, Chad Wilson, president of ChadAllen LLC, a Medina, OH-based e-commerce firm, threw up his hands in frustration. Wilson, whose ten-year-old company had “always grown out of profits,” had asked a regional bank to expand its credit line to help finance the firm’s next stage of growth.

“I should have been a well known, low-risk... no brainer,” Wilson mused. Upset with his bank’s proposed closing costs and approach to an existing customer, Wilson picked up his phone and called another banker, hoping for the best.

Wilson is not the only business executive to wonder when banks will stop fiddling with terms and fees and accelerate the pace of lending. The answer may rest largely on legislation and regulation coming out of Washington.

In its latest Beige Book survey, the Federal Reserve reported moderate economic expansion in November and December. The Fed’s snapshot comes on the heels of a lending survey of 159 financial institutions, largely community banks, conducted from late September through mid-October by Sageworks, a financial analysis technology company in Raleigh. In the survey, a total of 42 percent of institutions responding projected that they would make about the same number of commercial loans or fewer during 2011 as they did in 2010. The balance, 58 percent, said they would build on last year’s levels. The survey covered banks and credit unions ranging from de novos to those with \$5 billion in assets, said Michael Lubansky, a Sageworks senior financial analyst.

Both an Ohio CPA and the banking chair of a southeastern school of business also believe that small business lending will increase, but marginally.

Chris Axene, Tax Principal at Rae & Associates, Dublin, OH, is skeptical that tax extenders and other provisions approved by Congress in December will spur any real business growth or borrowing demand.

“I don’t think a lot of these things are going to be stimulative to small business,” said Axene. “I don’t know too many businesses that plan out two years... the pace of tax

legislation has never been more frequent than in the past five years, and it's been temporary.”

Economic conditions that spur more orders and in turn, borrowing, remain iffy, Axene suggested. His clients “have done a pretty good job at nailing the (expense) side” but say they need to find more revenues, he has heard. “The fact that Congress gave us a 100 percent bonus on brand new equipment, I don't know that that does anything.”

Dr. James Verbrugge, Emeritus Professor of Finance and Chair of Banking at the Terry College of Business, The University of Georgia, is holding two conferences for bank management and directors in early February. Entitled, “Overcoming Challenges in Uncertain Times,” the Savannah and Atlanta meetings will focus on how community bankers can navigate their way out of recession as they confront new rules and a lack of robust demand. Verbrugge believes bankers will think twice before making any substantial changes to their lending policies.

“There's a tremendous amount of uncertainty” about the cost of legislation and hesitancy to lend based on the recent tone of bank exams, Verbrugge said, pointing to industry regulations yet to be adopted as well as health care reform. “They're really going to have to focus on whether their old model can really work... they'll have to learn repricing.” A thorough understanding of governance “is not where it should be” on the part of many community bank directors and management should “insist on board training,” he added.

In the face of tentative demand, the recent exam climate and a still-unclear regulatory regime, it appears the lending environment remains constricted. Two recent announcements out of Washington, however, offer interested financial institutions some leeway.

In late December, the Treasury Department posted criteria for the Small Business Lending Fund (SBLF), a \$30 billion program that encourages banks with \$10 billion or less in assets to increase business lending. Eligible banks holding TARP funds can apply to refinance into the SBLF under more favorable terms.

The newer program (details at [www.treasury.gov](http://www.treasury.gov)) offers a base dividend rate of five percent and allows institutions that boost business lending to reduce that rate to as low as one percent during an initial two-year period. If lending does not increase within two years, the rate jumps to seven percent. Community banks with less than \$1 billion in assets qualify for investments of up to five percent of risk-weighted assets.

Another option for both bankers and credit unions is to participate in a sweetened menu of offerings from the U.S. Small Business Administration. The Small Business Jobs Act of 2010, among other things, raised loan limits on SBA's 7(a) and 504 programs from \$2 million to \$5 million, made permanent the Export Express Pilot program with 90 percent guarantees, and hiked micro loan limits to \$50,000.

Credit unions appear increasingly interested in taking advantage of such sweeteners. Corning Federal Credit Union, Corning, NY, applied for SBA designation in 2006 and shortly thereafter began extending business loans to its membership.

“The higher loan guarantees and fee reductions have had the most appeal to our members,” said Ted Goldwyn, manager of business relationships. “These programs have allowed us to provide loans to new or growing businesses without having to charge the SBA’s normal processing fees.”

Like community bankers, credit union officials have their eyes cast on Washington this year, but for a special reason. Currently, federally insured credit unions have business lending capped at 12.25 percent of assets, a ceiling that they have pressed Congress to raise. The lame duck session failed to resolve the issue and the matter is in limbo. Congress needs to “get badly-needed capital back into the system to help get our country back on track,” asserted Goldwyn.

As lenders try to read the regulatory tea leaves, prospective borrowers continue positioning themselves for the best deal possible. Chad Wilson, the Ohio entrepreneur, is starting to feel cautiously optimistic. “It appears they are going to be more receptive to our needs,” Wilson said of a community bank that he just met with.

For many borrowers, the validity of that hope may lie in the fine print coming out of Washington.