INSIGHT ON BANKING

By Sean Johnson

Uneasy money

Opinions vary on whether the Small Business Lending Act would be the right solution to address the credit problems facing small businesses

Peter Prickett wants to make loans to small businesses in Northeast Wisconsin. As the president and CEO of First National Bank - Fox Valley, he says those loans are often the best investments his bank can make. Those loans help businesses grow, create jobs and generally provide a good return for the bank.

The problem Prickett faces is two-fold: increased regulation since the 2008 financial meltdown has made it harder for lenders to qualify, while the economic slowdown has meant fewer businesses seeking the loans in the first place.

"We are flush with cash and we want to lend," says Prickett of the credit crunch that has plagued the small business community. "A lot of it is the regulatory environment – we are passing on deals we might have approved a few years ago. Businesses are either holding back because of the economy or their financial situation makes them too risky."

Prickett, who is also on the Wisconsin Bankers Association board of directors, is not sure the Obama Administration's proposed Small Business Lending Act, which includes billions in assets for small business lending, will fix the problem. Hung up in the Senate on both political and procedural maneuvering, the small business bill would establish a $30 billion lending fund and provide $12 billion in tax breaks, including some that have a much bigger impact in the next year or two by creating incentives for immediate investment.

Other provisions of the bill would eliminate capital gains taxes for investments in certain small businesses, increase incentives for new capital investments, include a Small Business Credit Initiative to bolster state programs and double the size of Small Business Administration loans for business owners.

The centerpiece is the loan fund, which would be targeted for community banks – those with assets of less than $10 billion. Proponents estimate that the $30 billion could be used to leverage as much as $300 billion in equity for small firms.

While most policymakers agree small business is suffering from a tight credit market, there is much less clarity on whether $30 billion will [continued] »

solve the problem. In large part, that's because there is a lot of uncertainty about what the problem really is, says Kevin G. Quinn, an economist at St. Norbert College in DePere. He breaks it down to a basic economics question.

"Is the problem a lack of supply or a lack of demand?" asks Quinn, who notes that even the country's monetary policy experts aren't sure.

"The recent Fed beige book says credit is tight in general, which is the supply problem. On the other hand, with industrial capacity at its lowest level in years, businesses don't have a lot of reason to expand."

Plus, the environment for both the lenders and the borrowers is pretty toxic, from increased regulation to a constant media drumbeat about "risky loans and financial collapse," says Quinn. "Small businesses can get credit, but we have a business community that is scared to take on risks."

While additional equity may help the situation, without a clear-cut understanding of the underlying problems, it may not provide as much of a boost as promised.

But a boost of some kind is definitely needed, says Kent Nelson, president of Quick Start Inc., a Menasha-based firm specializing in helping small businesses – particularly start ups – obtain financing. With community banks providing more than 50 percent of the capital to area businesses, providing them with additional resources is critical, he says.

Even additional resources, however, may not help entrepreneurs and start-ups obtain financing. Nelson concurs that tighter regulations since 2008 have made banks much less likely to extend loans to new businesses.

"I've got a client who has a sound business plan, good projections and 30 percent down, and he still can't get financing," Nelson says. "We have plenty of businesses that want to do something, but the banks just won't lend to start-ups."

"We are passing on deals we might have approved a few years ago. Businesses are either holding back because of the economy or their financial situation makes them too risky."

– **Peter Prickett**
First National Bank – Fox Valley

It would help entrepreneurs and start-ups if Congress would sweeten the Small Business Administration loan rules. Previous SBA enhancements – such as guaranteeing up to 90 percent of loans instead of 75 percent – have expired. It's unclear whether such moves will be included in the final version of the legislation.

Such enhancements to the SBA program would certainly be welcome by lenders, says Daryll Lund, president and CEO of the Community Bankers of Wisconsin. He notes that start-ups are always a risky group. Increased guarantees would certainly help the lenders, while reducing or eliminating fees would help the entrepreneurs.

He sees the overall program, including the $30 billion loan fund, as another tool banks could use to help local businesses grow.

The National Federation of Independent Businesses most recent survey suggested the problem was not lack of credit that was the hurdle to business expansions, but a lack of trust in current economic and regulatory policies.

"We support the legislation as another tool we can use to help businesses," Lund says. "But what the businesses really need are more customers before they are willing to take on more debt."