

20 of 39 DOCUMENTS

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Small-Biz Bill in Peril Once Again

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WASHINGTON - A bill to create a \$30 billion small-business lending fund - whose fate has swung wildly between almost certain defeat and imminent enactment - encountered problems again Tuesday as key Republicans voiced objections to the central provision of the legislation.

As recently as last week the legislation appeared to be on the road to easy passage in the Senate, but a vote was delayed by debate over regulatory reform. By Tuesday, however, the legislation's fate was once again unclear, as Senate Majority Leader Harry Reid considered scrapping the fund in the face of Republican opposition.

"The possibility of it being pulled is looking greater and greater," said James Ballentine, director of grassroots and community outreach for the American Bankers Association. "They cannot reach that magic number of 60 because there is not universal support for wanting to invest \$30 billion into any program at this time."

The bill needs 60 votes in the Senate to avoid a potential filibuster.

The fund has been on a roller-coaster ride from the beginning. President Obama first proposed the idea in January, calling for the creation of a fund that community banks could tap to fund additional small-business lending. The program would be free of restrictions such as the Troubled Asset Relief Program and would lower the required dividend by community banks if they could prove an increase in small-business lending.

Although many said the plan was dead on arrival, a bill creating the fund passed the House on June 17. Despite predictions to the contrary, it appeared to be generating plenty of Republican support in the Senate.

That was partly because additional provisions were added to the bill, including measures granting tax relief for small businesses, an extension of Small Business Administration guarantees and the creation of a corresponding state lending program.

But opposition to the lending program has grown.

A spokeswoman for Sen. Olympia Snowe said the Maine Republican had "deep reservations" about the lending fund, which community banks could tap for additional capital to increase small-business lending.

The effort has also been complicated by attempts by Republicans such as Sen. John Thune of South Dakota to add more provisions to the bill that would extend tax cuts made during the Bush administration.

The fact that "it is part of a larger package tax package is hurting it," said Mark Calabria, director of financial regulations studies at the Cato Institute and a former Senate GOP aide. "I think if it wasn't a part of a tax bill, there wouldn't be as much of a problem. Given the limited time on the schedule, anytime a tax measure is brought up they are going to have to deal with Republicans who are going to demand votes on Bush tax cuts."

But Paul Merski, senior vice president and chief economist for the Independent Community Bankers of America, said a new amendment by Sen. George LeMieux, R-Fla., could help the bill's chances.

LeMieux plans to introduce an amendment that would allow a Camels 3-rated bank to raise its odds of being approved for capital from the fund if it could raise matching capital.

"With the improvements to the small-business lending fund, I think it's going to have more support from a broader array of lenders, because it will allow the fund to be more workable and allow private capital to match the public funding," Merski said. "I think this development is a positive one. They are trying to make the senators comfortable with the fund and trying to structure it so it will get the most use."

Another stumbling block for the program could be an amendment by Sen. Mark Udall, D-Colo., that would increase the credit union lending cap to 27.5% of a credit union's assets, from 12.25%.

Community bankers say they would oppose the bill if the amendment was added. The credit unions and banking trade groups sent letters to Senate leadership last week arguing on the amendment.

Calabria warned there could be other delays.

"The small-business community does not see this as a big fix for them," he said. Senators "are going to continue to run into problems because of the tax stuff."

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