

# SOME LOCAL BANKS COULD TAP INTO \$30 BILLION FUND

It's likely that as early as this week community banks will have access to an extra \$30 billion to lend to small businesses.

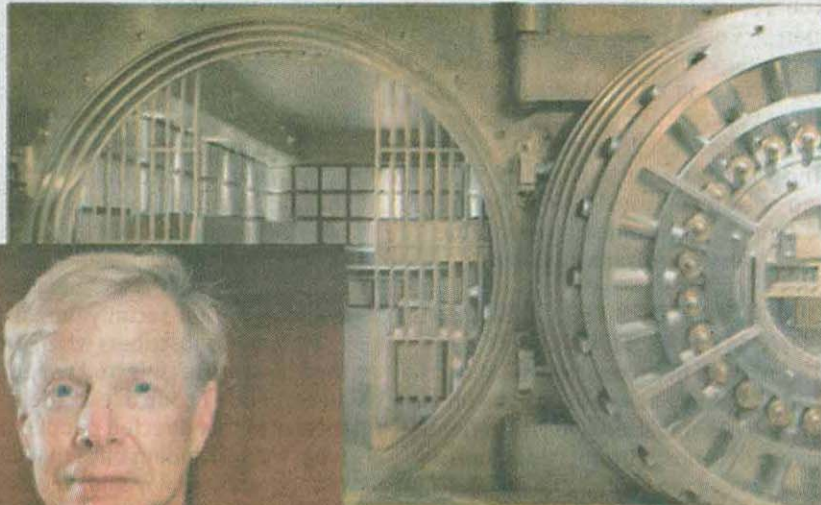
But will they use the newfound money?

A bill that passed the Senate last week would create the government fund for the loans, cut small business taxes and boost Small Business Administration loan programs. The House is expected to take it up this week.

"South Florida is a hotbed for small businesses that are struggling to stay afloat and need credit," said Robert Munoz, chief lending officer at Professional Bank in Coral Gables. Munoz said his bank is an active lender in the SBA program and would expand its program if the bill is signed into law, noting that \$30 billion could translate into \$300 billion using a 10-times-leverage ratio.

"We need our small businesses to begin hiring, which in turn will drop the unemployment rate and get consumer spending back into the mainstream," he said.

The legislation allows banks with assets of \$1 billion or less to apply for a capital investment from the fund not exceeding 5 percent of risk-weighted assets. Banks with assets of between \$1 billion and \$10 billion can do the same for up to 3 percent of risk-weighted assets. Banks applying for the money will need to submit a small business lending plan describing how their business strat-



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**BOWMAN BROWN  
SHUTTS & BOWEN**

A Senate bill that passed last week would free up \$30 billion for lending to small businesses. But skeptics cite the number of troubled banks in Florida would minimize the impact here.

egy and operating goals address small business needs in the areas they serve.

The bank has 10 years to repay the government. The dividend rate for a capital investment provided would begin at 5 percent, with reductions if a bank demonstrates increased small business lending. Participating banks must issue a quarterly report detailing new loans to small businesses.

The bill "would give small businesses \$12 billion in tax cuts. It would increase small business lending. It would help small business owners to get private capital to finance expansion and hire new workers," said Senate Finance

Committee Chairman Max Baucus, D-Mont. "And all these things would help small businesses to create as many as a half a million jobs."

The measure had been delayed for months, and Republican successfully filibustered it in July. But last Tuesday, Democrats cracked the filibuster with

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## CAPITAL SOURCES: Banker calls fund only a small part of recovery plan

the help of two Republicans, Sens. George Voinovich of Ohio and George LeMieux of Florida. That set the stage for Thursday's Senate vote in which the bill passed 61-38.

After Senate passage, the bill would return the measure to the House, where Speaker Nancy Pelosi said the chamber will take the bill up this week.

"Most community banks can use the capital," said Keith Costello, chief executive officer of the Broward Bank of Commerce. "The bill should help because many banks that are in good shape still have difficulty raising capital and have had to shrink their portfolios and de-leverage their balance sheets."

Costello said the real question is loan demand and whether businesses are truly expanding.

While many see the bill's potential, skeptics abound as both favorable and unfavorable comparisons to the Troubled Asset Relief Program weigh into the debate. In fact, banks that have taken TARP money can convert into the new program and reduce their borrowing costs if they demonstrate small business lending. The more than 800 banks on the Federal Deposit Insurance Corp.'s problem bank list will not be eligible to tap into the \$30 billion pool.

"Since we lead the nation in failed banks, and about one of every three banks here is a problem bank, it is not clear how many banks here will even be eligible for the program," said Ken

Thomas, an independent banking analyst based in Miami.

"Several banks are treading water and do not have the willingness or ability to make further loans since they are just trying to stay afloat. Many of these have enforcement actions and are on a tight regulatory leash and can do little to no lending."

Many banks may think twice about accepting money after TARP, given the amount of red tape involved, he said.



Nason

Bowman Brown, chairman of Shutts & Bowen's financial services practice group, said he was pessimistic that it would help Florida, given the number of problem banks in the state.

"A number of the Florida banks have consent orders or are struggling with their regulatory ratings," he said. "There will be other eligibility standards that have not yet been adopted" to determine a bank's ability to repay the investment.

"I can't imagine that won't eliminate a lot of Florida banks as possible participants, using these guidelines," Brown said. Plus, many banks may have difficulty covering the 5 percent dividend given the paucity of good loans, he said.

"I've got reservations on how much good it's going to do," said Dennis Nason, a Coral Gables banking consultant. "Everybody's nervous. Small business

don't know what their expenses are going to be. They've got health care costs — we don't know how much health care is going to go up.”

A. 'Buster' Castiglia, president of Castiglia Financial Solutions and former Continental National Bank president, said the bill is only a small part of an overall strategy to get banks to increase small business lending.

“First, the economy needs to improve, and unemployment needs to drop,” he said. “The federal government needs to continue to try to stimulate the economy through tax incentives and more stimulus spending. Without a stronger economy, businesses will not feel confident their businesses will grow and expand.”

While calling it a critically important piece of legislation, “this is not a panacea,” said Bruce Bennett, a Pathman



Bennett

Lewis partner who directs the public policy department. “It's an important part of a comprehensive strategy in the area of job creation and stabilization.”

Bennett said the legislation is not a mini-TARP but a capital infusion “that must be viewed as a conduit in our efforts to spur growth.”

Thomas said with a lot of weak local banks on the sidelines, stronger banks, many owned by out-of-state interests, will increase their small business lending

if they have not already done so.

“There appears to be no shortage of small biz lenders here, and the amount of such credit may yet expand with this new fund. Thus, this is good news for small businesses.”

Al Avila, partner at Avila Rodriguez Hernandez Mena & Ferri, said the issue is not that banks lack liquidity to lend but that myriad other factors including capital issues.

“If they were to set up this fund to buy back paper, so that the banks could lend, I think that frankly might be more effective than investing directly in a bank and tell it to lend to small businesses,” he said.

Omar Ojeda, senior vice president at TotalBank in Miami, said even for eligible banks it really comes down to understanding the program.

“I can tell you not every bank is going to be able to participate in SBA lending giving the complexities of servicing and originating the loan,” Ojeda said.

“So I see how a lot of small community banks want to come into the program but they're going to have a hard time. Still, we need to put the word on the street to try to eliminate the perception that exists that banks are not lending at all, even though that is not 100 percent untrue. It remains challenging to find creditworthy borrowers.”

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