



The Small Business Professor: Small businesses may benefit from new fund

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Dear Professor Bruce: President Barack Obama has proposed transferring \$30 billion of TARP money into a new program to support small-business lending. This fund will be targeted to community and smaller banks that provide the bulk of small-business lending and will offer incentives for banks to support small-business lending. As a small business, will this really increase the availability of desperately needed lending activity?

A: The Small Business Lending Fund is a much-needed step by the government to kick-start lending to small businesses that have suffered the brunt of the slowdown in lending activity.

Bill Bartmann, small-business expert and CEO of Bartmann Enterprises, notes: "In the big picture, yes, it will make a difference. Thirty billion dollars, even by Washington terms, is still a lot of money. Since no rules have been established for the Small Business Lending Fund, we have no idea of the requirements that will be placed on banks who wish to participate in the program or how the individual banks will structure their programs."

Keep in mind that the primary reason banks have slowed down small-business lending (and lending of all types) is fear. The problem is not a shortage of money to lend, but the fear in the heart of the banker that he will need money for other problems. There is a high probability that the banker will want to hold onto cash in case his/her existing portfolio of loans continues to sour. Most small and community banks are the backbone for lending to smaller commercial real-estate projects -- apartments, smaller office projects, smaller retail projects -- and the commercial real-estate market is suffering in almost every part of the country.

If banks are allowed to take money from the Small Business Lending Fund without any requirement that they deploy the funds -- the same way as the large banks were allowed to take TARP with no requirement that it be used for lending -- then there will likely not be a great deal of new lending activity. The temptation for many smaller banks to just hold onto the cash will be hard to resist. If the rules for acceptance of the funds require that the funds be used for small-business lending; then the chances will look much better for getting money into small businesses on Main Street.

(Bruce Freeman, The Small Business Professor, is president of ProLine Communications, a marketing and public relations firm in Livingston, N.J., and author of "Birthing the Elephant" (Ten Speed Press). E-mail questions to Bruce(at)SmallBusinessProf.com.)