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Community banks to get bailout money as Obama seeks to boost small business

To spur lending to small businesses, it is 'essential that we make more credit available to the smaller banks and



President Obama, flanked by Treasury Secretary Timothy F. Geithner and Karen Mills, administrator of the Small Business Administration, announces a package of lending initiatives aimed at small businesses at Metropolitan Archives, a small records storage business in Landover, Md., that recently expanded with an SBA loan. (Kristoffer Tripplaar-Pool / Getty Images / October 21, 2009)

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Obama to shift bailout emphasis to small business

By Christi Parsons

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Reporting from Washington - President Obama, looking to boost lending to small business, will start using some of the leftover federal bailout funds to shore up smaller community banks and induce them to offer credit to firms he called the "backbone of the American economy."

Smaller financial institutions are in greater need of capital to grow and expand, whereas the country's large banks have moved past their need for what's left of the \$700-billion Troubled Asset Relief Program, Obama said Thursday at a family-owned storage business in suburban Washington.

"The major banks that were in critical condition a year ago need no new assistance from the government," Obama said, "and so we are winding down that portion of the TARP program."

Less than \$140 billion is left from the bailout that Congress approved a year ago. The Treasury will decide how much of that should go to smaller financial institutions by the end of the year after conferring with community bankers nationwide.

To spur lending to small businesses, Obama said, it is "essential that we make more credit available to the smaller banks and community financial institutions that these businesses depend on. These are the community banks who know their borrowers, who gave them their first loan, who have watched them grow from down the street, not from Wall Street."

The amount of money still on hand is enough to boost lending significantly to small business, one senior administration official said. That may help to allay Democratic lawmakers' concerns that the bailout money appeared to be skewed too much to big banks.

Some critics questioned whether the president was pursuing the most effective strategy to help small business. Officials of the National Federation of Independent Business said they appreciated the gesture but argued that lower taxes and less government regulation would be more helpful.

Conservative economists pointed out that the bailout was supposed to save banks so big the economy couldn't thrive without them. Already, bailout funds have been used to prop up struggling homeowners and the auto industry.

"Again, they're taking emergency money and using it as a slush fund," said David C. John, senior fellow at the Thomas A. Roe Institute for Economic Policy Studies.

In addition to the shift in bailout spending, Obama also is asking Congress to increase the maximum size of Small Business Administration loans, including those designed to encourage small businesses to invest in machinery, equipment, land and buildings and to expand payrolls.

Increasing the maximum loan size of so-called micro loans from \$35,000 to \$50,000 would help start-up companies in particular, administration officials said.

"America's 29 million small businesses have been hard hit in this recession," said SBA Administrator Karen Mills. "Increasing maximum loan sizes will allow the SBA to ensure that more small business owners and entrepreneurs can get access to the credit they need to expand their operations and create jobs."

As the stage for his announcement, Obama chose Metropolitan Archives, a small records storage business in Landover, Md., that recently expanded with an SBA loan.

Last February, almost five years after the business opened, co-owners Joe Incarnato and Doug Peters used the money to buy their storage warehouse. Incarnato said the partners would like to expand again, but they need another loan to make it happen.

That's the kind of enterprise the federal government should be trying to help, some lawmakers said Wednesday.

"These actions will help satisfy the capital needs of small businesses looking to start or expand their operations," said Sen. Olympia J. Snowe (R-Maine), whose proposals to raise the caps on SBA loans are part of the president's plan.

"They were good ideas when I introduced them nearly a year ago," she said. "They were good ideas when I reintroduced them in August, and I am pleased that others, including the president, are on board with these critical initiatives."

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