

June 29, 2010

To: Members of the United States Senate

From: Floyd E. Stoner, Executive Vice President, Congressional Relations & Public Policy

Re: H.R. 5297, the Small Business Lending Fund Act

On behalf of the members of the American Bankers Association (ABA), I am writing to express our support for H.R. 5297, the Small Business Lending Fund Act. As proposed, Treasury would invest in community banks through a new program that would be separate and apart from the Troubled Assets Relief Program (TARP). This legislation will serve as another tool for community banks to meet the needs of small businesses in their communities, and we urge the Senate to pass this legislation.

Even with the general economy starting to improve, there are still many areas of the United States that struggle under the weight of the severe downturn. Since banks are a reflection of their communities, they are suffering with the communities they serve. Yet even in areas beset by poor economic conditions there are strong borrowers.

Meeting the needs of these borrowers has been made more difficult as regulators pressure many banks to increase their capital-to-asset ratios. Given the severity of the downturn, it is difficult if not impossible for community banks to find new sources of capital. Thus, the only option for many banks is to shrink, which can mean making fewer loans. H. R. 5297 would allow banks to avoid that result and continue meeting the needs of their communities. With an improving economy and public investments, such as those proposed in H.R. 5297, lending can increase faster in some of the hardest hit areas of the country. Community banks, which are the life blood of many communities, can provide the needed capital.

While we are supportive of this legislation, we believe the fund could be more effective if it recognized the dynamic nature of a bank's loan portfolio. Roughly 20 percent of a community bank's small business loan portfolio is repaid each year. Under H.R. 5297, a bank would not be viewed as increasing its small business lending until it made enough loans to replace that 20 percent. Recognizing all of a bank's small business lending would make the program more attractive to many community banks.

The program's success also will hinge on whether it is made available to banks who actually need the capital. If the program is made available only to those banks who do not need it, the program will fail. There are many viable community banks that would benefit greatly from a comparatively modest investment by the government to help them weather the current economic storms. Past initiatives have left this group of banks on the sidelines and, in many cases, have made it more difficult for them to attract private capital. We encourage you to support making the Treasury program available to banks that are viable on a post-investment basis.

Additionally, ABA supports an amendment to be offered by Senator Kay Bailey Hutchison that will encourage community banks to raise much needed capital and thereby increase lending to small

businesses. Under the federal securities laws, any company with \$10 million in assets and 500 shareholders is required to register as a public company with the Securities and Exchange Commission (SEC). While the \$10 million asset size measure has twice been increased since Congress enacted this provision in 1964, the shareholder gauge of a public company, the only measurement of significance for banks, has never been changed. The outdated shareholder threshold level prevents small banks from raising capital from investors in their local communities because of fear that they will trip over the threshold number and cause their regulatory compliance cost to substantially increase. The Hutchison amendment would update the shareholder threshold level and provide much needed relief for community banks and their small business customers.

The Senate version of this legislation also includes ABA-supported provisions that will increase the maximum loan sizes for the 7(a) small business loan program from \$2 million to \$5 million, with a temporary 90-percent guarantee through December 31, 2010. The 7(a) program has historically been a critical lending tool for financial institutions to help meet the credit needs of small businesses. The enhancements provided in this legislation are critically important and will help lenders provide loans and small businesses create jobs in their communities.

The bill also includes a State Small Business Credit Initiative, which we find very promising. Efforts like this in Michigan, for example, have shown great promise over the years they have been in place. Under the Michigan Strategic Fund (MSF), the MSF deposits the cash into an interest bearing account with that lender and this account will then be pledged as collateral on behalf of the borrower. Based on an amortization schedule, the MSF will draw down the account as the loan principal is paid. In the event of full default, the lender will have rights to the account less a liquidation fee. The proposed State Small Business Credit Initiative would function in a similar manner and, we believe, could provide much needed support for loans made by participating banks. As with the Small Business Lending Fund, ABA recommends that all viable community banks be allowed to participate.

While we shall continue to work with Congress as this legislation moves forward, we believe that the legislation can serve as a real tool to help community banks meet the credit needs of their communities. We support passage of H.R. 5297.