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Small business may get boost

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Seeking to jumpstart the U.S. economy's biggest job creator, President Barack Obama announced Monday that the Treasury Department would spend up to \$15 billion to boost lending to small businesses.

Obama's initiative also was meant to combat criticism that he has focused too much on the needs of Wall Street and not enough on the recession's damage to small businesses around the country.

Small Business Administration lending, which Obama wants to bolster, has slowed dramatically in the Rochester area. From October through February, 85 SBA loans totaling \$7.6 million were made. Year-earlier totals for the same period were 176 loans worth \$17.8 million.

That's a drop of 52 percent in the number of loans and more than 57 percent in the sums being lent.

At the White House, Obama said: "Too many entrepreneurs can't access the capital to start, operate or grow their business. Too many dreams are being deferred or denied. ... Less lending leads to fewer jobs and lower spending, which leads to less lending — a vicious cycle that delays our recovery."

In normal times, banks issue loans to small businesses and then sell those loans to a secondary market of bigger bankers. The loan sales allow the community banks to make even more loans and keep the credit cycle going.

But that credit cycle has been interrupted because skittish investors have been staying away, bringing the secondary market to a standstill.

Under Obama's plan, the government will start buying many of the loans directly. The \$15 billion in funding to do so will come from bailout funds already approved by Congress as part of the Troubled Asset Relief Program, or TARP.

In Rochester, a banker who also serves as president of the Small Business Council said Obama's plan should help, at least a bit.

"The secondary market has basically vanished," said Phil Pecora, president of Genesee Regional Bank. "We would sell part of the guaranteed portion of the loans in the past, but that business has gone away."

Pecora cautioned, however, that the president's program won't be a panacea for two reasons: SBA programs account for only a small portion of overall lending to small businesses, and the demand for loans has largely dried up during the recession.

"The effect will be somewhat muted," Pecora said. "The big reason a lot of the SBA lending is down is because when the economy is booming, entrepreneurs are more willing to take chances. It's going to be the company that is not as well capitalized and a little riskier that will gravitate towards that SBA loan, and there's just less demand for that kind of lending."

But it is those borrowers — companies that were previously seen by banks as just a little bit too risky — that should benefit from the new federal provisions. “Anything they can do to help spur activity is good,” Pecora said.

Historically, small businesses have created about 70 percent of the national economy’s new jobs. That has become the reality in the Rochester area, too, as major employers such as Eastman Kodak Co. and Xerox Corp. shrank and yet overall payrolls remained relatively steady thanks to jobs created by small businesses.

According to the state Labor Department, about 75 percent of the regional nine-county work force is employed by small businesses.

Pecora said small businesses alone can’t rescue the economy. “Much of the activity with small businesses is created from feeding off activity from the larger companies, so there needs to be a trickle-down effect.”

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