

## Wasted Small-Business Fund Adds to Administration's Stimulus Woes

By **Stacy Kaper**, National Journal, October 7, 2011

At a time when policymakers must pinch every penny, the Obama administration's squandering of special resources meant to stimulate the economy is frustrating community groups and financial-industry representatives. They fear allies in Congress will stop spending precious political capital on wasted efforts.

Critics cite an administration track record of dropping the ball on lending and housing programs, arguing it is not only a setback for business growth and homeowners, but weakens President Obama's ability to negotiate additional economic measures.

A recent example of a hard-fought but barely tapped pool of resources is the Small Business Lending Fund. Obama pushed it as a priority in his State of the Union address last year and signed it into law that September. It was meant to deliver \$30 billion in capital to community lenders who could in turn leverage the funding to pump out \$300 billion in small-business loans.

Fast forward a year. Obama is pushing a new \$447 billion jobs plan, and last year's small-business program came to an unceremonious end last week, after approving a mere fraction of what was appropriated for investments, just over \$4 billion.

"I must say I'm very disappointed in the administration on this," said Sen. **Jeff Merkley**, D-Ore. "Many, many healthy banks that applied have been turned down, including many in my state. There was a lack of enthusiasm at the Treasury Department for the program."

Community groups and small institutions that fought for the funds are outraged. They also blame the Treasury Department for slow walking the application process and adding additional limiting criteria late in the game. They are asking why Treasury told roughly two-thirds of the 930 or so lenders who were recommended for the program to pull their applications.

**"It was a tremendous disappointment," said Judy Kennedy, president and chief executive of the National Association of Affordable Housing Lenders. "To see \$25 billion melt like snow, it's a heartache."**

Rep. **John Carney**, D-Del., is backing legislation with Reps. **Gary Peters**, D-Mich., and **Brad Miller**, D-N.C., to extend the program for another year.

"Many people, including Congressman Carney, have been frustrated by the application process," said spokesman James Allen. "This legislation ensures that rejected banks receive a clear explanation and allows them to appeal."

In June, House Small Business Committee members pressed Treasury Secretary Timothy Geithner on why it was taking so long for the loans to get out. He said Treasury was

protecting the taxpayer by ensuring only healthy banks who could repay the capital got the funds.

“We're trying to be careful,” Geithner said. “So we're a little slower than we thought, but we're very close to ... being able to unleash that capital.”

Besides the Small Business Lending Fund's over-promised results, many of the administration's efforts to stimulate the economy through housing programs have fallen short of targets. Last week the Emergency Homeowner's Loan Program also expired. It too was enacted last year and got off to a slow start. It was meant to stave off foreclosures and maintain home values, but allotted less than half of the \$1 billion allocated for loans to homeowners.

The administration's marquee homeowner assistance program, the Home Affordable Modification Program, has spent \$8.3 billion of its \$29.9 billion, according to the administration's September housing report on Wednesday. HAMP stops accepting loans at the end of the year and has brought less than 1 million borrowers permanent loan modifications, instead of the 3 million to 4 million it was intended to reach.

Paul Merski, chief economist for the Independent Community Bankers of America, said only a marginal economic impact would come from the 332 banks that qualified for the small-business loans, but that most applicants were frustrated they were shut out. Ultimately, because Treasury's handling of the loan program “was a disaster,” he said, it could thwart similar efforts in the future.

For example, Obama's current jobs plan proposes a \$10 billion infrastructure bank intended to leverage private capital to fund big public projects like roads and bridges, and \$15 billion for "Project Rebuild." Rebuild is designed to rehabilitate homes and businesses so foreclosures stop dragging down home prices.

“The irony is that the administration and Treasury are promoting additional programs to create jobs but haven't successfully executed existing programs,” Merski said. “There are probably going to be congressional hearings and investigations into the Small Business Lending Fund and what went wrong. It's a pretty obvious case study on what happens with the execution of these programs. Like HAMP and HARP and others, there seems to be a similar pattern.”

Merski added that the Small Business Lending Fund was narrowly approved by Congress, and it's unlikely lawmakers could be convinced to extend it now.

“How many times can you go back and ask for additional programs and get a strong positive reaction?” he asked.