

Community banks weigh new program

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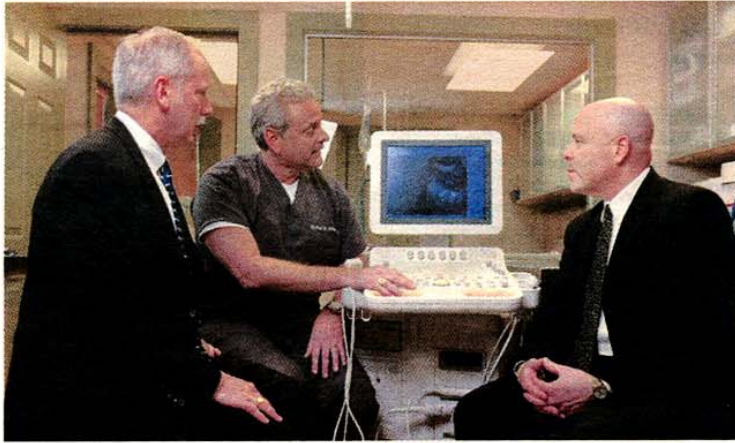
As the U.S. Department of the Treasury readies a massive small-business lending program, community banks want to hear more before deciding whether to participate.

Signed into law in late September by President Obama and supported by the Independent Community Bankers of America, the Small Business Jobs and Credit Act would provide community banks access to \$30 billion in capital for loans to small business.

Details of the incentives for banks to actually borrow from the loan pool were still unclear, in advance of the Department of Treasury fully working out the program in the coming weeks. Only banks with less than \$10 billion in assets would be able to draw on the fund. At present, 14 banks based in Fairfield County would qualify for the funding, including Stamford-based First County Bank.

“We are not sure what we are going to do with it, frankly,” said Rey Giallongo, president of First County Bank. “It could very well be a good opportunity, but it could be a booby trap.”

That is because interest rates will be charged on a sliding scale for how much of the proceeds actually gets loaned to small businesses – a function as much of market demand



First County Bank president Rey Giallongo, left, is mulling whether his company will borrow under a new low-interest funding program from under the Small Business Jobs Act. Dr. Paul Polenza (center) of New Canaan Veterinary Hospital is a First County Bank customer, and Michael Victor is a branch manager of First County Bank's New Canaan branch.

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as lender willingness, Giallongo points out. Make good on small business loans, and banks would be charged an enviable interest rate as low as 1 percent. Do not make good, and they could eat interest as high as 9 percent when the final lending record is tallied.

"The coupon (rate) is very reasonable — provided you hit the benchmarks in the first few years in terms of increased business lending," Giallongo said.

Spurring small business lending

U.S. Rep. Jim Himes, who helped craft the bill, said the bill should "move the needle" on small business lending. The Greenwich Democrat compared the bill to stimulus provisions for Small Business Administration lending, which rose significantly after Congress waived fees on SBA loans and increased guarantees.

Himes acknowledged that the success of the program will depend in part on the appetite for businesses to borrow, regardless of interest rates and other terms offered by banks. In its most recent survey of area bankers published in early September, the Federal Reserve Bank of New York said small and mid-sized banks in the area saw "steady" demand for commercial and industrial loans, and weaker demand for commercial mortgages. That was an improvement from July when commercial loan demand was off across the board — the Fed is scheduled to provide an update in mid-October after press deadline.

In its own survey in August, the National Federation of Independent Business cited 73 percent of small businesses saying now was not a good time to expand.

"I don't think it will be appropriate for every bank," Himes said. "I think if they are in the right environment, this will be really

inexpensive for them. ... Different banks are in different situations."

Many incentives are planned

While the community bank lending program is the centerpiece of the Small Business Jobs and Credit Act, it is only one of a number of initiatives.

The law extends provisions under the American Recovery and Reinvestment Act that increase government guarantees on Small Business Administration loans while reducing borrower fees; permanently increase loan limits on SBA loans; and expand the SBA's trade and export finance programs.

The bill would also create \$12 billion in incentives for small businesses, mostly in the forms of tax breaks for items like research and development. And another \$1.5 billion will be funneled through existing state programs that support small business lending.

Investors would be spared paying future capital gains taxes on any qualifying small business investments they make, a major consideration given scheduled hikes in long-term capital gains beginning next year. A tax deduction would double to \$10,000, covering expenses incurred by entrepreneurs in starting up a business. And small businesses will see their allowable expenses double to \$500,000 for tax write off purposes of all manner of capital expenditures, from equipment to leasehold improvements of their buildings.

Self-employed people will be able to deduct health-care costs from their federal self-employment taxes in 2010. Currently, self-employed individuals are prohibited from fully deducting the cost of their health insurance from their self-employment taxes, resulting in an additional 15 percent tax that no other worker or business owner is forced to pay, according to the National Small Business Association. And it will even be easier to write off mobile phone costs.