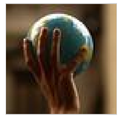
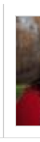




FINANCING | DECEMBER 13, 2011, 2:55 P.M. ET

GUEST COLUMN

Debate: Do Big Banks Lend Enough to Small Business?

Are big banks lending enough to small businesses?

The Journal invited two guest contributors -- Ami Kassar, chief executive of MultiFunding LLC small-business loan advisors, and Marc Bernstein, executive vice president, Wells Fargo small business segment -- to share their opposing views on the subject.

Readers, we invite your comments.

Why Big Banks Don't Lend Enough to Small Firms

By Ami Kassar, chief executive of MultiFunding LLC small-business loan advisors

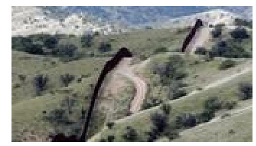
As a country we must do whatever is necessary to get capital into the hands of small business owners and entrepreneurs. Otherwise, we will never crack the code to the stubborn unemployment that is gripping our economy.

Paul Esposito

America's big banks should be ashamed of their lending record to small businesses. The top 5 big banks in our country hold 40% of all domestic deposits ($2.965 trillion), yet only make 16%, ($97.3 billion) of all the small business loans in America, according to data reported by the FDIC. This record is particularly disappointing after these banks took in $151.59 billion of TARP money.

We get our data on small business loans from quarterly FDIC call reports, where each bank self-reports its active loans to small businesses with balances of $1 million or less. We think this is an excellent indicator of lending to truly small businesses. And it tells a very different story than the information promoted by the big banks.

They define small business loans as loans to companies with revenue of $20 million or less, which could include companies that have hundreds of employees



But, according to the FDIC data, as of June 2011 all of the banks in the country held just over $605 billion of small business loans, compared to just over $681 billion held at the beginning of the recession in June 2007.

In a recent study published by my company, MultiFunding LLC, we dug into that data and found that the bigger banks shed $93 billion of small business loans during this period, while the smaller banks increased their small business loan balances by $17 billion. Somehow, the smaller banks have managed to find demand for small business loans while the larger banks have reduced their exposure by almost 25%, according to our study.

Despite these facts, the big banks like to promote their small business lending records for political and marketing reasons. They use marketing to draw small business owners into their branches but the business owners are then met with slow, cumbersome, and bureaucratic loan processes that consume time, and simply don't work.

Because of their size and complexity, most big banks have layers of decision makers in their loan processes. Many times their employees who are involved in the loan process are in different cities and have never even met. This forces an assembly line approach to small business loans.

Unfortunately, the big bank bureaucracy causes many small business loans to blow up, particularly in today's economy where loans are complicated and require thought and creativity. Every loan is different, and requires careful consideration. After all, people's livelihoods, dreams and jobs are often at stake.

Many times, months into the process of applying for a loan at a big bank, small business owners throw up their hands and give up. They either end up with a very expensive private money loan or they put their expansion plans on hold.

The loan process creates great apprehension in the small business community. In another study we recently commissioned, we discovered that 73% of small business owners who need a loan don't bother to apply for one. Some of them are simply afraid of rejection. What is particularly disturbing is that each participant in the study who didn't receive full funding claimed they would hire an average of eight employees if they secured funding.

Before choosing a bank to apply for a loan, a small business owner deserves to know the true lending record of that bank. Each bank should have an objective grade for small business lending, and be required to display it on their front window. This would be similar to how many cities require restaurants to show their grade for cleanliness.

At MultiFunding, we've actually given every FDIC regulated bank in America a grade for its small business lending, based on the ratio of its small business loans to its domestic deposits. Of the 6,800 banks in our analysis, the good news is that 5,600 of them (82%) either got an A or a B grade. Unfortunately, 70 of the 100 largest banks in America got a grade of C or below. Thirty banks got an F. Small business owners might want to avoid wasting their time applying for loans at these banks.

(Mr. Kassar's firm helps small businesses find loans and at times accepts fees from lenders that agree to make loans.)

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Why Big Banks Are Lending Enough to Small Firms

By Marc Bernstein, executive vice president, Wells Fargo small business segment

If you ask small business owners, very few will mention credit as one of their top three concerns.

In a survey released in November by the National Federation of Independent Business of its small-business membership, only 4% cited credit availability as their top concern, and only
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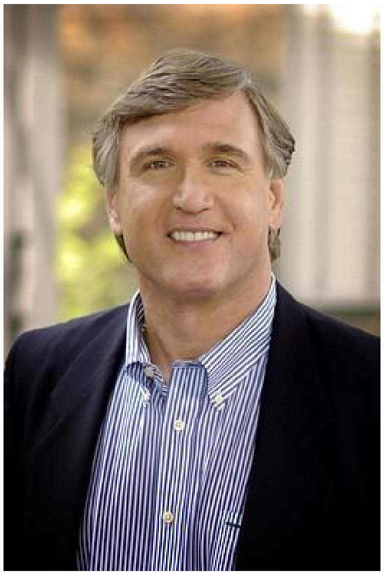
Michael Sexton

were satisfied.

Wells Fargo and Gallup together conduct a quarterly survey more representative of smaller businesses. In October, 34% responded that it was "very difficult" or "somewhat difficult" getting credit.

Some people might ask: Isn't that a problem when one in three businesses reports some difficulty in getting credit? I think not.

The Wells Fargo/Gallup survey includes businesses with sharply falling or very little revenue; those with poor credit or too much debt already; even those that recently defaulted on a loan.

We've all seen what happened with mortgages when just about everyone who wanted a loan was able to get one, often from a lender no longer in existence today. It wasn't good — and sometimes even tragic — for the borrowers, for their communities, and for the shortsighted lenders making questionable loans.

Granting a loan without reasonable confidence about how you expect to be repaid is a lose-lose proposition. I make small business loans for a living and, like anyone in business, I want to do as much business as I can — which in my case means making as many loans as possible. I expect to take risks. Yet some applicants seem very likely to have difficulty repaying their loan. We help those businesses by advising them on how to improve their position and be more likely to get credit in the future.

Certainly it was easier to get a loan five years ago. Between 2005-2007, the Wells Fargo/Gallup survey reported about one in eight small businesses had difficulty getting credit. However, those were the peak years of the real estate bubble, with almost five times as many new homes sold each month and households extracting $2.5 trillion from their home equity to spend. Millions of small businesses benefited from the inflated real estate sector or by enlarged consumer spending.

Compare the 2005-2007 period to today. Revenues in many industries have still not fully recovered from the Great Recession. In the NFIB survey, 26% of small businesses ranked weak sales as their #1 problem. The Federal Reserve estimates that small business debt *quadrupled* between the mid-1990s and 2008 and has declined only slightly since; many businesses are struggling with too much debt. Business bankruptcies remain elevated. But even in this environment, the overwhelming majority of small businesses don't report difficulty getting a loan.

Wells Fargo is saying "yes" to all the small business loan applications we possibly can, often taking a "second look" at applications initially declined. We've grown our SBA lending team over the last two years and, for the 2011 federal fiscal year, approved a record $1.2 billion in SBA 7(a) loans. All new loans we made to businesses with revenues under $20 million reached $10.3 billion in the first three quarters of 2011, up 8% over the same period last year. That's not small change.

We know that making loans responsibly is the right thing to do for our customers, for the communities we serve, and for our shareholders. I know my counterparts at competing large institutions also work to approve as many loans as they can. According to government data, the top 20 lenders were responsible for 84% of the small business loans made in 2010.

Are there good, solid small businesses that have had their credit application inappropriately declined? Of course there are; there are numerous lenders and there will always be some poor decisions by loan officers or lending institutions that are excessively cautious or risk averse in response to the current climate of economic

But during these difficult times, more so than ever, Wells Fargo and many other banks are trying to stretch in whatever ways we prudently can to put credit into the hands of small business owners. We know we have an important role to play in helping restore the health and vibrancy of the national economy and we are committed to doing all that we can.

(Mr. Bernstein is an officer of Wells Fargo and thus, he has a financial interest in the bank.)