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Wayne Tompkins
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For businessman Al Levy and lender BankUnited, it was good timing.

Levy was seeking a line of credit for his 35-year-old Miami advertising company. John Kanas and a private equity group had just bought BankUnited out of federal receivership and were recasting the regional player as a commercial bank.

"I was referred to them by one of our customers," said Levy, whose Levy Advertising produces promotional advertising products, embroidery and screen printing. In a tight credit market, Levy said he was surprised by the bank's willingness to do business.

"It was sometimes difficult to get anything done at the banks we dealt with," Levy said. "BankUnited looked at our financials, obviously, but there was more of a willingness to help us grow as a business and have a relationship. That was the real attraction - even more than the money."

Levy secured a \$450,000 line of credit from BankUnited within three weeks, using the funding to hire six new employees and add a second shift to the screen printing department.

With 35 employees and around \$6 million in sales, Levy's company is the sort of small business that large and regional banks are rediscovering in the post-recession environment - turning to smaller loans made to smaller businesses as they seek to spread risk and diversify their portfolios.

No one is happier to see that trend than the Obama administration, which has been pushing banks to make more of these sorts of loans in hopes of stimulating business expansion, and ultimately kick-starting the engine of job creation that smaller companies traditionally lead.

Among locally based institutions, a major player has been Miami Lakes-based BankUnited, whose \$339 million portfolio of loans under \$1 million has mushroomed in the year since a private equity group bought and rechartered the bank out of federal receivership. That includes \$48 million in loans under \$100,000. The bank had only about \$54 million in small business loans as of June 30 of last year.

"We're building our commercial loan book across a wide spectrum to be very diversified," said Nic Bustle, a BankUnited senior executive vice president. "We really believe that the South Florida market and all of our markets across the state are dominated by small businesses. It's certainly going to be a major part of our commercial banking growth strategy."

Bank of America last month committed an additional \$5 billion in lending "because small and medium-sized businesses are crucial jobs providers in our economy," said Brian Moynihan, the bank's president and chief executive officer. "We are making every good loan we can make."

The bank said it loaned \$19.4 billion to small and medium-sized businesses in the first quarter of 2010, which was nearly \$3 billion more than during the same period last year. Other banks are following suit.

Well-capitalized banks such as PNC, Huntington and Fifth Third are finding "a real niche to go in and provide loans to small and medium-sized businesses," where they can get an appropriate interest rate spread on the loans with acceptable levels of risk, said Peter Homer, a partner at Homer Bonner in Miami who provides counseling and litigation services to banks and other financial institutions.

"They think it is a good opportunity, and they're doing it," he said. "The ones in the best position to do this are the super regionals who can spread their risk across several geographic sectors as larger banks and alternative finance companies have pulled back."

More help for small business could come in the form of a \$30 billion government fund for community banks to increase lending to small businesses. The bill passed the House last week but awaits Senate approval.

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"There has been certain pressure from the federal government on banks to make more of an effort to loan to small businesses," said **Lewis Cohen**, a banking attorney and partner at **Cohen & Bobotas** in Miami. "The best tool that the federal government has to encourage banks to loan to small businesses is the Small Business Administration. They reduce a bank's risk by guaranteeing all or a portion of the loan and can bring a loan which is outside of a bank's normal risk parameters within those parameters."

SBA lending nationwide has nearly doubled year-to-date over 2009, with 40,000 loans valued at \$10.3 billion approved so far, up from 26,000 and \$5.3 billion in a year ago - though a number of extraordinary, recovery-related SBA incentives have helped lure participants. About a quarter of the loans are for startup businesses, but loans to existing enterprises have been especially strong due to pent-up demand for expansion and new equipment.

"We're making it easier for lenders," said Nancy Rackear, a spokeswoman for SBA's Miami office. "We have the 90 percent guarantee, the fee eliminations, all the things that we have been doing are making them more inclined to want to make loans with us."

Such incentives have also brought additional community banks into the SBA program, she said.

Jeff Nager, SunTrust's senior vice president for SBA lending, said small business lending is an engine that "we've cranked up recently," much of it tied to the SBA group he runs.

"A great strategy in this market is to grow your small business vehicle, and we're doing significantly more loans to more small businesses across the board," Nager said. A big part of that strategy is to grow its SBA lending to both new and existing clients.

"We're starting to see some borrowers that are ready to take the step and get back into the market, putting some capital equipment out there, hiring, our trends and SBA's as a whole are up significantly," Nager said.

One regional bank, BB&T, has been working with its branch managers to target businesses with annual sales of less than \$500,000, with loans of no greater than \$100,000.

"We're seeing, particularly this year, some increased activity on the smaller segments," said Mark Edwards, BB&T senior loan administrator. "The emphasis on small business has always been there, but we are trying to penetrate that deeper in these markets ... to help those markets expand so that we can lend further into those markets."

Homer said there is "a definitive regulatory push not only to have diversification, but also want lenders to stratify the portfolio in terms of the type of borrowers.

"In the past, where a larger bank might kind of look down their nose at a small modest business borrower, you are seeing a regulatory incentive there to extend credit," he said.

Regulators are also steering banks into non-real estate oriented sectors.

"Banks, particularly down here, were heavily concentrated in real estate," Homer said. "Some financial institutions had what some felt was an undue weighting of their loan portfolios."

He also sees an opportunity for lenders who can provide mezzanine loan financing.

"The banks that had aggressively done that before the meltdown are no longer players in that area," he said. "They can't take that risk. You have seen niche players that have pulled out or failed in this sector."

Traditionally, most loans to small businesses have been made by small to mid-sized banks rather than the large national conglomerates.

"By small and mid-sized, I mean banks with assets of \$10 billion or less," **Cohen** said. "Although those banks control only about 22 percent of all bank assets in the United States, they account for 54 percent of small business loans."

Cohen said one of the reasons for that has been large banks' reliance on computer models to determine whether or not to make a loan.

"A standardized approach like that doesn't really work very well when it comes to understanding the nuances and the risk associated with a small business loan in a particular community," **Cohen** said. "So you're having lending decisions made not on a local basis. Often the final decision is not made by a banker who's got a personal relationship with the borrower."

Cohen said big banks will continue to have robust competition from community banks, "which have a lot more flexibility to tailor a product to individual needs and are also much more invested in their local communities."

The cookie-cutter approach that many bigger banks use will leave behind a lot of worthy borrowers who don't fit the model, he said.


"The only way that the larger banks are going to be successful in small business lending is to have decision makers on the ground in the communities where those businesses are located," **Cohen** said.

"They have to rely less on computer models, making sure they can check all the right boxes, and being willing to look outside of the box and understand not only the business of their customer but to know their customer personally."

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Wayne Tompkins can be reached at (305) 347-6645.

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