
FOX BUSINESS NETWORK

Cavuto

July 13, 2009

TARP Money for SBA Loans?

Charles Payne: My next guest says this idea is just not going to leave taxpayers on a hook. He thinks that it is a big mistake and that small businesses are just going to end up like these large businesses. Carl Horowitz of the National Legal and Policy Center, he joins me now. Carl, why is it not a smart idea to use TARP money for small businesses?

Carl Horowitz: Well, remember, Congress enacted TARP last fall to effectively save the US economy, to buy or guarantee seven hundred billion dollars of what amounts to worthless assets in the financial sector. What makes us think that this is going to work any more effectively with the small business sector? I mean, what has happened since? The recession has gotten worse, unemployment has climbed to nine and a half percent, the federal deficit has now passed the one trillion mark, the first time in our history. Why would it work with the small business sector - the same logic of buying current or future toxic assets?

Charles Payne: Well, what about people who argue that the money is there, there is over a hundred billion dollars just sitting there. Why not try to put it to work somehow to stimulate this economy?

Carl Horowitz: Well, Small Business Administration loans have a history of having very high default rates, the very sort of thing we're trying to avoid. In recent years it's averaged about seventeen percent compared to commercial FDIC insured bank loans, which is about one and a half percent and credit card loans which is about four and a half percent. In other words, these SBA loans to a large degree already are potentially toxic assets. Basically, more than standard small business loans, the people who will get them, amount to two categories, business that are solvent and don't need them or business frankly that don't deserve any loans. I mean we are effectively subsidizing the uncreditworthy.

Charles Payne: That's a pretty wide range. Either you got a lot of dough and you don't need it or you have no dough and you are going to fail anyway.

Carl Horowitz: Yeah. It is a catch twenty-two. And unfortunately, that's always the way it has been since the SBA's creation in nineteen fifty three at the beginning of the Eisenhower years.

Charles Payne: But you would agree though Carl, that small businesses are generating the majority of jobs in this country, if not all them. So, how can we help them?

Carl Horowitz: Well, the small business sector and there is a definitional issue over what is a small business as opposed to a medium one. But most small businesses don't get off the ground through the SBA. You have to understand that only one percent of all small business loans in any given year, go through the SBA. Ninety nine percent don't. The

notion that this is an indispensable agency is simply not born out by the record. What we are going to see unfortunately are more loans going to small businesses or future small businesses that are friends or potential friends of the Obama Administration. You made a mention a few minutes ago about a political slush fund, all but a name, this is what this TARP is going to function as – at least to a large extent.

Charles Payne: Alrighty Carl. Listen a lot of people out there worry just like you are. Keep up the good fight.

Carl Horowitz: We are.

Charles Payne: All right. Thanks a lot.