

Bankers deny state short of 'venture capital'

By Tim Richard
staff writer

State bankers are cool to Gov. James J. Blanchard's proposal for a "Michigan Strategic Fund," aimed at aiding fledgling firms and diversifying the economy. But women and black business leaders see the state fund as a way to remove the banking industry's blinders.

"Financial institutions are part of the problem, not part of the solution," said Jeanne Paluzzi, who heads her own marketing consultant agency in Livonia.

Speaking for the Michigan chapter of the National Association of Women Business Owners, Paluzzi related to a Senate committee Monday stories told by fellow NAWBO members about their difficulties in dealing with banks. In one tale an outraged woman said:

"The commercial loan officer just put my expensive — and CPA-prepared — package in a drawer and said he wouldn't look at it until I brought in my husband. He didn't even ask if I were married."

"Banks turn down a lot of profitable (black) business," said Walter M. McMurtry Jr. of the Southeast Michigan Business Development Center, noting that the Blanchard proposal wouldn't help retail firms, where black entrepreneurs are concentrated.

THE SENATE Corporations and Economic Development Committee this week held hearings in Detroit and Monroe on a major portion of Blanchard's economic recovery program — the complex set of eight bills setting up a fund to guarantee bank loans to develop



oping businesses which show promise of creating new jobs.

Bankers testified there are plenty of lendable funds available in the state, but non-Michigan loans were more attractive because of the high costs of doing business here.

Committee Chairman John Kelly, D-Detroit, repeatedly asked bankers why, when they admitted there was "a glut" of investible funds, small businesses in his outside district were having such a tough time getting loans.

ECONOMIST Carroll B. Foster of the University of Michigan-Dearborn answered that bankers turn down loans where there is high risk and weak management, adding:

"You are judging them to be credit-

worthy, senator. Why were they not deemed credit-worthy by their financial institutions? Why are they deemed credit-worthy by you? The financial community thinks they're a bad, dangerous loan."

"Who, on the average, can do a better job of picking winners and losers? If (Michigan) banks are forced to make questionable loans, I can put my money in a bank in Billings, Mont."

"It's not that there aren't enough funds. It's that there aren't enough good places to go," said Foster.

He said the \$54 million fund might turn out to be "worse than useless" because it would be "a politically-administered slush fund."

"WE HAVE significant excess liquidity that we'd like to invest," said Paul

Tobias of Comerica, representing the Michigan Bankers Association.

"Our role is to allocate funds to firms that will be successful. We try to make each and every loan, but we cannot. Money is a resource that will go to the best return, and right now that's out of the state."

Sen. Nick Smith, a Republican farmer from Hillsdale County, expressed fear that "as we move away from community banking, holding companies will send money to Texas for a half-percent more interest."

Replied Tobias: "We see ourselves as a member of every community where we do business." He said his holding company has developed small business, energy, agriculture and high-risk groups as well as a venture capital subsidiary.

"CAPITAL IS mobile," said Patrick Anderson, economist with Manufacturers National Bank. "It moves across state and international borders. The idea we can trap capital is ludicrous."

"It costs too much to do business here," said Anderson, citing Michigan's single business tax and workers compensation rates.

He said that if banks are required to allocate 5 percent of their funds to venture capital, the money isn't available to businesses which are good credit risks.

Referring to the nine-member board which would govern the Michigan Strategic Fund, Anderson said, "If these nine are better at picking winners and losers, they should start their own bank."

"This fund won't make \$1 more

available. It won't lower costs. It is political gimmickry."

BANKING'S NEGATIVE view was bad news for state Treasurer Robert Bowman, who said the private sector was needed "to scrutinize the deal" presented to the nine-member board administering the fund.

At least five of the nine must come from private business with no more than four from government, Bowman said, adding, "No deal can move with 100 percent state financing. . . But we don't specify whether the private sector share is to be 10 percent or 50 percent."

"We're involving the financial institutions," he said. "Banks will be the ones requesting the loan. We expect banks to bring us the proposals."

In general, the purpose of the fund is to bring proposals to a state board which don't quite qualify for bank loans without state help in the form of loan guarantees.

BOWMAN, A NEW York investment banker before joining the Blanchard Administration, likened the fund to a series of "windows" where a prospective entrepreneur could take his proposals.

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