Banks set to make billions from stimulus measures

Nick Beams
3 April 2020

Part of the Trump administration's $2 trillion relief package is about to get underway as small businesses, defined as those employing less than 500 people, begin applying for loans from the Small Business Administration (SBA).

Under the scheme the full amount of any loan authorised by the SBA will be forgiven if it is used for wages, rent and utilities in the two months after it is received, with any amount not forgiven accruing interest at a rate of 5 percent and repayable after two years.

Along the way banks stand to reap considerable benefits from the scheme.

As the *Financial Times* (FT) reported earlier this week: "Banks stand to collect billions of dollars in fees on the $350 billion in loans that are being offered to US small businesses."

The SBA does not hand out the money directly but makes it available through banks and credit unions. They pick up a fee, provided by the federal government, for the service.

The fees will vary according to the size of loan. It will be 5 percent for loans under $350,000, 3 percent for loans under $2 million and 1 percent for loans greater than $2 million.

With $350 billion to be disbursed and the lowest fee to be charged set at 1 percent, there are clearly several billions of dollars up for grabs.

Not surprisingly Wendy Cai-Lee, chief executive of a digital start up bank specialising in lending to small and medium-sized businesses, told the FT: "It's great that the government has done this so quickly."

Initially only federally-insured banks and credit unions will be able to make loans under the SBA program. But others, such as online lenders, are eager to get into action and take their slice of the available fees.

The doors could soon be open to them with US Treasury saying that "additional lenders" were encouraged to apply to the SBA and obtain approval.

Banks are not the only ones looking for fees for services as the massive bailout package is carved up.

The *Wall Street Journal* reported earlier this week that, while the coronavirus outbreak had dealt a devastating blow decimating industries and wiping out millions of jobs, in the national capital "business is booming for the influence-peddling business."

It said companies were "snatching up lobbyists and regulatory experts" to help them navigate through government bureaucracy including "figuring out how to get a slice of the roughly $2-trillion stimulus package."

One senior executive of a major global law firm, which describes itself as providing insights at the point where the law and government meet, told the *Journal* he had never seen "anything like the demand for information right now" in all his 30 years of practice.

Besides seeking stimulus loans companies are also looking for lobbyists to push for beneficial changes in regulations and also to help shape the framework for another stimulus package.

The Washington lobby firms have been down this path before. As the *Journal* pointed out: "Economic crises are often good for the lobbying industry in the nation's capital." The government's pumping of money into the financial system after the 2008 crisis "sparked record growth" in this area.

According to article, in the decade since then total spending on lobbying had been flat. "Now, however, the coronavirus-related stimulus package has put a premium on insider knowledge of Washington."

A senior executive at one lobbying firm said he had signed up a dozen clients in the past few weeks.

The bailout for the airline industry is another area where there is money to be made. The stimulus package included $50 billion for passenger airlines, $8 billion for air cargo carriers, and $3 billion for airline contractors such as catering companies.

There was also $17 billion set aside for companies deemed to be essential to national security, under which aid will be provided to Boeing.

The *Wall Street Journal* has reported that the Treasury Department plans to hire three Wall Street banks to provide advice on how to dole out the tens of billions of dollars in aid.

Because of the wave of hostility that erupted over the bank and corporate bailouts in 2008 and the deep anger that remains, all stops are being pulled to present this latest, even bigger, bailout operation as in the "service of the nation."

You could grow very rich if you were paid just a dollar every time the sentence "We're all in this together" was used.

Accordingly, in reporting on the role to be played by banks in assisting the Treasury in organising the airline bailout, the *Journal* said: "Such advisory roles are highly coveted, not only for the fees they can yield but because of the importance of the assignments to the health of the national economy."

And it noted the major hedge fund Blackrock was "hired last week to help the Federal Reserve buy hundreds of billions of dollars of corporate bonds." No doubt this is another service directed to the health of the national economy.

In the 2008-2009 crisis, Obama's closest adviser, Rahm Emanuel, declared: "You never let a serious crisis go to waste."

Banks, lobby groups, hedge funds, major law firms and others have taken this to heart as they scramble to secure a slice of the biggest corporate and financial bailout in history.

The first part of Emanuel's remark in the Wall Street crisis is most often cited but he made a important elaboration. "And what I mean by that, it's an opportunity to do things you think you could not do before." That is very applicable in the present situation.

In some ways the coronavirus pandemic has been a fortuitous accident for Wall Street.

Before the virus outbreak, the market was surging to record highs. As a result of financialization, in which the accumulation of profit was increasingly based on parasitism and manipulation, divorced from productive activity in the real economy, stock prices and the entire financial house cards were heading for a collapse.

It only required one or another accident to bring it crashing down, that would have required massive government and Fed intervention.

In the event, it was the coronavirus pandemic that set off the collapse. But this had the advantage of enabling the crisis and the corporate and financial bailout to be presented as if it were a necessary response a natural disaster, rather than the inevitable outcome of a terminally-diseased socio-economic order.