

# TARP exit not easy for small players

April 2, 2011 6:50 pm |

Although the parent companies of Wisconsin's two biggest banks are preparing to exit the controversial [Troubled Asset Relief Program](#), it's likely to be awhile before most of the other state banks with TARP money shed it.

Community bankers say it's generally tougher for them to raise capital – something regulators have been requiring of banks that want to repay TARP – than it is for big, publicly traded banks.

Those that have trouble raising capital or don't want to because of its side effect – reducing the value of existing shares – need to set aside a portion of profits to repay TARP. That may be difficult for some as they also allocate money to loan-loss reserves to cover bad loans.

But that not to say every TARP bank is fretting about it. Some [community banks](#) still see their TARP money as a relatively inexpensive way to buttress the bank while the economy slowly comes back to life.

And in the end, some could turn to a new refinancing program by the Treasury that would give the stronger TARP [community banks](#) better terms as long as they increase lending to small businesses.

At some point, though, TARP banks will need a plan for when and how to pay back Uncle Sam.

I think one of the challenges that some of the really closely held banks never thought about was an exit strategy, said Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland.

The exit strategy for the states two biggest banks is becoming clearer. Canada's BMO Financial Group, which is buying Marshall & Ilsley Corp., is committed to repaying the Milwaukee banks \$1.7 billion TARP investment just before the deal closes.

Green Bay's [Associated Banc-Corp](#) just sold \$300 million in senior notes, most of which will be used to pay back half of its \$525 million in TARP. Associated probably will raise the rest with an equity offering sometime this year, even though the bank already is one of the most capitalized in its peer group, said Terry McEvoy, a bank analyst with Oppenheimer amp; Co. in Portland, Maine.

What has been the case in almost every instance is, for banks to fully repay TARP, they need to demonstrate to the market that they can have access to capital, McEvoy said.

Limited options

When M&I and Associated – which together account for nearly 90% of all TARP money in Wisconsin – leave the program, the state still will have 17 smaller banks with a total of about \$259 million owed to the Treasury, not counting Milwaukee’s failed Legacy Bank.

Nationally, Bruss said, only 15% of all banks with less than \$5 billion in assets have redeemed TARP.

The problem for smaller banks is they don’t have the same access to capital investors that larger, publicly traded banks do, said Merlin Zitzner, chief executive of Baraboo National Bank.

Community banks are restricted as far as options that are available to pay back TARP. All the big guys paid theirs back by issuing stock. We don’t have that market to access, said Zitzner, whose bank parent company accepted more than \$20.7 million through TARP’s [Capital Purchase Program](#) during the financial crisis in early 2009. As a result, we have to generate funds internally through profits to grow equity to repay TARP.

Salting away enough TARP repayment money could take time. Some banks still are dealing with the recessionary hangover of delinquent loans while the demand for new loans remains subdued – both factors that hurt their ability to increase profits.

Zitzner said he’s on the fence about whether to apply to the Treasury for TARP financing under the [Small Business Lending Fund](#), which took effect as part of Congress Small Business Jobs Act of 2010. TARP banks now pay the Treasury a 5% dividend on the investment, and it jumps to 9% after five years. But TARP banks that refinance through the Small Business Lending Fund can have their dividend cut as low as 1% if they increase their lending enough.

Regardless, said Zitzner, whose bank lost almost \$2.5 million last year, taking TARP wasn’t a mistake.

It’s a safety net. Why would I regret that? he said.

Bob Atwell, chief executive of Nicolet National Bank, said he couldn’t disclose when the Green Bay financial institution will repay its nearly \$15 million in TARP. But the discussion isn’t on the back burner.

It’s a question embedded in a bank’s capital structure that needs to be answered, said Atwell, whose bank posted a profit last year of \$1.7 million.

Nicolet took TARP money late in 2008, when the government was portraying it as a program for beefing up the strength and lending ability of already-strong banks. But as some weak banks and other institutions were added to the list of TARP recipients, the public quickly came to perceive TARP generally as a government [bailout](#).

Still, many bankers say it has done what it was intended to do.

It fulfilled its purpose of fortifying our balance sheet for what turned out to be a very rough ride for banks, Atwell said.

### Problem banks

Last week, the Treasury issued a report saying the bank portion of the TARP program has turned a profit. When counting repayments, dividends, interest and other income, the taxpayers have recovered \$251 billion – or \$6 billion more than the \$245 billion the government allocated. The Treasury estimates TARP ultimately will generate a profit of more than \$20 billion.

But that doesn't mean everything is going smoothly. So far, eight of more than 700 banks that took TARP money have failed. That includes Legacy Bank, which was closed by regulators March 11 and was taken over by Chicago-based Seaway Bank and Trust Co. Legacy had received \$5.5 million in [TARP funds](#).

In addition, a growing number of banks with TARP investments are behind on their dividend payments, including four – five until Legacy failed – in Wisconsin: AnchorBank; Ridgestone Bank; Securant Bank and Trust; and Community First Bank in Boscobel.

Madison-based AnchorBank, with a \$110 million in TARP money, will have by far the biggest obligation once M&I and Associated repay. AnchorBank has struggled to return to profitability after huge losses on [commercial real estate](#).

First Manitowoc Bancorp Inc., the parent company of Bank First National, is the only Wisconsin financial institution to repay TARP so far. It repaid \$12 million in 2009, only a few months after receiving it.

R. Richard Bastian III, president and CEO of Blackhawk State Bank in Beloit, isn't in a hurry to pay back TARP. With a profit of more than \$3.3 million last year and the possibility that weaker competitors might be for sale, Blackhawk considers its \$10 million comfort capital for now, Bastian said.

We didn't have a losing quarter and didn't take torpedoes below the water line like some banks did. But it was nice to know that we would remain well-capitalized through a very difficult and challenging environment, Bastian said. That's why I call it comfort capital.