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No thanks, feds: Local banks say aid not worth the trouble

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Local banks, it seems, have decided to say no thanks, after all, to federal bailout money.

The government's \$700 billion bailout program, known as the troubled assets relief program, or TARP, attracted a lot of interest when it was created in October. Several local bank leaders said at the time they planned to apply.

As of April, the U.S. Treasury had paid out \$199 billion, but 188 institutions opted to turn down the money, according to Keefe, Bruyette & Woods, which researches financial services.

Bakersfield's San Joaquin and Mission banks and Mojave-based Mojave Desert Bank initially said they'd go for the capital the government hoped would spur loans, but all have since changed their minds.

Bank of the Sierra of Porterville declined the offer from day one.

"There were all kinds of unreasonable conditions, and we'd have been bound not only by current regulations, but also any new statutes passed after the signing," said Chief Executive Officer James Holly.

Newcomer Valley Republic Bank, based in Bakersfield, simply didn't need it. The new bank has raised \$24.6 million from mostly local shareholders, far surpassing its fundraising goal, said Chief Executive Officer Bruce Jay.

Other local banks, though, balked at the price. Borrowers would pay Uncle Sam back with dividends, not interest, so it wouldn't be tax deductible.

And the interest rate (about 5 percent in the first few years) looks a lot less appealing now that rates have plummeted.

Plus, the government would have the right to purchase future shares in TARP banks at present prices, which would have to be recognized as an expense on the books.

"If you don't really need it, it's going to hurt you because it's just too expensive," said Mission Bank Chief Executive Officer Richard Fanucchi.

Then, too, part of the rationale for the program was to put money into the hands of good banks so they could absorb bad ones and prevent them from failing, Fanucchi said.

"We thought about that, but because we didn't know what was going to happen, we didn't think it would be a good thing to get the money and then not have anything to do with it."

Mojave Desert Chief Executive Officer George Nagy said the assistance just wasn't worth it.

"It's not like we're in desperate straits," he said. "We're a healthy bank."

San Joaquin said it pulled out for philosophical reasons as much as anything.

"There are a lot of complications with taking on the government as a partner in your business," CEO Bart Hill said.

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IMAGES:



Casey Christie

Casey Christie / Kern Business Mission Bank CEO Richard E. Fanucchi in front of Mission Bank at Truxtun Avenue and L Street in downtown Bakersfield.



Felix Adamo

Felix Adamo / Kern Business Bart Hill, CEO of San Joaquin Bank.

San Joaquin likely has all the government interaction it wants.

State and federal regulators have cracked down on San Joaquin, demanding tougher board oversight and improved risk management.

So many banks have balked at TARP upon closer inspection that some observers, including conservative think tank CATO Institute, are questioning whether the program is necessary or effective.

Credit extended to businesses and consumers by the 21 largest banks that have accepted

TARP funds fell 2.2 percent in February compared with the prior month, the government said.

Treasury said the drop would have been steeper but for its injection of cash.

Bank of the Sierra's Holly said the bailout was the right thing to do, given where the economy was headed last year and where it still needs to go.

"The consumer confidence index is at a record low," he said. "Consumers are just paralyzed. They're worried about fundamentals like, am I going to have a job?"

TARP money has been a "mixed bag," said Steve Verdier, senior vice president and director of congressional affairs for Independent Community Bankers of America.

On the one hand, he said, it's doing what it was designed to do.

Community banks that were well capitalized for their current size but wanted to expand are using the money to go after customers fleeing larger banks, Verdier said.

But not everyone wants to expand, and some do but not at any cost.

"Some of the larger institutions that have been bailed out have gotten such tremendous scrutiny and public criticism, and a lot of banks don't want to be tarred with the same brush," he said.

Especially not when there are early signs of economic recovery, Verdier added.

"It may be the markets have improved enough so that banks are able to raise capital without going to treasury," he said.

Holly said he thinks so.

"It's a slow and protracted recovery, but nevertheless, a recovery," he said.

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