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## As TARP ends, small banks struggle to repay

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By Joe Rauch and Dave Clarke

CHARLOTTE/WASHINGTON (Reuters) - The U.S. government's \$700 billion bailout of the financial system has become a form of long-standing aid for many of the nation's small and regional banks, even as the program officially expires on Sunday.

The banks are eager to repay the taxpayer money, but the meek economic recovery has gotten in the way.

Analysts and attorneys that work with banks on capital issues said the institutions are feeling pressure to replace the government aid, facing the prospect of skyrocketing dividend payments on funds from the Troubled Asset Relief Program, or TARP.

This pressure is likely to compel small and regional banks to raise capital or sell themselves to rivals in the coming years, according to analysts.

"Pay days for a lot of banks got pushed out," said Jeff Davis, bank analyst with Guggenheim Securities. "We all expected much of this to be repaid by 2011, but the economy's not growing like we all thought."

Bigger banks have recovered more quickly from the 2007-2009 financial crisis and have been able to get out from under TARP while many small banks continue to struggle with their exposure to the residential and commercial real estate markets.

Smaller institutions also have fewer ways to drag in profits than their larger competitors.

"They don't participate in the kinds of activities where the big banks have made big profits," said Simon Johnson, a professor at the MIT Sloan School of Management. "A lot of it is around trading, including in derivatives and the big banks have huge market share in that now."

### DIVIDENDS TO PRESSURE REPAYMENTS

In October 2008, the Treasury Department created as part of TARP the Capital Purchase Program to dole out funding to banks large and small to shore up their balance sheets and prod them into lending.

It has disbursed \$205 billion to 707 institutions in chunks as large as \$25 billion and as small as \$301,000. As of August 2010, \$140 billion had been repaid with 80 institutions giving back all they received, according to the Treasury.

The largest banks, like Bank of America Corp and Goldman Sachs, have repaid the billions they received. It has been harder, however, for smaller institutions like Regions Financial Corp and SunTrust Banks Inc.

The two U.S. Southeastern banks combined have \$8.5 billion in TARP investments that have yet to be repaid. Executives for both banks have said they wish to repay the money as soon as possible, and are working with regulators.

A delay for any bank will have consequences.

The dividend payments for TARP banks rise from 5 percent to 9 percent on the 5-year anniversary of their receipt of the initial preferred stock investment. Many banks, and regulators, are hoping to avoid that.

"For some of them, the laggards, that's what is going to get them out of this -- the regulators," said Mark Calabria, a Republican aide on the Senate Banking Committee when TARP was created who is now with the libertarian Cato Institute.

That pressure, analysts said, could force a new round of industry mergers and acquisitions, or large amounts of banks trying to access the capital markets for funds to replace Uncle Sam's investment.

But for smaller banks, raising capital with a public offering may not be an option. Investors are still skittish about investing in such institutions even in the best of times, much less coming off the worst crisis in decades.

Banks will also be dealing with new, stronger capital requirement, which may force them to deal because of fewer options for what now counts as core capital.

Under the Dodd-Frank Act and pending Basel III rules, some of the securities and instruments that banks' relied on as core capital are now excluded, like trust-preferred securities.

"I don't know if anyone's fully thought through the affect this will have on raising capital to repay TARP," said Chip MacDonald, an Atlanta-based banking attorney with Jones Day. "I see the new regulations impeding some TARP refinancings."

"Everybody's worried," MacDonald said, about repayment.

(Reporting by Joe Rauch and Dave Clarke)

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