



Written by [Steven J. DuBord](#) on November 10, 2009

Small Banks Turn Down TARP Funds

Many small banks are turning down federal money from the Troubled Asset Relief Program (TARP) because they recognize that it comes with too many strings attached. Additionally, the small businesses they primarily cater to “need lines of customers, not lines of credit,” as ABC News put it on November 9.

“Small businesses don’t need credit lines or loans, what they need is business, sales, customers,” noted Bill Dunkelberg, chief economist at the National Federation of Independent Business (NFIB). The NFIB represents 350,000 small businesses, most with 10 or fewer employees.



Yet President Barack Obama recently issued a proposal to make TARP more attractive to community banks, supposedly to encourage small-business loans. Technically, TARP is open to small banks, but Obama’s proposal would lower the interest rate charged to these banks from five percent to as low as three percent.

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Treasury Department spokeswoman Meg Reilly has stated that it is too early to tell how popular the initiative will be with community banks, but she did mention that out of approximately 650 banks receiving more than \$200 billion in TARP funds, the government classifies over 470 of them as “small.”

Obama’s proposal flies in the face of the NFIB’s last monthly member survey. Out of about 2,000 small businesses that responded, only four percent said that “financing” was the number one challenge they were facing. Only 10 percent complained that their borrowing needs were not being met satisfactorily.

If small businesses are not desperate for more loans, then small banks don’t need federal money to lend. The NFIB’s Dunkelberg realizes this. He is also the chairman of the board for Liberty Bell Bank in Cherry Hill, New Jersey. Liberty Bell is a community bank with around \$180 million in assets.

“We have money to lend,” Dunkelberg said, but “the demand isn’t there. Community bankers from all over the country tell me the same thing.” In fact, the NFIB figures indicate that small businesses are hunkering down to weather the current economic recession, not clamoring for new funds to invest in expansion.

Just as America’s small-business owners are wisely responding to the times, so are the small banks that are turning down TARP funds. The strings attached are enough to makes a puppet dance to Uncle Sam’s tune. First of all, if a bank accepts federal money, it must acquiesce to the United States government becoming a stakeholder — a member of the board, so to speak. Secondly, TARP takers are bound by federal restrictions on how they pay dividends. Lastly, TARP money brings with it limits on how employees are compensated.

As Paul Merski, senior economist at the Independent Community Bankers of America, sees it, most



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small bank executives are showing little interest in following the dark path embarked upon by their larger brethren. "TARP is too onerous," Merski declared. "Unless the costs, rules and restrictions are dramatically changed it's not an attractive option."

Therein lies the reason for Obama's expansion of TARP. If small businesses aren't demanding loans, and small banks aren't able to find many businesses in need of loans, then the only reason for the Obama administration to expand TARP is ensnare more banks in its web.

Generally speaking, small banks have avoided the errors of mismanagement that have plagued larger firms. The only way for the federal government to bring community banks under its control is to entice them with low-interest loans.

Fortunately, it seems that America's small bankers are well aware that there is no such thing as free money. The bait will no doubt lure some banks to become entangled in the federal web, but those that fly free won't feel the fangs of federal control sinking into their institution.



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