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# Bailout Is a Windfall to Bankers, if Not to Borrowers

By [MIKE MCINTIRE](#)

At the Palm Beach Ritz-Carlton last November, John C. Hope III, the chairman of Whitney National Bank in New Orleans, stood before a ballroom full of Wall Street analysts and explained how his bank intended to use its \$300 million in federal bailout money.

“Make more loans?” Mr. Hope said. “We’re not going to change our business model or our credit policies to accommodate the needs of the public sector as they see it to have us make more loans.”

As the incoming Obama administration decides how to fix the economy, the troubles of the banking system have become particularly vexing.

Congress approved the [\\$700 billion rescue plan](#) with the idea that banks would help struggling borrowers and increase lending to stimulate the economy, and many lawmakers want to know how the first half of that money has been spent before approving the second half. But many banks that have received bailout money so far are reluctant to lend, worrying that if new loans go bad, they will be in worse shape if the economy deteriorates.

Indeed, as mounting losses at major banks like [Citigroup](#) and [Bank of America](#) in the last week have underscored, regulators are still searching for ways to stabilize the banking system. The Obama administration could be forced early on to come up with a systemic solution, getting bad loans off balance sheets as a way to encourage banks to begin lending, which most economists say is essential to get businesses and consumers spending again.

Individually, banks that received some of the first \$350 billion from the Treasury's Troubled Asset Relief Program, or TARP, have offered few public details about how they plan to spend the money, and they are not required to disclose what they do with it. But in conversations behind closed doors with investment analysts, some bankers have been candid about their intentions.

Most of the banks that received the money are far smaller than behemoths like Citigroup or Bank of America. A review of investor presentations and conference calls by executives of some two dozen banks around the country found that few cited lending as a priority. An overwhelming majority saw the bailout program as a no-strings-attached windfall that could be used to pay down debt, acquire other businesses or invest for the future.

Speaking at the [FBR Capital Markets](#) conference in New York in December, Walter M. Pressey, president of Boston Private Wealth Management, a healthy bank with a mostly affluent clientele, said there were no immediate plans to do much with the \$154 million it received from the Treasury.

"With that capital in hand, not only do we feel comfortable that we can ride out the recession," he said, "but we also feel that we'll be in a position to take advantage of opportunities that present themselves once this recession is sorted out."

The bankers' comments, while representing only a random sampling of the more than 200 financial institutions that have received TARP money so far, underscore a growing gulf between public expectations for how the \$700 billion should be used and the decisions being made by many of the institutions that have taken part. The program does not dictate what banks should do with the money.

The loose requirements in the original plan have contributed to confusion over what the Treasury intended when it abruptly shelved its first proposal — to buy up bad mortgages — in favor of making direct investments in individual banks in return for preferred shares of stock.

The Treasury secretary, [Henry M. Paulson Jr.](#), said in October that banks should "deploy, not hoard" the money to build confidence and increase lending. He added: "We expect all participating banks to continue to strengthen their efforts to help struggling homeowners who can afford their

homes avoid foreclosure.”

But a Congressional oversight panel reported on Jan. 9 that it found no evidence the bailout program had been used to prevent foreclosures, raising questions about whether the Treasury has complied with the law’s requirement that it develop a “plan that seeks to maximize assistance for homeowners.”

The report concluded that the Treasury’s top priority seemed to be to “stabilize financial markets” by simply giving healthy banks more money and letting them decide how best to use it. The report also said it was not clear how giving billions to banks “advances both the goal of financial stability and the well-being of taxpayers, including homeowners threatened by foreclosure, people losing their jobs, and families unable to pay their credit cards.”

For the banks, fearful that the economic downturn could deepen and wary of risking additional losses, the question of what to do with the bailout money comes down to self-preservation.

Mark Fitzgibbon, research director at Sandler O’Neill & Partners, which sponsored the Palm Beach conference, said banks seemed to be allocating the bailout money for four general purposes: increased lending, absorbing losses, bolstering capital and “opportunistic acquisitions.” He said those approaches made sense from a business perspective, even though they might not conform to popular expectations that the money would be immediately lent to consumers.

“For the banking industry, this isn’t a sprint, this is a marathon,” Mr. Fitzgibbon said. “I think over time there will be pressure to lend that capital out and get a return for their shareholders. But they’re not going to rush out and lend all that money tomorrow. If they did, they could lose it.”

For City National Bank in Los Angeles, the Treasury money “really doesn’t change our perspective about doing things,” said Christopher J. Carey, the bank’s chief financial officer, addressing the BancAnalysts Association of Boston Conference in November. He said that his bank would like to use it for lending and acquisitions but that the decision would depend on the economy.

“Adding \$400 million in capital gives us a chance to really have a totally fortified balance sheet in case things get a lot worse than we think,” Mr.

Carey said. “And if they don’t, we may end up just paying it back a little bit earlier.”

In addition to wanting more lending, members of Congress have said TARP should not be used to fuel mergers and acquisitions, although Treasury officials say the financial system would be strengthened if healthy banks absorbed weaker ones. To that extent, bailout money has been useful for improving capital ratios — the amount of money available to absorb losses — for banks that merge.

On Friday, Bank of America said it would receive \$20 billion more from the Treasury to help it digest losses it took on by acquiring [Merrill Lynch](#), a process begun in September.

At least seven banks that received TARP money have since bought other companies, including one that had been encouraged to do so by federal regulators. That one, PNC Financial Services, took \$7.7 billion from the Treasury and promptly acquired the struggling National [City Bank](#) for \$5.2 billion in stock and \$384 million in cash.

Among the others, PlainsCapital Bank of Dallas announced in November, not long after the bailout program began, that it planned to merge with a healthy investment bank, First Southwest. PlainsCapital received \$88 million from the Treasury on Dec. 19, and the all-stock merger was completed two weeks later. PlainsCapital’s chairman, Alan B. White, insisted in an interview that the two events were not connected.

He said the bank had not yet decided what to do with its bailout money, which he called “opportunity capital.” Increased lending would be a priority, said Mr. White, who did not rule out using it for other acquisitions, adding that when regulators invited PlainsCapital to apply for federal dollars, there were no conditions attached.

“They didn’t tell me I had to do anything particular with it,” he said.

None of the bankers who appeared before recent investor conferences offered specific details about their intentions, but recurring themes emerged in their presentations. Two of the most often cited priorities were hanging on to the money as insurance against a prolonged recession and using it for mergers.

At the Sandler O'Neill East Coast Financial Services Conference in Florida, bankers mingled with investment analysts at an ocean-front luxury hotel, where the agenda featured evening cocktails by the pool and a golf outing at a nearby country club.

During his presentation, John R. Buran, the chief executive of [Flushing Financial](#) in New York, said the government money was a way to up the “ante for acquisitions” of other companies.

“We can get \$70 million in capital,” he said. “So, I would say the price of poker, so to speak, has gone up.”

For Mr. Hope, the Whitney National Bank chairman, “the main motivation for TARP” was not more loans, but rather to safeguard against the “possibility things could get a lot worse.” He said Whitney would continue making loans “that we would have made with or without TARP.”

“We see TARP as an insurance policy,” he said. “That when all this stuff is finally over, no matter how bad it gets, we’re going to be one of the remaining banks.”

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