

TARP report card

Bankers weigh in with thoughts on the progress of the government program

July 25, 2010
By Tony Lucia
Reading Eagle

In late 2008, with panic spreading like lightning through the financial markets, the government enacted the Troubled Asset Relief Program, which was signed into law on Oct. 3 of that year by President George W. Bush.

TARP allowed the secretary of the Treasury to buy such assets from any financial institution. And a component of TARP called the Capital Purchase Program allowed banks voluntarily to bolster their capital - presumably to increase lending and jump-start the stalling economy - by selling preferred shares of stock to the government.

Ten financial institutions doing business in Berks County participated in the Capital Purchase Program; about half of them have repaid the government. And those who spoke for this article remain supportive of TARP.

Scott Smith, chairman and chief executive of Fulton Financial Corp., Lancaster, which received \$376.5 million, said that the industry was in a very severe financial situation at the time.

"Who knows what would have happened had this not been provided," Smith said. "It might have worked out; it might not. What I know is, we (the industry) were in a pretty tough situation with some very severe potential implications of what could happen. And we're better off today than we were two years ago. A lot has happened since then that you could debate, but somebody had to do something."

Smith said Fulton, which has a number of branches in Berks, applied for the money even though its capitalization was sufficient.

"We looked at it as major recession insurance," he said. "We weren't going to pull back on loan activity, but were concerned that if this got really deep and severe we had all the capital to see us through."

Robert R. Tabas, chairman and CEO of Royal Bancshares of Pennsylvania, Narberth, Montgomery County, which received \$30.4 million, agreed that TARP was necessary.

"I would just say that I do think it had a major impact on our economy and lent a lot of stability to the banking sector," Tabas said. "So I think that for the banking sector, it was very good."

Tabas said his institution, which has a branch in the Shillington Shopping Center, used the funds to bolster its capital base, which already had been above regulatory minimums, and to provide additional lending.

"We were able to put quite a bit of new money on the streets because of that," he said.

National Penn Bancshares Inc., Boyertown, which received \$150 million through the Capital Purchase Program, has used the funding for general corporate purposes, said Catherine S. Bower, communications manager, including the origination and support of loans in its market area.

"We believe that, through our participation in TARP and continued lending, we are contributing to economic recovery in our region," Bower said.

At VIST Financial Corp., Spring Township, Chief Financial Officer Ed Barrett said the government had encouraged stronger banks to take the money to fortify the banking system. VIST applied for and received \$25 million.

"This later became known as the bailout," Barrett said. "But these weren't grants. We pay \$1,050,000 a year to the preferred shareholder, which is the Treasury."

He said VIST, which has not yet repaid the money, is glad it participated, and added that the firm increased its loans by \$27 million from September 2008 to today, using the TARP money to fund them.

"It's not our intent to pay it back in next couple quarters, not until we know the credit picture and general economy are improving and we're starting to see that now," he said. "It's still a good program and we still believe in it."

Dr. Farhad Saboori, professor of economics at Albright College, said that despite the current politicizing of TARP, it was necessary.

"When the financial crisis hit the economy, at the time there was no question there was a need for government to step in," Saboori said. "We had a major meltdown. I think if it weren't for TARP, a lot of these major banks really would have been in trouble. What else would you do when the core of capitalism is in trouble? Clearly it was a very expensive attempt on the part of the government, but there weren't many choices. And if you remember, it was supported by Democrats and by Republicans. So yes, I think it was the proper decision at the time."

John Walker, associate professor of finance at Kutztown University, concurred.

"I think that it has been successful in the sense that banks are now on the upswing, and I think that at the moment we were at such a crisis that it was important to the overall system to show everyone that the government was going to stand behind and support the banks," Walker said. "It was psychologically important. And the amount of TARP funds accepted by the banks was actually less than had been allotted. But there's no doubt that in many cases, they really needed it. I think in total the government effectively stabilized the banking system."

Contact Tony Lucia: 610-371-5046 or tlucia@readingeagle.com.