

# The Times

## Local banks are wary of TARP's coverage

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President Barack Obama's recent proposal to distribute \$30 billion of Troubled Asset Relief Program funds to local and community banks in an effort to re-energize lending to small businesses is being met with wariness by Mercer County banks reluctant to take advantage of the TARP money.

Though few details of the plan have emerged, it was highlighted in Obama's State of the Union address Wednesday night as one of several initiatives to continue stimulating the economy in general and small businesses in particular.

"I'm proposing that we take \$30 billion of the money Wall Street banks have repaid and use it to help community banks give small businesses the credit they need to stay afloat," Obama said in his speech.

A number of Mercer County banks say they appreciate the gesture and the concern for both local banks and the small business community. But many said they don't need the extra capital, and that they've never stopped lending to local businesses. Others remember the negative buzz and stigma surrounding the TARP bailout money, and are loath to revisit that situation again.

"It's like when a dog bites you once, you're reluctant to put your hand out to feed it again," said James Hyman, president and CEO at Hopewell Valley Community Bank.

Hyman's bank had applied for capital under the U.S. Treasury's TARP Capital Purchase Program in October 2008 for banks in good standing.

By early 2009, however, the funds had become politicized, Hyman said, and Hopewell Valley Community Bank ultimately withdrew its application.

"All of the press and all of the accusations coming out of Washington and the media were negative," Hyman said. "If you took this money you were taking taxpayer money to bail you out. We walked away from the program entirely because we didn't need the capital."

The bank's decision to pass on the original batch of TARP funding hasn't come back to haunt it yet.

"We're an active small business lender. We've never stopped lending to small businesses," he said. "We've got the cash and capital to support the businesses in our communities."

**Susan Hume, an assistant professor of finance and international business at The College of New Jersey and a former Federal Reserve analyst, said she can't see the president's latest proposal appealing to very many banks, given the baggage surrounding TARP.**

**"The program is so unpopular for the community banks that it's not going to be do-able," she said. "It just has such a bad connotation to put those funds out there."**

Others were slightly more optimistic about the sentiment behind the plan, but said they'd have to wait for more details about the terms and conditions of the funds.

"It's a little too early to react to this thing until the details come out, but in principle it appears to be a good thing for small businesses and community banks," said Andrew Chon, chairman of The Bank of Princeton. "We'd use it to increase small business lending and that's what I believe is the intent behind this thing."

Like Hopewell Valley Community Bank, Chon said The Bank of Princeton originally applied for TARP funds last year, but ultimately decided not to take money from the unpopular program.

Though the terms of the latest proposed deal have yet to be announced, Peter Inverso, president and CEO of Robbinsville-based Roma Bank, said several conditions are already floating around in banking circles. Under one scenario, banks with less than \$1 billion of assets would be able to borrow up to an amount equal to 5 percent of those assets and would initially pay 5 percent dividends back, Inverso said, with the opportunity to get that dividend rate down to 1 percent should a certain amount of money be injected into small businesses.

Banks with \$1 billion to \$10 billion in assets would be able to borrow an amount equal to 3 percent of total assets.

"Personally, I would have preferred he take the \$30 billion and pay it against our (national) debt," Inverso said. "At this juncture, we certainly don't have a need for that liquidity."

Inverso and Hyman said the credit meltdown and failure of the big banks have, in a way, actually strengthened community banks like Roma and Hopewell Valley, who appear more stable in comparison to the national institutions that required rescuing.

And while some banks may be holding tight to the credit strings until the economy stabilizes, community banks continue to lend money for sound loans, they said.

"We've seen some of the larger banks be more reluctant to lend to many small businesses and it has created many good opportunities for us," said Hyman. "I would love to see the economy expanding more, the local economy particularly."

"The community banks didn't cause the problem, but they are a key component of the solution," Inverso said.

Randy Hanks, president and CEO of Lawrence-based First Choice Bank, said he'd like to see some portion of the \$30 billion pumped instead into the Small Business Administration, the independent federal agency that supports and helps secure loans for small businesses.

Like Roma, Hopewell Valley and The Bank of Princeton, First Choice passed on the initial round of TARP funds.

"I think a better plan is to expand the scope and ability of the SBA to help banks make loans," he said. "The government has an outstanding vehicle to increase small business lending that already exists."

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