

Summit State Bank repays TARP money

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Summit State Bank on Thursday became the first lender in Sonoma County to repay taxpayer money it received as part of the government program to stabilize U.S. banks.

The program, criticized as a bank bailout when it began in 2008, is now heralded for stabilizing banks and actually returning a profit to the government.

The U.S. Treasury, which loaned \$245 billion to banks through its Troubled Asset Relief Program, has now recovered all of that initial investment and earned an additional \$10 billion, according to government accounting.

Three Sonoma County banks received a total of \$60.2 million through the TARP program.

The Treasury, which required banks to pay interest on the borrowed money, currently estimates its investment in U.S. financial institutions will generate a \$21.2 billion profit by the time the 10-year program ends.

“Overall, this was a good program for the taxpayer,” said Fred Ptucha, a Santa Rosa banking analyst. “As bad as this recession has been, it would have been far worse if they hadn't rescued the banks.”

The government's Capital Purchase Program, which accounted for about half of TARP's overall budget, was designed to boost capital at U.S. banks. Officials created the program to ease a credit crunch that had engulfed U.S. financial institutions in late 2008.

The Capital Purchase Program provided additional money for banks to lend while also easing the minds of jittery bankers who watched as loan defaults hit near historic levels during the recession.

The Capital Purchase Program injected money into 707 community banks across the United States. As of June 30, about one in seven had fully repaid the money.

Exchange Bank, the largest and oldest community bank in Sonoma County, received \$43 million in December 2008. It is one of about 530 community banks that has yet to repay its TARP funds.

“It certainly stabilized our financial picture enough to lend during these difficult times,” said Bill Schrader, president of the bank. “It gave us the time to heal.”

The Santa Rosa bank has reduced its nonperforming assets by about 30 percent.

Sonoma Valley Bank, which received \$8.7 million in TARP funds in February 2009 and was closed by regulators last August, at the time was only the fifth bank in the nation to fail after

receiving government assistance. As of July 1, only 9 banks that received TARP funds had failed, according to the U.S. Treasury.

Sonoma Valley Bank is the target of a federal grand jury probe in San Francisco investigating possible criminal activity surrounding the bank and one of its major borrowers, a San Rafael real estate developer, according to court records and sources.

Summit State Bank, which received \$8.5 million in December 2008, fully repaid the money on Thursday. The Santa Rosa bank returned the proceeds with part of the \$13.75 million it received the same day from another treasury program called the Small Business Lending Fund.

In essence, Summit bank borrowed an additional \$5.25 million from the government. The new program was approved by Congress in 2010 to inject \$10 billion into community banks.

The downside for taxpayers is this new program has a potentially lower interest rate, meaning the government's profits could be lower. The government currently charges 5 percent under the TARP program. Under the new program, the rate can drop considerably lower.

“The rate can go down as low as 1 percent, depending on how much we increase small-business loans, owner-occupied commercial real estate loans, and agriculture loans,” said Dennis Kelley, the bank's chief financial officer. “This gives us an additional incentive to lend.”

The upside for Sonoma County is that Summit State Bank is seeking ways to lend more money that could help spur the local economy and add additional jobs.

By the time Summit State Bank repaid its TARP money, it had already made \$1 million in interest payments to the government, according to Treasury data as of June 30.

Exchange Bank has paid \$5million in interest payments to the government, according to the same Treasury data. The Santa Rosa bank also considered receiving a loan from the Small Business Lending Fund, but decided to withdraw its application due to a last-minute provision that would have required it never miss an interest payment. Bank officials said they hope to repay the TARP money by 2013, after which time the quarterly interest payment increases to 9 percent.

“A lot of what determines when we pay that back is the recovery of the local economy,” Schrader said. “We can't point to a date on the calendar.”

For the U.S. government, the program that supported Summit State Bank and continues to bolster Exchange Bank has been a success, said Mark Paustenbach, a spokesman for the Treasury department.

“Every additional dollar returned to taxpayers from these institutions is profit generated by our bank programs,” he said.

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