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MN banks face choice: Take fed money or not?

Minneapolis / St. Paul Business Journal - by [Jennifer Niemela](#) Staff Writer

How will the government's banking-rescue package affect local banks? Even the bankers aren't sure.

While the **U.S. Department of the Treasury** works to refine the parameters of its \$700 billion Troubled Asset Relief Program, local bankers are debating whether to apply for some of the \$250 billion set aside for capital infusions. Their choice is complicated by information that changes on a seemingly hourly basis.

Some have filled out applications waiting for final approval by boards; some have already declined the money. Most are taking a wait-and-see stance, although they don't have much longer to wait; the deadline for applying for a piece of the remaining \$87 billion available to banks is Nov. 14.

"We have not decided one way or the other," said Brad Bakken, president and CEO of **Citizens Independent Bank** in St. Louis Park and chairman of the **Minnesota Bankers Association**. "I guess you would leave your options open. The way the market is changing, you don't know what could happen."

Publicly vs. privately held

At least one regional bank, **M&I Bank**, based in Milwaukee but with a sizable Twin Cities presence, has announced it expects to receive \$1.7 billion. As a publicly traded bank, M&I was qualified to apply for the program.

Part of the confusion for Twin Cities bankers is that most of them run privately held banks, which aren't qualified to receive capital under the program's current rules. However, as of press time, Treasury officials were exploring ways to expand the program's reach to private banks.

"We're not even sure we would qualify because we are privately held," said Teresa Morrow, spokeswoman for **Bremer Bank** in St. Paul. "To participate in the bailout, ultimately you're allowing the government to purchase shares, and no one outside the bank can purchase shares." But, she added, "Our legal folks are looking into it."

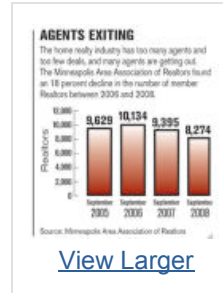
Small private banks aren't necessarily the ones that might need the program, as most of the ones in the Twin Cities are relatively well-capitalized, said David Rom, president of **Platinum Bank** in Woodbury.

"It's not a real good fit for privately held banks. [The Treasury] focused almost exclusively on the public banks," said Rom, who isn't interested in the program the way it's being presented right now.

Keeping the options open

But with the application deadline fast approaching, some banks have decided to submit an application whether they seem to qualify or not.

"I think we're leaning toward applying for some capital, somewhere between \$11 million and \$33 million," said Dan Klein, president and CEO of KleinBank in Chaska. "We think there's some opportunities out there and because the trust-preferred securities markets are pretty frozen, this might be a good alternative."



The opportunities Klein is referring to are possible acquisitions of smaller banks. Some big public banks have announced similar plans.

KleinBank, which is one of the largest community banks in the Twin Cities, has a growth strategy that includes acquiring banks in certain geographical and distribution areas, and this capital infusion could allow it to acquire one mid-size or two to three small banks, Klein said.

Some banking industry experts suggest that the Treasury is leaning toward giving capital to stronger rather than weaker banks so the stronger banks will have capital to acquire the weaker banks and therefore take care of the troubled asset problem themselves. This theory is controversial within the industry; as initially described, the bailout funding was intended to be used to boost lending activity.

“I think [using the capital for acquisitions] is contrary to the spirit of the program,” said Tom Mork, president and CEO of **Lakeview Bank** in Lakeville. “Taxpayers ought not have to fund the continued consolidation of the banking industry.”

For most small banks, the money they could get isn’t enough to make an acquisition anyway, said Mork, whose bank would probably qualify for \$1.5 million at most.

“That’s not enough to acquire anybody,” Mork said. “It really doesn’t do much for smaller banks in terms of acquisitions even if we were thinking of it, which we’re not.”

Good news for some

This week Peter Dahl, CEO of **Crown Bank** in Edina, was feeling as optimistic as he has in months.

“I think what’s happening now is that everybody has a clearer direction, or they think they’ll find a clearer direction that will calm the water,” said Dahl, who had a filled-out application sitting on his desk, ready to go. “The attraction is twofold: One, it will shore up banks’ balance sheets, and second, it could create a war chest for some banks to go on the acquisition trail.”

Dahl said he expects to see more guidance from the Treasury on how private banks could participate in the program.

“I think there’s pretty broad interest in the program. There are problems as we speak, but hopefully those will be resolved,” he said.

Applying for the program doesn’t necessarily mean a bank has to participate even if it’s accepted, said Dahl, so it only makes sense to start the process.

“Just because we apply doesn’t mean we’ll take it,” he said. “We’ll decide whether we feel it’s a good vehicle. On the surface, though, it’s a no-brainer.”

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