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Insurers buy banks to tap into bailout

Critics call move unethical; companies say they're supporting the economy

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Lincoln National Corp., a multibillion insurance company with thousands of workers, bought a tiny three-employee, one-branch bank late last year.

Why would an East Coast multinational insurance company buy a little bank outside Lafayette and effectively turn itself into a savings and loan holding company?

The giant company, formerly based in Fort Wayne, bought Newton County Loan and Savings solely to get access to the U.S. Treasury's $700 billion Troubled Asset Relief Program.

The move invited criticism from those who say it's an unintended use of bailout funds. Some analysts say Lincoln, which does business as Lincoln Financial Group, doesn't need the money.

"It's just pigs at the trough just suckling at the teat of Uncle Sam," said Barry Ritholz, chief executive of Fusion Analytics Research Partners, a New York firm that manages $100 million in investments.

"You're an insurance company, not a bank. You don't take the money," Ritholz said. "You're supposed to have a degree of ethics. You're not restoring capital to the financial system. You're restoring capital to companies that made a lot of bad bets."

TARP was designed to bail out failing banks and thrifts. Nearly 50 banks have failed since the recession began.

Fitch Ratings, a credit rating agency based in Chicago, said Lincoln didn't really need the money. Fitch recently cut Lincoln's rating from an A+ to an A, citing potential weak returns on Lincoln investments.

"They are not in a bad position from a capital point of view," Fitch analyst Bradley Ellis said, noting that $8 billion in equity capital supports the insurer. "They may accept the (TARP) capital for competitive purposes. Whether or not they believe they need it to hold the company up, we don't believe they need it."

Lincoln faced a sobering end to 2008 as the stock market sagged and eroded the value of investments, which totaled $163 billion in December. Last month, the insurer reported a fourth-quarter loss of $506 million, which cost stockholders 48 cents a share, compared with a $113 million profit a year earlier worth $1.26 a share.

The company has reported five straight quarters of declining profits and in January cut 540 jobs, about 5 percent of staff.

During the winter, analysts noted that Lincoln indicated it could be eligible for as much as $3 billion in TARP money if it converted to a bank.

Lincoln officials did not return calls last week seeking comment. Officials have not disclosed how much was paid for the bank.

However, Lincoln spokeswoman Laurel O'Brien responded in an e-mail to The Indianapolis Star. Her note says TARP "is designed for financial services companies like Lincoln Financial that invest actively in American housing and industry, spreading liquidity throughout the financial system and ultimately supporting the overall economy."

Following rivals' lead

In buying the Indiana bank, Lincoln is following the lead of rivals. Connecticut-based Hartford Financial Services, for example, agreed to buy Federal Trust Bank of Sanford, Fla., and convert to a bank. Hartford is eligible to apply for as much as $3.4 billion in TARP loans, analysts said.

U.S. Treasury officials did not return calls last week seeking comment, although bank analysts say the department purposely did not block insurers from converting to banks to access TARP money. Insurers have long been lenders to businesses but also had cut back on lending as the economy teetered, deepening the credit crisis.

"This gives Lincoln some protection if things get really bad; it is like an insurance policy for this particular institution," said Campbell Harvey, a Duke University business professor.

Harvey, also a researcher with the National Bureau of Economic Research, the group that determines when U.S. recessions officially begin and end, said TARP has meandered from its original course.

"It's become inconsistent and convoluted and allows anyone to come in and put their own spin on why they should get the TARP money," Harvey said, noting that Bank of America invested $7 billion in the China Construction Bank shortly after receiving TARP cash. "They said, 'We didn't use the TARP money for that.' But of course they did."

Easing the credit crunch

TARP originated as part of a plan to ease the credit crunch by taking bad loans off the hands of banks. When it became clear that would take time, the Bush administration decided to inject cash directly into banks as a capital infusion intended to encourage lenders to step up lending.

But the credit crunch has continued, and last week the Obama administration unveiled a new plan to take toxic assets from banks as a way to stimulate lending again.

So far, more than 450 banks are approved to draw $197 billion from the TARP fund, topped by $25 billion each going to Citigroup, JP Morgan Chase and Wells Fargo.

In Indiana, about a dozen banks have been approved for more than $600 million in TARP funds, topped by First Merchants Corp. bank in Muncie, which will receive $116 million in TARP funds.

That's enough new capital to support nearly $6 billion in new loans by the Indiana banks, but so far lending is holding its own as banks work off bad loans.

"This is letting banks maintain lending," said Jean Wojtowicz, president of Cambridge Ventures, an investment firm in Indianapolis.

Last fall, lending by all commercial banks in the state dropped 3 percent to $52 billion, federal regulators reported. Banks chartered in Indiana -- which tend to be smaller, homegrown banks -- reported loans totaling $30.1 billion at the end of December, up 3 percent from $29.2 billion in 2007, said Joseph DeHaven, president of the Indiana Bankers Association, a trade group in Indianapolis.

Lincoln has revealed none of its plans for Newton County Loan. Analysts say Lincoln was scouting for a bank to buy last year when the U.S. Office of Thrift Supervision pointed out Newton County Loan.

The bank has a single office, in Goodland, and lost $780,000 last year. The tiny bank had been operating since June 2008 under a strict Office of Thrift Supervision edict. Known as a supervisory agreement, it barred golden parachutes for departing executives and required that Office of Thrift Supervision regulators in Chicago approve certain large loans before they were made, office documents show.

In January, Lincoln injected $7 million in new capital into the bank and replaced William Lah, the longtime bank president, with Rise Taylor, a Lincoln executive in Fort Wayne. Lincoln was founded in Fort Wayne in 1905 and moved most offices in 1999 to the Philadelphia suburbs.

"My sense is Lincoln has not had time to determine what they want that bank to look like five or 10 years from now," DeHaven said. "I think they intend to insert capital and grow it into a larger bank, but it will take time."

Additional Facts

Newton County Loan and Savings
• **Started:** 1894.
• **Location:** Goodland, Ind.
• **Financial condition:** Lost $780,000 last year.
• **Employees:** Three.
• **Mortgage loans:** 4,661.
• **Total past due:** 599.

Lincoln National Corp.
• **History:** Founded by 33 investors in Fort Wayne in 1905.
• **Based:** Radnor, Pa., a suburb of Philadelphia.
• **Financial condition:** Recorded losses in the past five quarters.
• **Employees:** 9,600 as of Dec. 31.

Sources: Newton County Loan and Savings, Lincoln National Corp.