Written by **Charles Scaliger** on July 14, 2010

Small Banks Struggle Despite Bailout Funds

The Treasury Department's Troubled Asset Relief Program (TARP) is wreaking havoc on hundreds of small banks that took bailout money, according to a new report issued by the Congressional Oversight Panel. The COP oversees the $700 billion in bailout funds.

Whereas most megabanks that took TARP monies have been able to repay the loans with interest, very few small banks have managed to do so. One in seven small banks have failed to pay the quarterly dividend this year, a dividend that is slated nearly to double next year.

This is in large part because many small banks have been so heavily exposed to souring commercial loans, and because persistently high unemployment has kept the market for new loans very tight indeed. What's more, many consumers now believe that huge money center banks are too big to fail, and are therefore safer places to deposit money than vulnerable local banks.

Elizabeth Warren, a Harvard Law School professor and chair of COP, claimed that the bailout "was not intended as a bailout for Wall Street" but instead "to support … homeownership, retirement savings and banks across the country." However, it is increasingly evident that TARP has been, in fact, little more than a lifeline to America's plutocrats in Washington and on Wall Street. Small banks, saddled not only with additional debts to the U.S. government but also with steep quarterly interest dividends, are in worse shape than ever, with hundreds more expected to fail this year and next.

The result? Another windfall for megabanks. According to Daniel Wagner of the AP, "dozens or hundreds of bailed-out banks could collapse or consolidate because they can't afford their obligations to taxpayers…. That would leave the handful of biggest banks with an even larger share of the banking system." The result, pointed out Dr. Warren, "could be that 'too big to fail' banks grow even bigger."

This, despite all of the political rhetoric when the bailout was first being debated that the money was essential to help Main Street and small business. Small businesses, which have depended crucially on local banks for loans, are still struggling in tandem with the banks that serve them, which is helping to keep unemployment sky-high.

Whether intended or not, a major consequence of the bailout, unforeseen by many short-sighted politicians and self-interested bankers, is shaping up to be the accumulation of more and more financial assets in fewer and fewer hands, with small local banks in danger of going the way of the dodo. Such a result, of course, would make the financial system much easier for the Treasury Department and Federal Reserve to micromanage.

Perhaps Bernanke, Geithner, and their chums on Wall Street saw this coming.