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For Some Banks, Funding Now for Deals in Future

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First Niagara Financial Group in Lockport, N.Y., and Berkshire Hills Bancorp Inc. in Pittsfield, Mass., did not need to apply for funds through the Treasury Department's Capital Purchase Program because they had just completed stock offerings of their own.

But the government has asked them to participate and now each says the offer was too good to pass up — even if there are strings attached. Both said they could use the Treasury funds to make acquisitions in their markets.

"We'd be doing our shareholders a disservice by not taking advantage of this," said John Koelmel, the $9 billion-asset First Niagara's president and chief executive.

Michael P. Daly, the president and CEO at the $2.5 billion-asset Berkshire Hills, said, "It's a fairly inexpensive form of capital." The Treasury is offering banking companies capital infusions ranging from 1% to 3% of their risk-weighted assets. Participants would issue preferred shares that pay 5% for the first five years and 9% after that. Mr. Daly said the Treasury told him it is looking to invest in banks "that have strong balance sheets and the capacity to do rollups or to continue to lend because they've been disciplined in the past."

Berkshire Hills raised $36 million on its own this month, Mr. Daly said, but now it intends to seek an additional $20 million to $30 million. "It'll put us in an even better position to grow and look for opportunities that might arise."

First Niagara, which recently raised $115 million, was approved to receive up to $186 million through the program, the maximum amount. Though Mr. Koelmel said First Niagara, which has not officially accepted the government's offer, already had "very strong" capital levels, "one might argue we're now supercapitalized."

Mark Fitzgibbon, an analyst at Sandler O'Neill & Partners LP, said he thinks the government is encouraging companies like Berkshire Hills and First Niagara to take the capital partly so that they can scoop up weaker competitors. Banking companies in the Northeast have fared better than those elsewhere, "but economic woes are spreading," he said.

According to Mr. Koelmel, First Niagara likely would take several years to deploy all its capital. The extra cushion would allow it to play "optimal offense" by increasing its lending as others pull back and pouncing on acquisitions.

First Niagara's total risk-based capital ratio was 11.52% at Sept. 30, just before its stock offering. The ratio jumped to 13.25% with the offering, and the government injection would bring it up to 16.3%. With the government capital, it would be ready to buy, he said, and its stock gives it "strong currency" to make deals.

First Niagara is eyeing contiguous markets that include Pennsylvania, Ohio, and New England, Mr. Koelmel said. He would not be more specific.

Grabbing market share is the immediate plan, he said. With large competitors distracted by acquisitions or troubled loans, upstate New York has been less of a priority for them, Mr. Koelmel said, and a few might even divest branches.

"Some may suggest that's wishful thinking," he said. "I would suggest it's a logical outcome."

Mr. Daly said he expects acquisition opportunities, even though the Northeast does not have as many struggling banks as other areas. "Somebody doesn't have to be in critical care to consider a partnership," he said.

None of the government restrictions for banks that participate in the program — such as limits on executive pay and dividend payouts — would be an issue for Berkshire Hills, Mr. Daly said.

Mr. Koelmel said that none of the restrictions are "onerous," though the dividend rule is a consideration.

Still, he said he is encouraged by the fact that large companies such as Goldman Sachs Group Inc. and JPMorgan Chase & Co. are participating. "That's going to be very important to them, just as it is to First Niagara." Analysts said both Berkshire Hills and First Niagara are healthy firms that do not need capital.

Richard D. Weiss, an analyst at Janney Montgomery Scott LLC, said the old line about bankers lending money mostly to people who do not need it seems to apply to the government in this case. "If all the financial institutions in the United States were as healthy as First Niagara, there wouldn't be a crisis," he said.