United States Government Accountability Office

Report to Congressional Committees

March 2017

TROUBLED ASSET RELIEF PROGRAM

Few Participants Remain as Treasury Continues to Wind Down Capital Purchase Program

ACCESSIBLE VERSION

GAO-17-422

GAO Highlights

Highlights of GAO-17-422, a report to congressional committees

March 2017

TROUBLED ASSET RELIEF PROGRAM

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Why GAO Did This Study

CPP was established as the primary means of restoring stability to the financial system under the Troubled Asset Relief Program (TARP). Under CPP, Treasury invested almost $205 billion in 707 eligible financial institutions between October 2008 and December 2009. CPP recipients have made dividend and interest payments to Treasury on the investments. The Emergency Economic Stabilization Act of 2008, as amended, includes a provision that GAO report at least annually on TARP activities and performance. This report examines (1) the status of CPP, including repayments, investments outstanding, and number of remaining institutions; and (2) the financial condition of institutions remaining in CPP.

To assess the program's status, GAO reviewed Treasury reports on the status of CPP. In addition, GAO reviewed information from Treasury officials to identify the agency's current efforts to wind down the program. Finally, GAO used financial and regulatory data to assess the financial condition of institutions remaining in CPP.

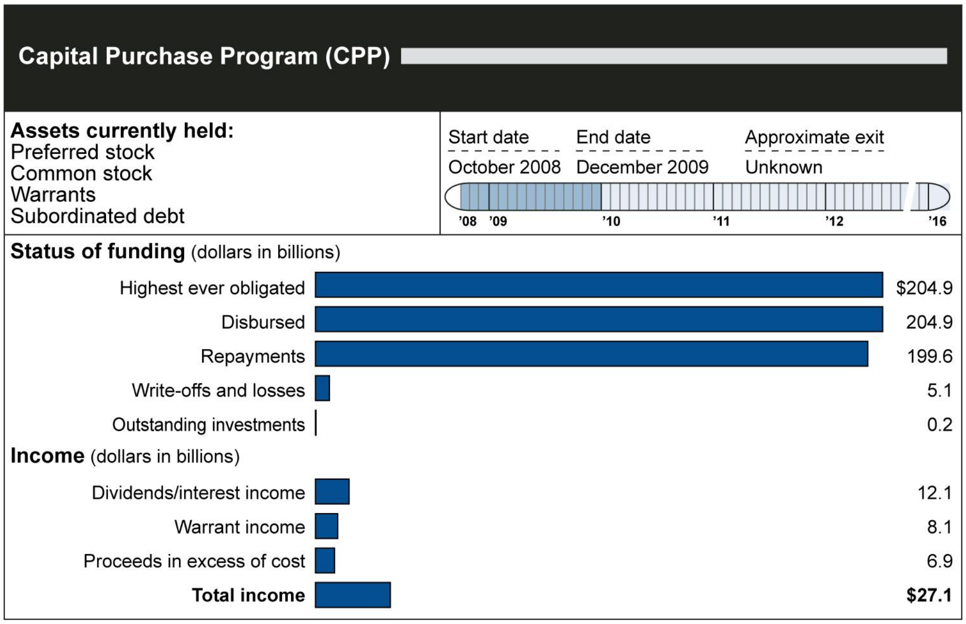
GAO provided a draft of this report to Treasury for its review and comment. Treasury provided technical comments that GAO incorporated as appropriate.

View GAO-17-422. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

What GAO Found

The Department of the Treasury (Treasury) continues to make progress winding down the Capital Purchase Program (CPP). As of December 31, 2016, investments outstanding stood at almost $0.2 billion (see figure), which represents about 0.1 percent of the original amount disbursed. Treasury had received almost $200 billion in repayments, including about $25 million in 2016. Further, Treasury's returns for the program, including repayments and income, totaled about $227 billion, exceeding the amount originally disbursed by almost $22 billion. Of the 707 institutions that originally participated in CPP, 696 had exited the program, including 6 institutions in 2016.

Status of the Capital Purchase Program, as of December 31, 2016



Source: GAO analysis of Treasury data. | GAO-17-422

Treasury officials expect that the majority of the remaining institutions will require a restructuring to exit the program. Restructurings allow institutions to negotiate terms for their CPP investments. With this option, Treasury requires institutions to raise new capital or merge with another institution and Treasury agrees to receive cash or other securities, typically at less than par value. Treasury officials expect to rely primarily on restructurings because the overall weaker financial condition of the remaining institutions makes full repayment unlikely.

The financial condition of the institutions remaining in CPP as of December 31, 2016, appears to have improved since the end of 2011, but some institutions show signs of financial weakness. For example, 5 institutions had negative returns on average assets (a common measure of profitability) for the third quarter of 2016.

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Abbreviations

CDCI	Community Development Capital Initiative
CPP	Capital Purchase Program
EESA	Emergency Economic Stabilization Act of 2008
FDIC	Federal Deposit Insurance Corporation
SBLF	Small Business Lending Fund
TARP	Troubled Asset Relief Program
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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March 29, 2017

Congressional Committees

From October 2008 through December 2009, the Department of the Treasury (Treasury) invested almost $205 billion in 707 financial institutions through its Capital Purchase Program (CPP). This was the first and largest initiative under the Troubled Asset Relief Program (TARP)—a federal effort to help stabilize U.S. financial markets.[1] The Emergency Economic Stabilization Act of 2008 (EESA) gave Treasury the authority to buy or guarantee up to $700 billion, later reduced to $475 billion, of the "troubled assets" that were believed to be at the heart of the financial crisis, including mortgages, mortgage-backed securities, and certain other financial instruments.[2] Under this authority, in October 2008 Treasury created CPP to provide capital to viable financial institutions by purchasing preferred shares and subordinated debt. In return for its investments, Treasury received dividend or interest payments and warrants.[3] The program was closed to new investments on December 31, 2009. Since then, Treasury has continued to oversee and divest its CPP investments, collect dividend and interest payments, and sell warrants.

EESA, as amended, includes a provision that GAO report at least annually on TARP activities and performance.[4] We have been monitoring, analyzing, and providing updates on TARP programs, including CPP, in

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[1] The Emergency Economic Stabilization Act of 2008 (EESA), Pub. L. No. 110-343, 122 Stat. 3765 (codified as amended at 12 U.S.C. §§ 5201-5261), established the Office of Financial Stability within Treasury and provided Treasury with broad authority to purchase and guarantee certain types of troubled assets to stabilize the financial markets.

[2] §§ 3(9), 101, and 115(a), 122 Stat. at 3767 and 3780 (codified as amended at 12 U.S.C. §§ 5202(9), 5211, and 5225(a)). The Dodd-Frank Wall Street Reform and Consumer Protection Act reduced Treasury's authority to purchase or insure troubled assets to a maximum of $475 billion. Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified as amended at 12 U.S.C. § 5225(a)).

[3] A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

[4] EESA included a provision that GAO report at least every 60 days on TARP activities and performance. The GAO Mandates Revision Act of 2016 revised GAO's reporting requirement to annually. See Pub. L. No. 114-301, § 3(a), 130 Stat. 1514 (codified at 12 U.S.C. § 5226(a)(3)).

response to this provision.[5] This report examines (1) the status of CPP, including repayments, investments outstanding, and number of remaining institutions; and (2) the financial condition of institutions remaining in CPP.

To assess the status of CPP, we analyzed data from Treasury. In particular, we used Treasury's December 2016 *Monthly Report to Congress* to determine the dollar amounts of outstanding CPP investments and the number and geographical distribution of remaining participants as of December 31, 2016. We used data from Treasury's December 2016 *Cumulative Dividends, Interest, and Distributions* report to determine the number of institutions that had missed dividend payments. We determined that the financial information used in these reports is sufficiently reliable to assess the status of CPP based on the results of our audits of fiscal years 2009 through 2016 financial statements for TARP. As part of the financial statement audits, we tested Treasury's internal controls over financial reporting. To identify Treasury's current efforts to wind down CPP, we reviewed information from Treasury officials knowledgeable about the agency's efforts.

To assess the financial condition of the 11 institutions that remained in CPP as of December 31, 2016, we analyzed financial and regulatory data from SNL Financial, which provides comprehensive regulatory financial data on financial institutions.[6] For example, we compared various indicators of financial health, such as return on average assets and reserves to nonperforming loans. Previous GAO studies assessed the reliability of these SNL data by testing required data elements, reviewing information about the data and the system that produced them, and interviewing SNL officials. We relied on these prior data reliability assessments and determined that the financial information we used is

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[5] For example, see, GAO, *Troubled Asset Relief Program: Status of Housing Programs,* GAO-17-236 *(Washington, D.C.: Jan. 9, 2017); Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2016 and 2015 Financial Statements,* GAO-17-125R *(Washington, D.C.: Nov. 10, 2016); Troubled Asset Relief Program: New Effort to Wind Down Community Capital Development Initiative,* GAO-17-96 *(Washington, D.C.: Nov. 4, 2016); Troubled Asset Relief Program: Status of Prior GAO Recommendations,* GAO-16-831 *(Washington, D.C.: Sep. 6, 2016); and Troubled Asset Relief Program: Capital Purchase Program Largely Has Wound Down,* GAO-16-524 *(Washington, D.C.: May 6, 2016).*

[6] SNL Financial recently became S&P Global Market Intelligence, a division of S&P Global. S&P Global Market Intelligence is a leading provider of financial data, news, and analytics. For this report, we refer to the source of the data for our analysis as SNL Financial.

sufficiently reliable for this report. We also leveraged our past reporting on TARP to inform our assessments of the financial institutions.

We conducted this performance audit from November 2016 to March 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Treasury created CPP to help stabilize the financial markets and banking system by providing capital to qualifying regulated financial institutions through the purchase of preferred shares and subordinated debt.[7] Rather than purchasing troubled mortgage-backed securities and whole loans, as initially envisioned under TARP, Treasury used CPP investments to strengthen the capital levels of financial institutions. Treasury determined that strengthening capital levels was the more effective mechanism to help stabilize financial markets, encourage interbank lending, and increase confidence in the financial system. On October 14, 2008, Treasury allocated $250 billion of the original $700 billion, later reduced to $475 billion, in overall TARP funds for CPP. In March 2009, the CPP allocation was reduced to $218 billion to reflect lower estimated funding needs, as evidenced by actual participation rates. On December 31, 2009, the program was closed to new investments.

Institutions participating in CPP entered into securities purchase agreements with Treasury. Under CPP, qualified financial institutions were eligible to receive an investment of 1 percent to 3 percent of their risk-weighted assets, up to $25 billion.[8] In exchange for the investment,

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[7] For CPP, qualifying financial institutions generally include stand-alone, U.S.-controlled banks and savings associations, as well as bank holding companies and savings and loan holding companies.

[8] Risk-weighted assets are all assets and off-balance-sheet items held by an institution, weighted for risk according to the capital standards of the federal banking regulators. In May 2009, Treasury increased the maximum amount of CPP funding that small financial institutions (qualifying financial institutions with total assets of less than $500 million) could receive from 3 percent to 5 percent of risk-weighted assets.

Treasury generally received preferred shares that would pay dividends.[9] As of the end of 2014, all the institutions with outstanding preferred share investments were required to pay dividends at a rate of 9 percent, rather than the 5 percent rate that was in place for the first 5 years after the purchase of the preferred shares. EESA requires that Treasury also receive warrants to purchase shares of common or preferred stock or a senior debt instrument to further protect taxpayers and help ensure returns on the investments. Institutions are allowed to repay CPP investments with the approval of their primary federal bank regulator, and after repayment, institutions are permitted to repurchase warrants on common stock from Treasury.

CPP Proceeds Surpass Original Investments and Almost All Institutions Have Exited Program

Treasury continues to make progress winding down CPP. As of December 31, 2016, Treasury had received repayments and sales of original CPP investments for more than 97 percent of its original investment. For the life of the program, repayments and sales totaled almost $200 billion (see fig.1).[10] In 2016, institutions' repayments totaled about $25 million. Moreover, as of December 31, 2016, Treasury had received about $227 billion in returns, including repayments and income, from its CPP investments, which exceeds the amount originally disbursed by almost $22 billion. Income from CPP totaled about $27 billion, and included about $12 billion in dividend and interest payments, almost $7 billion in proceeds in excess of costs, and about $8 billion from the sale of warrants. After accounting for write-offs and realized losses from sales totaling about $5 billion, CPP had about $0.2 billion in outstanding investments as of December 31, 2016.[11] Investments outstanding represent about 0.1 percent of the amount Treasury disbursed for CPP.

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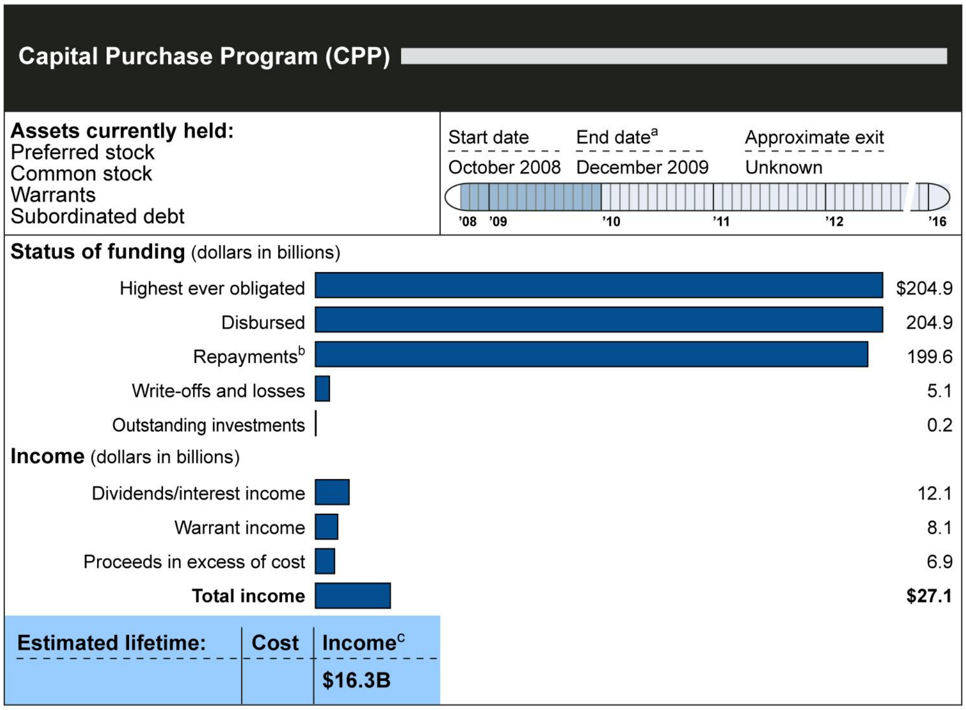
[9] For S corporations, a federal business type that provides certain tax and other benefits, Treasury received subordinated debt rather than preferred shares in order to preserve these institutions' special tax status. The Internal Revenue Code prohibits S corporations from having more than one class of stock outstanding. Interest rates for this debt are 7.7 percent for the first 5 years and 13.8 percent for the remaining years.

[10] Institutions had repaid about 90 percent of Treasury's investments by December 2011.

[11] Write-offs and realized losses include losses sustained from investments in the 32 institutions that have gone into bankruptcy or receivership and any losses sustained w hen Treasury sold its investments in CPP institutions.

Treasury's most recent estimate of lifetime income for CPP (as of Sept. 30, 2016) was about $16 billion.[12]

Figure 1: Status of the Capital Purchase Program, as of December 31, 2016



Source: GAO analysis of Treasury data. | GAO-17-422

[a] The end date is the date on which the program stopped acquiring new assets and no longer received funding.

[b] The total amount of repayments includes approximately $363 million from institutions that transferred to the Troubled Asset Relief Program's Community Development Capital Initiative and $2.2 billion from institutions that transferred to Treasury's Small Business Lending Fund.

[c] Amount is as of September 30, 2016.

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[12] Treasury, in conjunction with the Office of Management and Budget, estimates lifetime costs (or income) for CPP four times a year, using the aggregate value of investments at market prices. Estimated lifetime cost represents Treasury's best estimate of what the program ultimately will cost the taxpayer. Treasury's methodology for estimating lifetime costs includes a discount rate that reflects market risk for future cash flows. Treasury's estimate of lifetime income for CPP is consistent with an estimate by the Congressional Budget Office, which consists of a gain from transactions completed by Treasury partially offset by a subsidy cost for CPP's outstanding investments. See Congressional Budget Office, *Report on the Troubled Asset Relief Program—March 2016* (Washington, D.C.: March 2016). For a comparison of estimated lifetime TARP costs over time, see GAO-17-125R.

As of December 31, 2016, 696 of the 707 institutions that originally participated in CPP had exited the program (see fig. 2).[13] A total of 6 institutions exited CPP in 2016. Among the institutions that had exited the program, 262 repurchased their preferred shares or subordinated debentures in full.[14] Another 165 institutions refinanced their shares through other federal programs.[15] In addition, 190 institutions had their investments sold through auction, 43 institutions had their investments restructured through non-auction sales, and 32 institutions went into bankruptcy or receivership.[16] The remaining 4 merged with other CPP institutions.

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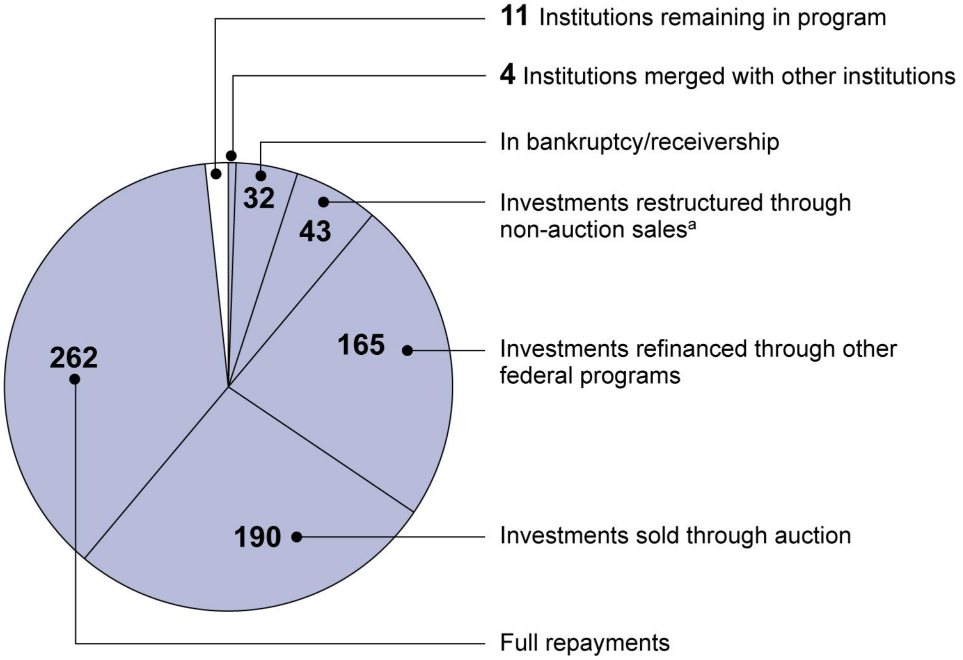
[13] The information on CPP in this report is as of December 31, 2016, unless otherwise noted. As of February 28, 2017, 10 institutions remained in CPP, as 1 institution recently exited the program—Citizens Commerce Bancshares, Inc., Versailles, Kentucky, on February 28, 2017.

[14] Preferred shares give the shareholder priority dividend and liquidation claims over common shareholders. Subordinated debentures are a form of debt security that rank below other senior claims on assets but have priority over all preferred and common shareholders.

[15] Twenty-eight of the institutions refinanced investments through Community Development Capital Initiative (CDCI), a TARP program that provides capital to Community Development Financial Institutions that have a federal depository institution supervisor. CDCI is structured like CPP, but it provides more favorable capital terms, and also covers credit unions. The other 137 institutions refinanced their shares through Small Business Lending Fund (SBLF)—a program separate from TARP. SBLF, which closed in 2011, was a $30 billion program that provided capital to qualified community banks and community development loan funds with assets of $10 billion or less.

[16] When investments are restructured, Treasury receives cash or other securities, which generally can be sold more easily than preferred stock, but Treasury's investments are sometimes sold at a discount.

Figure 2: Status of Institutions That Received Capital Purchase Program Investments, as of December 31, 2016



Source: GAO analysis of Treasury data. | GAO-17-422

[a] When investments are restructured, Treasury receives cash or other securities that generally can be sold more easily than preferred stock, but Treasury's investments are sometimes sold at a discount.

The method by which institutions have exited the program has varied over time. From 2009 through 2011, a total of 336 institutions exited the program. During this 3-year period, most institutions exited by fully repaying the investment or by refinancing the investment through another program. From 2012 through 2016, a total of 360 institutions exited the program. During this 5-year period, most institutions exited by Treasury selling the investment through an auction, repaying the investment to Treasury, or restructuring the investment.

- **Repayments.** Repayments allow financial institutions to redeem their preferred shares in full. Institutions have the contractual right to redeem their shares at any time provided that they receive the approval of their primary regulator(s). Institutions must demonstrate that they are financially strong enough to repay the CPP investments to receive regulatory approval to proceed with a repayment exit. As of December 31, 2016, 262 institutions had exited CPP through repayments.

- **Restructurings.** Restructurings allow troubled financial institutions to negotiate new terms or discounted redemptions for their CPP investment. Treasury requires institutions to raise new capital from outside investors (or merge with another institution) as a prerequisite for a restructuring. With this option, Treasury receives cash or other securities that generally can be sold more easily than preferred stock, but the restructured investments sometimes result in recoveries at less than par value. According to Treasury officials, Treasury facilitated restructurings as an exit from CPP in cases where new capital investment and the redemption of the CPP investment by the institutions otherwise was not possible. Treasury officials said that they approved the restructurings only if the terms represented a fair and equitable financial outcome for taxpayers. Treasury completed 43 such restructurings through December 31, 2016.[17]
- **Auctions.** Auctions allow Treasury to sell its preferred stock investments in CPP participants. Treasury conducted the first auction of CPP investments in March 2012, and has continued to use this strategy to sell its investments. As of December 31, 2016, Treasury had conducted a total of 28 auctions of stock from 190 CPP institutions. Through these transactions, Treasury received over $3 billion in proceeds, which was about 80 percent of the investments' face amount. As we have previously reported, thus far Treasury has sold investments individually but noted that combining smaller investments into pooled auctions remained an option.[18] Whether Treasury sells CPP investments individually or in pools, the outcome of this option will depend largely on investor demand for these securities and the quality of the underlying financial institutions.

As of December 31, 2016, 11 institutions remained in CPP (see fig. 3).[19] The largest outstanding investment, about $125 million, accounted for

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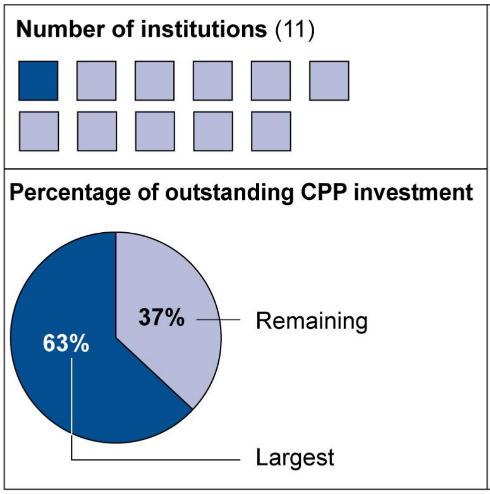
[17] This number does not include two additional investments that were restructured when Treasury exchanged its preferred shares for common shares because these institutions remained in CPP.

[18] Unlike Treasury's auctions of individual CPP preferred stock investments, in which multiple bidders could receive an allocation of the preferred stock at a single clearing price, Treasury's pooled auctions likely would allow the single highest bidder to purchase all of the securities included in the pool. See GAO-13-630.

[19] Among the 11 institutions remaining in the program, Treasury has converted its original investment into shares of common stock at two institutions. According to Treasury officials, Treasury will have to sell its common stock positions in those institutions for the institutions to exit CPP. As of February 2017, Treasury did not have a predefined written trading plan for the sale of these common stock positions.

almost two-thirds of the outstanding CPP investments. The investments at the 10 other institutions ranged from about $1.5 million to $17 million.

Figure 3: Number and Amount of Outstanding Capital Purchase Program Investments, as of December 31, 2016



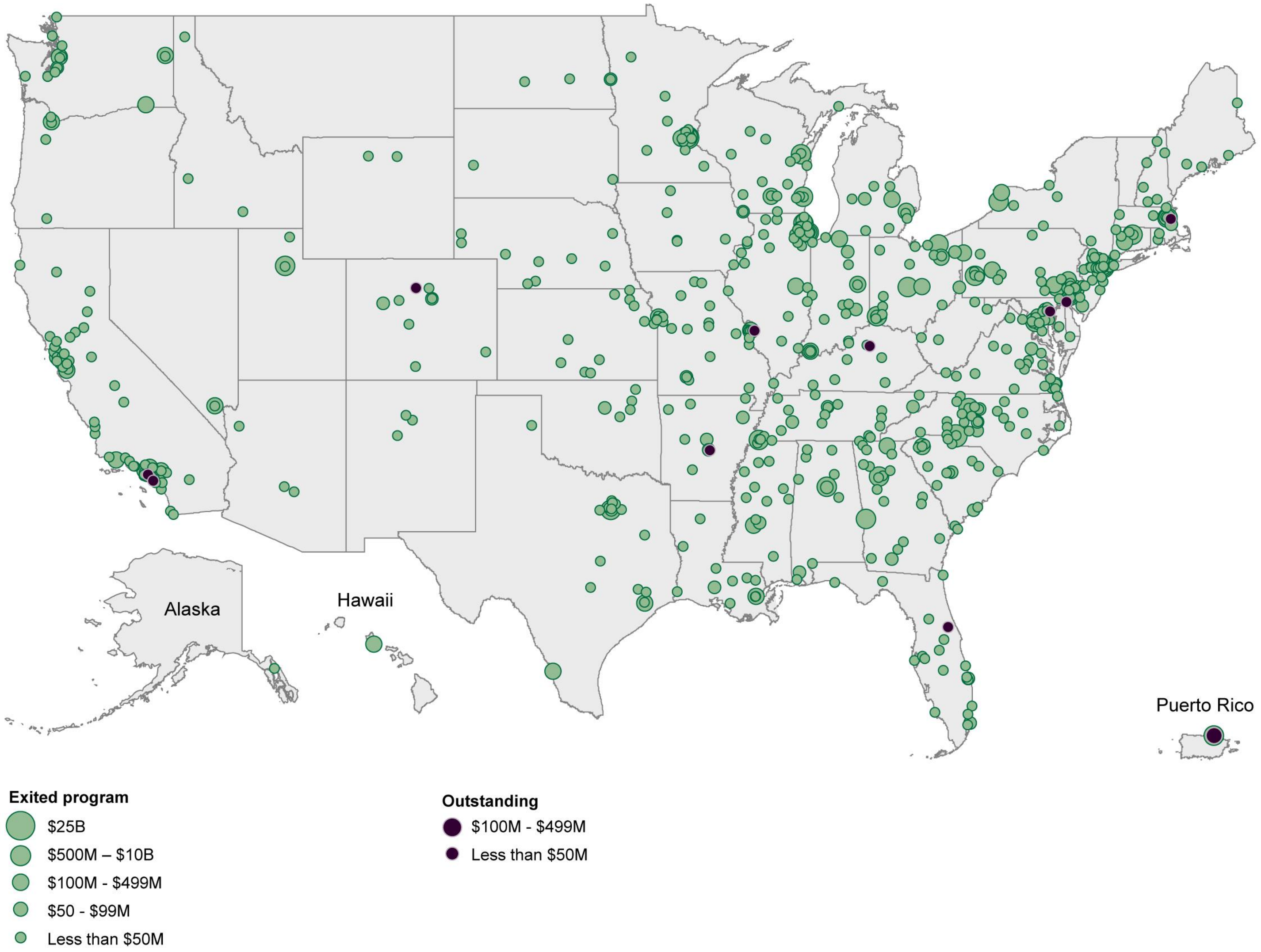
Outstanding Capital Purchase Program (CPP) investment by institution

	Institution	Location	Investment amount (dollars in millions)	Percentage of total outstanding investment
1	First BanCorp	San Juan, PR	$124.97	63%
2	OneFinancial Corporation	Little Rock, AR	17.30	9
3	OneUnited Bank	Boston, MA	12.06	6
4	Cecil Bancorp, Inc.	Elkton, MD	11.56	6
5	Broadway Financial Corporation	Los Angeles, CA	8.05	4
6	Harbor Bankshares Corporation	Baltimore, MD	6.80	3
7	Citizens Commerce Bancshares, Inc.	Versailles, KY	6.30	3
8	Pinnacle Bank Holding Company, Inc.	Orange City, FL	4.39	2
9	Grand Mountain Bancshares, Inc.	Granby, CO	3.08	2
10	St. Johns Bancshares, Inc.	St. Louis, MO	3.00	2
11	California International Bank	Westminster, CA	1.55	1
	Largest	1	$124.97	63%
	Remaining	10	$74.09	37%
	All CPP outstanding	11	**$199.05**	**100%**

Source: GAO analysis of Treasury data. | GAO-17-422

As figure 4 illustrates, Treasury's original CPP investments were scattered across the country in 48 states and Puerto Rico and the amount of investments varied. Almost 4 percent (25) of the investments were greater than $1 billion and almost half (314) of the investments were less than $10 million. The largest investment totaled $25 billion and the smallest investment totaled about $300,000. The 11 institutions that remained in CPP as of December 31, 2016 were in Arkansas, California (2), Colorado, Florida, Kentucky, Maryland (2), Massachusetts, Missouri, and Puerto Rico.

Figure 4: Capital Purchase Program Participants by Location, Investment Size, and Investment Status, as of December 31, 2016



Source: GAO analysis and map (Mapinfo). | GAO-17-422

Notes: The 11 institutions that remained in CPP as of December 31, 2016, were located in Little Rock, Arkansas; Los Angeles and Westminster, California; Granby, Colorado; Orange City, Florida; Versailles, Kentucky; Baltimore and Elkton, Maryland; Boston, Massachusetts; St. Louis, Missouri; and San Juan, Puerto Rico.

Some cities had multiple CPP participants. For example, the following cities had four or more CPP participants: Little Rock, Arkansas (4); Los Angeles, California (11); Denver, Colorado (4); Atlanta, Georgia (7); Chicago, Illinois (12); New Orleans, Louisiana (4); Boston, Massachusetts (5); Baltimore, Maryland (4); Minneapolis, Minnesota (4); New York, New York (13); Greenville, South Carolina (4); Dallas (5) and Houston (9), Texas; and Milwaukee, Wisconsin (4).

Treasury officials said that they expect the majority of the remaining institutions will require a restructuring to exit the program in the future because the overall weaker financial condition of the remaining institutions makes full repayment unlikely.[20] However, they added that repayments, restructurings, and auctions all remain possible exit strategies for the remaining CPP institutions.

Since we last reported in May 2016, Treasury continues to maintain its position of not fully writing off any investments.[21] Treasury officials anticipate that the current strategy to restructure the remaining investments will result in a better return for taxpayers. According to officials, any savings achieved by writing off the remaining CPP assets and eliminating administrative costs associated with maintaining CPP would be limited, because much of the TARP infrastructure, such as staff resources, will remain intact for several years to manage other TARP programs. Treasury officials also noted that writing off the remaining assets, thereby not requiring repayment from the remaining institutions, would be unfair to the institutions that have already repaid their investment and exited the program. Treasury officials told us that they continue to have discussions with institutions about their plans to exit the program.

Overall Financial Condition of Remaining CPP Institutions Has Improved but Some Show Signs of Financial Weakness

Overall, the financial condition of institutions remaining in CPP as of December 31, 2016, appears to have improved since the end of 2011.[22] As shown in figure 5, the median of all six indicators of financial condition

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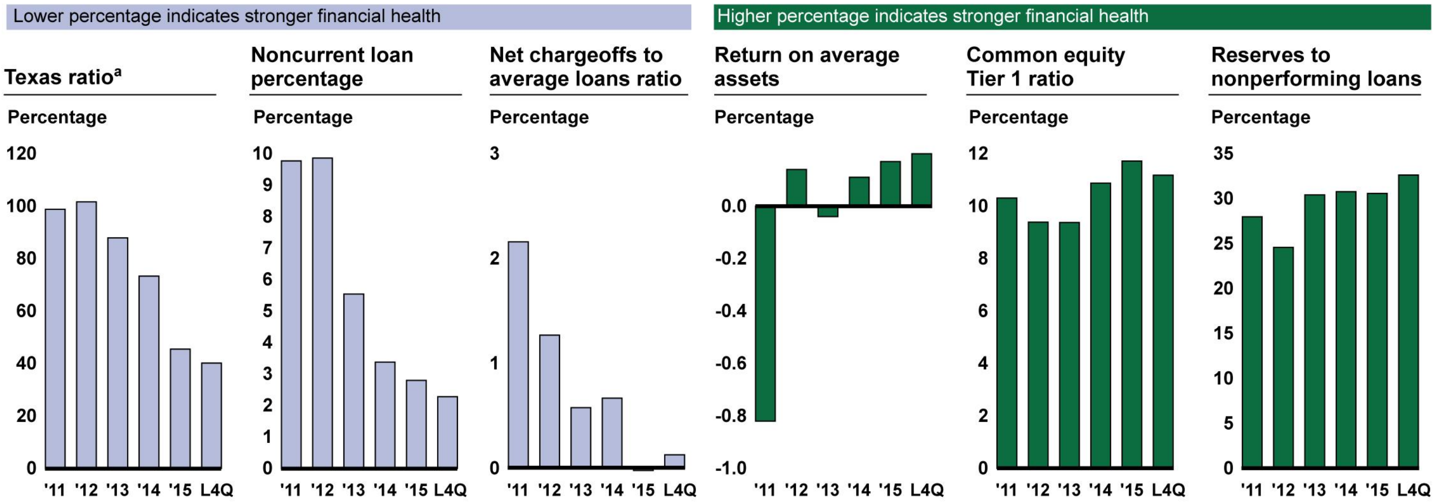
[20] As discussed above, restructurings allow troubled financial institutions to negotiate new terms or discounted redemptions for their investments. Treasury requires raising new capital from outside investors (or a merger) as a prerequisite for a restructuring.

[21] GAO-16-524.

[22] For information about the financial condition of CPP institutions from 2008 through 2011, see GAO, *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012).

that we analyzed improved from 2011 to September 30, 2016.[23] However, some institutions show signs of financial weakness.

Figure 5: Median Financial Condition Indicators for Remaining Capital Purchase Program Institutions, from 2011 through Third Quarter 2016



2011 – 2015: Annual data (as of December 31st)
L4Q: Median of last four quarters, including fourth quarter of 2015 through third quarter of 2016.

Source: GAO analysis of SNL Financial data. | GAO-17-422

[a] The Texas ratio is defined as nonperforming assets plus loans 90 or more days past due divided by tangible equity and reserves.

As figure 5 illustrates, the median for the first three financial condition indicators—Texas ratio, noncurrent loan percentage, and net chargeoffs to average loans ratio—have decreased, which indicates stronger

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[23] We analyzed financial and regulatory data from SNL Financial. Financial information in the analysis reflects annual regulatory filings for 2011 through 2015 and the average of quarterly data from the fourth quarter of 2015 (Dec. 31, 2015) through the third quarter of 2016 (Sept. 30, 2016). We used detailed regulatory data from the bank holding company when available (one participant) and bank-level data for the remaining institutions (10 participants). According to Treasury staff, CPP investments were primarily provided to bank holding companies, which own or control one or more banks. Additional factors, such as a holding company's ability to issue additional debt, may affect the holding company's financial assessment and not that of the bank. Of the remaining 11 CPP institutions, 9 are bank holding companies.

financial health.[24] The median for the remaining three financial condition indicators—return on average assets, common equity Tier 1 ratio, and reserves to nonperforming loans—have increased, which also indicates stronger financial health.[25]

However, some institutions show signs of financial weakness. For example, 5 of the 11 institutions had negative return on average assets for the third quarter of 2016. Six institutions had a lower return on average assets for the third quarter of 2016, compared to the third quarter of 2011. The remaining institutions also had varying levels of reserves for covering losses, as measured by the ratio of reserves to nonperforming loans.[26] For example, 4 institutions had lower levels of reserves for covering losses for the third quarter of 2016 compared to the third quarter of 2011. For 1 institution, four of the financial indicators had weakened from the third quarter of 2011 to the third quarter of 2016. Treasury officials stated that the remaining CPP institutions generally had weaker capital levels and poorer asset quality relative to institutions that had exited the program. They noted that this situation was a function of the life cycle of the program, because stronger institutions had greater access to new capital and higher earnings and were able to exit, while the weaker institutions had been unable to raise the capital or generate the earnings needed to exit the program.

Of the remaining 11 CPP institutions as of December 31, 2016, 1 of the 9 required to pay dividends made the most recent scheduled dividend or

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[24] The Texas ratio helps determine the likelihood of an institution's failure by comparing its troubled loans to its capital and is calculated by dividing an institution's nonperforming assets plus loans 90 or more days past due by its tangible equity and reserves. Noncurrent loan percentage is the sum of loans and leases 90 days or more past due and in nonaccrual status. The net charge-offs to average loans ratio is the total dollar amount of loans and leases charged off (removed from balance sheet because of uncollectibility), less amounts recovered on loans and leases previously charged off divided by the average dollar value of loans outstanding for the period.

[25] The return on average assets shows how profitable an institution is relative to its total assets and how efficiently management uses its assets to generate earnings. It is calculated by dividing an institution's net income by the average of its assets over a specific period, such as a quarter or year. Common equity Tier 1 ratio is an institution's equity capital excluding any preferred shares, retained earnings, and disclosed reserves as a share of risk-weighted assets. Reserves to nonperforming loans are the funds an institution holds to cover loan losses divided by loans that are 90 days or more past due.

[26] Generally, a higher ratio of reserves to nonperforming loans demonstrates an institution's ability to cover losses from nonperforming loans.

interest payment.[27] The 8 institutions that are delinquent have missed an average of 28 quarterly dividend payments, with 19 being the fewest missed payments and 32 being the most.[28] Institutions can choose whether to pay dividends and may choose not to pay for a variety of reasons, including decisions they or their federal or state regulators make to conserve cash and capital. However, investors may view an institution's ability to pay dividends as an indicator of its financial strength and may see failure to pay as a sign of financial weakness.

Treasury officials told us that Treasury regularly monitors all institutions remaining in the program. For example, Treasury's financial agent has provided quarterly valuations and credit reports for all of the institutions remaining in the CPP portfolio. In addition, Treasury has requested to attend the Board of Directors meetings at nine of the remaining institutions and has observed meetings at eight institutions. One institution has declined Treasury's request.[29] Treasury officials said that the agency currently does not plan to take any other actions with respect to its request to send a board observer to that institution but will continue to monitor the institution's financial condition. As discussed previously, Treasury officials told us that they have continued to have discussions with institutions remaining in the program.

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[27] This excludes those institutions that made payments towards a past-due amount or payments made by institutions that exited the program as of December 31, 2016. CPP dividend and interest payments are due on February 15, May 15, August 15, and November 15 of each year, or the first business day after those dates. The reporting period ends on the last day of the calendar month in which the dividend or interest payment is due. Therefore, payment data as of December 31, 2016, represent the most recently available information for this report. Two of the remaining CPP institutions are not required to pay dividends because Treasury exchanged its preferred shares in those institutions for common shares.

[28] Under CPP terms, institutions pay cumulative dividends on their preferred shares—except for banks that are not subsidiaries of holding companies, which pay noncumulative dividends. Some other types of institutions, such as S corporations, received their CPP investments in the form of subordinated debt, and pay interest rather than dividends.

[29] The securities purchase agreement provided Treasury with the contractual right to nominate up to two members to the board of directors upon the sixth missed dividend or interest payment. Treasury may also request to send observers to certain institutions once they miss five dividend or interest payments.

Agency Comments

We provided Treasury with a draft of this report for review and comment. Treasury provided technical comments that we have incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Treasury, and other interested parties. In addition, this report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Daniel Garcia-Diaz Director, Financial Markets and Community Investment

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Appendix I: GAO Contact and Staff Acknowledgements

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or garciadiazd@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba (Assistant Director), Anne Akin (Analyst-in-Charge), William R. Chatlos, Lynda Downing, Risto Laboski, John Mingus, Tovah Rom, Jena Sinkfield, and Tyler Spunaugle have made significant contributions to this report.

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Appendix II: Accessible Data

Data Table for Highlights Figure 1: Status of the Capital Purchase Program, as of December 31, 2016

Status of Funding	**Total**
Highest ever obligated	204.9
Disbursed	204.9
Repayments	199.6
Write-offs and losses	5.1
Outstanding investments	0.2
Income	
Dividends and interest income	12.1
Warrant income	8.1
Proceeds in excess of cost	6.9
Total income	27.1
Estimated lifetime income	16.3

Data Table for Figure 1: Status of the Capital Purchase Program, as of December 31, 2016

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Data Table for Figure 2: Status of Institutions That Received Capital Purchase Program Investments, as of December 31, 2016

Total institutions funded	707
Full repayments	262
Investments refinanced through other federal programs	165
Investments restructured through non-auction sales	43
Investments sold through auction	190

In bankruptcy/receivership	32
Institutions merged with other institutions	4
Total remaining institutions	11
Partial repayments	0
Currently in common	2

Data Table for Figure 3: Number and Amount of Outstanding Capital Purchase Program Investments, as of December 31, 2016

Count & Rank Order	Remaining CPP Institutions			Percentage of total outstanding
	Institution	Location	Amount (M)	
1	First BanCorp	San Juan, PR	$124.97	63%
2	OneFinancial Corporation	Little Rock, AR	$17.30	9%
3	OneUnited Bank	Boston, MA	$12.06	6%
4	Cecil Bancorp, Inc.	Elkton, MD	$11.56	6%
5	Broadway Financial Corporation	Los Angeles, CA	$8.05	4%
6	Harbor Bankshares Corporation	Baltimore, MD	$6.80	3%
7	Citizens Commerce Bancshares, Inc.	Versailles, KY	$6.30	3%
8	Pinnacle Bank Holding Company, Inc.	Orange City, FL	$4.39	2%
9	Grand Mountain Bancshares, Inc.	Granby, CO	$3.08	2%
10	St. Johns Bancshares, Inc.	St. Louis, MO	$3.00	2%
11	California International Bank[a]	Westminster, CA	$1.55	1%

		#	$	%
GAO Calculations	Largest	1	$124.97	63%
	Remaining	10	$74.09	37%
	All CPP outstanding	11	$199.05	100%

Data Table for Figure 4: Capital Purchase Program Participants by Location, Investment Size, and Investment Status, as of December 31, 2016

Status	2011	2012	2013	2014	2015	L4Q
Texas ratio[a]	98.80	101.66	87.92	73.33	45.47	40.20
Noncurrent loan percentage	9.77	9.86	5.54	3.38	2.80	2.28
Net charge-offs to average loans ratio	2.16	1.27	0.58	0.67	-0.02	0.13
Return on average assets	-0.82	0.14	-0.04	0.11	0.17	0.20
Common equity tier 1 ratio	10.31	9.39	9.38	10.88	11.72	11.18
Reserves to nonperforming loans	27.99	24.58	30.43	30.77	30.59	32.63