441 G St. N.W.
Washington, DC 20548

December 2, 2021

Congressional Committees

Troubled Asset Relief Program: Status of Two Remaining Active Investment Programs

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized the Department of the Treasury to distribute $700 billion in assistance to financial institutions and markets, businesses, homeowners, and consumers through the Troubled Asset Relief Program (TARP).[1] TARP investments and programs were intended to provide confidence that the U.S. government would help address the greatest threat the financial markets and economy had faced since the Great Depression. In 2010, Congress reduced the authorized amount to a maximum of $475 billion as the severity and immediacy of the financial crisis began to diminish.[2]

Treasury created the Office of Financial Stability (OFS) to manage TARP activities and programs, which included bank investment, credit market, housing, and other programs focused on stabilizing the U.S. financial system, restarting economic growth, and preventing avoidable foreclosures. Under OFS, TARP has injected capital into key financial institutions, implemented programs to address problems in the securitization markets, assisted the automobile industry, and offered incentives for modifying residential mortgages.

EESA, as amended, includes a provision that GAO report at least annually on TARP activities and performance.[3] In response, we have been monitoring, analyzing, and providing updates on TARP programs.[4] This report updates the status of Treasury's investment and participation in the two active TARP investment programs, as of September 30, 2021:

[1]Pub. L. No. 110-343, tit. I, 122 Stat. 3765, 3767-3780 (codified as amended at 12 U.S.C. §§ 5211-5241).

[2]Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified at 12 U.S.C. §5225(a)).

[3]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)).

[4]For example, see GAO, *Troubled Asset Relief Program: Status Update on Treasury's Two Active Investment Programs,* GAO-20-218R (Washington, D.C.: Dec. 16, 2019); *Troubled Asset Relief Program: Few Participants Remain as Treasury Continues to Wind Down Capital Purchase Program,* GAO-17-422 (Washington, D.C.: Mar. 29, 2017); *Troubled Asset Relief Program: New Effort to Wind Down the Community Development Capital Initiative*, GAO-17-96 (Washington, D.C.: Nov. 4, 2016); *Troubled Asset Relief Program: Status of Remaining Investment Programs*, GAO-16-91R (Washington, D.C.: Nov. 3, 2015); *Troubled Asset Relief Program: Status of GAO Recommendations*, GAO-15-813 (Washington, D.C.: Sept. 4, 2015); and *Community Development Capital Initiative: Status of the Program Investments and Participants*, GAO-15-542 (Washington, D.C.: May 5, 2015).

- The Capital Purchase Program (CPP) was designed to provide capital to financially viable financial institutions through the purchase of senior preferred shares that would pay dividends and warrants to purchase shares of common or preferred stock.[5]

- The Community Development Capital Initiative (CDCI) was designed to provide capital to Community Development Financial Institutions (CDFI) by purchasing preferred shares and subordinated debentures.[6]

Scope and Methodology

To describe the status of these programs, we reviewed relevant documentation from Treasury (including its Monthly Report to Congress, Monthly TARP Update reports, and OFS's financial statements), obtained information from Treasury officials, and reviewed our prior TARP reports. To identify Treasury's current efforts to exit from outstanding investments made under these programs, we interviewed Treasury officials and reviewed relevant documentation. This report contains the most recently available public data found in Treasury's reports at the time of our review (as of September 30, 2021). These data include obligations, disbursements, and the number of remaining TARP participants. We determined that the financial information used in these reports was sufficiently reliable to assess the status of CPP and CDCI based on the result of our annual audits of OFS's financial statements from fiscal years 2009 through 2021. As part of these audits, we also tested OFS's internal controls over financial reporting and found them effective.[7]

We assessed the financial condition of the three institutions that remained in CPP and CDCI as of September 30, 2021, and of the financial institutions that exited the programs in 2016. We analyzed the most recently available financial and regulatory annual data from S&P Capital IQ Pro, which provides comprehensive regulatory financial data on financial institutions.[8] For example, we compared indicators of financial health, such as return on average assets and reserves to nonperforming loans. We relied on our prior data reliability assessments and verified that the data collection process had not changed by reviewing documentation and information provided by S&P Capital IQ Pro. We determined that the financial information we used was sufficiently reliable for assessing the institutions' financial condition. We also used our past reporting on TARP to inform our assessments of the financial institutions.

We conducted this performance audit from May 2021 through December 2021 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

[5]Preferred shares, as a corporate ownership class, generally have a higher claim on assets and earnings than common stock. A warrant is an option to buy shares of common or preferred stock at a predetermined price on or before a specified date.

[6]CDFIs provide financing and related services to communities and populations that lack access to credit, capital, and financial services. Although CDFIs can be banks, thrifts, credit unions, loan funds, and venture capital funds, only institutions that have a federal banking or credit union regulator (banks, thrifts, and credit unions) could apply for CDCI assistance. Subordinated debentures are bonds whose claim on income and assets of the issuer in the event of default or bankruptcy is ranked below the claims of senior bondholders, but above all classes of equity.

[7]See GAO, *Financial Audit: Office of Financial Stability's (Troubled Asset Relief Program) FY 2021 and FY 2020 Financial Statements*, GAO-22-105173 (Washington, D.C.: Nov. 10, 2021) for more information.

[8]In prior work, we used data from S&P Global Market Intelligence, a data product of Standard and Poor's (S&P). In 2021, S&P Global Market Intelligence was renamed S&P Capital IQ Pro.

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.

Summary

As of September 30, 2021, three participants remained in TARP's two active investment programs (one institution in CPP and two in CDCI). Combined, Treasury's total investment for these programs was $205.10 billion, the vast majority of which went to CPP. By the end of September 2021, Treasury had received $227.36 billion in proceeds (repayments and income), while outstanding investments (the amount still owed to Treasury) totaled about $13 million. Specifically,

- Treasury's total investment for CPP has been $204.90 billion; by December 2009, Treasury had disbursed all funds to 707 financial institutions nationwide. As of September 30, 2021, Treasury had received $226.77 billion in repayments and income from its CPP investments and sales of original CPP investments, exceeding the amount originally disbursed by $21.87 billion. The remaining outstanding investment balance for CPP is about $12 million and one institution remained in the program as of September 30, 2021.

- Treasury's total investment for CDCI has been $570 million for 84 institutions. Of the total investment, Treasury disbursed $207 million from July through September 2010. An additional $363 million represented exchanges of investments from CPP into CDCI. As of September 30, 2021, Treasury had received $593 million in repayments and income from CDCI participants, exceeding the amount originally disbursed by $23 million. The remaining outstanding investment balance is about $1 million and two institutions remained in the program as of September 30, 2021.

Enclosures 1 and 2 provide more information on the two programs, including information on repayments, expected lifetime costs, and remaining institutions.

The overall financial condition of the institutions remaining in the two investment programs generally improved from 2011 to 2021. However, from 2019 to 2020, similar to some institutions that exited the programs, the remaining institutions had declining financial metrics. According to Treasury officials, Treasury continues to monitor the institutions. Treasury officials told us that the agency continues to receive quarterly compliance reports from CPP and CDCI participants. The agency continues to have quarterly phone calls with the two CDCI institutions but does not have regularly scheduled calls with the remaining CPP participant. Treasury officials also noted that the agency no longer uses an asset manager because only three institutions remain in the two active investment programs.

The officials stated that the exit strategy for the remaining CPP institution, for which its CPP securities do not have a maturity date, is outside of Treasury's control, and subject to market conditions and the institution's ability to repay. In contrast, securities for CDCI institutions will mature in 2023, according to Treasury. Treasury officials also noted that they need to meet with the Administration to discuss its expectations for the CPP and CDCI programs.

Agency Comments

We provided Treasury with a draft copy of this report for review and comment. The agency had no comments on our draft report.

- - - - -

We are sending copies of this report to the appropriate congressional committees and to the Secretary of the Treasury. This report will also be available at no charge on our website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. In addition to the contact named above, Karen Tremba (Assistant Director), Isidro Gomez (Analyst in Charge), William Chatlos, Lynda Downing, Risto Laboski, Marc Molino, Barbara Roesmann, and Jessica Sandler made key contributions to this report.

John H. Pendleton,
Director
Financial Markets and Community Investment

Enclosures – 2

List of Committees

The Honorable Patrick Leahy
Chairman
The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Sherrod Brown
Chairman
The Honorable Patrick J. Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Bernie Sanders
Chairman
The Honorable Lindsey Graham
Ranking Member
Committee on the Budget
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Rosa L. DeLauro
Chair
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable John Yarmuth
Chairman
The Honorable Jason Smith
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Richard Neal
Chairman
The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
House of Representatives

GAO@100
A Century of Non-Partisan Fact-Based Work

Congressional Committees

Troubled Asset Relief Program

Capital Purchase Program

Background

The Department of the Treasury created the Capital Purchase Program (CPP) to help stabilize the financial markets and banking system by providing capital to financially viable and regulated financial institutions. It was the largest investment program initiated under the Troubled Asset Relief Program (TARP).

The program started in October 2008; it was closed to new participants in December 2009.

Qualified financial institutions that participated in the program were eligible to receive an investment of 1–3 percent of their risk-weighted assets, up to a maximum of $25 billion. In exchange for the investment, Treasury generally received senior preferred shares that would pay dividends and warrants to purchase shares of common or preferred stock. Since the end of 2014, all of the institutions with outstanding preferred share investments have been required to pay dividends at a rate of 9 percent, rather than the 5 percent rate that had been in place for the previous 5 years. Institutions are allowed to repay CPP investments with the approval of their primary federal bank regulator and repurchase warrants afterward.

View GAO-22-105240. For more information, contact John Pendleton at (202) 512-8678 or PendletonJ@gao.gov.

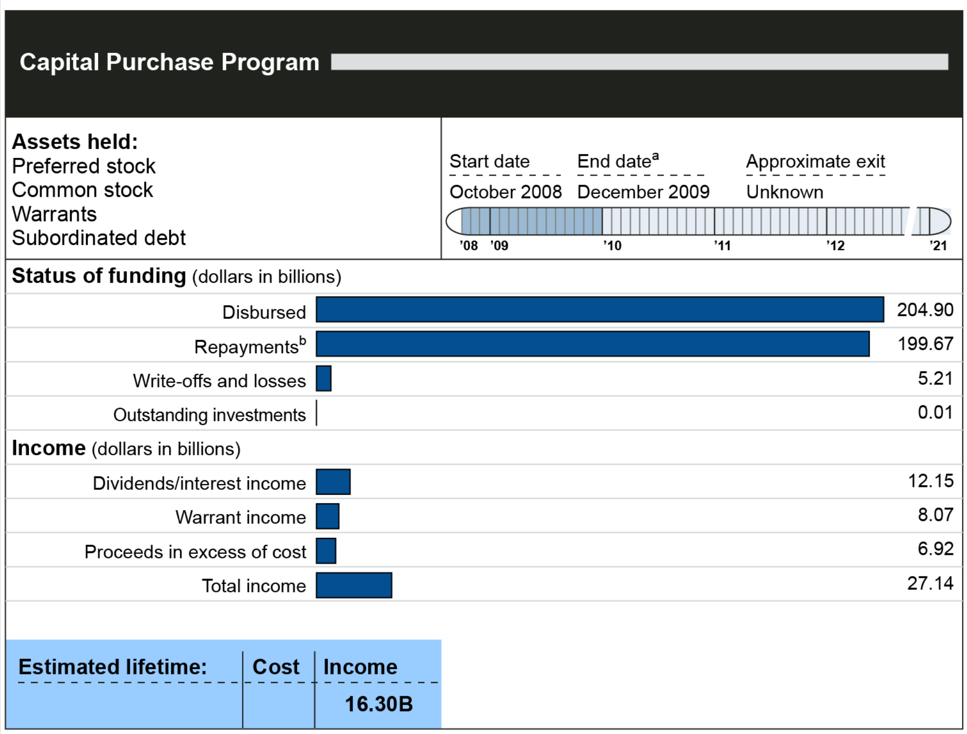
Status

The Department of the Treasury has largely wound down CPP. Treasury disbursed $204.90 billion to 707 financial institutions nationwide from October 2008 through December 2009. As of September 30, 2021, it had received $226.77 billion in repayments and income, exceeding the total original outlays by $21.87 billion. Those repayments and income sources include

- $199.67 billion in repayments and sales of original CPP investments;
- $12.15 billion in dividends and interest;
- $6.92 billion in proceeds in excess of costs; and
- $8.07 billion from the sale of warrants (see fig.1).

As of September 30, 2021, write-offs and losses from sales totaled $5.21 billion. As of the same date, Treasury estimated a lifetime income of $16.30 billion for CPP.

Figure 1: Status of the Capital Purchase Program, as of September 30, 2021



Source: GAO analysis of Department of the Treasury data. | GAO-22-105240

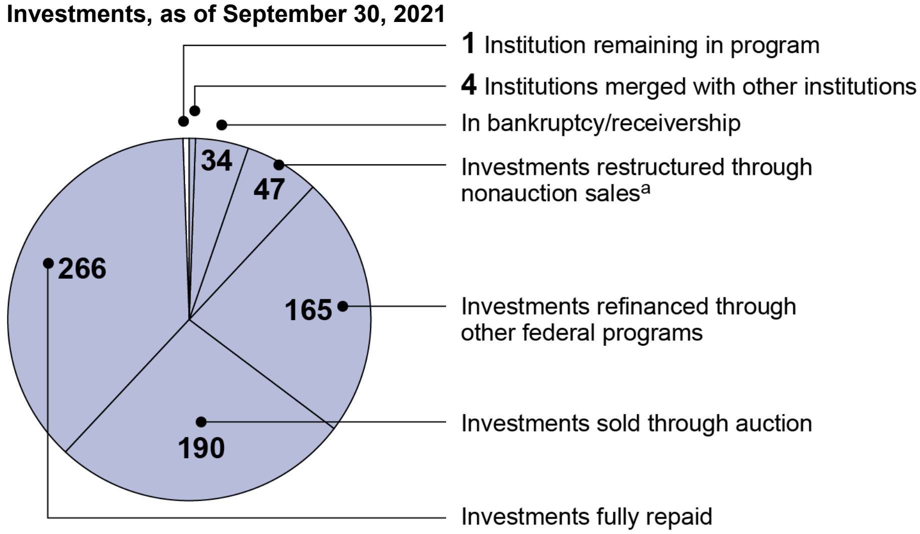
[a]End date is the date on which the program stopped acquiring new assets and no longer received funding.

[b]Includes $363 million from institutions that transferred to the Community Development Capital Initiative and $2.2 billion from institutions that transferred to the Small Business Lending Fund.

As shown in figure 2, as of September 30, 2021, all but one of the original 707 institutions that participated in CPP had exited the program by

- repurchasing their preferred shares or subordinated debentures in full;
- refinancing their shares through other federal programs, including the Community Development Capital Initiative and the Small Business Lending Fund—a Treasury fund separate from TARP;
- selling their shares through auction;
- going into bankruptcy or receivership; or
- merging with other institutions.

Figure 2: Status of Institutions That Received Capital Purchase Program Investments, as of September 30, 2021



Source: GAO analysis of Department of the Treasury data. | GAO-22-105240

[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.

Some former CPP institutions showed overall improvement in selected financial metrics from 2011 to 2021. These institutions were participants in 2016 but exited the program by September 30, 2021. As of September 30, 2021, the outstanding investment distributed to the remaining CPP institution was $12.06 million. The metrics for this institution showed improvement, including its Texas ratio (tangible equity and loss reserves to nonperforming assets plus loans 90 or more days past due) from 2011 through the second quarter of 2021.

Congressional Committees

GAO@100
A Century of Non-Partisan Fact-Based Work

Troubled Asset Relief Program

Community Development Capital Initiative

Background

The Department of the Treasury created the Community Development Capital Initiative (CDCI) to help mitigate the adverse impacts of the financial crisis on communities underserved by traditional banks. CDCI provided capital to certain Community Development Financial Institutions, including banks, thrifts, and credit unions, which offer financial services to low- and moderate-income, minority, and underserved communities.

Treasury announced the program in October 2009; it was closed to new participants in September 2010.

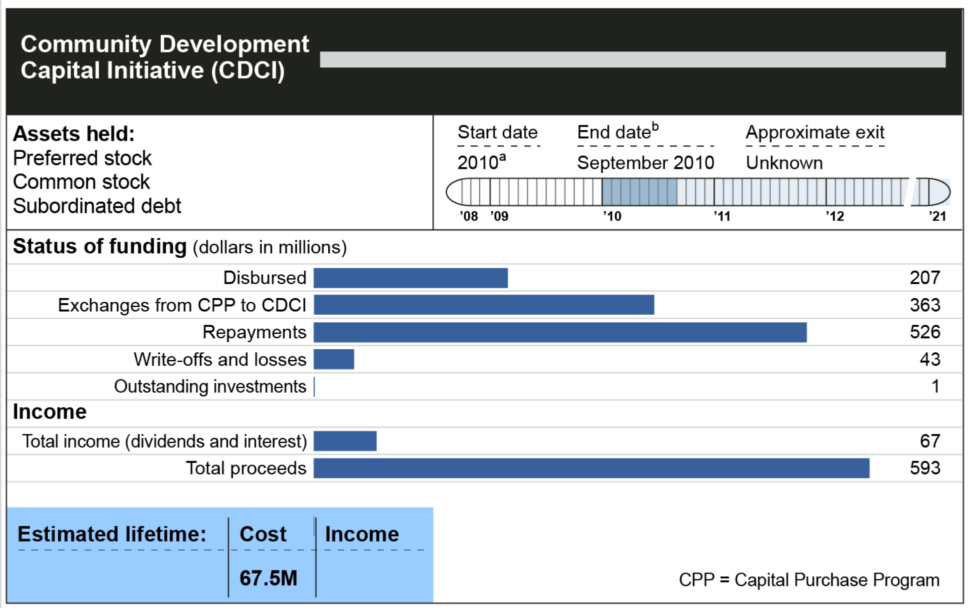
CDCI provided capital to Community Development Financial Institutions and credit unions by purchasing preferred equity or subordinated debt from them. These institutions are required to make quarterly dividend or interest payments to Treasury until they exit the program. Institutions are expected to repay the investments with the approval of their primary federal bank regulator. CDCI preferred equity investments had an initial dividend rate of 2 percent. Since 2018, the dividend rate has increased to 9 percent for all program participants. The terms of the rates are specified in the agreements between Treasury and the institutions.

View GAO-22-105240. For more information, contact John Pendleton at (202) 512-8678 or PendletonJ@gao.gov.

Status

The Department of the Treasury continues to manage CDCI. Treasury's total investment for this program has been $570 million for 84 institutions. As shown in figure 3, Treasury originally disbursed $207 million through CDCI from February through September 2010. An additional $363 million represented exchanges of investments from the Capital Purchase Program into CDCI. As of September 30, 2021, Treasury had received $593 million in principal repayments and dividend income from CDCI participants. The remaining outstanding investment balance for CDCI is about $1 million. As of the same date, Treasury had written off $43 million and CDCI participants had paid $66 million in dividends. Treasury has estimated the program's lifetime costs to be $67.5 million.

Figure 3: Status of the Community Development Capital Initiative, as of September 30, 2021



Source: GAO analysis of Department of the Treasury data. | GAO-22-105240

Note: Treasury began holding common stock for CDCI on October 28, 2011, after entering into an agreement with one institution to convert all of its preferred stock held by Treasury to common stock.

[a]Treasury first announced CDCI in October 2009. The program first provided capital to Community Development Financial Institutions in 2010.

[b]End date is the date on which the program stopped acquiring new assets and no longer received funding.

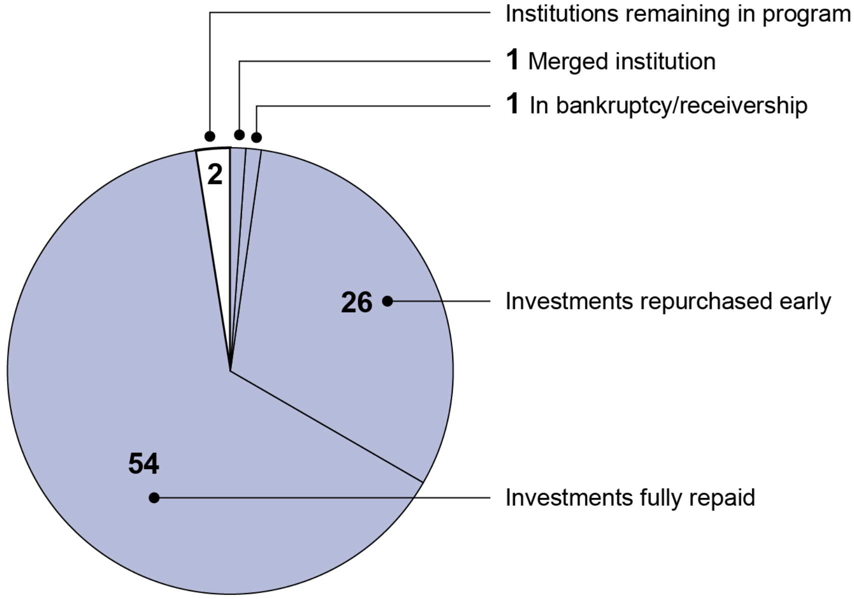
As shown in figure 4, as of September 30, 2021, two of the original 84 CDCI institutions remained in the program. According to Treasury, the securities for the two remaining institutions will mature in 2023. Institutions have exited the program by

- repaying Treasury in full;
- merging with another institution;

- leaving as a result of their subsidiary bank's failure; or
- leaving through Treasury's Early Repurchase Option.

Under the Early Repurchase Option, eligible institutions were able (for a limited period of time) to repurchase their outstanding securities from Treasury at fair value. To participate, eligible institutions had to have submitted a proposal to Treasury no later than December 19, 2016.

Figure 4: Status of Institutions That Received Community Development Capital Initiative Investments, as of September 30, 2021



Source: GAO analysis of Department of the Treasury data. | GAO-22-105240

CDCI credit unions that were participants in 2016 but exited the program by September 30, 2021, showed improvement in the financial metrics we analyzed from 2011 to 2019. However, the median return on average assets and the median net worth ratio worsened from 2019 to 2020.

As shown in table 1, as of September 30, 2021, the remaining $1.06 million in outstanding CDCI investments was distributed between the two institutions. Similar to some of the former CDCI credit unions, some financial metrics we analyzed for the two institutions generally improved from 2011 to 2019, but all financial metrics for the insitutions worsened from 2019 to 2020.

Table 1: Remaining Community Development Capital Initiative Investments, as of September 30, 2021

Institution	Location	Investment amount (dollars in millions)	Total outstanding investment (percentage)
Cooperative Center Federal Credit Union	Berkeley, California	0.56	53
D.C. Federal Credit Union	Washington, D.C.	0.50	47
All outstanding		**1.06**	**100**

Source: GAO analysis of Department of the Treasury data. | GAO-22-105240

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

A. Nicole Clowers, Managing Director, ClowersA@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548