U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

March 6, 2015

Congressional Committees

Troubled Asset Relief Program: Winding Down the Capital Purchase Program

From October 2008 through December 2009, the Department of the Treasury (Treasury) invested almost $205 billion in 707 financial institutions as part of federal efforts to help stabilize U.S. financial markets. The investments were made through the Capital Purchase Program (CPP), the first and largest initiative under the Troubled Asset Relief Program (TARP).[1] TARP gave Treasury the authority to buy or guarantee up to $700 billion of the "troubled assets" that were believed to be at the heart of the financial crisis, including mortgages, mortgage-backed securities, and any other financial instruments deemed appropriate, such as equity investments.[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, and since then Treasury has continued to oversee and divest its CPP investments, collect dividend and interest payments, and sell warrants. As of December 31, 2014, 673 CPP participants had exited the program, many by repurchasing their preferred shares or subordinated debt after consulting with their primary bank regulators.

This report is based on our continuing analysis and monitoring of Treasury's activities in implementing the Emergency Economic Stabilization Act of 2008 (EESA), which provided us with broad oversight authorities for actions taken under TARP and required that we report at least every 60 days on TARP activities and performance.[4] To fulfill our statutorily mandated responsibilities, we have been monitoring and providing updates on TARP programs, including CPP.[5] This report examines (1) the status of CPP, including repayments and other proceeds, as

---

[1]As authorized by the Emergency Economic Stabilization Act of 2008 (EESA), Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 et seq. EESA, which was signed into law on October 3, 2008, established the Office of Financial Stability within Treasury and provided it with broad, flexible authorities to buy or guarantee troubled mortgage-related assets or any other financial instruments necessary to stabilize the financial markets.

[2]Section 3(9) of EESA, 12 U.S.C. § 5202(9). EESA required that the appropriate committees of Congress be notified in writing that the Secretary of the Treasury, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, had determined that it was necessary to purchase other financial instruments to promote financial market stability. EESA originally authorized Treasury to purchase or guarantee up to $700 billion in troubled assets. The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), reduced Treasury's authority to purchase or insure troubled assets to a maximum of $475 billion.

[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]Section 116 of EESA, 122 Stat. at 3783 (codified at 12 U.S.C. § 5226).

[5]See, GAO, *Troubled Asset Relief Program: Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process,* GAO-11-47 (Washington, D.C.: Oct. 4, 2010); *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012); *Troubled Asset Relief Program: Treasury's Use*

well as investments outstanding; (2) Treasury's strategy for winding down the program; and (3) the financial condition of institutions remaining in CPP.

To assess the status of CPP, we analyzed Treasury reports on outstanding CPP investments, dividends paid, and the number of institutions that had made full repayments and leveraged our past reports on CPP. We also interviewed Treasury officials knowledgeable about the strategy to exit CPP. To assess the financial condition of the 34 institutions that remained in CPP as of December 31, 2014, we analyzed financial and regulatory data from SNL Financial, which provides comprehensive regulatory financial data on financial institutions. We assessed the reliability of SNL Financial data for previous studies by performing manual testing of required data elements, reviewing existing information about the data and the system that produced them, and interviewing SNL officials. We determined that the financial information we used remains sufficiently reliable for this report. We also leveraged our past reporting on TARP to construct and inform our assessments of the financial institutions.

We conducted this performance audit from January 2015 to March 2015 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.

Results in Brief

Returns on CPP have surpassed original investments. As of December 31, 2014, Treasury had received $226.4 billion in repayments, sales, dividends, and interest from its CPP investments, exceeding the amount originally disbursed by $21.5 billion. As of the same date, the program was largely wound down, with 34 of the original 707 institutions remaining.[6] Treasury's exit strategy, on which we have previously reported, remains unchanged, and involves three options: (1) repayments, (2) restructuring investments, and (3) auctions. Over the past 5 years, repayments and auctions were the primary means by which institutions exited CPP. However, Treasury officials indicated that more of the remaining institutions may use restructurings as an exit strategy. The 34 remaining CPP institutions showed some improvements in their financial condition, as measured by key metrics of financial condition. However, many firms continued to miss payments and maintained low capital levels.

Background

CPP was created to help stabilize the financial markets and banking system by providing capital to qualifying regulated financial institutions through the purchase of senior 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,

---

of Auctions to Exit the Capital Purchase Program, GAO-13-630 (Washington, D.C.: July 8, 2013); and *Troubled Asset Relief Program: Status of the Wind Down of the Capital Purchase Program,* GAO-14-388 (Washington, D.C.: Apr. 7, 2014).

[6]The information on CPP in this report is as of December 31, 2014, unless otherwise noted. As of March 6, 2015, 32 institutions remained in CPP because two institutions exited the program—Liberty Bancshares of Fort Worth, Texas, on January 14, 2015, and Community Bancshares, Inc. of Kingman, Arizona, on February 11, 2015—by redeeming, in full, their outstanding preferred shares and warrants.

[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.

and increase confidence in lenders and investors. On October 14, 2008, Treasury allocated $250 billion of the original $700 billion in overall TARP funds for CPP. In March 2009, the allocation was reduced to reflect lower estimated funding needs, as evidenced by actual participation rates. On December 31, 2009, the program was closed to new investments.

Under CPP, qualified financial institutions were eligible to receive an investment of 1-3 percent of their risk-weighted assets, up to a maximum of $25 billion.[8] In exchange for the investment, Treasury generally received senior 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 in place for the previous 5 years. EESA required 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 afterward to repurchase warrants.

Status of CPP

Treasury continues to wind down CPP, and as of December 31, 2014, had received $226.4 billion in repayments, sales, dividends, and interest from its CPP investments, exceeding the amount originally disbursed by $21.5 billion. Receipts include

- $199.4 billion in repayments and sales of original CPP investments,
- $12.1 billion in dividends and interest, and
- $14.8 billion in proceeds in excess of costs, including $8.0 billion from the sale of warrants.

After accounting for write-offs and realized losses from sales totaling $5 billion, CPP had outstanding investments of $470.3 million (0.23 percent of original disbursements) as of December 31, 2014.[10] As of November 30, 2014, Treasury estimated a lifetime income of $16.2 billion for CPP.[11]

As of December 31, 2014, 34 of the 707 institutions that originally participated in CPP remained in the program (see fig. 1). The other 673 institutions left CPP as follows:

- 254 repurchased their preferred shares or subordinated debentures in full;
- 185 institutions had their investments sold through auction;

---

[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 to 5 percent of risk-weighted assets.

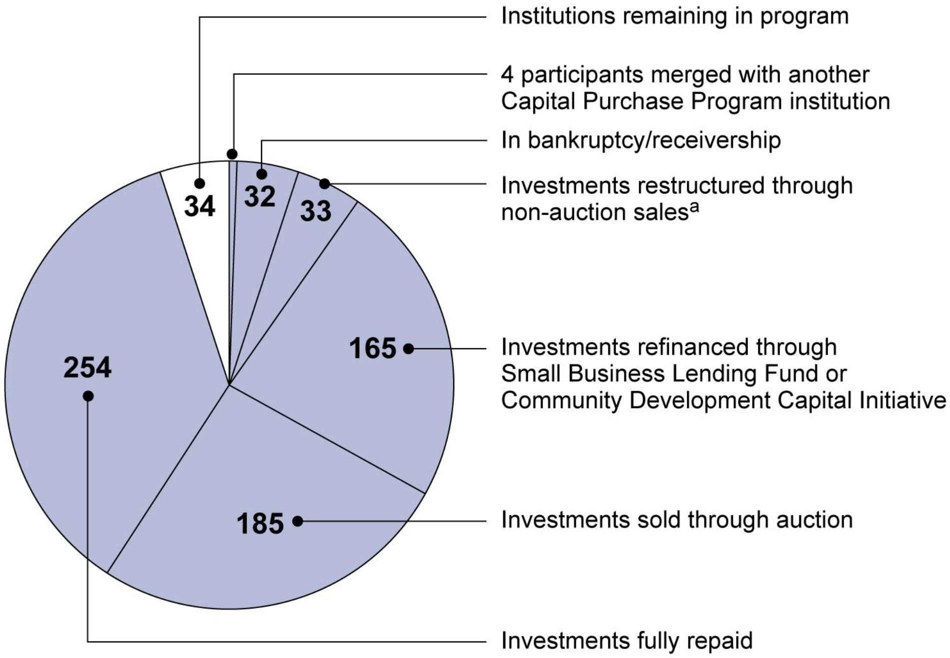
[9]For S corporations, a federal business type that provides certain tax and other benefits, Treasury received subordinated debt rather than preferred shares in order to preserve these institutions' special tax status. The U.S. Internal Revenue Code prohibits S corporations from having more than one 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]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 when Treasury sold its investments in CPP institutions.

[11]Treasury, in conjunction with the Office of Management and Budget, estimates lifetime costs (or income) 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.

- 165 institutions refinanced their shares through two other federal programs—the Community Development Capital Initiative (CDCI) and the Small Business Lending Fund (SBLF);
- 33 institutions had their investments restructured through non-auction sales;
- 32 institutions went into bankruptcy or receivership; and
- 4 institutions merged with another CPP firm or firms.[12]

Figure 1: Status of Institutions That Received Capital Purchase Program Investments, as of December 31, 2014



Source: GAO analysis of Treasury data. | GAO-15-367R

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

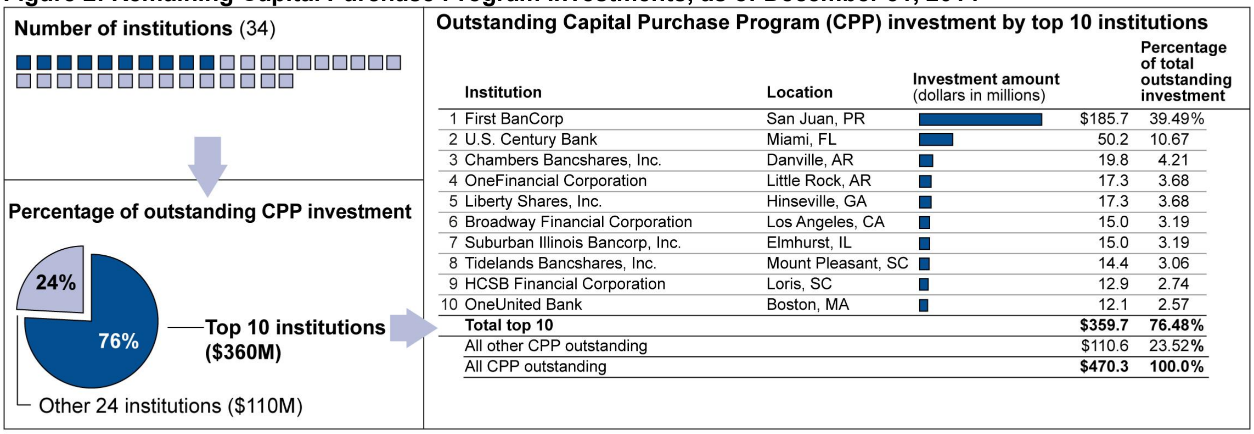
Data Table for Figure 1: Status of Institutions That Received Capital Purchase Program Investments, as of December 31, 2014

Merged with another institution	In bankruptcy/receivership	Investments refinanced	Investments sold through auctions	Investments fully repaid	Remaining in program	Investments restructured through non-auction sales
4	32	165	185	254	34	33

[12]Twenty-eight of the institutions refinanced investments through 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 SBLF, another Treasury 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.

As shown in figure 2, as of December 31, 2014, the remaining $470.3 million in outstanding CPP investments was concentrated in a few institutions. The 10 largest remaining investments accounted for $359.7 million (76 percent) of the outstanding investments. The remaining $110.6 million (23 percent) was spread among the other 24 outstanding investments.

Figure 2: Remaining Capital Purchase Program Investments, as of December 31, 2014



Source: GAO analysis of Treasury data. | GAO-15-367R

Data Table for Figure 2: Remaining Capital Purchase Program Investments, as of December 31, 2014

	Institution	**Location**	**Investment amount (millions)**	**Precentage of total outstanding investment**
1	First BanCorp	San Juan, PR	$185.7	39.49%
2	U.S. Century Bank	Miami, FL	$50.2	10.67%
3	Chambers Bancshares, Inc.	Danville, AR	$19.8	4.21%
4	OneFinancial Corporation	Little Rock, AR	$17.3	3.68%
5	Liberty Shares, Inc.	Hinseville, GA	$ 17.3	3.68%
6	Broadway Financial Corporation	Los Angeles, CA	$ 15.0	3.19%
7	Suburban Illinois Bancorp, Inc.	Elmhurst, IL	$ 15.0	3.19%
8	Tidelands Bancshares, Inc.	Mount Pleasant, SC	$ 14.4	3.06%
9	HCSB Financial Corporation	Loris, SC	$ 12.9	2.74%
10	OneUnited Bank	Boston, MA	$ 12.1	2.57%
	Total top 10		**$ 359.7**	**76.48%**
	All other CPP outstanding		$ 110.6	23.52%
	All CPP outstanding		**$ 470.3**	**100.00%**

Treasury's Exit Strategy for CPP

Treasury does not know when it will completely exit the CPP program, and its exit strategy, on which we have previously reported, remains unchanged, according to officials we interviewed.[13] The strategy includes: (1) repayments, (2) restructurings, and (3) auctions.

- *Repayments.* Repayments allow financial institutions, with the approval of their regulators, to redeem their preferred shares in full. Institutions have the legal right to

[13] Treasury announced its CPP exit strategy in May 2012. See GAO-13-630 and GAO-14-388.

redeem their shares at any time. As of December 31, 2014, 254 institutions had exited CPP through repayments. However, institutions must demonstrate that they are financially strong enough to repay the CPP investments to receive regulatory approval to proceed with a repayment exit,

- *Restructurings*. Restructurings allow troubled financial institutions to restructure their investments, and require the institutions to acquire new capital—for example, through a merger. With this option, Treasury receives cash or other securities that generally can be sold more easily than preferred stock, but the restructured investments are sometimes sold at a discount. According to Treasury, it facilitated restructurings as an exit from CPP in those cases where new capital investment and redemption of the CPP investment by the institutions is not otherwise possible. Treasury officials said that they approved the restructurings only if the terms represented a fair and equitable financial outcome for taxpayers. Treasury completed 33 such restructurings through December 31, 2014.[14]
- *Auctions.* Treasury conducted the first auction of CPP investments in March 2012, and has continued to utilize this strategy to sell its investments. As of December 31, 2014, Treasury conducted a total of 27 auctions of stock from 185 CPP institutions. Through these transactions, Treasury received $3.1 billion in proceeds, or about 80 percent of the principal amount. As we have reported, thus far Treasury has sold investments individually but noted that combining smaller investments—into pooled auctions—remained an option.[15] Whether Treasury sells stock 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.[16]

As shown in figure 3, from 2009 through 2011, the majority of institutions exiting CPP did so through repayment or through refinancing their shares through CDCI and SBLF. From 2012 to 2014, auctions were the predominant exit strategy. During that same period, restructurings increased. For example, in 2012, 4 percent of exits (7 of 159) were restructurings, while in 2014, 15 percent (8 of 52) used restructuring as an exit strategy.

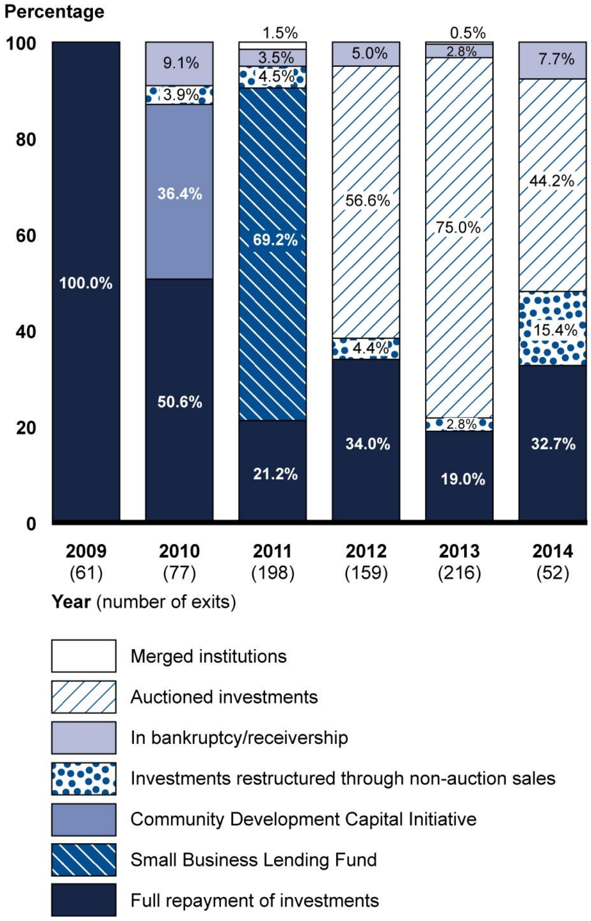
---

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

[15]Unlike Treasury's auctions of individual CPP preferred stock investments, in which multiple bidders were allocated portions 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.

[16]On February 25, 2015, Treasury issued a letter to certain CPP institutions. It notified them that Treasury's next phase of auctions will differ in that Treasury will sell its CPP investments in such issuers without the issuer having to complete a Placement Agency Agreement (PAA) and provide associated disclosures in addition to those otherwise required by applicable federal and state securities or banking laws. Since the issuer will not be a party to the PAA, the issuer will not be making representations and warranties or providing indemnification. In addition, designated bidders will not be permitted to participate in the same fashion in these auctions as they were in the PAA auctions. According to Treasury, it made these changes in order to continue the wind-down of the program while protecting tax payers' interests.

Figure 3: Exits from the Capital Purchase Program, as of December 31, 2014



Source: GAO analysis of Treasury data. | GAO-15-367R

Data Table for Figure 3: Exits from the Capital Purchase Program, as of December 31, 2014

Year	Full Repayment of Investments	SBLF	CDCI	Sold/ Restructured Investments	Auctioned Investments	In Bankruptcy/ Receivership	Merged with Other CPP Institution(s)	Total
2009	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**
2010	50.6%	0.0%	36.4%	3.9%	0.0%	9.1%	0.0%	**100.0%**
2011	21.2%	69.2%	0.0%	4.5%	0.0%	3.5%	1.5%	**100.0%**
2012	34.0%	0.0%	0.0%	4.4%	56.6%	5.0%	0.0%	**100.0%**
2013	32.5%	0.0%	0.0%	4.8%	57.1%	4.8%	0.8%	**100.0%**
2014	32.7%	0.0%	0.0%	15.4%	44.2%	7.7%	0.0%	**100.0%**

Treasury officials told us they expected restructurings to increase as an exit option because few remaining CPP participants would be able to make full repayments. Furthermore, as we have seen, the use of auctions as an exit option will depend largely on investor demand for these securities and the quality of the underlying financial institutions.

Financial Health of Remaining CPP Institutions

The financial condition of the remaining CPP institutions improved somewhat, but many institutions continued to miss dividend or interest payments and were on the "problem bank list" of the Federal Deposit Insurance Corporation (FDIC). Specifically, of the remaining CPP institutions as of November 30, 2014, 5 of the 33 required to pay dividends made the most recent scheduled dividend or interest payment.[17] The percentage of CPP institutions with missed quarterly dividend or interest payments increased as the number of remaining institutions declined, rising from less than 2 percent (8 of 467 institutions) in February 2009 to 85 percent (28 of 33 institutions) in November 2014.[18] Institutions can elect whether to pay dividends and may choose not to pay for a variety of reasons, including decisions they or their federal and state regulators make to conserve cash and maintain (or increase) capital levels. However, investors 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 they actively monitor the remaining firms, especially those that had missed five or more payments, but added that the missed dividends had not altered the exit strategy to date.

As of December 31, 2014, 20 of 34 CPP institutions (59 percent) were on FDIC's problem bank list. This list is a compilation of banks with demonstrated financial, operational, or managerial weaknesses that threaten their continued financial viability and is publicly reported on a quarterly basis.[19] The percentage of remaining CPP institutions on the problem bank list is similar to the number we reported as of 1 year earlier (47 of 83, or 57 percent).[20] Federal and state bank regulators may not allow institutions on the problem bank list to make dividend payments in an effort to preserve their capital and promote safety and soundness.

Our analysis of financial condition metrics over the past 4 years showed that the institutions remaining in CPP as of December 31, 2014, improved their performance in some areas, but others remained weak.[21] For example, the median return on average assets—a key indicator of how profitable a company is—rose from 2011 to the third quarter of 2014. However, the remaining institutions had varying levels of reserves for covering losses, as measured by the ratio of reserves to nonperforming loans. (See enclosure I for further discussion of these and other financial condition indicators.) Treasury officials agreed that the remaining CPP firms had weaker capital levels and worse asset quality than firms that had exited the program or never

[17]This excludes those firms that made payments towards a past-due amount or payments made by institutions that exited the program in November 2014. 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 November 30, 2014, represent the most recently available information for this report.

[18]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.

[19]This number was compiled by FDIC in response to our request and is not otherwise maintained or published by FDIC. FDIC's problem bank list does not include bank holding companies. Bank holding company recipients of CPP funds were accounted for if one or more of their subsidiary depositories were designated as problem banks. Each subsidiary depository appearing on the list was counted separately.

[20]See GAO-14-388.

[21]We analyzed financial and regulatory data from SNL Financial. All financial information in the analysis generally reflects quarterly regulatory filings on December 31, 2014.

participated. They noted that this situation was a natural outcome of the program, as the stronger firms were able to exit, while the weaker firms had to remain because they were not able to raise the capital needed to exit the program.

Agency Comments

We provided a draft of this report to Treasury for review and comment. In its written comments, reproduced in appendix II, Treasury generally concurred with our findings. Treasury noted that its CPP investments had realized a positive return of $21.5 billion as of February 27, 2015. Furthermore, as of the same date, 32 of the original 707 institutions remained in CPP, representing a remaining Treasury investment of $459.9 million. Treasury stated that it continues to wind down CPP through a three-pronged strategy that involves (1) waiting for repayments from those institutions that can repay in the near future, (2) selling through competitive auction investments in institutions that cannot repay in the near future, and (3) restructuring investments in limited cases. Treasury also emphasized its commitment to keeping the public informed of its progress in winding down CPP. In addition, 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 web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or clowersa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Karen Tremba, (Assistant Director), Emily R. Chalmers, William R. Chatlos, Alex Fedell, Risto Laboski, Kristeen McLain, Marc Molino, and Patricia Moye.

A. Nicole Clowers
Director, Financial Markets and Community Investment

Enclosures: 2

List of Committees

The Honorable Thad Cochran
Chairman
The Honorable Barbara Mikulski
Vice Chairwoman
Committee on Appropriations
United States Senate

The Honorable Richard Shelby
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Mike Enzi
Chairman
The Honorable Bernie Sanders
Ranking Member
Committee on the Budget
United States Senate

The Honorable Orrin G. Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Harold Rogers
Chairman
The Honorable Nita Lowey
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Tom Price
Chairman
The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Enclosure I: Financial Indicators for Institutions Remaining in the Capital Purchase Program as of December 31, 2014

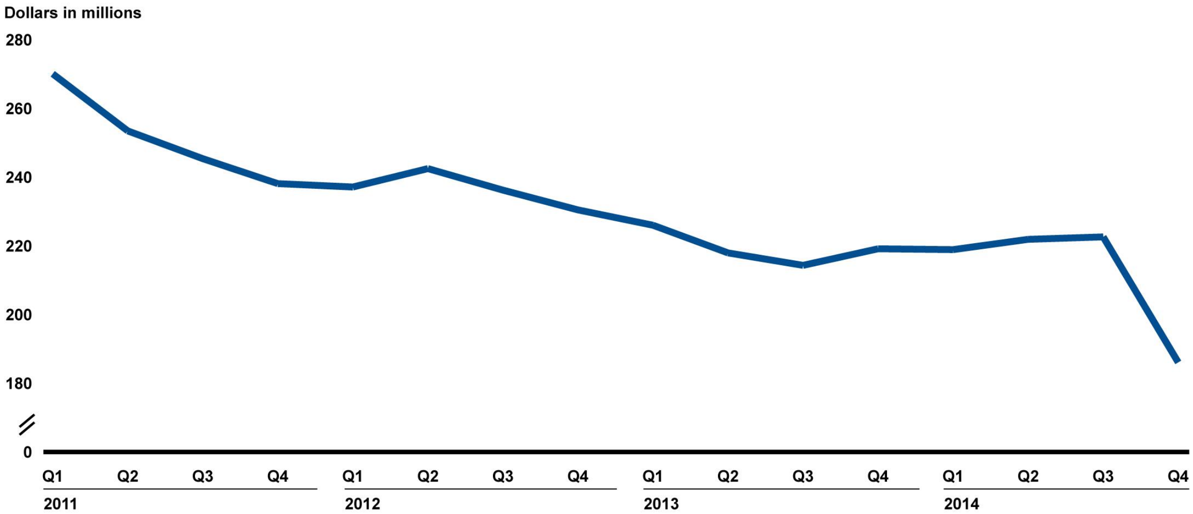
Our analysis shows that the 34 institutions remaining in the Capital Purchase Program (CPP) as of December 31, 2014, improved some financial metrics over the past 4 years but that others remained weak. We considered various measures that described banking institutions' profitability, asset quality, capital adequacy, and ability to cover losses. Specifically, for the remaining CPP institutions we analyzed the following median statistics for the last 4 years:

- Total assets
- Texas ratio
- Return on average assets
- Noncurrent loan percentage
- Net charge-offs
- Tier 1 risk-based capital ratios
- Common equity Tier 1 ratios
- Reserves to nonperforming loans

All financial information generally reflects quarterly regulatory filings on December 31, 2014.

The remaining CPP institutions generally decreased in size (as measured by median total assets held) over the past 4 years; particularly in the fourth quarter of 2014 (see fig. 4). We have previously reported that mostly smaller institutions remained in the program while larger institutions were able to exit.[22]

Figure 4: Quarterly Trend of Median Total Assets Held by the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



Source: GAO analysis of SNL Financial data. | GAO-15-367R

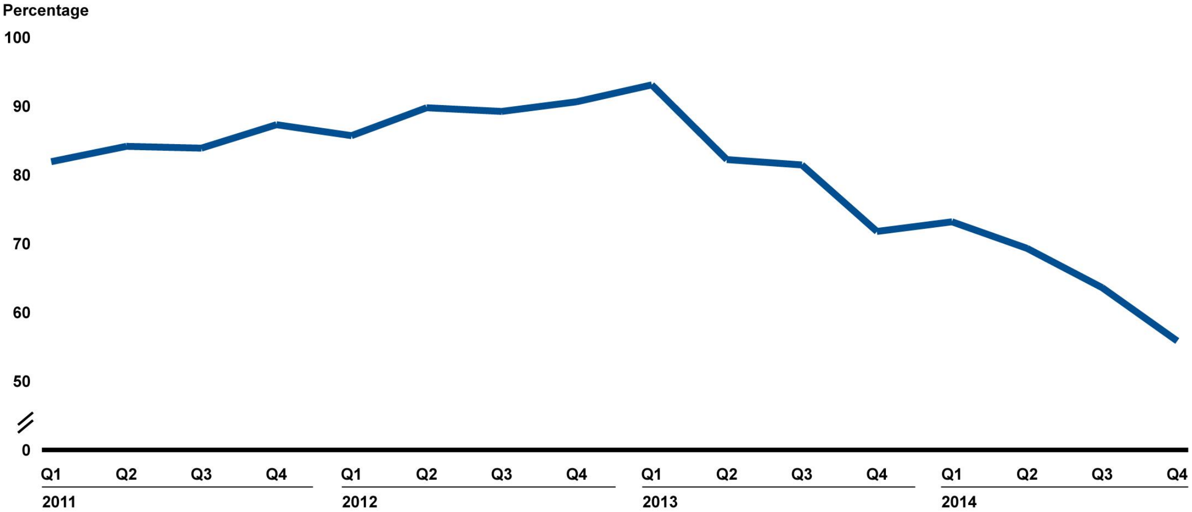
Data Table for Figure 4: Quarterly Trend of Median Total Assets Held by the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Assets (in millions of dollars)
2011Q1	270.096
2011Q2	253.491
2011Q3	245.402
2012Q4	238.139
2012Q1	237.158
2012Q2	242.513
2012Q3	236.249
2012Q4	230.492
2013Q1	226.024
2013Q2	217.974
2013Q3	214.351
2013Q4	219.172
2014Q1	218.926
2014Q2	221.921
2014Q3	222.634
2014Q4	186.119

[22]See GAO, *Troubled Asset Relief Program: Treasury's Use of Auctions to Exit the Capital Purchase Program*, GAO-13-630 (Washington, D.C.: July 8, 2013) and *Troubled Asset Relief Program: Status of the Wind Down of the Capital Purchase Program,* GAO-14-388 (Washington, D.C.: Apr. 7, 2014).

As shown in figure 5, remaining CPP institutions have shown some financial improvement, as demonstrated by a declining median Texas ratio. The Texas ratio helps determine a bank's likelihood of failure by comparing its troubled loans to its capital. The higher the ratio, the more likely the institution is to fail.[23] The median Texas ratio for remaining CPP institutions declined from a high of 93.1 in the first quarter of 2013 to 55.9 in the fourth quarter of 2014. However, a Texas ratio of 55.9 is high relative to those institutions that never participated in CPP. According to our analysis, non-CPP firms had a lower median Texas ratio of 9.5 in the fourth quarter of 2014.

Figure 5: Quarterly Trend of Median Texas Ratios for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



Source: GAO analysis of SNL Financial data. | GAO-15-367R

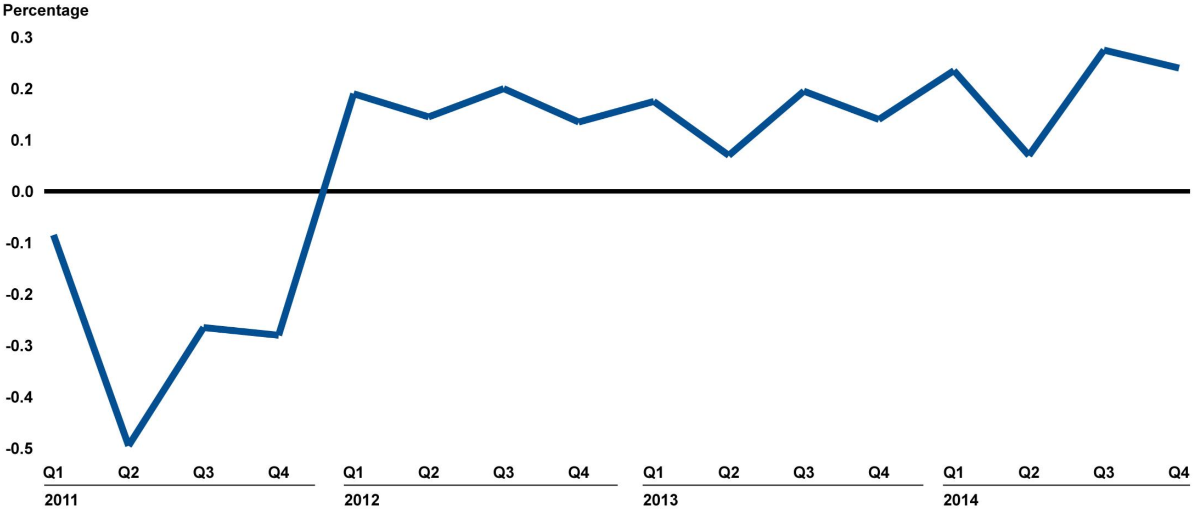
Data Table for Figure 5: Quarterly Trend of Median Texas Ratios for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Percentage
2011Q1	81.9287
2011Q2	84.1558
2011Q3	83.8946
2011Q4	87.30385
2012Q1	85.71155
2012Q2	89.7679
2012Q3	89.23575
2012Q4	90.64015
2013Q1	93.09575
2013Q2	82.2317
2013Q3	81.45275
2013Q4	71.7833
2014Q1	73.18145
2014Q2	69.3202
2014Q3	63.60775
2014Q4	55.8577

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

Profitability measures also improved for remaining CPP institutions since 2011. For example, the median return on average assets rose over the last 4 years (see fig. 6). The median return on average assets measure shows how profitable a company is relative to its total assets and how efficient management is at using its assets to generate earnings.

Figure 6: Quarterly Trend of Median Return on Average Assets for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



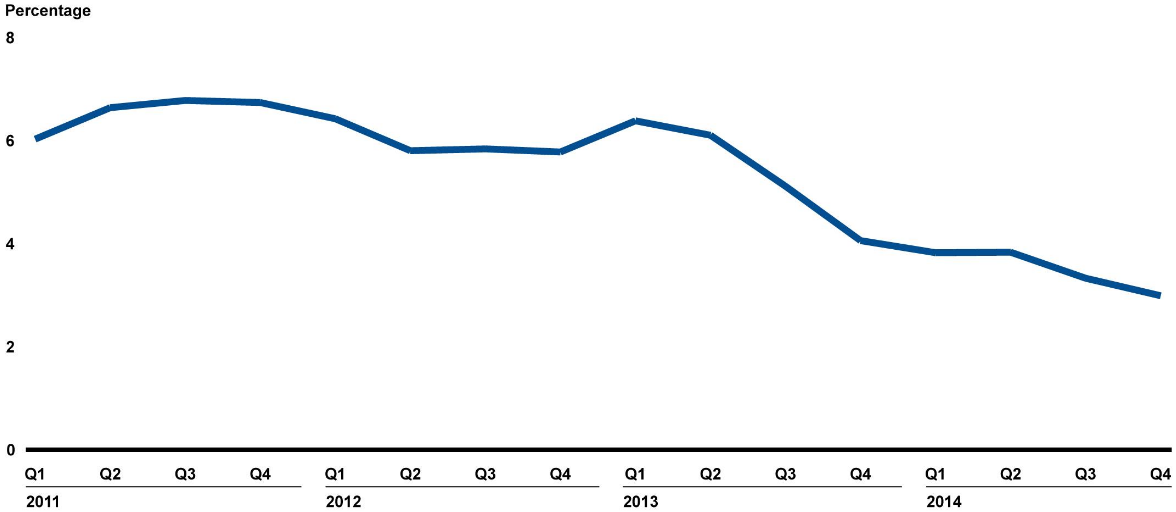
Source: GAO analysis of SNL Financial data. | GAO-15-367R

Data Table for Figure 6: Quarterly Trend of Median Return on Average Assets for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Percentage
2011Q1	-0.085
2011Q2	-0.495
2011Q3	-0.265
2011Q4	-0.28
2012Q1	0.19
2012Q2	0.145
2012Q3	0.2
2012Q4	0.135
2013Q1	0.175
2013Q2	0.07
2013Q3	0.195
2013Q4	0.14
2014Q1	0.235
2014Q2	0.07
2014Q3	0.275
2014Q4	0.24

In another sign of improved performance, remaining CPP institutions held fewer poorly performing assets in December 2014, as measured by noncurrent loans and net charge-offs, both of which decreased over the past 4 years (see figs. 7 and 8).[24]

Figure 7: Quarterly Trend of Median Percentage of Noncurrent Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



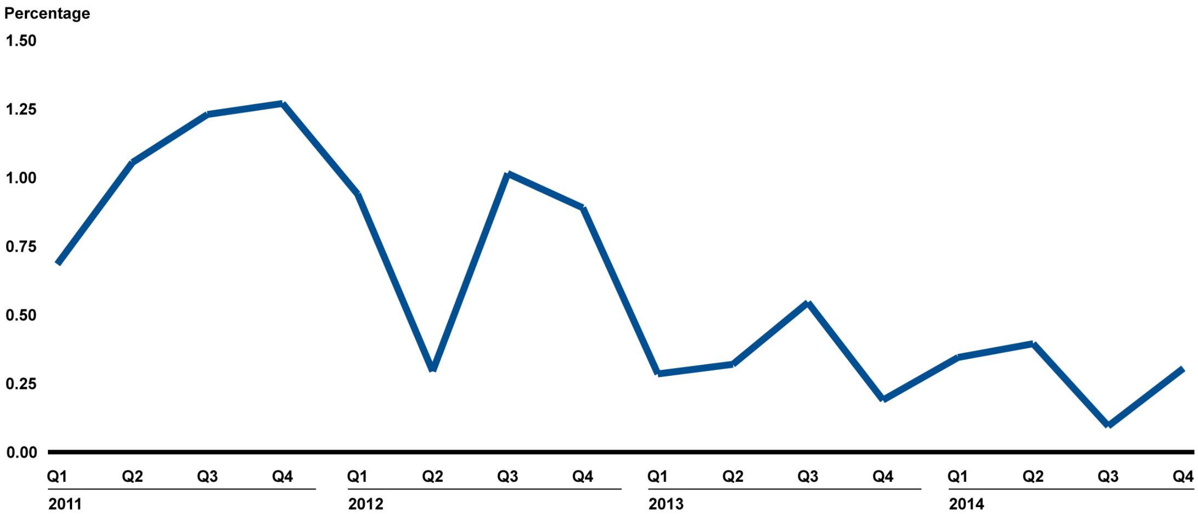
Source: GAO analysis of SNL Financial data. | GAO-15-367R

Data Table for Figure 7: Quarterly Trend of Median Percentage of Noncurrent Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Percentage
2011Q1	6.03
2011Q2	6.64
2011Q3	6.78
2011Q4	6.74
2012Q1	6.425
2012Q2	5.805
2012Q3	5.84
2012Q4	5.78
2013Q1	6.385
2013Q2	6.105
2013Q3	5.115
2013Q4	4.06
2014Q1	3.825
2014Q2	3.835
2014Q3	3.33
2014Q4	2.99

[24]A charge-off occurs when a bank recognizes that a particular asset or loan will not be collectible and must be written off.

Figure 8: Quarterly Trend of Median Net Charge-Offs to Average Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



Source: GAO analysis of SNL Financial data. | GAO-15-367R

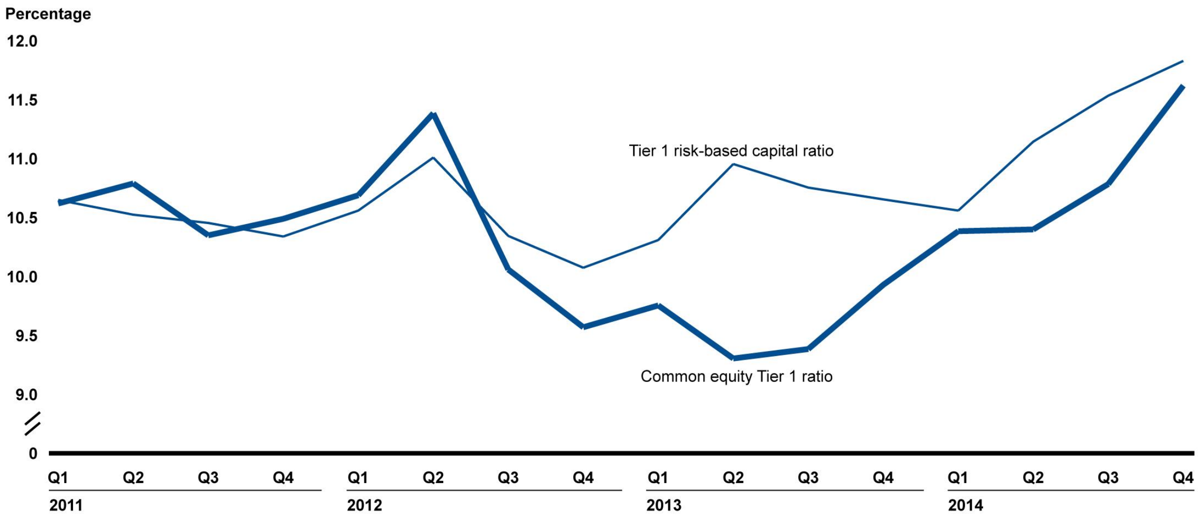
Note: A charge-off occurs when a bank recognizes that a particular asset or loan will not be collectible and must be written off.

Data Table for Figure 8: Quarterly Trend of Median Net Charge-Offs to Average Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Percentage
2011Q1	0.685
2011Q2	1.055
2011Q3	1.23
2011Q4	1.27
2012Q1	0.94
2012Q2	0.295
2012Q3	1.015
2012Q4	0.89
2013Q1	0.285
2013Q2	0.32
2013Q3	0.545
2013Q4	0.19
2014Q1	0.345
2014Q2	0.395
2014Q3	0.095
2014Q4	0.305

As shown in figure 9, the remaining CPP institutions showed increasing and improved levels for both Tier 1 risk-based capital and common equity Tier 1 ratios—as shown by levels of Tier 1 capital—since we last reported in April 2014 (second quarter).[25] Regulators require minimum amounts of Tier 1 capital to lessen an institution's risk of default and improve its ability to withstand operating losses.

Figure 9: Quarterly Trend of Median Tier 1 Risk-Based and Common Equity Tier 1 Ratios for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



Source: GAO analysis of SNL Financial data. | GAO-15-367R

Note: The Tier 1 risk-based capital ratio measures Tier 1 capital as a share of risk-weighted assets. The common equity Tier 1 ratio measures common equity Tier 1 capital as a share of risk-weighted assets and generally does not include TARP funds.

Data Table for Figure 9: Quarterly Trend of Median Tier 1 Risk-Based and Common Equity Tier 1 Ratios for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Common Equity Tier 1 Ratios
2011Q1	10.62
2011Q2	10.79
2011Q3	10.35
2011Q4	10.49
2012Q1	10.69
2012Q2	11.385
2012Q3	10.06
2012Q4	9.57
2013Q1	9.755
2013Q2	9.305
2013Q3	9.385
2013Q4	9.93

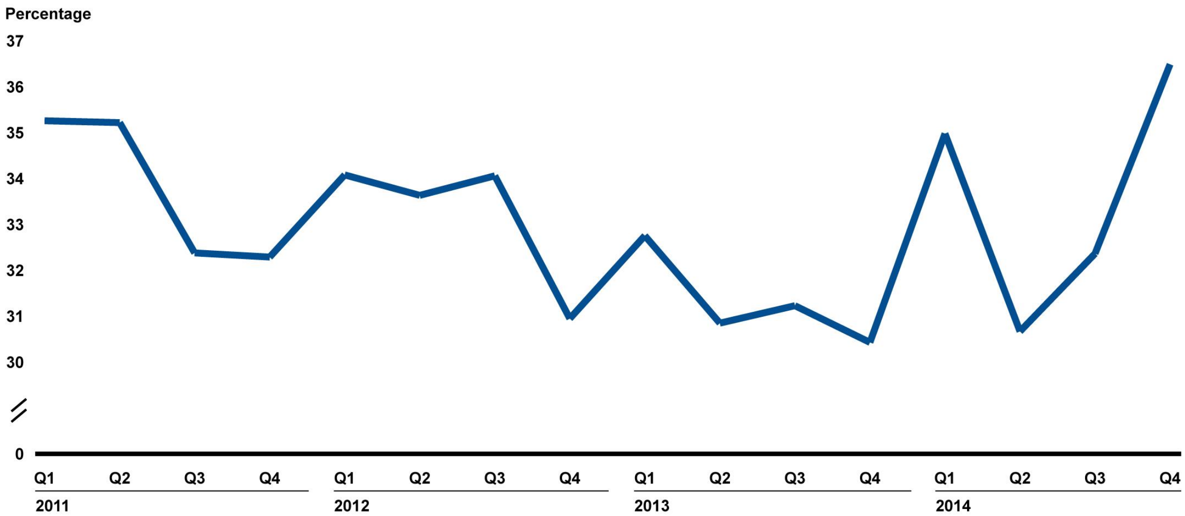
[25]Regulatory capital can be measured in several ways, but we focused on Tier 1 capital because it is the most stable form of regulatory capital. Tier 1 includes both a risk-based capital ratio and common equity risk-based capital ratio. The Tier 1 risk-based capital ratio measures Tier 1 capital as a share of risk-weighted assets. The common equity Tier 1 ratio measures common equity Tier 1 capital as a share of risk-weighted assets and generally does not include TARP funds.

Year and Quarter	Common Equity Tier 1 Ratios
2014Q1	10.385
2014Q2	10.4
2014Q3	10.785
2014Q4	11.62

Year and Quarter	Risk-based Equity Tier 1 Ratios
2011Q1	10.65
2011Q2	10.525
2011Q3	10.455
2011Q4	10.34
2012Q1	10.56
2012Q2	11.01
2012Q3	10.345
2012Q4	10.075
2013Q1	10.31
2013Q2	10.955
2013Q3	10.755
2013Q4	10.655
2014Q1	10.56
2014Q2	11.145
2014Q3	11.535
2014Q4	11.83

Over the past 4 years, the remaining CPP institutions had varying levels of reserves for covering losses, as shown by the ratio of reserves to nonperforming loans (see fig. 10). Generally, a higher ratio of reserves to nonperforming loans demonstrates an institution's ability to cover losses from nonperforming loans.

Figure 10: Quarterly Trend of Median Reserves to Nonperforming Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)



Source: GAO analysis of SNL Financial data. | GAO-15-367R

Data Table for Figure 10: Quarterly Trend of Median Reserves to Nonperforming Loans for the 34 Institutions Remaining in the Capital Purchase Program as of December 31, 2014 (March 2011 through December 2014)

Year and Quarter	Percentage Trend
2011Q1	35.26
2011Q2	35.22
2011Q3	32.38
2011Q4	32.29
2012Q1	34.08
2012Q2	33.635
2012Q3	34.06
2012Q4	30.95
2013Q1	32.755
2013Q2	30.85
2013Q3	31.23
2013Q4	30.43
2014Q1	34.98
2014Q2	30.67
2014Q3	32.365
2014Q4	36.49

Enclosure II: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 27, 2015

A. Nicole Clowers
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Clowers:

I write in response to your draft report regarding the Capital Purchase Program (CPP) entitled *Troubled Asset Relief Program: Winding Down the Capital Purchase Program*. The Department of the Treasury (Treasury) appreciates the work of the Government Accountability Office (GAO) in reviewing this program under the Troubled Asset Relief Program (TARP). We separately provided technical comments to your team. This letter provides our official comments to the draft report.

The draft report provides a valuable snapshot of CPP and the institutions that remain in the program. It reflects the Treasury's most recent estimated lifetime gain of $16.2 billion for CPP[1]. As of today, Treasury has recovered $226.4 billion on an initial CPP investment of $204.9 billion, representing a positive return of $21.5 billion. In addition, only 32 of the 707 CPP participants remain in the program, representing a remaining Treasury investment of $459.9 million.

Treasury continues to wind down CPP through a three-pronged strategy that involves (1) waiting for repayments from those institutions that can repay in the near future, (2) selling through competitive auction investments in institutions that cannot repay in the near future, and (3) restructuring some of those investments in limited cases in order to protect taxpayers' interest. During this wind-down process, we remain committed to keeping the public informed of our progress.

Treasury values GAO's review of CPP and looks forward to continuing to work with you and your team as we move forward.

Sincerely,

Timothy J. Bowler
Deputy Assistant Secretary
Office of Financial Stability

[1] Estimate as of November 30, 2014. Estimated lifetime cost figures are currently updated quarterly in conjunction with the Office of Management and Budget.

(250812)