U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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November 3, 2015

Congressional Committees

Troubled Asset Relief Program: Status of Remaining Investment Programs

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized $700 billion to assist 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. As the severity and immediacy of the 2008 financial crisis began to diminish, Congress reduced the authorized amount to a maximum of $475 billion as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[2] TARP costs were not expected to reach the authorized amounts, and over time the projected costs had declined as financial institutions repaid some assistance and the government exited programs.

Under EESA, the Department of the Treasury (Treasury) established initiatives through TARP to help stabilize the U.S. financial system, restart economic growth, and prevent avoidable foreclosures, including a variety of bank investment, credit market, housing, and other programs. Treasury established the Office of Financial Stability (OFS) to carry out TARP activities. These activities included injecting capital into key financial institutions, implementing programs to address problems in the securitization markets, providing assistance to the automobile industry, and offering incentives for modifying residential mortgages.

EESA provided GAO with broad oversight authorities for actions taken under TARP and included a provision that GAO report at least every 60 days on TARP activities and performance.[3] As a result, we have continued to monitor and provide updates on TARP programs.[4] This 60-day report provides an update on the status of Treasury's returns on investment and participation for TARP investment programs that were winding down as of August 31, 2015. Specifically, this report looks at

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

[2]Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010) (codified at 12 U.S.C. §5225(a)).

[3]Section 116 of EESA, 122 Stat. at 3783-3786 (codified at 12 U.S.C. § 5226).

[4]See, for example, our recent reports on TARP programs: GAO, *Troubled Asset Relief Program: Status of GAO Recommendations*, GAO-15-813 (Washington, D.C.: Sept. 4, 2015); *Troubled Asset Relief Program: Treasury Could More Consistently Analyze Potential Benefits and Costs of Housing Program Changes*, GAO-15-670 (Washington, D.C.: July 6, 2015); *Community Development Capital Initiative: Status of the Program Investments and Participants*, GAO-15-542 (Washington, D.C.: May 5, 2015); *Troubled Asset Relief Program: Treasury Continues to Wind down Most Programs, but Housing Programs Remain Active*, GAO-15-197 (Washington, D.C.: Jan. 6, 2015); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-132R (Washington, D.C.: Nov. 7, 2014); and *Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices*, GAO-15-5 (Washington, D.C.: Oct. 6, 2014).

- the Capital Purchase Program (CPP), which 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] and

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

Scope and Methodology

We defined TARP programs that were winding down as those that were closed to additional participants but have participants that had not exited the program. We reviewed relevant documentation from Treasury—such as its Monthly Report to Congress and Monthly TARP Update reports, obtained information from Treasury officials, and reviewed prior TARP reports issued by GAO. This report contains the most recently available public data found in Treasury's reports at the time of our review, including obligations and disbursements as well as number of participants. Generally, we used data that were current as of August 31, 2015. However, in some cases, the most recently available data had "as of dates" before August 31, 2015.[7] We determined that the financial information used in this report is sufficiently reliable to assess the status of CPP and CDCI based on the results of our audits of fiscal years 2009 through 2014 financial statements for TARP. As part of the financial statement audits, we tested OFS's internal controls over financial reporting. We conducted this performance audit from September 2015 through November 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.

Summary

As of August 31, 2015, two investment programs—CPP and CDCI—were winding down.[8] Combined, Treasury's total investment for these programs was almost $206 billion and the outstanding investments (the amount Treasury has disbursed that participants owe) at the end of August 2015 totaled about $0.73 billion. Enclosures 1 and 2 provide details of these two programs.

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[5] Preferred shares are a class of ownership in a corporation that generally has a higher claim on the assets and earnings than common stock. A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

[6] CDFIs are financial institutions that provide financing and related services to communities and populations that lack access to credit, capital, and financial services. Although CDFIs include banks, thrifts, credit unions, loan funds, and venture capital funds, only institutions that have a federal banking or credit union regulator (i.e., 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 if the issuer files for bankruptcy is ranked below the claims of senior bondholders, but above all classes of equity.

[7] GAO's financial statement audit of Treasury's Office of Financial Stability, planned to be issued in November 2015, will provide more complete information on TARP programs.

[8] GAO defines "winding down" as TARP programs closed to additional participants but have participants that had not exited the program.

- **CPP:** Treasury's total investment for this program was about $205 billion; by December 2009, Treasury had disbursed all funds to 707 financial institutions nationwide. As of August 31, 2015, Treasury had received about $227 billion in repayments and income from its CPP investments and sales of original CPP investments, exceeding the amount originally disbursed by about $22 billion. Its outstanding investment balance stood at about $0.27 billion, and 20 institutions remained in the program.

- **CDCI**: Treasury's total investment for this program was approximately $0.57 billion for 84 institutions. By September 2010, Treasury had disbursed $0.21 billion and approximately $0.36 billion represented exchanges by banks of investments under CPP into CDCI. As of August 31, 2015, Treasury had received approximately $0.16 billion in repayments and income from CDCI participants. The outstanding investment balance was $0.46 billion, and 63 institutions remained in the program.

Agency Comments

We provided Treasury with a draft copy 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. 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 Daniel Garcia-Diaz 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. In addition to the contact named above, Karen Tremba, Assistant Director; Anne Akin, Analyst-in-Charge; Emily Chalmers; William Chatlos; Rachel DeMarcus; and Marc Molino made key contributions to this report.

Daniel Garcia-Diaz
Director
Financial Markets and
Community Investment

Enclosures – 2

List of Congressional Committees

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Enclosure 1

TROUBLED ASSET RELIEF PROGRAM

Capital Purchase Program

Background

CPP was created to help stabilize the financial markets and banking system by providing capital to financially viable and regulated financial institutions and was the largest investment program initiated under TARP.

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

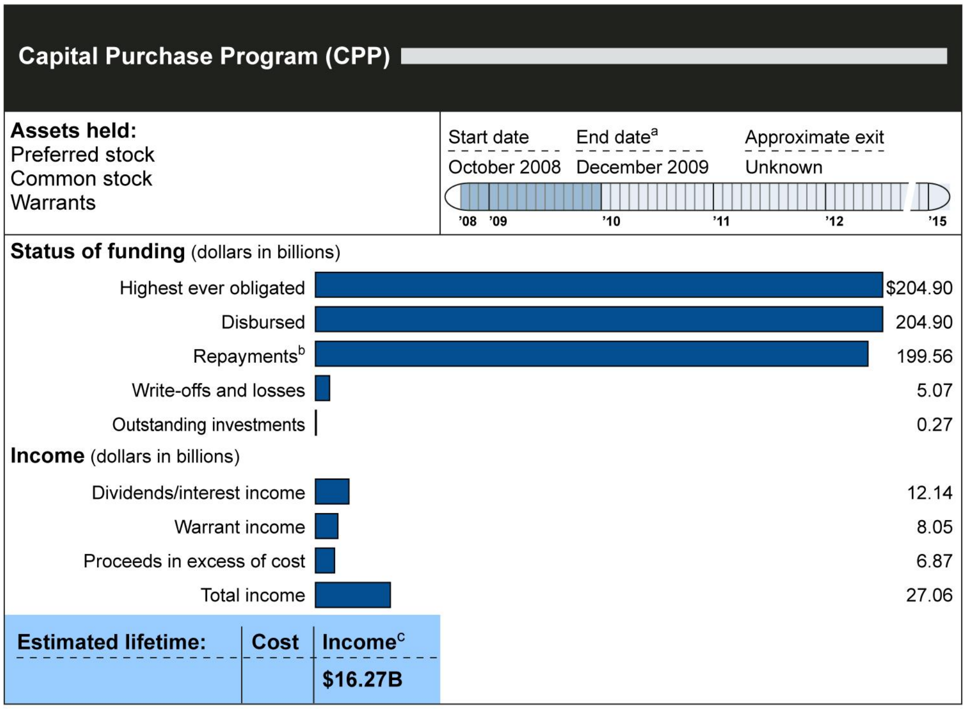
Qualified financial institutions were eligible to receive an investment of 1 percent to 3 percent of their risk-weighted assets, up to a maximum of $25 billion. In exchange for the investment, Treasury generally received senior preferred shares that would pay dividends and warrants to purchase shares 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 9 percent rate, 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 afterward to repurchase warrants.

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

Status

Treasury continues to wind down the Capital Purchase Program (CPP), and as of August 2015 repayments and income had exceeded the total amount of original outlays. Treasury disbursed almost $205 billion to 707 financial institutions nationwide from October 2008 through December 2009. As of August 31, 2015, Treasury had received about $227 billion in repayments and income from its CPP investments, exceeding the amount originally disbursed by about $22 billion. The repayments and income amounts included almost $200 billion in repayments and sales of original CPP investments, as well as about $12 billion in dividends and interest, almost $7 billion in proceeds in excess of costs, and about $8 billion from the sale of warrants (see fig.1). After accounting for write-offs and realized losses from sales totaling about $5 billion, CPP had about $0.27 billion in outstanding investments as of August 31, 2015.Treasury estimated a lifetime income of about $16 billion for CPP as of June 30, 2015.

Figure 1: Status of the Capital Purchase Program (CPP) as of August 31, 2015



Source: GAO analysis of Treasury data. | GAO-16-91R

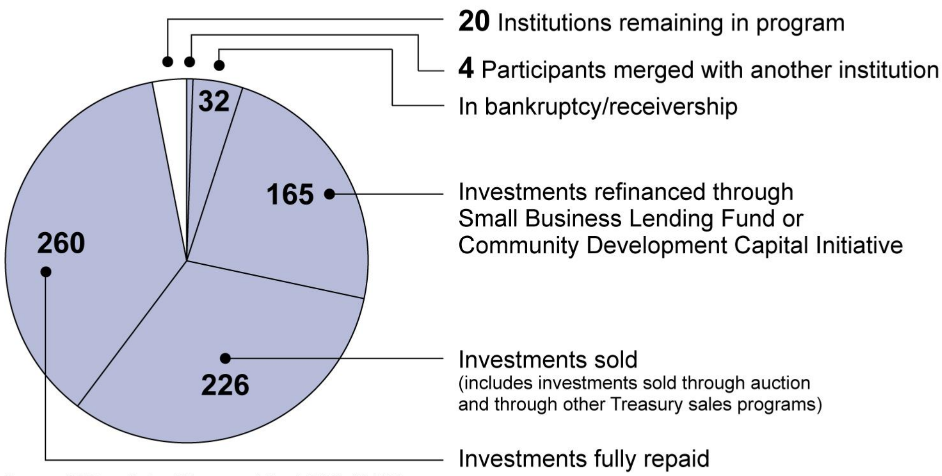
[a]End date is the date on which the program stopped acquiring new assets and no longer received funding.
[b]The total amount of repayments includes $363 million from institutions that transferred to the Community Development Capital Initiative and $2.2 billion from institutions that transferred to the Small Business Lending Fund.
[c]Figure as of June 30, 2015.

Data table for Figure 1: Status of the Capital Purchase Program (CPP) as of August 31, 2015

Funding	Dollars in billions
Highest ever obligated	204.9
Disbursed	204.9
Repayments	199.6
Write-offs and losses	5.1
Outstanding investments	0.3
Income	
Dividends/interest income	12.1
Warrant income	8.1
Proceeds in excess of cost	6.9
Total income	27.1
Treasury's valuation of outstanding investments	0.3
Estimated lifetime income	16.3

As of August 31, 2015, a total of 687 of the 707 institutions (97 percent) that originally participated in CPP had exited the program. Of these, 260 had repurchased their preferred shares in full (see fig. 2). Another 165 institutions refinanced their shares through other federal programs, 28 through the Community Development Capital Initiative and 137 through another Treasury fund, the Small Business Lending Fund—which is separate from the Troubled Asset Relief Program (TARP). An additional 226 institutions had their investments sold through auction or other sales, and 32 institutions went into bankruptcy or receivership. The remaining 4 merged with other institutions.

Figure 2: Status of Institutions That Received Capital Purchase Program (CPP) Investments as of August 31, 2015



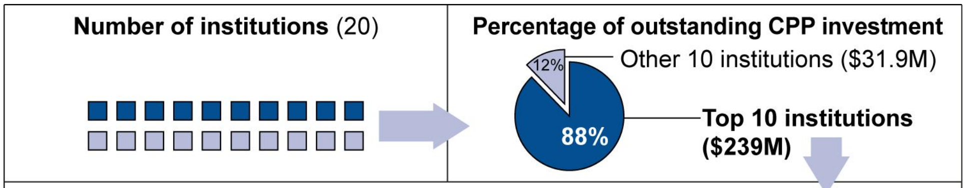
Source: GAO analysis of Treasury data. | GAO-16-91R

As shown in figure 3, as of August 31, 2015, the remaining $271 million in outstanding CPP investments was concentrated in 20 institutions. The 10 largest remaining institutions accounted for $239 million (88 percent) of the outstanding investments. The remaining $32 million (12 percent) was spread among the remaining 10 institutions.

Data table for Figure 2: Status of Institutions That Received Capital Purchase Program (CPP) Investments as of August 31, 2015

Category	Number
Total Remaining in program:	20
Merged Institutions:	4
Bankruptcy/Receivership:	32
SBLF & CDCI	165
Sold Investments Sold:	226
Full Repayments:	260

Figure 3: Remaining Capital Purchase Program (CPP) Investments as of August 31, 2015



Outstanding Capital Purchase Program (CPP) investment by top 10 institutions

	Institution	Location	Investment amount (dollars in millions)	Percentage of total outsanding investment
1	First Bancorp	San Juan, PR	$124.97	46%
2	OneFinancial Corporation	Little Rock, AR	17.30	6
3	Liberty Shares Inc.	Hinesville, GA	17.28	6
4	Broadway Financial Corporation	Los Angeles, CA	15.00	6
5	Tidelands Bancshares Inc.	Mount Pleasant, SC	14.45	5
6	HCSB Financial Corporation	Loris, SC	12.90	5
7	OneUnited Bank	Boston, MA	12.06	4
8	Cecil Bancorp, Inc.	Elkton, MD	11.56	4
9	Harbor Bankshares Corporation	Baltimore, MD	6.80	3
10	Citizens Commerce Bancshares, Inc.	Versailles, KY	6.30	2
	Total top 10		**$238.62**	**88%**
	All other CPP outstanding		$31.9	12%
	All CPP outstanding		**$270.52**	**100%**

Source: GAO analysis of Treasury data. | GAO-16-91R

Data Table for Figure 3: Remaining Capital Purchase Program (CPP) Investments as of August 31, 2015

Institution	Location	Investment amount (dollars in millions)	Percentage of total outstanding investment
First Bancorp	San Juan, PR	$124.97	46
OneFinancial Corporation	Little Rock, AR	17.3	6
Liberty Shares Inc.	Hinesville, GA	17.28	6
Broadway Financial Corporation	Los Angeles, CA	15	6
Tidelands Bancshares Inc.	Mount Pleasant, SC	14.45	5
HCSB Financial Corporation	Loris, SC	12.9	5
OneUnited Bank	Boston, MA	12.06	4
Cecil Bancorp, Inc.	Elkton, MD	11.56	4
Harbor Bankshares Corporation	Baltimore, MD	6.8	3
Citizens Commerce Bancshares, Inc.	Versailles, KY	6.3	2
Total top 10	$238.62	88	Na
All other CPP outstanding	$31.90	12	Na
All CPP outstanding	$270.52	100	na

Enclosure 2

TROUBLED ASSET RELIEF PROGRAM

Community Development Capital Initiative

Background

Treasury created 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.

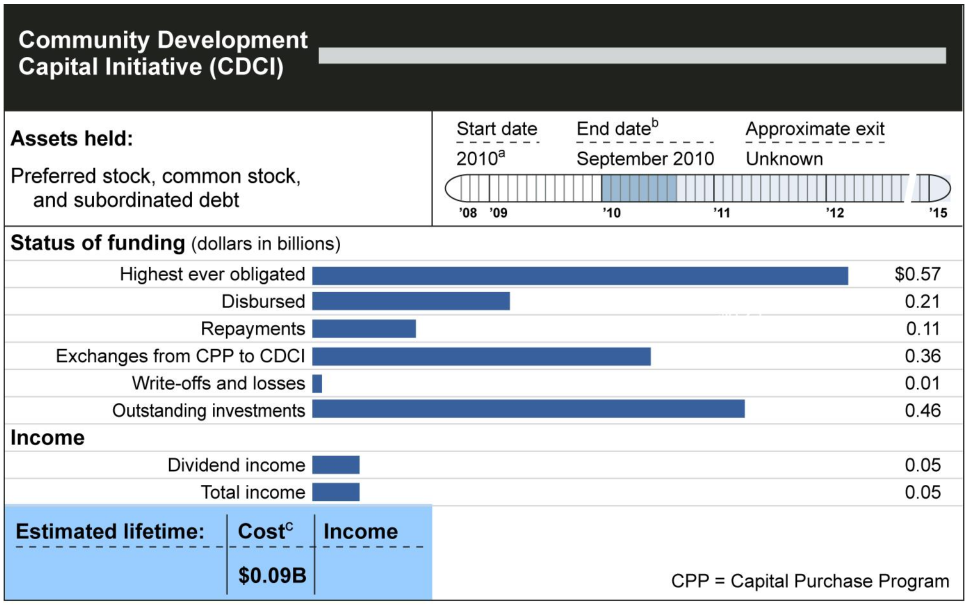
Treasury announced the program in October 2009 and it was closed to new participants in September 2010.

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

Status

Treasury continues to manage the Community Development Capital Initiative (CDCI), which is closed to new investments. Treasury's total investment for this program was approximately $0.57 billion for 84 institutions. Treasury disbursed $0.21 billion through CDCI from February through September 2010 (see fig. 4). In addition, approximately $0.36 billion represented exchanges by banks of investments under the Capital Purchase Program (CPP) into CDCI. As of August 31, 2015, Treasury had received approximately $0.16 billion in principal repayments and dividend income from CDCI participants, and the program's outstanding investment balance stood at $0.46 billion. As of the same date, Treasury had written off approximately $0.01 billion and CDCI participants had paid approximately $0.05 billion in dividends. Treasury has lowered its estimates of the program's lifetime cost over the last 4 years as market conditions have improved and institutions have begun to repay their investments. In November 2010, for instance, Treasury had estimated the program's lifetime cost at about $0.29 billion, but as of June 30, 2015, estimated lifetime costs stood at $0.09 billion.

Figure 4: Status of the Community Development Capital Initiative (CDCI) as of August 31, 2015



Source: GAO analysis of Treasury data. | GAO-16-91R

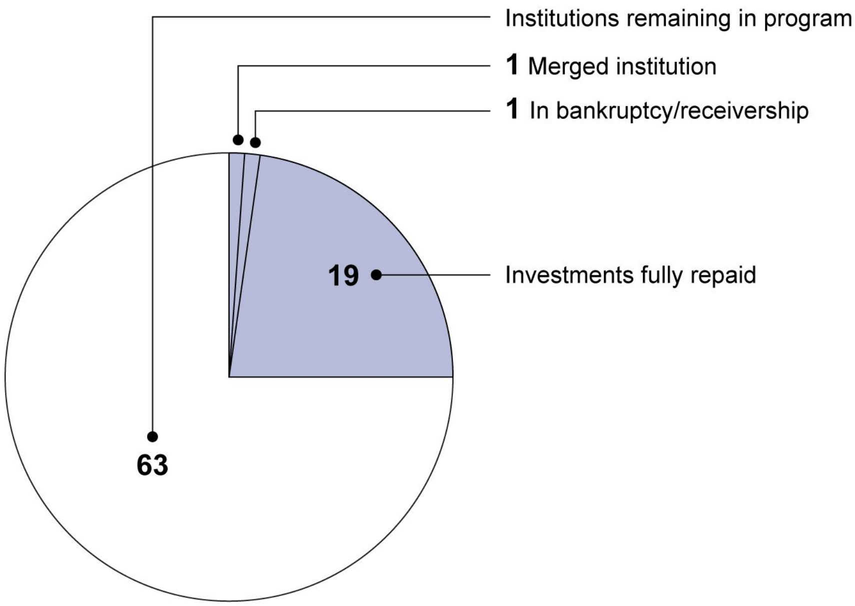
Note: Treasury began holding common stock for CDCI on October 28, 2011 after entering into an agreement with one institution to convert all of its preferred stock held by Treasury for common stock.
[a]Treasury first announced CDCI in October 2009. The program first provided capital to CDFIs in 2010.
[b]End date is the date on which the program stopped acquiring new assets and no longer received funding.
[c]Figure as of June 30, 2015.

Data Table for Figure 4: Status of the Community Development Capital Initiative (CDCI) as of August 31, 2015 (dollars in billions)

Category	Amount
Highest ever obligated	0.57
Disbursed	0.21
Repayments	0.11
Exchanges from Capital Purchase Program to CDCI	0.36
Write-offs and losses	0.01
Outstanding investments	0.46
Dividend income	0.05
Total income	0.05
Treasury's valuation of outstanding investments	0.46
Estimated lifetime: Cost	0.09

As of August 31, 2015, 63 of the original 84 CDCI institutions remained in the program (see fig. 5). Of the 21 institutions that had exited the program, 19 had done so through repayment, 1 merged with another institution, and 1 left the program as a result of its subsidiary bank's failure. Four of the 63 remaining institutions have begun to repay the principal on investments they had received. Treasury converted the original investment in one institution into shares of common stock. The remaining institutions have paid only dividends and interest.

Figure 5: Status of Institutions That Received Community Development Capital Initiative (CDCI) Investments as of August 31, 2015

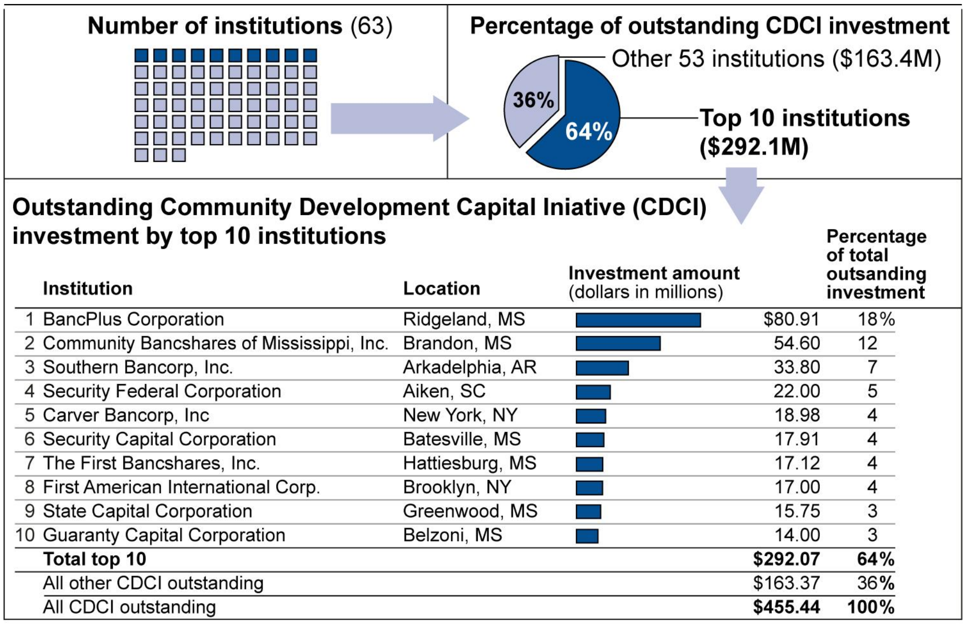


Source: GAO analysis of Treasury data. | GAO-16-91R

Category	Number of Instututions
Total Remaining in program:	63
Merged Institutions:	1
Bankruptcy/Receivership:	1
Full Repayments:	19

The 10 largest remaining institutions accounted for $292 million (64 percent) of the outstanding investments (see fig. 6). The remaining $163 million (36 percent) was spread among the remaining 53 institutions.

Figure 6: Remaining Community Development Capital Initiative (CDCI) Investments as of August 31, 2015



Source: GAO analysis of Treasury data. | GAO-16-91R

Data Table for Figure 6: Remaining Community Development Capital Initiative (CDCI) Investments as of August 31, 2015

Number of institutions: 63

Institution	Location	Amount	Percentage of total outstanding
BancPlus Corporation	Ridgeland, MS	$80.91	18%
Community Bancshares of Mississippi, Inc.	Brandon, MS	$54.60	12%
Southern Bancorp, Inc.	Arkadelphia, AR	$33.80	7%
Security Federal Corporation	Aiken, SC	$22.00	5%
Carver Bancorp, Inc	New York, NY	$18.98	4%
Security Capital Corporation	Batesville, MS	$17.91	4%
The First Bancshares, Inc.	Hattiesburg, MS	$17.12	4%
First American International Corp.	Brooklyn, NY	$17.00	4%
State Capital Corporation	Greenwood, MS	$15.75	3%
Guaranty Capital Corporation	Belzoni, MS	$14.00	3%
Top ten		$292.07	64%
Other 53 CDCI outstanding		$163.37	36%
All CDCI outstanding		$455.44	100%

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