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Highlights

Highlights of GAO-11-47, a report to congressional committees

Why GAO Did This Study

Congress created the Troubled Asset Relief Program (TARP) to restore liquidity and stability in the financial system. The Department of the Treasury (Treasury), among other actions, established the Capital Purchase Program (CPP) as its primary initiative to accomplish these goals by making capital investments in eligible financial institutions. This report examines (1) the characteristics of financial institutions that received CPP funding and (2) how Treasury implemented CPP with the assistance of federal bank regulators. GAO analyzed data obtained from Treasury case files, reviewed program documents, and interviewed officials from Treasury and federal bank regulators.

What GAO Recommends

If Treasury administers programs containing elements similar to those of CPP, Treasury should implement a process for monitoring all applicants that regulators recommend for withdrawal to ensure that similar applicants are treated equitably. To improve monitoring of regulators' decisions on CPP repayments, Treasury should periodically collect and review information on the analysis supporting regulators' decisions and provide feedback for regulators' consideration on the extent to which they are evaluating similar institutions consistently. Treasury agreed to consider our recommendations. We also received technical comments from the Federal Reserve, FDIC, OCC, and Treasury and incorporated them as appropriate.

View GAO-11-47 or key components.
For more information, contact Orice Williams Brown at (202) 512-8678 or williamso@gao.gov.

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TROUBLED ASSET RELIEF PROGRAM

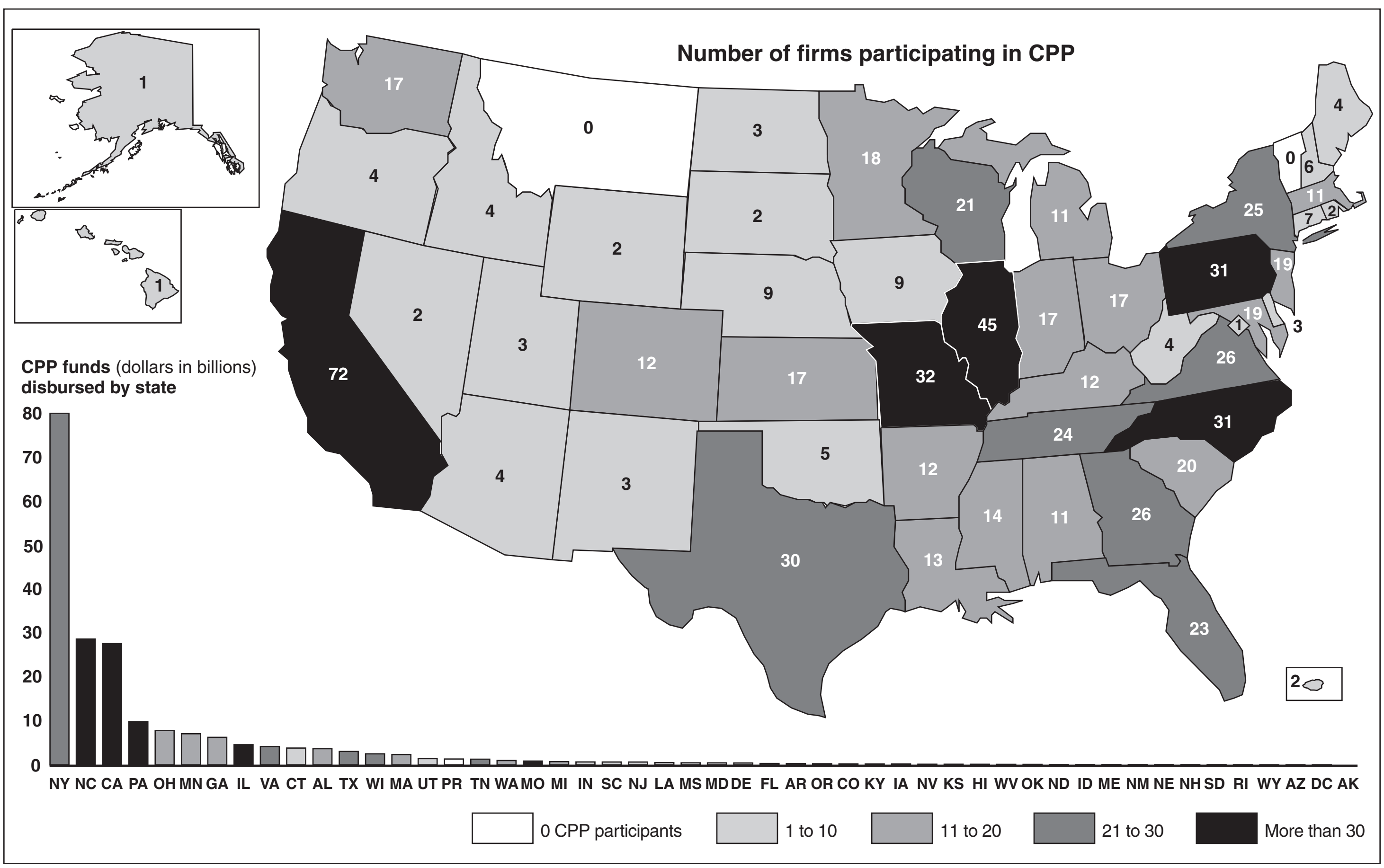
Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process

What GAO Found

Institutions that received capital under CPP were diverse and generally exceeded eligibility guidelines, and while few institutions have failed, concerns remain about the growing numbers of institutions facing difficulties in paying dividend and interest payments to Treasury. Institutions that participated in CPP included roughly equal numbers of public and private firms of all sizes that were located throughout the country (see figure on next page). About half of CPP institutions that we reviewed were small—that is, had less than $500 million in risk-weighted assets. However, 25 of the largest firms received almost 90 percent of all CPP funds, and 9 of those comprised almost 70 percent of all funds. Approved institutions had similar overall examination ratings from their regulators and generally were rated as satisfactory. For example, almost all of the institutions we reviewed had an overall examination rating that was satisfactory or better. Many of the examination ratings were over 1 year old, but Treasury and regulatory officials said they took various actions to mitigate any limitations related to older examination results, including using preliminary ratings from ongoing bank examinations. Financial performance ratios that Treasury and regulators also used to evaluate CPP applicants—such as risk-based capital and nonperforming loan ratios—varied by institution but typically were well within guidelines as defined by Treasury and regulatory capital standards. Institutions generally were well above the minimum levels of regulatory capital. However, we identified 66 institutions—12 percent of the firms we reviewed—that exhibited weaker financial conditions relative to those of other approved institutions, and Treasury or regulators raised concerns about the viability of a few of these institutions. For almost all of these weaker firms, Treasury or regulators identified factors—such as management quality or substantial capital levels—that mitigated the weaknesses and provided additional support for the approval of the CPP investment. Four CPP institutions have failed, but the number of firms exhibiting signs of financial difficulty—such as missing their dividend or interest payments—has increased over time. Specifically, the number of institutions that have not made a scheduled dividend or interest payment has increased from 8 for payments due in February 2009 to 123 for payments due in August 2010. Over this period, a total of 144 institutions did not make at least one payment by the end of the reporting period in which they were due, for a total of 413 missed payments. As of August 31, 2010, 79 institutions had missed three or more payments and 24 had missed five or more. Through August 31, 2010, the total amount of missed dividend and interest payments was $235 million, although some institutions made their payments after the end of the reporting period.

The process Treasury established to invest in financial institutions included internal control procedures for approved applicants that enhanced consistency, but regulators' recommendations for application withdrawals and investment repayments received less oversight. Treasury relied on individual bank regulators to recommend applicants that it would consider for CPP investments and provided regulators with limited formal guidance on the factors to consider in evaluating the applicants. Because of the limited nature of Treasury's guidance, regulators used discretion and judgment in their assessments, which created the potential for inconsistency across regulators. Applicants that regulators recommended for approval received additional reviews as they moved through Treasury's process. For some, this included a review by a council of regulators and all recommended applicants were reviewed by Treasury. These reviews promoted a more consistent evaluation of recommendations made by different regulators. However, regulators recommended that some applicants withdraw their applications and these institutions may not have benefited from the additional reviews if they withdrew their applications before reaching the council or Treasury. Furthermore, the regional offices of some regulators could—and did—recommend that applicants withdraw without centralized review within the agency. Because Treasury did not monitor which institutions regulators excluded from its program, or the reasons for their decisions, it could not fully ensure that regulators treated similar applicants consistently. Limited oversight of withdrawal recommendations also may pose challenges to any future Treasury program that may follow the CPP model, such as the Small Business Lending Fund—an initiative to increase credit for small businesses through capital investments in certain financial institutions. Unless Treasury makes changes from the CPP model to include monitoring of withdrawal recommendations, such new programs may share the same increased risk of participants not being treated equitably. Treasury is required by statute to allow recipients to repay, subject to consultation with the federal banking regulators, but as with withdrawal recommendations, Treasury does not monitor or collect information or analysis supporting the regulators' decisions. Regulators said that they evaluate repayment requests based on their supervisory guidelines for capital reductions. Also, in the absence of monitoring by Treasury, regulators have developed generally similar guidelines for evaluating repayment requests and established processes for coordinating repayment decisions that involve multiple regulators. However, without collecting information on or monitoring different regulators' repayment decisions, Treasury has no basis for determining whether regulators evaluate similar institutions consistently and cannot provide feedback to regulators on the consistency of their decision making.

Number of Participants and Amount of CPP Investments, by State, December 29, 2009



Sources: GAO analysis of OFS data: Map Resources (map).