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CAPITAL PURCHASE PROGRAM

Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain

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Highlights

Highlights of GAO-12-301, a report to congressional committees

Why GAO Did This Study

The Capital Purchase Program (CPP) was established as the primary means of restoring liquidity and stability to the financial system under the Troubled Asset Relief Program (TARP). Under CPP, the Department of the Treasury (Treasury) invested almost $205 billion in 707 eligible financial institutions between 2008 and December 2009. CPP recipients have made dividend and interest payments to Treasury on the investments. TARP's authorizing legislation requires GAO to report every 60 days on TARP activities, including those of CPP. This report examines (1) the status of CPP and (2) the financial condition of institutions receiving CPP investments.

GAO reviewed Treasury reports on the CPP program and participants and interviewed officials from Treasury and the financial regulators. Using financial and regulatory data, GAO compared the financial condition of institutions remaining in CPP with those that had exited the program and those that did not participate in CPP.

What GAO Recommends

To provide Congress and the public with more transparent and comprehensive information on institutions remaining in CPP and enhance its reporting, the Secretary of the Treasury should consider analyzing and reporting on remaining and former CPP participants separately. Treasury stated that it would carefully consider our recommendation.

View GAO-12-301. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

What GAO Found

While repayments, dividends, and interest from institutions participating in the Capital Purchase Program (CPP) have exceeded the program's original investment disbursements, the number of missed payments has increased over the life of the program. As of January 31, 2012, the Department of the Treasury (Treasury) had received $211.5 billion from its CPP investments, exceeding the $204.9 billion it had disbursed. Of that amount, $16.7 billion remains outstanding, and most of these investments were concentrated in a relatively small number of institutions. In particular, as of January 31, 2012, 25 institutions accounted for $11.2 billion, or 67 percent, of outstanding investments. As of November 30, 2011, Treasury estimated that CPP would have a lifetime income of $13.5 billion after all institutions exited the program. As of January 31, 2012, 341 institutions had exited CPP, almost half by repaying CPP with funds from other federal programs. Institutions continue to exit CPP, but the number of institutions missing scheduled dividend or interest payments has increased. For example, as of November 30, 2011, the number of institutions that had missed their quarterly payments rose to 158, a marked increase from 8 in February 2009, even though CPP had fewer participants. The number of CPP institutions designated as problem banks—that is, demonstrating financial, operational, or managerial weaknesses that threatened their continued financial viability—also rose from 47 in December 2009 to 130 in December 2011. Institutions that continue to miss payments and problem institutions may have difficulty ever fully repaying their CPP investments.

GAO's analysis showed that the remaining CPP institutions were financially weaker than institutions that had exited the program and institutions that did not receive CPP capital. In particular, the remaining CPP institutions tended to be less profitable and hold riskier assets than other institutions of similar asset size. Among other things, they had significantly lower returns on average assets and higher percentages of noncurrent loans than former CPP and non-CPP institutions. They also held less regulatory capital and reserves for covering losses. Although GAO's analysis found differences in the financial health of remaining and former CPP institutions, Treasury's quarterly financial analysis of CPP institutions did not distinguish between them. In prior work, GAO has noted the importance of providing clear information to Congress and the public about the performance of the assistance provided through the various programs within the Troubled Asset Relief Program. By distinguishing between remaining and former CPP participants, Treasury could provide greater transparency about the financial health of institutions remaining in CPP.