GAO Highlights

Highlights of GAO-15-542, a report to congressional committees

Why GAO Did This Study

Treasury established CDCI under the Troubled Assets Relief Program (TARP) in February 2010 to help banks and credit unions certified as Community Development Financial Institutions maintain their services to underserved communities in the aftermath of the 2007-2009 financial crisis. The program's initial dividend or interest rate of 2 percent on investments increases to 9 percent after 8 years in 2018. TARP's authorizing legislation mandates that GAO report every 60 days on TARP activities, including CDCI. This report examines (1) the status of the CDCI program and Treasury's plan for winding down the program, (2) the financial condition of remaining program participants, and (3) how the future dividend and interest rate increase could affect the remaining participants. GAO last reported on this CDCI program in June 2014.

GAO reviewed Treasury reports on CDCI and used regulatory financial data to compare the financial condition of remaining CDCI participants with other nonparticipating community development institutions. GAO also interviewed staff from Treasury, the regulators of banks and credit unions, and representatives of a selected sample of CDCI participants. These participants were selected because measures of their financial conditions fell below the median for all participants. Treasury, FDIC, and the Federal Reserve provided technical comments on a draft of this report that were incorporated, as appropriate, and in written comments, NCUA noted the report accurately described CDCI participant conditions.

View GAO-15-542. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

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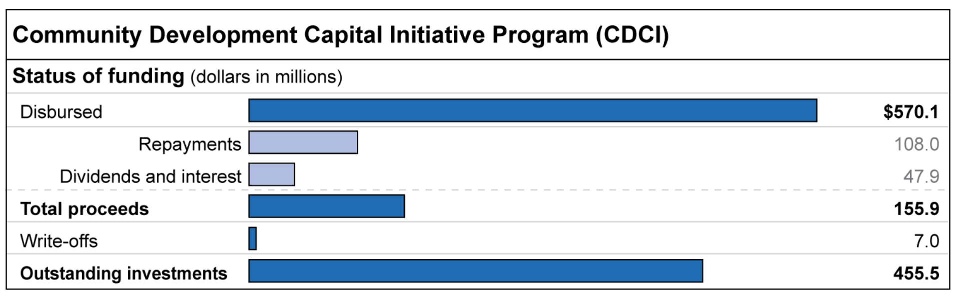
COMMUNITY DEVELOPMENT CAPITAL INITIATIVE

Status of the Program Investments and Participants

What GAO Found

As of March 31, 2015, 64 of the 84 participating banks and credit unions remained in the Community Development Capital Initiative (CDCI), and 80 percent of the Department of the Treasury's (Treasury) $570 million total investment remained outstanding. Treasury's most recent estimated lifetime cost of the program—the present value of all program outflows and inflows—was $100 million, an amount that is $20 million higher than the February 2014 estimate. According to Treasury, the increase in the program's estimated cost reflects the loss of future higher dividend and interest income as participants make repayments earlier than expected and their financial conditions change. Treasury continues to consider approaches to winding down the CDCI program and has discussed options with industry associations.

Status of the Community Development Capital Initiative, as of March 31, 2015



Source: GAO analysis of Treasury data. | GAO-15-542

Note: Treasury invested in 84 institutions by purchasing preferred equity or subordinated debt.

The financial condition of CDCI participants as of December 2014 had generally improved since year-end 2013. The median indicators of financial condition that GAO examined for the banks remaining in CDCI had all improved, including those indicating higher profitability and stronger capital positions. However, although CDCI credit union participants had a higher year-end 2014 median return on assets and median net worth, they also had slightly worse median measures of loan delinquency.

Regulators said that many CDCI participating banks would likely be able to repay their CDCI investments before the scheduled dividend or interest rate increase. But they noted that participants with relatively weaker financial conditions could have difficulty paying higher dividends and interest payments and redeeming their CDCI investments. For example, one regulator noted that CDCI institutions could have more difficulty raising additional capital from other investors because these investors would have to be willing to accept the lower returns and longer investment horizons that can result from the institutions' community development mission. Treasury staff said they would consider restructuring participating institutions' investments on a case-by-case basis to help such institutions better afford the CDCI capital and attract private capital.