U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Congressional Committees

Troubled Asset Relief Program: Status Update on Treasury's Two Active Investment Programs

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized the Department of the Treasury (Treasury) to distribute $700 billion in assistance to financial institutions and markets, businesses, homeowners, and consumers through the Troubled Asset Relief Program (TARP).[1] However, 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 declined as financial institutions repaid some assistance and the government exited programs.

Treasury created the Office of Financial Stability (OFS) to manage TARP activities and programs, which have included a variety of bank investment, credit market, housing, and other programs focused on stabilizing the U.S. financial system, restarting economic growth, and preventing avoidable foreclosures. Under OFS, TARP has injected capital into key financial institutions, implemented programs to address problems in the securitization markets, provided assistance to the automobile industry, and offered incentives for modifying residential mortgages. EESA, as amended, includes a provision that GAO report at least annually on TARP activities and performance.[3] Since then, we have been monitoring, analyzing, and providing updates on TARP programs in response to this provision.[4] This report provides an update on the status of Treasury's investment and participation in the remaining TARP investment programs, as of September 30, 2019. Specifically, this report looks at two programs:

[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]EESA included a provision that GAO report at least every 60 days on TARP activities and performance. The GAO Mandates Revision Act of 2016 revised GAO's reporting requirement to annually. See Pub. L. No. 114-301, § 3(a), 130 Stat. 1514 (codified at 12 U.S.C. § 5226(a)(3)).

[4]See, for example, our recent reports on TARP investment programs: GAO, *Troubled Asset Relief Program: Few Participants Remain as Treasury Continues to Wind Down Capital Purchase Program,* GAO-17-422 (Washington, D.C.: Mar. 29, 2017); *Troubled Asset Relief Program: New Effort to Wind Down the Community Development Capital Initiative*, GAO-17-96 (Washington, D.C.: Nov. 4, 2016); *Troubled Asset Relief Program: Status of Remaining Investment Programs*, GAO-16-91R (Washington, D.C.: Nov. 3, 2015); *Troubled Asset Relief Program: Status of GAO Recommendations*, GAO-15-813 (Washington, D.C.: Sept. 4, 2015); and *Community Development Capital Initiative: Status of the Program Investments and Participants*, GAO-15-542 (Washington, D.C.: May 5, 2015).

- The Capital Purchase Program (CPP) 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]

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

Scope and Methodology

To describe the status of these programs, we reviewed relevant documentation from Treasury (including its Monthly Report to Congress, Monthly TARP Update reports, and OFS's financial statements), obtained information from Treasury officials, and reviewed prior TARP reports issued by GAO. To identify Treasury's current efforts to exit from outstanding investments made under these programs, we interviewed Treasury officials and reviewed relevant documentation. This report contains the most recently available public data found in Treasury's reports at the time of our review (as of September 30, 2019). These data include obligations and disbursements, as well as the number of remaining TARP participants. We determined that the financial information used in these reports were sufficiently reliable to assess the status of CPP and CDCI based on the result of our audits of TARP financial statements from fiscal year 2009 through 2019. In addition, as part of our annual audit of OFS's financial statement, we tested its internal controls over financial reporting and found them effective.[7]

We also assessed the financial condition of the seven institutions that remained in CPP and CDCI as of September 30, 2019. We analyzed the most recently available financial and regulatory annual data from S&P Global Market Intelligence, which provides comprehensive regulatory financial data on financial institutions.[8] For example, we compared various indicators of financial health, such as return on average assets and reserves to nonperforming loans. We relied on our prior data reliability assessments and verified that the data collection process had not changed by reviewing documentation and information provided by S&P Global Market Intelligence. We determined that the financial information we used was sufficiently reliable for the purpose of assessing the institutions' financial condition. We also leveraged our past reporting on TARP to inform our assessments of the financial institutions.

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[5]Preferred shares are a class of ownership in a corporation that generally has a higher claim on assets and earnings than it does in 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]See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) FY 2019 and FY 2018 Financial Statements*, GAO-20-160R (Washington, D.C.: Nov. 8, 2019) for more complete information on TARP programs.

[8]S&P Global Market Intelligence is a leading provider of financial data, news, and analytics. In prior GAO work, we used data from SNL Financial. SNL Financial recently became S&P Global Market Intelligence, a division of S&P Global.

We conducted this performance audit from July 2019 through December 2019 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 September 30, 2019, seven participants remained in TARP's two active investment programs. Those participants included two institutions in CPP and five institutions in CDCI.[9] Combined, Treasury's total investment for these programs was $205.47 billion, the vast majority of which went to CPP. By the end of September 2019, Treasury had received $227.36 billion in proceeds (repayments and income), while outstanding investments (the amount still owed to Treasury) totaled about $40 million. Specifically,

- Treasury's total investment for the CPP program has been $204.90 billion; by December 2009, Treasury had disbursed all funds to 707 financial institutions nationwide. As of September 30, 2019, Treasury had received $226.77 billion in repayments and income from its CPP investments and sales of original CPP investments, exceeding the amount originally disbursed by $21.87 billion. The original outstanding investment balance was about $20 million. Two institutions remained in the program, as of September 30, 2019.

- Treasury's total investment for the CDCI program has been $570 million for 84 institutions. Of the total investment, Treasury disbursed $207 million through CDCI from July through September 2010. An additional $363 million represented exchanges of investments from CPP into CDCI. As of September 30, 2019, Treasury had received $587 million in repayments and income from CDCI participants. The original outstanding investment balance was $22.75 million. Five institutions remained in the program, as of September 30, 2019.

Enclosures 1 and 2 provide details of these two remaining programs, including information on repayments, expected lifetime costs, and remaining institutions.

The overall financial condition of the institutions that remained in the two investment programs, as of the end of 2018, appears to have improved since 2011. However, some institutions still show signs of financial weakness as discussed in enclosure 2. According to Treasury officials, Treasury regularly monitors all institutions remaining in the programs. For instance, Treasury's financial agent provides quarterly valuations and credit reports for all of the institutions remaining in the CPP and CDCI portfolios. Also, Treasury officials remain in contact with the institutions' respective regulators to request information as needed. Treasury officials use this information and other publicly available financial information to review the status of the portfolio and to analyze exit proposals when they receive them from institutions. Officials told us that a number of factors may affect an institution's ability to exit CPP or CDCI, including its compliance with regulatory actions, its financial condition, the structure of Treasury's investment in it, and market trends.

[9]On October 16, 2019, the North Side Community Federal Credit Union made a full repayment and is no longer part of the CDCI program. The data in this report are as of September 30, 2019.

Treasury officials said that Treasury prefers restructuring investments with institutions instead of writing off remaining assets. They noted that a write-off would result in a loss to the taxpayer and could have potential impacts on the institution and the community it serves. They also said that Treasury plans to continue working with and monitoring the remaining institutions in hopes that all will be able to exit the program. However, Treasury will continue to consider all available options within its rights to completely wind down the investment programs. In the meantime, Treasury officials told us that OFS continues to pursue efforts to streamline operations and reduce costs across all TARP programs. According to Treasury, its current cost-benefit analysis suggests that the best approach is to continue working with the institutions and exploring future exit strategies.

Agency Comments

We provided Treasury with a draft copy of this report for review and comment. In its comments, reproduced in enclosure 3, Treasury noted it had reviewed the draft report and maintained a commitment to high standards and transparency as it carries out its responsibilities for managing TARP.

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 me 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), Anar N. Jessani (Analyst-in-Charge), Emily Bond, William Chatlos, Lynda Downing, Risto Laboski, John T. McGrail, and Marc Molino made key contributions to this report.

Daniel Garcia-Diaz
Director
Financial Markets and Community Investment

Enclosures – 3

List of Congressional Committees

The Honorable Richard Shelby
Chairman
The Honorable Patrick Leahy
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Mike Crapo
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 Chuck Grassley
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Nita M. Lowey
Chairwoman
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable John Yarmuth
Chairman
The Honorable Steve Womack
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Richard Neal
Chairman
The Honorable Kevin Brady
Ranking Member

Committee on Ways and Means
House of Representatives
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