United States Government Accountability Office

Report to Congressional Committees

May 2013

CAPITAL PURCHASE PROGRAM

Status of the Program and Financial Health of Remaining Participants

GAO-13-458

GAO Highlights

Highlights of GAO-13-458, a report to congressional committees

May 2013

CAPITAL PURCHASE PROGRAM

Status of the Program and Financial Health of Remaining Participants

Why GAO Did This Study

CPP was established as the primary means of restoring stability to the financial system under the Troubled Asset Relief Program (TARP). Under CPP, Treasury invested almost $205 billion in 707 eligible financial institutions between October 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. This report examines (1) the status of CPP; and (2) the financial condition of institutions remaining in the program.

To assess the program's status, GAO reviewed Treasury reports on the status of CPP. GAO also used financial and regulatory data to compare the financial condition of institutions remaining in CPP with those that had exited the program and those that did not participate.

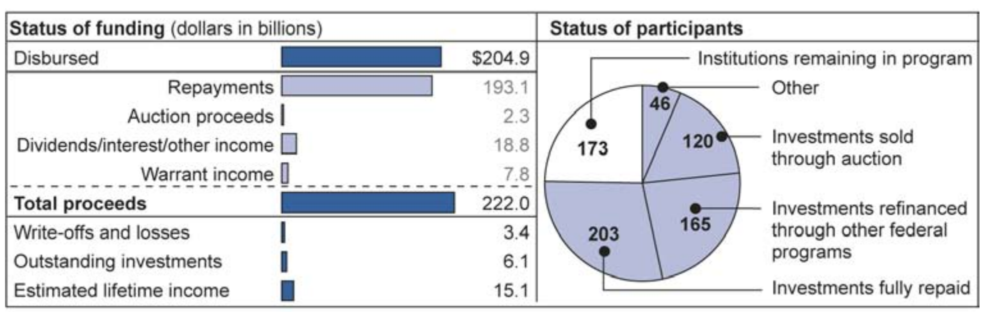
GAO provided a draft of this report to Treasury for its review and comment. Treasury generally concurred with GAO's findings.

View GAO-13-458. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

What GAO Found

As of March 31, 2013, the Department of the Treasury (Treasury) had received about $222 billion from its Capital Purchase Program (CPP) investments, exceeding the approximately $205 billion it had disbursed. Treasury estimated at the end of December 2012 that CPP would have an approximate lifetime income of $15 billion after all institutions had exited the program. Treasury's March 2013 data showed that 534 of the original 707 institutions had exited CPP. Most of these institutions exited by repurchasing their preferred shares in full or by refinancing their investments through other federal programs. In March 2012, Treasury began selling its investments in the institutions through auctions, expediting the exit of a number of CPP participants. A relatively small number of the remaining 173 institutions accounted for most of the funds outstanding. Specifically, 25 institutions accounted for $4.2 billion, or 68 percent, of the $6.1 billion in outstanding investments. These investments were relatively widely dispersed throughout the United States, with 39 states having at least one institution with investments outstanding and 12 states having at least 5 such institutions.

Status of Capital Purchase Program Funds and Participants



Source: GAO analysis of Treasury data.

Note: "Other" includes institutions that went into bankruptcy or receivership, had their investments sold by Treasury, or merged with another institution.

The institutions remaining in CPP are generally less financially healthy than those that have exited. In particular, most remaining participants have missed scheduled dividend or interest payments. For example, 125 remaining institutions missed their February 2013 payment. Further, 107 remaining CPP institutions were on the Federal Deposit Insurance Corporation's problem bank list in December 2012—that is, they demonstrated financial, operational, or managerial weaknesses that threatened their continued financial viability. Institutions that continue to miss dividend payments or find themselves on the problem bank list may have difficulty fully repaying their CPP investments. GAO's analysis also showed that the remaining CPP institutions were financially weaker than those that had exited the program or had never participated. In particular, the remaining CPP institutions tended to be less profitable, hold riskier assets, and have lower capital levels and reserves.

Contents

Abbreviations

CDCI	Community Development Capital Initiative
CPP	Capital Purchase Program
EESA	Emergency Economic Stabilization Act of 2008
FDIC	Federal Deposit Insurance Corporation
SBLF	Small Business Lending Fund
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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May 7, 2013

Congressional Committees

From October 2008 through December 2009, the U.S. Department of the Treasury (Treasury) invested almost $205 billion in 707 financial institutions as part of the government's efforts to help stabilize U.S. financial markets and the economy. These investments were made through the Capital Purchase Program (CPP), the first and largest initiative under the Troubled Asset Relief Program (TARP).[1] TARP gave Treasury the authority to buy or guarantee up to almost $700 billion of the "troubled assets" that were believed to be at the heart of the financial crisis, including mortgages, mortgage-backed securities, and any other financial instruments deemed appropriate, such as equity investments.[2] Under this authority, in October 2008 Treasury created CPP to provide capital to viable financial institutions by purchasing preferred shares and subordinated debt. In return for its investments, Treasury received dividend or interest payments and warrants.[3] The program was closed to new investments on December 31, 2009, and since then Treasury has continued to oversee and divest its CPP investments, collect dividend and interest payments, and sell warrants. As of March 31, 2013, about three-quarters of CPP participants had exited the program, many by repurchasing their preferred shares or subordinated debt with the approval of their primary bank regulators.

[1]As authorized by the Emergency Economic Stabilization Act of 2008 (EESA), Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 et seq. EESA, which was signed into law on October 3, 2008, established the Office of Financial Stability within Treasury and provided it with broad, flexible authorities to buy or guarantee troubled mortgage-related assets or any other financial instruments necessary to stabilize the financial markets.

[2]Section 3(9) of EESA, 12 U.S.C. § 5202(9). EESA required that the appropriate committees of Congress be notified in writing that the Secretary of the Treasury, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, had determined that it was necessary to purchase other financial instruments to promote financial market stability. EESA originally authorized Treasury to purchase or guarantee up to $700 billion in troubled assets. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, 123 Stat. 1632 (2009), amended EESA to reduce the maximum allowable amount of outstanding troubled assets under EESA by almost $1.3 billion, from $700 billion to $698.7 billion.

[3]A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

This report is based upon our continuing analysis and monitoring of Treasury's activities in implementing the Emergency Economic Stabilization Act of 2008 (EESA), which provided us with broad oversight authorities for actions taken under TARP and required that we report at least every 60 days on TARP activities and performance.[4] To fulfill our statutorily mandated responsibilities, we have been monitoring and providing updates on TARP programs, including CPP.[5] This report examines (1) the status of CPP, including repayments and other proceeds, as well as investments outstanding; and (2) the financial condition of institutions remaining in CPP.

To assess the status of CPP, we analyzed Treasury reports on the status of CPP, including reports on outstanding investments, dividends paid, and the number of institutions that had repaid their investments. To assess the financial condition of institutions that received investments under CPP, we used financial and regulatory data to compare CPP participants remaining in the program with those that had exited the program and those that had never participated. We determined that the financial information we used was sufficiently reliable to assess the condition and status of CPP and institutions that participated in the program. We also leveraged our past reporting on TARP, as well as that of the Special Inspector General for TARP, as appropriate. Appendix I has more information on our scope and methodology.

We conducted this performance audit from January 2013 to May 2013 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.

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

[5]See, for example, GAO, *Troubled Asset Relief Program: Treasury Sees Some Returns as It Exits Programs and Continues to Fund Mortgage Programs*, GAO-13-192 (Washington, D.C.: Jan. 7, 2013), *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012), and *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*, GAO-11-47 (Washington, D.C.: Oct. 4, 2010).

Background

Created in 2008, CPP was the primary initiative under TARP to help stabilize the financial markets and banking system by providing capital to qualifying regulated financial institutions through the purchase of senior preferred shares and subordinated debt.[6] Rather than purchasing troubled mortgage-backed securities and whole loans, as initially envisioned under TARP, Treasury used CPP investments to strengthen financial institutions' capital levels. Treasury determined that strengthening capital levels was the more effective mechanism to help stabilize financial markets, encourage interbank lending, and increase confidence in lenders and investors. Treasury believed that strengthening the capital positions of viable financial institutions would enhance confidence in the institutions themselves and the financial system overall and increase the institutions' capacity to undertake new lending and support the economy. On October 14, 2008, Treasury allocated $250 billion of the original $700 billion in overall TARP funds for CPP. The allocation was subsequently reduced in March 2009 to reflect lower estimated funding needs, as evidenced by actual participation rates. The program was closed to new investments on December 31, 2009. The Office of Financial Stability was established within Treasury to implement TARP in consultation with federal banking regulators.

Under CPP, qualified financial institutions were eligible to receive an investment of between 1 and 3 percent of their risk-weighted assets, up to a maximum of $25 billion.[7] In exchange for the investment, Treasury generally received senior preferred shares that would pay dividends at a rate of 5 percent annually for the first 5 years and 9 percent annually thereafter.[8] EESA required that Treasury also receive warrants to purchase shares of common or preferred stock or a senior debt

[6]For purposes of CPP, qualifying financial institutions generally include stand-alone U.S.-controlled banks and savings associations, as well as bank holding companies and most savings and loan holding companies.

[7]Risk-weighted assets are all assets and off-balance-sheet items held by an institution, weighted for risk according to the federal banking agencies' regulatory capital standards. In May 2009, Treasury increased the maximum amount of CPP funding that small financial institutions (qualifying financial institutions with total assets of less than $500 million) could receive from 3 to 5 percent of risk-weighted assets.

[8]For S corporations, a federal business type that provides certain tax and other benefits, Treasury received subordinated debt rather than preferred shares in order to preserve these institutions' special tax status. The U.S. Internal Revenue Code prohibits S corporations from having more than one class of stock outstanding. Interest rates for this debt are 7.7 percent for the first 5 years and 13.8 percent for the remaining years.

instrument to further protect taxpayers and help ensure returns on the investments. Institutions are allowed to repay CPP investments with the approval of their primary federal bank regulator and afterward to repurchase warrants.

Nine major financial institutions were initially included in CPP.[9] These institutions did not follow the application process that was ultimately developed, but were included because Treasury and the federal banking regulators considered them essential to the operation of the financial system. At the time, these nine institutions held about 55 percent of U.S. banking assets and provided a variety of services, including retail, wholesale, and investment banking and custodial and processing services. According to Treasury officials, the nine financial institutions agreed to participate in CPP in part to signal the program's importance to the stability of the financial system. Initially, Treasury approved $125 billion in capital purchases for these institutions and completed the transactions with eight of them on October 28, 2008, for a total of $115 billion. The remaining $10 billion was disbursed after the merger of Bank of America Corporation and Merrill Lynch & Co., Inc. was completed in January 2009. Treasury ultimately disbursed about $205 billion to 707 financial institutions through December 2009.

Treasury Estimates a Lifetime Gain for CPP as Institutions Continue to Exit the Program

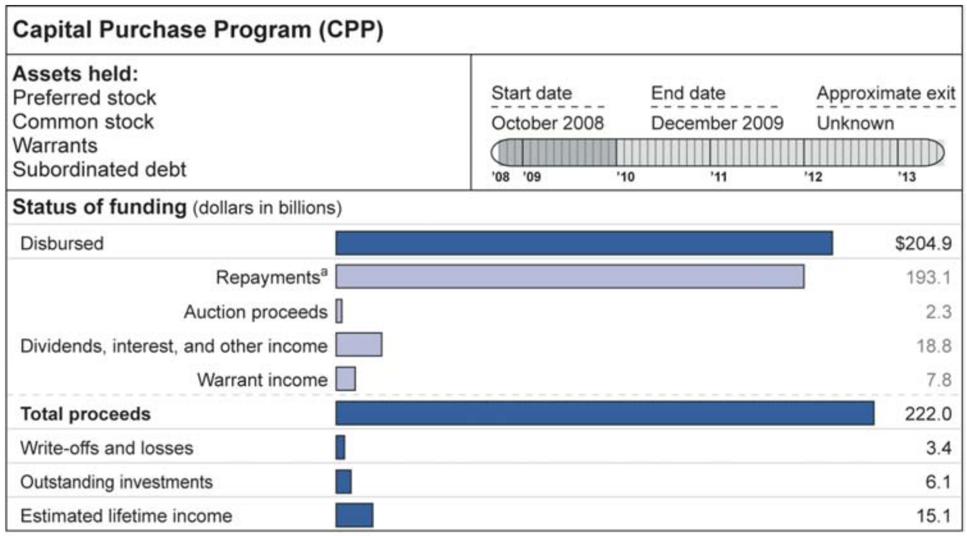
Repayments and income from dividends, interest, and warrants from CPP investments have exceeded the amounts originally disbursed. Treasury disbursed $204.9 billion to 707 financial institutions nationwide from October 2008 through December 2009. As of March 31, 2013, Treasury had received $222.0 billion in repayments and income from its CPP investments, exceeding the amount originally disbursed by $17.1 billion (see fig. 1).[10] The repayments and income amount included $193.1 billion in repayments and $2.3 billion in auction sales of original CPP investments as well as $18.8 billion in dividends, interest, and other income, and $7.8 billion in warrants sold. After accounting for write-offs and realized losses totaling $3.4 billion, CPP had $6.1 billion in

[9]The nine major financial institutions were Bank of America Corporation; Citigroup, Inc.; JPMorgan Chase & Co.; Wells Fargo & Company; Morgan Stanley; The Goldman Sachs Group, Inc.; The Bank of New York Mellon Corporation; State Street Corporation; and Merrill Lynch & Co., Inc.

[10]Treasury, *Troubled Asset Relief Program (TARP) Monthly Report to Congress – March 2013* (Apr. 10, 2013).

outstanding investments as of March 31, 2013. Treasury had estimated a lifetime gain of $15.1 billion for CPP as of December 31, 2012.[11]

Figure 1: Status of the Capital Purchase Program, as of March 31, 2013



Source: GAO analysis of Treasury data.

[a] The total amount of repayments includes $336 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.

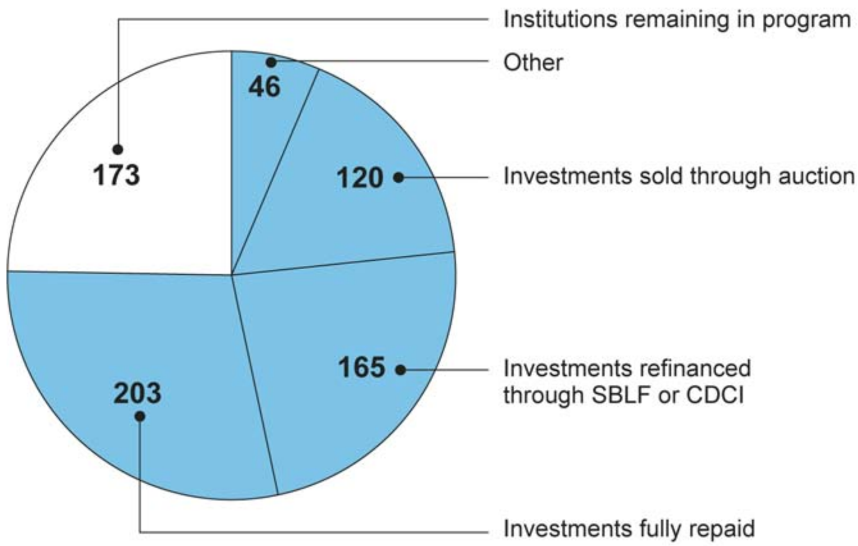
About 76 percent (534) of the 707 institutions that originally participated in CPP had exited the program as of March 31, 2013. Of the 534 institutions that exited CPP, 203 institutions exited by repurchasing their preferred shares in full (see fig. 2).[12] Another 165 institutions exited CPP by refinancing their investments through other federal programs: 28 through the Community Development Capital Initiative (CDCI) and 137 through

[11]Treasury estimates lifetime costs on a quarterly basis using the aggregate value of investments at market prices in conjunction with the Office of Management and Budget and publishes them in its monthly reports to Congress.

[12]Additionally, 17 institutions have made partial repayments but remain in the program.

the Small Business Lending Fund (SBLF).[13] An additional 120 institutions had their investments sold through auction. Treasury began selling its investments in banks through auctions beginning in March 2012 as a way to expedite its exit from this program and transfer ownership to the private markets.[14] Finally, the remaining 46 institutions went into bankruptcy or receivership (23), had their investments sold by Treasury (20), or merged with another institution (3).

Figure 2: Status of Institutions That Received Capital Purchase Program Investments, as of March 31, 2013



Source: GAO analysis of Treasury data.

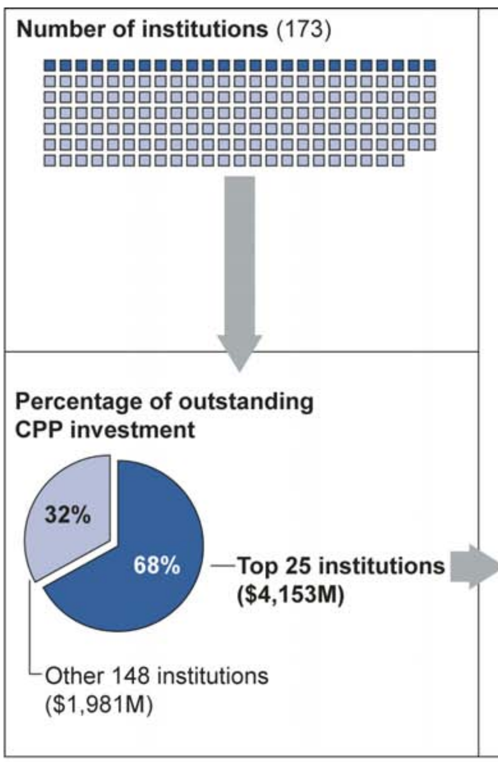
[13]SBLF was created by the Small Business Jobs Act of 2010, Pub. L. No. 111-240, 124 Stat. 2504 (2010) to encourage small business lending. SBLF was a $30 billion fund operated by Treasury but separate from TARP that provided capital to qualified community banks and community development loan funds with assets of less than $10 billion. When SBLF closed on September 27, 2011, the program had approved $4 billion in disbursements to 332 institutions. Of the 332 institutions participating in SBLF, 137 were originally TARP participants with combined investments of $2.2 billion. The Community Development Capital Initiative (CDCI) is a TARP program that provides capital to Community Development Financial Institutions that have a federal depository institution supervisor. Structured like CPP, the program also covered credit unions and provides more favorable capital terms than CPP.

[14]We plan to examine Treasury's wind-down strategy for CPP and the use of auctions in a future report.

Note: “Other” includes institutions that went into bankruptcy or receivership, had their investments sold by Treasury, or merged with another institution.

As of March 31, 2013, 24 percent (173) of the original 707 institutions remained in CPP. These institutions accounted for the $6.1 billion in outstanding investments. The outstanding investments were concentrated in a relatively small number of institutions. Specifically, 25 remaining CPP investments accounted for $4.2 billion, or 68 percent of outstanding investments (see fig. 3). In contrast, the remaining $2.0 billion (32 percent) was spread among the remaining 148 institutions.

Figure 3: Remaining Capital Purchase Program Investments, as of March 31, 2013



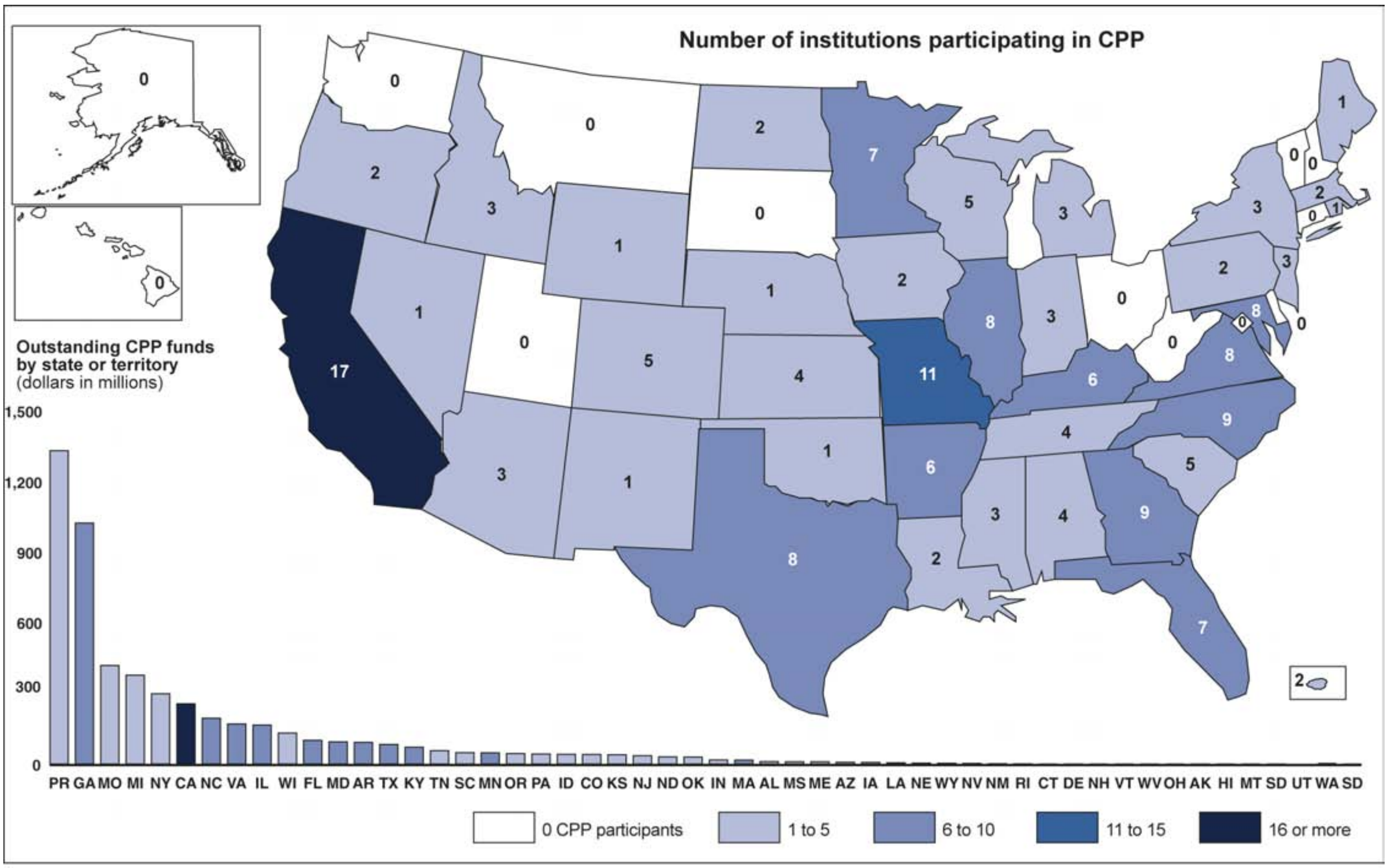
Outstanding CPP investment by top 25 institutions

	Institution	Location	Investment amount (in millions)	Percentage of total outsanding investment
1	Synovus Financial Corp.	Columbus, GA	$967.9	15.8%
2	Popular, Inc.	San Juan, PR	935.0	15.2
3	First BanCorp	San Juan, PR	400.0	6.5
4	Citizens Republic Bancorp, Inc.	Flint, MI	300.0	4.9
5	First Banks, Inc.	Clayton, MO	295.4	4.8
6	New York Private Bank & Trust Corp.	New York, NY	267.3	4.4
7	Cathay General Bancorp	Los Angeles, CA	129.0	2.1
8	Anchor BanCorp Wisconsin, Inc.	Madison, WI	110.0	1.8
9	Hampton Roads Bankshares, Inc.	Norfolk, VA	80.3	1.3
10	Metropolitan Bank Group, Inc.	Chicago, IL	78.4	1.3
11	Independent Bank Corporation	Ionia, MI	72.0	1.2
12	NewBridge Bancorp	Greensboro, NC	52.4	0.9
13	FNB United Corp.	Asheboro, NC	51.5	0.8
14	U.S. Century Bank	Miami, FL	50.2	0.8
15	PremierWest Bancorp	Medford, OR	41.4	0.7
16	Reliance Bancshares, Inc.	Frontenac, MO	40.0	0.7
17	Bridgeview Bancorp, Inc.	Bridgeview, IL	38.0	0.6
18	Porter Bancorp, Inc.	Louisville, KY	35.0	0.6
19	First Security Group, Inc.	Chattanooga, TN	33.0	0.5
20	Centrue Financial Corporation	St. Louis, MO	32.7	0.5
21	Royal Bancshares of Pennsylvania, Inc.	Narberth, PA	30.4	0.5
22	First United Corporation	Oakland, MD	30.0	0.5
23	Spirit BankCorp, Inc.	Bristow, OK	30.0	0.5
24	Intermountain Community Bancorp	Sandpoint, ID	27.0	0.4
25	Patriot Bancshares, Inc.	Houston, TX	26.0	0.4
	Total top 25		**$4,152.9**	**67.7%**
	All other CPP outstanding		$1,980.6	32.3%
	ALL CPP outstanding		**$6,133.5**	**100.0%**

Source: GAO analysis of Treasury data.

On a geographical basis, outstanding CPP investments were relatively widely disbursed throughout the United States. Thirty-nine states had at least 1 institution with CPP investments outstanding, and 12 states had at least 5 such institutions (see fig. 4). California had the highest number of remaining CPP institutions with 17, followed by Missouri with 11. In terms of total CPP investments outstanding, however, Puerto Rico had the largest amount ($1.3 billion), followed by Georgia ($1.0 billion), Missouri ($420 million), and Michigan ($379 million).

Figure 4: Remaining Participation in the Capital Purchase Program by State, as of March 31, 2013



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

Remaining CPP Institutions Are Generally Less Financially Healthy Than Those That Have Exited

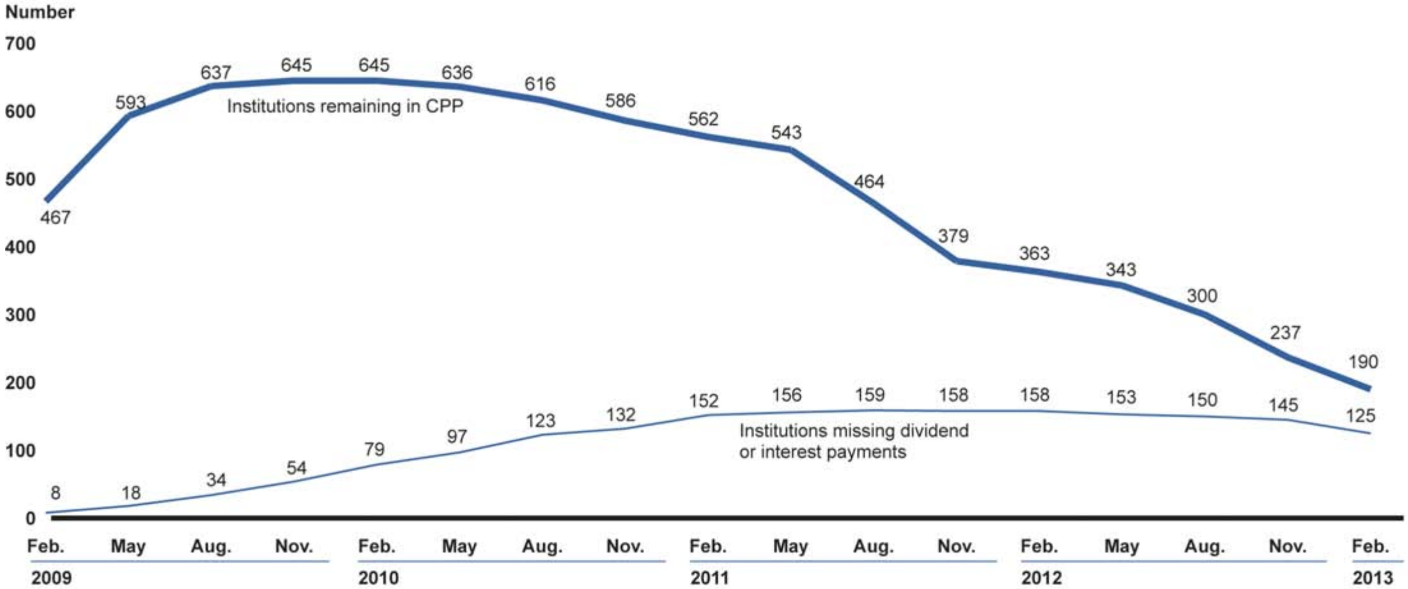
Most Remaining CPP Participants Have Missed Dividend or Interest Payments

Of the 190 financial institutions remaining in CPP as of February 28, 2013, 125 missed their most recent scheduled dividend or interest payment.[15] The number of institutions missing dividend or interest payments increased steadily from 8 in February 2009 to 159 in August 2011 and has since declined each quarter to 125 in February 2013 (see fig. 5).[16] Despite the recent decline, the proportion of the remaining institutions that missed scheduled payments has continued to rise. For example, the percentage of banks with missed payments when participation stood at 467 in February 2009 was 2 percent, or 8 participants. In February 2013, with just 190 participants, the percentage stood at 66 percent, or 125 participants with missed payments. Further, most of the institutions with missed payments have missed them in several quarters. In particular, 119 of the 125 institutions that missed payments in February 2013 had also missed payments in each of the previous three quarters. Moreover, prior to February 2013 these 125 institutions had missed an average of 9.4 payments, and just 2 had never missed a previous payment.

[15]Under CPP terms, institutions pay cumulative dividends on their preferred shares, except for banks that are not subsidiaries of holding companies, which pay noncumulative dividends. Some other types of institutions, such as S corporations, received their CPP investments in the form of subordinated debt and pay interest rather than dividends. CPP dividend and interest payments are due on February 15, May 15, August 15, and November 15 of each year, or the first business day subsequent to those dates. The reporting period ends on the last day of the calendar month in which the dividend or interest payment is due. The first dividend payments were due in February 2009, and since then, 246 of the 707 participants had missed at least one payment, accounting for a cumulative total of 1,901 missed payments.

[16]In its dividend and interest reports, Treasury no longer considers a payment to be missed or unpaid once the institution (1) repays its investment amount and exits CPP, (2) repays dividends by way of capitalization at the time of exchange, or (3) enters bankruptcy or has its bank subsidiary placed into receivership. However, we included such institutions in our counts.

Figure 5: Number of Institutions Missing Scheduled Dividend or Interest Payments and Number of Institutions Participating in the Capital Purchase Program by Quarter, February 2009 through February 2013



Source: GAO analysis of Treasury data.

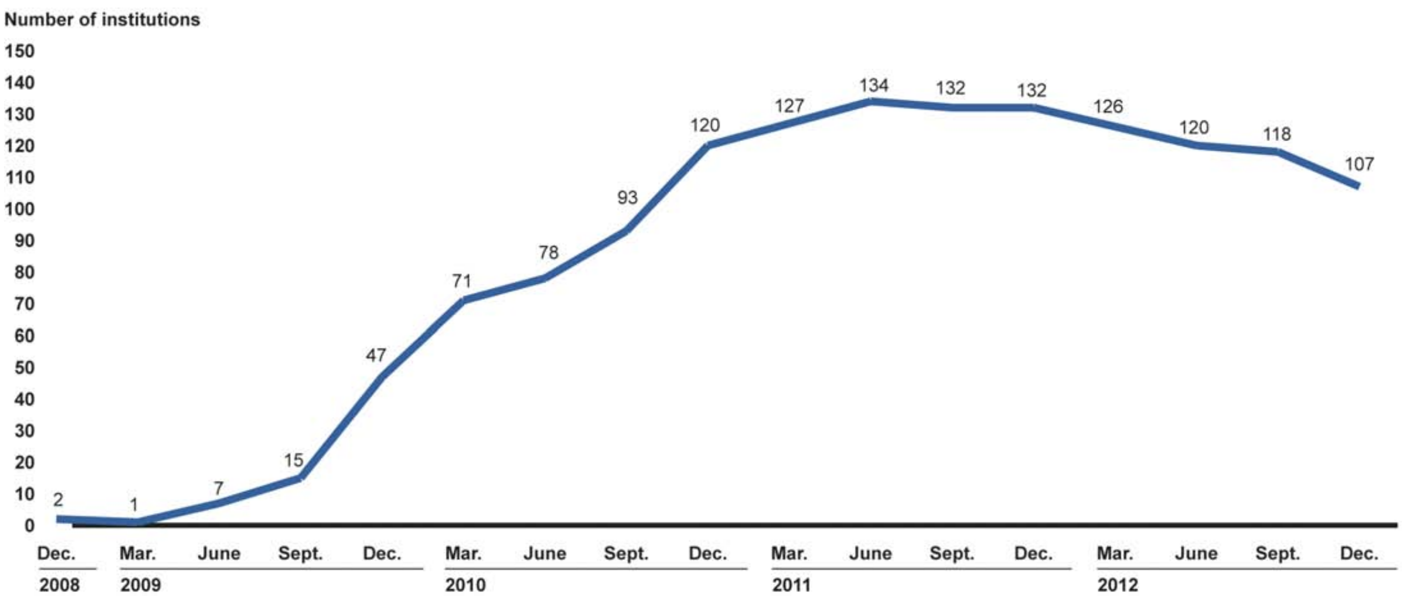
Note: Dividend and interest payments are due on a quarterly basis. The number of participating institutions in any given quarter did not reach 707 (that is, the total number of institutions that participated in CPP) because institutions entered and exited the program at different times. Also, 190 institutions remained in CPP as of February 28, 2013, but as of March 31, 2013, that number had decreased to 173.

Institutions can elect whether to pay dividends and may choose not to pay for a variety of reasons, including decisions that they or their federal and state regulators make to conserve cash and maintain (or increase) capital levels. Institutions are required to pay dividends only if they declare dividends, although unpaid cumulative dividends generally accrue and the institution must pay them before making payments to other types of shareholders, such as holders of common stock. However, investors view a company's ability to pay dividends as an indicator of its financial strength and may see failure to pay full dividends as a sign of financial weakness.

The Number of Remaining CPP Institutions on FDIC's Problem Bank List Has Declined

Showing a similar trend to missed dividend or interest payments, the number of CPP institutions on the Federal Deposit Insurance Corporation's (FDIC) "problem bank list" has decreased in recent months after months of steady increases. This list is a compilation of banks with demonstrated financial, operational, or managerial weaknesses that threaten their continued financial viability and is publicly reported on a quarterly basis.[17] As of December 31, 2012, 107 CPP institutions were on the problem bank list (see fig. 6). The number of these institutions increased every quarter beginning in March 2009, hitting a high of 134 in June 2011, even as the number of institutions participating in CPP declined (see fig. 5). As figure 6 shows, the number of problem banks fell slightly for the first time in the third quarter of 2011 and has declined to 107. Federal and state bank regulators may not allow institutions on the problem bank list to make dividend payments in an effort to preserve their capital and promote safety and soundness.

Figure 6: Number of Capital Purchase Program Institutions on FDIC's Problem Bank List, December 2008 through December 2012



Source: FDIC.

Note: The numbers presented in this figure were compiled by FDIC in response to our request and are not otherwise maintained or published by FDIC. FDIC's problem bank list does not include bank

[17]While some CPP funds were disbursed to bank holding companies, FDIC's problem bank list does not include them. FDIC accounted for bank holding companies participating in CPP when their subsidiary depositories were designated as problem banks. It is possible that a bank holding company CPP recipient downstreamed CPP funds to a subsidiary depository that appeared on the problem bank list. However, it is unclear the extent to which this downstreaming occurred and thus the extent to which subsidiaries on the list may have benefitted from CPP funds. Multiple subsidiary depositories of the same CPP bank holding company that were designated as problem banks were counted separately.

holding companies. Bank holding company recipients of CPP funds were accounted for if one or more of their subsidiary depositories were designated as problem banks. Each subsidiary depository appearing on the list was counted separately.

Remaining CPP Institutions Are Financially Weaker Than Former CPP and Non-CPP Institutions

Institutions that remain in CPP tend to be financially weaker than institutions that have exited the program and institutions that did not receive CPP capital. Our analysis considered various measures that describe banking institutions' profitability, asset quality, capital adequacy, and ability to cover losses. We analyzed financial data on 187 remaining CPP institutions and 422 former CPP institutions, which we split into three groups: (1) those that repaid their investments, (2) those that exited through an auction, and (3) those that refinanced their investments through SBLF. The current and former CPP institutions in our analysis accounted for 609 of the 707 institutions that participated in CPP. We compared the 609 institutions to a non-CPP group (i.e., institutions that have not participated in CPP) of 8,049 active financial institutions for which financial information was available. All financial information generally reflects quarterly regulatory filings on December 31, 2012.

Our analysis shows that mostly smaller institutions remain in the program and that larger institutions tended to exit through repayment. For example, institutions that exited through repayment had a median asset size of $2.2 billion, compared with $550 million for those that refinanced through SBLF and $503 million for those that exited through an auction (see table 1). Moreover, in the aggregate, the remaining institutions were noticeably less financially healthy than each of the groups of former CPP participants. Further, as a group, institutions that exited through auctions were significantly less financially healthy than the group of institutions that repaid their investments or refinanced through SBLF. Finally, the group of institutions that never participated in CPP was also more financially healthy than the group of institutions that remain in the program, and based on some measures, more so than the group that had exited CPP.

Table 1: Aggregate Financial Information on the Analysis Population, as of December 31, 2012

	Former CPP				Remaining	Non-
	Repaid	Auctioned	SBLF	Total	CPP	CPP
Number of institutions	176	112	134	422	187	8,049
Assets (dollars in thousands)	$2,214,200	$502,553	$549,527	$770,658	$368,545	$194,708
Texas Ratio	20.77	40.78	16.78	23.05	49.72	15.22
Return on average assets	0.88	0.61	0.77	0.78	0.45	0.76
Noncurrent loan percentage	1.74	2.81	1.24	1.76	3.21	1.43
Net charge-offs to average loans	0.33	0.66	0.27	0.38	0.90	0.19
Tier 1 risk-based capital ratio	13.10	13.43	13.74	13.46	12.87	15.24
Common equity Tier 1 ratio	12.28	11.39	11.10	11.62	10.58	15.09
Reserves to nonperforming loans	76.08	48.49	80.07	65.51	42.60	65.10
Loan loss provisions to net charge-offs	86.25	65.70	105.11	85.71	35.13	59.38

Source: GAO analysis of SNL Financial data.

Note: The figures in the table represent median values for all institutions in the particular population. We analyzed financial data on 187 remaining CPP institutions and 422 former CPP institutions, accounting for 609 of the 707 institutions that participated in CPP. Financial data were available from SNL Financial for 471 of the 609 institutions, and we accounted for the remaining 138 institutions using SNL Financial information for the holding company's largest subsidiary. The 98 CPP institutions our analysis excluded had no data available in SNL Financial, had been acquired, or were defunct.

In particular, remaining CPP institutions had noticeably higher Texas Ratios than each group of former CPP institutions as well as the non-CPP group. The Texas Ratio helps determine a bank's likelihood of failure by comparing its troubled loans to its capital.[18] The higher the ratio, the more likely the institution is to fail. As of December 31, 2012, remaining CPP institutions had a median Texas Ratio of 49.72, compared with 23.05 for former CPP institutions and 15.22 for the non-CPP group. Further, of the institutions that exited CPP, those that exited CPP through auctions had the highest median Texas Ratio (40.78), compared with those that exited through full repayments (20.77) or by refinancing to SBLF (16.78).

Profitability measures for remaining CPP institutions were lower than those for former CPP participants and the non-CPP group. For example, the return on average assets measure shows how profitable a company is relative to its total assets and how efficient management is at using its

[18]The Texas Ratio is defined as nonperforming assets plus loans 90 or more days past due divided by tangible equity and reserves.

assets to generate earnings. For the quarter ending December 31, 2012, remaining CPP institutions had a median return on average assets of 0.45, compared with 0.78 for former CPP institutions and 0.76 for the non-CPP group.[19] Further, among the institutions that had exited CPP, those that participated in Treasury's auctions had the lowest return on average assets at 0.61, compared with 0.88 for those that repaid their investments and 0.77 for those that refinanced to SBLF.

Remaining CPP institutions also held relatively more poorly performing assets. For example, remaining CPP institutions had a higher percentage of noncurrent loans than former CPP institutions and the non-CPP group. As of December 31, 2012, a median of 3.21 percent of loans for remaining CPP institutions were noncurrent, compared with 1.76 percent for former CPP institutions and 1.43 percent for the non-CPP group. Remaining CPP institutions also had a higher median ratio of net charge-offs to average loans (0.90) than both former CPP institutions (0.38) and the non-CPP group (0.19), as of December 31, 2012.[20] For both of these ratios, the auction participants had higher values than institutions that made full repayments or refinanced to SBLF.

Compared with former CPP institutions and the non-CPP group, remaining CPP institutions held less regulatory capital as a percentage of assets. Regulators require minimum amounts of capital to lessen an institution's risk of default and improve its ability to sustain operating losses. Capital can be measured in several ways, but we focused on Tier 1 capital, which includes both risk-based and common risk-based measures, because it is the most stable form of regulatory capital.[21] The Tier 1 risk-based capital ratio measures Tier 1 capital as a share of risk-weighted assets, and the common equity Tier 1 ratio measures common equity Tier 1 as a share of risk-weighted assets. Using these measures, the remaining CPP institutions had lower Tier 1 capital levels than former

[19]Return on average assets is net income divided by average total assets.

[20]A charge-off occurs when a bank recognizes that a particular asset or loan will not be collectible and must be written off.

[21]Tier 1 capital includes the core capital elements that are considered the most reliable and stable, such as common stock, noncumulative perpetual preferred stock, and minority interests in consolidated subsidiaries. Total capital includes Tier 1 capital and Tier 2 capital, or supplementary capital. Risk-weighted assets are on- and off-balance sheet assets adjusted for their risk characteristics.

CPP institutions and the non-CPP group. These differences are similar to, but less pronounced than, those for other measures we analyzed. As of December 31, 2012, Tier 1 capital accounted for 12.87 percent of risk-weighted assets for remaining CPP institutions, compared with 13.46 percent for former CPP institutions and 15.24 percent for the non-CPP group. Among those that had exited CPP, however, the Tier 1 capital levels for auction participants were lower than those that refinanced to SBLF but higher than those that had repaid.

Because Tier 1 capital for the remaining institutions includes funds received through TARP, ratios using common equity Tier 1—which generally does not include TARP funds—may better illustrate these institutions' capital adequacy. As with the Tier 1 risk-based capital ratio, the common equity Tier 1 ratio for remaining CPP institutions was below the ratios for the former CPP institutions and the non-CPP group. As of December 31, 2012, common equity Tier 1 for remaining CPP institutions had a median of 10.58 percent of risk-weighted assets, compared with 11.62 percent for former CPP institutions and 15.09 percent for the non-CPP group.

Finally, remaining CPP institutions had significantly lower reserves for covering losses compared with former CPP institutions and the non-CPP group. As of December 31, 2012, the ratio of reserves to nonperforming loans was lower for remaining CPP institutions (42.60) than for former CPP participants (65.51) and the non-CPP group (65.10). We also compared loan loss provisions to net charge-offs and found that the remaining CPP institutions had lower ratios (35.13) than former CPP institutions (85.71) and the non-CPP group (59.38). For both of these ratios, the auction participants had lower values than institutions that made full repayments or refinanced to SBLF.

These findings are consistent with the analysis in our March 2012 report, which also showed that the remaining CPP institutions were financially weaker than institutions that had exited the program and institutions that did not receive CPP capital.[22] In that report, we noted that Treasury's quarterly financial analysis of CPP institutions did not distinguish between remaining and former CPP institutions. Given the differences between these two groups, we recommended that Treasury consider analyzing

[22] See GAO-12-301.

and reporting on them separately. To date, Treasury has not implemented this recommendation. We maintain that doing so would provide greater transparency about the financial health of institutions remaining in CPP.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for its review and comment. Treasury provided written comments that we have reprinted in appendix II. In its written comments, Treasury generally concurred with our findings. Treasury noted that it had realized a positive return of $17.1 billion on its CPP investments as of April 25, 2013, and that 164 institutions remained in the program representing a remaining investment of $5.7 billion. Treasury also emphasized its commitment to keeping the public informed of its progress in winding down CPP.

We are sending copies of this report to the Financial Stability Oversight Board, Special Inspector General for TARP, interested congressional committees and members, and Treasury. The report also is available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

A. Nicole Clowers

Director
Financial Markets and Community Investment

List of Addressees

The Honorable Barbara Mikulski
Chairwoman
The Honorable Richard C. Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
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The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Dave Camp
Chairman
The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

The objectives of our report were to examine (1) the status of the Capital Purchase Program (CPP), including repayments and other proceeds, as well as investments outstanding; and (2) the financial condition of institutions remaining in CPP. To assess the status of CPP at the program level, we analyzed data from the Department of the Treasury (Treasury). In particular, we used Treasury's March 2013 Monthly Report to Congress to determine the dollar amounts of outstanding investments, the number of remaining and former participants, and the geographical distribution of each as of March 31, 2013.

To assess the financial condition of institutions that received investments under CPP, we used data from Treasury's Dividends and Interest reports from February 2009 through February 2013 to determine the extent to which participants had missed payments throughout the life of the program. We also obtained from the Federal Deposit Insurance Corporation summary information on its quarterly problem bank list to show the trend of CPP institutions appearing on the list from December 2008 through December 2012. We used financial measures for depository institutions that we had identified in our previous reporting on CPP[1]. These measures help demonstrate an institution's financial health as it relates to a number of categories, including profitability, asset quality, capital adequacy, and loss coverage. We obtained such financial data for depository institutions using a private financial database provided by SNL Financial that contains publicly filed regulatory and financial reports. We merged the data with SNL Financial's CPP participant list to create the three comparison groups—remaining CPP institutions, former CPP institutions, and a non-CPP group comprised of all institutions that did not participate in CPP.

We analyzed financial data on 187 remaining CPP institutions and 422 former CPP institutions that exited CPP through full repayments, conversion to the Small Business Lending Fund, or Treasury's sale of its investments through an auction, accounting for 609 of the 707 CPP participants. The 98 CPP institutions our analysis excluded had no data available in SNL Financial, had been acquired, or were defunct. We compared the remaining and former CPP institutions to a non-CPP group of 8,049 active financial institutions for which financial information was

[1]See GAO, *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012).

available. Financial data were available from SNL Financial for 471 of the 609 CPP institutions, and we accounted for the remaining 138 institutions using SNL Financial information for the holding company's largest subsidiary. All financial information reflects quarterly regulatory filings on December 31, 2012, unless otherwise noted. We downloaded all financial data from SNL Financial on April 4, 2013. Finally, we leveraged our past reporting on the Troubled Asset Relief Program (TARP), as well as that of the Special Inspector General for TARP, as appropriate.

We determined that the financial information used in this report, including CPP program data from Treasury and financial data on institutions from SNL Financial, was sufficiently reliable to assess the condition and status of CPP and institutions that participated in the program. For example, we tested the Office of Financial Stability's internal controls over financial reporting as they relate to our annual audit of the office's financial statements and found the information to be sufficiently reliable based on the results of our audits of fiscal years 2009, 2010, 2011, and 2012 financial statements for TARP.[2] We have assessed the reliability of SNL Financial data—which is obtained from financial statements submitted to the banking regulators—as part of previous studies and found the data to be reliable for the purposes of our review. We verified that no changes had been made that would affect the data's reliability.

We conducted this performance audit from January 2013 to May 2013 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.

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[2]See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2012 and 2011 Financial Statements*, GAO-13-126R (Washington, D.C.: Nov. 9, 2012); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2011 and 2010 Financial Statements*, GAO-12-169 (Washington, D.C.: Nov.10, 2011); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2010 and 2009 Financial Statements*, GAO-11-174 (Washington, D.C.: Nov.15, 2010); and *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements*, GAO-10-301 (Washington, D.C.: Dec. 9, 2009).

Appendix II: Comments from the Office of Financial Stability

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

April 26, 2013

A. Nicole Clowers
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Clowers:

I am writing in response to your draft report regarding the Capital Purchase Program (CPP), entitled, *Capital Purchase Program: Status of the Program and Financial Health of Remaining Participants* (Draft Report). The Department of the Treasury (Treasury) appreciates the efforts of the Government Accountability Office (GAO), and this letter provides our official comments to the Draft Report.

The Draft Report provides a valuable snapshot of CPP and the institutions that remain in the program. We note that taxpayers have so far realized a nearly $26 billion positive return on their investments through TARP's bank programs. Treasury has recovered almost $271 billion from TARP's bank programs through repayments, dividends, interest, and other income – compared to the $245 billion invested in those institutions. As the Draft Report notes, Treasury estimated in December 2012 that the CPP program alone would provide a lifetime positive return of more than $15 billion to taxpayers. Indeed, as of today's date, Treasury has recovered $222 billion on an initial CPP investment of $204.9 billion – representing a profit of $17.1 billion. In addition, only 164 of the 707 CPP participants are currently in the program, representing a remaining Treasury investment of only $5.73 billion.

Treasury has been winding down CPP through a three-pronged strategy that involves: (1) waiting for repayments from those banks who can repay in the near future, (2) selling through competitive auctions investments in banks that cannot repay in the near future, and (3) restructuring some investments. During this wind-down process, we remain committed to keeping the public informed of our progress.

Treasury values GAO's review of CPP and looks forward to continuing to work with you and your team as we move forward.

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

A. Nicole Clowers, (202) 512-8678 or clowersa@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba (Assistant Director), Christopher Forys, Michael Mikota, Emily Chalmers, William Chatlos, Marc Molino, and Patricia Moye made significant contributions to this report.

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