GAO Highlights

Highlights of GAO-16-626 a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

Most Community Development Capital Initiative Investments Remain Outstanding

Why GAO Did This Study

Treasury established CDCI under the Troubled Asset Relief Program (TARP) in February 2010 to help banks and credit unions certified as Community Development Financial Institutions (CDFI) maintain services to underserved communities after the 2007—2009 financial crisis. Eighty-four institutions originally participated in CDCI. The program offered favorable terms for raising capital, including a low dividend or interest rate, an important benefit for CDFIs, which often did not have the same access to capital markets as larger banks. The program's initial dividend or interest rate of 2 percent on investments increases to 9 percent in 2018. The Emergency Economic Stabilization Act of 2008 includes a provision that GAO report at least every 60 days on TARP activities. This report examines (1) the status of CDCI; (2) the financial condition of institutions remaining in the program; and (3) Treasury's strategy for winding down the program.

To assess the program's status, GAO reviewed Treasury reports on the status of CDCI. GAO also used financial and regulatory data to assess the financial condition of institutions remaining in CDCI. Finally, GAO interviewed Treasury officials to examine the agency's exit strategy for the program and interviewed representatives from five trade associations whose member institutions received CDCI capital.

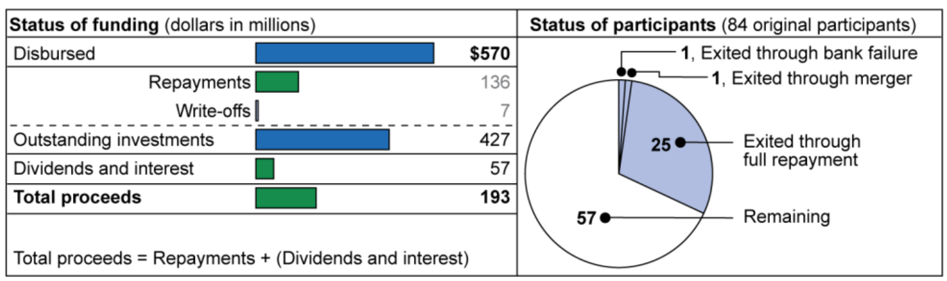
GAO provided a draft of this report to Treasury for its review and comment. Treasury provided technical comments that GAO incorporated as appropriate.

View GAO-16-626. For more information, contact Daniel Garcia-Diaz (202) 512-8678 or garciadiazd@gao.gov.

What GAO Found

As of March 31, 2016, the Department of the Treasury (Treasury) had approximately 76 percent of the original Community Development Capital Initiative (CDCI) investment outstanding and 57 institutions remained. Treasury's total investment was about $570 million. Treasury received about $136 million in principal repayments and had written off about $7 million. The program's outstanding investment balance was $427 million. Treasury had received about $57 million in dividend and interest payments from program participants. Treasury's most recent estimate of the program's lifetime cost was about $103 million (as of April 2016). Representatives from trade associations whose member institutions received CDCI capital noted that the program has allowed institutions to maintain and increase lending to their communities.

Status of the Community Development Capital Initiative, as of March 31, 2016



Source: GAO analysis of Treasury data. | GAO-16-626

The financial health of CDCI institutions remaining in the program has improved since receiving Treasury's investments. Overall, the financial condition of banks in CDCI appears to have improved. However, since December 2014, some measures of financial health for these institutions have declined (such as the median for return on average assets). The financial condition of credit unions in CDCI appears to have improved. Finally, nine institutions missed quarterly dividend or interest payments since November 2010 when payments were first due but six of the nine had made up their missed payments as of March 2016.

Although Treasury has not set time frames for exiting all CDCI investments, Treasury officials have studied alternatives to winding down the program, including repayments, auctions, and restructurings. According to Treasury officials and some trade association representatives, many of the remaining institutions are financially healthy and likely will be able to repay the investment before dividend and interest rates increase in 2018. However, some representatives cautioned that some institutions have weaker capital levels and that repaying investments before the rate increases likely would reduce the ability of these institutions to lend in their communities. Some representatives suggested Treasury consider modifying the impending rate increases (for example, by postponing the date). Currently, Treasury officials have no plans to alter the terms of the program unless an institution is distressed and unable to pay the increased rate. Treasury officials plan to continue meeting with CDCI participants and trade associations to further discuss winding down the program.