



Banks and Credit Unions in Tarp's CDCI Program Face Challenges

Special Inspector General for the Troubled Asset Relief Program

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INTRODUCTIONⁱ

TARP's Capital Purchase Program bailout of 707 banks is well known, but there is a lesser known TARP bailout of 36 small banks and 48 credit unions called the Community Development Capital Initiative ("CDCI") that will likely continue until at least 2018. Although the program itself is much smaller than CPP and the participating institutions are small, they play a vital role in serving low-income communities not traditionally served by larger institutions. In February 2010, in a release announcing "New Efforts to Improve Access to Credit for Small Businesses," the Administration announced that CDCI would support "small business lending in the hardest-hit rural and urban communities by making low-cost capital available." The announcement stated that CDCI and the non-TARP Small Business Lending Fund were new measures as "part of an ongoing effort to help small businesses access credit and create jobs." This report is designed to raise awareness of the challenges that these banks and credit unions face and the need for careful oversight by Treasury, which oversees CDCI and taxpayer investments in these companies.

The financial stability of CDCI banks and credit unions must be an ongoing concern to Treasury as a long-term investment in the financial recovery of small businesses in underserved communities. Treasury's oversight over the financial stability of CDCI institutions cannot solely be viewed as ending at the time it made TARP investments, because it made those investments with a specific and important goal that must be measured and met to help small businesses. Treasury's Office of Financial Stability that administers TARP should keep careful watch over the financial stability of these institutions the entire time they are in TARP so that these institutions can lend to small businesses while getting themselves in a position to repay TARP. Treasury needs to conduct adequate oversight over these institutions to ensure that the purpose of the program, to increase small business lending in hard hit communities, is met, and to work with CDCI institutions and their regulators to ensure that eventually they will be able to stand on their own, financially stable, without taxpayer assistance.

Although announced as a separate TARP program, Treasury allowed banks already in TARP's CPP to apply for CDCI funds with the idea that these banks would promote small business lending in their communities. Treasury made the decision in 2010 that 81% of the \$570.1 million in TARP money for CDCI would go to 28 banks already in TARP's CPP and the great majority of those funds (\$363.3 million) would be used to convert the CPP obligation to a CDCI obligation. These 28 TARP banks in CPP that converted to CDCI got two significant benefits. First, they got TARP funds at a cheaper cost because the dividend they pay to Treasury decreased from 5% to 2%. Second, they got to keep that low dividend for eight years (2018), rather than for the five-year term in CPP (2014-2015). Only \$106 million of the \$570.1 million invested by CDCI went to

ⁱ The Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") is issuing this report under the Emergency Economic Stabilization Act. The report is based on SIGTARP internal information. It is not an audit or evaluation under the Inspector General Act of 1978, as amended.

institutions that were not already in TARP.¹ Because these banks received a great benefit from converting to CDCI, and Treasury agreed to accept less in dividend payments, it is vitally important that Treasury ensure that these institutions earn those benefits by meeting the goal of the program to promote small business lending in their communities. Otherwise, taxpayers will have been paid less in dividend payments, with little benefit.

Unlike the smaller banks in CPP that have already faced or will soon face the dividend increase and are scrambling to raise capital or debt to repay TARP or face Treasury auctioning their shares, the banks and credit unions in CDCI could be in TARP for many years to come. Whereas in CPP the TARP dividend rate began increasing to 9% after five years (beginning in 2014 for many banks), putting pressure on banks to repay TARP, the dividend rate for CDCI banks and credit unions does not rise to 9% until 2018.

Only 14 CDCI institutions have been able to repay TARP and an additional bank exited the program via bankruptcy. The 69 banks and credit unions remaining in CDCI as of March 31, 2014, continue to face challenges that could impact their financial stability, ability to lend to small businesses in their communities, and their ability to repay TARP. Community banks continue to have difficulty in gaining access to capital. Credit unions have experienced a rise in non-performing loans, which impacts their balance sheet and capital. Eight of the remaining CDCI institutions have current enforcement actions by their Federal banking regulator.² Moreover, many of the CDCI institutions are in economically hard-hit areas around the country that are still struggling to recover from the crisis.

Because of these challenges, it is especially important that Treasury keeps a watchful eye on taxpayer investments in CDCI institutions. These small banks and credit unions do not disclose the same amount of information about their health and performance as larger banks. However, Treasury and the public have a tool designed to provide some transparency on the financial stability of these institutions. In December 2008, SIGTARP recommended that Treasury require TARP recipients to report quarterly on their use of TARP funds. While Treasury did not require CPP banks to comply with this requirement, in 2010 they began sending annual surveys to CPP banks asking for voluntary responses, and they required annual reporting for CDCI participants. Never once has Treasury received 100% compliance. In other words, never in the history of the program have all the banks and credit unions in CDCI complied with the mandatory requirement to report on how they used the TARP funds. Eight banks and credit unions in CDCI have never told Treasury how they used TARP funds, despite being required to do so in the contract they signed to get the TARP money. Worse yet is that Treasury does not enforce its contract, a fact which does not go unnoticed by the CDCI institutions. The number of survey responses that CDCI institutions actually submitted to Treasury has decreased dramatically; from 83% reporting in 2010, to 74% in 2011, and only 33% in 2012.³ As a result, Treasury and the public do not know what these TARP funds were actually used for, or have access to other information requested in the surveys that could provide insight into the financial stability of these institutions.

Treasury also has access to another key piece of information that would shed light on the financial stability of CDCI institutions, which is whether those institutions are paying timely dividend payments to Treasury and the reason why delinquent institutions missed dividend payments. Given the low 2% dividend rate, missed dividends can provide important insight into a bank or credit union's health. This is particularly true if the institution misses five payments to Treasury, which would trigger Treasury's policy of sending observers to board meetings of the institutions, or eight payments which triggers Treasury's right to appoint two directors to the board. Attendance at the board meetings can provide a wealth of information to Treasury on the financial stability of the CDCI institution, which impacts their ability to meet the program's goals, their ability to pay dividends, and their ability to repay TARP. However, Treasury did not request to send an observer to one CDCI bank that had missed six payments. That bank later failed. Treasury has failed to appoint directors to the board of one CDCI institution that had converted from CPP and has missed 12 dividend payments. SIGTARP previously recommended that Treasury enforce this important right that could help provide independent and experienced board members who could provide effective internal oversight and help detect any potential mismanagement or fraud.⁴

CDCI INSTITUTIONS FACE CHALLENGES THAT COULD IMPACT THEIR FINANCIAL STABILITY, ABILITY TO LEND TO SMALL BUSINESSES, AND ABILITY TO REPAY TARP

Limited Access to Capital

CDCI provided capital to smaller community banks that had limited access to capital through other means. Banks with assets under \$1.5 billion do not have access to capital from private equity firms, mutual funds, foundations, and other institutional investors. "Capital offerings for less than \$20 million to \$30 million are often too small for many institutional investors regardless of structure or investment thesis. Institutional investors have fixed costs to cover and deal size minimums. They simply cannot monitor an unlimited number of small investments, no matter how promising," according to a white paper by the Conference of State Bank Supervisors.⁵ Institutional investors also want a bank to have a business plan that allows the investors to eventually realize gains through a stock offering or by selling the bank to a larger institution.

Capital is a measure of a bank's health and strength. Capital is necessary to build stronger balance sheets and absorb unexpected losses. CDCI institutions at the same time are expected to provide small businesses in their communities with access to capital. Small banks in CPP continue to experience problems with access

to capital, which has become a challenge to their ability to repay TARP. CDCI institutions may face the same challenge.

Rise of Non-Performing Loans at Credit Unions

Credit unions, including CDCI participants, experienced slow to no loan growth between 2009 and 2011, but saw loan delinquencies and loan charge-offs increase.⁶ Pre-crisis, in 2006, 0.68% of credit union loans were more than 60 days past due.⁷ By 2008 loan delinquency rates more than doubled to 1.37% and were even higher the following year at 1.82%.⁸ In 2011, the rate of delinquencies started to decrease slowly to 1.75%.⁹ In 2012, loan delinquency rates dropped to 1.15%, but are still nowhere near the pre-financial crisis rate of 0.68%.¹⁰ Similarly, net loan charge-offs in 2006 accounted for 0.45% of credit union loans, and that number grew almost three-fold to 1.21% by 2009.¹¹ As of 2012, the net charge off rate was at 0.73%, which was nearly double the 2006 rate.¹²

Regulatory Orders

Eight of the remaining 69 CDCI institutions (12%) have current enforcement actions by their Federal banking regulator.¹³ The enforcement actions include sanctions against personnel, formal agreements and consent orders, and sanctions due to Home Mortgage Disclosure Act (HMDA) violations. Four of those enforcement actions, including sanctions against personnel for two institutions, were issued after the institutions had received TARP funds through CDCI.¹⁴

Hardest Hit Communities

The CDCI recipients were specifically chosen because the communities they serve are the hardest hit rural and urban communities. This continues to present challenges as many of those communities, including states such as Mississippi, California, Illinois, Louisiana, and New York have not yet recovered. The largest concentration of CDCI outstanding funds, by far, is in the Southeast with \$290 million outstanding. The Mid-Atlantic/Northeast region and the Southeast continue to have the largest number of remaining CDCI institutions, 21 and 19 remaining respectively. Ten CDCI institutions are in one state – Mississippi.¹⁵ The West and Mid-Atlantic/Northeast regions have a considerably larger number of CDCI credit unions than CDCI banks; 11 of the 13 remaining institutions in the West and 16 of the 21 remaining institutions in the Mid-Atlantic/Northeast region are credit unions.¹⁶ The opposite is true in the Southeast, where 16 of the 19 remaining CDCI institutions are banks.¹⁷ Tables 1.1 through 1.7 show banks and credit unions remaining in CDCI by region and state as of March 31, 2014.

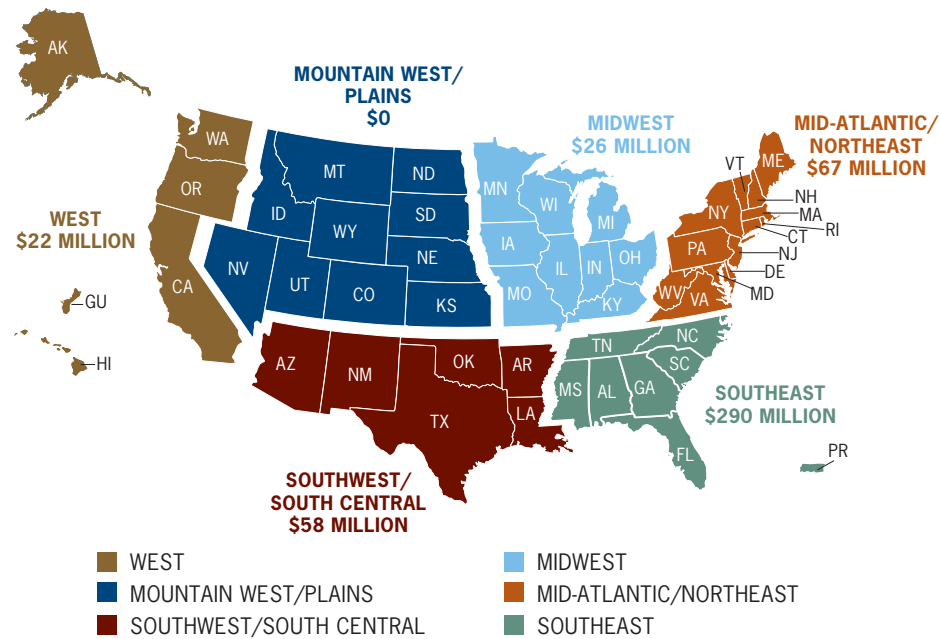
TABLE 1.1

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY REGION, AS OF 3/31/2014

	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
Mid-Atlantic/Northeast	24	21	67,151,000	5	16
Southeast	22	19	289,885,000	16	3
West	14	13	\$26,799,000	2	11
Southwest/South Central	11	8	58,199,000	2	6
Midwest	11	8	26,432,000	4	4
Mountain West/Plains	2	0	0	0	0
Total	84	69	\$468,466,000	29	40

Source: Treasury, Transactions Report, 3/19/2014.

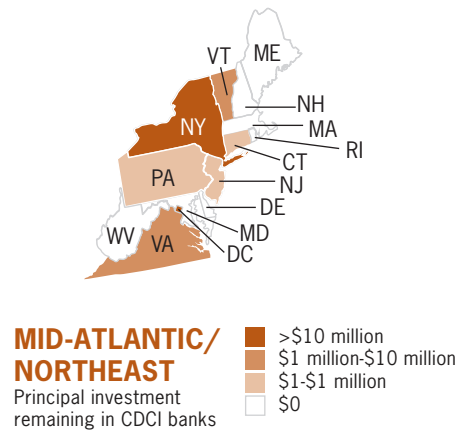
FIGURE 1.1

AMOUNT OF CDCI PRINCIPAL INVESTMENT REMAINING, BY REGION, AS OF 3/31/2014


Mid-Atlantic/Northeast

TABLE 1.2

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014



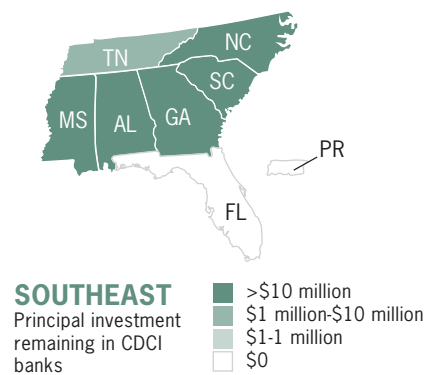
	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
CT	1	1	\$7,000	0	1
DC	3	3	13,303,000	2	1
NJ	2	1	31,000	0	1
NY	13	12	42,660,000	2	10
PA	1	1	100,000	0	1
VA	3	2	9,959,000	1	1
VT	1	1	1,091,000	0	1
Total	24	21	\$67,151,000	5	16

Source: Treasury, Transactions Report, 3/19/2014.

Southeast

TABLE 1.3

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014

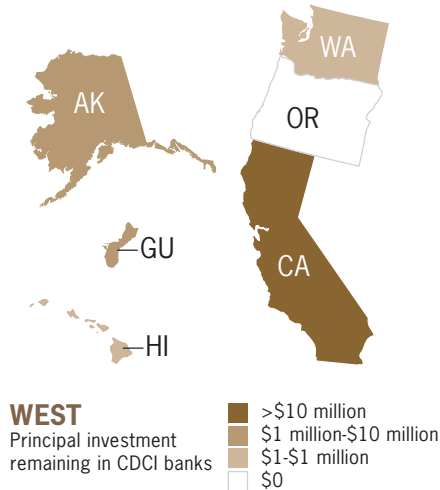


	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
AL	3	3	\$16,698,000	2	1
GA	2	2	15,213,000	2	0
MS	12	10	220,444,000	9	1
NC	3	2	12,735,000	1	1
SC	1	1	22,000,000	1	0
TN	1	1	2,795,000	1	0
Total	22	19	\$289,885,000	16	3

Source: Treasury, Transactions Report, 3/19/2014.

West

TABLE 1.4

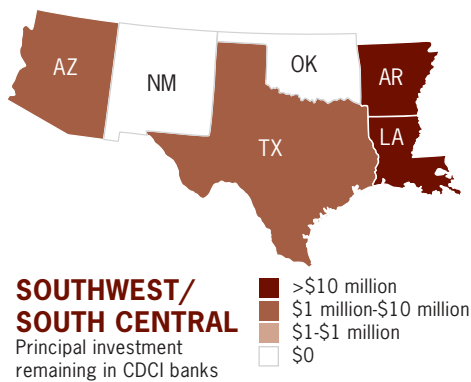
BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014


	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
AK	1	1	\$1,600,000	0	1
CA	9	8	21,503,000	2	6
GU	1	1	2,650,000	0	1
HI	2	2	971,000	0	2
WA	1	1	75,000	0	1
Total	14	13	\$26,799,000	2	11

Source: Treasury, Transactions Report, 3/19/2014.

Southwest/South Central

TABLE 1.5

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014


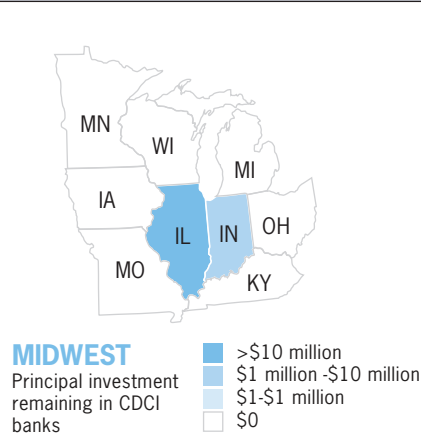
	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
AR	1	1	\$33,800,000	1	0
AZ	1	1	2,500,000	0	1
LA	6	4	18,204,000	1	3
TX	3	2	3,695,000	0	2
Total	11	8	\$58,199,000	2	6

Source: Treasury, Transactions Report, 3/19/2014.

Midwest

TABLE 1.6

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014



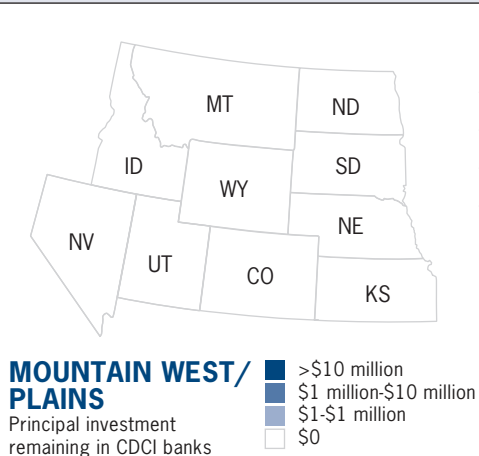
	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
IL	7	6	\$25,193,000	4	2
IN	2	2	1,239,000	0	2
MN	1	0	0	0	0
WI	1	0	0	0	0
Total	11	8	\$26,432,000	4	4

Source: Treasury, Transactions Report, 3/19/2014.

Mountain West/Plains

TABLE 1.7

BANKS AND CREDIT UNIONS WITH CDCI PRINCIPAL REMAINING, BY STATE, AS OF 3/31/2014



	Original Number of Participants	Remaining Number of Participants	Remaining Investment	Remaining Number of Banks	Remaining Number of Credit Unions
MT	1	0	\$0	0	0
WY	1	0	0	0	0
Total	2	0	\$0	0	0

Source: Treasury, Transactions Report, 3/19/2014.

CDCI Recipients Need New Capital and Financial Stability to Exit TARP

Community banks and credit unions in CDCI provide a financial lifeline to underserved communities. Both Treasury and taxpayers have an interest in ensuring that CDCI institutions remain financially stable so that they can help their communities recover by loaning funds to small businesses, and eventually be strong enough to repay TARP. Given the challenges these banks and credit unions face, there is a need for careful oversight by Treasury over the financial stability of the institutions to ensure that the purpose of the CDCI program, to promote small business lending, continues to be met and to increase the likelihood that taxpayers are repaid in full. Treasury's oversight over the financial stability of these institutions cannot solely be viewed in the past, as a one-time capital investment. Treasury's TARP investments in CDCI banks and credit unions were long-term investments in the financial recovery of underserved communities. In addition, to exit TARP, banks must obtain the approval of their primary Federal banking regulator, which determines if an institution is strong enough to maintain adequate capitalization after repaying TARP. Fourteen institutions in CDCI have repaid TARP and one bank has exited the program as a result of bankruptcy as of March 31, 2014. Treasury must maintain careful oversight over the financial stability of the remaining CDCI recipients the entire time they are in TARP so that these banks and credit unions can lend to small businesses while getting themselves in a position to repay TARP and be financially stable without taxpayer assistance.

BANKS AND CREDIT UNIONS IN CDCI ARE NOT REPORTING ON THEIR USE OF TARP FUNDS, WHICH HINDERS TRANSPARENCY, OVERSIGHT AND TREASURY'S ABILITY TO JUDGE WHETHER, THE GOALS OF THE PROGRAM ARE BEING MET

Because of the challenges CDCI institutions face, it is especially important that Treasury keep a watchful eye on taxpayer investments in CDCI institutions. Small banks and credit unions do not disclose the same amount of information about their health and performance as larger banks. However, Treasury has an important source of information about the financial stability of CDCI institutions in the TARP requirement that these institutions respond annually to a Treasury survey on the use of TARP funds. However, many CDCI institutions have not complied with this requirement, refusing to provide transparency. Treasury has not enforced the disclosure, thereby losing an important tool to gain information on the CDCI institutions.

Because Treasury did not put limitations in its TARP contracts with institutions on how they could use TARP funds, one of the first recommendations that

SIGTARP made to Treasury was that Treasury require all TARP recipients to report on the actual use of TARP funds they received. As a result, when Treasury invested TARP dollars in institutions, it was entirely unclear what was done with the TARP money. TARP agreements generally did not require recipients to report or even to track internally the use of TARP funds, which posed two significant problems. First, it does not provide necessary basic transparency. It is not unreasonable to expect that American taxpayers, who were asked to fund the unprecedented bailout, and their representatives in Congress have some understanding as to how the recipients used the TARP funds. Second, the lack of transparency affects oversight because Treasury and SIGTARP cannot assess the effectiveness of TARP programs over time and are hindered in the ability to oversee certain recipients' compliance with conditions of the TARP agreement. At the time of SIGTARP's December 2008 recommendation, Treasury refused to adopt SIGTARP's recommendation and did not believe that "requiring reports as to how the specific funds were spent would be meaningful, since it could never be said with certainty that particular funds were used for a particular purpose."

In February 2009, SIGTARP itself sent a survey to 360 TARP recipient banks in CPP (CDCI did not yet exist), asking them to report on their anticipated and actual use of TARP funds, a survey that had a 100% response rate. Every CPP bank responded to SIGTARP's survey and SIGTARP found that despite Treasury's argument that money is fungible, TARP banks were able to provide meaningful information on their use of TARP funds. Notably, 80% of the banks cited that they used the funds for lending, 40% reported that some of the TARP funds were used to maintain capital cushions, and some banks reported repaying outstanding loans, investing in mortgage-backed securities, or buying other banks. SIGTARP followed with another survey for the automotive companies bailed out by TARP and for AIG. SIGTARP posted every survey response on its website.

One year after SIGTARP's recommendation, in December 2009, Treasury finally agreed to act on SIGTARP's recommendation to require CPP recipients to report on the use of TARP funds. However, Treasury made compliance voluntary for CPP recipients. On March 11, 2010, following Treasury's February 3, 2010, announcement of CDCI, SIGTARP made a related recommendation for CDCI. SIGTARP then recommended that Treasury require quarterly reporting on the use of TARP funds for CDCI participants, rather than annual reporting, to more effectively emphasize the purpose of the program. Treasury rejected quarterly reporting, but did include a requirement in CDCI contracts that the recipient annually report on the use of their TARP funds and the effects of the TARP capital on the operations and status of the TARP recipient.

Never in the history of the CDCI program have all 84 CDCI banks and credit unions complied with the contractual requirement to report annually to Treasury on their use of funds. Treasury, in other words, has never had a 100% response rate, even though SIGTARP was able to obtain a 100% response rate from 360 CPP institutions in 2009. Moreover eight banks and credit unions in CDCI have never told Treasury how they used TARP funds, despite being required to do so in

the contract they signed to get the TARP money. Table 1.8 lists the names of these institutions and the amount of TARP funds they received.

TABLE 1.8

CDCI INSTITUTIONS THAT NEVER SUBMITTED USE OF FUNDS SURVEYS			
Institution	TARP Investment	City	State
Bancorp of Okolona, Inc.	\$3,297,000	Okolona	MS
D.C. Federal Credit Union	1,522,000	Washington	DC
Faith Based Federal Credit Union	30,000	Oceanside	CA
Greater Kinston Credit Union	350,000	Kinston	NC
Neighborhood Trust Federal Credit Union	283,000	New York	NY
Tri-State Bank of Memphis	2,795,000	Memphis	TN
Union Settlement Federal Credit Union	295,000	New York	NY
UNITEHERE Federal Credit Union (Workers United Federal Credit Union)	57,000	New York	NY

Source: Treasury, "Use of Capital Survey," 2010, 2011, 2012.

Despite this red flag, surprisingly Treasury has failed to enforce its contract and the requirement that all CDCI banks and credit unions report on their use of TARP funds, which likely has contributed to less and less compliance each year. Eight institutions have never responded to the survey. While 59 institutions have failed to respond to the survey at least once, 25 of those have failed to respond for two of the three years. The number of CDCI institutions that have met this contractual requirement of reporting annual use of TARP funds has decreased dramatically from year to year. For the year 2010 survey, 14 of the 84 CDCI recipients failed to report to Treasury on their use of TARP funds.¹⁸ For 2011, 22 of the 84 CDCI recipients failed to report to Treasury on their use of TARP funds.¹⁹ For 2012, the most recent annual data available, 67% (56) of the 84 recipients that had outstanding TARP funds at any point during that year failed to report to Treasury on their use of TARP funds.²⁰

Simply put, the American people have a right to know how tax dollars are being spent. Without reporting on the use of TARP funds, Treasury, SIGTARP, and taxpayers are left in the dark, deprived of the transparency required by the terms of CDCI participation. Requiring institutions to report on their use of TARP funds is fundamental to making TARP transparent to the public. In addition, Treasury does not have access to important information that could provide insight into the financial stability of these TARP institutions. Prior disclosures by CDCI banks and credit unions shed light on TARP fund use and have provided important information related to charge-offs, capital, new investments, and other performance measures.

The annual use of funds surveys are also a source by which Treasury can gauge whether the CDCI program is meeting its goals. It is critical to the oversight of CDCI that Treasury is aware of how these institutions are using TARP funds and whether the funds are being used to best promote the long-term financial stability

of these institutions and to support small businesses in the communities they serve. The White House announcement of CDCI entitled “President Obama Announces New Efforts to Improve Access to Credit for Small Businesses” stated that CDCI was a program to support small business lending. However, Treasury, when it gave the funds, did not require CDCI institutions to lend the TARP funds to small businesses. Even though Treasury did not restrict the use of TARP funds, it can use the results of the surveys to determine whether the goal of supporting small business lending has been met. However, in its survey to CDCI recipients, Treasury does not even ask about small business lending, instead asking about lending in general. To qualify for CDCI, an institution must have been certified by Treasury that at least 60% of its lending and other economic development activities are to underserved areas. However, Treasury should not assume that any increase in lending went to small businesses. Therefore, it is unclear how Treasury measures whether CDCI recipients actually increased small business lending.

SIGTARP’s review of the CDCI survey responses showed that while approximately two-thirds of the banks responded that they either increased lending in general or did not decrease lending as much as they would have without the TARP funds, nearly one-third (29%) of the banks/credit unions in CDCI either answered “no”, left blank the lending question, or ignored Treasury’s survey. This included banks that were initially in CPP and converted to CDCI, thereby obtaining the benefit of an immediate reduction in their dividend payment rate from 5% to 2% and the ability to keep that low 2% rate for eight years rather than five years. If those institutions did not use the funds to increase small business lending, then it is unclear what they did to earn the benefit of that dividend rate reduction.

Treasury’s ability to gauge the effectiveness of the CDCI program is hindered without information from those CDCI institutions that ignored Treasury’s survey. Moreover, it is unclear whether Treasury finds it acceptable to have nearly one-third of the CDCI recipients not reporting any increase in lending in general (or at least no decrease in lending). One of these CDCI participants for example, Carter Federal Credit Union in Louisiana, which received \$6.3 million in TARP funding, reported no increase in lending, instead reporting, “the CDCI program allowed us to continue offering worthwhile dividends on our members’ share accounts without having to worry that additional asset growth might drag our Net Worth ratio below the 7.00% threshold.”

TARP recipients’ reporting on how they used TARP funds also helps identify potential fraud and wrong doing. SIGTARP could use information included in the use of funds surveys in criminal investigations. In one public example, after a SIGTARP investigation, Darryl Lane Woods, the former Chairman and President of Calvert Financial Corporation, was convicted for misleading SIGTARP in its February 2009 survey about his bank’s use of TARP funds. In January 2009, the bank received \$1,037,000 through CPP. SIGTARP was able to uncover that the bank used \$381,487 of TARP funds, days after receiving them, to purchase a luxury seaside condominium in Fort Myers, Florida. Because Treasury had not included any restrictions on the use of TARP funds in the contract, this use of

TARP funds was not prohibited. However, one week later, Woods signed a letter responding to SIGTARP's "use of funds" survey failing to disclose the purchase of the condominium. As part of his plea agreement, Woods admitted that he failed to disclose to SIGTARP that a significant portion of TARP funds had been used to purchase the condominium.

CDCI INSTITUTIONS THAT MISSED TARP DIVIDENDS AND INTEREST PAYMENTS

Treasury also has access to another piece of information that would shed some light on the financial stability of CDCI institutions, which is whether those institutions are paying timely dividend payments to Treasury, and if not, the reason why payments were missed.^{21,ii} Given that a 2% dividend rate (some pay 3.1%) is very low, the fact that a bank or credit union missed paying the Treasury dividend can provide important insight into their health. This is particularly true if multiple payments are missed. As of March 31, 2014, two institutions had non-current unpaid dividends or interest payments to Treasury totaling \$200,300.²² Table 1.9 lists the institutions that have ever missed payments to Treasury and those that were not current as of March 31, 2014.

TABLE 1.9

CDCI-RELATED MISSED DIVIDEND AND INTEREST PAYMENTS, AS OF 3/31/2014

Institution	Dividend or Payment Type	Number of Missed Payments	Unpaid Dividends/Interest	Non-Current Dividends/Interest
PGB Holdings, Inc.	Cumulative	12	\$180,000	\$180,000
Premier Bancorp, Inc.*	Interest	6	316,624	—
Community Bank of The Bay	Non-Cumulative	1	20,300	20,300
Tri-State Bank of Memphis	Non-Cumulative	— ^a	55,900	—
Carver Bancorp, Inc.	Cumulative	— ^a	284,700	—
First American International Corp.	Cumulative	— ^a	765,000	—
First Vernon Bancshares, Inc.	Cumulative	— ^a	343,475	—
Neighborhood Trust Federal Credit Union	Credit Union Interest	— ^a	4,245	—
UNITEHERE Federal Credit Union (Workers United Federal Credit Union)	Credit Union Interest	— ^a	570	—

Notes: Numbers may not total due to rounding.

* On 3/23/2012, the subsidiary bank of Premier Bancorp, Inc. failed.

^a Institution later became current in accrued and unpaid dividends after missing initial scheduled payment date(s).

Source: Treasury, *Dividends and Interest Report*, 4/10/2014.

ⁱⁱ As of March 31, 2014, Treasury has received \$38.3 million in dividends and interest from CDCI recipients.

In its TARP contracts with CPP and CDCI recipients, Treasury created a right to appoint up to two directors to the boards of those institutions that miss a required number of quarterly dividend payments (six for CPP and eight for CDCI). Treasury-appointed directors have value in their independence, and their experience helps them provide effective internal oversight and a contribution to CDCI institutions that face challenges with their condition, health, or existing board. In addition, a Treasury-appointed director's experience and expertise could also help detect any potential mismanagement or fraud.

On September 30, 2013, SIGTARP expressed concern and recommended to Treasury that Treasury enforce its important right to appoint directors to the boards of CPP and CDCI institutions. For example, although PGB Holdings, Inc. has missed more than eight TARP dividend payments, triggering Treasury's right to appoint up to two directors to its board, Treasury has not enforced that right.²³ PGB was a CPP bank that got the benefit of reducing its CPP dividend rate from 5% to 2% when it converted to CDCI, but now it has missed 12 of those payments. As explained in Section 5 of this report, Treasury has made some progress in implementing SIGTARP's recommendation for CPP banks. It should continue to do so for CDCI recipients as well.

Treasury can also have a significant impact just by making it clear that it intends to enforce these rights. Treasury's policy is to have a Treasury employee observe the board meetings of CDCI recipients that have missed five dividend payments. Attendance at the board meetings can provide a wealth of information to Treasury on the financial stability of the CDCI institutions. Treasury made a request to send an observer to the board meetings of CDCI-participant First American International Corp. in February 2013. The bank rejected Treasury's request, but subsequently paid the missing dividends.²⁴ Treasury has only sent an observer to the board meetings of one CDCI bank, First Vernon Bancshares Inc., and since doing that, First Vernon paid the delinquent dividends. However, CDCI participant Premier Bank failed on March 23, 2012. Despite the fact that at the time of its failure Premier Bank had already missed six TARP dividend payments, Treasury had not made a request to place a Treasury observer at its board meetings. Treasury also never placed a Treasury official to observe PGB's board meetings despite the bank missing 12 Treasury dividend payments.

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ARMED SERVICES MORTGAGE FRAUD ALERT



SIGTARP



Consumer Financial
Protection Bureau



Avoiding HAMP Mortgage Modification Scams; Resources for Servicemembers

FRAUD ALERT:

Mortgage modification fraud schemes targeting struggling homeowners and which exploit the federal Home Affordable Modification Program (HAMP) have become increasingly common, and members of the Armed Services community struggling to make their mortgage payments should beware of con artists and scams that promise to save their homes and lower their mortgage debt or payments. A number of these scams are specifically targeting members of the Armed Services community.

FACTS:

For servicemembers having trouble paying their mortgage, free help is available. Advice from U.S. Department of Housing and Urban Development (HUD)-approved housing counselors is always FREE, as are mortgage modifications under HAMP. In most cases, charging fees in advance for a mortgage modification is illegal. HUD-approved housing counselors can help you avoid scams and better understand your options.

RESOURCES:

Consumer Fraud Alert – For tips on how to identify and avoid mortgage modification scams and to view the Consumer Fraud Alert issued by the HAMP Mortgage Modification Fraud Taskforce, visit www.SIGTARP.gov/documents/Consumer_Fraud_Alert.pdf.

U.S. Department of Veterans Affairs – If you are an active-duty servicemember or veteran and have a VA loan, call the U.S. Department of Veterans Affairs at 1-877-827-3702 or visit the Loan Guaranty Service Home Loan Program Web site at www.HomeLoans.VA.gov.

Making Home Affordable Program – For free mortgage-related advice and assistance from HUD-approved housing counselors or to apply for HAMP, call the **Homeowner's HOPE™ Hotline** at **1-888-995-HOPE** (1-888-995-4673) or visit www.MakingHomeAffordable.gov. You can apply to HAMP on your own or with free help from a HUD-approved housing counselor. Applying to HAMP is always FREE.

Consumer Financial Protection Bureau – For additional help and more information about mortgages, dial 1-855-411-2372 or visit www.ConsumerFinance.gov/mortgagehelp.

Fannie Mae – If your mortgage is owned by Fannie Mae, for help and more information, dial 1-800-7Fannie or visit www.FannieMae.com/portal/helping-homeowners-communities/veterans-outreach.html.

Freddie Mac – If your mortgage is owned by Freddie Mac, for help and more information, dial 1-800-Freddie (option 2) or visit www.FreddieMac.com/avoidforeclosure/military_assistance.html.

U.S. Department of Agriculture – If your mortgage was issued by the USDA, for help and more information, contact the Centralized Servicing Center at 1-800-414-1226 or visit RDHomeLoans.USDA.gov.

Federal Housing Administration – If your mortgage is insured by FHA, for help and more information, contact the National Servicing Center at 1-877-622-8525 or visit www.HUD.gov/offices/hsg/sfh/nsc/nschome.cfm.

REPORT FRAUD:

Special Inspector General for the Troubled Asset Relief Program – If you believe that you or someone you know has been a victim of a mortgage modification scam exploiting HAMP, dial the SIGTARP Hotline at 1-877-744-2009 or visit www.SIGTARP.gov/pages/hotline.aspx to submit a tip, which can be done anonymously.

Consumer Financial Protection Bureau – To report mortgage modification issues unrelated to HAMP, visit Help.ConsumerFinance.gov/app/mortgage/ask to submit a complaint.

This message is courtesy of the Office of the Special Inspector General for the Troubled Asset Relief Program, the Consumer Financial Protection Bureau, and the U.S. Department of the Treasury. For more information, visit www.SIGTARP.gov, www.ConsumerFinance.gov, and www.Treasury.gov.

CONSUMER FRAUD ALERT



SIGTARP



Consumer Financial
Protection Bureau



Tips for Avoiding Mortgage Modification Scams

Homeowners struggling to make their mortgage payments should beware of con artists and scams that promise to save their homes and lower their mortgage debt or payments.

If you are struggling to pay your mortgage and are seeking a mortgage modification, keep the following tips in mind:

- You can apply to the federal Home Affordable Modification Program (HAMP) on your own or with free help from a housing counselor approved by the U.S. Department of Housing and Urban Development (HUD). Applying to the program is always **FREE**. For more information on how to apply, call the **Homeowner's HOPE™ Hotline** at **1-888-995-HOPE** (1-888-995-4673) or visit www.MakingHomeAffordable.gov.
- Only your mortgage servicer has discretion to grant a loan modification. Therefore, no third party can guarantee or pre-approve your HAMP mortgage modification application.
- Beware of anyone seeking to charge you in advance for mortgage modification services – in most cases, charging fees in advance for a mortgage modification is illegal.
- Paying a third party to assist with your HAMP application does not improve your likelihood of receiving a mortgage modification. Accordingly, beware of individuals or companies that ask you for payment and tout success rates or claim to be "experts" in HAMP.
- If an individual or company claims to be affiliated with HAMP or displays a seal or logo representing the U.S. government in correspondence or on the Web, you should check the connection by calling the Homeowner's HOPE™ Hotline.
- Beware of individuals or companies that offer money-back guarantees.
- Beware of individuals or companies that advise you as a homeowner to stop making your mortgage payments or to not contact your mortgage servicer.

Financially troubled homeowners can avoid scams by working with a HUD-approved housing counselor to understand their options and to apply for assistance. Assistance from HUD-approved housing counselors is free, and homeowners can reach them by calling the **Homeowner's HOPE™ Hotline** at **1-888-995-HOPE** (1-888-995-4673) or by visiting www.MakingHomeAffordable.gov.

This message is courtesy of the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the Consumer Financial Protection Bureau, and the U.S. Department of the Treasury. To report illicit activity involving HAMP, dial the **SIGTARP Hotline** at **1-877-SIG-2009** (1-877-744-2009). For more information, visit www.SIGTARP.gov and www.ConsumerFinance.gov.

SIGTARP HOTLINE

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline.

By Online Form: www.SIGTARP.gov
By Phone: Call toll free: (877) SIG-2009
By Fax: (202) 622-4559
By Mail: Hotline: Office of the Special Inspector General
for the Troubled Asset Relief Program
1801 L Street., NW, 3rd Floor
Washington, D.C. 20220

PRESS INQUIRIES

If you have any inquiries, please contact our Press Office:

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OBTAINING COPIES OF TESTIMONY AND REPORTS

To obtain copies of testimony and reports, please log on to our website at www.SIGTARP.gov.

