



June 2014

COMMUNITY DEVELOPMENT CAPITAL INITIATIVE

Status of the Program and Financial Health of Remaining Participants

GAO Highlights

Highlights of [GAO-14-579](#), a report to congressional committees

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 their services to underserved communities in the aftermath of the 2007-2009 financial crisis. Treasury invested a total of \$570 million in 84 eligible institutions by September 2010.

TARP's authorizing legislation mandates that GAO report every 60 days on TARP activities, including CDCI. This report examines (1) the financial status of CDCI; (2) factors affecting participants' decisions to remain in or leave the program and Treasury's exit strategy; and (3) the financial condition of institutions remaining in the program.

To assess the program's status, GAO reviewed Treasury reports on CDCI. GAO also used regulatory financial data to compare the financial condition of banks and credit unions remaining in CDCI with those that would have been eligible but did not participate. In addition, GAO interviewed staff from Treasury and NCUA, associations representing CDCI participants, and representatives of a nonprobability sample of CDFI banks and credit unions that participated in CDCI. GAO selected banks and credit unions based on asset size and geography.

GAO is making no recommendations in this report. In comments on a draft of this report, Treasury and NCUA concurred with our findings.

View [GAO-14-579](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

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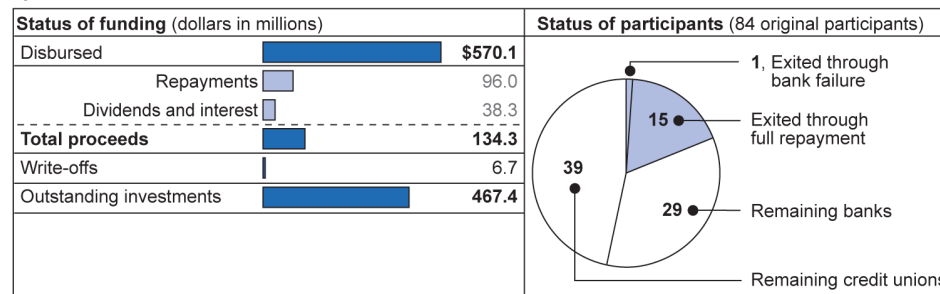
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What GAO Found

As of April 30, 2014, 82 percent of the Department of the Treasury's (Treasury) \$570 million total investment in eligible banks and credit unions through the Community Development Capital Initiative (CDCI) was still outstanding. Sixteen institutions have exited the program, leaving 29 banks and 39 credit unions, respectively, in the program. Treasury had received repayments and investment income of \$134.3 million, but has also recorded a \$6.7 million write-off based on the failure of one participant's subsidiary. As of February 28, 2014 (most recent information available), Treasury estimated a lifetime cost of \$80 million for CDCI, down from an estimated cost of \$290 million in November 2010.

Status of Community Development Capital Initiative Funding and Participants, as of April 30, 2014



Source: GAO analysis of Treasury data. | GAO-14-579

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

Representatives of participant banks and credit unions GAO interviewed said that access—or lack thereof—to similar forms of capital was a key factor in institutions' willingness or ability to exit the program. They noted that CDCI continued to be one of the few sources of capital for small banks and credit unions. In addition, they listed program terms, such as the scheduled increase in the dividend or interest rate from 2 percent to 9 percent in 2018, as considerations. Treasury has not yet announced an exit strategy for CDCI but said it will consider the interests of the financial institutions and taxpayers as they consider options for winding down the program. For example, they noted that any strategy would need to take into account how the wind down of the program may impact the community development mission of the remaining participants.

The financial health of the remaining CDCI banks and credit unions is mixed. For example, few CDCI institutions have missed their dividend or interest payments to Treasury since 2010. The Federal Deposit Insurance Corporation and National Credit Union Administration (NCUA) had identified very few of the remaining banks and credit unions as exhibiting serious financial, operational, or managerial weaknesses as of March 2014. GAO's analysis of financial data found that banks remaining in CDCI tended to be more profitable, held stronger assets, and had higher capital and reserve levels when compared to non-CDCI banks that were eligible for the program but did not participate. However, remaining credit unions were less profitable, held slightly more poorly performing assets, and had lower capital levels and less protection against losses than non-CDCI credit unions that were eligible for the program but did not participate.

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Abbreviations

CDCI	Community Development Capital Initiative
CDFI	Community Development Financial Institutions
CPP	Capital Purchase Program
EESA	Emergency Economic Stabilization Act of 2008
FDIC	Federal Deposit Insurance Corporation
NCUA	National Credit Union Administration
TARP	Troubled Asset Relief Program

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June 6, 2014

Congressional Committees

The Community Development Capital Initiative (CDCI) was created in February 2010 to assist eligible certified Community Development Financial Institutions (CDFI) and the communities they served cope with the effects of the 2007-2009 financial crisis.¹ The Department of the Treasury (Treasury) ended funding through this program in September 2010, with a total investment amount of approximately \$570 million for 84 institutions. CDCI is implemented under the Troubled Asset Relief Program (TARP), which gave Treasury the authority to buy or guarantee up to \$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 CDCI provided capital to CDFI banks and credit

¹CDFIs are financial institutions that provide financing and related services to communities and populations that lack access to credit, capital, and financial services. Treasury’s CDFI Fund provides the designation, which allows CDFIs to apply for the CDFI Fund’s financial assistance. Although CDFIs include banks, thrifts, credit unions, loan funds, and venture capital funds, only institutions that have a federal depository institution supervisor (i.e., banks, thrifts, and credit unions) could apply for CDCI assistance. The federal depository institution supervisors for this program include the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the National Credit Union Administration (NCUA). During the application period, the Office of Thrift Supervision was also a federal supervisor, but it was abolished by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Pub. L. No. 111-203, § 313, 124 Stat. 1376, 1523 (2010) (codified at 12 U.S.C. § 5413).

²TARP was 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. 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 Dodd-Frank Act reduced Treasury’s authority to purchase or insure troubled assets to a maximum of \$475 billion. Section 1302(1)(A) of the Dodd-Frank Act, 124 Stat. at 2133 (codified at 12 U.S.C. § 5225(a)(3)).

unions by purchasing preferred equity and subordinated debt from them.³ CDCI offered favorable capital terms, including a relatively low dividend or interest rate, an important benefit for CDFIs that often did not have the same access to capital markets as larger banks. For example, approved CDFIs received investments with an initial dividend or interest rate of 2 percent that would increase to 9 percent after 8 years (2018). Treasury has continued to oversee its CDCI investments and collect dividend and interest payments. A few participants have redeemed their investments and exited the program with the approval of their primary federal regulators.

This report is based on 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.⁵ This report examines (1) the financial status of CDCI, including repayments and other proceeds, investments outstanding, and the estimated lifetime cost of the program; (2) factors affecting participants' decisions to remain in or leave the program and Treasury's exit strategy; and (3) the financial condition of institutions remaining in CDCI.

To assess the financial status of CDCI, we analyzed Treasury reports on the number of institutions that made full repayments, the amounts of

³In this report, "banks" refers to banks, thrifts, and bank or thrift holding companies. In addition, some banking institutions are formed as S corporations, a designation that affected the form of Treasury's investment. An S corporation elects to be taxed under subchapter S of chapter 1 of the Internal Revenue Code and thus does not pay income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders.

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

⁵See, for example, GAO, *Troubled Asset Relief Program: Status of the Wind Down of the Capital Purchase Program*, [GAO-14-388](#) (Washington, D.C.: Apr. 7, 2014), *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), *Troubled Asset Relief Program: As Treasury Continues to Exit Programs, Opportunities to Enhance Communication on Costs Exist*, [GAO-12-229](#), (Washington, D.C.: Jan. 9, 2012), and *Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations*, [GAO-11-74](#) (Washington, D.C.: Jan. 12, 2011).

dividends and interest paid and CDCI investments outstanding, and the estimated lifetime cost of the program. To examine factors affecting participants' decisions to remain in or leave the program and Treasury's exit strategy, we interviewed Treasury officials and associations representing banks and credit unions that received CDCI capital. We also selected and attempted to contact a nonprobability sample of 9 banks and 12 credit unions remaining in CDCI, and we obtained responses from 8 banks and 9 credit unions representing a range of asset sizes and geographic locations. To assess the financial condition of the remaining CDCI institutions, we used regulatory financial data from SNL Financial to compare financial indicators for remaining CDCI participants with the same indicators for banks and credit unions that were eligible for the program but did not participate. We conducted separate analyses for banks and credit unions, because the two types of institutions file different regulatory reports and have different financial indicators. We have assessed the reliability of Treasury data through previous financial statement audits. We assessed the reliability of the SNL Financial data by performing manual testing of required data elements and reviewing existing information about the data and the system that produced them. In addition, we have assessed the reliability of SNL Financial data as part of previous studies and found the data to be reliable for the purposes of our review. We determined that the financial information we used was sufficiently reliable for the purposes of this report. Appendix I has more information on our scope and methodology.

We conducted this performance audit from February 2014 to June 2014 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.

Background

Created in 2010, CDCI was one of the later TARP programs and was intended to help mitigate the adverse impact that the financial crisis was having on communities underserved by traditional banks. CDCI is structured much like the TARP Capital Purchase Program (CPP), in that both provide capital to financial institutions by purchasing preferred equity and subordinated debt from them. However, CDCI differs from CPP in several important ways. First, CDCI provided financial assistance only to CDFIs, which provide financial services to low- and moderate-income, minority, and other underserved communities. Second, CDCI also

provided assistance to credit unions, unlike CPP, which provided capital only to banks. Finally, CDCI provided more favorable capital terms to its participants than CPP did. Specifically, CDCI investments have an initial dividend or interest rate of 2 percent, compared with 5 percent under CPP. The dividend or interest rate increases to 9 percent after eight years under CDCI, compared with five years under CPP.

Treasury finalized the last of its \$570 million in CDCI investments in September 2010, just prior to the expiration of its TARP purchasing authority. The 84 participating institutions included 36 banks and 48 credit unions. Twenty-eight of the 36 banks were former CPP participants that were in good standing in that program and thus were allowed to refinance their CPP shares for a lower rate in CDCI. Of these 28 banks, 10 received additional disbursements under CDCI.

As shown in table 1, CDCI terms varied depending on the type of institution receiving the capital. In general, banks received capital by issuing to Treasury preferred stock representing not more than 5 percent of their risk-weighted assets. The capital they received in return was generally treated as tier 1 capital for regulatory purposes, with a perpetual term. Federal banking regulators classify capital as either tier 1—currently the highest-quality form of capital—or tier 2, which is weaker in absorbing losses.⁶ Credit unions issued unsecured subordinated debentures totaling not more than 3.5 percent of their total assets. In exchange, Treasury provided participating credit unions with secondary capital that boosted their net worth until 5 years before the maturity date, at which point it

⁶Tier 1 capital consists primarily of common equity. Tier 2 is supplementary capital and includes limited amounts of subordinated debt, loan loss reserves, and certain other instruments.

would begin amortizing at 20 percent per year.⁷ All institutions participating in CDCI are required to make quarterly dividend or interest payments to Treasury. After 8 years, the initial dividend or interest rate of 2 percent increases to 9 percent.⁸

Table 1: Community Development Capital Initiative Program Terms by Institution Type

Type of institution	Number of institutions	Type of security	Size of offering	Regulatory capital status	Term or maturity (length from date of investment)	Dividend or interest rate
Bank or thrift	27	Preferred stock	Not more than 5 percent of risk-weighted assets	Tier 1 capital ^a	Perpetual	2 percent until 2018; 9 percent thereafter
S corporation	9	Unsecured subordinated debentures	Not more than 5 percent of risk-weighted assets	Tier 2 capital for a bank or savings association; Tier 1 capital for a bank holding company ^a	13 years for a bank or savings association; 30 years for a bank holding company or savings and loan holding company	3.1 percent until 2018; 13.8 percent thereafter
Credit union	48	Unsecured subordinated debentures	Not more than 3.5 percent of total assets and not more than 50 percent of capital and surplus	Net worth	8 or 13 years	2 percent until 2018; 9 percent thereafter

Source: GAO analysis of Treasury summary terms for CDCI.

^aNew capital rules will generally apply for most smaller banking institutions beginning in January 2015.

⁷Secondary capital (also called supplemental, alternative, or contributed capital) is capital beyond that built through retained earnings. According to NCUA, its purpose is to provide a further means—beyond setting aside a portion of earnings—for low-income designated credit unions to build capital to support greater lending and financial services in their communities and to absorb losses. As a result, the institutions may be less likely to fail. Secondary capital accounts must have a minimum maturity of 5 years, but low income designated credit unions may request an early redemption exception for secondary capital accepted from the federal government or any of its subdivisions at any time after it has been on deposit for two years. The accounts must be established as uninsured, non-share instruments. The uninsured secondary capital funds on deposit (including interest paid into the account) must be available to cover operating losses in excess of the low-income designated credit union's net available reserves and undivided earnings. Additionally, funds used to cover such losses may not be replenished or restored to the uninsured secondary capital accounts.

⁸The securities that Treasury purchased from S corporations have a 3.1 percent interest rate until 2018, when the rate will increase to 13.8 percent. However, given the tax treatment of S corporations, these rates equate to after-tax effective rates of 2 percent and 9 percent, respectively (assuming a 35 percent tax rate)—the same rates applied to securities issued by other classes of institutions participating in CDCI.

Treasury's Estimated Lifetime Cost for CDCI Has Decreased as Participants Have Begun Exiting the Program

As of April 30, 2014, 68 of the original 84 CDCI institutions remained in the program. Fifteen institutions (six banks and nine credit unions) had exited through repayment, while one institution had exited as a result of its subsidiary bank's failure.⁹ Three of the banks and at least one of the credit unions that had exited the program did so when they merged with or were acquired by institutions that were not certified CDFIs. CDCI terms required them to repay their investments, as non-CDFIs were not eligible for the program. Two of the 68 remaining institutions had begun to repay the principal on the investments they had received, while the other remaining institutions had paid only dividends and interest.¹⁰

Repayments and income from dividends and interest to date have amounted to less than a quarter of Treasury's \$570.1 million investment in 2010 (see fig. 1). As of April 30, 2014, the outstanding investment balance for CDCI was \$467.4 million, reflecting repayments and write-offs totaling \$102.7 million. Specifically, as of this date, Treasury had received approximately \$96.0 million in principal repayments from CDCI recipients. As a result of the failure of Premier Bancorp, Inc.'s subsidiary, in January 2013 Treasury wrote off nearly all of its \$6.8 million investment in Premier, whose assets were liquidated when its banking subsidiary entered receivership. Treasury also did not collect more than \$300,000 in unpaid dividends and interest for Premier. CDCI participants have also paid \$38.3 million in dividends and interest.

⁹Premier Bank, the banking subsidiary of Premier Bancorp, Inc., was closed by the Illinois Department of Financial and Professional Regulation - Division of Banking, and the Federal Deposit Insurance Corporation (FDIC) was named receiver in March 2012. In January 2013, Treasury received \$79,900, which represented the total amount of distributions paid to creditors as a result of the liquidation of Premier Bancorp, Inc.

¹⁰Some of the remaining institutions had missed one or more dividend or interest payments throughout the life of the program, and some were still not current.

Figure 1: Status of the Community Development Capital Initiative, as of April 30, 2014

Community Development Capital Initiative Program (CDCI)		
Status of funding (dollars in millions)		
Disbursed		\$570.1
Repayments		96.0
Dividends and interest		38.3
Total proceeds		134.3
Write-offs		6.7
Outstanding investments		467.4

Source: GAO analysis of Treasury data. | GAO-14-579

Treasury has lowered its estimates of the program’s lifetime cost over the last 2 years as market conditions have improved and institutions have begun to repay their investments. As of November 2010, Treasury estimated the program’s lifetime cost at about \$290 million. As of February 28, 2014, Treasury estimated the program’s lifetime cost at \$80 million.¹¹

¹¹Treasury estimates lifetime costs on a quarterly basis using the aggregate expected value of the investments and publishes them in its monthly reports to Congress. Estimated lifetime cost represents Treasury’s best estimate of what the program will ultimately cost the taxpayer. Treasury’s methodology for estimating lifetime costs includes the requirement to use a discount rate that reflects market risk as required by EESA for future cash flows.

Market Conditions and CDCI Program Terms Will Affect Continued Participation as Treasury Explores Possible Exit Strategies

According to representatives from the remaining CDCI institutions we spoke to, factors such as access to capital, the benefits of CDCI capital, and CDCI program terms affected participants' decisions to remain in or exit the program. Specifically, we interviewed a nonprobability sample of 8 banks and 9 credit unions remaining in the program as well as organizations representing the banks and credit unions participating in CDCI.¹²

Representatives of CDCI participant institutions and bank and credit union organizations told us that a key factor in participants' decision to remain in or exit CDCI was their ability to access other sources of capital. Representatives of a few of the CDCI institutions, as well as representatives of two organizations representing CDCIs, said that CDCI had been one of the few sources of external capital for small community banks and credit unions since the financial crisis and economic downturn. Representatives of the same organizations and a few other CDCI institutions explained that for many CDFI banks and credit unions, access to credit could be difficult and expensive. Some bank representatives said they were waiting to see whether the credit market improved closer to 2018 before making a decision on the timing of repayments. Some credit union representatives noted that they would pursue grants or nonmember deposits to replace the CDCI capital.¹³ One bank representative, as well as a bank organization representative and an investor in CDFIs, noted that the structure of the CDCI agreement gave Treasury priority status over other investors, making it difficult for these banks to attract additional

¹²The banks and credit unions we selected represented a variety of asset sizes and geographic locations. See appendix I for more information on how we selected the samples.

¹³NCUA regulations allow federal credit unions to accept nonmember deposits (i.e., deposits from public units, political subdivisions of public units, and nonmember credit unions), within certain limits. According to NCUA, nonmember deposits may lower net worth (a measure of capital adequacy for credit unions) in the short term, but additional income earned from the deposits could strengthen long-term net worth. Most credit unions that participated in the CDCI are federal credit unions and are therefore eligible to accept nonmember deposits.

investors and find replacement capital.¹⁴ This structure would be an issue if a bank was attempting to raise capital in smaller amounts than its CDCI capital, as the bank would have to balance the interests of both Treasury and new investors.

Representatives from CDCI institutions we interviewed also mentioned several benefits of maintaining their CDCI capital. First, they stated that CDCI had allowed them to meet customer demand and provide access to services they would otherwise not have been able to provide. For example, three bank representatives we interviewed said the CDCI capital allowed them to purchase bank branches that were struggling or closing in underserved communities. They said that these purchases allowed them to ensure that residents of these communities had access to financial services. Several representatives noted that the CDCI capital allowed them to increase their lending. According to a representative of one credit union, the capital helped fund a loan so that a grocery store in a neighborhood that had previously lacked one could be built. Two bank representatives and a credit union representative also noted that the capital had allowed them to make residential mortgage loans. As one of the representatives noted, other financial institutions were decreasing this type of lending during the financial crisis and economic downturn. Second, several representatives we interviewed noted that the 2 percent rate on the CDCI capital was lower than the rates they could obtain in private capital markets. Therefore, regardless of their current capacity to fully repay Treasury, they planned to keep the capital as long as it remained less expensive than alternative capital. Finally, regulations reflecting Basel III regulatory capital reforms that are scheduled to take effect in 2015 will increase the percentage of capital that banks must

¹⁴Treasury's priority status would come into play in the event of a bankruptcy, in which case Treasury would have priority over certain other shareholders in the distribution of the liquidated institution's assets. Treasury has priority over investors in common shares. However, as a general matter, Treasury is on equal footing with investors in other preferred shares, and investors in trust-preferred securities (securities that have both equity and debt characteristics and are created by establishing a trust and issuing debt to it) have higher priority than Treasury.

hold.¹⁵ Three bank representatives noted that the increased capital requirements would make them more likely to hold their CDCI capital.

Representatives from bank and credit union organizations and participating institutions also told us that changing program terms would influence institutions' decisions about exiting the program. The scheduled increase in the CDCI dividend rate (from 2 percent to 9 percent) that will take effect in 2018 is a key factor for institutions in deciding when to exit. Representatives from several CDCI institutions we interviewed told us that they would like to repay Treasury before the increase takes effect. However, a few of the representatives from remaining institutions who we interviewed were uncertain about their ability to find other sources of inexpensive capital before the increase in 2018. A representative of one of the bank organizations stated that a good number of remaining CDCI banks would likely struggle to pay dividends at the higher rate while maintaining services to their communities. In addition, we found that for credit unions, the treatment of CDCI funds as secondary capital may also affect repayment schedules. Credit unions with 2018 maturity dates on their CDCI securities (approximately half of the remaining credit unions, according to Treasury) have had to begin counting a portion of their capital as debt. Treasury representatives explained that as a result of this regulatory capital rule, it was likely that many of these institutions would pursue repayment before 2018. Three credit union representatives we interviewed whose CDCI securities had a maturity date of 2018 stated that they hoped to either increase their earnings or find alternative sources of secondary capital in time to replace the CDCI capital.

Treasury officials stated that they had not yet determined an exit strategy for CDCI but were studying various alternatives and would need to consider the interests of participating institutions and taxpayers. The officials noted that CDCI differed from CPP because of the mission of the participating institutions, which focused on communities and populations lacking access to credit, banking, and other financial services. To date, Treasury has had a number of meetings with participating banks and with

¹⁵Basel III is a set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision, and risk management of the banking sector. The measures include both liquidity and capital reforms. The Basel Committee on Banking Supervision, on which the United States serves as a participating member, developed international regulatory capital standards through a number of capital accords and related publications, which have collectively been in effect since 1988. Basel III does not apply to credit unions.

organizations representing the banks in the program and said that it was aware that these organizations were also looking at alternatives for the banks' exit from CDCI. Treasury officials said that they had not yet held similar meetings with organizations representing credit unions but planned to do so. In addition, Treasury officials said that they would meet with the federal financial regulators to discuss options. Treasury officials added that any decision would need to balance the mission of CDCI with the need to protect the taxpayers' investment.

Treasury officials stated that, like CPP, CDCI would wind down as participants (1) repaid their investments; and (2) in some cases, restructured them. While they had not yet determined what approach they would use for CDCI participants that did not follow either of these courses, Treasury officials said that they were exploring a number of options. Treasury has used auctions to sell some of its investments in CPP institutions.¹⁶ According to representatives of one organization we spoke with, some CDCI participants expressed concern that Treasury would also use the auction method for CDCI after announcing its auction strategy for CPP in 2012. These representatives noted that participants' mission to serve communities that lacked access to financial services might suffer if investors such as hedge funds bought their securities from Treasury, because the investors' interests would not necessarily align with the institutions' interests.

Similarly, representatives from the same organization told us that several CDCI banks and credit unions were classified as minority depository institutions and that some of these institutions had concerns that auctions could weaken their status as such. The Federal Deposit Insurance Corporation (FDIC) defines a minority depository institution as any federally insured depository institution with 51 percent or more minority ownership of its voting stock, or a majority of the Board of Directors is minority and the community that the institution serves is predominantly

¹⁶In 2013, we reported that Treasury had recouped 84 percent of the principal investment in the relevant institutions through auctions. Treasury officials said that despite the loss of some principal, accepting a discount and transferring ownership of these institutions to the private sector was in the taxpayers' best interest. GAO, *Troubled Asset Relief Program: Treasury's Use of Auctions to Exit the Capital Purchase Program*, [GAO-13-630](#) (Washington, D.C.: July 8, 2013).

minority.¹⁷ NCUA requires a federally insured credit union's percentage of both minority members and minority management officials to exceed 50 percent for minority depository institution status.¹⁸ Treasury officials told us that they were aware of the issues that auctions could present for CDCI institutions and had not determined whether they would incorporate auctions into their CDCI exit strategy. Further, when concerns first surfaced in 2012, after auctions were announced for CPP, Treasury issued a public statement clarifying that it had not yet determined what exit strategies would be used for CDCI. Treasury officials also told us that a few minority depository institutions had been part of the CPP auction process and that Treasury consulted with FDIC on this matter for the CPP auctions. According to FDIC officials, FDIC was notified of the details of these auctions before they were finalized, and the officials stated that none of the CPP auctions affected the designation of any minority depository institutions.

Financial Health of Remaining Institutions Is Mixed

Most CDCI institutions have paid dividends and interest to Treasury on a timely basis, with only a small percentage missing payments over the life of the program. In addition, few of the remaining CDCI banks and credit unions are considered troubled by FDIC or NCUA. Moreover, remaining CDCI banks generally are financially stronger than certified CDFI banks that did not participate in the program, but remaining CDCI credit unions are generally weaker than nonparticipating CDFI credit unions.

¹⁷FDIC's Policy Statement Regarding Minority Depository Institutions is based on the statutory framework found in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, § 308, 103 Stat. 183, 353 (codified as amended at 12 U.S.C. § 1463 note). The act requires Treasury to consult with federal depository regulators, including FDIC, to further a number of goals related to minority depository institutions, including preserving their minority character in cases of merger or acquisition.

¹⁸NCUA's definition for a minority depository institution is contained in a proposed rule, which was approved by the NCUA Board on July 25, 2013 and is not yet finalized. See Proposed Interpretive Ruling and Policy Statement 13-1, 78 Fed. Reg. 46,374 (July 13, 2013).

Few CDCI Institutions Have Missed Payments or Been Considered Troubled by Regulators

The number of CDCI institutions with missed quarterly dividend or interest payments has been generally low, representing, on average, about 4 percent of all remaining institutions over the life of the program. The percentage of remaining institutions with missed payments has ranged from about 1 percent to 7 percent (one to six institutions). Since November 2010 (the first quarter that dividend and interest payments were due), nine institutions (seven banks and two credit unions) have missed at least one quarterly payment.¹⁹ Of those institutions, three banks have missed at least eight payments, the threshold at which Treasury has the right to elect directors to their boards.²⁰ As of April 30, 2014, Treasury had not appointed directors to the board of any CDCI banks, but it had sent an observer to one bank and requested to send an observer to a second bank. Two of the three banks with eight or more missed payments were up to date on their payments as of April 30, 2014, while the third was not. Institutions can elect whether to pay dividends and interest 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.²¹ However, investors may 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.

Very few of the remaining CDCI institutions were included on FDIC's or NCUA's most recent lists of "problem" or "troubled" banks or credit unions.²² The designation of these institutions as "problem" or "troubled" is, in large part, derived from the Uniform Financial Institutions Rating

¹⁹CDCI 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 February 15, 2014 Dividend and Interest Report is the most recent data available for a month in which dividends are due.

²⁰This authorization does not apply to credit unions.

²¹For credit unions, dividends generally refer to interest paid on deposits.

²²FDIC provided us the number of remaining CDCI banks on its problem bank list as of February 28, 2014. Similarly, we obtained information from NCUA on the number of remaining CDCI credit unions it considered "troubled" as of March 13, 2014.

System, commonly known as CAMELS.²³ Stated differently, these lists designate institutions with weaknesses that threaten their continued financial viability. Federal and state regulators generally do not allow institutions on these lists to make dividend payments in an effort to preserve their capital and promote safety and soundness.

Banks Remaining in CDCI Were Generally Financially Stronger Than Non-CDCI Banks, but Remaining Credit Unions Were Generally Weaker Than Non-CDCI Credit Unions

The financial health of remaining banks and credit unions differed relative to institutions that did not participate in CDCI. We examined various measures that described banks' and credit unions' capital adequacy, profitability, asset quality, and ability to cover losses. We analyzed quarterly regulatory reports from December 31, 2013 (the most recent reporting period for which data were available for both banks and credit unions) on the 68 institutions remaining in the program as of April 30, 2014. We then compared the data to information on nonparticipating CDFI-certified banks and credit unions.²⁴

Banks

On several measures of financial strength, remaining CDCI banks tended to be financially stronger than certified CDFI banks that did not participate in CDCI (non-CDCI banks) (see table 2). We found that the median asset size of CDCI banks as of December 31, 2013, was nearly three times that of non-CDCI banks (\$387.4 million for CDCI banks compared with \$143.3 million for non-CDCI banks). While only 1 of the 29 remaining CDCI banks (about 3 percent) had assets of less than \$100 million, 32 of the 97 non-CDCI banks (33 percent) had assets in this range. Remaining CDCI banks also had lower median Texas Ratios than non-CDCI banks. The Texas Ratio helps determine a bank's likelihood of failure by comparing its troubled loans to its capital. The higher the ratio, the more likely the

²³CAMELS ratings reflect a bank's or credit union's condition in six areas: capital, asset quality, management, earnings, liquidity, and sensitivity to market risk. (NCUA rates credit unions under the first five areas, but its rating system does not include a component for measuring sensitivity to market risk.) Each component is rated on a scale of 1 to 5, with 1 being the best and 5 the worst. The component ratings are then used to develop a composite rating, also ranging from 1 to 5. Institutions with composite ratings of 1 or 2 are considered to be in satisfactory condition, while institutions with composite ratings of 3, 4, or 5 exhibit varying levels of safety and soundness problems. Institutions with composite ratings of 4 or 5 are included on FDIC's problem bank list or NCUA's troubled credit union list.

²⁴Our bank analysis included 29 remaining CDCI banks and 97 non-CDCI banks. Our credit union analysis included 39 remaining CDCI credit unions and 126 non-CDCI credit unions.

institution is to fail. As of December 31, 2013, remaining CDCI banks had a median Texas Ratio of 29.01, compared with 35.05 for non-CDCI banks.

Table 2: Aggregate Financial Information on Remaining Community Development Capital Initiative (CDCI) Banks and Non-CDCI Banks, as of December 31, 2013

	Remaining CDCI banks	Non-CDCI (all other CDFI banks) ^a
Number of institutions	29	97
Total assets (dollars in thousands)	\$387,410	\$143,335
Texas Ratio ^b	29.01	35.05
Return on average assets	0.73	0.40
Noncurrent loan percentage	2.35	3.35
Net charge-offs to average loans ratio	0.35	0.30
Tier 1 risk-based capital ratio ^c	15.88	13.67
Common equity tier 1 ratio	14.44	13.50
Reserves to nonperforming loans	61.30	41.68

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 from December 31, 2013 on the 29 banks that remained in CDCI as of April 30, 2014, and 97 banks that did not participate in CDCI. Financial data were available from SNL Financial for 27 of the 29 CDCI institutions, and we accounted for the remaining 2 institutions using SNL Financial information for the subsidiary.

^aThe non-CDCI group consisted of 97 banks that were certified as Community Development Financial Institutions (CDFI) by Treasury's CDFI Fund and would have been eligible for CDCI, but did not participate.

^bThe Texas Ratio is defined as nonperforming assets plus loans 90 or more days past due divided by tangible equity and reserves.

^cThe Tier 1 risk-based capital ratio measures Tier 1 capital as a share of risk-weighted assets.

Remaining CDCI banks performed better than non-CDCI banks with regard to profitability and asset quality. Specifically, remaining CDCI banks had a better median return on average assets, a measure of profitability relative to total assets and management's efficiency at using its assets to generate earnings. As of December 31, 2013, remaining CDCI banks had a median return on average assets of 0.73, compared with 0.40 for non-CDCI banks. While 1 of the 29 remaining CDCI banks (about 3 percent) had a negative return on average assets, 32 of the 97 non-CDCI banks (33 percent) had negative values for this ratio, indicating that the non-CDCI banks had more challenges with regard to managing their assets. In addition, remaining CDCI banks generally held better performing assets than non-CDCI banks. For example, remaining CDCI banks had a lower median percentage of noncurrent loans than non-

CDCI banks. As of December 31, 2013, a median of 2.35 percent of loans for remaining CDCI banks were not current, compared with 3.35 percent for non-CDCI banks. However, remaining CDCI banks had a slightly higher median ratio of net charge-offs to average loans than non-CDCI banks (0.35 compared with 0.30).²⁵

Remaining CDCI banks also held more regulatory capital as a percentage of assets than non-CDCI banks. Regulators require minimum amounts of capital to lessen an institution's risk of default and improve its ability to sustain operating losses. Regulatory capital can be measured in several ways, but we focused on tier 1 capital, which includes both a tier 1 capital ratio and common equity tier 1 ratio, because it is the most stable form of regulatory capital.²⁶ The tier 1 risk-based capital ratio shows tier 1 capital as a share of risk-weighted assets; the common equity tier 1 risk-based capital ratio shows tier 1 common equity as a share of total risk-weighted assets. Tier 1 common equity generally does not include CDCI or other TARP funds. Both ratios were higher for the remaining CDCI banks than for non-CDCI banks, suggesting that the CDCI banks were in a somewhat better position to avoid financial losses. As of December 31, 2013, remaining CDCI banks had a median tier 1 capital ratio of 15.88, compared with 13.67 for the non-CDCI banks. The median common equity tier 1 ratio for the remaining CDCI banks was 14.44, compared with 13.50 for non-CDCI banks.

Finally, remaining CDCI banks had higher reserves for covering losses compared with non-CDCI banks. Higher reserves suggest that the banks are better positioned to withstand losses. As of December 31, 2013, the median ratio of reserves to nonperforming loans was about one-third

²⁵A charge-off occurs when a bank recognizes that a particular asset or loan will not be collectible and must be written off.

²⁶In October 2013, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System adopted joint final rules that established new minimum regulatory capital requirements for U.S. banking organizations. 78 Fed. Reg. 62,018. The Federal Deposit Insurance Corporation adopted a substantively identical final rule in April 2014. 79 Fed. Reg. 20,754. The new minimum risk-based capital ratios include a common equity tier 1 capital ratio, a tier 1 capital ratio, and a total capital ratio. Common equity tier 1 capital generally includes retained earnings and common stock that meets certain criteria after making certain capital deductions and adjustments. Additional tier 1 capital generally includes certain noncumulative perpetual preferred stock, related surplus and minority interests that are not included in common equity tier 1 capital, and preferred stock and other instruments issued under EESA. 78 Fed. Reg. 62,018. The new rules are generally effective January 1, 2015, for smaller banking organizations.

greater for remaining CDCI banks as for non-CDCI banks (61.30 compared with 41.68). However, similar percentages of banks in each group (about 14 percent of CDCI banks and about 18 percent of non-CDCI banks) had ratios of reserves to nonperforming loans exceeding 100.00. In other words, these banks had at least one dollar of reserves for every potential dollar of losses on nonperforming loans.

Credit Unions

CDCI credit unions had lower assets and were generally weaker than nonparticipating certified CDFI credit unions (non-CDCI credit unions) on several measures that regulators commonly use to assess the financial health of these institutions. Specifically, as of December 31, 2013, CDCI credit unions had a median asset size of \$19.3 million, compared with \$29.9 million for non-CDCI credit unions (see table 3). While the largest CDCI credit union had assets of less than \$300 million, 6 of the 126 non-CDCI credit unions had assets exceeding \$1.0 billion. Remaining CDCI credit unions were less profitable than non-CDCI credit unions and held slightly more poorly performing assets. As of December 31, 2013, remaining CDCI credit unions also had a median return on average assets of 0.27, compared to 0.53 for non-CDCI credit unions. A greater percentage of the remaining CDCI credit unions than non-CDCI credit unions had a negative return on average assets (about 26 percent, or 10 of 39 CDCI credit unions, compared to about 19 percent, or 24 of 126 non-CDCI credit unions). A negative return on average assets means that the credit union's earnings did not cover its operating expenses and cost of funds. In addition, remaining CDCI credit unions held more poorly performing assets than non-CDCI credit unions. For example, remaining CDCI credit unions had a delinquent loan ratio of 1.78, compared to 1.43 for non-CDCI credit unions.²⁷ However, remaining CDCI credit unions had a slightly lower median ratio of net charge-offs to average loans than non-CDCI credit unions (0.54 compared with 0.61), indicating slightly more effective lending and collection practices.

²⁷The delinquent loans ratio represents all loans 60 days or more past due, divided by total loans.

Table 3: Aggregate Financial Information on Remaining Community Development Capital Initiative (CDCI) Credit Unions and Non-CDCI Credit Unions, as of December 31, 2013

	Remaining CDCI credit unions	Non-CDCI (all other CDFI credit unions) ^a
Number of institutions	39	126
Total assets (dollars in thousands)	\$19,255	\$29,855
Return on average assets (percent)	0.27	0.53
Delinquent loans ratio	1.78	1.43
Net charge-offs to average loans ratio	0.54	0.61
Net worth ratio	7.35	9.98
Delinquent loans to net worth ratio	9.18	8.30

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 from December 31, 2013 on the 39 credit unions that remained in CDCI as of April 30, 2014, and 126 credit unions that did not participate in CDCI.

^aThe non-CDCI group consisted of 126 credit unions that were certified as Community Development Financial Institutions (CDFI) by Treasury's CDFI Fund and would have been eligible for CDCI, but did not participate.

Remaining CDCI credit unions also had less capital as a percentage of total assets than non-CDCI credit unions.²⁸ Specifically, remaining CDCI credit unions had a lower median net worth ratio—net worth as a percentage of total assets—than non-CDCI credit unions. Net worth mitigates fluctuations in earnings, supports growth, and provides protection against insolvency. As of December 31, 2013, CDCI credit unions had a median net worth ratio of 7.35, compared with 9.98 for non-CDCI credit unions.²⁹ For purposes of capital adequacy, a net worth of 7 percent or greater of total assets is considered well-capitalized. Forty-one percent of the remaining credit unions (16 of 39) had net worth ratios less than 7 percent, while only about 10 percent of non-CDCI credit unions (12 of 126) fell below the 7 percent threshold.

²⁸Unlike banks, credit unions measure their capital in terms of net worth, which is typically limited to retained earnings (in other words, undivided earnings, regular reserves, and any other appropriations designated by management or regulatory authorities). Credit unions with a low-income designation may also apply uninsured secondary capital to their net worth. Credit unions in CDCI all have a low-income designation.

²⁹We removed secondary capital from the net worth ratio calculation in order to show how all institutions compared without the addition of CDCI or other sources of secondary capital.

Finally, CDCI credit unions were at slightly greater risk of experiencing a decline in net worth from delinquent loans than non-CDCI credit unions. For a credit union, declining net worth is similar to a bank's having lower reserves for covering losses. As of December 31, 2013, remaining CDCI credit unions had a median ratio of total delinquent loans to net worth of 9.18, compared to 8.30 for non-CDCI credit unions.³⁰

Agency Comments

We provided a draft of this report to Treasury, FDIC, and NCUA for their review and comment. Treasury provided written comments that we have reprinted in appendix II. In its written comments, Treasury concurred with our findings, noting that the report provides constructive insights into Treasury's efforts to help CDFIs and the communities they serve cope with the effects of the financial crisis. Treasury stated that it continues to explore various exit strategies for its CDCI investments and that any decision would need to balance the mission of CDCI, which focuses on communities and populations that lack access to certain financial services, with the need to protect the taxpayers' investment. NCUA also provided written comments that we have reprinted in appendix III. NCUA agreed with our representation of credit union information. Treasury, FDIC, and NCUA also provided technical comments, which we incorporated as appropriate.

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

If you or your staff members have any questions about this report, please contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

³⁰NCUA uses the delinquent loans to net worth ratio rather than the reserves to nonperforming loans ratio that we presented for the bank analysis.

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 IV.



A. Nicole Clowers
Director
Financial Markets and Community Investment

List of Committees

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
United States Senate

The Honorable Patty Murray
Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate

The Honorable Hal Rogers
Chairman
The Honorable Nita Lowey
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Jeb Hensarling
Chairman
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

This report examines (1) the financial status of the Department of the Treasury's (Treasury) Community Development Capital Initiative (CDCI), including repayments and other proceeds, investments outstanding, and the estimated lifetime cost of the program; (2) factors affecting participants' decisions to remain in or leave the program and Treasury's exit strategy; and (3) the financial condition of institutions remaining in CDCI.

To assess the financial status of CDCI, we analyzed data from Treasury. In particular, we used Treasury's April 2014 Monthly Report to Congress and April 2014 Dividends and Interest Report to determine the dollar amounts of principal, dividends, and interest; outstanding investments; the number of remaining and former participants; and the estimated lifetime cost of the program.

To examine factors affecting participants' decisions to remain in or leave the program and Treasury's exit strategy, we selected and attempted to contact a nonprobability, judgmental sample of 9 of the 29 banks and 12 of the 40 credit unions remaining in CDCI as of March 31, 2014. To draw the sample, we split the remaining institutions into banks and credit unions and divided each list of institutions into four groups according to their total asset size as of September 30, 2013.¹ We selected the largest three banks and the largest credit union. We then randomly ordered the other institutions based on asset size categories and selected the first two to five institutions in each category, depending on the total number of institutions in that category. We selected and attempted to contact 9 banks and 12 credit unions. These samples reflected each institution type's proportions in the total list of 69 remaining institutions and reflected a variety of geographic areas. We were able to conduct interviews by phone with managers at 8 of the 9 banks and 9 of the 12 credit unions. These interviews consisted of a brief set of questions about each institution's negative and positive experiences with CDCI, their plans for repayment, and factors affecting those plans. The results of our interviews cannot be generalized to all remaining CDCI banks and credit unions. We also interviewed officials from the National Credit Union Administration (NCUA), associations that represent banks and credit

¹The September 30, 2013 total assets information was the most recent data available in SNL Financial for both banks and credit unions when we ran the SNL report in February 2014. The number of institutions remaining in CDCI did not change from February to March 2014.

unions that received CDCI capital, and an organization that invests in some of the CDCI banks, to obtain their observations on the same topics. Specifically, we met with representatives of the Community Development Bankers Association, the National Bankers Association, the National Federation of Community Development Credit Unions, the National Association of Federal Credit Unions, and the National Community Investment Fund. Finally, we reviewed Treasury reports and public statements and interviewed Treasury officials to obtain information on CDCI and Treasury's exit strategy.

To assess the financial condition of institutions that received investments under CDCI, we used data from Treasury's Dividends and Interest reports from November 2010 through February 2014 (the most recent month in which quarterly payments were due) 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 (FDIC) the number of remaining CDCI banks (as of Feb. 28, 2014) on its problem bank list. Similarly, we obtained information from NCUA on the number of remaining CDCI credit unions it considered "troubled" as of March 13, 2014.

In addition, we used SNL Financial (a private service that disseminates data from quarterly regulatory reports, among other information) to obtain regulatory financial data on the 68 remaining CDCI banks and credit unions and on comparison groups of institutions that were eligible for but did not participate in CDCI. To identify the comparison groups, we used Treasury's CDFI Fund's list of certified CDFIs as of February 28, 2014. This list included 127 banks, thrifts, and depository institution holding companies, as well as 176 credit unions.² We chose to limit our comparison groups to certified CDFIs rather than the universe of banks and credit unions because they shared a community development mission and generally have smaller asset sizes. SNL Financial had data on all of the 127 CDFI banks, thrifts, and depository institution holding companies ("banks") and 171 of the 176 CDFI credit unions. We divided the bank and credit union lists into three groups each: (1) those remaining in CDCI, (2) those that had exited CDCI, and (3) those that had never participated in CDCI. We defined remaining CDCI institutions as those

²The list of certified CDFIs also included loan funds and venture capital funds. However, we did not include these unregulated entities in our comparison groups because they were not eligible for CDCI.

with their full or partial investments outstanding; this group included the 29 banks and 39 credit unions. For both the bank and credit union analyses, we excluded the institutions that had exited CDCI because of the small size of these groups of institutions. For example, six banks had exited CDCI as of April 30, 2014, but SNL Financial only had current data on three of them because the others had been acquired. Similarly, SNL Financial had current data only on seven of the nine credit unions that had exited as of April 30, 2014. We determined that the median values for these small groups would not provide a meaningful illustration of the financial condition of exited institutions. The final comparison groups included 97 non-CDCI banks and 126 non-CDCI credit unions.

We conducted separate analyses for banks and credit unions because the two types of institutions file different regulatory reports and have different financial indicators. For our bank analysis, we used financial measures that were similar to those we had identified in our previous reporting on banks participating in Treasury's Capital Purchase Program (CPP). 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. For our credit union analysis, we obtained information from NCUA on the measures it typically uses to assess credit unions' financial health. We selected at least one measure in each of the four categories (profitability, asset quality, capital adequacy, and loss coverage) we used for the bank analysis. We chose to present median values.

We determined that the financial information used in this report, including the CDCI program data from Treasury and the financial data on banks and credit unions from SNL Financial, was sufficiently reliable to assess the status and condition of CDCI and institutions that participated in the program. For the data from Treasury, we tested Treasury's internal controls over financial reporting as they related to our annual audit of the Troubled Asset Relief Program (TARP) financial statements and found the information to be sufficiently reliable based on the results of our audits of fiscal years 2010 through 2013 financial statements.³ We assessed the

³See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2013 and 2012 Financial Statements*, [GAO-14-172R](#) (Washington, D.C.: Dec. 11, 2013) and *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).

reliability of the SNL Financial data by performing manual testing of required data elements and reviewing existing information about the data and the system that produced them. In addition, we have assessed the reliability of SNL Financial data 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 February 2014 to June 2014 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.

Appendix II: Comments from the Department of the Treasury's Office of Financial Stability



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 23, 2014

Nikki Clowers
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Clowers:

The Department of the Treasury (Treasury) welcomes the opportunity to provide comments to your draft report on the Community Development Capital Initiative (CDCI), entitled *Community Development Capital Initiative: Status of the Program and Financial Health of Remaining Participants* (Draft Report).

GAO's Draft Report provides constructive insight on Treasury's efforts to help certified Community Development Financial Institutions (CDFI) and the communities they serve cope with effects of the financial crisis. CDCI provided approximately \$570 million in funding to 84 banks and credit unions, and as the Draft Report notes, the funding included favorable capital terms with low dividend rates and later step-up dates, which is an important benefit for CDFIs that often do not have the same access to capital markets as larger banks. Currently, 69 of the original 84 CDCI institutions remain in the program.

Treasury continues to study various exit strategies with respect to its CDCI investments. As the Draft Report points out, any decision would need to balance the mission of the CDCI program — which focuses on communities and populations lacking access to credit, banking and other financial services — with the need to protect the taxpayer's investment.

Treasury values GAO's review and analysis of the CDCI, and we look forward to continuing to work with you and your team on these important matters.

Sincerely,

A handwritten signature in cursive script, appearing to read "Timothy J. Bowler".

Timothy J. Bowler
Acting Assistant Secretary for Financial Stability

Appendix III: Comments from the National Credit Union Administration



Executive Director

National Credit Union Administration

May 22, 2014

Ms. Kay Kuhlman
Assistant Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Kuhlman:

We reviewed the U.S. Government Accountability Office's report entitled *Community Development Capital Initiative: Status of the Program and Financial Health of Remaining Participants (GAO-14-579)*.

The report clearly describes the financial condition of credit union participants of the Community Development Capital Initiative and the reasons they offer for their continued participation in the initiative.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads 'Mark Treichel'.

Mark Treichel
Executive Director

1775 Duke Street - Alexandria, VA 22314-3428 - 703-518-6320

Appendix IV: 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, Kay Kuhlman (Assistant Director), Lisa Reynolds (Analyst-in-Charge), Emily Chalmers, William Chatlos, Chris Forys, Marc Molino, and Patricia Moye made significant contributions to this report.

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