Banks Remain Committed to Repaying TARP

TARP was successful in restoring stability in our financial system through Treasury's ***successful and profitable investments*** in banks. Demonstrating the financial industry's commitment to repay TARP, banks have repaid more than the Treasury's initial investment, resulting in profits for taxpayers. However, community banks have faced additional challenges due to local economic conditions, impeding their ability to repay TARP as quickly as large institutions.

➢ TARP's Bank Programs – Profits Over $22 Billion

TARP's bank programs will ultimately provide a profit to the taxpayer of over $22 billion, according to the Special Inspector General.[1] Treasury Secretary Geithner stated, "We estimate that in the aggregate, major bank stabilization programs funded through TARP will yield a positive net return…thanks to dividends, interest, early repayments, and the sale of warrants."[2] TARP's bank programs, often misperceived as causing losses, have already provided a significant return of 10 percent according to the Congressional Oversight Panel.[3] With the expiration of TARP funding authorization, no new investments can be made.

➢ Banks Have Repaid 90 Percent of Principal Investment

Banks have repaid $184.9 billion, 90 percent, of Treasury's principal investment. As of September 2011, the Treasury had received $11.2 billion in dividends and interest from financial institution investments, and another $7.6 billion through the sale of warrants.[1] Large institutions have made a majority of the principal repayments and have exited TARP, while community bank participants remain in the program. Smaller institutions lack access to broad capital markets and, in periods of weak economic growth, raising capital from local markets can be difficult. Such conditions make repayment of TARP more of a challenge for small banks.

➢ Banks' Missed Dividends Are Only 2 Percent of What Was Due

Banks have paid 98% of scheduled dividend payments on time. One hundred ninety-three institutions have postponed $357 million of the $14.9 billion in scheduled dividends, or 2 percent of the original amount due. The majority of the suspended payments, 96 percent, are cumulative, meaning the bank is required to pay the dividend in the future, and should therefore, not be interpreted as a loss on the TARP investment.

➢ Weak Local Economies Explain Missed Dividends

Florida, followed by New York and California, are home to the majority of banks that have postponed dividend payments – not surprising as consumers, businesses, and banks in these areas have endured greater exposure to distressed real estate markets and economic weaknesses than other areas. Acknowledging the need for ample capital during tough economic times, regulators have prohibited some banks from paying dividends.

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[1] SIGTARP Quarterly Report to Congress, October 27, 2011. Link
[2] Testimony before the Congressional Oversight Panel, December 10, 2009. Link
[3] Congressional Oversight Panel Final Report, March, 16, 2011. Link