

TARP's Bank Programs Profitable

Losses Stem from Non-Banks

TARP's bank programs were successful and profitable capital investments in viable banks that met their primary goals of unfreezing interbank lending markets, instilling stability in the nation's financial system, and supporting against a severe contraction in lending that is typical of most recessions.

However, TARP was expanded beyond its original purpose of supporting banks to cover for losses of auto companies, the insurance company AIG, and the Treasury's mortgage modification programs. These secondary non-bank programs have generated *all* of the expected TARP losses. ***Had TARP been limited to banks, there would be no taxpayer losses – only a significant profit.***

"[A]ssistance to banks, once thought to cost taxpayers untold billions, is on track to actually reap billions in profits for the taxpaying public."

- President Barack Obama, December 2009ⁱ

➤ 92% of Treasury's Bank Investments Have Been Repaid

From October 2008 through December 2009, Treasury invested over \$244 billion in viable banks of all sizes. To date, banks have repaid \$225 billion or 92% of Treasury's initial investment. More than 96% of the 707 participating institutions were community banks – institutions with less than \$1 billion in assets. As of July 2011, 539 institutions held TARP investments, most of which were community banks.

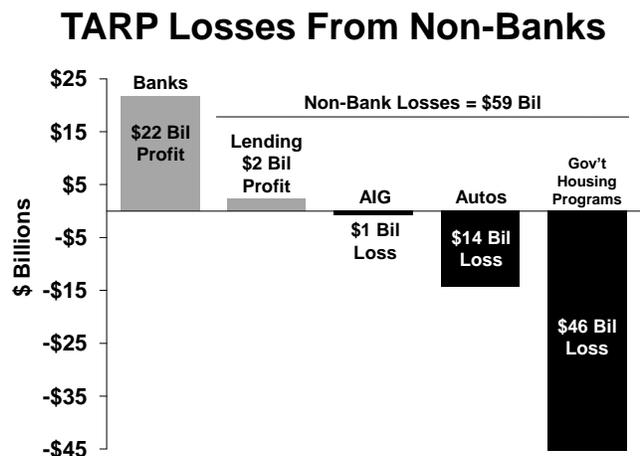
➤ TARP To Earn \$22 Billion in Profits from Banks

In exchange for the capital investment, Treasury earns a profit through two avenues: (1) warrants that are later sold or repurchased and (2) quarterly dividends or interest payments. To date, Treasury has earned \$7.6 billion from warrants and \$14.6 billion in dividends and interest from bank programs. After accounting for costs, the Treasury expects to earn \$22 billion in profit from the banking industry - a significant return of 10.0 percent according to the Congressional Oversight Panel.ⁱⁱ

➤ Non-Banks Causing TARP Losses

Non-bank programs are responsible for all of the losses associated with TARP. According to Treasury's October 2011 report, TARP's non-bank programs are expected to generate \$59 billion in losses, while investments in banks are set to return billions in profit to the taxpayers.ⁱⁱⁱ

Treasury made the distinction between the profitable bank programs and the costly non-bank programs saying, "every one of its programs aimed at stabilizing the banking system... will earn a profit thanks to dividends, interest, early repayments, and the sale of warrants."^{iv}



Source: Treasury 3-Year TARP Anniversary Report, October 2011.

➤ **Banks Used TARP Investments to Support Lending**

Despite the weak economy and lackluster loan demand, a focus on extending credit is widespread amongst banks, as 85 percent of participants used their capital to directly support lending.

According to Treasury, 53 percent of participants said the funds helped bolster reserves, which are required by their regulator to absorb losses.^v

Forty-six percent of participants used the investment to bolster capital, supporting many smaller institutions who lack access to large capital markets.

Forty-two percent invested portions of the funds in mortgage-backed securities from Fannie Mae and Freddie Mac – investments that provided immediate support to funding markets, which had largely disappeared. Stable funding markets provide liquidity that aids lending at other banks and positions the banks for future increased lending.

Banks' Use of TARP Funds

Use	% of Respondents
Support Lending	85%
Increase Reserves	53%
Bolster Capital	46%
Purchase Securities	42%
Reduce Borrowings	38%

Percentages do not total 100, as respondents reported multiple uses of funds.

Source: Treasury's 2010 Use of Capital Survey

➤ **TARP Tax Misguided and Causes Broad Unintended Consequences**

The “Financial Crisis Responsibility Fee” proposed by the White House would have numerous unintended consequences for the industry, borrowers, and economy. The 10-year, \$30 billion tax imposed on institutions with assets over \$50 billion would broadly disrupt funding markets and increase the cost of borrowing for consumers and small businesses.

The tax immediately reduces income, which decreases retained earnings and shrinks capital. As each dollar of capital supports seven to ten dollars of lending, the imposition of the tax would reduce lending by up to **\$300 billion**.

Given the non-banks programs are responsible for all of TARP’s losses, the bank tax is an arbitrary tax on institutions of a certain size without regard to where the losses actually occurred. The Congressional Budget Office acknowledged this, saying “the firms paying the fee would not be those that are directly responsible for losses realized by TARP.”^{vi}

The law requires a report on TARP losses in 2013, to form a clearer picture of the magnitude and source of losses. As cost estimates continue to decline, and expected profit from the bank programs rises, imposition of any tax – particularly one that carries such heavy and broad consequences – is premature and inappropriate.

ⁱ Speech at The Brookings Institution, December 8, 2009. [Link](#).

ⁱⁱ Congressional Oversight Panel Final Report, March 16, 2011.

ⁱⁱⁱ Treasury’s TARP 3-Year Anniversary Report, October 2011. [Link](#).

^{iv} Treasury Press Release, December 9, 2009. [Link](#).

^v Treasury’s 2010 Use of Capital Survey. [Link](#).

^{vi} Congressional Budget Office letter to Senator Grassley, March 4, 2010. [Link](#).