

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

April 13, 2010

The Honorable Timothy F. Geithner
Secretary of the Treasury
United States Department of the Treasury
Room 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

Thank you for the March 18th briefing from staff of the Office of Financial Stability on the subject of evaluating proposals from TARP-recipient institutions concerning CPP restructurings or other recapitalizations.

The fact that Treasury has had to establish policies and structure a process for handling TARP-assisted banks that are on the brink of failure raises questions that the Panel would like to pursue further. Of the 707 TARP-assisted banks, three have now failed, resulting in losses of \$2.3 billion and an additional \$300 million in potential losses to the TARP. The number of TARP-assisted institutions missing at least one regular dividend payment has now risen to 82 as of February 2010. Among TARP-recipient banks with publicly traded stock, 84 have both commercial real estate loans in excess of 300 percent of their total capital and construction and land development loans in excess of 100 percent of their total capital – criteria that the regulators have established for determining whether an institution has a commercial real estate concentration risk. Further, although we do not have access to the names of the banks on the FDIC's problem institution list, it appears that of the 702 institutions currently on that list, approximately 15-20 are likely to be TARP-assisted banks. With this information as background, we would like answers to the following questions:

- What is the extent of Treasury's exposure to failing TARP-assisted banks? What factors or indicators did Treasury consider in estimating its exposure? How many TARP-assisted banks are on the FDIC's problem institutions list and what are their sizes? What is the current condition of these problem institutions, both in terms of capital and loan losses? What other indicators are you tracking in order to assess the condition of all TARP-assisted banks? Have your analyses uncovered any trends in the condition of TARP-assisted banks? If so, what are these trends?

- In meetings with Treasury soon after the COP was established, the Panel was repeatedly assured that TARP assistance was going only to “healthy banks.” What happened to these banks after the infusion of TARP funds that caused them to go from healthy to unhealthy? What was the condition of these institutions (both failed and in serious jeopardy of failing in the next 24 months) at the time they received CPP funds? What information did the regulators convey to you concerning the condition of these banks at the time they received CPP funds? How has their capital position and overall balance sheet changed since then? To what degree is the deterioration in the condition of these banks attributable to mismanagement after the infusion of TARP funds? If the decline is attributable to the severe recession, why did it affect these banks but not others? Did these particular banks deteriorate for other reasons? If so, what were these reasons? Further, why did Treasury not perceive that these institutions were unhealthy at the time of their initial investment? Have you discovered any information since the time of the initial CPP investment that suggests that Treasury’s decision to provide TARP funds to particular institutions was, in retrospect, ill-advised?
- How many additional failures of TARP-assisted institutions do you project in 2010 and 2011? Are the risks of loan losses concentrated in banks with particular loan profiles (e.g., CRE exposure or sub-prime mortgage loans and securities) or in particular geographic areas of the country? Are there particular patterns or sources of erosion in loan quality at these institutions?

The Panel seeks written responses to these questions by April 27, 2010. I would be happy to answer any questions about this letter that you may have. If you would prefer, a member of your staff may contact the Panel’s Executive Director, Naomi Baum, at [REDACTED].

Sincerely,



Elizabeth Warren
Chair
Congressional Oversight Panel

Cc: Mr. Paul Atkins
Mr. Mark McWatters
Mr. Richard H. Neiman
Mr. Damon A. Silvers