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US Community Development Capital Initiative (CDCI)[1]

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Yale Program on Financial Stability Case Study
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Abstract

The United States Department of the Treasury responded to the Global Financial Crisis with an economy-wide stimulus package called the Troubled Assets Relief Program (TARP). Within the portion of TARP's budget dedicated to bank investments, about $570.1 million was disbursed to community development financial institutions (CDFIs)—specifically, banks and credit unions (depositories)—in a program called the Community Development Capital Initiative (CDCI). Through the CDCI, Treasury provided capital to CDFI depositories, encouraged them to lend to small businesses, and promoted other community-oriented goals. The CDFI depositories issued either preferred shares or unsecured subordinated debentures to Treasury at low (2%) interest rates for the first eight years, and high (9%) rates thereafter. Two of the 84 participating CDFI depositories remained in the program as of October 2020. Only one recipient failed. The financial health of participating CDFI depositories is viewed to have generally improved after the investments were conducted. In late 2016 and early 2017, 26 of the participants were allowed to pay back Treasury capital at a discount usually 7% or 8% beneath notional value.

Keywords: capital injection, Community Development Financial Institution, Community Development Capital Initiative, Global Financial Crisis, TARP, US Department of the Treasury

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1 This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the Global Financial Crisis that pertain to broad-based capital injections. Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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US Community Development Capital Initiative (CDCI)

At a Glance

After the Global Financial Crisis, the US Department of the Treasury created the Community Development Capital Initiative (CDCI) to serve low-income and underbanked communities by injecting capital into community development financial institution (CDFI) depositories. CDFI depositories were banks, thrifts, credit unions, and nonprofit loan funds that Treasury had certified to be eligible for financial and technical assistance through the CDFI program. Treasury collaborated with federal regulators to review applications, identify eligible and viable institutions, fund them, monitor participants, and wind down investments. The CDCI program was introduced more than a year after the Capital Purchase Program (CPP), a larger Troubled Assets Relief Program (TARP) initiative that provided capital to commercial banks during the crisis. Most CDCI funding represented a revision to CPP investments that Treasury had already made in banks and thrifts that were CDFIs—but on better terms. The CDCI was also the first crisis-era program available to credit unions.

Throughout 2010, Treasury purchased either preferred stock shares or unsecured debentures from CDFIs, depending on the type of institution. All participants followed similar capital restrictions and payment schedules, transitioning themselves back to private stakeholders within an eight- to 30-year timeframe. Through the CDCI, Treasury extended low-cost capital while prioritizing taxpayer interests within CDFI payment schedules.

Summary of Key Terms	
Purpose: "To provide support to Main Street banks, thrifts, and credit unions that lend to small businesses and families in underserved communities."	
Announcement Date	February 3, 2010
Application Window	February 3, 2010–April 30, 2010
Funding/ Exchanges Window	February 3, 2010–September 30, 2010
Legal Authority	Emergency Economic Stabilization Act of 2008; Troubled Assets Relief Program; Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Peak Utilization	~$570.1 million provision of Tier 1, Tier 2 capital; 84 participants
Eligible Institutions	Certified Community Development Financial Institutions (CDFIs) approved by Treasury and their primary federal regulator
Administrators	US Department of the Treasury; various federal banking agencies

Summary Evaluation

Treasury did not announce a maximum investment amount, allocated $780.2 million, and ultimately disbursed approximately $570.1 million to 84 institutions, 36 banks and thrifts and 48 credit unions, through the CDCI program. As of October 2020, 82 of the original 84 institutions had exited the CDCI program: 54 fully repaid, 26 repurchased early, one went into bankruptcy, and one exited through a merger. Of the two remaining institutions, both partially repaid and one partially repurchased early. The outstanding balance stood at nearly $1 million, less than 1% of the original disbursement. Due to write-offs, the CDCI is currently estimated to fall $70 million short of full-redemption value—given Treasury assumptions about market risks. Participants showed generally improved financial health after receiving Treasury investments. In late 2016 and early 2017, 26 of the participants could pay back Treasury capital at a discount usually at 7% or 8% below notional value. Treasury was criticized for exhibiting poor communication by equivocating the program's objectives—a general criticism of TARP—and failing to collect regular information from the participants themselves. Though the program is largely over, there is still a need for more scholarship.

United States Context 2009–2010	
GDP (SAAR, nominal GDP in LCU converted to USD)	$14,628.0 billion in Q4 2009 $15,240.8 billion in Q4 2010
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	$47,100 in 2009 $48,468 in 2010
Sovereign credit rating (five-year senior debt)	As of Q4, 2009: Fitch: AAA Moody's: Aaa S&P: AAA As of Q4, 2010: Fitch: AAA Moody's: Aaa S&P: AAA
Size of banking system	$9,789.1 billion in total assets in 2009 $9,292.3 billion in total assets in 2010
Size of banking system as a percentage of GDP	66.9% in 2009 61.0% in 2010
Size of banking system as a percentage of financial system	Assets equal to 30.2% of financial system in 2009 Assets equal to 28.5% of financial system in 2010
Five-bank concentration of banking system	44.3% of total banking assets in 2009 46.0% of total banking assets in 2010
Foreign involvement in banking system	19.0% of total banking assets in 2009 16.0% of total banking assets in 2010
Government ownership of banking system	0% of banks owned by the state in 2010
Existence of deposit insurance	100% insurance on deposits up to $100,000 for 2007 100% insurance on deposits up to $250,000 for 2010
Sources: Bloomberg; World Bank Global Financial Development Database; Federal Deposit Insurance Corporation.	

I. Overview

Background

In 1994, Congress passed the Riegle Community Development and Regulatory Improvement Act, which established the Community Development Financial Institution (CDFI) Fund (CDFI Fund n.d.-a). The US Department of Treasury uses the CDFI Fund to promote local economic development by providing financial and technical assistance to financial institutions that Treasury has certified as CDFIs (CDFI Fund n.d.-d). CDFI certification requires institutions to conduct at least 60% of lending and other economic development activities in areas underserved by traditional financial institutions (Treasury 2010i). CDFIs can be regulated banks, credit unions, or nonprofit loan funds. Treasury financial assistance can be in the form of loans, grants, equity investments, deposits, and credit union shares, which CDFIs are required to match dollar-for-dollar with nonfederal funds (CDFI Fund n.d.-a). Currently, there are more than 1,000 CDFIs located throughout the United States (CDFI Fund n.d.-c).

By late 2008, the Global Financial Crisis was in full swing in the United States. On October 3, 2008, President George W. Bush signed the Emergency Economic Stabilization Act (EESA), which granted Congress the authority to purchase troubled assets from financial institutions (EESA 2008, sec. 3). Within the EESA, the Troubled Assets Relief Program (TARP) initially granted Treasury $700 billion—an amount that was later reduced to $475 billion, after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21, 2010 (Dodd-Frank 2010). Treasury disbursed public funds into five program areas: credit markets, the automotive industry, struggling homeowners, the insurance corporation American International Group (AIG), and the banking sector (Treasury 2016c). Of the $250 billion of TARP funds disbursed to the banking sector, $780.2 million was allocated to the Community Development Capital Initiative (CDCI) (SIGTARP 2010c).

In launching the CDCI, Treasury officials emphasized its focus on local financial institutions and their customers. “It’s a common misconception that TARP funds only went to large Wall Street firms, but the CDCI program is yet another example of how TARP is providing critical assistance to Main Street financial institutions,” noted Herbert Allison, Treasury assistant secretary for financial stability (Treasury 2010i). The CDCI arrived at a time when private capital had receded from community development financial institutions’ primary funding sources—banks, foundations, and socially motivated investors (Barr 2010). Donna J. Gambrell, director of Treasury’s CDFI Fund, remarked, “At a time when many institutions have pulled back, CDFIs have actually increased their lending and investments in underserved communities. These CDCI investments will enable community banks, thrifts, and credit unions to spur economic development in the communities that have been hit hardest by the economic downturn” (Treasury 2010i). At the onset of the program, Treasury framed its recapitalization of CDFI depositories as an effort to reach their low-income and underbanked clients (Treasury 2010i).

Though Treasury's initial language suggested that the program was meant to impact the participants' underlying communities via lending and investment, Treasury later revised its wording and claimed that the program was meant to help institutions achieve their individual economic development goals (GAO 2011; Treasury 2010i). The government's rhetorical inconsistencies throughout the lifespan of the program—combined with weak participant reporting—made it difficult to assess the ex post benefits and drawbacks of the capital injections. Treasury's goalpost-shifting is described in greater detail within the "Evaluation" section of the case study.

Program Description

Treasury first announced the CDCI on February 3, 2010 (Treasury 2010h). Since its origination, the CDCI was presented as a complement to the already running Capital Purchase Program (CPP), a TARP initiative that extended "capital to viable financial institutions of all sizes throughout the nation" (Treasury 2016b). In the initial press release, the CDCI was referred to as a "TARP enhancement," and its capital terms (dividend/interest rates, step-up clauses, diversity of eligible institutions) were explicitly framed as more favorable than those of the CPP (Treasury 2010h). CDCI eligibility extended to CPP participants that were certified CDFI depositories and sought lower-cost capital. Treasury and Government Accountability Office (GAO) frequently combined CDCI and CPP data in public documents.

Treasury allocated $780.2 million for the program and held an application window between February 3 and April 30, 2010—an end date that was pushed back from April 2 (SIGTARP 2010c). Transactions took place between February 3 and September 30, 2010 (Treasury 2010i). These purchases were conducted with Treasury funds, and the CDFI liabilities and equity were kept on the federal government's balance sheet (Massad and Kashkari 2018).

To review applications and actively monitor its capital injections, Treasury partnered with one or more federal regulators: the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency (OCC), National Credit Union Administration (NCUA), and Office of Thrift Supervision (OTS) (Treasury 2010a).[3] These partnerships were necessary because different financial institutions fell under the jurisdiction of different federal regulators (Treasury 2010a).

The CDCI channeled public funds to CDFI banks and credit unions (depositories). According to this case study's external reviewer, most CDFIs are nondepositories, so the CDCI was available to a minority subset of the total number of CDFIs at the time that the program was announced. Eligible institutions for the CDCI were US financial institutions certified as CDFIs by Treasury's CDFI Fund and regulated by a federal banking or credit union agency (Treasury 2010a). If an institution was eligible, the relevant federal regulator made a recommendation to Treasury about the institution's financial viability prior to the CDCI investment (Treasury 2012a). The regulator also considered in its viability assessment any private capital raised in conjunction with the CDCI capital injection (Treasury 2012a). Upon receiving applications, Treasury discussed the CDFI depository's eligibility and viability with the primary regulator to either deny or accept the application.

[3] Under §312 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Office of Thrift Supervision merged with the OCC, the Fed, the FDIC, and the Consumer Financial Protection Bureau (Dodd-Frank 2010). Though the OTS was listed in the original CDCI documentation, its CDCI responsibilities were spread across the other regulators upon the OTS merger.

Participating CDFI depositories were subject to extensive terms and conditions set by Treasury. As long as Treasury held at least 10% of its initial investment, the CDFI depository had to allow Treasury (along with Treasury's affiliates) to manage, evaluate, or transfer Treasury's investment (Treasury 2010b). The 10% threshold also entitled Treasury to examine and make copies of the CDFI depository's corporate books, and to discuss the affairs, finances, and accounts with the institution's principal officers.

In addition to data access, there were several covenants that the participating CDFI depository had to agree to follow. For example, the participant had to retain its status as a certified CDFI and needed to provide Treasury with the certification and documents to verify this status, consent to any Making Home Affordable (MHA) modification made by any nonaffiliated mortgage servicer, and participate in Treasury's MHA program under certain circumstances (Treasury 2010g).

Furthermore, the CDFI depository was not allowed to engage in any mergers or other significant corporate transaction, subject to undefined exceptions (Treasury 2010g). It also faced restrictions on common stock repurchases and dividends, including an increase of the aggregate per share dividend over the immediately prior fiscal year.

Capital terms were similar across CDFI depositories yet tailored according to the type of institution.

CDCI terms did not explicitly demand any changes to the existing board or management. However, there were limits on executive compensation and bonuses. CDCI participants were subject to the same executive compensation bonuses as other TARP participants (Treasury 2012a).

Treasury's shares were generally nonvoting. However, except for credit unions, Treasury retained the right to vote on any authorization or issuance of capital shares ranking senior to its investment; any amendment to its rights; or any merger, exchange, dissolution, or similar transaction that would adversely affect its rights. In the event of excessive nonrepayment of CDCI capital dividend/interest, Treasury gained voting rights and could place individuals on the board of the CDFI banks or thrifts, banks organized as S corporations, and mutual banks—not for credit unions, however (Treasury 2010b). If a CDFI depository wholly defaulted on its debt, the principal and accrued interest were made immediately due and payable once the "event of default" transpired.

Treasury did not initially have an exit strategy for CDCI investments. The scheduled increase in interest rates was intended to encourage participants to pay back their capital by 2018 (GAO 2016a). However, in August 2016, shortly after the Government Accountability Office noted Treasury's lack of an exit strategy, Treasury announced an early repayment program to help it "dispose of its ownership interests as quickly as practicable" (Montano 2016). Under the program, Treasury allowed participants to repay their capital at "fair value," which in practice meant a discount of usually 7% or 8% (Montano 2016).

Outcomes

Though Treasury allocated a maximum investment amount of $780.2 million, the CDCI ultimately disbursed $570.1 million to 84 institutions: 27 banks and thrifts, nine other banks organized as S corporations, and 48 credit unions (SIGTARP 2010c). The initial application window extended from February through April 2010 (SIGTARP 2010a). By the close of the application window, Treasury received applications from 56 credit unions and

37 banks and thrifts; 36 of the 37 bank applications came from CPP participants looking to exchange capital (SIGTARP 2010b). The total number of credit unions and other non-CPP participants that applied for CDCI capital has not been made public, as proposals submitted to primary regulators were kept confidential (Treasury 2012a).

As of October 2020, 82 of the original 84 institutions exited the CDCI program: 54 fully repaid, 26 fully repurchased early, one went into bankruptcy, and one exited through a merger. Of the two remaining institutions, both partially repaid and one partially repurchased CDCI capital early (Treasury 2020).

Premier Bank failed in early 2013 (Treasury 2019c). SIGTARP arrested the chairman of the board, along with two other board members and the bank president on charges of bank fraud (SIGTARP 2017). The bank obtained Treasury funds by falsifying its financial data and misrepresenting information to regulators. Treasury lost $6.7 million in TARP funds, and the bank's failure cost the FDIC an estimated $64.1 million.

Of the original 84 CDFI depositories, two credit unions have CDCI investments outstanding, with total obligations nearing $1 million (Treasury 2020). Total projected losses on the CDCI are about $70 million—versus $290 million in late 2010 (Treasury 2011b). These losses came from Treasury reselling the securities below their original purchase price and from writing off the capital of one bankrupt institution (Treasury 2019c). All other CDCI capital left Treasury's balance sheet through full repayment, early repurchase, or a merger.

One of the requirements of CDCI participation was the annual capital survey, which was intended to capture (via self-reporting) how the CDFI depositories used their capital (Treasury 2010b). These surveys were subjective; CDFI officials, in their own words, qualitatively described their use of capital with information not found in objective financial reports. From the 2017 survey of 19 CDCI and seven CPP respondents, the top cited uses of capital included: increasing lending, or reducing lending less than otherwise would have occurred (reported by 73.1%); increasing reserves for nonperforming assets (reported by 30.8%), and holding as a nonleveraged increase to total capital (reported by 11.5%) (Treasury 2019a). According to the subjective surveys of the participants, the CDCI aided CDFIs in managing liabilities as well as assets.

II. Key Design Decisions

1. Part of a Package: The CDCI was created in the likeness of the CPP to complement the CPP. Independent laws and Treasury initiatives supported small businesses thereafter.

Most of the funds invested through the CDCI program went to former CPP participants that exchanged their CPP capital for more affordable CDCI capital (Treasury 2012b). Furthermore, 10 CPP exchanges qualified for an additional round of investment beyond the original CPP investment, totaling $100.7 million (SIGTARP 2010c). The majority of participants in the CDCI program were credit unions that had not been eligible for CPP capital (GAO 2014). CDFIs run less lucrative business models than mainstream financial institutions and encounter difficulties in securing long-term, low-cost capital from private investors in a time of crisis (Barr 2010).

The CDCI copied the CPP's architecture while softening key payment factors: the CDCI decreased initial interest/dividend rates from the CPP's 5% to 2%, delayed the step-up clauses from the CPP's five years (after the original investment) to eight years, omitted the requirement on stock warrants, and increased the maximum issuance of government capital from the CPP's 3% of risk-weighted assets to 5% (GAO 2014).

Outside of TARP programs, the US Treasury also supported small businesses through the Small Business Jobs Act of 2010, which permitted Treasury to "make capital investments in eligible institutions in order to increase the availability of credit for small businesses, to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes" (SBJA 2010). Through this act, Treasury launched the State Small Business Credit Initiative (SSBCI) and provided nearly $1.5 billion to states, territories, and municipalities (CREC/CS 2016). Rather than directly injecting capital into financial institutions, Treasury supported state programs that fell into one of five categories: capital access programs, loan guarantee programs, collateral support programs, loan participation programs, and venture capital programs (CREC/CS 2016). The SSBCI funded small state programs, which filled in market gaps left by larger federal programs (CREC/CS 2016).

The CDFI Fund programs that followed the CDCI varied in their capital mechanisms, which included monetary awards, training programs, tax credits, grants, and bond guarantee programs (CDFI Fund, n.d.-b).[4]

2. Legal Authority: The legal authority for the CDCI was granted under the Emergency Economic Stabilization Act of 2008.

The CDCI was legally authorized by the Emergency Economic Stabilization Act of 2008—specifically Title I: The Troubled Assets Relief Program (EESA 2008). The broad definition of "troubled assets" available for purchase could extend to unsecured subordinated debentures and preferred equity if the secretary of Treasury were to secure the approval of the chairman of the Federal Reserve Board (EESA 2008, sec. 3).

3. Communication: Treasury made CDCI information publicly available and equivocated the goal of the program.

To communicate the CDCI, Treasury relied heavily on the Internet. Online documentation was robust, and Treasury website contained CDCI Program Documents, Program Agreements for all participating institutions, Frequently Asked Questions (FAQs) about how to participate, and other announcements (Treasury 2016a). The application guidelines webpage held hyperlinks to the websites of federal regulators, where the program details and an application portal were ultimately accessible (Treasury 2010a).[5] All of Treasury files were published in either PDF or Excel files. After the application window closed,

[4] Under §1204 of Dodd-Frank, the secretary of Treasury was permitted to "establish a multiyear program of grants, cooperative agreements, financial agency agreements, and similar contracts or undertakings to promote initiatives designed: (1.) to enable low- and moderate-income individuals to establish one or more accounts in a federally insured depository institution that are appropriate to meet the financial needs of such individuals; and (2.) to improve access to the provision of accounts, on reasonable terms, for low- and moderate-income individuals" (Dodd-Frank 2010).

[5] Federal regulators, such as the Office of the Comptroller of the Currency, advertised the CDCI using the main policy details of Treasury's first press release: CDFI requirements, individual participation limits, low- and fixed-rate dividends, conversion from CPP, and the absence of stock warrants (Treasury/OCC 2010). The narratives presented by regulators appeared consistent with one another.

Treasury announced the CDCI once more via press release on September 30, 2010 (Treasury 2010j).

The initial response to the announcement of CDCI was mixed because the stated goals of the CDCI were, at first, unclear. As "early public announcements and congressional testimony about the program emphasized that the goal of the program was to increase small business lending," some prospective applicants expressed concern about the relevance of the CDCI to their operations (GAO 2011). For example, the National Credit Union Administration and officials from a credit union industry group stressed that their institutions *did not make small business loans*.[6] In subsequent discussions with these officials, Treasury assured applicants that the purpose of the CDCI was "mainly to capitalize [CDFI depositories] so they could achieve their economic development goals"—irrespective of the operations of the CDFI (GAO 2011).

4. Administration: Treasury worked with financial regulators to review applications, to monitor outstanding funds, and to wind down investments.

Treasury relied on primary financial regulators for assistance through every step of the CDCI's lifespan. First, Treasury-regulator relationship was beneficial for Treasury. During the initial application window, potential CDCI participants were required to apply to their regulators (Treasury 2010a). The primary regulators then curated these applicant pools, endorsing the best applicants and forwarding them to Treasury for review (Massad and Kashkari 2018). The combined staff of Treasury and the primary regulators sought to prescreen institutions for eligibility and viability quickly and fairly (Massad and Kashkari 2018).

The CDCI program also helped primary regulators by strengthening some of the institutions they regulated. In several instances, the CDCI capital prevented prompt corrective action from the primary regulators (BCFCU/Treasury 2012; CCFCU/Treasury 2010; CCFCU/Treasury 2011; NSCFCU/Treasury 2012).

Treasury–regulator relationship made it easier for CDFI depositories to decide whether to apply for funding. The regulators decided whether the CDCI was an appropriate program for the CDFI in question, so the CDFIs could not expend resources by assembling an application to Treasury (Treasury 2010a).

5. Governance: Independent assessments on the CDCI were assigned to the US Government Accountability Office and to the Special Inspector General for the Troubled Asset Relief Program.

The status of the CDCI program as a whole was tracked and reported by both Treasury and the Government Accountability Office (GAO 2011). As part of the Emergency Economic Stability Act, the GAO had to report to Congress every 60 days on the progress of TARP programs (GAO 2011). Some of these reports described the ongoing status of the CDCI in fine detail (e.g., discussing the participants' progress through the entire duration of the program). Other GAO reports were broad and tangentially discussed the CDCI as one of many capital programs. Detailed CDCI statistics (number of institutions repaid versus remaining, amount of Treasury capital outstanding, estimated lifetime cost to Treasury,

[6] It is not clear whether credit union representatives interpreted the CDCI's initial goal of "small business lending" as a prerequisite to receive CDCI funding or as a required condition upon receiving CDCI funding (GAO 2011).

etc.) were included in Treasury's daily TARP updates in early 2011 and monthly reports to Congress after December 2010 (Treasury 2011a; Treasury 2011b).

The EESA established the Office of Special Inspector General for the Troubled Asset Relief Program for the purposes of auditing TARP programs (EESA 2008, sec. 121; SIGTARP n.d.). SIGTARP is a federal law enforcement agency that strives to "prevent fraud and abuse, identify wasteful spending, and drive improvements" (SIGTARP n.d.). SIGTARP's quarterly reports contain financial data on the current status of Treasury's outstanding investments, TARP-related crime, and SIGTARP's ongoing recommendations for Treasury's programs (SIGTARP 2014). These reports contain CDCI investment summaries, details of missed dividend payments, terms of senior securities and dividends, and a history of Treasury's CDCI contract enforcement (SIGTARP 2014).

6. Relevant Regulatory Changes: National Credit Union Administration changed several rules regarding secondary capital to accommodate low-income credit unions (LICUs) that sought capital under the CDCI.

Treasury announced the CDCI on February 3, 2010, and on February 19, the National Credit Union Administration published several interim rule changes regarding secondary capital. The alterations were meant to harmonize NCUA regulations with CDCI terms and to head off regulatory barriers to participation faced by low-income credit unions. The new rules became effective September 23, 2010—one week before the CDCI's funding/exchanges window closed. An industry associate remarked, "Without NCUA's rapid and well-fashioned regulatory changes, CDCI would never have worked for credit unions" (Rosenthal 2012).

The first interim rule relaxed redemption schedule limits for secondary capital obtained through government programs (NCUA 2010). According to 12 CFR § 701.34(d)(3), LICUs could begin to redeem secondary capital (limited to 20% of the original balance) only when the secondary capital accounts had less than five years of maturity left (NCUA n.d.). The limit on redemption amount increased as the remaining maturity on the account decreased. However, CDCI injected capital with 13 years of maturity, and a step-up clause kicked in at the eighth year. Therefore, subsection (d)(3) would have prevented CDCI's LICU participants from repaying Treasury until after the step-up clauses had kicked in. The NCUA's new rule, 12 CFR § 701.34(d)(4), exempted LICUs receiving capital under CDCI from subsection (d)(3), allowing LICUs to repay the government (and any of the government's co-investors) in any amount after the first two years of investment. Subsection (d)(4)'s general language also applied to future government programs (NCUA 2010).

The second interim rule altered loss distribution procedures for secondary capital accounts, allowing LICUs two methods to subordinate matching secondary capital to government capital provided under the CDCI (NCUA 2010). The purpose was to ensure that the government's CDCI investment was senior to—and would absorb losses only after—all other secondary capital. This rule's language was specific to CDCI and did not apply to other government programs.

The finalized interim rules also contained several technical adjustments. For secondary capital accounts with less than five years' maturity, LICUs were required to report net asset value equal to the lesser of: "(1.) the remaining balance of the account after early redemption and losses; or (2.) the declining percentage calculations set forth in the net-worth schedule that are based on the original balance of the account" (NCUA n.d.). The NCUA included this accounting clarification to avoid a scenario in which LICUs that had partially redeemed CDCI capital could be forced to overstate the net-worth value of the corresponding secondary capital account (NCUA 2010).

7. Term: The application window for the CDCI was three months.

The application window for the program was about three full months: February 3 through April 30, 2010 (Treasury 2012a). This window was short because the CDCI needed to be fully functional within TARP's disbursement period; Treasury's funding authority expired on October 3, 2010 (Treasury 2010i). Treasury established the application window with the knowledge that it had a few months (May through September 2010) for application review, funding, and exchanges (Treasury 2012a).

8. Eligible Institutions (1): Federally regulated US CDFI depositories were eligible to apply, but Treasury and the regulators selected which ones could participate in the CDCI, depending on the depository's viability.

The CDCI was available to "banks, savings associations, bank holding companies, savings and loan companies (which engage in solely or predominantly in activities that are permitted for financial holding companies over relevant law), and federally insured low-income designated credit unions" (Treasury 2012a). The basic premise of the CDCI was a securities sale from a CDFI depository to Treasury, and the primary regulator facilitated the transaction at every step. The CDFI first discussed capital needs and the appropriateness of the CDCI with its primary regulator (Treasury 2010a). Then, the CDFI applied to its primary regulator (through the primary regulator's website), which then decided whether to pass the CDFI's application on to Treasury. Upon receiving applications, Treasury discussed the CDFI's eligibility and viability with the primary regulator to either deny or accept the application. For state-regulated credit unions, eligibility and viability were decided jointly by state and federal regulators (Treasury 2012a).

All TARP applicants were evaluated comprehensively, and overall CDFI financial health was assessed by capital, assets, management, earnings, liquidity, and sensitivity to risk (so-called "CAMELS" ratings) (Massad and Kashkari 2018). Total application numbers for the CDCI are unknown.[7] If the CDFI depository agreed to Treasury's terms and conditions (including Treasury authority consistent with other TARP legislation), a contract was drawn and signed to commence the sale. Treasury document language does not indicate that the CDFI applicant had room to negotiate funding after receiving preliminary acceptance (Treasury 2010a; Treasury 2012a). Thereafter, the CDFI depository had to comply with Treasury's additional reporting requirements and financial restrictions, in addition to the rules issued by the primary regulator.

Several CDFI executives, lawyers, and industry insiders reported that the application process was challenging (Guggenheimer 2011). They stressed that TARP's terms and conditions were designed for large banks, creating difficulties for CDFI depositories that lacked in-house lawyers or legal expertise (Rosenthal 2012). Consequently, dozens of

[7] Application numbers were reported by some—but not all—regulators. The FDIC reported that it received 64 TARP CDCI applications, forwarded 12 to Treasury, and ultimately enrolled 10 into the CDCI program (FDIC 2011). The Fed reported that 320 institutions applying to Treasury's Small Business Lending Fund *also* applied to refinance TARP CPP and CDCI investments, yet 137 were ultimately approved for CPP/CDCI (BGFR 2012). The NCUA reported that 111 credit unions applied to the NCUA for CDCI funding (NCUA 2011). While it is a challenge to measure exact program take-up, the bottom line is that Treasury and other regulators denied many applications.

applicants relied on pro bono support to apply to the program and comply with its terms after they were accepted (Guggenheimer 2011).

It is worth noting that Treasury never listed preconditions that would *prohibit* an institution from participating—other than failing to follow the terms outlined in the CDCI application and documentation. Within the press releases, public FAQ documents, application materials, and the summary of terms documents, Treasury did not address minimum/maximum size of balance sheets, the requirement of participation (once an application was accepted), questions of systemic importance, or any other *conditions of ineligibility*.

9. Eligible Institutions (2): Institutions that might not otherwise have been approved by their primary regulator could reach viability and become eligible to participate if they could raise capital from private investors, and were matched with Treasury capital up to 5% of risk-weighted assets (3.5% for credit unions).

In some cases, the primary regulator required CDCI recipients to raise capital from private markets before they were allowed to secure Treasury funding. As described by Treasury, the regulator could take into account junior private investor capital raised alongside CDCI capital—so long as the private capital was an amount at least equal to the CDCI funding (Treasury 2012a). If CDCI funding was contingent on a private capital raise, the amount of CDCI funding still could not exceed the CDCI program limits: matching private capital up to 5% of risk-weighted assets (3.5% for credit unions). More CDFI depositories became eligible for the program because the matching capital provision helped them reach a higher level of viability than what was possible by private capital or Treasury capital alone (Treasury 2010h). The private capital raised had to be junior to Treasury capital.

10. Individual Participation Limit: Individual participation limits were dependent on the type of institution.

The terms of CDCI's individual participation limits were similar across banks/thrifts, credit unions, S corporations, and mutual banks (Treasury 2010b). Generally, participants were required to secure private capital only when mandated by their primary regulator. The level of public investments via CDCI could not exceed the level of private co-investment, and private capital had to be subordinated to the government's CDCI securities. If a CPP participants wished to exchange CPP capital for CDCI securities, it could do so only after paying off the dividends/interest from Treasury's prior investment, and applicants could not have violated any of the CPP terms and conditions before participating the CDCI. The maximum investment amounts can be found in Figure 1.

Figure 1: Maximum CDCI Investment Amount by Type of CDFI Depository

	Banks/Thrifts	Credit Unions	S Corporations	Mutual Banks
Maximum investment amount (as % of risk-weighted asset)	5	3.5 (could not exceed half of the sum of capital and surplus)	5	5 (after subtracting other TARP assistance)

Source: Treasury 2010b.

Credit unions issued debt in the form of unsecured subordinated debentures, which qualified as Tier 2 (or secondary) capital, to comply with the National Credit Union Administration standards (GAO 2014). The dividend and interest rates were determined by the tax treatment of the given institutions.

Banks or thrifts issued perpetual preferred stock shares (Treasury 2010b). For bank holding companies and savings and loan holding companies, the preferred stock was cumulative—meaning that the participating bank had to pay Treasury all dividends owed before paying dividends on any other securities. For banks and thrifts, the preferred stock was noncumulative. Dividends were fixed at a 2% rate until the eighth anniversary of the closing date of the investment and then stepped up to 9% thereafter (Treasury 2010b). Finally, for banks or thrifts, there were no contractual restrictions on transfers of the securities; Treasury reserved the right to sell or auction off these securities (Treasury 2010b).

Credit unions issued unsecured subordinated debentures (i.e., debt) with a maturity of either eight or 13 years from the date of the investment (Treasury 2010e). On the date of maturity, the credit union paid back the principal plus accrued and unpaid interest. This debt paid cumulative interest: 2% annually until the eighth anniversary of the closing date of the investment and 9% annually thereafter (including a 9% default rate on missed payments from years prior) (Treasury 2010e).

S corporations issued unsecured subordinated debentures with a maturity of either 13 years for a bank/savings association or 30 years for a bank or savings and loan holding company (Treasury 2010d). On the date of maturity, the S corporation paid back the principal plus accrued and unpaid interest. The CDCI debt issued by S corporations paid cumulative interest, fixed at a 3.1% interest rate until the eighth anniversary of the closing date of the investment and then 13.8% annually thereafter (Treasury 2010d). The higher rates made up for the fact that S corporations banks do not pay corporate taxes (GAO 2014). Assuming a 35% tax rate, these interest rates equated to 2% and 9%, respectively.

Mutual banks issued unsecured subordinated debentures with a maturity of 13 years from the date of investment (Treasury 2010j). On the date of maturity, the mutual bank paid back the principal plus accrued and unpaid interest. As mutual banks also do not pay corporate taxes, the rates on their debt mirrored the rates on the S corporation debt—3.1% rising to 13.8% after eight years (Treasury 2010j).

11. Dividend/Interest Rates: Dividends/pricing terms were standardized across all participants, and fixed step-up clauses were applied.

All interest payments were on a synchronized schedule (payments were made quarterly on February 15, May 15, August 15, and November 15 of each year—on the first business day on/after these dates) (Treasury 2010b).

Treasury did not mandate any call options on the debt or warrants on the shares due to the EESA's de minimis exception, which gave Treasury the right to waive warrant requirements for institutions with Treasury investments of $100 million or less (SIGTARP 2010b).

If Treasury investment was still standing after eight years, the institution was prohibited from making common stock dividend payments or repurchases.[8] For credit unions, no special dividends could be declared or paid on any share accounts or other capital instruments. Finally, the CDFI depository could not enter into any transactions with affiliates unless: (1) the transaction was no less favorable to the institution and its subsidiaries than could be obtained from an unaffiliated third party, or (2) the transaction was approved by the audit committee or a comparable body of independent directors of the CDFI (Treasury 2010b). In addition to the preliminary agreements, data privileges, and capital caveats, Treasury relied on independent evaluators to track the CDCI.

The step-up clauses associated with CDCI capital were fixed and transparent from the announcement of the program (GAO 2016a). This increase in dividend/interest rates was Treasury's attempt to transition CDFI depositories from public to private funding after eight years (GAO 2016a).

12. Other Conditions (1): Participating CDFI depositories were subject to various terms, and the CDCI securities held seniority within CDFI payment schedules.

Any participating CDFI depository was required to "make representations and warranties described in various Treasury agreements" (Treasury 2010a). Among the conditions of participation in the CDCI was the requirement that "the applicant (and its covered officers and employees) agree to comply with the rules, regulations, and guidance of Treasury with respect to executive compensation, transparency, accountability and monitoring, as published and in effect at the time of the investment closing" (Treasury 2010a).

In the publicly available "summary of terms" documents, Treasury let applicants know what data the CDFI depositories were expected to report after receiving CDCI funds (Treasury 2010b). As long as Treasury held at least 10% of its initial investment, the CDFI depository had to allow Treasury (along with Treasury's affiliates) to manage, evaluate, or transfer Treasury's investment. Treasury also had the right to examine and make copies of the CDFI's corporate books, and to discuss the affairs, finances, and accounts with the CDFI's principal officers (Treasury 2010b).

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[8] When Treasury purchased preferred shares from banks or thrifts, questions arose regarding what to do about stock dilution for other shareholders. CDCI literature indicates that one of the acceptable scenarios in which a bank or thrift was able to repurchase its own shares was if/when CDCI participation diluted share prices and inadvertently reduced employee benefits as a result (Treasury 2010c). In this case, the CDFI bank/thrift was able to repurchase shares to offset (but not exceed) the share dilution amount—"consistent with past practice" (Treasury 2010c).

Treasury reserved the right to request and access the information through the institution's federal regulator. While Treasury funds were outstanding, the CDFI depository had to deliver an audited consolidated balance sheet of the fiscal year, and audited consolidated statements of income, retained earnings, and cash flows (prepared with generally accepted accounting principles, or in comparative form from the previous fiscal year) (Treasury 2010b). The CDFI depository was also required to deliver copies of any quarterly reports given to equity/debt holders. If the CDFI depository was ever audited or received an assessment on its internal controls, a copy of the assessment had to be delivered to Treasury as well.

Finally, the CDFI depository had to complete an annual survey that detailed how it utilized the capital as well as the effects of the capital on its operations and status—this was known as a "capital survey" (Treasury 2010b). Though there was no language about stress tests or triage within CDCI documents, all TARP participants were expected to maintain "good standing" as part of Treasury's ongoing evaluation of CDCI participants.[9]

With the exception of credit union capital, the CDCI capital terms required CDCI capital to maintain seniority over comparable securities issued by the CDFI depository. This prioritized the repayment of taxpayer dollars amongst other stakeholders.

Banks or thrifts issued preferred shares that were senior to common stock and pari passu (the same ranking) with existing or future authorized and issued preferred shares, and senior to preferred shares which (by their terms) ranked junior to any existing or future authorized and issued preferred shares (Treasury 2010b).

Credit unions issued unsecured subordinated debentures that constituted secondary capital accounts rather than equity ownership (Treasury 2010e). Credit unions are mutual organizations whose members are shareholder-depositors (Fay n.d.). As such, they do not have common equity investors comparable to those in commercial banks. For credit unions, secondary capital accounts are analogous to common stock, and subordinated debt is a form of secondary capital (GAO 2014). As secondary capital accounts, the CDCI credit union debt was subordinated to all other claims against the credit union, including those of creditors, shareholders, and the National Credit Union Share Insurance Fund (Treasury 2010e). The CDCI credit union debt was not subject to restoration or replenishment under any circumstances, and it was available to cover operating losses (that exceeded net available reserves) realized by the credit union (Treasury 2010e).

S corporation debt ranked senior to the S corporation's common stock (and any other class of equity permitted to the institution by law) (Treasury 2010d). The S corporations subordinated CDCI debt to: (1) claims of depositors and other debt obligations to general and secured creditors (if the S corporation was a bank or savings association), or (2) senior debt (if the S corporation was a bank or savings and loan holding company).

Mutual bank debt ranked senior to mutual capital certificates and other capital instruments authorized under state law (Treasury 2010j). A mutual bank's debt could be subordinated to claims of depositors and to the mutual bank's other debt obligations to its general and secured creditors, unless these obligations were made explicitly pari passu or subordinate to the CDCI securities.

[9] "Good standing" refers to "material compliance with all the terms, conditions, and covenants of any TARP financial instrument, but not limited to, executive compensation requirements, reporting requirements, and payment of dividends or interest" (Treasury 2010a).

13. Other Conditions (2): CDCI executive compensation was congruent with TARP legislation.

Participating CDFI depositories with company sizes of one to 25 employees could not distribute bonuses, depending on the size of the TARP assistance package—with exceptions for grandfathered bonuses. Stock bonuses could only be paid out in 25% increments alongside the repayment of TARP funds (Treasury 2010g). There were to be no golden parachutes for the senior executives (or five most highly compensated employees after them) if there were still TARP funds outstanding. Senior executive bonuses (and those of the next 20 highest paid employees) could be subject to clawback if it was discovered that these bonuses were based on inaccurate metrics. Tax gross-ups could not be paid to the senior executives (or the next 20 most highly compensated employees). The board had to adopt an excessive or luxury expenditures policy and post the policy on the institution's website. The board also had to create a compensation committee of independent directors who reviewed and evaluated compensation plans twice per year to insulate the institution from unnecessary risks, and this committee had to file annual certifications and disclosures. The chief executive officer and chief financial officer had to file annual certifications covering compliance with the executive compensation and corporate governance requirements. If the institution had securities registered with the US Securities and Exchange Commission, then shareholders had to be provided with an annual advisory vote on executive compensation ("say on pay").

14. Fate of the Management: CDCI securities were nonvoting, but in the event of excessive nonrepayment of dividend or interest, Treasury gained voting rights and could replace board members.

The CDCI securities were all issued with nonvoting rights. For banks, thrifts, and mutual banks, the exceptions to the nonvoting rights were class voting rights on: (1) any authorization or issuance of capital shares ranking senior to the CDCI preferred stock, (2) any amendment to the rights of CDCI preferred stock, or (3) any merger/exchange/dissolution/transaction that would adversely affect the rights of the CDCI preferred stock (Treasury 2010b).

In the event of excessive nonrepayment (any dividend/interest not paid in full for eight periods), Treasury gained voting rights and could place two individuals on the CDFI depository's board of directors—as was the case for banks/thrifts, S corporations, and mutual banks (Treasury 2010b). Election rights ended when the dividends were paid in full for four consecutive periods. There were no voting or membership rights whatsoever for CDCI debt from credit unions (Treasury 2010e). Mutual bank debt was subject to additional "state restrictions" (any state law that restricted the voting rights of CDCI debt that could not be modified, waived, or otherwise removed by the appropriate state authorities) (Treasury 2010j).

15. Exit Strategy (1): Events of default included receivership, conservatorship, or liquidation.

If a CDFI depository wholly defaulted on its debt, the principal and accrued interest were made immediately due and payable once the event of default transpired. If a credit union defaulted, the National Credit Union Administration placed the credit union into receivership, conservatorship, or liquidation (Treasury 2010e). For state-chartered credit unions, the appropriate Social Security Administration conducted this event (Treasury 2010e). S corporations and mutual banks faced similar consequences by their respective regulators (Treasury 2010d). Bank (or savings and loan) holding companies could declare bankruptcy and place any major bank subsidiary into receivership (Treasury 2010d).

16. Exit Strategy (2): Treasury considered various exit options but decided in 2016 to enable early repurchases at a discount.

Weighing the CDFI interests while protecting taxpayer investments, Treasury considered several options for each institution to exit the program. In August 2016, after the GAO noted Treasury's lack of an exit strategy, Treasury implemented a program that allowed institutions to buy back their capital at a discount (Montano 2016).

While Treasury preferred that the CDFI depositories simply paid back the investments in full, partial repayment was possible if the amount was the lesser of 5% of the original injection or $100,000 (Robinson 2017). The majority of CDFI depositories paid back by repurchasing the capital outright.

Treasury conducted auctions as part of its wind-down strategy for the CPP and acknowledged that this was also an option for the CDCI (GAO 2016a). However, the possibility of auctions was contingent on investor demand for the securities, the quality of the underlying financial institutions, and the approval of primary regulators (GAO 2016a).

Debt restructuring was also an option but not with respect to the interest rates on CDCI securities themselves: "Treasury officials noted that, [as of June 2016], they [had] no plans to alter the terms of the program's rates unless a financial institution was distressed and unable to pay the increased rate. Treasury officials stated that the increases were designed to encourage institutions to replace public capital with private capital within a reasonable amount of time (8 years) and were a cornerstone of the CDCI program" (GAO 2016a).

Restructuring was an option only for distressed CDCI participants that were first willing and able to raise new capital from outside investors (or a merger) (GAO 2016a). Through the inclusion of a private investor, Treasury received cash or other securities that might be sold more easily than preferred stock, but the restructured investments were sometimes sold at a discount to par value. Treasury officials noted that Treasury would approve restructurings for CDCI only if the terms represented a fair and equitable financial outcome for taxpayers.

For the purposes of "winding down TARP programs in a manner that balances speed of exit with maximizing returns to the taxpayer," Treasury took proposals from CDCI participants to repurchase their outstanding securities at fair value (Montano 2016). Since fair value was typically[10] calculated at a discount 7% or 8% under the notional value, this provided

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[10] One CDFI depository received a 20% discount; M&F Bancorp, Inc. repurchased its preferred shares at $800 per share on December 20, 2016 (Treasury 2019c).

CDCI participants with an incentive to pay back early; without the discount, they would have a strong incentive to retain the cheap CDCI capital until the step-up date in 2018, when it would suddenly become very expensive. In November 2016, SIGTARP recommended to Treasury that it not indicate what discount Treasury would accept; this would help Treasury ensure the highest possible taxpayer repayment (SIGTARP 2017). This early repurchase initiative accepted applications between August 1 and December 9, 2016 (Montano, McArdle, and Hall 2016). According to the GAO report released during this period, each CDFI depository must have proposed to repurchase at least 50% of their outstanding CDCI securities for Treasury to sign on (GAO 2016b). One early repurchaser, Arkansas-based Southern Bancorp, described the early repurchase terms as "very favorable" (Southern Bancorp 2017). By the end of the early repurchase period, 27 of the 57 CDCI participants remaining in 2016 had used it; 26 institutions fully repaid and one partially repaid their CDCI investments (Treasury 2019c).

III. Evaluation

There are three types of evaluations for the CDCI: (1) CDFI associates and participants offering anecdotes on the overall attractiveness of the program, (2) SIGTARP criticizing Treasury's oversight of the investments, and (3) GAO and a few academics exploring the effects of the program on participants' financial health and behavior.

Several CDFI representatives have claimed that the announcement of CDFI-targeted TARP funds inspired many depositories to pursue CDFI certification, in part, because they wanted to qualify for CDCI funding (Gambrell 2011; Ratigan 2014; Rosenthal 2012). Treasury's CDFI Fund certified or recertified nearly 200 of the then-total 931 CDFIs in 2010, including 95 in the last two months of the CDCI's application period (Gambrell 2011). Of the 20 banks that received CDFI certification in 2010, 18 received CDCI funds (Longworth and Newberger 2011). From the CDCI's $570.1 million disbursement, more than $500 million went to CDFI banks—61% of this subset went to CDFI banks certified in 2010 (Longworth and Newberger 2011). A similar dynamic played out for CDFI credit unions; of the 48 credit unions that received CDCI investments, 15 were certified during the first nine months of 2010 (Rosenthal 2012). The CDCI's popularity is evidenced by the high number of institutions that pursued CDFI certification during the program's application period, the fact that almost half of CDCI participants were newly certified CDFIs, and the majority disbursed funds having gone to newly certified CDFIs.

Heads of CDFI depositories have praised the CDCI because the additional funds allowed them to extend more credit to their clients. According to interviews conducted with CDFI banks, they pursued CDFI certification, in part, to qualify for programs such as the CDCI, which served as a valuable source of capital (Longworth and Newberger 2011). From a CDFI bank's perspective, the CDCI offered tier-1 capital at rates that were cheap compared to other TARP funds (Longworth and Newberger 2011). The relatively low cost of capital enabled CDFI banks to make loans and investments that they otherwise might not have been able to make (City First Bank of DC 2010; Longworth and Newberger 2011). Similarly, several heads of CDFI credit unions suggested that they used CDCI capital to meet increased credit demand from nonprofit organizations, underbanked communities, and customers that were otherwise underserved by traditional lenders (Abello 2021; Rosenthal 2012). CDFI banks and credit unions alike recognized that signing up to receive secondary capital from the government meant more legal fees and interest costs, which they knew were meant to encourage repayment within eight years (Rosenthal 2012; Surgeon et al. 2020). Though the CDCI's terms of repayment and compliance made the temporary loan less attractive to CDFI depositories than grants, which represented permanent equity that did not have to be repaid, the CDCI was still appealing because it was a single capital source much larger than what was normally available to CDFI depositories through grants, fiscal transfers, and other related programs (Rosenthal 2012).

According to SIGTARP, Treasury failed to enforce mandatory use of capital reporting, so it is challenging to determine whether CDCI funds were used as intended or not (Rehm 2011; SIGTARP 2014). Robinson (2017) criticizes the CDCI's weakly positive effects on CDFI depositories' small business lending, but lending was only one of many measures used to assess CDFI financial health (Massad and Kashkari 2018). Pana and Wilson (2012) find that credit unions eligible for TARP funds were more likely to participate in CDCI if they were headquartered in the district of a US House Financial Services Committee member. Treasury officials who oversaw the selection process say they sought to head off any political pressure: "all Congressional calls and input were directed to [political appointees] and kept away from those reviewing applications" (Massad and Kashkari 2018). These officials suggest that all TARP applicants were evaluated comprehensively, and overall CDFI financial health was assessed by CAMELS ratings (Massad and Kashkari 2018).

The program's primary objective was changed from fostering small business lending (through CDFI depositories) to broadly helping participants achieve their independent goals. At the program's announcement in February 2010, it was portrayed as a program to help "Community Development Financial Institutions (CDFIs) that *lend to small businesses* in the country's hardest-hit communities" (emphasis added) (Treasury 2010h). At its onset, Treasury repeatedly advertised the CDCI as a program for "small business lending"—a phrase that occurs several times throughout the initial press release and public messages. After Treasury heard the concerns of potential CDCI applicants that did not specialize in small business lending, it revised its message about the CDCI's objective to something more inclusive: "to capitalize CDFIs to carry out their economic development goals" (GAO 2011). After initially claiming that small business lending was the primary objective of the CDCI (and the primary metric of success), Treasury deferred to CDFI depositories for a subjective measure of success via self-reporting.[11, 12] This shift became an issue when CDFI depositories failed to report their mandatory use of capital because Treasury did not know what a large portion (in 2012, the *majority*) of CDCI participants were doing with Treasury funds throughout the lifespan of the program (SIGTARP 2014). Treasury relied on the CDFI depositories to set their own goals, failed to hold participants accountable through reporting standards that were mandated by CDCI contracts, and did not enforce its own voting rights after interest/dividend payments were skipped. With respect to the initial objective, limited research shows that the CDCI did not spur CDFI depositories to extend more small business loans (Robinson 2017).

In a 2014 quarterly report to Congress, the Special Inspector General for the Troubled Asset Relief Program highlighted oversight issues in Treasury's handling of CDCI. An increasing number of CDCI participants failed to submit the use of capital survey—a mandatory part of receiving Treasury funding (SIGTARP 2014). Of the 84 CDCI participants, 14 did not send the annual use of capital survey in 2010, 22 in 2011, and 56 in 2012. "Never once in the history of the CDCI program have all 84 CDCI banks and credit

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[11] This notion is reinforced by the absence of any question about "small business lending" in the annual use of capital surveys (Treasury 2019a).

[12] In his exit interview, former SIGTARP Neil Barofsky discusses similar issues with the CPP: "What is Treasury's response [to the lack of lending]? They changed the goal. The [new] goal was to make money. The CPP, according to Treasury officials, by any objective measure was a success. What about the objective measure that you announced, to restore lending? It didn't work. But again, if you change your goals along the way you get to declare everything a success. That doesn't make it a good government program" (Rehm 2011).

unions complied with the contractual requirement to report annually to Treasury on the use of their funds" (SIGTARP 2014). If Treasury did not understand the financial decision-making of participating institutions, the report went, then Treasury could not offer sound advice/guidance to help them achieve their subjective goals, or accurately gauge the overall success of this program (SIGTARP 2014). Former SIGTARP Neil Barofsky complained about this issue in his 2011 exit interview and suggested that Treasury "should have required lenders to disclose how TARP funds were used" (Rehm 2011).

Treasury also failed to act consistently on its own right to attend board meetings and appoint directors in the event of consecutive missed interest/dividend payments (SIGTARP 2014). In the instance of PGB Holding, Inc., the CDCI participant had missed 12 Treasury dividend payments, yet by April 2014, Treasury had failed to place any Treasury representatives on the company's board (SIGTARP 2014). On the other hand, when First American International Corp. missed enough payments to warrant a Treasury observer at its board meetings, Treasury requested an observer in February 2013. "The bank rejected Treasury's request, but subsequently paid the missing dividends"; Treasury's intent to enforce securities contracts led to better compliance. Treasury also sent observers to Tri-State Bank and Carver Bancorp (SIGTARP 2017).

Despite the equivocation of program goals, some scholars researched the CDCI under the original premise of small business lending. Robinson (2017) analyzes the financial data of CDCI participants and determines that small business loan growth is positively correlated with high levels of bank capital, liquidity, and high ratios of business loans to assets (Robinson 2017). Furthermore, growth in business loans is associated with declines in asset quality and increases in profitability. Comparing CDCI participants to minority-owned banks, the paper concludes that "growth in small business lending is strongest among CDCI participants, but participation in the CDCI does not ensure stronger growth in small business lending for any year after participation in the CDCI."

On the basis of small business lending growth, the paper dubs the CDCI a "failure" and attributes that failure to the lack of financial incentives to encourage participants to originate more small business loans (Robinson 2017). However, the study lumps all CDFI depositors together—rather than focusing on those whose stated purpose was to provide small business loans—and includes those that specialized in other financial products like mortgage loans or small personal loans.

The financial health of most CDCI participants improved since they received investments. Between the end of 2011 and March 31, 2016—a time when most participants were still in the program—the median of five of six financial health indicators improved (GAO 2016a).[13] However, the median of two financial health indicators weakened after December 2014.

[13] These indicators include:

(1.) the Texas ratio, which helps determine the likelihood of a bank's failure by comparing its troubled loans to its capital and is calculated by dividing a bank's nonperforming assets plus loans 90 or more days past due by its tangible equity and reserves. Lower Texas ratios indicate stronger financial health. (2.) Noncurrent loan percentage, which is the sum of loans and leases 90 days or more past due and in nonaccrual status. Lower noncurrent loan percentages indicate stronger financial health. (3.) The net charge-offs to average loans ratio is the total dollar amount of loans and leases charged off (removed from balance sheet because of uncollectability), less amounts recovered on loans and leases previously charged off divided by the average dollar value of loans outstanding for the period. Lower net charge-off to average loans ratios indicate stronger financial health. (4.) The return on average assets measure shows how profitable a bank is relative to its total assets and how efficiently management uses its assets

The average institution took about 2,078 days to exit the CDCI.[14] After interviewing CDCI participants, industry insiders, and federal regulators, the GAO offers a few explanations for the program length: CDFI depositories waited until cheaper capital was available before returning to the private market and relied on CDCI capital to further expand operations, and some were wary of current and future (e.g.: Basel III regulatory reforms) capital requirements (GAO 2014).

According to CCFCU/Treasury capital surveys from 2010 through 2017, of the two institutions still on Treasury's balance sheet, each appears to use Treasury for two broad purposes: to comply with one's primary financial regulation, and to expand financial services and products (CCFCU/Treasury 2010 – 2017).

to generate earnings. It is calculated by dividing a bank's net income by the average of its assets over a specific period, such as a quarter or year. Higher returns on average assets indicate stronger financial health. (5.) Common equity tier 1 ratio is a bank's equity capital excluding any preferred shares, retained earnings, and disclosed reserves as a share of risk-weighted assets. Higher common equity tier 1 ratios indicate stronger financial health. (6.) Reserve to nonperforming loans are the funds a bank holds to cover loan losses divided by loans that are 90 days or more past due. Higher reserves to nonperforming loans indicate stronger financial health.

[14] This number does not include the CDCI participants remaining as of July 2019 (Treasury 2019b).

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V. Key Program Documents

Summary of Program

(Treasury 2012a) US Department of Treasury (Treasury). 2012a. "Community Development Capital Initiative: Program Purpose and Overview." July 21, 2012.
Describes Treasury's focus on Community Development Financial Institutions (CDFIs), which faced challenges to obtaining credit during the economic downturn.
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Treasury's directory of webpages describing the CDCI program.
https://ypfs.som.yale.edu/library/community-development-capital-initiative-webpage.

(Treasury 2019a) US Department of Treasury (Treasury). 2019a. "Use of Capital Survey: Annual Use of Capital Survey, 2017 – Capital Purchase Program and Community Development Capital Initiative." July 24, 2019.
Describes how CDCI program participants used the funds that they received from Treasury. https://ypfs.som.yale.edu/library/cdci-cpp-use-capital-survey.

Implementation Documents

(Massad and Kashkari 2018) Massad, Timothy G., and Neel T. Kashkari. 2018. "Implementing TARP: The Administrative Architecture of the Troubled Assets Relief Program." Brookings Institution, Yale Program on Financial Stability, September 11, 2018.
Describes the design features of TARP, including the application process of CDCI. https://ypfs.som.yale.edu/node/3929.

(Treasury 2010a) US Department of Treasury (Treasury). 2010a. "Application Guidelines for TARP Community Development Capital Initiative."
Describes eligible institutions, conditions for participation, assets purchased by Treasury, other information, and confidentiality.
https://ypfs.som.yale.edu/library/cdci-application-guidelines.

(Treasury 2010b) US Department of Treasury (Treasury). 2010b. "Community Development Capital Initiative: CDFI Bank/Thrift Senior Preferred Stock Summary of CDCI Senior Preferred Terms."
Describes the terms of participation for CDFI banks and thrifts. This document also describes the terms of the securities that Treasury was willing to purchase.
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(Treasury 2010c) US Department of Treasury (Treasury). 2010c. "Form of Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock."
Template of the legal contract that the bank/thrift was required to sign before participating in the CDCI program—specifically for the issuance of noncumulative perpetual preferred stock.
https://ypfs.som.yale.edu/library/community-development-capital-initiative-bankthrift-certificate-designation-fixed-rate-non.

(Treasury 2010f) US Department of Treasury (Treasury). 2010f. "Community Development Capital Initiative: CDFI Subchapter S Corporation Senior Securities Summary of Terms of CDCI Senior Securities." April 26, 2010.
Describes the terms of participation for CDFI S corporations. This document also describes the terms of the securities that Treasury was willing to purchase.
https://ypfs.som.yale.edu/library/community-development-capital-initiative-cdfi-subchapter-s-corporation-senior-securities.

(Treasury 2010g) US Department of Treasury (Treasury). 2010g. "Community Development Capital Initiative: CDFI Credit Unions Senior Securities Summary of Terms of CDCI Senior Securities." April 27, 2010.
Describes the capital terms for credit unions participating in the CDCI program. The information covers: the issuer, initial holder, security, size of the offering, ranking, regulatory capital, maturity, interest rate, redemption, restrictions on dividends and redemptions, remedies upon event of default, voting rights, closing conditions, CDFI covenants, access and information, events of default, transparency legislation, affiliate transactions, and warrants.
https://ypfs.som.yale.edu/library/community-development-capital-initiative-cdfi-credit-unions-senior-securities-summary-cdci.

(Treasury 2010h) US Department of Treasury (Treasury). 2010h. "Form of Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock." Stock certificate, April 27, 2010.
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Treasury answered common questions about CDCI program participation, terms of repayment, and the application process.
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Legal/Regulatory Guidance

(Dodd-Frank 2010) Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). 2010. Public Law 111–203, 124 Stat. 1376, July 21, 2010.
Legislation limiting Treasury's total TARP funding to $475 billion.
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Legislation granting Congress the authority to purchase troubled assets from financial institutions. The EESA legally authorized the CDCI.
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https://ypfs.som.yale.edu/library/12-cfr-ss-70134.

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https://ypfs.som.yale.edu/library/national-credit-union-administration-12-cfr-part-701.

Press Releases/Announcements

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Describes the option for CDCI participants to repurchase capital early at a discount. https://ypfs.som.yale.edu/library/cdci-early-repurchase-letter-participants.

(Montano, McArdle, and Hall 2016) Montano, Trevor, Mark McArdle, and Justin Hall. 2016. "CDCI Early Repurchase Option Deadline Extension Notification." US Department of Treasury, letter to participants, November 18, 2016.
Describes the extension of the window for the early repurchase of CDCI capital. https://ypfs.som.yale.edu/library/cdci-early-repurchase-option-deadline-extension-notification.

(Treasury 2010d) US Department of Treasury (Treasury). 2010. "Obama Administration Announces Enhancements for TARP Initiative for Community Development Financial Institutions." Press release, February 3, 2010.
Announces the opportunity for Community Development Financial Institutions (CDFIs) to participate in the Troubled Assets Relief Program (TARP). This opportunity was the Community Development Capital Initiative (CDCI). CDCI capital had more favorable terms than those available through the Capital Asset Purchase (CAP) program.
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(Treasury 2010j) US Department of Treasury (Treasury). 2010. "Treasury Announces Special Financial Stabilization Initiative Investments of $570 Million in 84 Community Development Financial Institutions in Underserved Areas." Press release, September 30, 2010.
Describes the total disbursement of Treasury's CDCI program and a profile of the recipients.
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Describes the role of Community Development Financial Institutions (CDFIs) in serving lower-income, underserved, and minority communities.
https://ypfs.som.yale.edu/library/assistant-secretary-financial-institutions-michael-s-barr-written-testimony-house-financial.

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Highlights efforts by Lawyers Alliance of New York to secure federal loans under the Troubled

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(Treasury/OCC 2010) US Department of Treasury and Office of the Comptroller of the Currency (Treasury/OCC). 2010. "Road to Recovery: Banks Can Use Recovery Act to Pave the Way." *Community Developments: Investments*, Spring 2010.
Advertises the CDCI program to qualifying CDFIs, and highlights the main features of Treasury program.
https://ypfs.som.yale.edu/library/occ-spring-2010-newsletter-road-recovery-banks-can-use-recovery-act-pave-way.

Key Academic Papers

(GAO 2011) US Government Accountability Office (GAO). 2011. "Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations." Report to Congressional Addressees, GAO-11-74, January 2011.
Describes the initial market response to the Community Development Capital Initiative.
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Describes the status of the CDCI program, the financial health of the remaining participants, and the amount of capital outstanding after Treasury offered to repurchase capital early.
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Contains excerpts of interviews with heads of CDFIs who applied to Treasury's CDCI program.
https://ypfs.som.yale.edu/library/recently-certified-cdfi-banks-and-cdfi-banking-sector.

(Robinson 2017) Robinson, Breck L. 2017. "A Capital Infusion Program for Community Development: The Case of the Community Development Capital Initiative." Board of Governors of the Federal Reserve System, Partnership for Progress.
Investigates the CDCI, the characteristics of the participants, and their subsequent small business lending behavior. The authors argue that participation in the CDCI program did not lead to the desired result: an increase in small business lending by participating banks.
https://ypfs.som.yale.edu/library/capital-infusion-program-community-development-case-community-development-capital.

(Rosenthal 2012) Rosenthal, Clifford. 2012. "Credit Unions, Community Development Finance, and the Great Recession." Federal Reserve Bank of San Francisco, Community Develo9pment Investment Center Working Paper No. 2012–01 (February).
Describes the size of the CDCI relative to other federal programs geared toward credit unions, and explains the challenges that credit unions faced in applying to the CDCI.
https://ypfs.som.yale.edu/library/credit-unions-community-development-finance-and-great-recession.

Reports/Assessments

(BGFR 2012) Board of Governors of the Federal Reserve System (BGFR). 2012. "Annual Report 2011, Supervision and Regulation." July 11, 2012.
Describes the total number of applications to the US Treasury's CDCI and CAP programs.
https://ypfs.som.yale.edu/library/frb-annual-report-2011-supervision-and-regulation.

(CREC/CS 2016) Center for Regional Economic Competitiveness and Cromwell Schmisseur (CREC/CS). 2016. *Program Evaluation of the US Department of Treasury State Small Business Credit Initiative*. Washington, DC: US Department of Treasury, October 13, 2016.
Describes Treasury's actions to assist small businesses outside of its TARP initiatives.
https://ypfs.som.yale.edu/library/program-evaluation-state-small-business-credit-initiative.

(FDIC 2011) Federal Deposit Insurance Corporation (FDIC). 2011. "Annual Report 2010, Management's Discussion and Analysis." May 5, 2011.
Describes the FDIC's involvement in evaluating applications for participation in Treasury's CDCI program.
https://ypfs.som.yale.edu/library/fdic-2010-annual-report-managements-discussion-and-analysis.

(Gambrell 2011) Gambrell, Donna J. 2011. "Archived Message from the Director." US Department of Treasury, Community Development Financial Institutions Fund, January 1, 2011.
Describes community financial institutions' interest in pursuing Treasury's CDCI program.
https://ypfs.som.yale.edu/library/cdfi-fund-archived-message-director-january-1-2011.

(NCUA 2011) National Credit Union Administration (NCUA). 2011. *Annual Report 2010: Reliance and the Road Ahead*. Alexandria, VA: NCUA.
Describes the 111 credit unions that applied to the National Credit Union Administration (NCUA) for CDCI funding.
https://ypfs.som.yale.edu/library/national-credit-union-administration-2010-annual-report.

(SIGTARP 2010a) Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2010a. *Quarterly Report to Congress*. Washington, DC: SIGTARP, April 20, 2010.
Describes the extension of the CDCI program's initial application window from February to the end of April 2010.
https://ypfs.som.yale.edu/library/sigtarp-quarterly-report-congress-april-20-2010.

(SIGTARP 2010b) Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2010b. *Quarterly Report to Congress*. Washington, DC: SIGTARP, July 21, 2010.

Describes the application totals for Treasury's CDCI program.
https://ypfs.som.yale.edu/library/sigtarp-quarterly-report-congress-july-21-2010.

(SIGTARP 2010c) Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2010c. *Quarterly Report to Congress*. Washington, DC: SIGTARP, October 26, 2010.
Describes the total disbursement and number of participants in Treasury's CDCI program.
https://ypfs.som.yale.edu/library/sigtarp-quarterly-report-congress-october-26-2010.

(SIGTARP 2014) Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2014. "Banks and Credit Unions in Tarp's CDCI Program Face Challenges." *Quarterly Reports to Congress*, Washington, DC: SIGTARP, April 30, 2014. *Describes Treasury's inability to collect information from CDCI program participants. The report also contains CDCI investment summaries, details of missed dividend payments, terms of senior securities and dividends, and a history of Treasury's CDCI contract enforcement*.
https://ypfs.som.yale.edu/library/banks-and-credit-unions-tarps-cdci-program-face-challenges.

(SIGTARP 2017) Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). 2017. *Quarterly Report to Congress*. Washington, DC: SIGTARP, January 27, 2017.
Describes SIGTARP's recommendations to Treasury to conceal its discount rates for the early purchase of CDCI capital.
https://ypfs.som.yale.edu/library/sigtarp-quarterly-report-congress-january-27-2017.

(Treasury 2015) US Department of Treasury (Treasury). 2015. "Community Development Capital Initiative: Program Status." December 11, 2015.
Describes the number of institutions remaining in the CDCI program on December 11, 2015, and expresses Treasury's willingness to wind down the program.
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