U.S. DEPARTMENT OF THE TREASURY

Capital Purchase Program

Program Purpose & Overview

The Capital Purchase Program (CPP) was launched to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. Without a viable banking system, lending to businesses and consumers could have frozen and the financial crisis might have spiraled further out of control. Based on market indicators at the time, it became clear that financial institutions needed additional capital to absorb losses and restart the flow of credit to businesses and consumers. In this context, immediate capital injections into financial institutions were necessary to avert a potential collapse of the system.

The CPP was designed to bolster the capital position of viable institutions of all sizes and to build confidence in these institutions and the financial system as a whole. Treasury initially committed more than a third of the total TARP funding, $250 billion, to the CPP, which was later reduced to $218 billion in March 2009. At the end of the investment period for the program, Treasury had invested approximately $205 billion under the CPP.

Under this voluntary program, Treasury provided capital to 707 financial institutions in 48 states, including more than 450 small and community banks and 22 certified community development financial institutions (CDFIs). The largest investment was $25 billion and the smallest was $301,000. The final investment under the CPP was made in December 2009.

These funds were not given as grants. Treasury received preferred stock or debt securities in exchange for these investments. Most financial institutions participating in the CPP pay Treasury a five percent dividend on preferred shares for the first five years and a nine percent rate thereafter. In addition, Treasury received warrants to purchase common shares or other securities from the banks at the time of the CPP investment. The purpose of the additional securities was to enable taxpayers to reap additional returns on their investments as banks recover.

Repaying the Taxpayers

Treasury's bank investments are primarily in the form of preferred stock, which is high-quality capital that can be used to make new loans and absorb unexpected losses. In order for the investment to be considered high-quality capital for regulatory purposes, Treasury cannot require a bank to repay its investments on a specific timeline. Similar to a share of stock you might purchase on the stock exchange, there is no obligation for a company to buy it back. However, many banks want to repurchase their shares and may, under the conditions established in the purchase agreements, in consultation with their banking regulator. Treasury also may sell its shares when market conditions permit.

Upon the disposition of its TARP preferred stock investment, a financial institution may repurchase its warrants at an agreed upon fair market value. In all cases, Treasury follows a consistent evaluation process to ensure that taxpayers receive fair market values for the warrants. If an institution decides not to repurchase its warrants, Treasury has the contractual right to sell the warrants. Treasury has followed a policy of disposing of warrants as soon as practicable if no agreement is reached on a repurchase. More than $8 billion ($8.07) in total warrant income has been received through CPP. Treasury periodically releases a Warrant Disposition Report that provides detail about its sale of warrants.

Read more about the program status.