



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

December 3, 2010

Thomas J. McCool
Director, Center for Economics
Applied Research and Methods
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McCool:

This letter responds to the Government Accountability Office's (GAO) October 4, 2010 report titled, "*Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process.*"

Treasury appreciates the GAO's recognition that "[t]he process Treasury established to invest in financial institutions included internal control procedures for approved applicants that enhanced consistency." We have considered the two recommendations in the report and provide the enclosed response.

We look forward to continuing to work with the GAO in our efforts to stabilize our financial system.

Sincerely,

Timothy G. Massad
Acting Assistant Secretary for Financial Stability

Enclosure

This Response describes the actions Treasury has taken and intends to take to address the two recommendations in the GAO's October 4, 2010 report titled, "*Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process.*"

GAO Recommendation 1:

If Treasury administers programs containing elements similar to those of CPP, such as the SBLF, we recommend that Treasury apply lessons learned from the implementation of CPP and enhance procedural controls for addressing the risk of inconsistency in regulators' decisions on withdrawals. Specifically, the program office responsible for implementing SBLF should

- a) establish a process for collecting information from bank regulators on all applicants that withdraw from consideration in response to a regulator's recommendation, including the reasons behind the recommendation and
- b) evaluate the information to identify trends or patterns that may indicate whether similar applicants were treated inconsistently across different regulators and take action, if necessary, to help ensure a more consistent treatment.

Summary of Treasury's Actions in Response to this Recommendation

Treasury takes seriously the goal of ensuring consistent treatment of applicants to Treasury programs. Treasury appreciates the GAO's recommendation and will discuss it with the regulators as it designs similar programs, such as the SBLF, that may rely on regulator decisions.

GAO Recommendation 2:

As part of its consultation with regulators on their decisions to allow institutions to repay their CPP investments to Treasury, and to improve monitoring of these decisions, OFS should periodically collect and review certain information from the bank regulators on the analysis and conclusions supporting their decisions on CPP repayment requests and provide feedback for the regulators' consideration on the extent to which regulators are evaluating similar institutions consistently.

Summary of Treasury's Actions in Response to this Recommendation

We recognize and agree with the overall objective you seek to achieve in the recommendation. In the interest of pursuing this, Treasury has, in its interactions with the regulators, communicated that there should be clear and consistently applied guidelines with respect to CPP repayment. Further, there have been a number of supervisory communications and exercises undertaken in this vein (for instance, see SR letter 09-4 and its revisions from the Board of Governors of the Federal Reserve System regarding *Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies*).

The Federal banking agencies are responsible for supervising insured depository institutions that received CPP investments. The Treasury Department and OFS do not supervise these institutions and do not have the authority to collect to collect systematically the type of confidential supervisory information suggested in your recommendation. We will continue to work informally with the banking agencies to achieve the objective of your recommendation, and we welcome any suggestions from GAO as to how OFS can further meet those objectives, consistent with the law and the principles of regulatory independence.