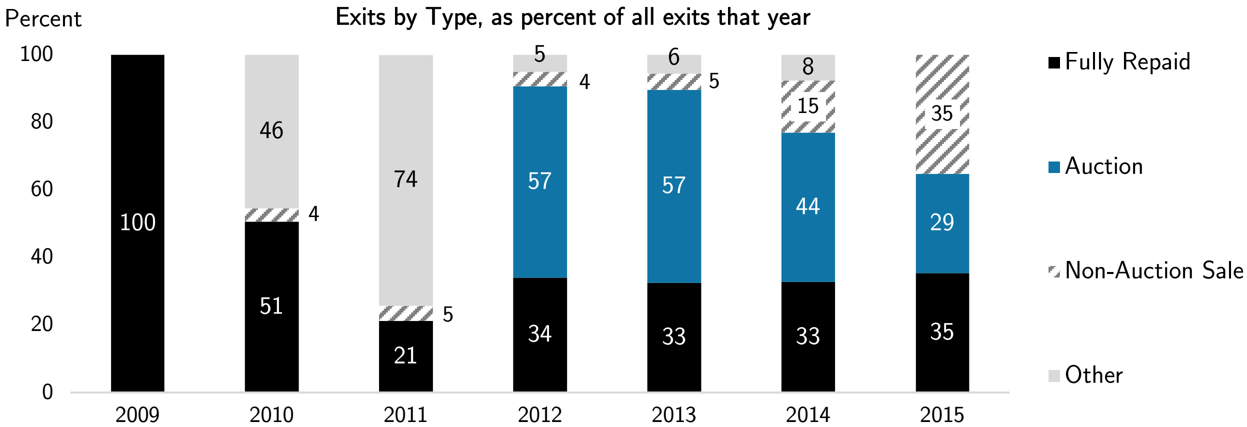
Capital Purchase Program Auctions



Background

- Under CPP Treasury invested $205 billion in 707 financial institutions between October 2008 and December 2009.
- CPP securities came with 5% dividend for first 5 years, 9% after. Warrants were also involved.
- May 2012: Treasury announced strategy to wind-down CPP portfolio which emphasized auctions.
- Exit from CPP possible through: (1) repayment, (2) restructuring w/ new capital, or (3) auction.

Design

- Auctions sold either a single institution's CPP securities or pooled many firms' securities together depending on size.
- The bank (with their regulators' approval) or a designate bidder (a familiar shareholder) could submit an "opt-out bid" to be removed from the set of firms to be auctioned.
- Modified Dutch Auction: price of securities lowered until there are enough bids to sell all the securities and all the securities are then sold at that price.
- "Modified" in the sense that there was a floor, often set by the firm's opt-out bid.
- In pooled auctions, a single bidder is allocated all auctioned securities.
- In single institution auctions, many bidders are allocated portions of the auctioned securities at the single clearing price.
- Treasury previously used Dutch auctions to sell CPP warrants.

Outcomes, as of June 10, 2016

- Of $205 billion disbursed, $199.6 repaid, $5.1 billion written off, $300 million outstanding, $27.1 billion in returns.
- 28 auctions for 190 CPP institutions yielding $3.04 billion in proceeds.
- Auctions returned about 80% face value.
- 14 institutions remain; expected to exit via (mostly) restructuring.

Evaluation

- Opt-out bid = floor price: some questioned the use of the firm's opt-out bid as the auction floor; Treasury did not explicitly say they'd do this.
- Disclosure requirements: publicly traded banks complained the SEC required them to publicly disclose their intent to bid and the amount of capital raised to do so.
- No matching bids: many banks wanted the ability to match the winner's bid, but Treasury didn't allow it.