Congressional Oversight Panel

January 13, 2010

# Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's January 2010 report, "Exiting the TARP and Unwinding Its Impact on Financial Markets."

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## TARP Metrics

Each month, the Panel's report highlights a number of metrics that the Panel and others, including Treasury, the Government Accountability Office (GAO), Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and the Financial Stability Oversight Board, consider useful in assessing the effectiveness of the Administration's efforts to restore financial stability and accomplish the goals of EESA. This section discusses changes that have occurred in several indicators since the release of the Panel's December report.

- **Interest Rate Spreads.** Interest rate spreads have continued to tighten since the Panel's December report, showing further signs of financial stability. Interest rates on overnight commercial paper have returned to near pre-crisis levels. The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, has decreased by nearly 8 percent since the Panel's December report and is at its lowest level since July 2007. Interest rate spreads on overnight A2/P2 commercial paper, considered to be lower quality, have decreased over 95 percent since the enactment of EESA.

**Figure 14: Interest Rate Spreads**

| Indicator | Current Spread (as of 12/31/09) | Percent Change Since Last Report (as of 11/30/09) |
|---|---|---|
| 3 month LIBOR-OIS spread[756] | 0.09 | (33)% |
| 1 month LIBOR-OIS spread[757] | 0.10 | (16)% |
| TED spread[758] (in basis points) | 19 | (5)% |
| Conventional mortgage rate spread[759] | 1.29 | (12.8)% |
| Corporate AAA bond spread[760] | 1.56 | (11.9)% |

[756] *3 Mo LIBOR-OIS Spread*, Bloomberg (online at www.bloomberg.com/apps/quote?ticker=.LOIS3:IND|) (accessed Jan. 4, 2010) (hereinafter "3 Mo LIBOR-OIS Spread").

[757] *1 Mo LIBOR-OIS Spread*, Bloomberg (online at www.bloomberg.com/apps/quote?ticker=.LOIS1:IND|) (accessed Jan. 4, 2010).

[758] *TED Spread*, SNL Financial.

[759] Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release H.15: Selected Interest Rates: Historical Data* (Instrument: Conventional Mortgages, Frequency: Weekly) (online at www.federalreserve.gov/releases/h15/data/Weekly_Thursday_/H15_MORTG_NA.txt) (accessed Jan. 4, 2010); Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release H.15: Selected Interest Rates: Historical Data* (Instrument: U.S. Government Securities/Treasury Constant Maturities/Nominal 10-Year, Frequency: Weekly) (online at www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_TCMNOM_Y10.txt) (hereinafter "Federal Reserve Statistical Release H.15") (accessed Jan. 4, 2010).

[760] Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release H.15: Selected Interest Rates: Historical Data* (Instrument: Corporate Bonds/Moody's Seasoned AAA, Frequency: Weekly) (online at www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_AAA_NA.txt) (accessed Jan. 4, 2010); Federal Reserve Statistical Release H.15, *supra* note 759 (accessed Jan. 4, 2010).

| | | |
|---|---|---|
| Corporate BAA bond spread[761] | 2.66 | (9.5)% |
| Overnight AA asset-backed commercial paper interest rate spread[762] | 0.17 | (7.6)% |
| Overnight A2/P2 nonfinancial commercial paper interest rate spread[763] | 0.13 | 52.3% |

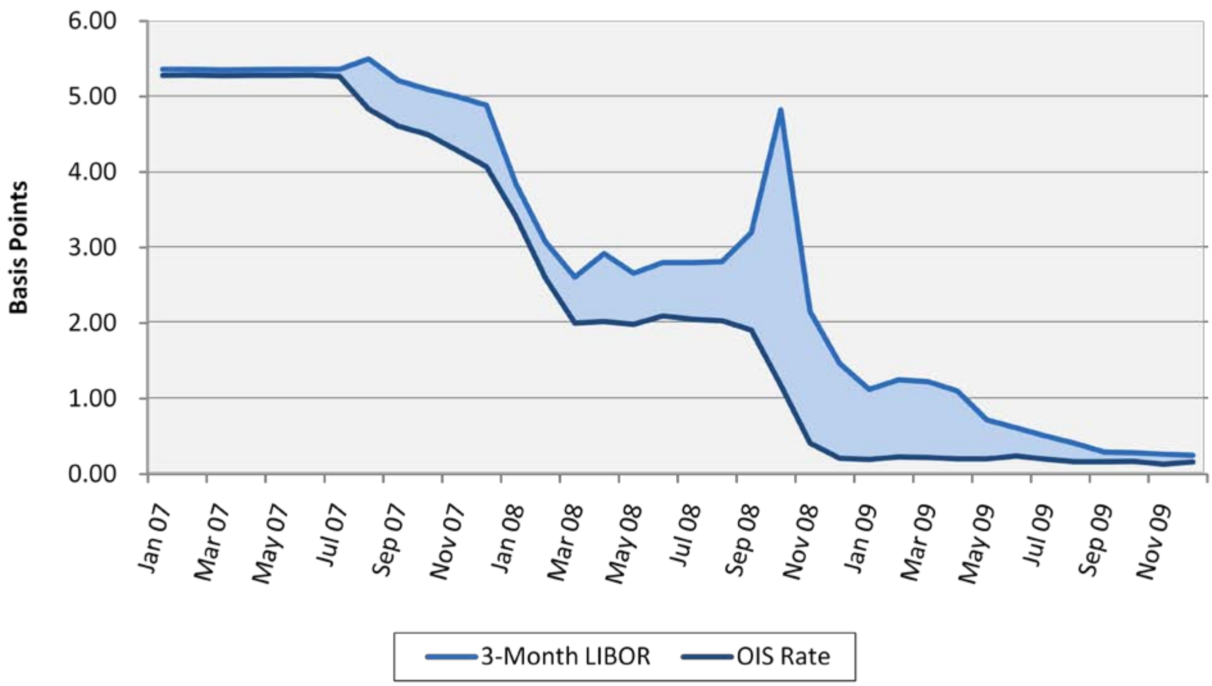
[761] Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release H.15: Selected Interest Rates: Historical Data* (Instrument: Corporate Bonds/Moody's Seasoned BAA, Frequency: Weekly) (online at www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_BAA_NA.txt) (accessed Jan. 4, 2010); Federal Reserve Statistical Release H.15, *supra* note 759 (accessed Jan. 4, 2010).

[762] Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instrument: AA Asset-Backed Discount Rate, Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (hereinafter "Federal Reserve Statistical Release on Commercial Paper") (accessed Jan. 4, 2010); Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instrument: AA Nonfinancial Discount Rate, Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (accessed Jan. 4, 2010). In order to provide a more complete comparison, this metric utilizes a five day average of the interest rate spread for the last five days of the month.

[763] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762. In order to provide a more complete comparison, this metric utilizes a five day average of the interest rate spread for the last five days of the month.

- **LIBOR-OIS Spread.** The LIBOR-OIS spread provides another example of how credit conditions have improved. This spread measures the difference between LIBOR, which shows quarterly borrowing costs for banks, and the Overnight Indexed Swaps rate (OIS), which measures the cost of extremely short-term borrowing by financial institutions. As the spread increases, market participants have greater fears about whether counterparties will be able to deliver on their obligations. The lower spread means that the banking sector now has a significantly lower cost of short-term capital than it did at the height of the crisis.[764]

**Figure 15: 3 Month LIBOR-OIS Spread (as of December 2009)**[765]

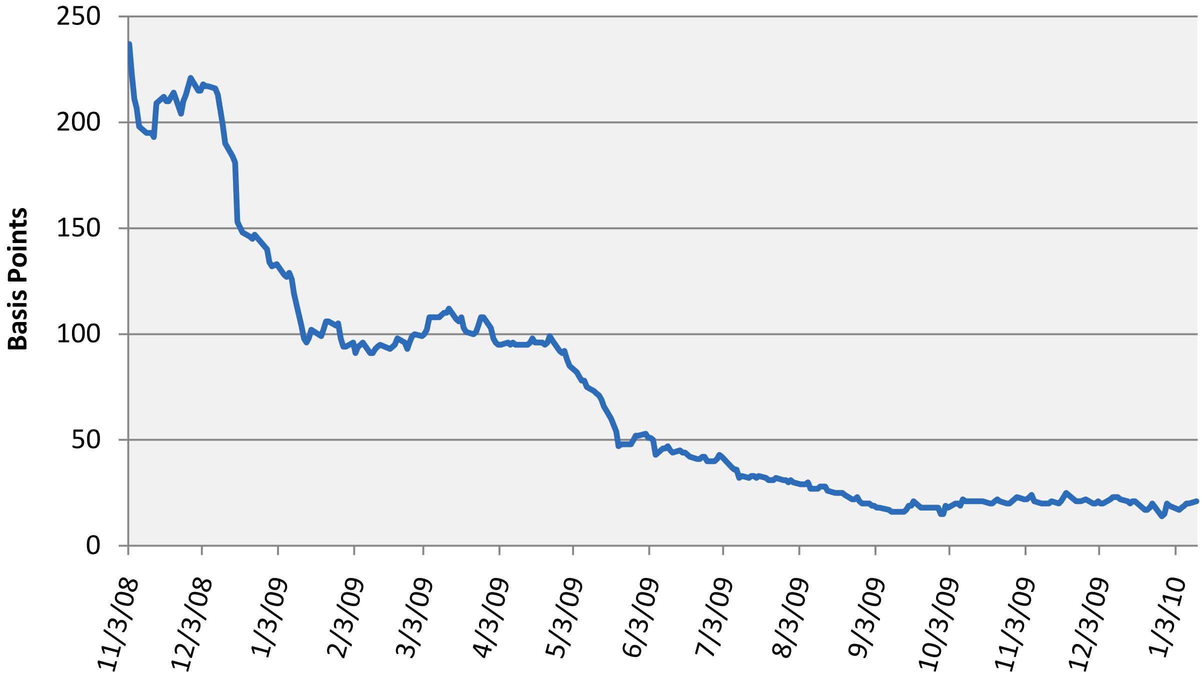



[764] Federal Reserve Bank of St. Louis, *What the Libor-OIS Spread Says* (May 11, 2009) (online at research.stlouisfed.org/publications/es/09/ES0924.pdf).

[765] *See* 3 Mo LIBOR-OIS Spread, *supra* note 756.

- **TED Spread.** The TED spread, which is the difference between LIBOR and short-term Treasury bill interest rates, is another indicator of perceived credit risk. After peaking in late 2008, the TED spread has fallen to pre-crisis levels, as Figure 16 illustrates. The TED spread has continued to tighten since the Panel's December report, declining 5 percent since November 30, 2009.[766]

**Figure 16: TED Spread Since October 3, 2008**[767]




[766] SNL Financial, *Historical Dividend Yield Values, 3 Month Libor* (online at www1.snl.com/InteractiveX/history.aspx?RateList=1&Tabular=True&GraphType=2&Frequency=0&TimePeriod2=11&BeginDate=12%2F29%2F06&EndDate=11%2F4%2F2009&SelectedYield2=YID%3A63&ctl00%24ctl09%24IndexPreference=default&ComparisonIndex2=0&ComparisonYield2=1&CustomIndex=0&ComparisonTicker2=&Action=Apply) (accessed Nov. 5, 2009) (hereinafter "Historical Dividend Yield Values, 3 Month Libor"); SNL Financial, *Historical Dividend Yield Values, 3 Month Treasury Bill* (online at www1.snl.com/InteractiveX/history.aspx?RateList=1&Tabular=True&GraphType=2&Frequency=0&TimePeriod2=11&BeginDate=12%2F29%2F06&EndDate=11%2F4%2F2009&SelectedYield2=YID%3A63&ctl00%24ctl09%24IndexPreference=default&ComparisonIndex2=0&ComparisonYield2=1&CustomIndex=0&ComparisonTicker2=&Action=Apply) (accessed Nov. 5, 2009).

[767] Historical Dividend Yield Values, 3 Month Libor, *supra* note 766.

- **Commercial Paper Outstanding.** Commercial paper outstanding, a rough measure of short-term business debt, is an indicator of the availability of credit for enterprises. The amount of commercial paper outstanding has decreased across the three categories the Panel measures since the December 2009 report. Financial commercial paper outstanding has decreased by over 9 percent since the Panel's last report while nonfinancial commercial paper outstanding fell by over 13.5 percent.[768] Commercial paper outstanding has continued to decrease since the enactment of EESA. Asset-backed commercial paper outstanding has declined nearly 32 percent and nonfinancial commercial paper outstanding has decreased by over 49 percent since October 2008.[769]

**Figure 17: Commercial Paper Outstanding**

| Indicator | Current Level (as of 12/31/09) *(billions of dollars)* | Percent Change Since Last Report (11/25/09) |
|---|---|---|
| Asset-backed commercial paper outstanding (seasonally adjusted)[770] | $485.8 | -2.35% |
| Financial commercial paper outstanding (seasonally adjusted)[771] | 578 | -9.13% |
| Nonfinancial commercial paper outstanding (seasonally adjusted)[772] | 103.1 | -13.57% |

[768] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762.

[769] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762.

[770] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762.

[771] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762.

[772] Federal Reserve Statistical Release on Commercial Paper, *supra* note 762.

- **Lending by the Largest TARP-recipient Banks.** Treasury's Monthly Lending and Intermediation Snapshot tracks loan originations and average loan balances for the 22 largest recipients of CPP funds across a variety of categories, ranging from mortgage loans to commercial real estate to credit card lines. The data below exclude lending by two large CPP-recipient banks, PNC Bank and Wells Fargo, because significant acquisitions by those banks since October 2008 make comparisons difficult.[773] In October, these 20 institutions originated over $187 billion in loans, a decrease of nearly one percent compared to September 2009.[774]

**Figure 18: Lending by the Largest TARP-Recipient Banks (without PNC and Wells Fargo)**[775]

| Indicator | Most Recent Data (October 2009) *(millions of dollars)* | Percent Change Since September 2009 | Percent Change Since October 2008 |
|---|---|---|---|
| Total loan originations | $187,033 | (0.67)% | (14.3)% |
| Total mortgage originations | 54,645 | 0.84% | 23.4% |
| Small business originations | 5,394 | 8% | [776]5.6% |
| Mortgage refinancing | 30,427 | (0.15)% | 62.1% |
| HELOC originations (new lines & line increases) | 2,226 | (1.98)% | (53.2)% |
| C&I renewal of existing accounts | 47,677 | (12.6)% | (17)% |
| C&I new commitments | 41,824 | 19.7% | (29.1)% |
| Total average loan balances | $3,398,679 | (0.89)% | (0.7)% |

[773] PNC Financial and Wells Fargo purchased large banks at the end of 2008. PNC Financial purchased National City on October 24, 2008 and Wells Fargo completed its merger with Wachovia Corporation on January 1, 2009. The assets of National City and Wachovia are included as part of PNC and Wells Fargo, respectively, in Treasury's January lending report but are not differentiated from the existing assets or the acquiring banks. As such, there were dramatic increases in the total average loan balances of PNC and Wells Fargo in January 2009. For example, PNC's outstanding total average loan balance increased from $75.3 billion in December 2008 to $177.7 billion in January 2009. The same effect can be seen in Wells Fargo's total average loan balance of $407.2 billion in December 2008 which increased to $813.8 billion in January 2009. The Panel excludes PNC and Wells Fargo in order to have a more consistent basis of comparison across all institutions and lending categories.

[774] U.S. Department of the Treasury, *Treasury Department Monthly Lending and Intermediation Snapshot*: *Summary Analysis for October 2009* (Jan. 4, 2010) (online at www.financialstability.gov/docs/surveys/Snapshot_Data_October_2009.xls) (hereinafter "Treasury Snapshot for October").

[775] Treasury Snapshot for October, *supra* note 774.

[776] Treasury only began reporting data regarding small business originations in its April Lending Survey. U.S. Department of the Treasury, *Treasury Department Monthly Lending and Intermediation Snapshot* (hereinafter "Treasury Snapshot for April").

- **Housing Indicators**. Foreclosure filings decreased by over seven percent from October to November, and are nearly 10 percent above the level of October 2008. Housing prices, as illustrated by both the S&P/Case-Shiller Composite 20 Index and the FHFA House Price Index, increased slightly in October.

**Figure 19: Housing Indicators**

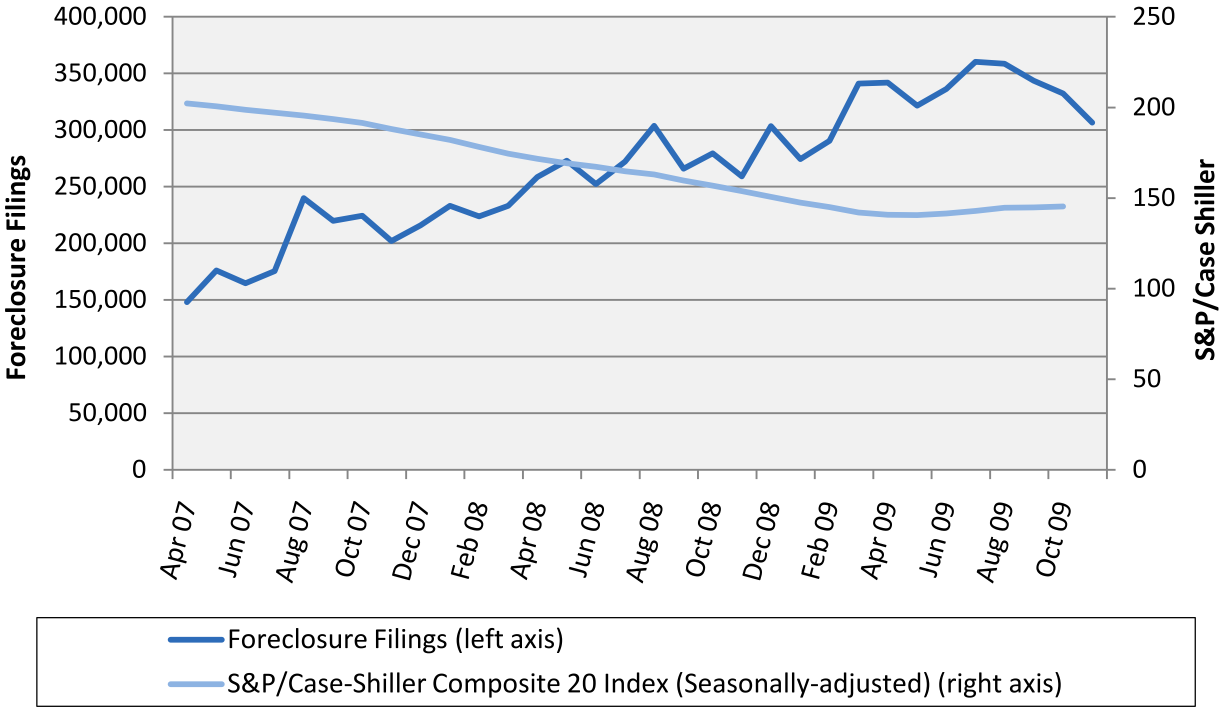
| Indicator | Most Recent Monthly Data | Percent Change From Data Available at Time of Last Report | Percent Change Since October 2008 |
|---|---|---|---|
| Monthly foreclosure filings[777] | 306,627 | (7.7)% | 9.7% |
| Housing prices – S&P/Case-Shiller Composite 20 Index[778] | 145.4 | 0.37% | (7.3)% |
| FHFA Housing Price Index[779] | 199.41 | 0.64% | (1.91)% |

[777] RealtyTrac, *Foreclosure Activity Press Releases* (online at www.realtytrac.com//ContentManagement/PressRelease.aspx) (accessed Jan. 4, 2010) (hereinafter "RealtyTrac Foreclosure Activity Data"). The most recent data available is for October 2009.

[778] Standard & Poor's, *S&P/Case-Shiller Home Price Indices* (Instrument: Seasonally Adjusted Composite 20 Index) (online at www.standardandpoors.com/prot/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldata&blobtable=MungoBlobs&blobheadervalue2=inline%3B+filename%3DSA_CSHomePrice_History_122925.xls&blobheadername2=Content-Disposition&blobheadervalue1=application%2Fexcel&blobkey=id&blobheadername1=content-type&blobwhere=1243629218624&blobheadervalue3=UTF-8) (hereinafter "S&P/Case-Shiller Home Price Indices") (accessed Jan. 4, 2010). The most recent data available is for October 2009.

[779] Federal Housing Finance Agency, *U.S. and Census Division Monthly Purchase Only Index* (Instrument: USA, Seasonally Adjusted) (online at www.fhfa.gov/webfiles/15321/MonthlyIndex_Jan1991_to_Latest.xls) (accessed Jan. 4, 2010). The most recent data available is for October 2009.

**Figure 20: Foreclosure Filings as Compared to the Case-Shiller 20 City Home Price Index (as of October 2009)**[780]




[780] RealtyTrac Foreclosure Activity Data, *supra* note 777; S&P/Case-Shiller Home Price Indices, *supra* note778. The most recent data available is for October 2009.

- **Commercial Real Estate.** The commercial real estate market has continued to deteriorate since the Panel's last report. New CRE lending by the top 22 CPP recipients has decreased by over 71 percent since the enactment of EESA. Respondents to Treasury's survey of the top 22 CPP participants reported that demand for C&I and CRE loans was still below normal levels due to the lack of new construction.[781] A recent Goldman Sachs report notes that rent growth in this market declined at an annualized rate of 8.7 percent in the second quarter and estimates that there will be a total of $287 billion in aggregated losses.

**Figure 21: Commercial Real Estate Lending by Top 22 CPP Recipients (without PNC and Wells Fargo)**[782]

| Indicator | Current Level (as of 12/31/09) *(millions of dollars)* | Percent Change Since September 2009 | Percent Change Since EESA Signed into Law (10/3/08) |
|---|---|---|---|
| CRE New Commitments | $2,977 | -4.07% | -71.7% |
| CRE Renewal of Existing Accounts | 9,194 | -11.9% | 2.2% |
| CRE Average Total Loan Balance | 370,569 | -1.16% | -1.14% |

[781] Treasury Snapshot for April, *supra* note 776. The Goldman Sachs Group, Inc., *US Commercial Real Estate Take III: Reconstructing Estimates for Losses, Timing* (Sept. 29, 2009).

[782] Treasury Snapshot for October, *supra* note 735.