



Congressional Oversight Panel

February 10,
2011

Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's
February 2011 report, "Executive Compensation
Restrictions in the Troubled Asset Relief Program."

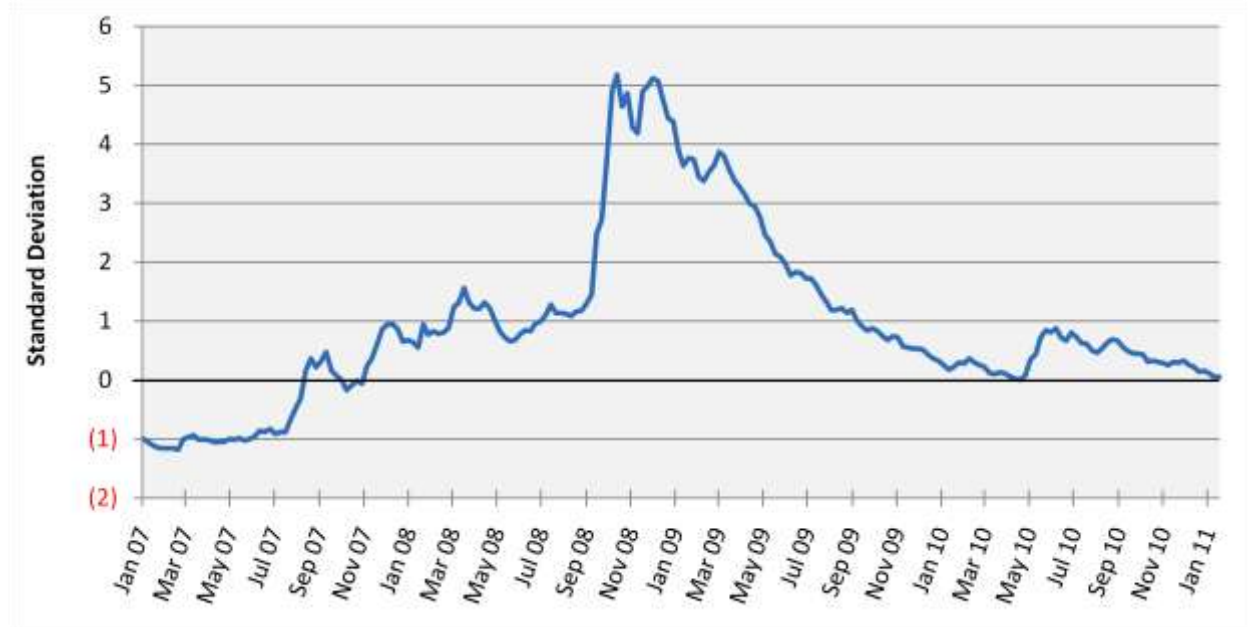
TARP Metrics

Each month, the Panel's report highlights a number of metrics that the Panel and others, including Treasury, the Government Accountability Office (GAO), the 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 January 2011 report.

1. Financial Indices

Financial Stress. The St. Louis Financial Stress Index, a proxy for financial stress in the U.S. economy, remains at a relatively low level of 0.05 as of February 1, 2011. The index has decreased approximately 95 percent since its post-crisis peak in June 2010. Furthermore, the recent trend in the index suggests that financial stress continues moving toward its long-run norm. The index has decreased by more than five standard deviations since EESA was enacted in October 2008.

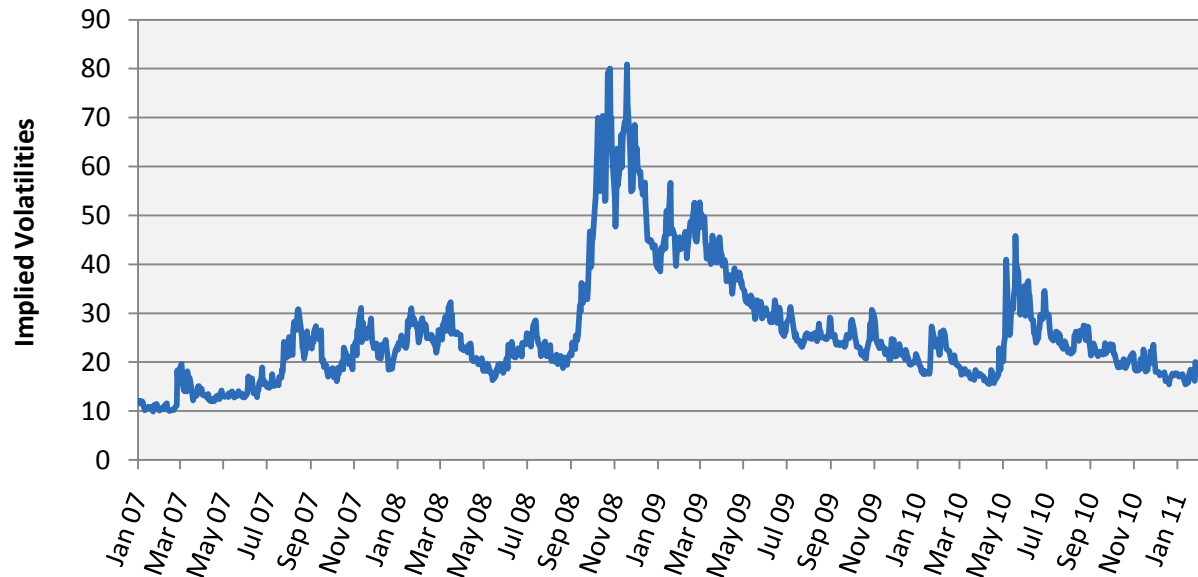
Figure 8: St. Louis Federal Reserve Financial Stress Index³²⁸



³²⁸ Federal Reserve Bank of St. Louis, *Series STLFSI: Business/Fiscal: Other Economic Indicators* (Instrument: St. Louis Financial Stress Index, Frequency: Weekly) (online at research.stlouisfed.org/fred2/series/STLFSI) (accessed Feb. 8, 2011). The index includes 18 weekly data series, beginning in December 1993 to the present. The series are: effective federal funds rate, 2-year Treasury, 10-year Treasury, 30-year Treasury, Baa-rated corporate, Merrill Lynch High Yield Corporate Master II Index, Merrill Lynch Asset-Backed Master BBB-rated, 10-year Treasury minus 3-month Treasury, Corporate Baa-rated bond minus 10-year Treasury, Merrill Lynch High Yield Corporate Master II Index minus 10-year Treasury, 3-month LIBOR-OIS spread, 3-month TED spread, 3-month commercial paper minus 3-month Treasury, the J.P. Morgan Emerging Markets Bond Index Plus, Chicago Board Options Exchange Market Volatility Index, Merrill Lynch Bond Market Volatility Index (1-month), 10-year nominal Treasury yield minus 10-year Treasury Inflation Protected Security yield, and Vanguard Financials Exchange-Traded Fund (equities). The index is constructed using principal components analysis after the data series are de-measured and divided by their respective standard deviations to make them comparable units. The standard deviation of the index is set to 1. For more details on the construction of this index, see Federal Reserve Bank of St. Louis, *National Economic Trends Appendix: The St. Louis Fed's Financial Stress Index* (Jan. 2010) (online at research.stlouisfed.org/publications/net/NETJan2010Appendix.pdf).

Stock Market Volatility. Stock market volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX) on February 1, 2011, has remained flat since the Panel’s January 2011 report. The VIX has fallen by more than sixty percent since its post-crisis peak in May 2010, although it remains higher than its post-crisis low on April 12, 2010.

Figure 9: Chicago Board Options Exchange Volatility Index³²⁹



Interest Rates. Since the Panel’s January 2011 report, the 3-month LIBOR has increased by approximately 2.5 percent, while the 1-month LIBOR decreased by less than a percentage point. Both rates remain below their post-crisis highs in June 2010.³³⁰ Over the longer term, interest rates remain extremely low relative to pre-crisis levels, reflecting the impact of the actions of central banks and institutions’ perceptions of reduced risk in lending to other banks.

³²⁹ Data accessed through Bloomberg Data Service (Feb. 1, 2011). The CBOE VIX is a key measure of market expectations of near-term volatility. Chicago Board Options Exchange, *The CBOE Volatility Index – VIX*, 2009 (online at www.cboe.com/micro/vix/vixwhite.pdf) (accessed Feb. 1, 2011).

³³⁰ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

Figure 10: 3-Month and 1-Month LIBOR Rates (as of January 3, 2011)

Indicator	Current Rates	Percent Change from Data Available at Time of Last Report (1/3/2011)
3-Month LIBOR ³³¹	0.31	2.5%
1-Month LIBOR ³³²	0.26	(0.1)%

Interest Rate Spreads. As of February 1, 2011, the conventional mortgage rate spread, which measures the difference between 30-year mortgage rates and 10-year Treasury bond yields, had decreased by 4 percent since the Panel’s January 2011 report.³³³ The TED spread, which captures the difference between the 3-month LIBOR and the 3-month Treasury bill rates, serves as an indicator for perceived risk in the financial markets.³³⁴ As of February 1, 2011, the spread was 16.6 basis points, decreasing by over 9 percent in January.

The LIBOR-OIS (Overnight Index Swap) spread serves as a metric for the health of the banking system, reflecting what banks believe to be the risk of default associated with interbank lending.³³⁵ The spread increased over threefold from early April to July 2010, before falling in mid-July.³³⁶ The LIBOR-OIS spread grew by more than 26 percent since the Panel’s January 2011 report. As shown in Figures 11 and 12 below, these spreads remain below pre-crisis levels. The decrease in both the LIBOR-OIS spread and the TED spread from the middle of 2010 suggests that hesitation among banks to lend to counterparties has receded.

³³¹ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

³³² Data accessed through Bloomberg Data Service (Feb. 1, 2011).

³³³ 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 Feb. 8, 2011) (hereinafter “Federal Reserve Statistical Release H.15”); Federal Reserve Bank of St. Louis, *Series DGS10: Interest Rates: Treasury Constant Maturity* (Instrument: 10-Year Treasury Constant Maturity Rate, Frequency: Daily) (online at research.stlouisfed.org/fred2/series/DGS10) (accessed Feb. 8, 2011).

³³⁴ Federal Reserve Bank of Minneapolis, *Measuring Perceived Risk – The TED Spread* (Dec. 2008) (online at www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4120).

³³⁵ 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).

³³⁶ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

Figure 11: TED Spread³³⁷

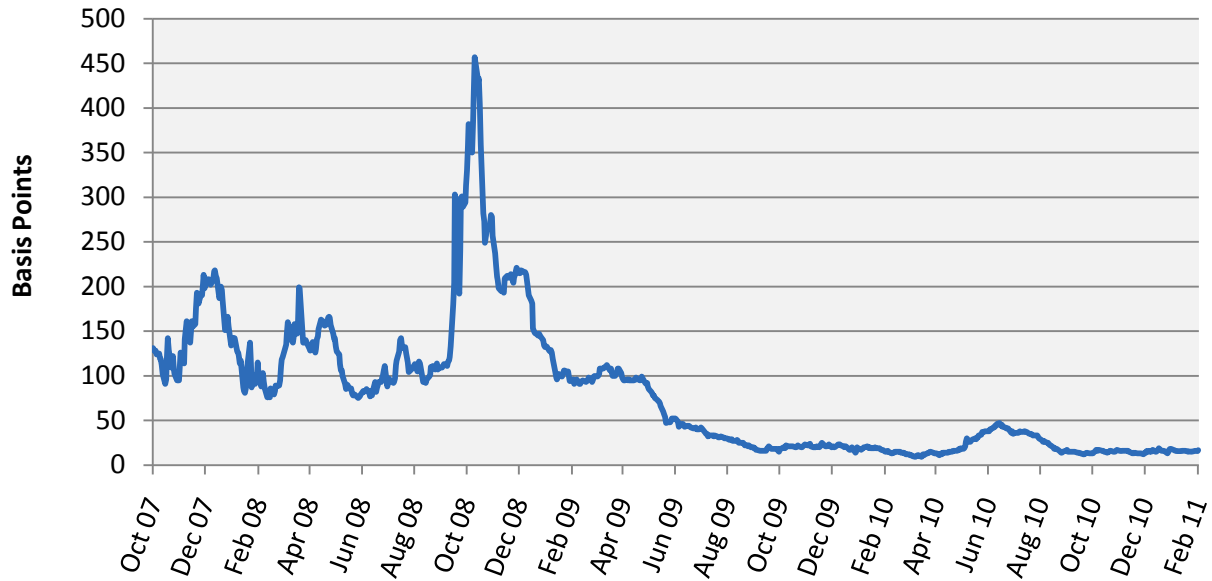
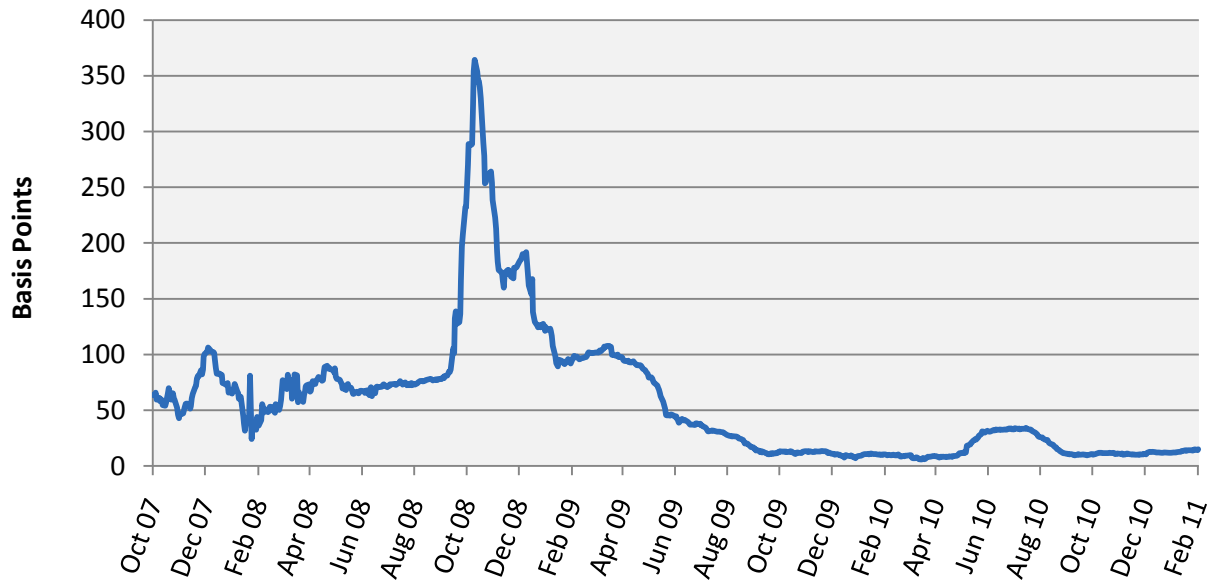


Figure 12: LIBOR-OIS Spread³³⁸



³³⁷ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

³³⁸ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

The interest rate spread on AA asset-backed commercial paper, which is considered mid-investment grade, has increased by more than 65 percent since the Panel’s January 2011 report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, increased by approximately 9 percent. Both interest rate spreads remain below pre-crisis levels.

Figure 13: Interest Rate Spreads (as of February 1, 2011)

Indicator	Current Spread	Percent Change Since Last Report (1/3/2011)
Conventional mortgage rate spread ³³⁹	1.38	(4.2)%
TED Spread (basis points)	16.55	(9.5)%
Overnight AA asset-backed commercial paper interest rate spread ³⁴⁰	0.10	65.5%
Overnight A2/P2 nonfinancial commercial paper interest rate spread ³⁴¹	0.15	8.8%

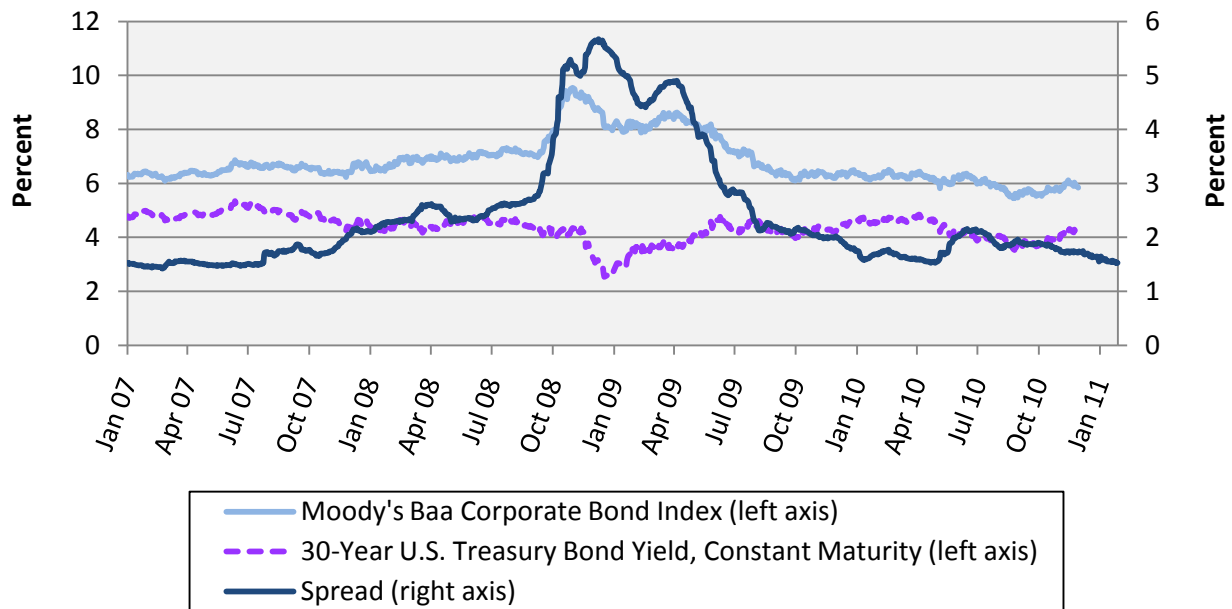
Corporate Bonds. The spread between Moody’s Baa Corporate Bond Yield Index and 30-year constant maturity U.S. Treasury Bond, which indicates the difference in perceived risk between corporate and government bonds, doubled from late April to mid-June 2010. During January, the spread declined slightly, and has fallen almost 30 percent since its post-crisis peak in mid-June. The declining spread could indicate waning concerns about the riskiness of corporate bonds.

³³⁹ Federal Reserve Statistical Release H.15, *supra* note 333; 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) (accessed Feb. 8, 2011).

³⁴⁰ The overnight AA asset-backed commercial paper interest rate spread reflects the difference between the AA asset-backed commercial paper discount rate and the AA nonfinancial commercial paper discount rate. Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instruments: AA Asset-Backed Discount Rate, AA Nonfinancial Discount Rate; Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (accessed Feb. 8, 2011). In order to provide a more complete comparison, this metric utilizes the average of the interest rate spread for the last five days of January.

³⁴¹ The overnight A2/P2 nonfinancial commercial paper interest rate spread reflects the difference between the A2/P2 nonfinancial commercial paper discount rate and the AA nonfinancial commercial paper discount rate. Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instruments: A2/P2 Nonfinancial Discount Rate, AA Nonfinancial Discount Rate; Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (accessed Feb. 8, 2011). In order to provide a more complete comparison, this metric utilizes the average of the interest rate spread for the last five days of January.

Figure 14: Moody's Baa Corporate Bond Index and 30-Year U.S. Treasury Yield³⁴²



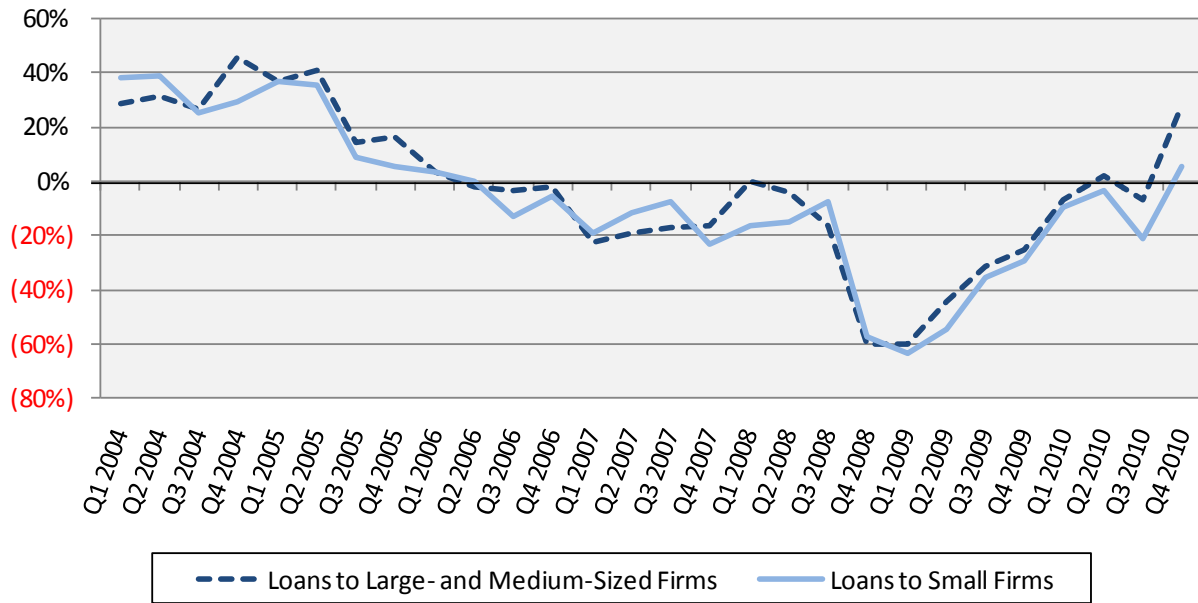
2. Bank Conditions

Senior Loan Officer Opinion Survey. The January 2011 “Senior Loan Officer Opinion Survey on Bank Lending Practices” details lending conditions at 57 domestic banks and 22 branches of foreign banks during the fourth quarter of 2010. According to the survey, banks continued to ease standards and terms for commercial and industrial (C&I) loans, particularly to large and medium-sized firms. Respondents attributed these changes to increasing competition from other banks and nonbank lenders, a “more favorable or less uncertain” economic horizon, as well as growth in demand for C&I loans during the fourth quarter of 2010. Banks also reported no changes in standards on commercial real estate (CRE) loans. Approximately 20 percent of banks surveyed indicated a reduction in lines of credit for commercial construction. The net percentage of domestic banks reporting increased demand for CRE loans grew to approximately 12.6 percent, the highest since the second quarter of 2006.³⁴³

³⁴² Federal Reserve Bank of St. Louis, *Series DGS30: Selected Interest Rates* (Instrument: 30-Year Treasury Constant Maturity Rate, Frequency: Daily) (online at research.stlouisfed.org/fred2/release?rid=18) (accessed Feb. 8, 2011). Corporate Baa rate data accessed through Bloomberg data service (Feb. 1, 2011).

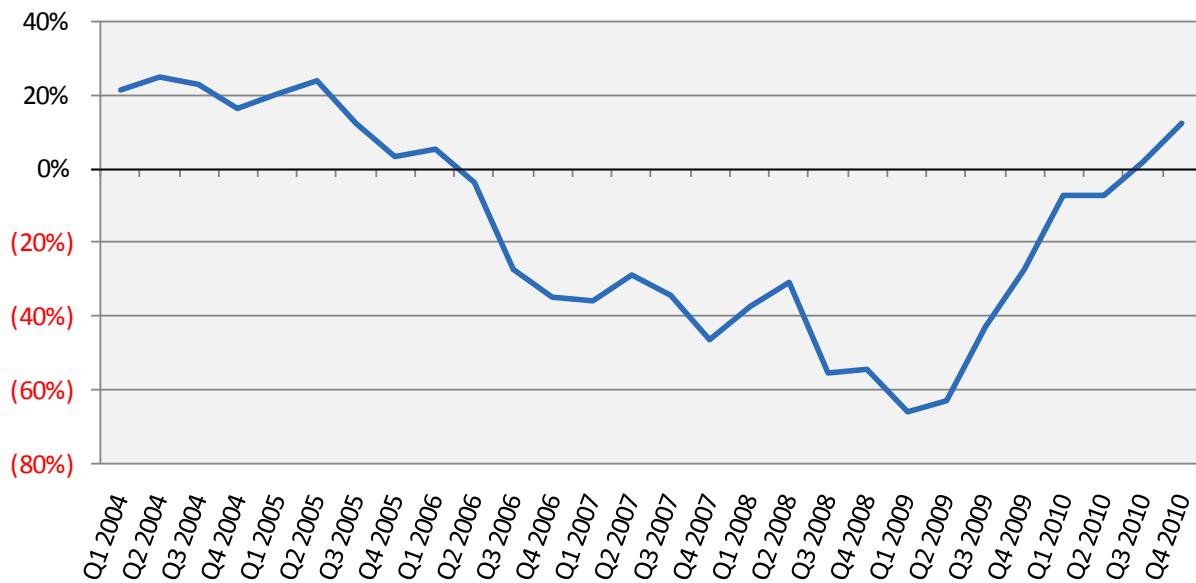
³⁴³ Board of Governors of the Federal Reserve System, *The January 2011 Senior Loan Officer Opinion Survey on Bank Lending Practices*, at 1-5 (Jan. 31, 2011) (online at www.federalreserve.gov/boarddocs/snloansurvey/201102/fullreport.pdf).

Figure 15: Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans (2004-2010)³⁴⁴



³⁴⁴ Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices Chart Data* (Jan. 31, 2011) (online at www.federalreserve.gov/boarddocs/snloansurvey/201102/chartdata.htm).

Figure 16: Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans (2004-2010)³⁴⁵

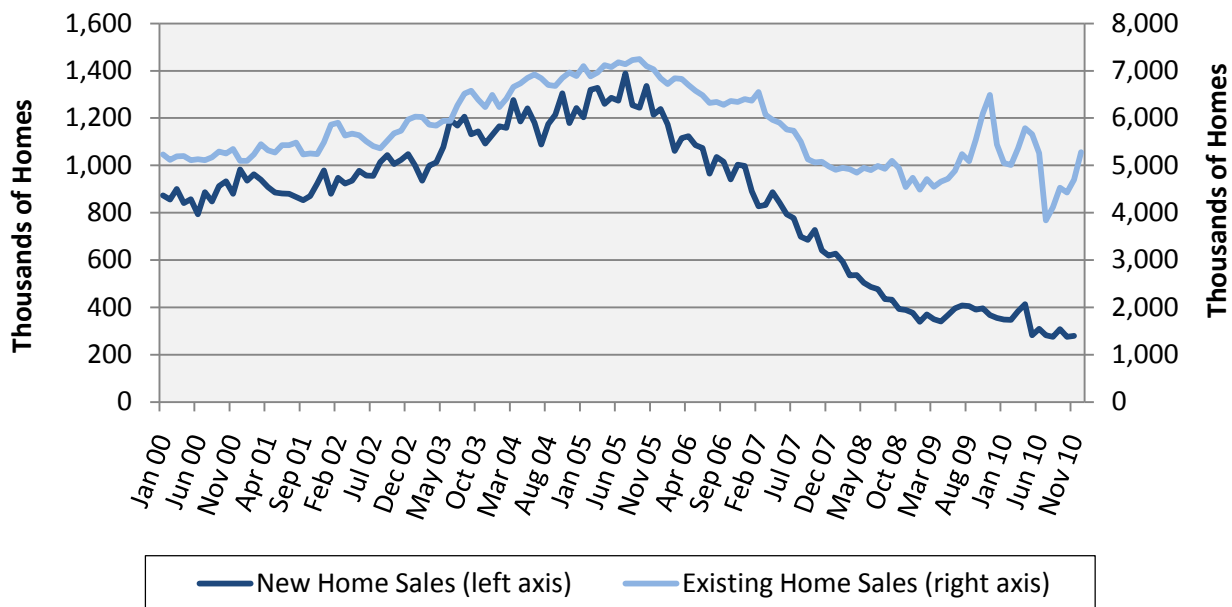


3. Housing Indices

Home Sales. Both new and existing home sales experienced a significant month-over-month increase in December 2010. New home sales, as measured by the U.S. Census Bureau, increased 17.5 percent to 329,000 during the month. With respect to existing home sales, the National Association of Realtors estimates a 12 percent month-over-month increase in December, to an annual rate of 5.3 million homes sold. Despite the recent increase in December 2010, new and existing home sales remain below their December 2009 levels, when the new home sales estimate was 356,000 and the annual rate of existing home sales was 5.4 million homes.

³⁴⁵ *Id.*

Figure 17: New and Existing Home Sales (2000-2010)³⁴⁶



Foreclosures. Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, decreased by nearly 2 percent in December 2010 to 257,747.³⁴⁷ During the fourth quarter, 799,064 foreclosure actions were taken, representing a 14 percent decrease from the previous quarter, and a total of 3.8 million were reported for the year. The significant decline between the third and the fourth quarter of 2010 is primarily attributable to foreclosure suspensions in the fall of 2010 as large loan servicers conducted internal reviews of their foreclosure procedures.³⁴⁸ Since the enactment of EESA, there have been approximately 8.4 million foreclosure actions.³⁴⁹

³⁴⁶ Data accessed through Bloomberg Data Service (Feb. 1, 2011). Spikes in both new and existing home sales in January 2009 and November 2009 correlate with the tax credits extended to first-time and repeat home buyers during these periods. After both tax credits were extinguished on April 30, 2010, existing home sales dropped to 3.8 million homes in July, their lowest level in a decade. National Association of Realtors, *July Existing-Home Sales Fall as Expected but Prices Rise* (Aug. 24, 2010) (online at www.realtor.org/press_room/news_releases/2010/08/ehs_fall).

³⁴⁷ RealtyTrac, *Record 2.9 Million U.S. Properties Receive Foreclosure Filings in 2010 Despite 30-Month Low in December* (Jan. 13, 2011) (online at www.realtytrac.com/content/press-releases/record-29-million-us-properties-receive-foreclosure-filings-in-2010-despite-30-month-low-in-december-6309) (hereinafter “2.9 Million U.S. Properties Receive Foreclosure Filings in 2010”). The most recent data available are for December 2010.

³⁴⁸ For more information on foreclosure irregularities, see Congressional Oversight Panel, *November Oversight Report: Examining the Consequences of Mortgage Irregularities for Financial Stability and Foreclosure Mitigation* (Nov. 16, 2010) (online at cop.senate.gov/documents/cop-111610-report.pdf).

³⁴⁹ Data accessed through Bloomberg Data Service (Feb. 1, 2011).

Home Prices. With respect to housing price indices, both the Case-Shiller Composite 20-City Composite Home Price Index and the FHFA Housing Price Index decreased by less than 1 percent in November 2010. The Case-Shiller and FHFA indices are approximately 9 percent and 6 percent, respectively, below their respective October 2008 levels.³⁵⁰

Case-Shiller futures prices indicate a market expectation that home-price values for the major Metropolitan Statistical Areas (MSAs) will decrease through 2011.³⁵¹ These futures are cash-settled to a weighted composite index of U.S. housing prices in the top ten MSAs, as well as to those specific markets. They are used as a hedge by businesses whose profits and losses are related to a specific area of the housing industry, and to balance portfolios by businesses seeking exposure to an uncorrelated asset class. As such, futures prices are a composite indicator of market information known to date and can be used to indicate market expectations for home prices.

³⁵⁰ The most recent data available are for November 2010. See Standard and Poor's, *S&P/Case-Shiller Home Price Indices* (Instrument: Case-Shiller 20-City Composite Seasonally Adjusted, Frequency: Monthly) (online at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----) (accessed Feb. 1, 2011) (hereinafter "S&P/Case-Shiller Home Price Indices"); Federal Housing Finance Agency, *U.S. and Census Division Monthly Purchase Only Index* (Instrument: USA, Seasonally Adjusted) (online at www.fhfa.gov/Default.aspx?Page=87) (accessed Feb. 1, 2011) (hereinafter "U.S. and Census Division Monthly Purchase Only Index"). S&P has cautioned that the seasonal adjustment is probably being distorted by irregular factors. These factors could include distressed sales and the various government programs. See Standard and Poor's, *S&P/Case-Shiller Home Price Indices and Seasonal Adjustment* (Apr. 2010) (online at www.standardandpoors.com/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldata&blobtable=MungoBlobs&blobheadervalue2=inline;+filename%3DCaseShiller_SeasonalAdjustment2,0.pdf&blobheadername2=Content-Disposition&blobheadervalue1=application/pdf&blobkey=id&blobheadername1=content-type&blobwhere=1243679046081&blobheadervalue3=UTF-8). For a discussion of the differences between the Case-Shiller Index and the FHFA Index, see Congressional Oversight Panel, *April Oversight Report: Evaluating Progress on TARP Foreclosure Mitigation Programs*, at 98 (Apr. 14, 2010) (online at cop.senate.gov/documents/cop-041410-report.pdf).

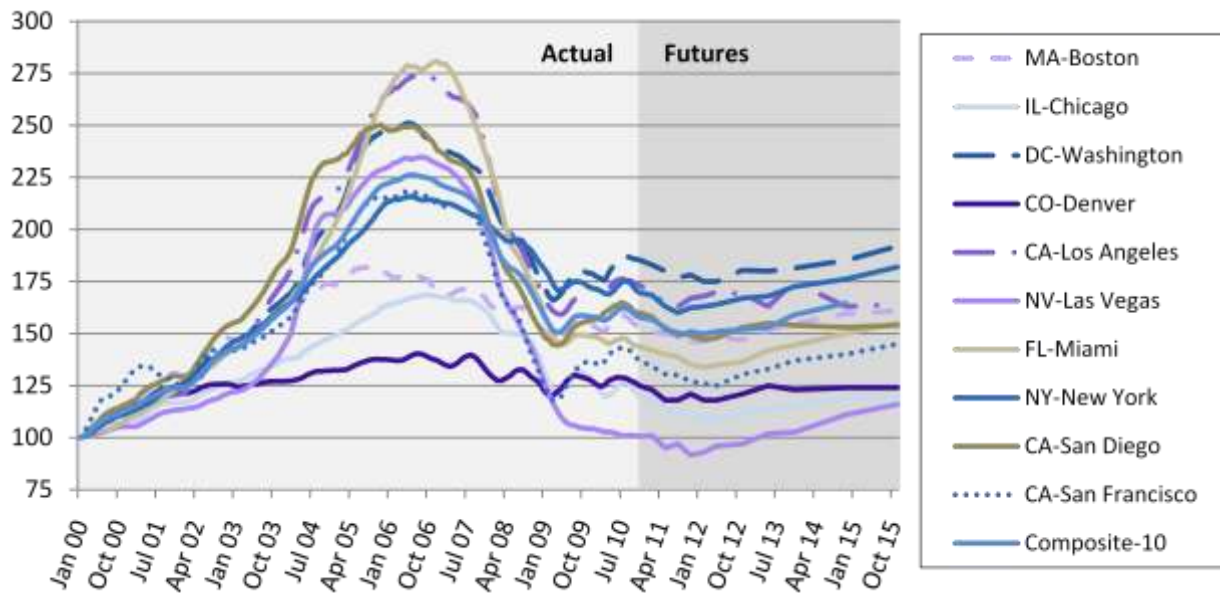
³⁵¹ Data accessed through Bloomberg Data Service (Feb. 1, 2011). The Case-Shiller Futures contract is traded on the Chicago Mercantile Exchange (CME) and is settled to the Case-Shiller Index two months after the previous calendar quarter. For example, the February contract will be settled against the spot value of the S&P Case-Shiller Home Price Index values representing the fourth calendar quarter of the previous year, which is released in February one day after the settlement of the contract. Note that most close observers believe that the accuracy of these futures contracts as forecasts diminishes the further out one looks.

A Metropolitan Statistical Area is defined as a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with the core. U.S. Census Bureau, *About Metropolitan and Micropolitan Statistical Areas* (online at www.census.gov/population/www/metroareas/aboutmetro.html) (accessed Feb. 1, 2011).

Figure 18: Housing Indicators

Indicator	Most Recent Monthly Data	Percent Change from Data Available at Time of Last Report	Percent Change Since October 2008
Monthly foreclosure actions ³⁵²	257,747	(1.8)%	(7.8)%
S&P/Case-Shiller Composite 20 Index ³⁵³	142.70	(0.5)%	(8.7)%
FHFA Housing Price Index ³⁵⁴	189.96	(0.4)%	(5.8)%

Figure 19: Case-Shiller Home Price Index and Futures Values³⁵⁵



³⁵² 2.9 Million U.S. Properties Receive Foreclosure Filings in 2010, *supra* note 347. The most recent data available are for December 2010.

³⁵³ S&P/Case-Shiller Home Price Indices, *supra* note 350. The most recent data available are for November 2010.

³⁵⁴ U.S. and Census Division Monthly Purchase Only Index, *supra* note 350. The most recent data available are for November 2010.

³⁵⁵ All data normalized to 100 in January 2000. Futures data accessed through Bloomberg Data Service (Feb. 1, 2011). S&P/Case-Shiller Home Price Indices, *supra* note 350.