



Congressional Oversight Panel

March 16,
2011

Metrics for the Troubled Asset Relief Program

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Panel's March 2011 report, "The Final Report of
the Congressional Oversight Panel."

During the years from 2000 until 2007 home prices more than doubled and the amount of mortgage debt outstanding increased nearly 80 percent. The S&P Case/Shiller home price index, a measure of home values in the United States, reached its peak level of 206.5 in April 2006, representing a 105 percent increase from January 2000.¹ An alternative measure of home prices, the Federal Housing Finance Agency's quarterly Purchase Only Index increased for 49 consecutive quarters beginning in the first quarter of 1995 until the second quarter of 2007.² Total mortgage debt outstanding for one to four family homes increased from \$4.8 trillion at the end of 1999 to \$10.4 trillion in the beginning of 2007.³ S&P Case Shiller index reached its peak of 206.5 in April 2006. Also, delinquencies as a percentage of loans rose from 4.39 percent at the end of Q2 2006 to 5.12 percent at the end of Q2 2007.⁴ Figure 1 illustrates the increase in subprime mortgage delinquencies, which reached 13.3 percent by the end of 2006, and the corresponding beginning of a relative decline in home values that continues to this day.⁵

¹ Standard & Poor's, *S&P/Case-Shiller Home Price Index* (Instrument Used: Home Price Index Levels, Seasonally adjusted, Composite 20-city Index) (online at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----) (accessed Mar. 11, 2011) (hereinafter "S&P/Case-Shiller Home Price Index").

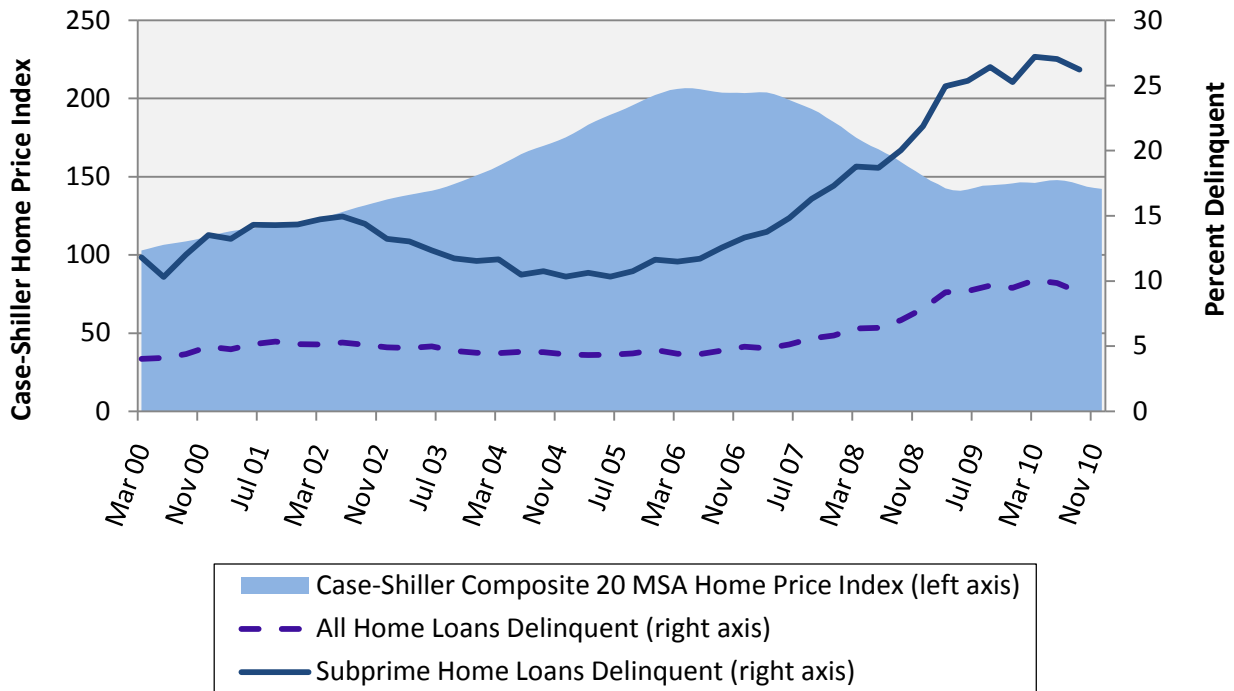
² Federal Housing Finance Agency, *Purchase Only Indexes: U.S. Summary Through Q4 2010* (Instrument Used: HPI % Change Over Previous Quarter) (online at www.fhfa.gov/Default.aspx?Page=87) (accessed Mar. 11, 2011).

³ Board of Governors of the Federal Reserve System, *Statistical Supplement to the Federal Reserve Bulletin: Mortgage Debt Outstanding* (Jan. 2004) (online at www.federalreserve.gov/pubs/supplement/2004/01/table1_54.htm); Board of Governors of the Federal Reserve System, *Mortgage Debt Outstanding* (Dec. 2010) (online at www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm).

⁴ Mortgage Bankers Association, *National Delinquency Survey – 2010 4th Quarter*, at 4 (Feb. 17, 2011) (hereinafter "National Delinquency Survey – 2010 4th Quarter").

⁵ Case-Shiller values are indexed to 100 in January 2000. As of December 2010, national home prices, as measured by the S&P Case-Shiller Home Price Index, have declined 30.2 percent since January 2007 and declined 9.1 percent since the enactment of EESA in October 2008. S&P/Case-Shiller Home Price Index, *supra* note 1. Subprime delinquencies reached their highest level during the first quarter of 2010 when delinquencies reached 27.2 percent. National Delinquency Survey – 2010 4th Quarter, *supra* note 4.

Figure 1: Percentage of Delinquent Home Loans by Type as Compared to Home Prices⁶

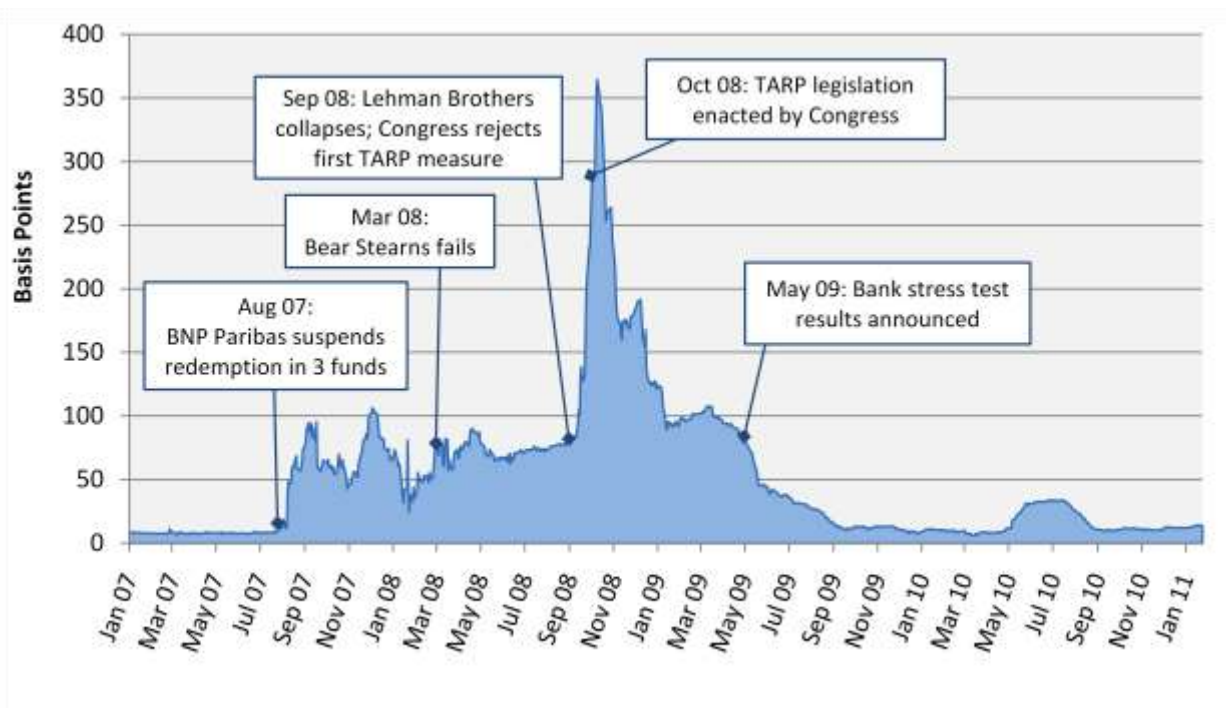


The LIBOR-OIS spread measures the difference between the London Interbank Offered Rate (LIBOR), which shows quarterly borrowing costs for banks, and the Overnight Indexed Swaps rate (OIS), which measures the cost of extremely short-term borrowing by financial institutions. An increase in the LIBOR-OIS spread indicates that market participants have growing fears about whether major financial institutions will be able to deliver on their obligations.⁷ Figure 2 illustrates the spikes in the LIBOR-OIS spread as key events in the ensuing financial crisis unfolded.

⁶ National Delinquency Survey – 2010 4th Quarter, *supra* note 4; S&P/Case-Shiller Home Price Index, *supra* note 1.

⁷ Federal Reserve Bank of St. Louis, *What the Libor-OIS Spread Says* (2009) (online at research.stlouisfed.org/publications/es/09/ES0924.pdf).

Figure 2: LIBOR-OIS Spread and Selected Events⁸



For the first seven months of 2007, the LIBOR-OIS spread averaged 8.7 basis points, reflecting relative calm in the financial markets. Following the announcement by BNP Paribas on August 9, 2007, however, this measure increased nearly 200 percent, settling at 39.9 basis points.⁹ The interest rate for overnight AA Asset-backed Commercial Paper increased from 5.39 percent on August 8, 2007 to 5.75 percent on August 9, 2007. This was the highest level this measure reached since its January 31, 2001 level of 5.78 percent. The interest rate for overnight financial AA Financial Commercial Paper increased from 5.31 percent on August 8, 2007 to 5.39 percent on August 9, 2007. This was the highest level this measure reached since its March 30, 2001 level of 5.44 percent.¹⁰

The nation's gross domestic product (GDP), a measure of this country's economic activity, suffered its first quarterly decline since 2001 in the first quarter of 2008. Following a slight increase of 0.6 percent in the next quarter, GDP contracted for four consecutive quarters through June 2009. The National Bureau of Economic Research, the body responsible for determining when shifts in the U.S. business cycle occur, stated on September 20, 2010 that the

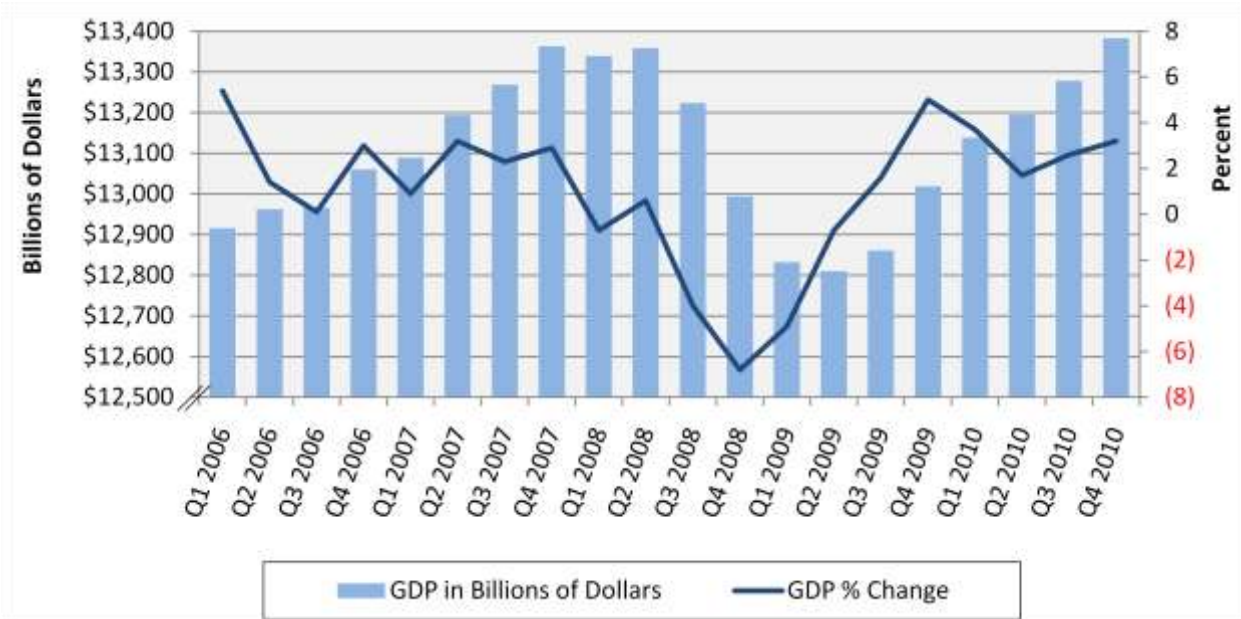
⁸ SNL Financial (accessed Mar. 1, 2011).

⁹ SNL Financial (accessed Mar. 1, 2011).

¹⁰ Board of Governors of the Federal Reserve System, *Data Download Program: Commercial Paper* (Instruments Used: Rates; Overnight AA Asset-backed Commercial Paper, Overnight AA Financial Commercial Paper) (online at www.federalreserve.gov/datadownload/Choose.aspx?rel=CP) (accessed Mar. 1, 2011).

most recent recession – commonly referred to as the “Great Recession” – began in December 2007 and ended in June 2009, a period corresponding to the decline in GDP mentioned here.¹¹

Figure 3: GDP Since 2006¹²

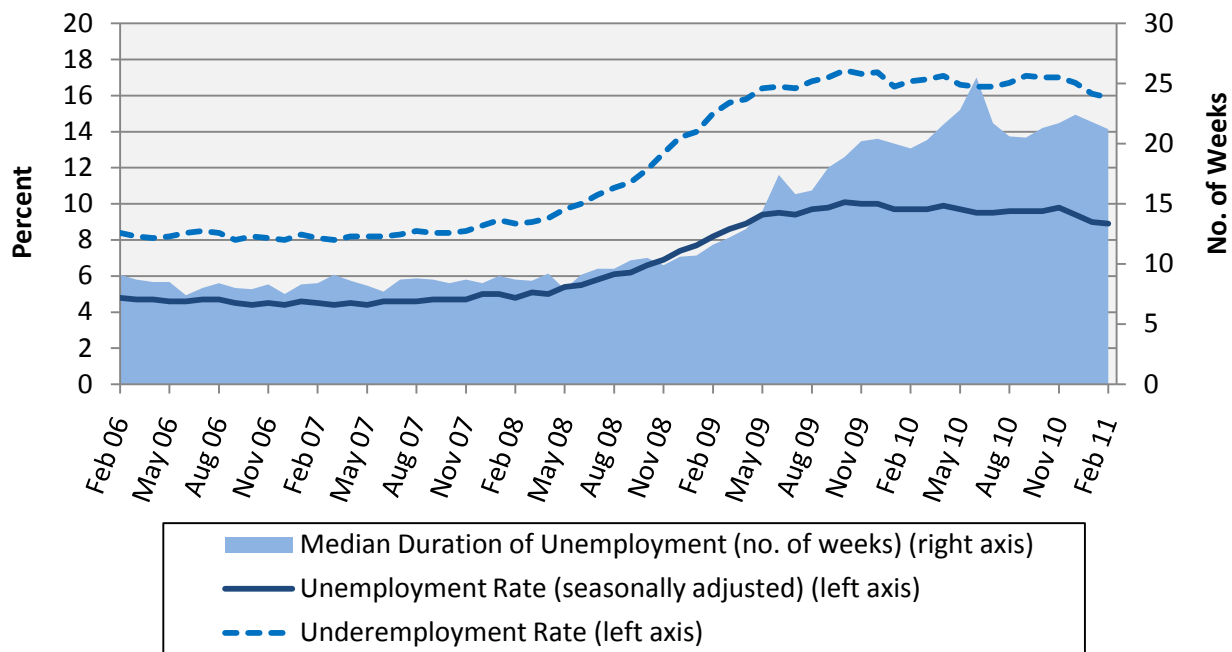


Unemployment rose sharply in 2008 and early 2009. The unemployment rate rose from a low of 4.6 percent in January 2007 to 6.2 percent by September 2008 and 10.1 percent by October 2009. Figure 4 shows not only the rise in the unemployment rate, but also the concurrent increase in the median duration of unemployment, and the sharp increase in underemployment, a measure that includes people who are unemployed as well as those who are working fewer hours than they want to work and those who have become discouraged and stopped looking for a job.

¹¹ National Bureau of Economic Research, *US Business Cycle Expansions and Contractions* (online at www.nber.org/cycles/cyclesmain.html) (accessed Mar. 3, 2011). Bureau of Economic Analysis, *Gross Domestic Product* (Instruments used: Current-dollar and “real” GDP, Percent change from preceding period) (online at www.bea.gov/national/index.htm) (accessed Mar. 3, 2011) (hereinafter “Gross Domestic Product”).

¹² Amounts are in constant 2005 dollars. Gross Domestic Product, *supra* note 11.

Figure 4: Unemployment, Underemployment, and Duration of Unemployment¹³



1. Current State of Commercial and Industrial Lending

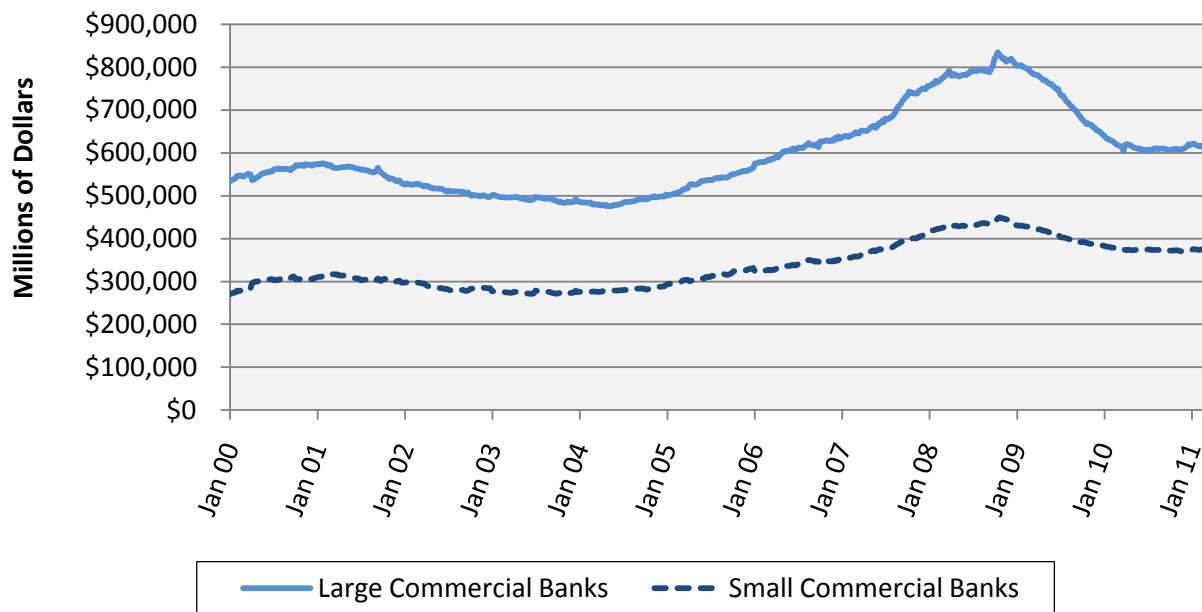
After declining or stagnating consistently through 2008 and 2009, commercial and industrial (C&I) lending at domestic commercial banks began to increase slightly towards the end of 2010.¹⁴ As of February 23, 2011, there were approximately \$620 billion in outstanding C&I loans at large banks, while small banks had \$374 billion in outstanding C&I loans.¹⁵ Figure 14 below illustrates the level of outstanding C&I loans from 2000 to 2011.

¹³ Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey: Unemployment Rate* (online at data.bls.gov/pdq/SurveyOutputServlet?data_tool=latest_numbers&series_id=LNS14000000) (accessed Mar. 4, 2011); Bureau of Labor Statistics, *Alternative Measures of Labor Underutilization* (Instrument Used: U-6) (online at www.bls.gov/news.release/empsit.t15.htm) (accessed Mar. 4, 2011); Federal Reserve Bank of St. Louis, *Median Duration of Unemployment* (online at research.stlouisfed.org/fred2/series/UEMPMED) (accessed Mar. 4, 2011).

¹⁴ Board of Governors of the Federal Reserve System, *Monetary Policy Report to Congress*, at 12 (Mar. 1, 2011) (online at www.federalreserve.gov/monetarypolicy/files/20110301_mprfullreport.pdf).

¹⁵ Board of Governors of the Federal Reserve System, *H.8 Assets and Liabilities of Commercial Banks in the United States: Data Download Program* (Instruments: Large Domestically Chartered Banks, Small Domestically Chartered Banks; Frequency: Weekly; Seasonally-Adjusted) (online at www.federalreserve.gov/datadownload/Choose.aspx?rel=H.8) (accessed Mar. 10, 2011) (hereinafter “Federal Reserve H.8”).

Figure 14: Commercial and Industrial Loans Outstanding at Domestic Commercial Banks (2000-2011)¹⁶



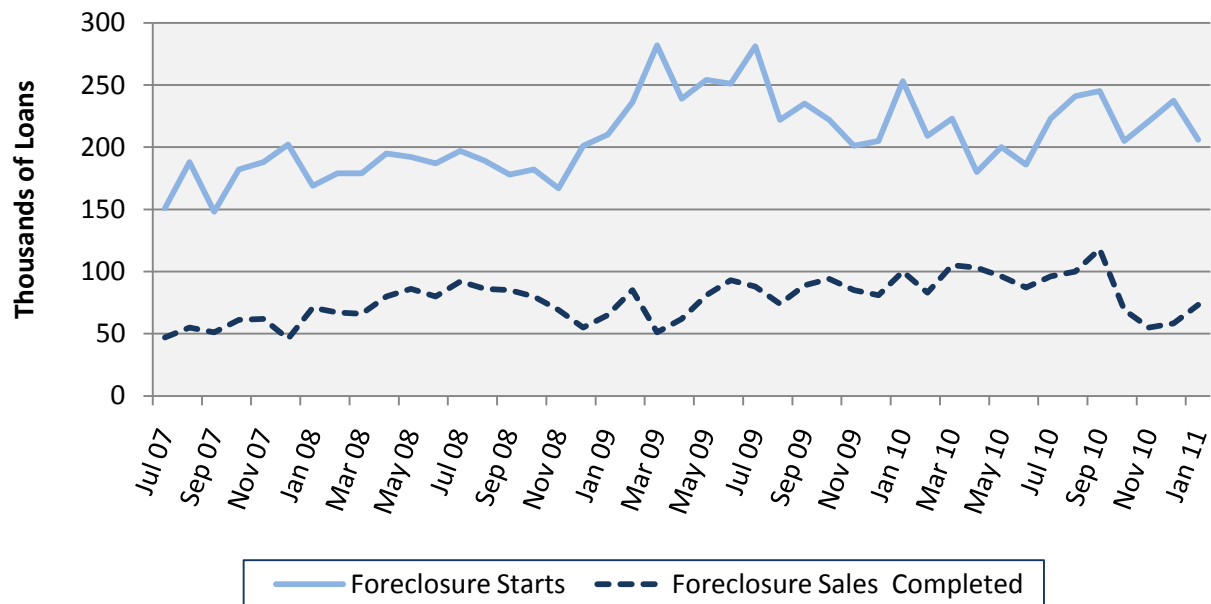
Despite the slight increase in loans, data from the January 2011 Senior Loan Officer Opinion Survey offered mixed responses from banks regarding the state of C&I lending over the fourth quarter in 2010. More large banks were reporting easing standards for both large/middle-market and small firms, while responses from small banks show that loan standards remained largely unchanged for all firms. Respondents cited increased competition from other banks and nonbank lenders, as well as “a more favorable or less uncertain” economic horizon, as reasons for easing lending standards. With regard to loan demand, the net percentage of large banks reporting stronger demand for C&I loans from large/middle-market firms was 53 percent. However, a lesser percentage indicated stronger demand from small firms. Small banks, on the other hand, reported weaker overall demand for C&I loans.¹⁷

¹⁶ Federal Reserve H.8, *supra* note 15. Large banks are defined as the top 25 domestically chartered commercial banks. As of December 2009, these banks had more than \$65 billion in total assets. Board of Governors of the Federal Reserve System, *Assets and Liabilities of Commercial Banks in the United States – H.8: About the Release* (Apr. 9, 2010) (online at www.federalreserve.gov/releases/h8/about.htm).

¹⁷ A source of information on trends is the Federal Reserve’s Senior Loan Officer Opinion Survey on Bank Lending Practices, which is based on quarterly data reported by the Survey of Senior Loan Officers respondents and addresses changes in the supply of and demand for loans to businesses and households. The Senior Loan Officer Opinion Survey on Bank Lending Practices reviews changes in lending terms and standards, as well as demand for loans to businesses and households at approximately 60 domestic banks and 22 U.S. branches and agencies of foreign banks. The survey defines large and middle-market firms as firms with more than \$50 million in annual sales. Also, large banks are defined as banks with at least \$20 billion in total assets as of October 31, 2010. See Board of Governors of the Federal Reserve System, *January 2011 Senior Loan Officer Opinion Survey on Bank*

In December 2010, there were 232,000 foreclosure starts, while there were 56,000 foreclosure sales. This compares to 282,000 foreclosure starts and 51,000 foreclosure sales in March 2009, when HAMP was introduced. (Foreclosure sales dipped in late 2010 as a result of a number of large mortgage servicers suspending foreclosures in order to review their internal foreclosure procedures, but these numbers will likely increase in the coming months as these servicers resume their foreclosures.) Figure 21 shows foreclosure starts and completions by month since March 2009.

Figure 21: Foreclosure Starts and Completions¹⁸

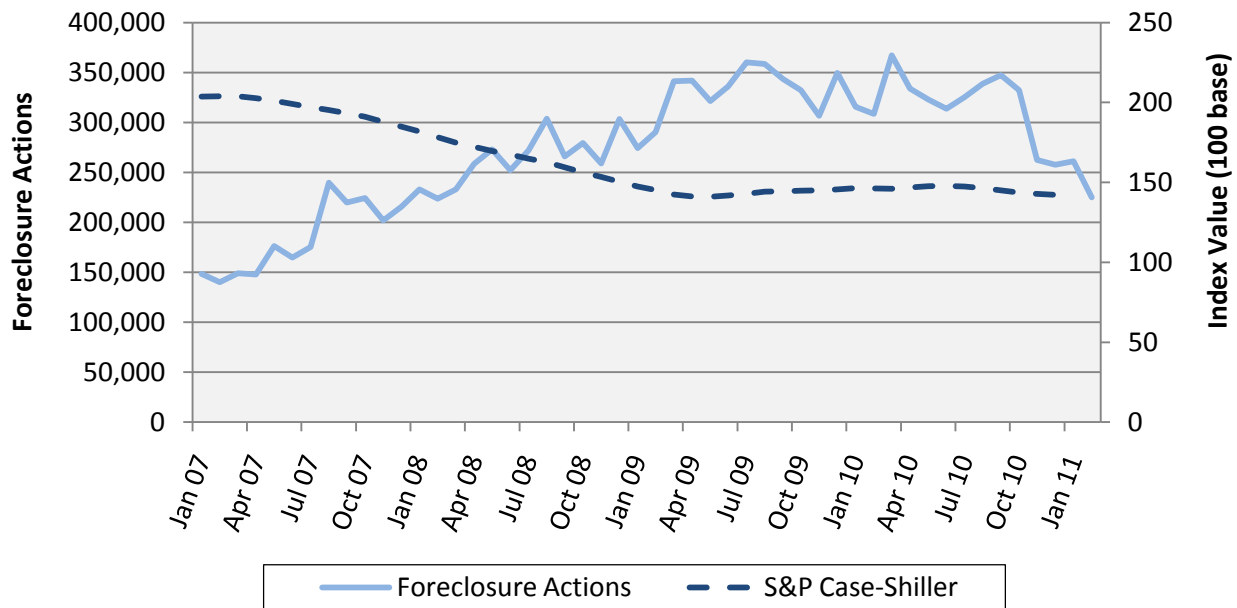


Lending Practices, at 3-5 (Jan. 31, 2011) (online at www.federalreserve.gov/boarddocs/snloansurvey/201102/fullreport.pdf).

¹⁸ HOPE NOW Alliance, *Appendix – Mortgage Loss Mitigation Statistics: Industry Extrapolations (Quarterly from Q1-2007 to Q1-2009)*, at 4 (online at www.hopenow.com/industry-data/HOPE%20NOW%20National%20Data%20July07%20to%20April09.pdf) (accessed Mar. 11, 2011); HOPE NOW Alliance, *Appendix – Mortgage Loss Mitigation Statistics: Industry Extrapolations (Monthly for Dec 2008 to Nov 2009)*, at 2 (online at [www.hopenow.com/industry-data/HOPE%20NOW%20National%20Data%20July07%20to%20Nov09%20v2%20\(2\).pdf](http://www.hopenow.com/industry-data/HOPE%20NOW%20National%20Data%20July07%20to%20Nov09%20v2%20(2).pdf)) (accessed Mar. 11, 2011); HOPE NOW Alliance, *Industry Extrapolations and Metrics (May 2010)*, at 8 (June 28, 2010) (online at [www.hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20\(May\)%2006-21-2010.pdf](http://www.hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20(May)%2006-21-2010.pdf)); HOPE NOW Alliance, *Industry Extrapolations and Metrics (September 2010)*, at 8 (Oct. 31, 2010) (online at [hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20\(September\)%202010-31-2010%20v2.pdf](http://hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20(September)%202010-31-2010%20v2.pdf)); HOPE NOW Alliance, *Industry Extrapolations and Metrics (December 2010)*, at 8 (Feb. 2, 2011) (online at [www.hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20\(December\)%2002-01-2011%20v2.pdf](http://www.hopenow.com/industry-data/HOPE%20NOW%20Data%20Report%20(December)%2002-01-2011%20v2.pdf)).

The S&P/Case Shiller index, which measures residential real estate prices nationwide, began declining in 2007, and the index's fall continued through the financial crisis of 2008 and beyond. After stabilizing in early 2010, home prices continued their decline in the second half of last year. Since the TARP was enacted in October 2008, nationwide home prices have declined by 9.1 percent. Since their peak in February 2007, nationwide home prices have fallen by 30.2 percent.¹⁹ Figure 22 shows that this decline in home prices has happened simultaneous with the rise in foreclosures.

Figure 22: Foreclosure Actions and Home Prices²⁰



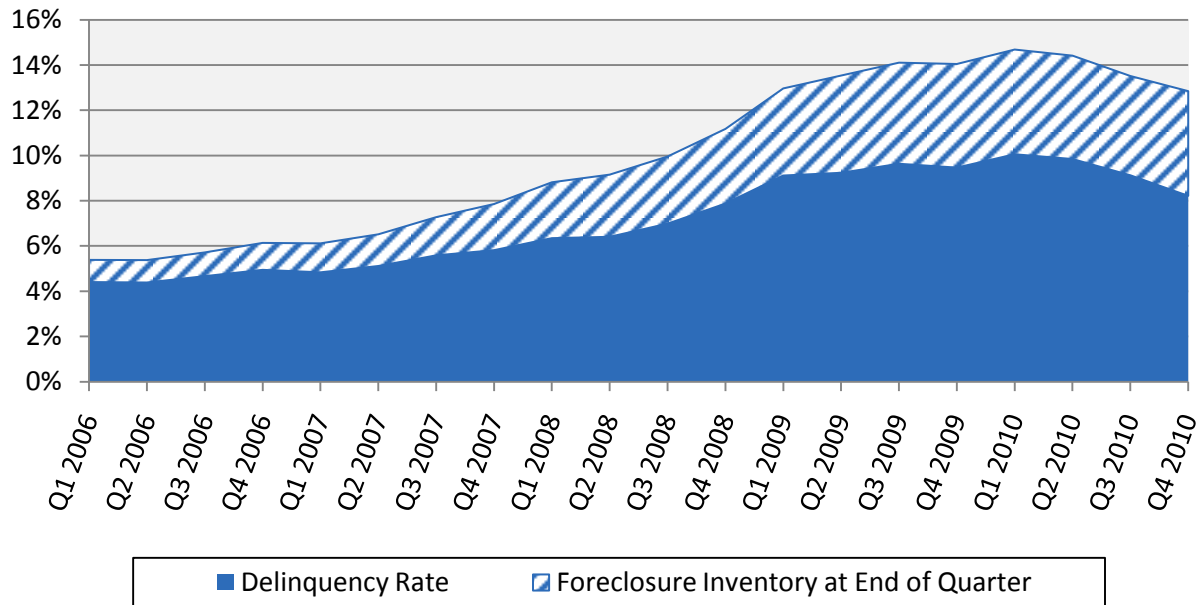
While mortgage delinquencies have declined over the past three quarters, they remain near historically high levels. At the end of 2010, loans that were 30, 60, or 90 or more days delinquent represented approximately 8.2 percent of all outstanding loans – down from 10.1 percent during the first quarter of 2010, which was the peak during the current crisis, but still above 7.8 percent rate in the fourth quarter of 2008. Mortgages in the foreclosure inventory, meaning those currently in the foreclosure process, represent 4.6 percent of outstanding loans – which equals the highest level since 2006 and is well above the 3.3 percent rate in the fourth

¹⁹ S&P/Case Shiller Index data, which runs through December 2010, accessed through Bloomberg Financial Data Service (accessed Mar. 4, 2011).

²⁰ Foreclosure action data compiled by RealtyTrac, and accessed through Bloomberg Financial Data Service (accessed Mar. 10, 2011). Foreclosure actions are defined as default notices, scheduled auctions, and bank repossessions. RealtyTrac, *Foreclosures Frozen in February* (Mar. 9, 2011) (online at www.realtytrac.com/content/press-releases/foreclosure-activity-decreases-14-percent-in-february-6420). S&P/Case Shiller Index data accessed through Bloomberg Financial Data Service (accessed Mar. 4, 2011).

quarter of 2008. The delinquency rate remains 18 percent above its level at the time the TARP was enacted, and the foreclosure inventory rate is 56 percent above its level from that period.²¹ Figure 24 shows delinquency and foreclosure inventory rates since before the foreclosure crisis began.

Figure 24: Delinquency and Foreclosure Inventory Rates²²



²¹ National Delinquency Survey – 2010 4th Quarter, *supra* note 4.

²² National Delinquency Survey – 2010 4th Quarter, *supra* note 4.