Congressional Oversight Panel

June 10, 2010

# Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's June 2010 report, "The AIG Rescue, Its Impact on Markets, and the Government's Exit Strategy."

Submitted under Section 125(b)(1) of Title 1 of the Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343

## 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), (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 May report.

- **Interest Rate Spreads.** Since the Panel's May report, interest rate spreads widened, suggesting a slowdown in economic growth. The conventional mortgage spread, which measures the 30-year mortgage rate over 10-year Treasury bond yields, increased by 17.7 percent in May. Despite the growing spread during this period, 30-year mortgage interest rates have been decreasing.[974] The TED Spread, which serves as an indicator for perceived risk in the financial markets, continued its upward trend, growing 39 percent in May. Increases in the LIBOR rates and TED Spread suggest hesitation among banks to lend to other counterparties.[975] The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, has increased by 53.3 percent since the Panel's May report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, increased by 12.7 percent during May.

- The widening commercial paper spreads in May could be attributed to recent problems in the Euro zone. Money market mutual funds are divesting from Greece, Spain, and Portugal. Risk-averse money managers are favoring shorter term commercial paper or long-dated issues from top-rated financial companies. In addition, investors are now calling for higher interest rates on European commercial paper than on U.S. commercial paper, with interest rate spreads increasing to more than 0.50 percentage point.[976]

[974] 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) (hereinafter "Federal Reserve Statistical Release H.15") (accessed June 8, 2010).

[975] The 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).

[976] Richard Leong and Emelia Sithole-Matarise, *European, Regulatory Worries Lift Bank Costs*, Reuters (May 25, 2010) (online at www.reuters.com/article/idUSN2516218620100525).

**Figure 52: Interest Rate Spreads**

| Indicator | Current Spread (as of 6/2/10) | Percent Change Since Last Report (5/13/10) |
|---|---|---|
| Conventional mortgage rate spread[977] | 1.53 | 17.7% |
| TED Spread (basis points) | 39.02 | 39.0% |
| Overnight AA asset-backed commercial paper interest rate spread[978] | 0.11 | 53.3% |
| Overnight A2/P2 nonfinancial commercial paper interest rate spread[979] | 0.20 | 12.7% |

[977] Federal Reserve Statistical Release H.15, *supra* note 974 (accessed June 2, 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) (accessed June 2, 2010) .

[978] 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: Commercial Paper") (accessed June 2, 2010). In order to provide a more complete comparison, this metric utilizes the average of the interest rate spread for the last five days of the month.

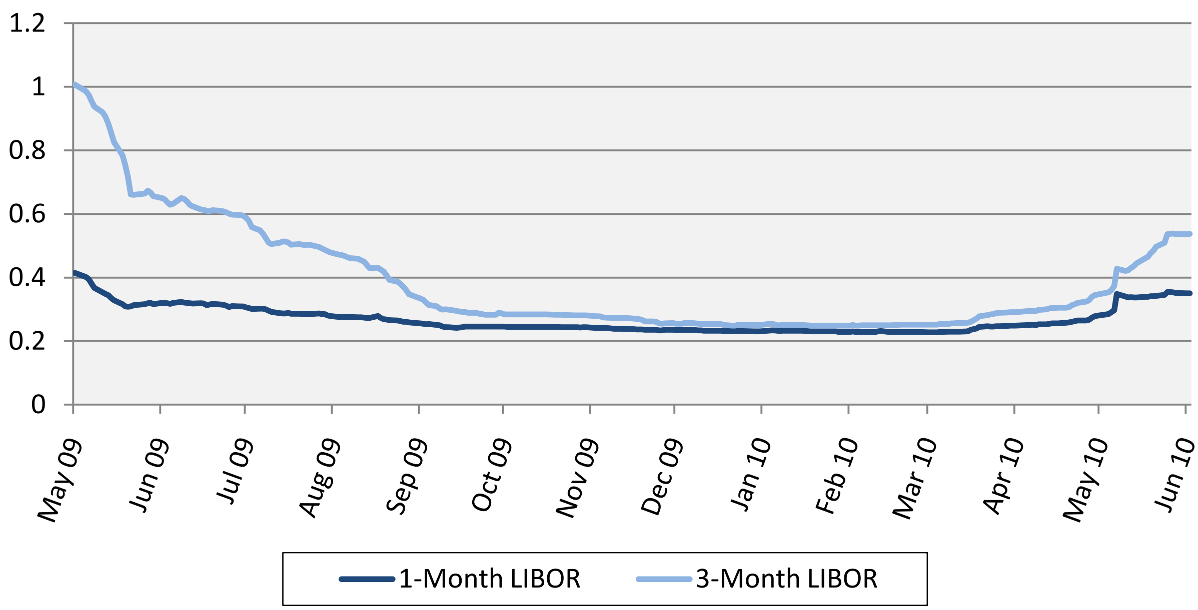
[979] *Id*. In order to provide a more complete comparison, this metric utilizes the average of the interest rate spread for the last five days of the month.

- **LIBOR-OIS Spread.** As of June 2, 2010, the 3-month and 1-month LIBOR, the prices at which banks lend and borrow from each other, are 0.538 and 0.351, respectively. Beginning on March 1, 2010, the 3-month LIBOR experienced a 113.6 percent increase, and grew 23.3 percent since the Panel's May report. The 1-month LIBOR has also increased significantly in the past three months. Since March 1, the 1-month LIBOR rate rose 53.8 percent. These heightened levels indicate growing concern among banks about lending to and borrowing from one another.[980]

**Figure 53: 3-Month and 1-Month LIBOR Rates (as of June 2, 2010)**

| Indicator | Current Rates (as of 6/2/2010) | Percent Change from Data Available at Time of Last Report (5/13/2010) |
|---|---|---|
| 3-Month LIBOR[981] | .538 | 23.3% |
| 1-Month LIBOR[982] | .351 | 4.2% |

**Figure 54: 3-Month and 1-Month LIBOR Rates**




[980] Data accessed through Bloomberg data service on June 2, 2010.

[981] Data accessed through Bloomberg data service on June 2, 2010.

[982] Data accessed through Bloomberg data service on June 2, 2010.

- **Housing Indicators**. Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, dropped 9.1 percent in May to 333,837. This metric is 19.4 percent above the foreclosure action level at the time of the EESA enactment. Both the Case-Shiller Composite 20-City Composite as well as the FHFA Housing Price Index decreased slightly in February 2010. The Case-Shiller and FHFA indices remain at 6.7 percent and 4.9 percent, respectively, below their levels at the time EESA was enacted.

**Figure 55: 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[983] | 333,837 | (9.1)% | 19.4% |
| S&P/Case-Shiller Composite 20 Index[984] | 145.9 | (.1)% | (6.7)% |
| FHFA Housing Price Index[985] | 192.9 | (.5)% | (4.9)% |

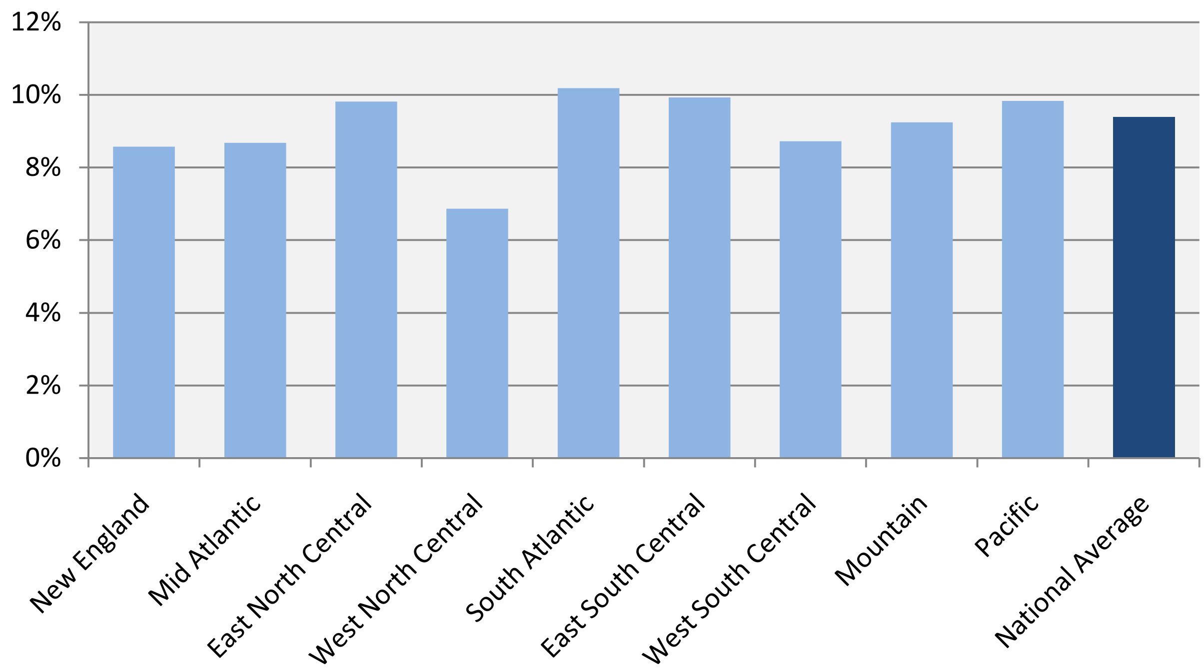
[983] RealtyTrac, *Foreclosure Activity Press Releases* (online at www.realtytrac.com/ContentManagement/PressRelease.aspx) (accessed June 2, 2010). Most recent data available for April 2010.

[984] Standard & Poor's, *S&P/Case-Shiller Home Price Indices* (Instrument: Seasonally Adjusted Composite 20 Index) (online at www.standardandpoors.com/spf/docs/case-shiller/SA_CSHomePrice_History.xls) (accessed June 2, 2010). Most recent data available for March 2010. Data accessed through Bloomberg data service.

[985] Federal Housing Finance Agency, *U.S. and Census Division Monthly Purchase Only Index* (Instrument: USA, Seasonally Adjusted) (online at www.fhfa.gov/webfiles/15669/MonthlyIndex_Jan1991_to_Latest.xls) (accessed June 2, 2010). Most recent data available for March 2010. Data accessed through Bloomberg data service.

- **National Delinquency Rates.** The Mortgage Bankers Association's (MBA) National Delinquency Survey, which tracks all loans types that are past due, indicates a non-seasonally adjusted delinquency rate of 9.38 percent for all loans outstanding during the first quarter of 2010. Including loans in foreclosure, the total delinquency rate was 14.01 percent at the end of the first quarter of 2010. Florida, Nevada, Mississippi, Arizona, and Georgia continue to have the highest delinquency rates in the country, each with a rate above 10 percent. Compared to the fourth quarter of 2009, seasonally adjusted delinquency rates increased for all loan types except Federal Housing Administration (FHA) loans. Furthermore, foreclosure starts during the first quarter of 2010 are up from the last quarter, with the exception of subprime loans.[986]

**Figure 56: Total Percentage of Loans with Installments Past Due, by Census Region, First Quarter 2010**[987]

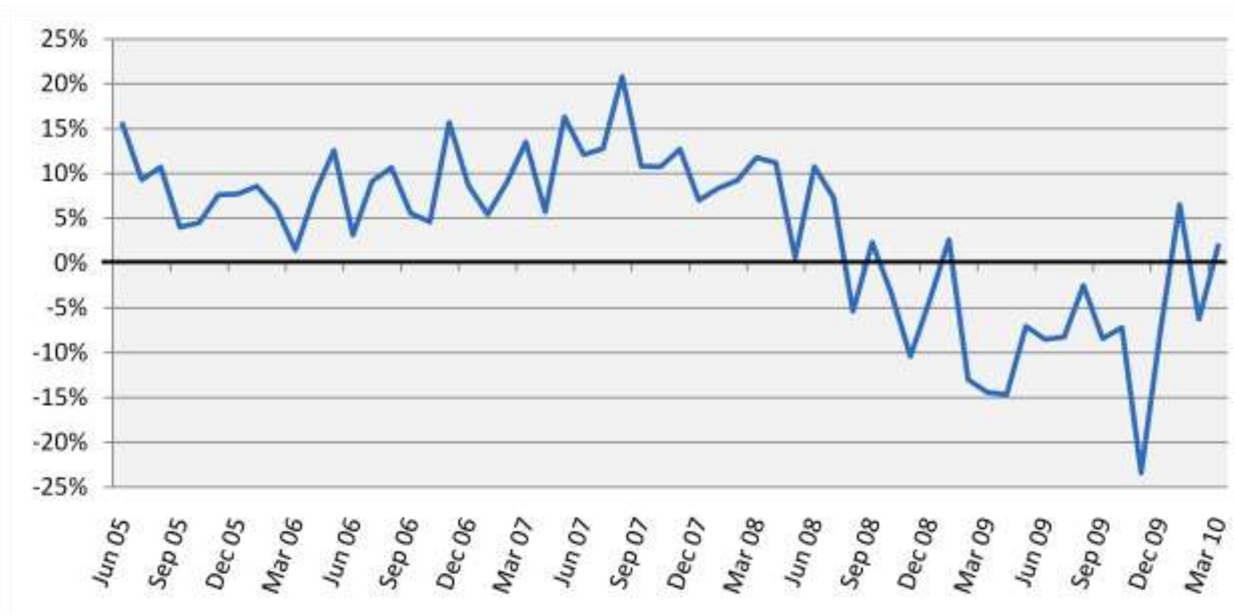



[986] Mortgage Bankers Association, *National Delinquency Survey Q1210* (Mar. 31, 2010) (online at www.mbaa.org/ResearchandForecasts/ProductsandSurveys/NationalDelinquencySurvey.htm).

[987] *Id.*

- **Consumer Credit.** The Federal Reserve Consumer Credit Index tracks short-term and long-term credit given to individuals for all purposes excluding real estate loans. In March 2010, consumer credit grew at a 0.5 percent annual rate. Revolving credit decreased at a 5.3 percent annual rate, while nonrevolving credit decreased at a 1.2 percent annual rate. Data from the Federal Reserve's G.19 report indicate that there was $2.44 trillion in consumer credit outstanding for the first quarter of 2010. This figure is down from $2.54 trillion in the first quarter of 2009.[988]

**Figure 57: Federal Reserve Consumer Credit Total Net Change (Seasonally Adjusted)**[989]




[988] Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release G.19: Consumer Credit : Historical Data.* (online at www.federalreserve.gov/releases/g19/current/g19.htm) (accessed June 2, 2010).

[989] *Id*.