



Congressional Oversight Panel

July 14,
2010

Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's
July 2010 report, "Small Banks in the Capital Purchase
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), 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 June report.

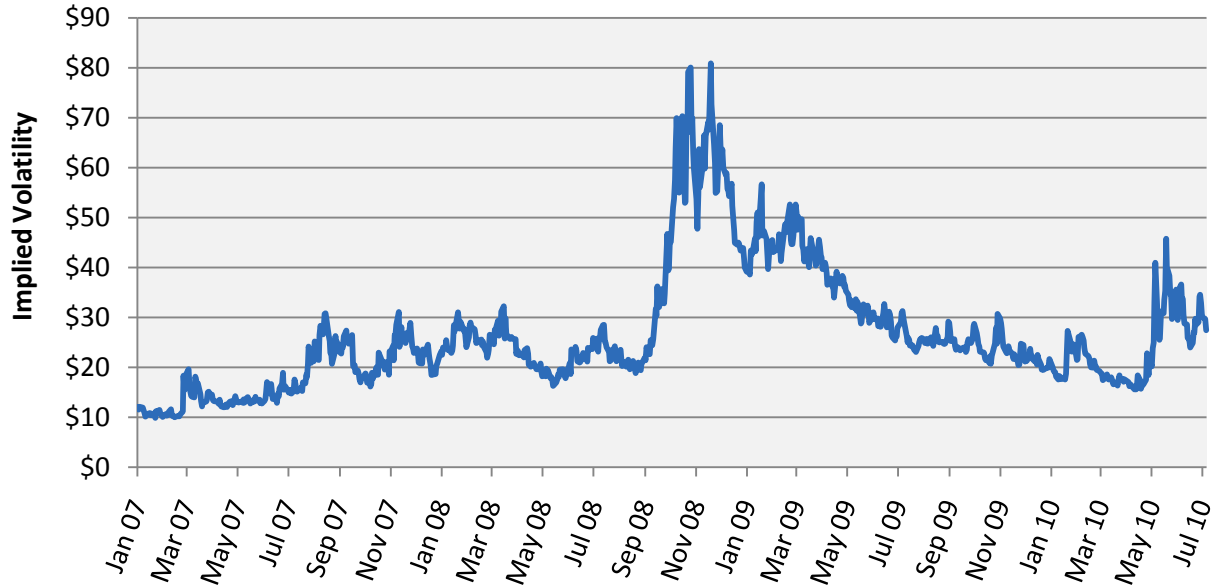
- **Financial Indices.** Since its post-crisis trough in April 2010, the St. Louis Federal Reserve Financial Stress Index has increased over ninefold.²⁸⁵ Such an increase indicates that recently more stress is being felt across the financial spectrum. The index has, however, decreased over three standard deviations from the starting date of EESA in October 2008.
- Volatility has increased of late. The Chicago Board Options Exchange Volatility Index (VIX) has nearly doubled since its post-crisis low on April 12, 2010, although current levels are short of mid-May's heights.

²⁸⁵ Federal Reserve Bank of St. Louis, *Series STLFSI: Business/Fiscal: Other Economic Indicators* (Instrument: St. Louis Financial Stress Index (STLFSI), Frequency: Weekly) (online at research.stlouisfed.org/fred2/categories/98) (hereinafter "Series STLFSI: Business/Fiscal: Other Economic Indicators") (accessed July 6, 2010). 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-meant 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).

Figure 34: St. Louis Federal Reserve Financial Stress Index²⁸⁶



Figure 35: Chicago Board Options Exchange Volatility Index²⁸⁷



²⁸⁶ Series STLFSI: Business/Fiscal: Other Economic Indicators, *supra* note 285.

²⁸⁷ Data accessed through Bloomberg data service on July 2, 2010.

- **Interest Rate Spreads.** Since the Panel’s June report, interest rate spreads have stayed fairly constant, suggesting the previously noted slowdown in economic growth has leveled off. The conventional mortgage spread, which measures the 30-year mortgage rate over 10-year Treasury bond yields, decreased by less than 1 percent in June to date. The 30-year mortgage interest rates have also decreased very slightly.²⁸⁸ The TED Spread, which serves as an indicator for perceived risk in the financial markets, eased its upward trend, growing less than 10 percent in June to date as opposed to nearly doubling over the month of May.

The LIBOR-OIS spread reflects the health of the banking system. While it increased over 150 percent in the month of May, it has also slowed its rise, increasing less than 10 percent in June to date.²⁸⁹ Increases in the LIBOR rates and TED Spread suggest more hesitation among banks to lend to other counterparties.²⁹⁰

The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, has increased by nearly 15 percent since the Panel’s June report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, increased by nearly 30 percent during June to date. The widening commercial paper spreads in June could be affected by recent problems in the Euro zone. Money market mutual funds are divesting from Greece, Spain, and Portugal. European CP due in a month has been trading on average at more than double the rate of 30-day U.S. AA-rated Financial Commercial Paper.²⁹¹

²⁸⁸ 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 June 24, 2010).

²⁸⁹ Data accessed through Bloomberg data service on June 24, 2010.

²⁹⁰ 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).

²⁹¹ The Bank of England, *Statistical Interactive Database: Euro-Commercial Paper Rates* (Instrument: 1 month – euro, Frequency: Daily) (online at www.bankofengland.co.uk/mfsd/iadb/NewIntermed.asp) (accessed July 1, 2010). Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instrument: AA Financial Discount Rate, Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (accessed June 25, 2010).

Figure 36: Interest Rate Spreads

Indicator	Current Spread (as of 6/24/2010)	Percent Change Since Last Report (6/2/2010)
Conventional mortgage rate spread ²⁹²	1.52	2.70%
TED Spread (basis points)	40.83	8.15%
Overnight AA asset-backed commercial paper interest rate spread ²⁹³	0.13	14.29%
Overnight A2/P2 nonfinancial commercial paper interest rate spread ²⁹⁴	0.25	28.57%

²⁹² 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 June 24, 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 25, 2010).

²⁹³ 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) (accessed June 25, 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 June 25, 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.

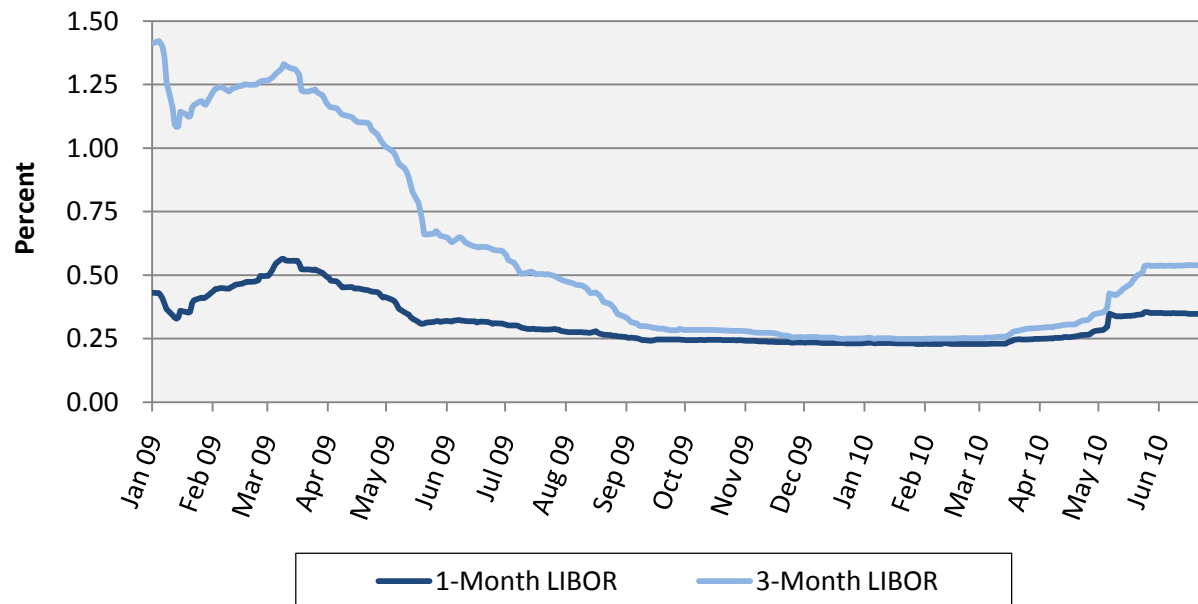
²⁹⁴ Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Commercial Paper Rates and Outstandings: Data Download Program* (Instrument: A2/P2 Nonfinancial Discount Rate, Frequency: Daily) (online at www.federalreserve.gov/DataDownload/Choose.aspx?rel=CP) (accessed June 25, 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.

- LIBOR Rates.** As of June 24, 2010, the 3-month and 1-month London Interbank Offer Rates (LIBOR), the prices at which banks lend and borrow from each other, are 0.537 and 0.347, respectively. Beginning on March 1, 2010, the 3-month LIBOR has more than doubled to date, although it has increased by less than 1 percent since the Panel’s June report. The 1-month LIBOR has also increased significantly in the past three months, albeit decreasing about 1 percent since June 2, 2010. Since March 1, the 1-month LIBOR rate rose by half again. These heightened levels indicate continuing concern among banks about lending and borrowing from one another.²⁹⁵

Figure 37: 3-Month and 1-Month LIBOR Rates (as of June 24, 2010)

Indicator	Current Rates (as of 6/24/2010)	Percent Change from Data Available at Time of Last Report (6/2/2010)
3-Month LIBOR ²⁹⁶	.537	(1.05)%
1-Month LIBOR ²⁹⁷	.347	(0.06)%

Figure 38: 3-Month and 1-Month LIBOR²⁹⁸



²⁹⁵ Data accessed through Bloomberg data service on June 25, 2010.

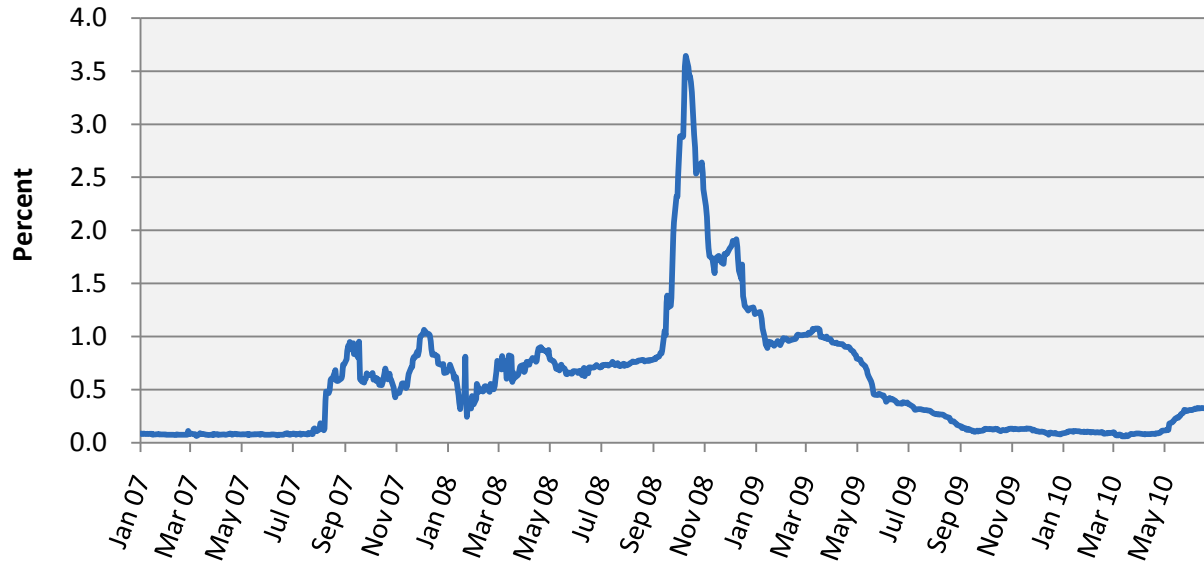
²⁹⁶ Data accessed through Bloomberg data service on June 25, 2010.

²⁹⁷ Data accessed through Bloomberg data service on June 25, 2010.

²⁹⁸ Data accessed through Bloomberg data service on June 25, 2010.

- LIBOR-OIS Spread.** The LIBOR-OIS Spread serves as an indicator of the health of the banking system. It is the difference between LIBOR and the overnight indexed swap rate. It has been gradually rising since late April and has nearly tripled since early May. While the spread is nowhere near the landmark values seen during the peak of the financial crisis, recent LIBOR-OIS spread values are over three times the historic norm of approximately 11 basis points, from December 2001 to June 2007.

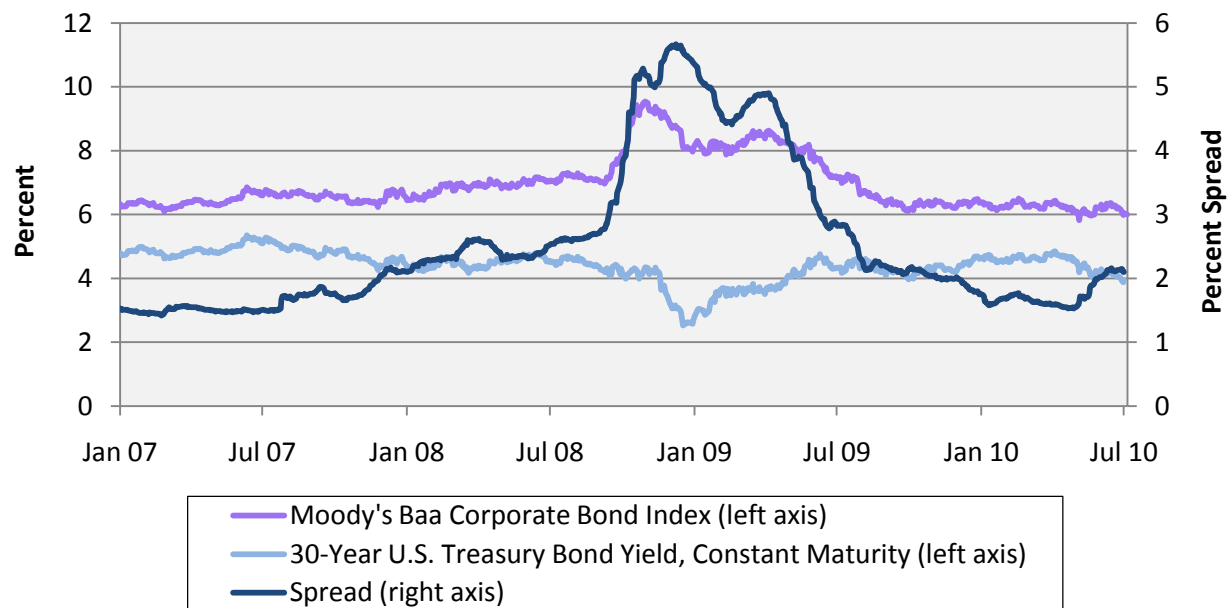
Figure 39: LIBOR-OIS Spread²⁹⁹



²⁹⁹ Data accessed through Bloomberg data service on June 25, 2010.

- Corporate Bond Spread.** The spread between Moody's Baa Corporate Bond Yield Index and 30-year constant maturity U.S. Treasury Bond yields has been steadily increasing since late April. Since early May, this spread has increased by over a third. This indicates the difference in perceived risk between corporate and government bonds, and an increasing spread could indicate either that corporate bonds are viewed as becoming relatively more risky, or that U.S. government debt is being viewed as relatively less risky (or both).

Figure 40: Moody's Baa Corporate Bond Index and 30-Year U.S. Treasury Yield³⁰⁰



- Housing Indicators.** Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, dropped 3 percent in May to 322,920. This metric is over 15 percent above the foreclosure action level at the time of the EESA enactment.³⁰¹ Both the Case-Shiller Composite 20-City Composite as well as the FHFA Housing Price Index decreased slightly in March 2010. The Case-Shiller and FHFA indices are 7 percent and 6 percent, respectively, below their levels of October 2008.³⁰² Sales of new

³⁰⁰ The 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/) (accessed June 28, 2010). Corporate Baa rate data accessed through Bloomberg data service on June 25, 2010.

³⁰¹ RealtyTrac, *Foreclosure Activity Increases 5 Percent In October* (Nov. 13, 2008) (online at www.realtytrac.com/contentmanagement/pressrelease.aspx?channelid=9&itemid=5420).

³⁰² Most recent data available for April 2010. 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 June 28, 2010). Federal Housing Finance Agency, *U.S. and Census Division Monthly Purchase Only*

homes collapsed in May to 300,000, the lowest level since 1963.³⁰³ Market consensus is that this is due in part to the April 30th expiration of federal tax credits for new-home buyers.³⁰⁴

Figure 41: 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 ³⁰⁵	322,920	(3.3)%	15.5%
S&P/Case-Shiller Composite 20 Index ³⁰⁶	145.1	(.05)%	(6.7)%
FHFA Housing Price Index ³⁰⁷	194.7	0.9%	(3.7)%

Additionally, Case-Shiller futures³⁰⁸ prices indicate a market expectation that home-price values will stay constant or decrease through the end of 2010. These futures are cash-settled to a weighted composite index of U.S. housing prices, as well as to specific

Index (Instrument: USA, Seasonally Adjusted) (online at www.fhfa.gov/Default.aspx?Page=87) (hereinafter “U.S. and Census Division Monthly Purchase Only Index”) (accessed July 12, 2010). S&P has cautioned that the seasonal adjustment is potentially being distorted by irregular factors. These distortions could include distressed sales and the various government programs. S&P Indices: Index Analysis, S&P Indices, *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%3B+filename%3DCaseShiller_SeasonalAdjustment%20.pdf&blobheadername2=Content-Disposition&blobheadervalue1=application%2Fpdf&blobkey=id&blobheadername1=content-type&blobwhere=1243679046081&blobheadervalue3=UTF-8).

³⁰³ U.S. Census Bureau and U.S. Department of Housing and Urban Development, *New Residential Sales in May 2010* (June 23, 2010) (online at www.census.gov/const/newressales.pdf); U.S. Census Bureau, *Houses Sold by Region* (online at www.census.gov/ftp/pub/const/sold_cust.xls) (accessed June 25, 2010).

³⁰⁴ Mortgage Bankers Association, *June 2010 Mortgage Finance Commentary* (June 11, 2010) (online at www.mbaa.org/NewsandMedia/PressCenter/73095.htm) (“Early data from MBA’s Weekly Application Survey continue to suggest a fairly sharp pullback in home sales following the expiration of the homebuyer tax credit.”).

³⁰⁵ RealtyTrac, *Foreclosure Activity Press Releases* (online at www.realtytrac.com/ContentManagement/PressRelease.aspx) (accessed June 28, 2010). Most recent data available for May 2010.

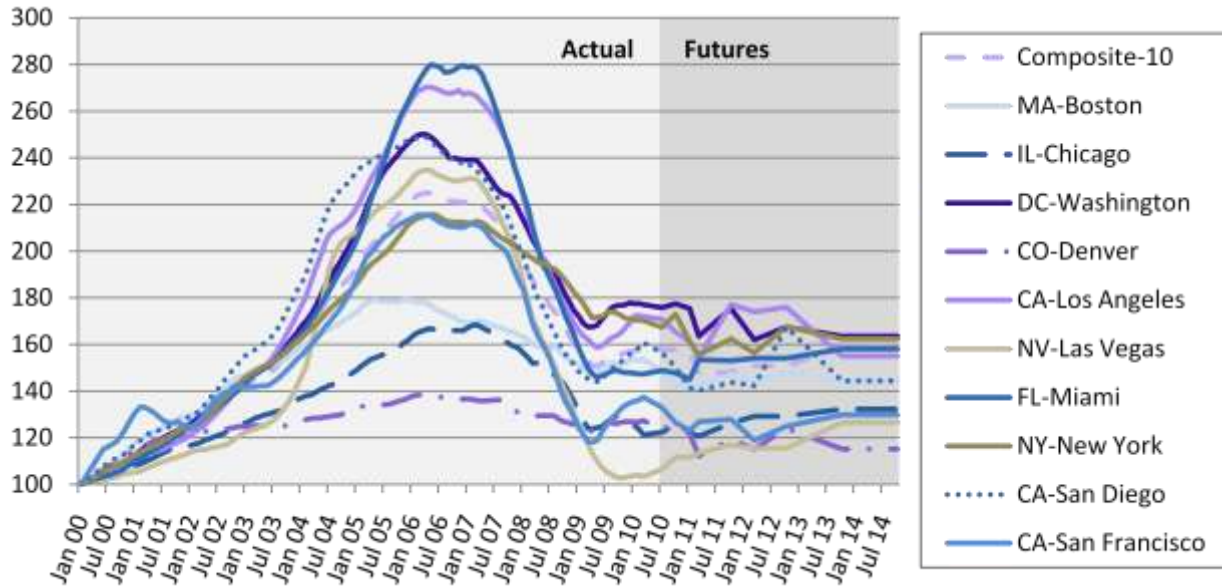
³⁰⁶ Standard & Poor’s, *S&P/Case-Shiller Home Price Indices* (Instrument: Seasonally Adjusted Composite 20 Index) (online at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----) (accessed July 12, 2010). Most recent data available for March 2010.

³⁰⁷ U.S. and Census Division Monthly Purchase Only Index, *supra* note 302. Most recent data available for April 2010.

³⁰⁸ Data accessed through Bloomberg data service on June 28, 2010. The Case-Shiller Futures contract is traded on the 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 March. Note that utility of futures as forecasts diminishes the further out one looks.

markets in 10 major U.S. cities, and are used both to hedge by businesses whose profits and losses are related to any 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.

Figure 42: Case-Shiller Home Price Index and Futures Values³⁰⁹



³⁰⁹ All data normalized to 100 at January 2000. Futures data accessed through Bloomberg data service on June 28, 2010. Futures values data presented here are from June 28, 2010. Standard and Poor's, *S&P/Case-Shiller Home Price Indices* (Instrument: Case-Shiller U.S. Home Price Values, Seasonally Adjusted, Frequency: Monthly) (online at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff-p-us----) (accessed June 28, 2010).