



Congressional Oversight Panel

October 14,
2010

Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's
October 2010 report, "Examining Treasury's Use of
Financial Crisis Contracting Authority."

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 September report.

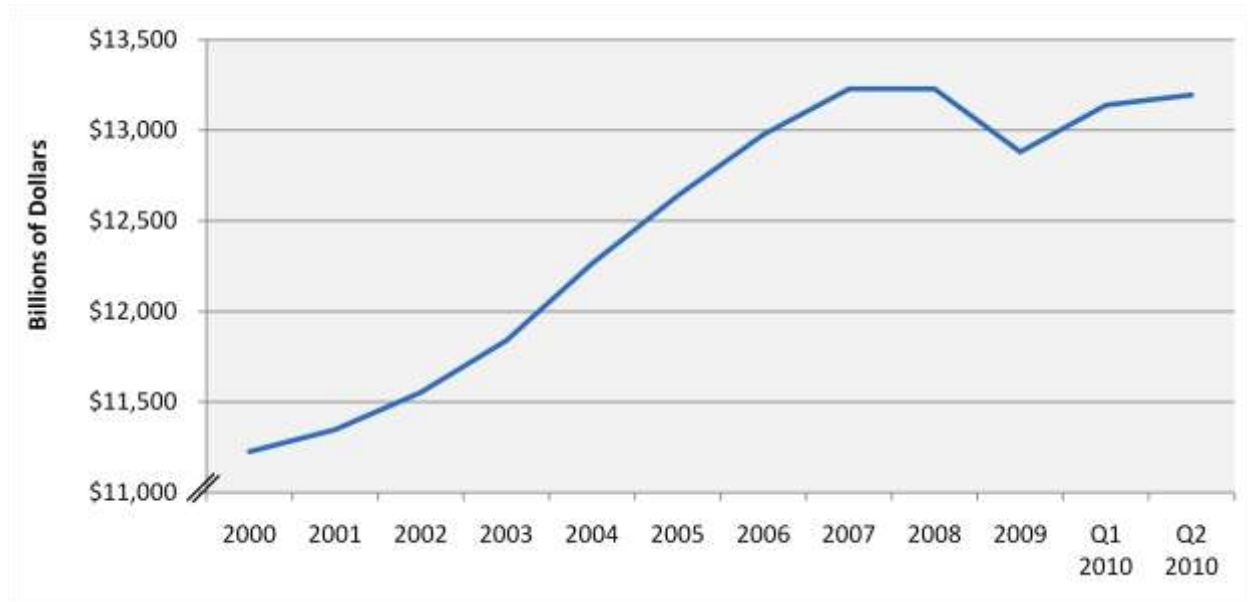
1. Macroeconomic Indices

Real GDP growth quarter-over-quarter peaked at an annual rate of 5 percent in the fourth quarter of 2009 and has decreased during 2010. Real GDP increased at rates of 3.7 and 1.6 percent in the first and second quarters of 2010, respectively.⁴⁰⁶ These growth rates were also affected by the spike in employment resulting from the 2010 U.S. Census.⁴⁰⁷

⁴⁰⁶ Bureau of Economic Analysis, *Table 1.1.6.: Real Gross Domestic Product, Chained Dollars* (online at www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=6&Freq=Qtr&FirstYear=2008&LastYear=2010) (hereinafter "Bureau of Economic Analysis, Table 1.1.6"). Until the year-over-year decrease from 2007 to 2008, nominal GDP had not decreased on an annual basis since 1949. Bureau of Economic Analysis, *Table 1.1.5.: Gross Domestic Product* (online at www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=5&Freq=Qtr&FirstYear=2008&LastYear=2010) (accessed Oct. 12, 2010).

⁴⁰⁷ The Economics and Statistics Administration within the U.S. Department of Commerce estimated that the spending associated with the 2010 Census would peak in the second quarter of 2010 and could boost annualized nominal and real GDP growth by 0.1 percentage point in the first quarter of 2010 and 0.2 percentage point in the second quarter of 2010. As the boost from the Census is a one-time occurrence, continuing increases in private investment and personal consumption expenditures as well as in exports will be needed to sustain the resumption of growth that has occurred in the U.S. economy over the past year. Economics and Statistics Administration, U.S. Department of Commerce, *The Impact of the 2010 Census Operations on Jobs and Economic Growth*, at 8 (Feb. 2010) (online at www.esa.doc.gov/02182010.pdf).

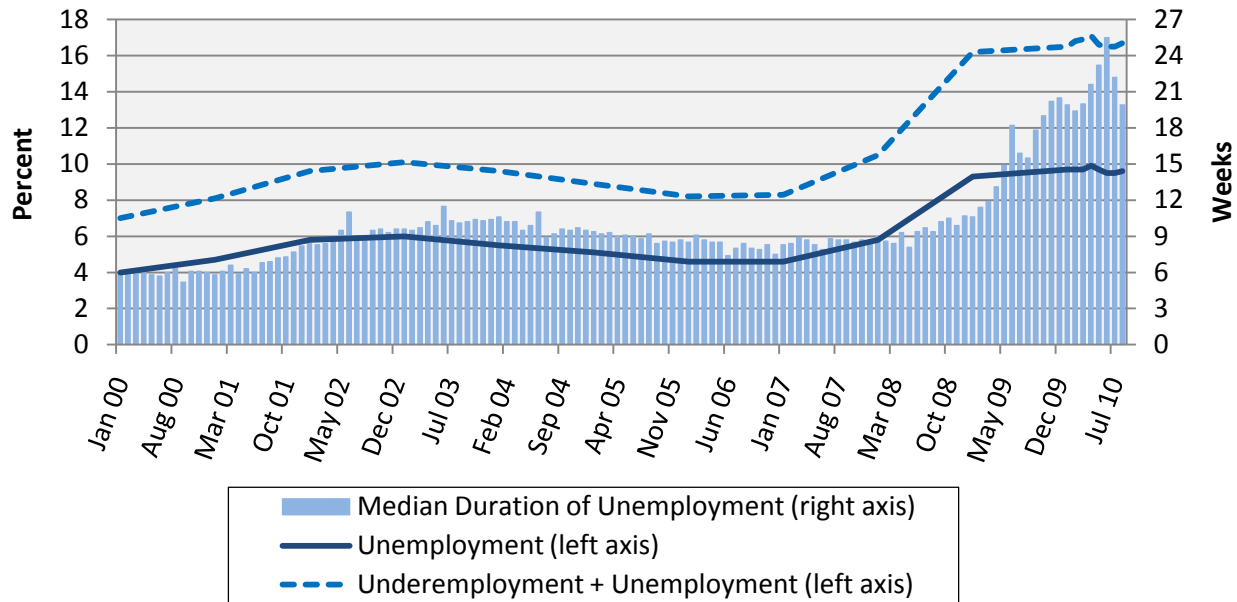
Figure 15: Real GDP⁴⁰⁸



⁴⁰⁸ Bureau of Economic Analysis, Table 1.1.6, *supra* note 406.

Since our September report, both underemployment and unemployment have increased marginally. Median duration of unemployment has decreased by 10 percent.

Figure 16: Unemployment, Underemployment, and Median Duration of Unemployment⁴⁰⁹



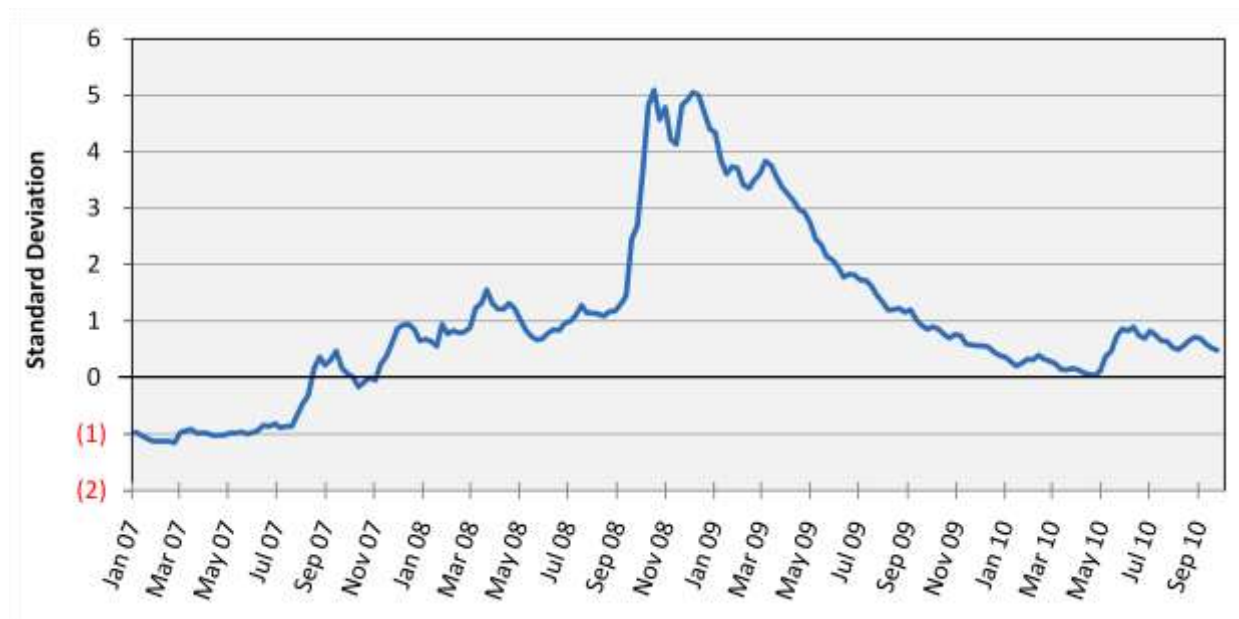
2. Financial Indices

a. Overview

Since its post-crisis trough in April 2010, the St. Louis Federal Reserve Financial Stress Index has increased over elevenfold, although it has fallen by nearly half since the post-crisis peak in June 2010. The recent trend suggests that financial stress continues moving towards its long-run norm. The index has decreased over three standard deviations since October 2008, the month when the TARP was initiated.

⁴⁰⁹ It is important to note that the measures of unemployment and underemployment do not include people who have stopped actively looking for work altogether. While the Bureau of Labor Statistics (BLS) does not have a distinct metric for “underemployment,” the U-6 category of Table A-15 “Alternative Measures of Labor Underutilization” is used here as a proxy. BLS defines this measure as: “Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.” U.S. Department of Labor, *International Comparisons of Annual Labor Force Statistics* (online at www.bls.gov/webapps/legacy/cpsatab15.htm) (accessed Oct. 12, 2010).

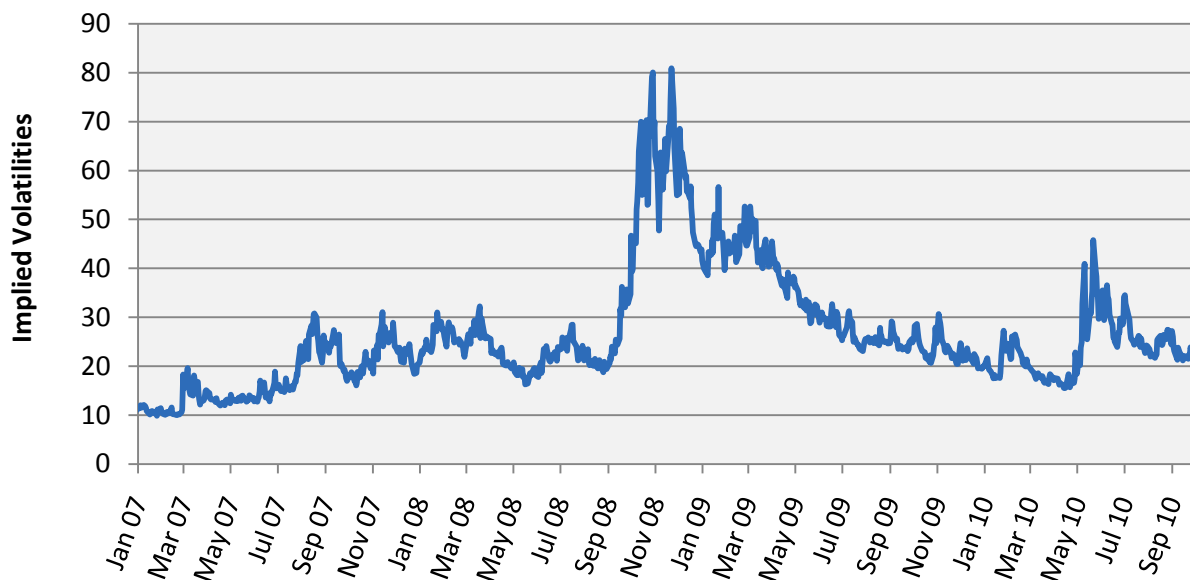
Figure 17: St. Louis Federal Reserve Financial Stress Index⁴¹⁰



Volatility has decreased recently. The Chicago Board Options Exchange Volatility Index (VIX) has fallen about half since the post-crisis peak in May 2010 and has fallen nearly 15 percent since its slightly elevated level in August. However, volatility is still nearly 50 percent higher than its post-crisis low on April 12, 2010.

⁴¹⁰ 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/categories/98) (accessed Oct. 12, 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-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).

Figure 18: Chicago Board Options Exchange Volatility Index⁴¹¹



b. Interest Rates, Spreads, and Issuance

As of October 4, 2010, the 3-Month and 1-Month London Interbank Offer Rates (LIBOR), the prices at which banks lend and borrow from each other, were 0.291 and 0.257, respectively. Rates have fallen by nearly half since post-crisis highs in June 2010 and have remained nearly constant since our September report. Over the longer term, however, interest rates remain extremely low relative to pre-crisis levels.⁴¹²

Figure 19: 3-Month and 1-Month LIBOR Rates (as of October 6, 2010)

Indicator	Current Rates (as of 10/4/2010)	Percent Change from Data Available at Time of Last Report (9/6/2010)
3-Month LIBOR ⁴¹³	0.291	(0.01)%
1-Month LIBOR ⁴¹⁴	0.257	(0.00)%

⁴¹¹ Data accessed through Bloomberg data service on October 4, 2010. The CBOE VIX is a key measure of market expectations of near-term volatility. CBOE, *The CBOE Volatility Index – VIX 2009* (online at www.cboe.com/micro/vix/vixwhite.pdf) (accessed Oct. 12, 2010).

⁴¹² Data accessed through Bloomberg data service on October 4, 2010.

⁴¹³ Data accessed through Bloomberg data service on October 4, 2010.

⁴¹⁴ Data accessed through Bloomberg data service on October 4, 2010.

However, in spite of extremely low interest rates, the non-Agency U.S. mortgage-backed securities (MBS) market remains moribund, with August issuance below \$1 billion, and a 77-percent decrease in issuance year to date between 2010 and 2009.⁴¹⁵

Since the Panel's September report, interest rate spreads have stayed fairly constant. Thirty-year mortgage interest rates and 10-year Treasury bond yields have both remained relatively unchanged as well. The conventional mortgage spread, which measures the 30-year fixed mortgage rate over 10-year Treasury bond yields, has risen very slightly since late August.⁴¹⁶

The TED spread, which serves as an indicator for perceived risk in the financial markets, has been falling since June, and is currently lower than pre-crisis levels.⁴¹⁷ The LIBOR-OIS spread reflects the health of the banking system. While it increased over threefold from early April to July, it has been falling since mid-July and is now averaging pre-crisis levels.⁴¹⁸ Decreases in the LIBOR-OIS spread and the TED spread suggest that hesitation among banks to lend to counterparties has recently declined.

⁴¹⁵ SIFMA, *US Mortgage-Related Securities Issuance* (online at www.sifma.org/uploadedFiles/Research/Statistics/SIFMA_USMortgageRelatedIssuance.xls) (accessed Oct. 7, 2010).

⁴¹⁶ 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 Oct. 5, 2010) (hereinafter "Federal Reserve Statistical Release H.15").

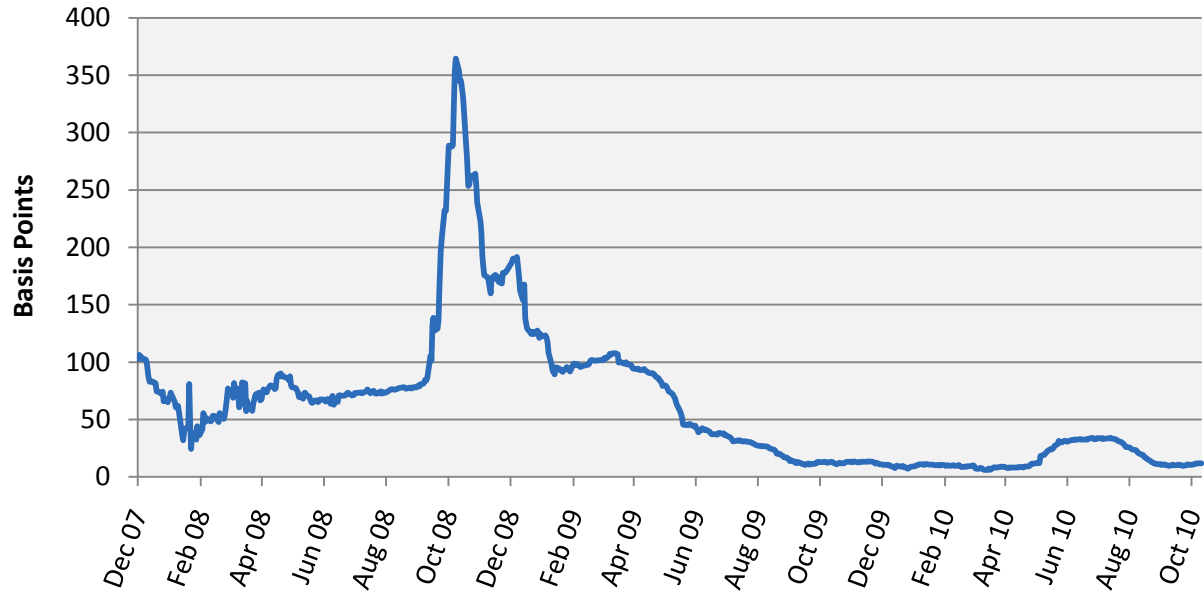
⁴¹⁷ Federal Reserve Bank of Minneapolis, *Measuring Perceived Risk – The TED Spread* (Dec. 2008) (online at www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4120).

⁴¹⁸ Data accessed through Bloomberg data service on Oct. 5, 2010.

Figure 20: TED Spread⁴¹⁹



Figure 21: LIBOR-OIS Spread⁴²⁰



⁴¹⁹ Data accessed through Bloomberg data service on Oct. 4, 2010.

⁴²⁰ Data accessed through Bloomberg data service on Oct. 4, 2010.

The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, has fallen by about 4 percent since the Panel’s September report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, has fallen by nearly 6 percent since the Panel’s September report. This indicates healthier fundraising conditions.

Figure 22: Interest Rate Spreads

Indicator	Current Spread (as of 9/30/2010)	Percent Change Since Last Report (9/2/2010)
Conventional mortgage rate spread ⁴²¹ (percentage points)	1.8	4.0%
TED spread (basis points)	13.06	(15.4)%
Overnight AA asset-backed commercial paper interest rate spread ⁴²² (percentage points)	0.08	(4.1)%
Overnight A2/P2 nonfinancial commercial paper interest rate spread ⁴²³ (percentage points)	0.16	(6.2)%

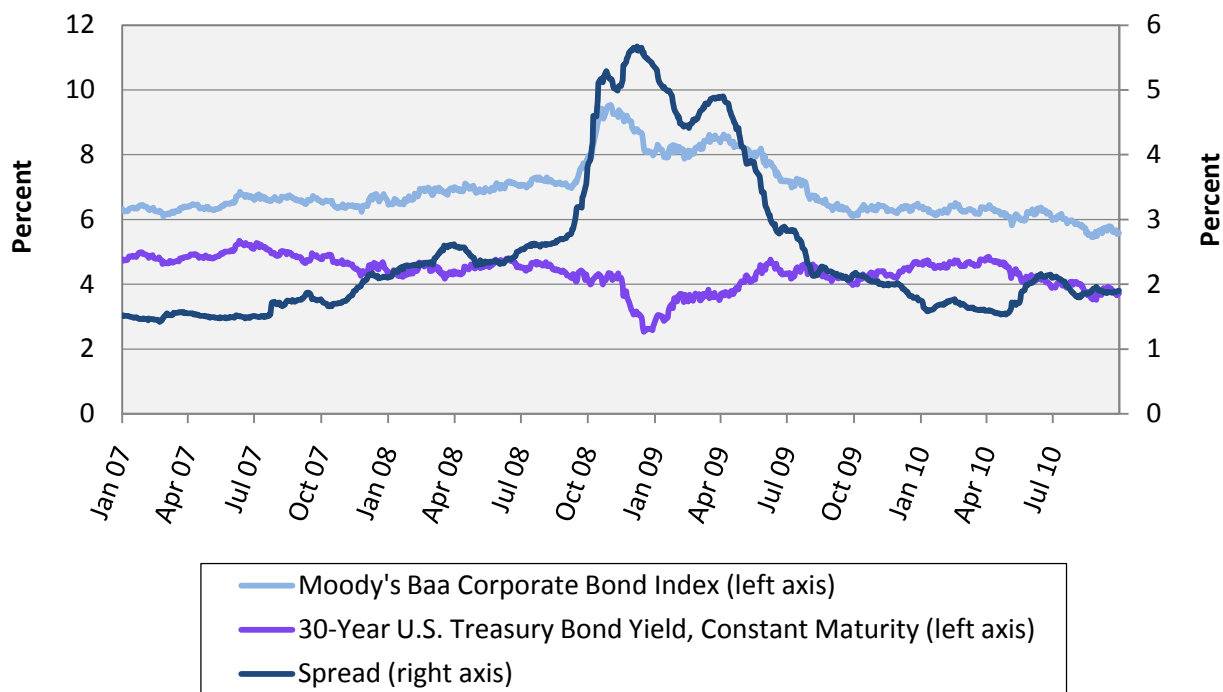
The spread between Moody’s Baa Corporate Bond Yield Index and 30-year constant maturity U.S. Treasury Bond yields doubled from late April to mid-June. The spread has leveled-off since a spike in mid-June to its current level of approximately 2 percent. This spread indicates the difference in perceived risk between corporate and government bonds, and a declining spread could indicate waning concerns about the riskiness of corporate bonds.

⁴²¹ Federal Reserve Statistical Release H.15, *supra* note 416; 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 Oct. 5, 2010).

⁴²² 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 Oct. 5, 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 Oct. 5, 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.

⁴²³ 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 Oct. 5, 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.

Figure 23: Moody's Baa Corporate Bond Index and 30-Year U.S. Treasury Bond Yield⁴²⁴



Corporate bond market issuance data corroborate this analysis, with a near doubling in fixed-rate callable issuance between July and August 2010.⁴²⁵

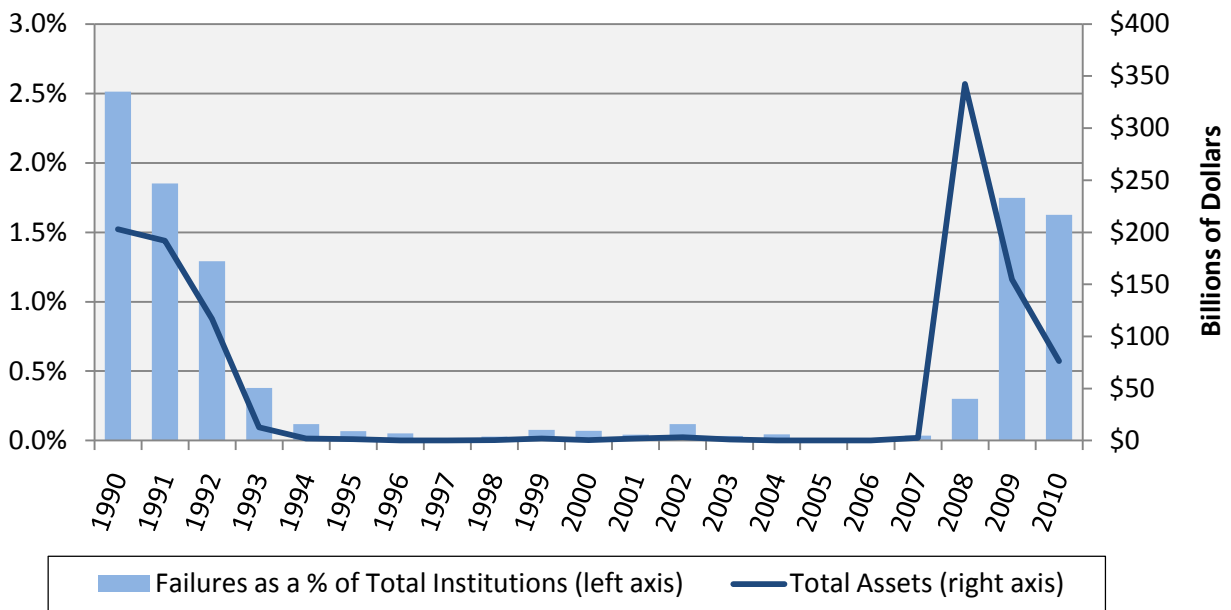
c. Condition of the Banks

Since the Panel's last report, 11 additional banks have failed, with an approximate total asset value of \$2.5 billion. The number of failures from January through August 2010 has nearly reached the level for all of calendar year 2009. In general, banks failing in 2009 and 2010 have been small and medium-sized institutions; while they are failing in high numbers, their aggregate asset size has been relatively small.

⁴²⁴ 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 Oct. 5, 2010) (hereinafter "Series DGS30: Selected Interest Rates"). Corporate Baa rate data accessed through Bloomberg data service on Oct. 5, 2010.

⁴²⁵ SIFMA, *US Corporate Bond Issuance* (online at www.sifma.org/uploadedFiles/Research/Statistics/SIFMA_USCorporateBondIssuance.xls) (accessed Oct. 7, 2010).

Figure 24: Bank Failures as a Percentage of Total Banks and Bank Failures by Total Assets (1990-2010)⁴²⁶

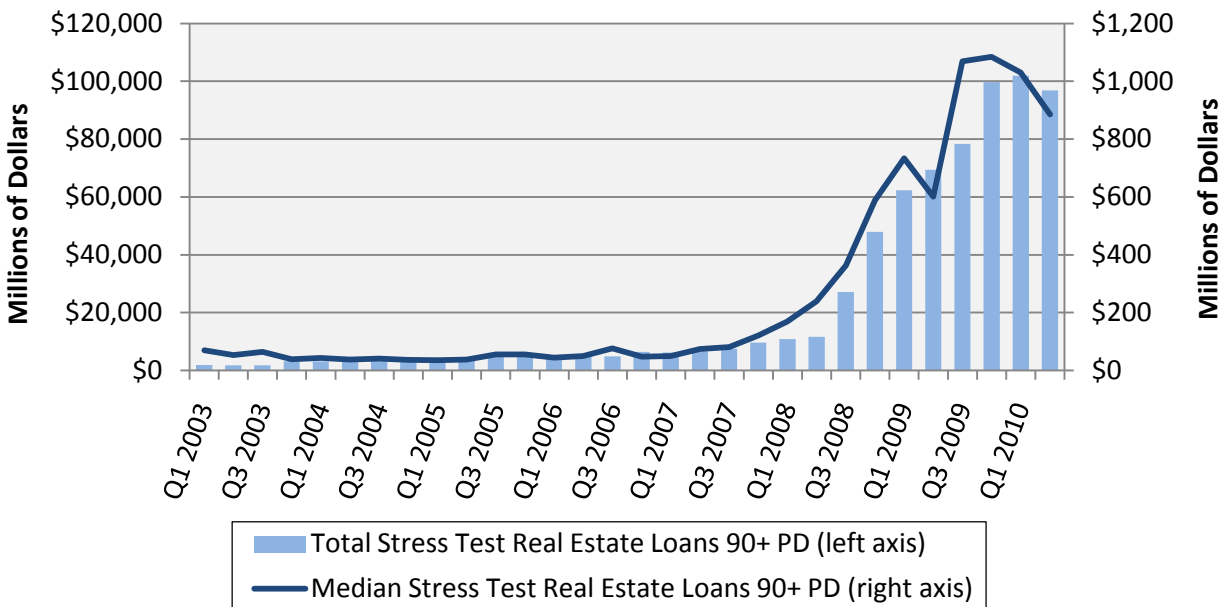


In its September 2010 report,⁴²⁷ the Panel analyzed in detail the condition of the so-called “too big to fail” banks: the 19 institutions stress-tested under the Supervisory Capital Assessment Program. While in the aggregate these banks have improved their net income and capital ratios significantly since the crisis, they still remain vulnerable to problems in the residential and commercial real estate markets. Nearly \$97 billion in real estate loans are at least 90 days past due as of the second quarter of 2010.

⁴²⁶ The disparity between the number of and total assets of failed banks in 2008 is driven primarily by the failure of Washington Mutual Bank, which held \$307 billion in assets. The 2010 year-to-date percentage of bank failures includes failures through August. The total number of FDIC-insured institutions as of March 31, 2010, is 7,932 commercial banks and savings institutions. As of October 7, 2010, there have been 129 failed institutions. Federal Deposit Insurance Corporation, *Failures and Assistance Transactions* (online at www2.fdic.gov/hsob/SelectRpt.asp?EntryTyp=30) (accessed Oct. 7, 2010). Asset totals adjusted for deflation into 2005 dollars using the GDP implicit price deflator. The quarterly values were averaged into a yearly value. Series DGS30: Selected Interest Rates, *supra* note 424.

⁴²⁷ Congressional Oversight Panel, *September Oversight Report: Assessing the TARP on the Eve of its Expiration, at 81* (Sept. 16, 2010) (online at cop.senate.gov/documents/cop-091610-report.pdf).

Figure 25: Total Real Estate Loans 90+ Days Past Due at Stress-Tested Banks⁴²⁸



3. Housing Indices

Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, increased 4 percent in August to 338,836. This metric is over 21 percent above the foreclosure action level at the time of the EESA enactment. Five states accounted for more than 50 percent of the national total, with California alone accounting for 20 percent.⁴²⁹ Sales of new homes stayed constant at 288,000, but remain extremely low.⁴³⁰ The Case-Shiller 20-City Composite as well as the FHFA Housing Price Index decreased slightly in July 2010. The Case-

⁴²⁸ SNL Financial. All loans secured by real estate, for the fully consolidated bank (includes loans secured by real estate with original maturities of 60 months or less made to finance land development or construction, loans secured by farmland, loans secured by 1-4 family residential properties, loans secured by multifamily (5 or more) residential properties, loans secured by nonfarm residential properties) that are 90 days or more past due and upon which the bank continues to accrue interest.

⁴²⁹ RealtyTrac, *Foreclosure Activity Press Releases, Foreclosure Activity Increases 4 Percent in August* (Sept. 16, 2010) (online at www.realtytrac.com/content/press-releases/foreclosure-activity-increases-4-percent-in-august-6041).

⁴³⁰ Sales of new homes in May 2010 were 276,000, the lowest rate since 1963. It should be noted that this number likely reflects a shifting of sales from May to April prompted by the April expiration of tax credits designed to boost home sales. U.S. Census Bureau and U.S. Department of Housing and Urban Development, *New Residential Sales in June 2010* (July 26, 2010) (online at www.census.gov/const/newressales.pdf); U.S. Census Bureau, *New Residential Sales – New One-Family Houses Sold* (online at www.census.gov/ftp/pub/const/sold_cust.xls) (accessed Oct. 5, 2010).

Shiller and FHFA indices are respectively 6 percent and 5 percent below their levels in October 2008.⁴³¹

Additionally, Case-Shiller futures prices indicate a market expectation that home-price values for the major Metropolitan Statistical Areas⁴³² (“MSAs”) will generally decrease through the end of 2010 and beginning of 2011.⁴³³ These futures are cash-settled to a weighted composite index of U.S. housing prices in the top 10 MSAs, as well as to those specific markets, 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 future home prices.

Figure 26: 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 ⁴³⁴	338,836	4.2%	21.2%
S&P/Case-Shiller Composite 20 Index ⁴³⁵	147.6	(0.1)%	(5.6)%
FHFA Housing Price Index ⁴³⁶	192.4	(0.5)%	(4.8)%

⁴³¹ Most recent data available for July 2010. See Standard and Poor’s, *S&P/Case-Shiller Home Price Indices* (Instrument: Case-Shiller 20-City Composite Seasonally Adjusted, Frequency: Monthly) (accessed Oct. 5, 2010) (online at www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us---) (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 Oct. 5, 2010) (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 distortions could include distressed sales and the various government programs. See Standard and Poor’s, *S&P/Case-Shiller Home Price Indices and Seasonal Adjustment*, S&P Indices: Index Analysis (Apr. 2010).

⁴³² The general concept of a Metropolitan Statistical Area is that of 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 Oct. 7, 2010).

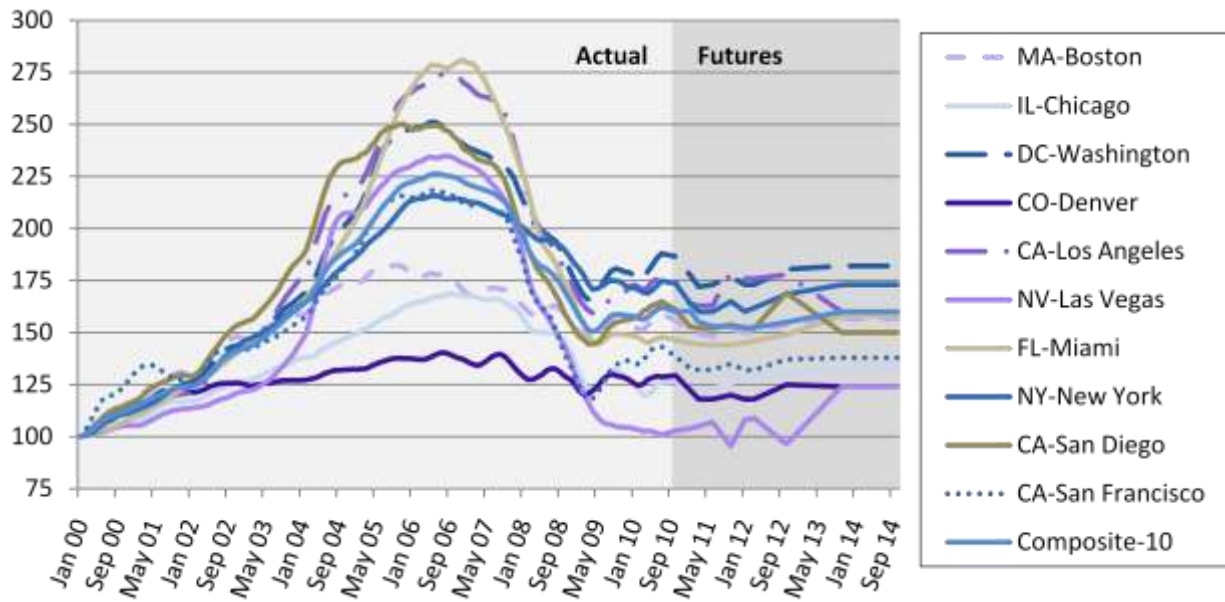
⁴³³ Data accessed through Bloomberg data service on Oct. 5, 2010. The Case-Shiller Futures contract is traded on the CME and is settled to the Case-Shiller Index two months after the previous calendar quarter. For example, the February contract is settled against the spot value of the S&P Case-Shiller 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 farther out one looks.

⁴³⁴ RealtyTrac, *Foreclosures* (online at www.realtytrac.com/home/) (accessed Oct. 12, 2010). Most recent data available for August 2010.

⁴³⁵ See S&P/Case-Shiller Home Price Indices, *supra* note 431. Most recent data available for July 2010.

⁴³⁶ U.S. and Census Division Monthly Purchase Only Index, *supra* note 431. Most recent data available for July 2010.

Figure 27: Case-Shiller Home Price Index and Futures Values⁴³⁷



⁴³⁷ All data normalized to 100 at January 2000. Futures data accessed through Bloomberg data service on October 5, 2010. S&P/Case-Shiller Home Price Indices, *supra* note 431.