



Congressional Oversight Panel

November 16,
2010

Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's
November 2010 report, "Examining the Consequences
of Mortgage Irregularities for Financial Stability and
Foreclosure Mitigation."

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 October 2010 report.

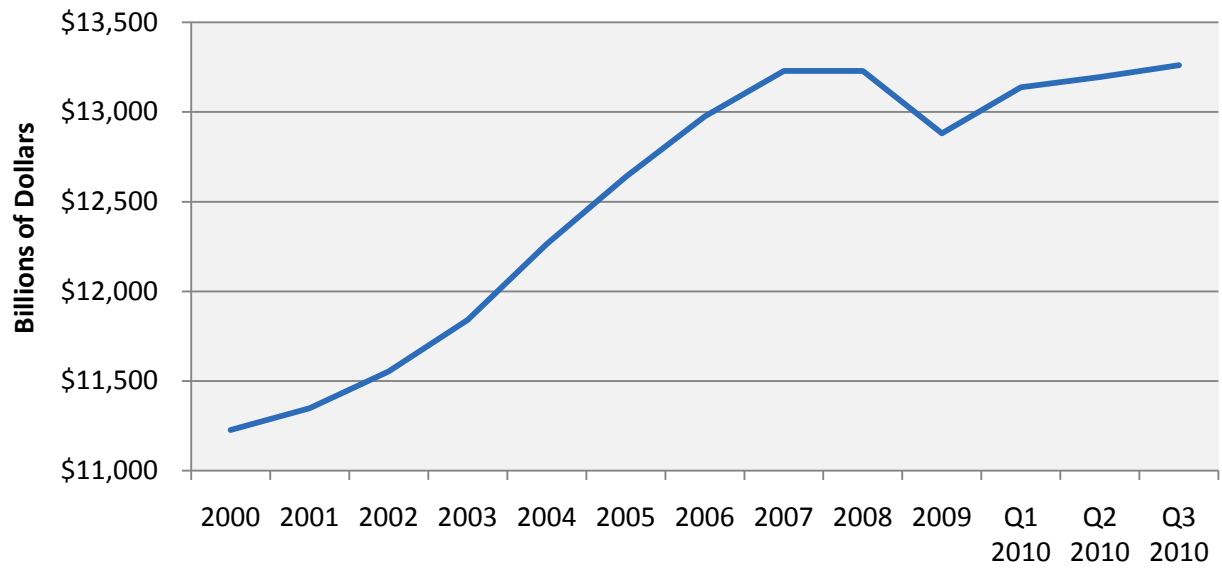
1. Macroeconomic Indices

The post-crisis rate of real GDP growth quarter-over-quarter peaked at an annual rate of 5 percent in the fourth quarter of 2009, but the rate has decreased during 2010. Real GDP increased at an annualized rate of 2.0 percent in the third quarter of 2010, increasing from 1.7 percent in the second quarter of 2010.³⁰⁸ The third quarter growth rate was unaffected by the spike in employment resulting from the 2010 U.S. Census.³⁰⁹ The year-over-year increase from third quarter 2009 to third quarter 2010 was 3.1 percent, from 12.9 billion to 13.3 billion dollars.

³⁰⁸ 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") (accessed Nov. 3, 2010). 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 Nov. 3, 2010).

³⁰⁹ 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 percent in the first quarter of 2010 and 0.2 percent 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. It was expected that the drop in 2010 Census spending would then reduce GDP growth by similar amounts in Q3 and Q4 2010. Economics and Statistics Administration, U.S. Department of Commerce, *The Impact of the 2010 Census Operations on Jobs and Economic Growth*, at 8 (online at www.esa.doc.gov/02182010.pdf).

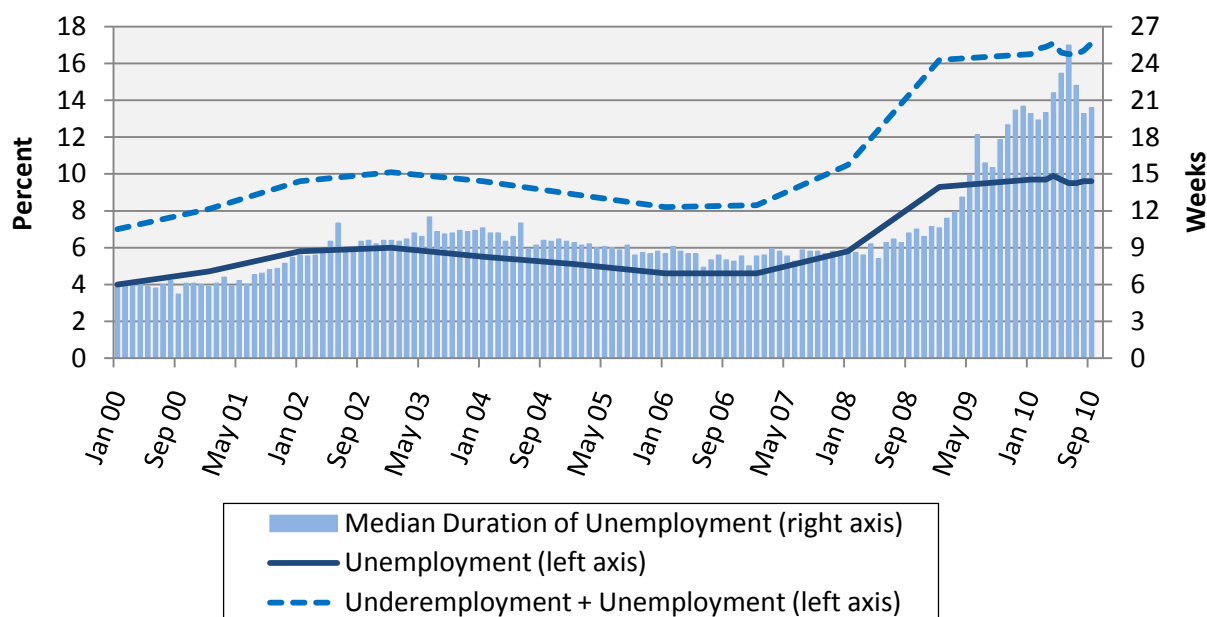
Figure 13: Real GDP³¹⁰



³¹⁰ Bureau of Economic Analysis Table 1.1.6, *supra* note 308 (accessed Nov. 3, 2010).

Since the Panel’s October report, underemployment has increased from 16.7 percent to 17.1 percent, while unemployment has remained constant. Median duration of unemployment has increased by half a week.

Figure 14: Unemployment, Underemployment, and Median Duration of Unemployment³¹¹



2. Financial Indices

a. Overview

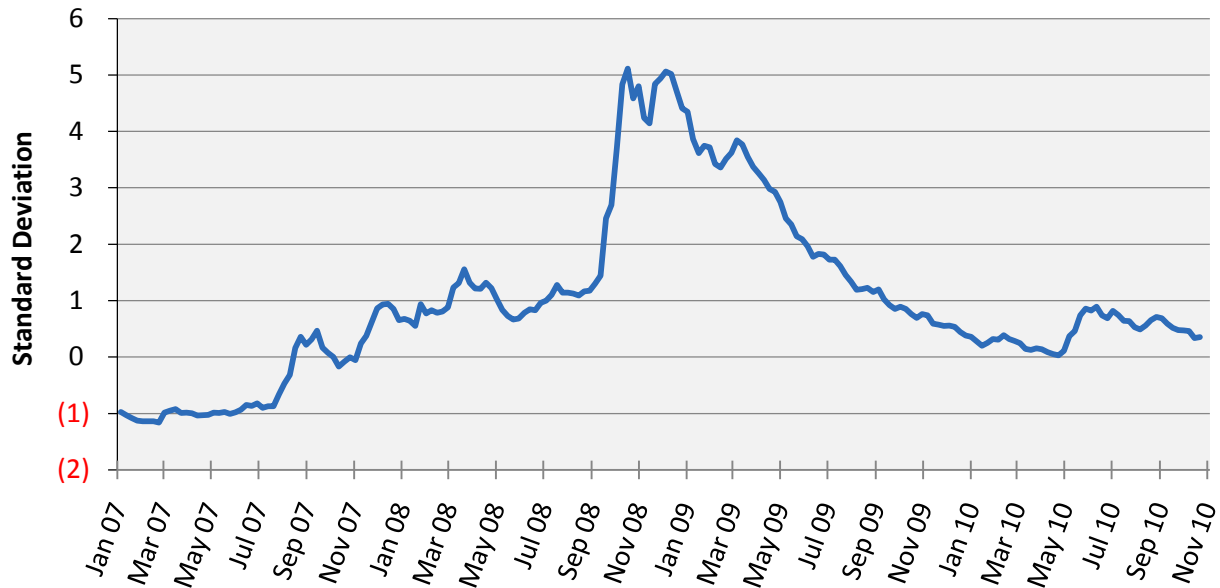
Since the Panel’s October report, the St. Louis Financial Stress Index, a proxy for financial stress in the U.S. economy, has continued its downward trend, decreasing by a quarter.³¹² The index has fallen by over half since the post-crisis peak in June 2010. The recent

³¹¹ 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 Nov. 3, 2010).

³¹² 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 Nov. 3, 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

trend in the index suggests that financial stress continues moving toward its long-run norm. The index has decreased by more than three standard deviations since October 2008, the month when the TARP was initiated.

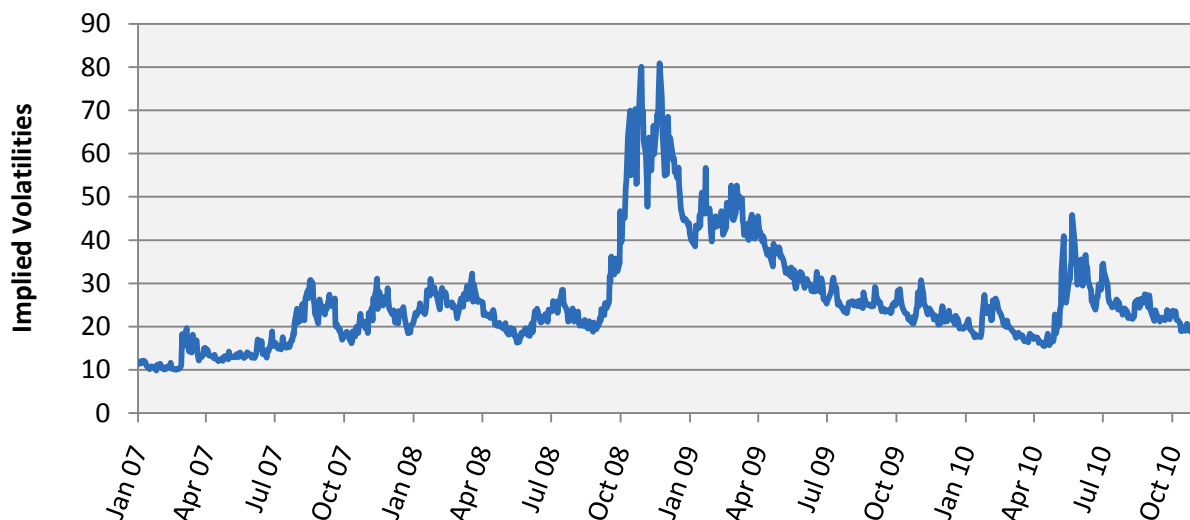
Figure 15: St. Louis Federal Reserve Financial Stress Index



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 has decreased recently. The Chicago Board Options Exchange Volatility Index (VIX) has fallen by more than half since the post-crisis peak in May 2010 and has fallen 7 percent since the Panel’s October report. However, volatility is still 40 percent higher than its post-crisis low on April 12, 2010.

Figure 16: Chicago Board Options Exchange Volatility Index³¹³



b. Interest Rates, Spreads, and Issuance

As of November 3, 2010, the 3-month and 1-month London Interbank Offer Rates (LIBOR), the prices at which banks lend and borrow from each other, were 0.29 and 0.25, respectively.³¹⁴ Rates have fallen by nearly half since post-crisis highs in June 2010 and have remained nearly constant since the Panel’s October report. Over the longer term, however, interest rates remain extremely low relative to pre-crisis levels, indicating both efforts of central banks and institutions’ perceptions of reduced risk in lending to other banks.

³¹³ Data accessed through Bloomberg data service on November 3, 2010. 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 Nov. 3, 2010).

³¹⁴ Data accessed through Bloomberg data service on November 3, 2010.

Figure 17: 3-Month and 1-Month LIBOR Rates (as of November 3, 2010)

Indicator	Current Rates (as of 11/3/2010)	Percent Change from Data Available at Time of Last Report (10/4/2010)
3-Month LIBOR ³¹⁵	0.29	(1.6)%
1-Month LIBOR ³¹⁶	0.25	(1.2)%

Since the Panel’s October report, interest rate spreads have decreased slightly. Thirty-year mortgage interest rates have decreased very slightly and 10-year Treasury bond yields have increased very slightly. The conventional mortgage spread, which measures the 30-year mortgage rate over 10-year Treasury bond yields, has decreased slightly since late September.³¹⁷

The TED spread serves as an indicator for perceived risk in the financial markets. While it has increased by about three basis points since the Panel’s October report, the spread is still currently lower than pre-crisis levels.³¹⁸ 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.³¹⁹ LIBOR-OIS remained fairly constant since the Panel’s October report. Decreases in the LIBOR-OIS spread and the TED spread suggest that hesitation among banks to lend to counterparties has receded.

³¹⁵ Data accessed through Bloomberg data service on November 3, 2010.

³¹⁶ Data accessed through Bloomberg data service on November 3, 2010.

³¹⁷ 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 Nov. 3, 2010).

³¹⁸ 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).

³¹⁹ Data accessed through Bloomberg data service on November 3, 2010.

Figure 18: TED Spread³²⁰

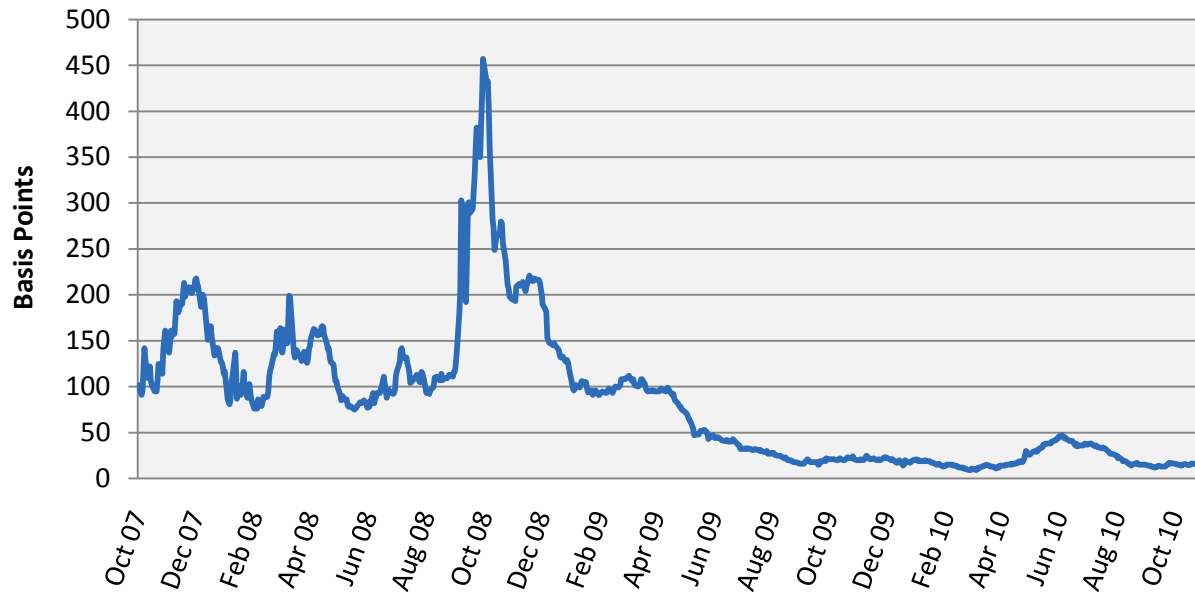
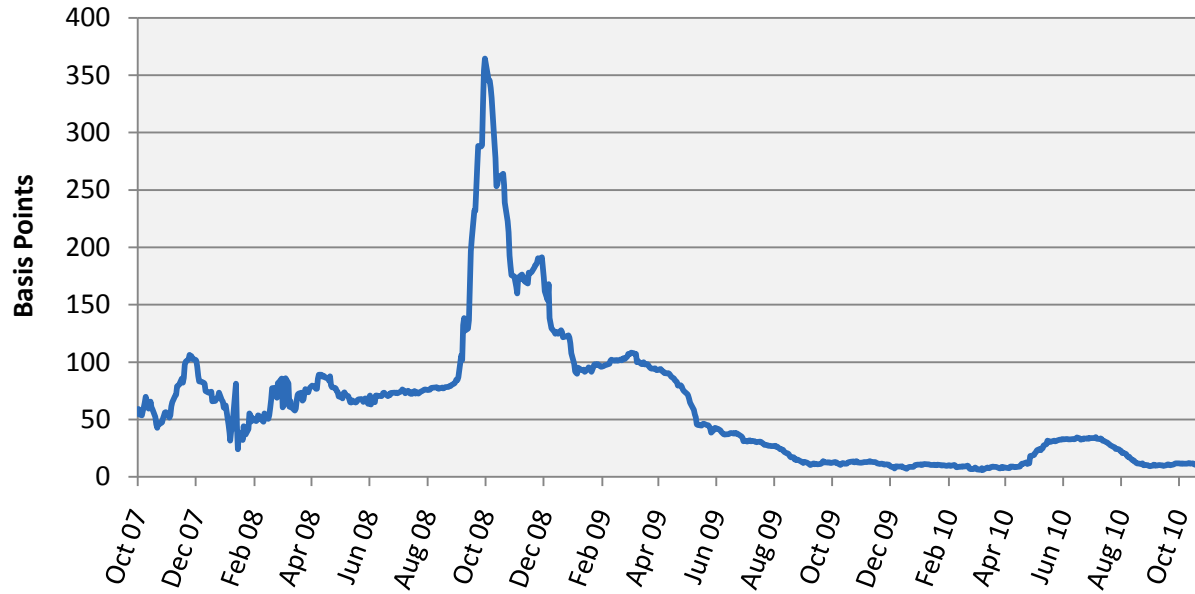


Figure 19: LIBOR-OIS Spread³²¹



³²⁰ Data accessed through Bloomberg data service on November 3, 2010.

³²¹ Data accessed through Bloomberg data service on November 3, 2010.

The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, has fallen by more than a tenth since the Panel’s October report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, has fallen by nearly 11 percent since the Panel’s October report. This indicates healthier fundraising conditions for corporations.

Figure 20: Interest Rate Spreads

Indicator	Current Spread (as of 11/1/2010)	Percent Change Since Last Report (9/30/2010)
Conventional mortgage rate spread ³²²	1.56	(13.3)%
TED Spread (basis points)	15.59	20.0%
Overnight AA asset-backed commercial paper interest rate spread ³²³	0.07	(11.2)%
Overnight A2/P2 nonfinancial commercial paper interest rate spread ³²⁴	0.14	(11.0)%

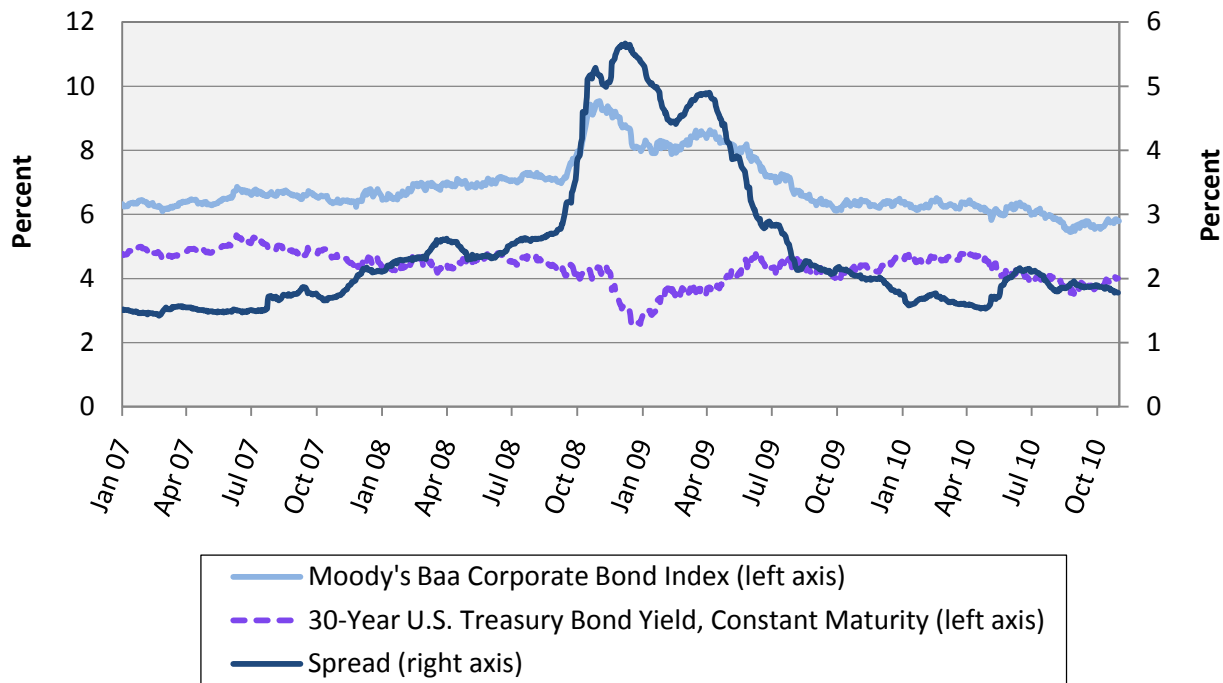
The spread between Moody’s Baa Corporate Bond Yield Index and 30-year constant maturity U.S. Treasury Bond yields doubled from late April to mid-June 2010. Spreads have trended down since mid-June highs and have fallen over 6 percent since the Panel’s October report. This spread indicates the difference in perceived risk between corporate and government bonds, and a declining spread could indicate waning concerns about the riskiness of corporate bonds.

³²² Federal Reserve Statistical Release H.15, *supra* note 317 (accessed Nov. 3, 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 Nov. 3, 2010).

³²³ 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 Nov. 3, 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 Nov. 3, 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.

³²⁴ 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 Nov. 3, 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 21: Moody’s Baa Corporate Bond Index and 30-Year U.S. Treasury Yield³²⁵



Corporate bond market issuance data corroborate this analysis, with investment grade issuance increasing over 50 percent between August and September 2010.³²⁶

c. Condition of the Banks

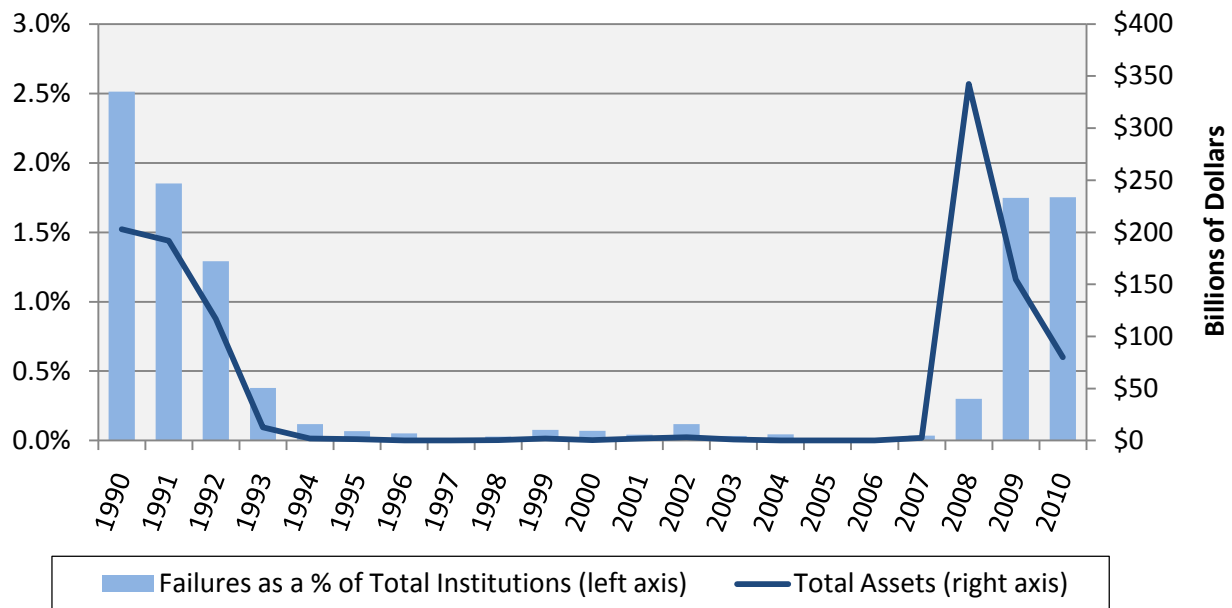
Since the Panel’s last report, 10 additional banks have failed, with an approximate total asset value of \$4.2 billion. With 139 failures from January through October 2010, the year-to-date rate has nearly reached 140, the level for all of calendar year 2009. In general, banks failing in 2009 and 2010 have been small- and medium-sized institutions;³²⁷ while they are failing in high numbers, their aggregate asset size has been relatively small.

³²⁵ 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/) (hereinafter “Federal Reserve Bank of St. Louis Series DGS30”) (accessed Nov. 3, 2010). Corporate Baa rate data accessed through Bloomberg data service on November 3, 2010.

³²⁶ Securities Industry and Financial Markets Association, *US Corporate Bond Issuance* (online at www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/Corporate-US-Corporate-Issuance-SIFMA.xls) (accessed Nov. 3, 2010).

³²⁷ For the purposes of its analysis, the Panel uses four categories based on bank asset sizes: large banks (those with over \$100 billion in assets), medium banks (those with between \$10 billion and \$100 billion in assets), smaller banks (those with between \$1 billion and \$10 billion in assets), and smallest banks (those with less than \$1 billion in assets).

Figure 22: Bank Failures as a Percentage of Total Banks and Bank Failures by Total Assets (1990-2010)³²⁸



3. Housing Indices

Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, increased 2.5 percent in September to 347,420. This metric is over 24 percent above the foreclosure action level at the time of the EESA enactment.³²⁹ While the hardest hit states still account for 19 out of 20 of the highest metro foreclosure rates, foreclosure activity grew less in the hardest-hit cities than in other states.³³⁰ Sales of new homes increased to

³²⁸ 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 November 12, 2010, there have been 143 institutions that failed. Federal Deposit Insurance Corporation, *Failures and Assistance Transactions* (online at www2.fdic.gov/hsob/SelectRpt.asp?EntryTyp=30) (accessed Nov. 12, 2010). Asset totals have been adjusted for deflation into 2005 dollars using the GDP implicit price deflator. The quarterly values were averaged into a yearly value. Federal Reserve Bank of St. Louis Series DGS30, *supra* note 325 (accessed Nov. 3, 2010).

³²⁹ RealtyTrac Press Release on Foreclosure, *supra* note 278.

³³⁰ Hardest-hit cities are defined as those in California, Florida, Nevada, and Arizona. Chicago, Houston, and Seattle posted the largest increases in foreclosure activity. RealtyTrac, *Third Quarter Foreclosure Activity Up in 65 Percent of U.S. Metro Areas But Down in Hardest-Hit Cities* (Oct. 28, 2010) (online at www.realtytrac.com/content/press-releases/third-quarter-foreclosure-activity-up-in-65-percent-of-us-metro-areas-but-down-in-hardest-hit-cities-6127).

307,000, but remain low.³³¹ The Case-Shiller Composite 20-City Composite decreased very slightly, while the FHFA Housing Price Index increased very slightly in August 2010. The Case-Shiller and FHFA indices are 6 percent and 5 percent, respectively, below their levels of October 2008.³³²

Additionally, Case-Shiller futures prices indicate a market expectation that home-price values for the major Metropolitan Statistical Areas³³³ (MSAs) will hold constant through 2011.³³⁴ 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 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.

³³¹ 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 Nov. 3, 2010).

³³² The most recent data available is 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) (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") (accessed Nov. 3, 2010); 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) (hereinafter "U.S. and Census Division Monthly Purchase Only Index") (accessed Nov. 3, 2010). 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*, S&P Indices: Index Analysis (Apr. 2010). For a discussion of the differences between the Case-Shiller Index and the FHFA Index, see April 2010 Oversight Report, *supra* note 282, at 98.

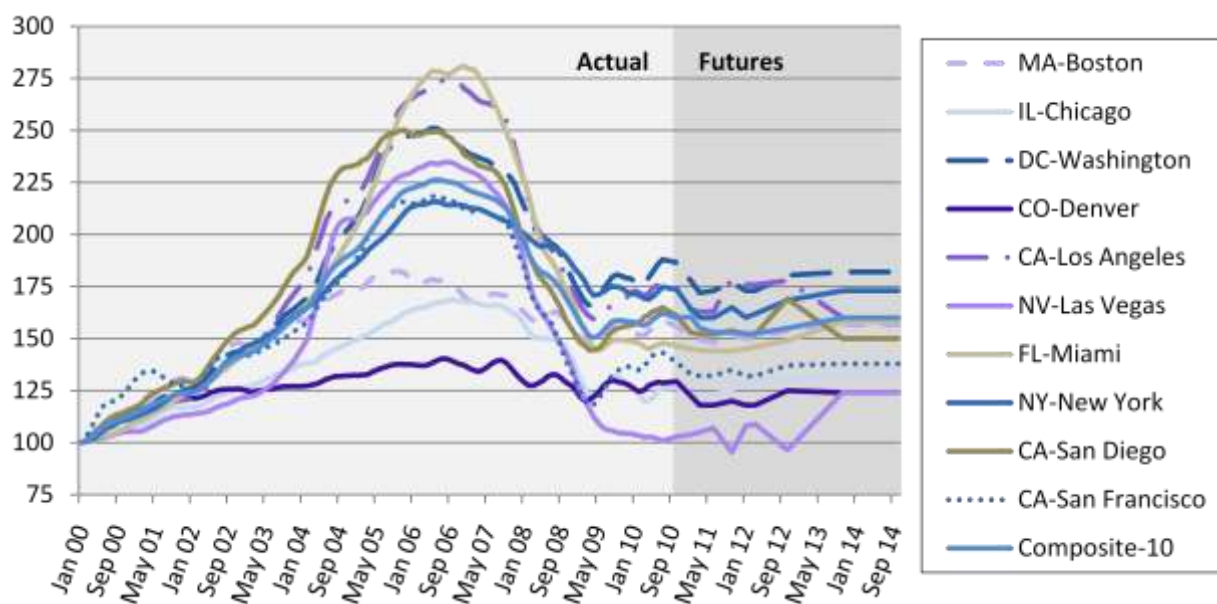
³³³ A Metropolitan Statistical Area is defined as a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with the core. U.S. Census Bureau, *About Metropolitan and Micropolitan Statistical Areas* (online at www.census.gov/population/www/metroareas/aboutmetro.html) (accessed Nov. 3, 2010).

³³⁴ Data accessed through Bloomberg data service on November 3, 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 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.

Figure 23: 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 ³³⁵	347,420	2.5%	24.3%
S&P/Case-Shiller Composite 20 Index ³³⁶	146.99	(0.3)%	(5.9)%
FHFA Housing Price Index ³³⁷	192.83	0.4%	(4.5)%

Figure 24: Case-Shiller Home Price Index and Futures Values³³⁸



³³⁵ RealtyTrac, *Foreclosures* (online at www.realtytrac.com/home/) (accessed Nov. 3, 2010). The most recent data available is for September 2010.

³³⁶ S&P/Case-Shiller Home Price Indices, *supra* note 332 (accessed Nov. 3, 2010). The most recent data available is for August 2010.

³³⁷ U.S. and Census Division Monthly Purchase Only Index, *supra* note 332 (accessed Nov. 3, 2010). The most recent data available is for August 2010.

³³⁸ All data normalized to 100 at January 2000. Futures data accessed through Bloomberg data service on November 3, 2010. S&P/Case-Shiller Home Price Indices, *supra* note 332 (accessed Nov. 3, 2010).