Congressional Oversight Panel

December 14, 2010

Metrics for the Troubled Asset Relief Program

Excerpted from the Congressional Oversight Panel's December 2010 report, "A Review of Treasury's Foreclosure Prevention Programs."

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), 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 November 2010 report.

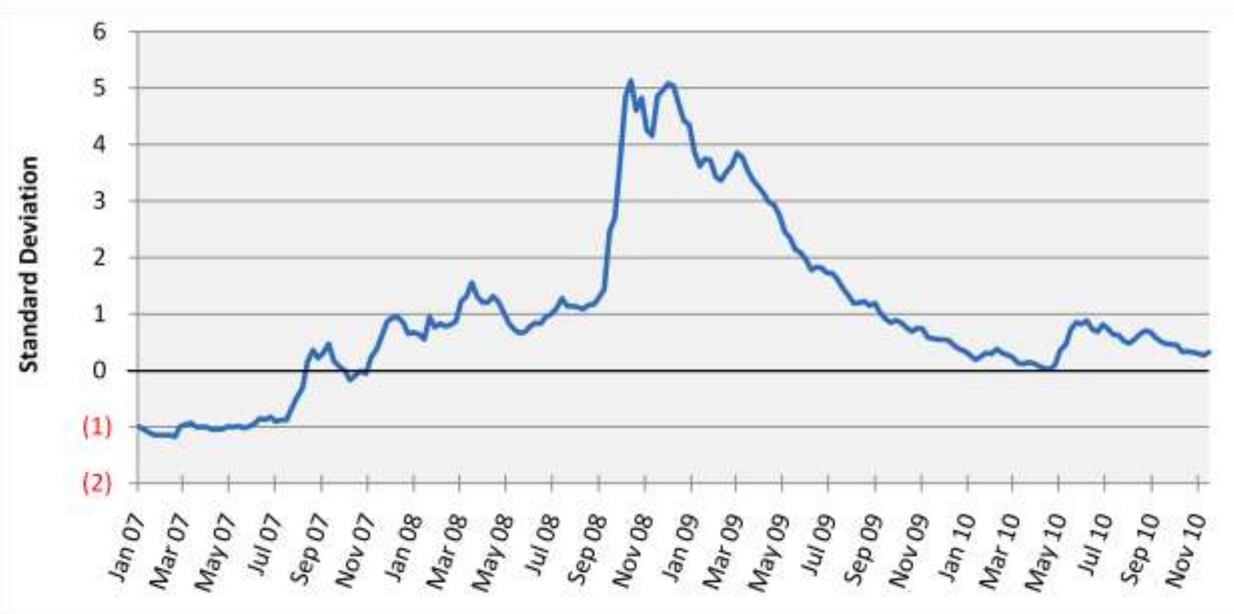
1. Financial Indices

a. Overview

The St. Louis Financial Stress Index, a proxy for financial stress in the U.S. economy, has remained relatively stable since the Panel's November report.[454] The index has decreased more than 60 percent since its post-crisis peak in June 2010. The recent 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 EESA was enacted in October 2008.

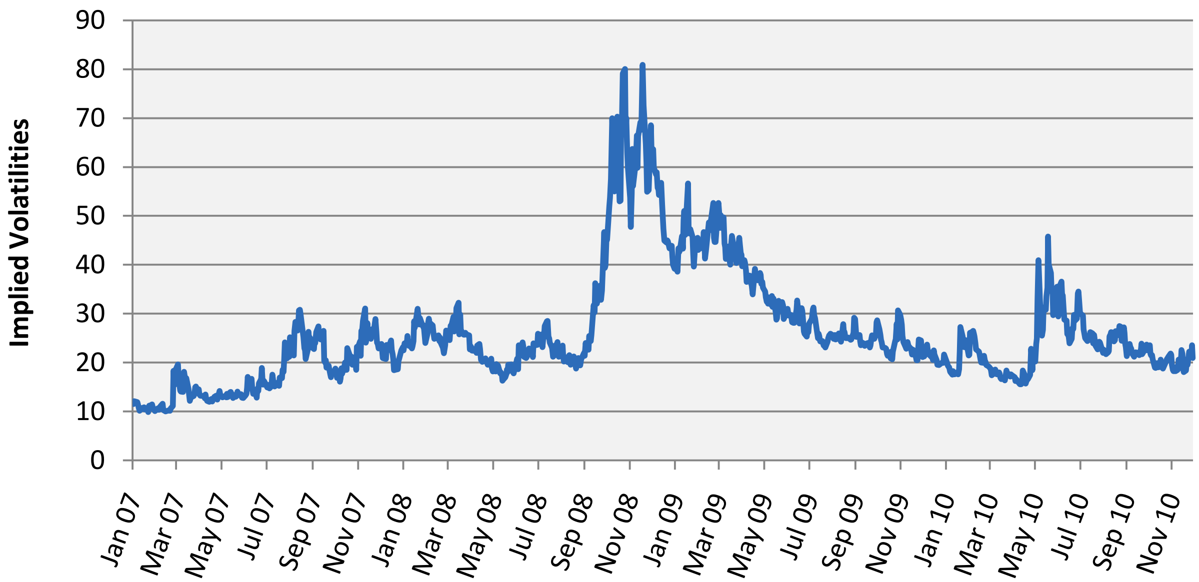
[454] Federal Reserve Bank of St. Louis, *Series STLFSI: Business/Fiscal: Other Economic Indicators* (Instrument: St. Louis Financial Stress Index, Frequency: Weekly) (online at research.stlouisfed.org/fred2/series/STLFSI) (accessed Dec. 1, 2010). The index includes 18 weekly data series, beginning in 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-meaned 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 Index



Stock market volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), continues to decrease. The VIX has fallen by more than half since the post-crisis peak in May 2010 and has decreased 4 percent since the Panel's November report. However, as of December 1, 2010, volatility was 35 percent higher than its post-crisis low on April 12, 2010.

Figure 35: Chicago Board Options Exchange Volatility Index[455]



b. Interest Rates, Spreads, and Issuance

As of December 1, 2010, the 3-month and 1-month London Interbank Offer Rates (LIBOR), the prices at which banks lend and borrow from each other, were 0.30 and 0.27, respectively.[456] Rates have increased slightly since the Panel's November report. However, the 3-month and 1-month LIBOR remain below their post-crisis highs in June 2010. Over the longer term, however, interest rates remain extremely low relative to pre-crisis levels, reflecting the impact of the actions of central banks and institutions' perceptions of reduced risk in lending to other banks.

[455] Data accessed through Bloomberg data service (Dec. 1, 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 Dec. 1, 2010).

[456] Data accessed through Bloomberg data service (Dec. 1, 2010).

Figure 36: 3-Month and 1-Month LIBOR Rates (as of December 1, 2010)

Indicator	Current Rates	Percent Change from Data Available at Time of Last Report (11/3/2010)
3-Month LIBOR[457]	0.30	3.4%
1-Month LIBOR[458]	0.27	8.0%

As of December 1, 2010, the conventional mortgage rate spread, which measures the difference between 30-year mortgage rates and 10-year Treasury bond yields, remained unchanged since the Panel's November report.[459] The TED spread, which captures the difference between the 3-month LIBOR and the 3-month Treasury bill rates, serves as an indicator for perceived risk in the financial markets.[460] As of December 1, 2010, the spread was 14.3 basis points, declining approximately two basis points in November. As shown in Figure 37 below, the spread remains below pre-crisis levels.

The LIBOR-OIS (Overnight Index Swap) spread serves as an indicator of the health of the banking system, as it reflects what banks believe to be the risk of default associated with interbank lending.[461] The spread increased over threefold from early April to July, before falling in mid-July.[462] Decreases in the LIBOR-OIS spread and the TED spread suggest that hesitation among banks to lend to counterparties has receded. The LIBOR-OIS spread remained fairly constant since the Panel's November report, averaging approximately 11 basis points during the month.

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[457] Data accessed through Bloomberg data service (Dec. 1, 2010).

[458] Data accessed through Bloomberg data service (Dec. 1, 2010).

[459] 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 Dec. 1, 2010) (hereinafter "Federal Reserve Statistical Release H.15").

[460] 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).

[461] Federal Reserve Bank of St. Louis, *What the LIBOR-OIS Spread Says* (May 11, 2009) (online at research.stlouisfed.org/publications/es/09/ES0924.pdf).

[462] Data accessed through Bloomberg data service (Dec. 1, 2010).

Figure 37: TED Spread[463]

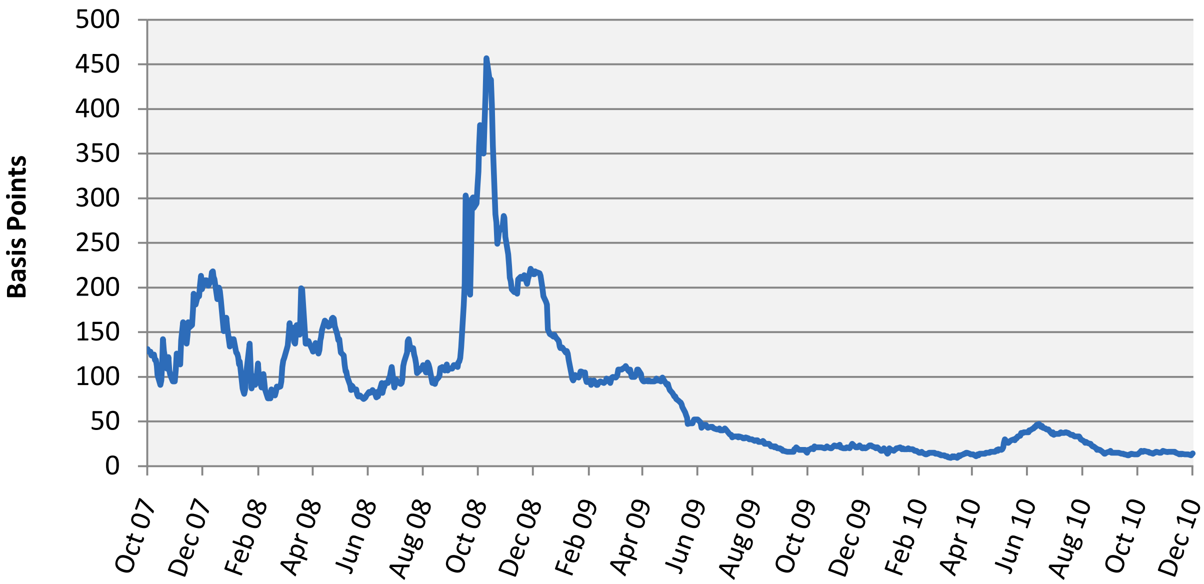
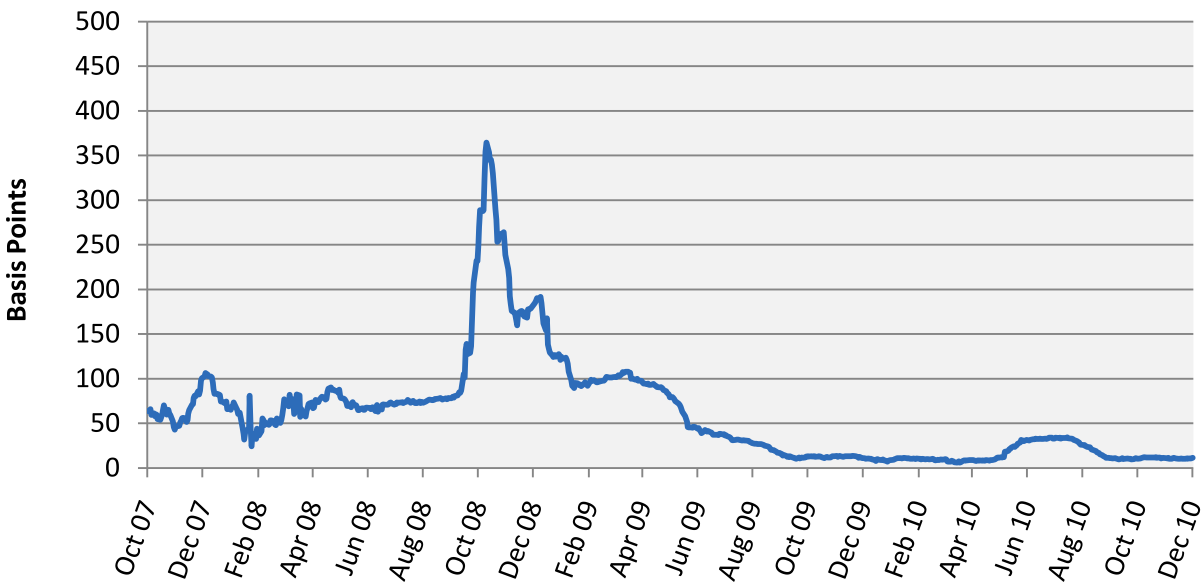


Figure 38: LIBOR-OIS Spread[464]



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463 Data accessed through Bloomberg data service (Dec. 1, 2010).

464 Data accessed through Bloomberg data service on (Dec. 1, 2010).

The interest rate spread for AA asset-backed commercial paper, which is considered mid-investment grade, decreased by more than five percent since the Panel's November report. The interest rate spread on A2/P2 commercial paper, a lower grade investment than AA asset-backed commercial paper, fell by approximately 10 percent. These declining spreads indicate healthier fundraising conditions for corporations.

Figure 39: Interest Rate Spreads (as of December 1, 2010)

Indicator	Current Spread	Percent Change Since Last Report (11/1/2010)
Conventional mortgage rate spread[465]	1.56	0.0%
TED Spread (basis points)	14.34	(8.0)%
Overnight AA asset-backed commercial paper interest rate spread[466]	0.07	(5.4)%
Overnight A2/P2 nonfinancial commercial paper interest rate spread[467]	0.12	(10.1)%

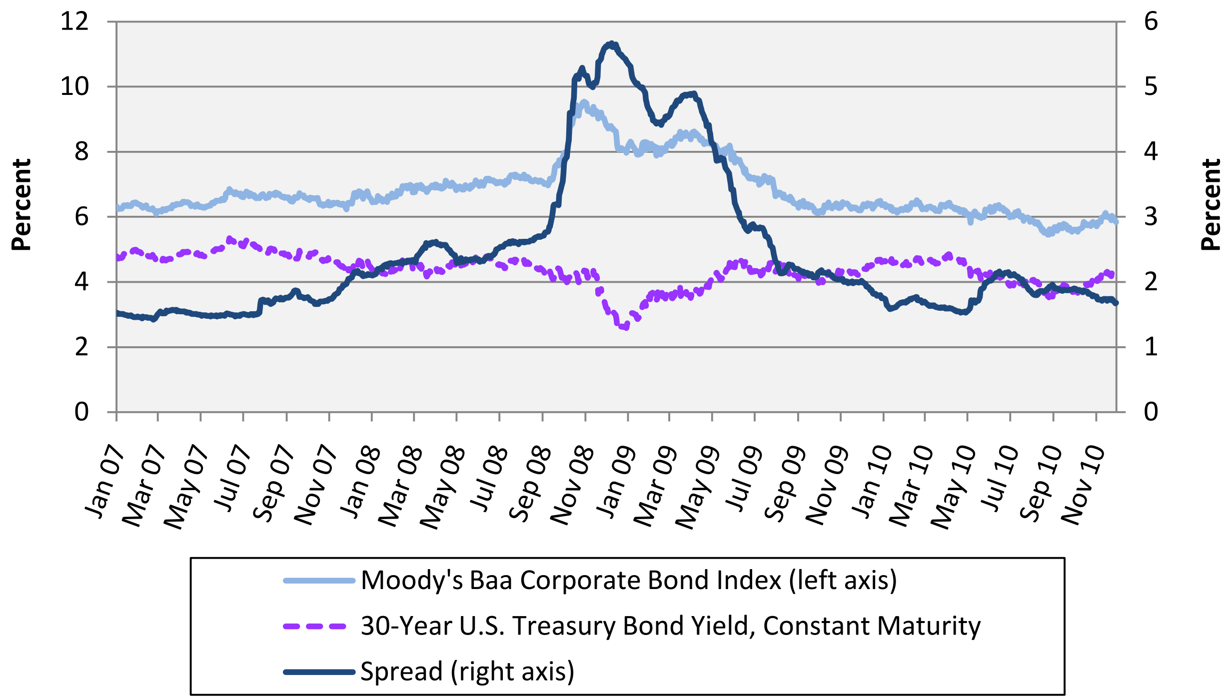
The spread between Moody's Baa Corporate Bond Yield Index and 30-year constant maturity U.S. Treasury Bond, which indicates the difference in perceived risk between corporate and government bonds, doubled from late April to mid-June 2010. During November, the spread declined over 5 percent, and has decreased 22 percent since its post-crisis peak in mid-June. The declining spread could indicate waning concerns about the riskiness of corporate bonds.

[465] Federal Reserve Statistical Release H.15, *supra* note 459; 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 Dec. 1, 2010).

[466] The overnight AA asset-backed commercial paper interest rate spread reflects the difference between AA asset-backed commercial paper discount rate and the AA nonfinancial commercial paper discount rate. 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 Dec. 1, 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 Dec. 1, 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.

[467] The overnight A2/P2 nonfinancial commercial paper interest rate spread reflects the difference between A2/P2 nonfinancial commercial paper discount rate and the AA nonfinancial commercial paper discount rate. 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 Dec. 1, 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 Dec. 1, 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 40: Moody's Baa Corporate Bond Index and 30-Year U.S. Treasury Yield[468]



c. Condition of the Banks

During November, year-to-date bank failures surpassed the 2009 level of 140 failures. As of November 25, 2010, 149 banks have been placed into receivership. Despite exceeding the total number of bank failures in 2009, banks that have failed in 2010 thus far had $90.5 billion in total assets, which represents only half of the total assets of failed institutions in 2009.[469] Most failures in 2010 involved institutions with less than $10 billion in assets. Of the 10 banks that failed in November, two were CPP recipients.

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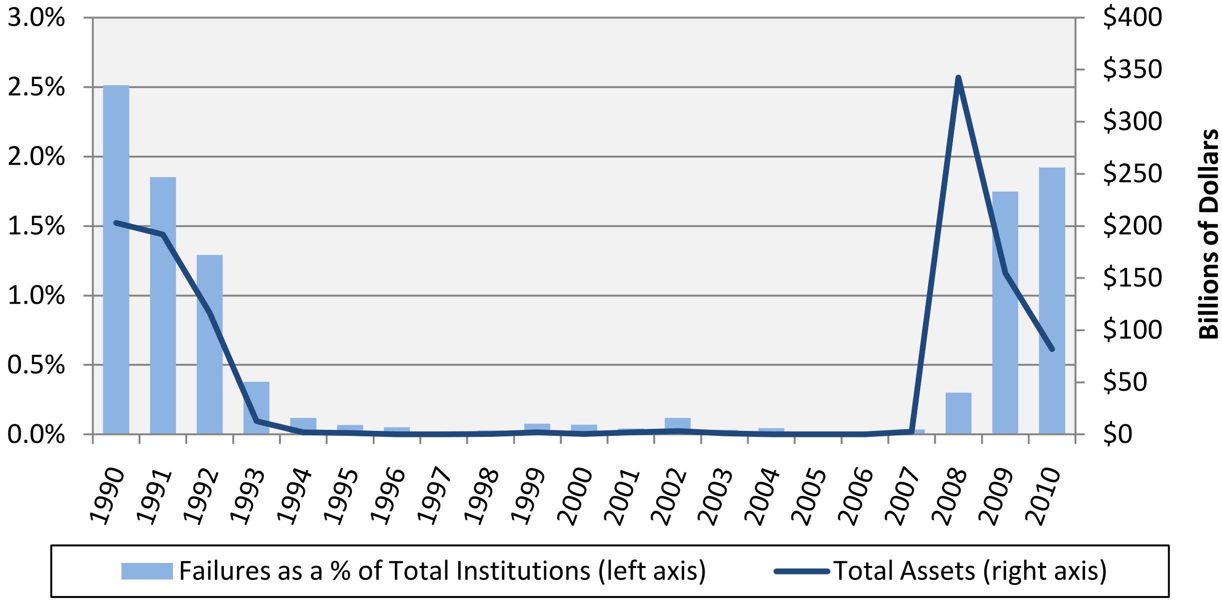
[468] Federal Reserve Bank of St. Louis, *Series DGS30: Selected Interest Rates* (Instrument: 30-Year Treasury Constant Maturity Rate, Frequency: Daily) (online at research.stlouisfed.org/fred2/) (accessed Dec. 1, 2010) (hereinafter "Series DGS30: Selected Interest Rates"). Corporate Baa rate data accessed through Bloomberg data service (Dec. 1, 2010).

[469] Federal Deposit Insurance Corporation, *Failures & Assistance Transactions* (online at www2.fdic.gov/hsob/SelectRpt.asp?EntryTyp=30) (accessed Dec. 1, 2010) (hereinafter "Failures & Assistance Transactions").

Figure 41: Bank Failures as a Percentage of Total Banks and Bank Failures by Total Assets (1990-2010)[470]



2. Unemployment and Underemployment

The unemployment rate increased in November to 9.8 percent after three consecutive months at 9.6 percent, while the underemployment rate remained unchanged at 17.0 percent. The median duration of unemployment increased by approximately half a week, to 21.6 weeks, in November.

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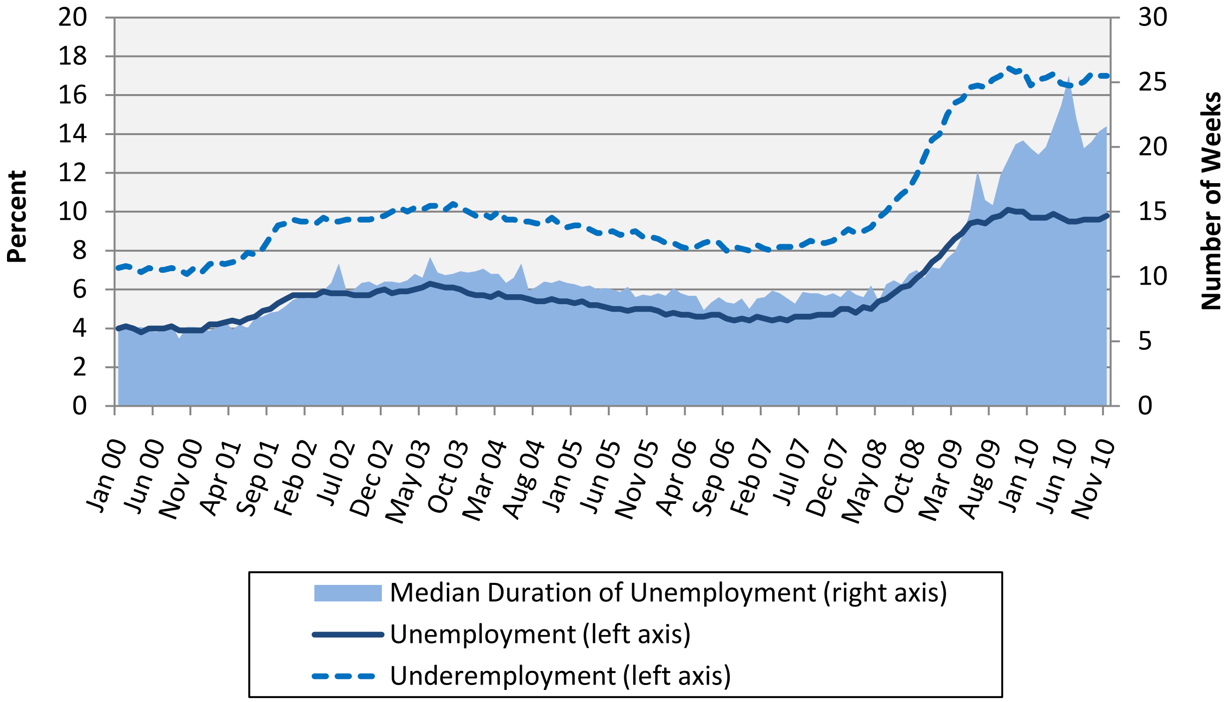
[470] The disparity between the number of and total assets of failed banks in 2008 is driven primarily by the failure of Washington Mutual Bank, which held $307 billion in assets. The 2010 year-to-date percentage of bank failures includes failures through November. The total number of FDIC-insured institutions as of September 30, 2010 is 7,760 commercial banks and savings institutions, which represents a decline of 70 institutions since June 30, 2010. Failures & Assistance Transactions, *supra* note 469; Federal Deposit Insurance Corporation, *Quarterly Banking Profile, Third Quarter 2010: Statistics At A Glance* (online at www.fdic.gov/bank/statistical/stats/2010sep/industry.pdf) (accessed Dec. 10, 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. Series DGS30: Selected Interest Rates, *supra* note 468.

Figure 42: Unemployment, Underemployment, and Median Duration of Unemployment[471]



3. Housing Indices

New home sales saw a month-over-month decrease in October, declining 8 percent during the month. New home sales as measured by the U.S. Census Bureau totaled 283,000 units. With respect to existing home sales, National Association of Realtors estimates a 2 percent month-over-month decline in October, to 4.4 million homes sold. Although existing home sales in October remained below the 10-year historical average, current levels are above the July 2010 level, when existing home sales reached their lowest point in more than a decade.

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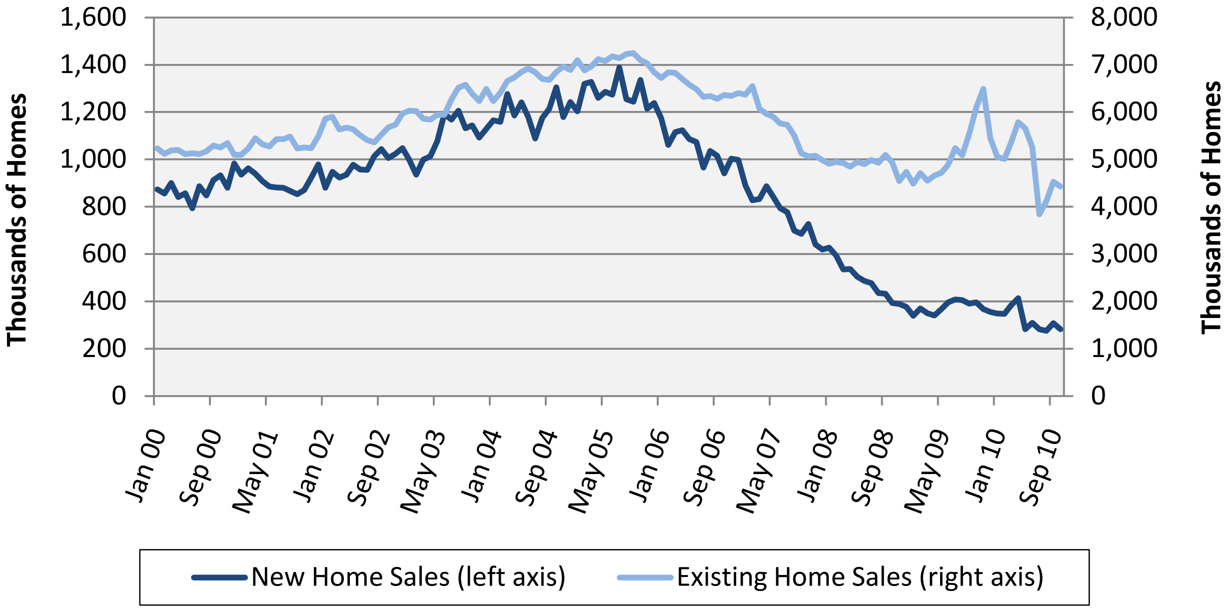
[471] It is important to note that the measures of unemployment and underemployment do not include people who have stopped actively looking for work altogether. While the Bureau of Labor Statistics (BLS) does not have a distinct metric for "underemployment," the U-6 category of Table A-15 "Alternative 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 Dec. 3, 2010); Series DGS30: Selected Interest Rates, *supra* note 468.

Figure 43: New and Existing Home Sales (2000-2010)[472]



Foreclosure actions, which consist of default notices, scheduled auctions, and bank repossessions, increased 4.4 percent in October to 332,172.[473] Since the enactment of EESA, there have been approximately 8.1 million foreclosure filings.[474] Both the Case-Shiller Composite 20-City Composite Home Price Index and the FHFA Housing Price Index decreased approximately 1 percent in September 2010. The Case-Shiller and FHFA indices are 7 percent and 6 percent, respectively, below their October 2008 levels.[475]

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[472] Data accessed through Bloomberg Data Service (Dec. 1, 2010). Spikes in both new and existing home sales in January 2009 and November 2009 correlate with the tax credits extended to first-time and repeat home buyers during these periods. After both tax credits were extinguished on April 30, 2010, existing home sales dropped to 3.8 million homes in July, their lowest level in a decade. National Association of Realtors, *July Existing-Home Sales Fall as Expected but Prices Rise* (Aug. 24, 2010) (online at www.realtor.org/press_room/news_releases/2010/08/ehs_fall).

[473] RealtyTrac, *Foreclosure Activity Decreases 4 Percent in October* (Nov. 11, 2010) (online at www.realtytrac.com/content/press-releases/foreclosure-activity-decreases-4-percent-in-october-6182) (hereinafter "Foreclosure Activity Decreases 4 Percent in October").

[474] Data accessed through Bloomberg data service (Dec. 1, 2010).

[475] The most recent data available are for September 2010. *See* S&P/Case-Shiller Home Price Indices, *supra* note 444; U.S. and Census Division Monthly Purchase Only Index, *supra* note 443. 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* (Apr. 2010) (online at www.standardandpoors.com/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldata&blobtable=MungoBlobs&blobheadervalue2=inline;+filename%3DCaseShiller_SeasonalAdjustment2,0.pdf&blobheadername2=Content-

Case-Shiller futures prices indicate a market expectation that home-price values for the major Metropolitan Statistical Areas (MSAs) will decrease through 2011.[476] 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. 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.

Figure 44: 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[477]	332,172	(4.4)%	18.8%
S&P/Case-Shiller Composite 20 Index[478]	145.47	(1.0)%	(6.9)%
FHFA Housing Price Index[479]	190.47	(1.2)%	(5.7)%

Disposition&blobheadervalue1=application/pdf&blobkey=id&blobheadername1=content-type&blobwhere=1243679046081&blobheadervalue3=UTF-8). For a discussion of the differences between the Case-Shiller Index and the FHFA Index, *see* April 2010 Oversight Report, *supra* note 1, at 98.

[476] Data accessed through Bloomberg data service on December 1, 2010. The Case-Shiller Futures contract is traded on the Chicago Mercantile Exchange (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.

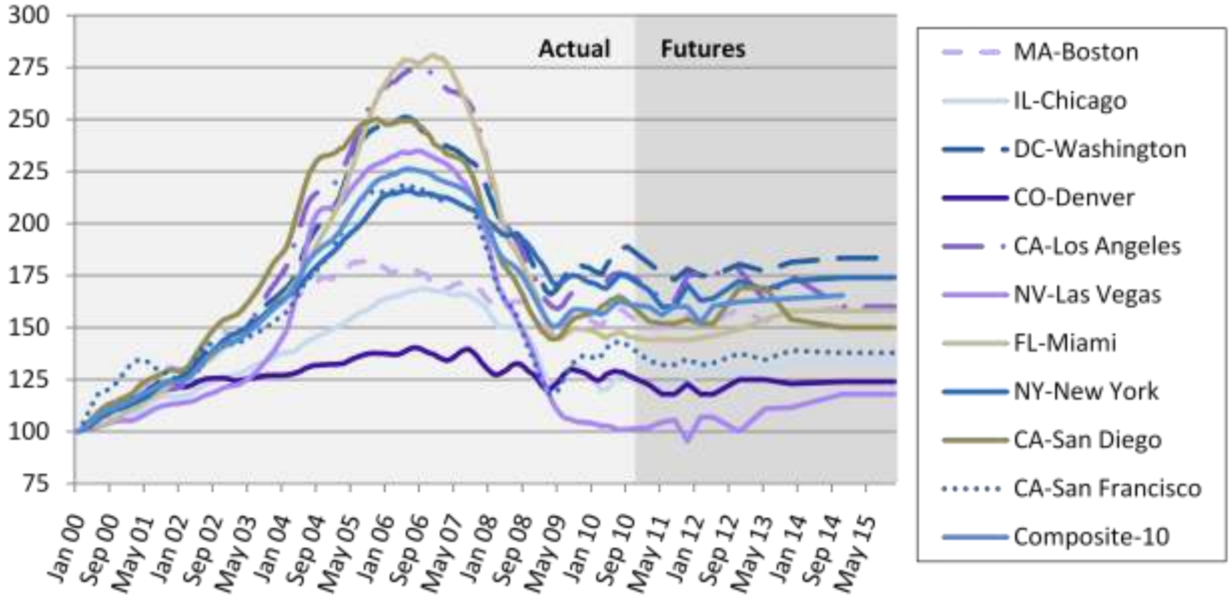
A Metropolitan Statistical Area is defined as a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with the core. U.S. Census Bureau, *About Metropolitan and Micropolitan Statistical Areas* (online at www.census.gov/population/www/metroareas/aboutmetro.html) (accessed Dec. 10, 2010).

[477] Foreclosure Activity Decreases 4 Percent in October, *supra* note 473. The most recent data available are for October 2010.

[478] S&P/Case-Shiller Home Price Indices, *supra* note 444. The most recent data available are for September 2010.

[479] U.S. and Census Division Monthly Purchase Only Index, *supra* note 443. The most recent data available are for September 2010.

Figure 45: Case-Shiller Home Price Index and Futures Values[480]



[480] All data normalized to 100 at January 2000. Futures data accessed through Bloomberg data service on December 1, 2010. S&P/Case-Shiller Home Price Indices, *supra* note 444.