Executive Summary[*]

The financial crisis that gripped the United States last fall was unprecedented in type and magnitude. It began with an asset bubble in housing, expanded into the subprime mortgage crisis, escalated into a severe freeze-up of the interbank lending market, and culminated in intervention by the United States and other industrialized countries to rescue their banking systems.

The centerpiece of the federal government's response to the financial crisis was the Emergency Economic Stabilization Act of 2008 (EESA), which authorized the Treasury Secretary to establish the $700 billion Troubled Asset Relief Program (TARP) and created the Congressional Oversight Panel to oversee the TARP. Now, at the end of the first full year of TARP's existence, the Panel is taking stock of the TARP's progress: reviewing what the TARP has accomplished to date, and exploring where it has fallen short.

Although the TARP was a key element of the federal government's response to the financial crisis, it was only one part of a multi-pronged approach. The FDIC and the Federal Reserve undertook major initiatives that are also aimed at bolstering financial stability. In addition, Congress enacted a fiscal stimulus measure that was larger than the TARP. Foreign governments also acted to rescue their banking systems, with consequences that echoed through the U.S. system as well.

Because so many different forces and programs have influenced financial markets over the last year, TARP's effects are impossible to isolate. Even so, there is broad consensus that the TARP was an important part of a broader government strategy that stabilized the U.S. financial system by renewing the flow of credit and averting a more acute crisis. Although the government's response to the crisis was at first haphazard and uncertain, it eventually proved decisive enough to stop the panic and restore market confidence. Despite significant improvement in the financial markets, however, the broader economy is only beginning to recover from a deep recession, and the TARP's impact on the underlying weaknesses in the financial system that led to last fall's crisis is less clear.

Congress established broad goals for the Emergency Economic Stabilization Act. It is apparent that, after 14 months, many of the ongoing problems remain in the financial markets and the broader economy:

- **The availability of credit, the lifeblood of the economy, remains low.** Banks remain reluctant to lend, and many small businesses and consumers are reluctant to borrow.

[*] The Panel adopted this report with a 4-1 vote on December 8, 2009. Rep. Jeb Hensarling voted against the report. Additional views are available in Section Two of this report.

Even as new capital and earnings flow into banks, questions remain about whether this money is being used to repair damaged balance sheets rather than putting the money into lending.

- **Bank failures continue at a nearly unprecedented rate.** There have been 149 bank failures between January 1, 2008 and November 30, 2009. The FDIC, facing red ink for the first time in 17 years, must step in to repay depositors at a growing number of failed banks. This problem may worsen, as deep-seated problems in the commercial real estate sector are poised to inflict further damage on small and mid-sized banks.

- **Toxic assets remain on the balance sheets of many large banks.** Some major financial institutions continue to hold the toxic mortgage-related securities that contributed to the crisis, waiting for a rebound in asset values that may be years away. These banks may be considered "too big to fail," but at the same time, they may be too weak to play a meaningful role in keeping credit flowing throughout the economy.

- **The foreclosure crisis continues to grow.** More than two million families have lost their homes to foreclosure since the start of this crisis, and countless more have lost their homes in short-sales or have turned their keys over to the lender. Foreclosure starts over the next five years are projected to range from 8 to 13 million, but more than a year after the TARP was passed, it appears that the TARP's foreclosure mitigation programs have not yet achieved the scope, scale, and permanence necessary to address the crisis.

- **Job losses continue to escalate.** The unprecedented government actions taken since last September to bolster the faltering economy have not been enough to stem the rise of unemployment, which in October was at its highest level since June 1983.

- **Markets remain dependent on government support.** The market stability that has emerged since last fall's crisis has been in part the result of an extraordinary mix of government actions, some of which will likely be scaled back relatively soon, and few of which are likely to continue indefinitely. It is unclear whether the market can yet withstand the removal of this support.

- **Government intervention signaled an implicit government guarantee of major financial institutions, and unwinding this guarantee poses a difficult long-term challenge.** As yet, there is no consensus among experts or policymakers as to how to prevent financial institutions from taking risks that are so large as to threaten the functioning of the nation's economy.

While the TARP, along with other strong government action, can be credited with stopping an economic panic, the program's progress toward the other goals set by Congress – goals that are necessary for reestablishing stability in the financial system and providing the tools for rebuilding the American economy – is less clear.

Since its inception, the TARP has gone through several different incarnations. It began as a program designed to purchase toxic assets from troubled banks, but it quickly morphed into a means of bolstering bank capital levels. It was later put to use as a source of funds to restart the securitization markets, rescue domestic automakers, and modify home mortgages. The evolving nature of the TARP, as well as Treasury's failure to articulate clear goals or to provide specific measures of success for the program, make it hard to reach an overall evaluation. In its report of December 2008, the Panel called on Treasury to make both its decision-making and its actions more transparent. The Panel renews that call, as it has done with every monthly report since then.

Despite the difficult circumstances under which many decisions have been made, those decisions must be clearly explained to the American people, and the officials who make them must be held accountable for their actions. Transparency and accountability may be painful in the short run, but in the long run they will help restore market functions and earn the confidence of the American people.