THE DEPARTMENT OF THE TREASURY

OFFICE OF FINANCIAL STABILITY

TROUBLED
ASSET
RELIEF
PROGRAM

AGENCY FINANCIAL REPORT

FISCAL YEAR 2010

ABBREVIATIONS AND ACRONYMS

ABS	Asset-backed Securities
AGP	Asset Guarantee Program
AIFP	Automotive Industry Financing Program
AIG	American International Group, Inc.
BofA	Bank of America Corporation
CBLI	Consumer and Business Lending Initiative
CBO	Congressional Budget Office
CDFI	Community Development Financial Institution
CMBS	Commercial Mortgage-backed Securities
CP	Commercial Paper
COP	Congressional Oversight Panel
CPP	Capital Purchase Program
CDCI	Community Development Capital Initiative
EESA	Emergency Economic Stabilization Act of 2008
FCRA	Federal Credit Reform Act of 1990
FHA	Federal Housing Administration
FRBNY	Federal Reserve Bank of New York
GAO	Government Accountability Office
GSE	Government-sponsored enterprise
HAFA	Home Affordable Foreclosure Alternatives
HHF	Hardest Hit Fund
HAMP	Home Affordable Modification Program
HPDP	Home Price Decline Protection
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
LTV	Loan-to-value Ratio
MBS	Mortgage-backed Security
MHA	Making Home Affordable Program
NPV	Net Present Value
OFS	Office of Financial Stability
OMB	Office of Management and Budget
PPIF	Public-Private Investment Fund
PPIP	Public-Private Investment Program
PRA	Principal Reduction Alternative
QFI	Qualifying Financial Institution
RMBS	Residential Mortgage-backed Securities
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SPV	Special Purpose Vehicle
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TIP	Targeted Investment Program

TABLE OF CONTENTS

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MESSAGE FROM THE ASSISTANT SECRETARY

I am pleased to present the Office of Financial Stability's (OFS) Agency Financial Report for FY 2010. This report describes our financial results for the Troubled Asset Relief Program (TARP) during the second year of the OFS. The report contains the financial statements for TARP and the Government Accountability Office's audit opinion on those financial statements, a separate opinion on OFS' internal controls over financial reporting, and results of tests of OFS' compliance with selected laws and regulations.

The Emergency Economic Stabilization Act of 2008 (EESA) established the Office of Financial Stability (Treasury-OFS) within the Office of Domestic Finance of the Treasury to implement TARP. The OFS carries out the mission and objectives of the TARP: ensuring the overall stability and liquidity of the financial system; preventing avoidable foreclosures and helping preserve homeownership; protecting taxpayers' interests; and promoting transparency.

On October 3, 2010, the second anniversary of the enactment of TARP, the authority to make new purchase commitments expired. This date is also an appropriate time to reflect on what the program has accomplished.

The TARP was, and is, an enormous commitment of taxpayer money. And it has been unpopular for good reason—no one likes using tax dollars to rescue financial institutions. However, by objective standards, TARP worked. It helped stop the widespread financial panic we faced in the fall of 2008 and helped prevent what could have been a devastating collapse of our financial system. Moreover, it did so at a cost that is far less than what most people expected at the time the law was passed.

Of course, TARP was not the answer to all of America's challenges, and we have many still ahead. The U.S. economy is healing but at a slower pace than we need. Millions of Americans are still out of work and at risk of losing their homes. We still have much work to do to repair the damage from this crisis.

Our results to date reflect the following:

- Treasury-OFS will use up to $475 billion of the original $700 billion authorized. A total of $388 billion has been disbursed from inception through September 30, 2010.
- Treasury-OFS has already recovered a total of about $204 billion of those funds. This includes approximately three-fourths of the $245 billion investment in banking institutions. In addition, we have received about $28 billion from TARP recipients from inception through September 30, 2010, including interest, dividends and repurchase of warrants.
- The lifetime cost of TARP will not be known for some time and will depend on many factors, including how financial markets and the economy perform in the future. But assuming the recently announced AIG restructuring plan is implemented as announced, and subject to the assumptions discussed herein as to the valuation of the AIG investment in light of the restructuring, the cost of TARP would be around $50 billion. These costs are expected to come primarily from losses related to TARP investments in auto companies and the initiatives to help responsible homeowners avoid foreclosure. Please see the detailed information in this report on these estimates and the methodology used to make them.

Going forward, our focus is to manage the investments prudently while working to recover as much of the taxpayers' funds as possible. We will also continue our efforts to help distressed homeowners. And we will take these steps while maintaining comprehensive accountability and transparency standards.

The financial data included in this report are reliable and complete. For the second consecutive year, the OFS has earned "clean" opinions on its financial statements and its internal control over financial reporting from the Government Accountability Office.

Sincerely,

Acting Assistant Secretary
Office of Financial Stability

EXECUTIVE SUMMARY

Treasury-OFS is pleased to present the Fiscal Year 2010 Agency Financial Report (AFR) for the Troubled Asset Relief Program (TARP), established by the Department of the Treasury pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). There have been a number of important milestones for TARP in recent months. First, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on July 21, 2010, which limited TARP cumulative purchase authority to $475 billion. Second, October 3, 2010 marked the second anniversary of the passage of EESA and the end of the authority to make new financial commitments. Therefore, it is an appropriate time to reflect on what TARP has accomplished.

TARP, in conjunction with other federal government actions, helped to unfreeze the markets for credit and capital, bringing down the cost of borrowing for businesses, individuals, and state and local governments, restoring confidence in the financial system and restarting economic growth. TARP did so faster, and at a much lower cost, than many anticipated.

- At the peak of the financial crisis, many banks were not making new loans to businesses, or even to one another. Many businesses could not get financing in capital markets. Numerous municipalities and state governments could not issue bonds at reasonable rates. The securitization markets — which provide financing for credit cards, student loans, auto loans and other consumer financing — had basically stopped functioning. The economy was contracting at an accelerating rate, with millions of Americans losing their jobs.
- By the middle of 2009, assisted by the combined impact of the federal government's financial programs, borrowing rates had fallen sharply for businesses, individuals, and state and local governments. More companies could fund themselves in private markets by issuing equity and long-term debt. Housing prices began to stabilize. The value of the savings of American workers had begun to recover. Economic growth turned from negative to positive.

EESA provided the Secretary of the Treasury with the authority to purchase or guarantee $700 billion but it has been clear for some time that TARP will cost taxpayers substantially less than $700 billion. In December 2009, the Secretary of the Treasury announced that no more than $550 billion of the authority would be used. In July 2010, the Dodd-Frank Act reduced the cumulative authority to $475 billion, in line with expected investment amounts. Finally, many of the investments under the program, particularly those aimed at stabilizing banks, have thus far delivered positive returns for taxpayers.

As a result of improved market conditions, lower utilization of the program, and careful stewardship, the estimated cost of TARP over its lifetime continues to decline. In the August 2009 Midsession Review of the President's 2010 Budget, the lifetime cost of TARP, based on budget scoring conventions, was projected to be $341 billion (assuming the full $700 billion of TARP authority was utilized). By the February 2011 President's Budget, the lifetime cost of TARP had decreased to $117 billion (assuming $546 billion of the $700 billion TARP authority was utilized).

Our most recent analysis of the potential lifetime cost of TARP suggests that if the proposed restructuring of AIG is completed as announced, the lifetime cost of TARP could be less than $50 billion. Under the proposed restructuring of AIG, Treasury-OFS would receive 1.1 billion shares of AIG common stock in exchange for its TARP investment. While this cost is based on the October 1, 2010 market price, it should be noted that the proceeds that would actually be received by Treasury-OFS from the future sale of such stock would be based on the market price at the time of sale, which may differ materially from the October 1, 2010 market price. Of course, the final lifetime cost of TARP will depend on how financial conditions evolve in the future, including the price of AIG shares, and other common stock held by TARP.

The estimated lifetime cost of TARP reflects several factors, including the cost of the initiatives to help responsible homeowners avoid foreclosure, for which $45.1 billion is budgeted which has not yet been spent. All funds disbursed for housing programs result in a cost because these funds will not be returned. It also reflects losses on investments in the auto companies and AIG. These losses are largely offset in part by gains on TARP investments in banks and gains in other programs.

Because the restructuring has not occurred and its completion is subject to contingencies, the value of the AIG investment in the fiscal year 2010 financial statements does not reflect any potential from the restructuring. The effects of the proposed restructuring of AIG on the lifetime cost of TARP are presented in more detail later in Management's Discussion and Analysis.

Note that the lifetime cost of TARP, based on budget scoring conventions, differs from the cost included in the Treasury-OFS financial statements. Estimates of lifetime costs assume that all planned expenditures are made. By contrast, the TARP financial statement costs are based on transactions through September 30, 2010.

The reported cost of TARP activities from inception, October 3, 2008, through September 30, 2010 based on the Treasury-OFS financial statements was $18.5 billion. Unlike the federal budget cost estimate, this reflects only transactions through September 30, 2010. Thus, it does not include the committed but undisbursed funds for housing programs as well as other programs all of which are included in the expected lifetime cost for budget purposes. The $18.5 billion cost consists of $23.1 billion of reported TARP net income in the Treasury-OFS financial statements for fiscal year 2010 and the $41.6 billion of reported TARP net cost for the period ended September 30, 2009. The change since last year is primarily due to the early repayment of TARP investments by the larger banks and an improvement in the financial markets and the economy.

Since its inception, TARP has disbursed $387.7 billion in direct loans and equity investments, collected $204.1 billion in repayments, and reported $16.7 billion in dividends, interest and fees, and $10.9 billion in net proceeds from the sale and repurchase of assets in excess of cost. As of September 30, 2010, TARP had $179.2 billion in gross outstanding direct loans and equity investments, which are valued at $142.4 billion. In addition, from inception through September 30, 2010, TARP incurred costs related to Treasury Housing programs of $0.8 billion and administrative costs of $0.5 billion.

The cost estimates for budget and financial statement purposes are only estimates. They are based on current market prices where available. Because market prices change, such estimates will change. The ultimate cost of the outstanding TARP investments is therefore subject to significant uncertainty and will depend on, among other things, how the economy, financial markets and particular companies perform.

Treasury-OFS is moving quickly to recover the federal government's investments and to withdraw from the financial system. Treasury-OFS aims to dispose of its investments as quickly as practicable, in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests.

- Treasury-OFS continues to carefully manage the TARP assets and has recovered more than 75 percent of the TARP funds provided to banks, principally through the Capital Purchase Program (CPP), and expects these capital support programs for banks to provide an overall positive return for taxpayers.
- Treasury-OFS is beginning to recover investments in the auto industry. GM has repaid the assistance it received that remained outstanding as a loan and has recently agreed to repurchase the preferred stock issued to Treasury. The ultimate loss estimate on investments in Chrysler and Ally Financial, Inc. (formerly GMAC) is expected to be less than last year as well due to financial improvements in both firms.

- The restructuring plan announced by AIG, assuming it is completed as announced, will accelerate the timeline for repaying the federal government and put taxpayers in a considerably stronger position to recoup the Treasury-OFS investment in the company. As noted earlier, the AIG restructuring is not yet completed and its closing is subject to contingencies.

Treasury-OFS also expanded the Treasury Housing Programs under TARP. Treasury-OFS launched the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF) to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines. In addition, Treasury-OFS and the Department of Housing and Urban Development (HUD) enhanced the FHA-Refinance program to enable homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages if their lenders agree to reduce the unpaid principal balance by at least 10 percent.

- Final authority to make commitments within the reduced TARP authorization expired on October 3, 2010. Servicers that participate in the Making Home Affordable Program (MHA) can continue to make mortgage modifications through the end of calendar year 2012. The HFA Hardest Hit Fund permits participating state housing agencies to provide support through their programs until as late as calendar year 2017, depending on available funding. The FHA-Refinance program is designed to enable homeowners to refinance their mortgage loans and reduce their overall mortgage debt through the end of calendar year 2012.

Treasury-OFS continues to provide detailed information about TARP to insure transparency. Treasury-OFS published a Two-Year Retrospective Report on the Troubled Asset Relief Program on October 5, 2010. This report includes information on TARP programs and the effects of TARP and other federal government actions to address the financial crisis. Readers are invited to refer to this document at *www.financialstability.gov/docs/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf*

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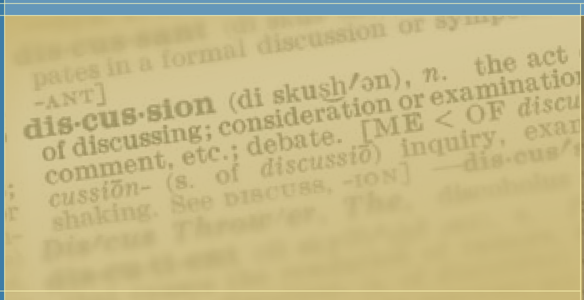
PART I:

MANAGEMENT'S DISCUSSION AND ANALYSIS



BACKGROUND, MISSION AND ORGANIZATION STRUCTURE

In order to appreciate the effects of TARP and the concentrated efforts of the Administration to combat the financial crisis, it is useful to examine the origin and causes of the crisis.

In September 2008, the nation was in the midst of one of the worst financial crises in our history. The financial institutions and markets that Americans rely upon to protect their savings, help finance their children's education, and help pay their bills, and that businesses rely upon to make payroll, build inventories, fund new investments, and create new jobs, were threatened unlike at any time since the Great Depression. Across the country, people were rapidly losing confidence in our financial system and in the federal government's ability to safeguard their economic future.

The causes of the crisis will be studied for years, and this report is not meant to provide a comprehensive analysis of why the crisis occurred. But some reasons are clear. Over the two decades preceding the crisis, the financial system had grown rapidly in an environment of economic growth and stability. Risks grew in the system without adequate transparency. Lax regulations and loopholes in supervision let firms become highly leveraged and take on too much risk. Ample credit around the world fueled an unsustainable housing boom in the first half of the last decade. When the housing market inevitably turned down, starting in 2006, the pace of mortgage defaults accelerated at an unprecedented rate. By mid2007, rising mortgage defaults were undermining the performance of many investments held by major financial institutions.

The crisis began in the summer of 2007 and gradually increased in intensity and momentum over the course of the following year. A series of major financial institutions, including Countrywide Financial, Bear Stearns, and IndyMac, failed; and Fannie Mae and Freddie Mac, the largest purchasers and guarantors of home loans in the mortgage market, came under severe stress.

By September 2008, for the first time in 80 years, the U.S. financial system was at risk of collapse. A growing sense of panic was producing the classic signs of a generalized run on the banks. Peoples' trust and confidence in the stability of major institutions, and the capacity of the federal government to contain the damage, were vanishing.

Our system of regulation and supervision had failed to constrain the excessive use of leverage and the level of risk in the financial system, and the United States entered this crisis without adequate tools to manage it. The Executive Branch did not have existing options for managing failures of systemically important non-bank financial institutions.

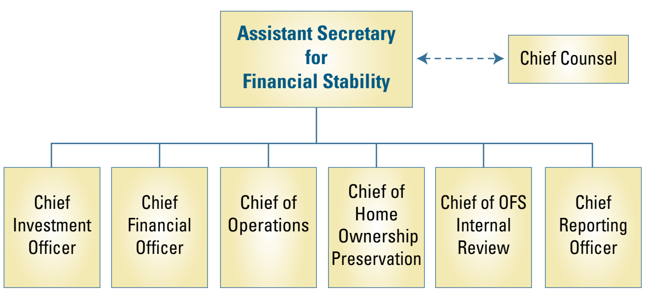
The Treasury Department, the Federal Reserve, the FDIC, and other federal government bodies undertook an array of emergency actions to prevent a collapse and the dangers posed to consumers, businesses, and the broader economy. However, the severe conditions our nation faced required additional resources and authorities. Therefore, the Bush Administration proposed EESA in late September, and with the support of Democrats and Republicans in Congress, it was enacted into law on October 3, 2008.

EESA established the Office of Financial Stability (OFS) within the Office of Domestic Finance of the Treasury Department to implement the TARP. The mission of Treasury-OFS is to carry out the authorities given to the Secretary of the Treasury to implement the Troubled Asset Relief Program (TARP). Section 101 of EESA authorized the Secretary of the Treasury to establish the TARP to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary". EESA defines the terms "troubled assets" and "financial institution" and provides other requirements that must be met for any such purchase. Section 102 of EESA also provides authority for a guarantee program for troubled assets. Section 109 of EESA provides authority to maximize assistance for homeowners. The enactment of the Dodd-Frank Act in July 2010 subsequently reduced total TARP purchase authority from $700 billion to a cumulative $475 billion.

Final purchase authority to make new commitments under TARP expired on October 3, 2010. This means no new commitments to invest funds can be made. There is, however, still significant work to be done to implement commitments made by prior to the October 3 deadline but not yet fully funded. For those assets already purchased, Treasury-OFS will continue to wind down TARP and manage the remaining TARP investments in order to recover as much of taxpayers' funds as possible.

Treasury-OFS is headed by the Assistant Secretary for Financial Stability, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are six major organizations: the Chief Investment Officer, the Chief Financial Officer, the Chief of Operations, the Chief of Homeownership Preservation, the Chief Reporting Officer, and the Chief of OFS Internal Review. A Chief Counsel's Office reports to the Assistant Secretary and to the Office of the General Counsel in the Department of Treasury.

The Treasury-OFS organization chart is shown below:



The Office of the Chief Investment Officer (CIO) is responsible for program development and the execution and management of all investments made by either purchasing or insuring "troubled assets" pursuant to EESA, other than TARP housing programs.

The Office of the Chief Financial Officer (CFO) has lead responsibility within Treasury-OFS for budget formulation and execution, cash management, accounting, financial systems, financial reporting, program and internal metrics analytics, modeling cash flows, and internal controls.

The Office of the Chief of Homeownership Preservation is responsible for identifying opportunities to help homeowners and overseeing homeownership programs while also protecting taxpayers.

The Office of the Chief of Operations is responsible for developing the operating infrastructure and managing internal operations in Treasury-OFS.

The Office of the Chief Reporting Officer is responsible for coordinating Treasury-OFS' work with the external oversight entities including the Government Accountability Office (GAO), the Special Inspector General for TARP, the Financial Stability Oversight Board and the Congressional Oversight Panel. The Office also prepares periodic reports to the Congress as required by EESA.

The Office of Internal Review (OIR) is responsible for identifying the most significant risks that the TARP faces, both internally and externally. In addition, OIR is responsible for validating internal controls are present and functioning correctly and for monitoring TARP recipient and external entity compliance with various statutory and regulatory requirements.

The Office of the Chief Counsel reports functionally to the Office of General Counsel at the Department of the Treasury and provides legal advice to the Assistant Secretary. The Office is involved in the structuring of OFS programs and activities to ensure compliance with EESA and with other laws and regulations.

Treasury-OFS is not envisioned as a permanent organization, so to the maximum extent possible when economically efficient and appropriate, Treasury-OFS utilizes private sector expertise in support of the execution of TARP programs. Fannie Mae and Freddie Mac accounted for over sixty percent of the fiscal year 2010 non-personnel services costs ($149 million of $247 million) to assist in the administration and compliance oversight, respectively, of the Making Home Affordable Program. Additionally, asset managers were hired to serve as financial agents in assisting with managing the portfolio of assets associated with several TARP programs. The balance of the non-personnel, private sector firms were engaged to assist with the significant volume of work associated with the TARP in the areas of accounting and internal controls, administrative support, facilities, legal advisory, financial advisory, and information technology.

OVERVIEW OF TARP FOR FISCAL YEAR 2010

Brief Statement of OFS Strategic and Operational Goals

The purpose of EESA is to provide the Secretary of the Treasury with the authorities and facilities necessary to restore liquidity and stability to the U.S. financial system. In addition, the Secretary is directed to ensure that such authorities are used in a manner that protects home values, college funds, retirement accounts, and life savings; preserves homeownership; promotes jobs and economic growth; maximizes overall returns to taxpayers; and provides public accountability. EESA also provided specific authority to take certain actions to prevent avoidable foreclosures.

In light of this statutory direction, Treasury-OFS established the following as its operational goals:

1. Ensure the overall stability and liquidity of the financial system.
    a. Make capital available to viable institutions.
    b. Provide targeted assistance as needed.
    c. Increase liquidity and volume in securitization markets.
2. Prevent avoidable foreclosures and help preserve homeownership.
3. Protect taxpayer interests.
4. Promote transparency.

1. Ensure the Overall Stability and Liquidity of the Financial System

To ensure the overall stability and liquidity of the financial system, Treasury-OFS developed several programs under the TARP that were broadly available to financial institutions. Under the Capital Purchase Program (CPP), Treasury-OFS provided capital infusions directly to banks and insurance companies deemed viable by their regulators but in need of a stronger asset base to weather the crisis. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or "stress test" of the largest U.S. financial institutions. If these institutions were unable to raise adequate private funds to meet the SCAP requirements, Treasury-OFS stood ready to provide additional capital.

In addition, Treasury-OFS provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the AIG Investment Program. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms.

Similarly, the Automotive Industry Financing Program (AIFP) provided funding for General Motors Corporation (GM) and Chrysler LLC (Chrysler), as well as their financing affiliates in order to prevent a significant disruption of the automotive industry that would have posed a systemic risk to financial markets and negatively affected economic growth and employment. Treasury-OFS' actions helped GM and Chrysler undertake massive and orderly restructurings through the bankruptcy courts that have resulted in leaner and stronger companies.

The Public-Private Investment Program (PPIP) was established to facilitate price discovery and liquidity in the markets for troubled real estate-related assets as well as the removal of such assets from the balance sheets of financial institutions. In addition to these initiatives, Treasury-OFS implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses. Treasury-OFS developed programs to revitalize asset-backed securities markets critical to restoring the flow of credit to consumers and small businesses. CBLI is composed of the Term Asset-Backed Securities Loan Facility, the SBA 7a Securities Purchase Program and the Community Development Capital Initiative.

Details on all of these efforts, including program-specific results, can be found later in this Management's Discussion and Analysis under Operational Goals.

2. Prevent Avoidable Foreclosures and Preserve Homeownership

To prevent avoidable foreclosures and preserve home ownership, Treasury-OFS launched the Making Home Affordable Program (MHA), which includes the Home Affordable Modification Program (HAMP). Under this program, Treasury-OFS pays the cost of modifications of loans not held by government-sponsored enterprises (GSEs) while the GSEs pay the cost of modifications of loans held by the GSEs. After 18 months, more than 1.3 million homeowners participating in HAMP have entered into trial modifications that reduced their mortgage payments to more affordable levels. This includes 619,000 homeowners with non-GSE loans. Nearly 500,000 homeowners participating in the HAMP Program have had their mortgage terms modified permanently, with over 220,000 of these participants in non-GSE-loans that would be funded by Treasury-OFS. HAMP participants (both GSE and non-GSE loans) collectively have experienced a 36 percent median reduction in their mortgage payments—more than $500 per month—amounting to a total, program-wide anticipated savings for homeowners of more than $3.2 billion. MHA has also spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

In addition, Treasury-OFS launched the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF) to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines, and Treasury-OFS and the Department of Housing and Urban Development (HUD) enhanced the FHA-Refinance Program in creating the FHA Short Refinance option to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages if their lenders agree to reduce principal by at least 10 percent.

MHA operations and program detail can be found later in this Management Discussion and Analysis under Operational Goals.

3. Protect Taxpayer Interests

Federal government financial programs, including TARP, helped prevent the U.S. financial system from collapse, which could have resulted in a much more severe contraction in employment and production. The manner in which TARP was implemented is also designed to protect taxpayers and to compensate them for risk. For example, in exchange for capital injections, recipients of TARP funds have to adhere to corporate governance standards, limit executive pay, and provide additional reporting on lending activity. In addition, Treasury-OFS generally received preferred equity, which provides dividends. The dividend rates increase over time to encourage repayment.

Further, EESA stipulated that the taxpayer benefit as the institutions which received TARP funds recovered. In connection with most investments, Treasury-OFS also received warrants for additional securities in the institutions. Under the broad programs described above, Treasury-OFS has priority over existing shareholders of TARP recipients for which TARP holds equity investments. This gives taxpayers the ability to share in the potential upside along with existing shareholders.

Finally, Treasury-OFS seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments, as detailed under Operational Goals.

4. Promote Transparency

EESA requires transparency and accountability. Specifically, EESA requires Treasury-OFS to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, Treasury-OFS has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. Treasury-OFS proactively provides to the public monthly Dividends and Interest Reports reflecting dividends and interest paid to Treasury-OFS from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the Capital Purchase Program.

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board (FSOB), and the Government Accountability Office. In addition, Treasury-OFS officials frequently testify before Congress on the progress of TARP programs, and Treasury-OFS staff provide briefings to Congressional staff on programmatic developments.

Further details on these efforts can be found in this Management's Discussion and Analysis under Operational Goals.

Fiscal Year 2010 Financial Summary

EESA provided authority for the TARP to purchase or guarantee up to $700 billion in troubled assets.[1] Treasury-OFS used this authority to help strengthen the U.S. financial system, restore health and liquidity to credit markets to facilitate borrowing by consumers and businesses, and prevent avoidable foreclosures in the housing market. EESA spending authority would terminate December 30, 2009, unless extended upon submission of a written certification to Congress by the Secretary of the Treasury, pursuant to Section 120(b) of EESA.

In December 2009, the Secretary of the Treasury certified the extension of TARP authority until October 3, 2010. The Secretary identified two principal objectives for the extension of TARP — to preserve capacity to respond to unforeseen threats to financial stability and to address continuing challenges in the areas of home foreclosures and credit for small business lending and consumers. He also indicated that Treasury-OFS did not expect to use more than $550 billion of the approximately $700 billion authorized by Congress.

The Dodd-Frank Wall Street Reform and Consumer Protection Act[2] (the Dodd-Frank Act) amended EESA, as follows:

- Total purchase and guarantee authority under TARP was capped at a cumulative $475 billion;
- The amount of TARP investments that have been repaid could not be used to increase spending; and
- Obligations could not be incurred for programs or initiatives that were not initiated prior to June 25, 2010.

Treasury-OFS reduced the TARP program allocations to conform to these limitations. As of September 30, 2010, Treasury-OFS had cumulative purchases and guarantees (as defined in the Dodd-Frank Act) amounting to $474.8 billion.

Based on operations for the year ended September 30, 2010, Treasury-OFS reports the following key results:

- In fiscal year 2010, Treasury-OFS disbursed $23.4 billion in TARP funds to make loans and equity investments, and reported net income from operations of $23.1 billion.
- During fiscal year 2010, Treasury-OFS received $131.3 billion of repayments on certain investments and loans and $8.2 billion in net proceeds from the sale/repurchase of assets in excess of cost.
- As of September 30, 2010, Treasury-OFS reported $145.5 billion for the value of loans, equity investments, and the asset guarantee program.

Net Income of TARP Operations (Fiscal Year 2010 and Fiscal Year 2009)

Treasury-OFS' fiscal year 2010 net income from operations of $23.1 billion includes the estimated net cost related to loans, equity investments, and the asset guarantee program. For the fiscal year ended September 30, 2010, Treasury-OFS reported net subsidy income for five programs – the Targeted Investment Program, the Asset Guarantee Program, PPIP, the AIG Investment Program and the Automotive Industry Financing Program (AIFP). These programs collectively reported net subsidy income of $28.4 billion. Also, for the fiscal year ended September 30, 2010, Treasury-OFS experienced net subsidy cost for two programs – CPP and the Consumer and Business Lending Initiative had reported net subsidy cost of $4.2 billion. Fiscal year 2010 expenses for the Treasury Housing Programs under TARP of $825 million and administrative expenses of $296 million bring the total reported fiscal year net income from operations to $23.1 billion, as shown in Table 1. For the period ending September 30, 2009, the net cost of operations was $41.6 billion as shown in Table 1. These net income and net cost amounts reported in the financial statements reflect only transactions through September 30, 2010 and September 30, 2009, respectively and therefore are different than lifetime cost estimates made for budgetary purposes. See the discussion in the Executive Summary.

1 The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, amended the act and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.7 billion.

2 Pub. L. 111-203.

Table 1: Net Income (Cost) of TARP Operations
Dollars in millions

TARP Program	For the Year Ended September 30, 2010	For the Period Ended September 30, 2009	From TARP's Inception through September 30, 2010
Capital Purchase Program	$ (3,861)	$ 15,033	$ 11,172
Targeted Investment Program	1,879	1,927	3,806
Asset Guarantee Program	1,505	2,201	3,706
Consumer and Business Lending Initiative	(306)	339	33
Public Private Investment Program	704		704
American International Group Investment Program	7,668	(30,427)	(22,759)
Automotive Industry Financing Program	16,614	(30,477)	(13,863)
Total Net Subsidy Income (Cost)	$ 24,203	$ (41,404)	$ (17,201)
Additional TARP (Costs)			
Treasury Housing Programs under TARP Program	(825)	(2)	$(827)
Administrative Costs	(296)	(167)	(463)
Total Net (Cost of) Income from TARP Operations	$ 23,082	$ (41,573)	$ (18,491)

Over time the cost of the TARP programs will change. As described later in this MD&A, and in the Treasury-OFS audited financial statements, these estimates are based in part on currently projected economic factors. These economic factors will likely change, either increasing or decreasing the lifetime cost of the TARP.

TARP Program Summary

Table 2 provides a financial summary for TARP programs since TARP inception on October 3, 2008, through September 30, 2010. For each program, the table gives the face value of the amount obligated for each program, the amount actually disbursed, repayments to Treasury-OFS from program participants, net outstanding balance as of September 30, 2010, and cash inflows on the investments for each program in the form of dividends, interest or other fees. As of fiscal year end 2010, $230 million of the $475 billion in purchase and guarantee authority remained unused. [3]

3 Treasury-OFS tracks costs in accordance with Federal budget procedures. First, Treasury-OFS enters into legally binding "obligations" to invest or spend the funds for TARP programs. Then, funds are disbursed over time pursuant to the obligations. In any given case, it is possible that amount obligated will not be disbursed.

Table 2: TARP Summary[1]
From TARP Inception through September 30, 2010
Dollars in billions

	Purchase Price or Guarantee Amounts	Total Disbursed	Investment Repayments	Out standing Balance[2]	Received from Investments
Capital Purchase Program[3]	$ 204.9	$ 204.9	$ 152.5[4]	$ 49.8	$ 19.8
Targeted Investment Program	40.0	40.0	40.0	0.0	4.2
Asset Guarantee Program	5.0	0.0	0.0	0.0	0.7
American International Group Investment Program[5]	69.8	47.6	0.0	47.6	0.0
Consumer and Business Lending Initiative	5.3	0.9[4]	---	0.9	---
Public Private Investment Program	22.4	14.1	0.4	13.7	0.2
Automotive Industry Financing Program	81.8	79.7	11.2	67.2	2.9
Treasury Housing Programs Under TARP	45.6	0.5	N/A	N/A	N/A
Totals	$ 474.8	$ 387.7	$ 204.1	$ 179.2	$ 27.8

1/ This table shows the TARP activity for the period from inception through September 30, 2010, on a cash basis. Received from investments includes dividends and interest income reported in the Statement of Net Cost, and Proceeds from sale and repurchases of assets in excess of costs.

2/ Total disbursements less repayments do not equal the outstanding balance. Other transactions affecting the outstanding balance include Treasury housing program funding of $0.5 billion as repayments are not required (or expected). Also, the outstanding balance is affected by certain non-cash items including capitalized interest of $0.3 billion, write-offs totaling $3.9 billion and losses on two preferred stock transactions of $0.2 billion.

3/ Treasury-OFS received $16.1 billion in proceeds from sales of Citigroup common stock, of which $13.1 billion is included at cost in investment repayments, and $3.0 billion of net proceeds in excess of cost is included in Received from Investments.

4/ Includes Community Development Capital Initiative exchange from CPP of $363 million.

5/ The disbursed amount is lower than purchase price because of the $29.8 billion facility available to AIG. During the periods ended September 30, 2010 and September 30, 2009, AIG drew $4.3 billion and $3.2 billion respectively from the facility, leaving an undrawn amount of $22.3 under this facility.

Most of the TARP funds have been used to make investments in preferred stock or make loans. Treasury-OFS has generally received dividends on the preferred stock and interest payments on the loans from the institutions participating in TARP programs. These payments are a return on Treasury's TARP investments. For the two-year period ended September 30, 2010, Treasury-OFS received a total of $16.7 billion in dividends, interest and fees. Table 3 shows the breakdown of receipts for the period ended September 30, 2010 and 2009 for all TARP programs combined as well as totals for the period from inception through September 30, 2010.

Table 3: TARP Receipts and Repayments on Investments/Loans [1] (Dollars in billions)

Dividends, Interest, Fees and Warrants Repurchases	For the Year Ended September 30, 2010	For the Period Ended September 30, 2009	From TARP's Inception through September 30, 2010
Dividends and Fees	$ 5.9	$ 9.6	$ 15.5
Interest	1.0	0.2	1.2
Sales/Repurchases of Warrants and Warrant Preferred Stock and Additional Notes	5.2	2.9	8.1
Proceeds from Sales of Citigroup Common Stock in Excess of Cost	3.0	0.0	3.0
Subtotal	$ 15.1	$ 12.7	$ 27.8
Investment/Loan Repayments			
Sales/Repurchases/Repayments on preferred stock	$ 122.0	$ 70.7	$ 192.7
Loan Principal Repaid	9.3	2.1	11.4
Subtotal	$ 131.3	$ 72.8	$ 204.1
GRAND TOTAL	$ 146.4	$ 85.5	$ 231.9

1/ This table shows TARP activity on a cash basis.

Treasury-OFS also receives warrants in connection with most of its investments, which provides an opportunity for taxpayers to realize an upside on investments. Since the program's inception, Treasury-OFS has received $8.0 billion in gross proceeds from the disposition of warrants consisting of (i) $3.1 billion from issuer repurchases at agreed upon values and (ii) $4.9 billion from auctions. TARP's Warrant Disposition Report is posted on the OFS website at the following link: *www.financialstability.gov/latest/reportsanddocs.html*

Summary of TARP Direct Loans and Equity Investments

Table 4 provides information on the estimated values of the TARP direct loan and equity investments by program, as of the end of fiscal year 2010 and the end of fiscal year 2009. (Treasury Housing Programs under TARP are excluded from the chart because no repayments are required). The Outstanding Balance column represents the amounts disbursed by Treasury-OFS relating to the loans and equity investments that were outstanding as of September 30, 2010 and 2009. The Estimated Value of the Investment column represents the present value of net cash inflows that Treasury-OFS estimates it will receive from the loans and equity investments. For equity securities, this amount represents fair value. The total difference of $36.8 billion (2010) and $53.1 billion (2009) between the two columns is considered the "subsidy cost allowance" under the Federal Credit Reform Act methods Treasury-OFS follows for budget and accounting purposes (see Note 6 in the financial statements for further discussion)[4]. The chart does not give effect to the proposed restructuring of AIG. The AIG restructuring plan is still subject to a number of conditions and much work remains to be done to close the transactions.

Table 4: Summary of TARP Direct Loans and Equity Investments (Dollars in billions)

Program	Outstanding Balance as of September 30, 2010 [1]	Estimated Value of Investment as of September 30, 2010	Outstanding Balance as of September 30, 2009 [1]	Estimated Value of Investment as of September 30, 2009
Capital Purchase Program	$ 49.8	$ 48.2	$ 133.9	$ 141.7
Targeted Investment Program	---	---	40.0	40.3
AIG Investment Program	47.6	26.1[2]	43.2	13.2
Automotive Industry Financing Program	67.2	52.7	73.8	42.3
Consumer Business Lending Initiative (TALF only 2009)	0.9	1.0	0.1	0.4
Public-Private Investment Program	13.7	14.4	--	--
Total	$ 179.2	$ 142.4	$ 291.0	$ 237.9

1/ Before subsidy cost allowance.

2/ Does not give effect to proposed restructuring. See discussion concerning "The AIG Restructuring Plan and Taxpayer Exit" later in this Management's Discussion and Analysis.

4 The subsidy cost in Table 1 and on the Statement of Net Cost, is composed of (1) the change in the subsidy cost allowance, net of write-offs, (2) net intragovernmental interest cost, (3) certain inflows from the direct loans and equity investments (e.g., dividends, interest, net proceeds from sales and repurchases of assets in excess of cost, and other realized fees), and (4) the change in the estimated discounted net cash flows related to the asset guarantee program.

Table 5 below shows the estimated net asset value for the top ten CPP investments held as of September 30, 2010.

Table 5: Top Ten CPP Investments
Dollars in billions

Institution	Outstanding Investment [1]	Estimated Net Asset Value (excluding warrants) as of September 30, 2010
Citigroup (Common Shares)	$ 11.90	$ 14.31
SunTrust	4.85	4.84
Regions	3.50	3.49
Fifth Third	3.41	3.34
Keycorp	2.50	2.50
Marshall & Ilsley	1.72	1.47
Zions	1.40	1.22
Huntington	1.40	1.39
Synovus	0.97	0.79
Popular	0.94	0.79
Total	$ 32.59	$ 34.14

1/ Outstanding investment for Citigroup common equals the remaining number of common shares multiplied by the per share cost basis of $3.25.

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The ultimate cost of the TARP will not be known for some time. The financial performance of the programs will depend on many factors such as future economic and financial conditions, and the business prospects of specific institutions. The estimates are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which Treasury-OFS has an equity interest, estimates of expected defaults, and prepayments. If Treasury-OFS experiences higher than currently projected early repayments and fewer defaults, TARP's ultimate cost of these investments may be lower than estimated. Wherever possible, Treasury-OFS uses market prices of tradable securities to estimate the fair value of TARP investments. Use of market prices was possible for TARP investments that are standard financial instruments that trade in public markets or are closely related to tradable securities. For those TARP investments that do not have direct analogs in private markets, Treasury-OFS uses internal market-based models to estimate the market value of these investments. All cash flows are adjusted for market risk. Further details on asset valuation can be found in Note 6 of the Financial Statements.

Comparison of Estimated Lifetime TARP Costs Over Time

Market conditions and the performance of specific financial institutions will be critical determinants of the TARP's lifetime cost. The changes in the Treasury-OFS estimates since TARP's inception through September 30, 2010 provide a good illustration of this impact. In the Fiscal Year 2011 President's Budget, Treasury-OFS projected the cost for TARP to be $117 billion (assuming $546 billion utilized), down substantially from the previous estimate of $341 billion (based on the entire $700 billion utilized) reflected in the Midsession Review in August 2009, which is reflective of the improved economy and financial markets. An August 2010 report of the Congressional Budget Office estimated the total cost of TARP as $66 billion.[5]

Table 6 provides information on how Treasury-OFS' estimated lifetime cost of TARP has changed over time. This table assumes that all expected investments (e.g. AIG, PPIP) and disbursements for Treasury housing programs under TARP are completed, and adheres to government budgeting guidance. This table will not tie to the financial statements since it includes investments and other disbursements expected to be made in the future. Table 6 is consistent with the estimated lifetime cost disclosures on the TARP web site at www.financialstability.gov. The cost amounts in Table 6 are based on assumptions regarding future events, which are inherently uncertain.

5 The Budget and Economic Outlook: An Update. August 2010. Available at www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf.

Table 6: Estimated TARP Lifetime Costs (Income)[1]
Dollars in billions

Program	Estimated Lifetime Cost on March 31, 2010	Estimated Lifetime Cost on May 31, 2010	Estimated Lifetime Cost on September 30, 2010	Pro-forma Lifetime Cost Assuming AIG Restructuring and October 1, 2010 Market Price
Capital Purchase Program	$ (9.8)	$ (9.4)	$ (11.2)	$ (11.2)
Targeted Investment Program	(3.8)	(3.8)	(3.8)	(3.8)
Asset Guarantee Program[2]	(3.1)	(3.0)	(3.7)	(3.7)
AIG Investment Program	45.2	44.9	36.9	5.1[3]
Auto Industry Financing Program[4]	24.6	26.9	14.7	14.7
Consumer and Business Lending Initiative	3.0	(0.4)	(0.1)	(0.1)
Public Private Investment Program	0.5	0.5	(0.7)	(0.7)
Subtotal	56.6	55.7	32.1	0.3
Treasury Housing Programs under TARP	48.8	45.6	45.6	45.6
Total	$ 105.4	$ 101.3	$ $77.7	$ 45.9

1/ Estimated program costs (+) or savings (in parentheses) over the life of the program, including interest on re-estimates and excluding administrative costs.

2/ Prior to the termination of the guarantee agreement, Treasury guaranteed up to $5 billion of potential losses on a $301 billion portfolio of loans.

3/ The pro-forma lifetime cost for the AIG Investment Program assumes that: (i) the outstanding preferred stock investment is exchanged for 1.1 billion shares of AIG common stock and valued at the market price of $38.86 at October 1, 2010, and (ii) the undrawn commitment is disbursed and is valued consistent with Treasury-OFS methodology for valuing its non-traded securities. Under this methodology, Treasury-OFS estimates that it will not incur any loss on the additional disbursements because the aggregate value of the assets underlying the preferred interests in the Special Purpose Vehicles that Treasury-OFS will receive for the disbursements exceeds the liquidation preference of the preferred interests. The restructuring is subject to contingencies and has not been completed. In addition, market prices will change which will result in changes to the cost estimate over time. The pro-forma lifetime cost does not include any recovery from the shares of AIG common stock to be received by Treasury from the AIG Credit Facility Trust that are in addition to Treasury-OFS shares. See "The AIG Restructuring Plan and Taxpayer Exit" discussion later in this Management's Discussion and Analysis.

4/ GM has filed a registration statement for an initial public offering (IPO). If the IPO is completed, Treasury-OFS will use the market price for GM common stock to value its investment in the future. Because there is no market price today, Treasury-OFS cannot value its investment in this manner and instead uses its methodology for non-traded securities. The actual price that would be obtained from the IPO is uncertain and will vary, perhaps significantly, from the September 30, 2010 valuation. However, if Treasury-OFS were to value its investment at the IPO range of $26 to $29 per share announced by GM in the preliminary prospectus dated November 3, 2010, Treasury-OFS' estimated cost for the AIFP would increase by $3 billion to $6 billion. Although not given effect in this column either, GM has also agreed, subject to the closing of the IPO, to repurchase $2.1 billion of preferred shares issued to Treasury-OFS at 102 percent of par value.

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KEY TRENDS/FACTORS AFFECTING TARP FUTURE ACTIVITIES AND ULTIMATE COST

This section provides additional TARP analytic information and enhanced sensitivity analysis focusing on the remaining TARP dollars/continued taxpayer exposure and what is likely to affect the expected future return. Five TARP programs, the Capital Purchase Program, the AIG Investment Program, the Automotive Industry Financing Program, the Public-Private Investment Program and the Treasury Housing Programs under TARP, have $10 billion or more still committed. The recoveries or costs from CPP, AIG, AIFP, and PPIP and the expenditures for Treasury Housing programs going forward will most significantly affect the lifetime cost of the TARP.

CPP and Banking Industry Information

As of September 30, 2010, Treasury-OFS had CPP investments with an outstanding balance of $49.8 billion. Of these investments $11.9 billion is the Treasury-OFS investment in Citigroup common stock, $26.5 billion is in financial institutions with assets greater than $10 billion (25 institutions), and $11.4 billion is in financial institutions with assets less than $10 billion (565 institutions). As of September 30, 2010, 5 CPP recipients had failed: 4 were banks and one was CIT Group, a non-bank financial institution with a bank subsidiary. As noted earlier in this report, the largest institutions in the CPP have repaid their investments to Treasury-OFS.

Treasury-OFS' actual recoveries on the outstanding CPP investments will depend on a number of factors, including the asset quality, capital position, reserve ratios and capital positions of financial institutions participating in CPP as well as whether these institutions have a business focus in areas hit hard by the housing downturn or difficulties in commercial real estate. It is also anticipated that a certain number of these institutions will elect to convert their CPP investments into investments made by the Small Business Lending Fund which was created by Congress pursuant to the Small Business Jobs and Credit Act of 2010 (Public Law 111-240).

Throughout the life of the program, 118 CPP recipients have not declared and paid one or more dividends to Treasury-OFS. Of these recipients, six have missed six payments, which gives Treasury-OFS the right to place members on the institutions' boards of directors.

Auto Industry Information

As of September 30, 2010, Treasury-OFS held $67.2 billion in AIFP investments, with an estimated value of $52.7 billion. Over the past several months, conditions in the U.S. automotive industry have improved as has Treasury-OFS' estimate of the recovery on the AIFP investment.

The competitiveness of U.S. manufacturers, both domestically and internationally will affect the value of Treasury-OFS' investment. In addition, the macroeconomic conditions (unemployment, Gross Domestic Product (GDP) growth, etc.) will affect the overall trends in auto sales and thus Treasury-OFS' recoveries.

Treasury-OFS has recovered all amounts invested under the Auto Supplier Support Program (ASSP) and the Auto Warranty Commitment Program (AWCP). With the emergence of General Motors Company and Chrysler Group LLC from bankruptcy proceedings and with the threat of liquidation greatly reduced, credit market access for suppliers improved. The ASSP closed in April 2010 after full repayment of all loans, which had totaled $413 million, plus interest. The AWCP was terminated in 2009, and the $640 million advanced under the program was assumed and/or repaid in the bankruptcy sale transactions by General Motors Company and Chrysler Group LLC.

The outlook for the domestic auto industry has improved and the estimated value of Treasury-OFS' investments has increased. The cost of AIFP from inception through September 30, 2010 was $13.9 billion, as compared to the cost through September 30, 2009 of $30.5 billion.

General Motors Company repaid $7 billion to Treasury-OFS, and is currently preparing for an initial public offering in which

Treasury-OFS may elect to sell shares. GM has also agreed, subject to the closing of the initial public offering, to repurchase $2.1 billion of preferred stock issued to Treasury-OFS. In the first six months of 2010, General Motors Company reported two consecutive quarters of positive operating profit and net income – its first quarterly profits since 2007.

Likewise, after taking one-time charges last year associated with its restructuring, Chrysler posted two consecutive quarters of operating profit. With respect to Old Chrysler, Treasury-OFS was repaid $1.9 billion, which was more than Treasury-OFS had previously estimated to recover and under the terms of the settlement agreement, the $1.6 billion remaining face value was written off.

Each of Ally (formerly GMAC) Financial's four operating businesses has reported a profit so far this year.

AIG Investment Program

As of September 30, 2010, Treasury-OFS held $47.6 billion in the AIG Investment Program, with an estimated value of $26.1 billion.

On September 30, 2010 AIG announced that it had entered into an agreement-in-principle which, if completed as announced, will accelerate the timeline for AIG's repayment of the federal government and put taxpayers in a stronger position to recoup most of the Treasury-OFS investment in the company. In addition, under the restructuring, up to all of the remaining $22.3 billion available under the AIG capital facility would be drawn from Treasury-OFS.

The basic terms of the restructuring plan are to: (i) sell sufficient assets to pay off AIG's obligations to the FRBNY, (ii) streamline AIG's business portfolio, and (iii) recapitalize AIG's balance sheet to support investment grade status without the need for ongoing federal government support. See the discussion under Operational Goal One, Subgoal 1B.

Public-Private Investment Program

Thus far, each of the eight PPIFs has generated positive investment returns for Treasury. Because the PPIFs are still in the early stages of their investment life cycles, it would be premature to draw any meaningful long-term conclusions regarding the performance of individual PPIFs or the program in general. However, Treasury-OFS has been encouraged by the performance of the PPIP fund managers to date with net internal rates of return on equity since inception ranging from 19 percent to 52 percent as of September 30, 2010. The PPIFs have generated cumulative gross unrealized equity gains in excess of funded capital contributions of more than $1.5 billion as of September 30, 2010 to all investors (Treasury-OFS and private investors). In addition to its equity investment, Treasury-OFS has made loans in the PPIFs equal to the total equity invested by Treasury-OFS and private investors which earns interest at a rate of 1 Month LIBOR plus 1 percent (approximately 1.26 percent as of September 30, 2010). As of September 30, 2010, the PPIFs also have made approximately $228 million of interest and dividend payments and distributions to Treasury.

The PPIFs are still in their first year of investing and are expected to continue deploying and reinvesting their capital in eligible assets through 2012.

Sensitivity Analysis

The ultimate value of TARP investments will only be known in time. Realized values will vary from current estimates in part because economic and financial conditions will change. Many TARP investments do not have readily observable values and their values can only be estimated by Treasury-OFS.

Sensitivity analysis is one way to get some feel for the degree of uncertainty around the Treasury-OFS estimates. In the analysis reported here, Treasury-OFS focuses on the largest components of the TARP[6], the assets held under the Capital Purchase Program (CPP), the Automotive Industry Financing Program (AIFP), and the Public Private Investment Program (PPIP).

For CPP the most important inputs to the valuation are the market prices of publicly-traded preferred stock used to calibrate

6 See further discussion of AIG under Part II, Subgoal 1B.

the model derived pricing of the preferred stock held in the TARP and the current market price of the Citigroup common stock. The valuation procedure entails observing the market price of publicly-traded preferred stock and calibrating the model (in particular the risk premium) to match those prices. The calibrated model is then used to price the non-publicly traded preferred stock held by the TARP. The benchmark preferred stock consists of a portfolio of claims issued by some of the same institutions with TARP preferred stock. It is generally the larger institutions that have issued preferred stock. The TARP preferred stock for smaller institutions may not be exactly comparable, but the bulk of TARP investments, as measured on a dollar basis, are in large institutions. This calibration influences the asset-to-liability ratio of the banks and consequently the default and prepayment estimates predicted by the model[7]. The current market price of the Citigroup common stock is used to value the Citigroup shares held in CPP and consequently impacts the cost of the program. As a sensitivity analysis, Treasury-OFS increased and decreased the value of the benchmark preferred stock in the CPP by 10 percent. As an additional sensitivity analysis, Treasury-OFS increased and decreased the value of the Citigroup September 30, 2010 closing price 10 percent. Table 7 shows the impact on the value of Treasury-OFS' outstanding investment under CPP as a result of a 10 percent increase and a 10 percent decrease in the value of the calibration securities, the 10 percent increase and decrease in the Citigroup stock price as well as the combined impact of both increases and decreases. The combined analysis shows the impact on the estimated value of Treasury-OFS' CPP investment with a combined increase or decrease of the benchmark preferred stock as well as the Citigroup common stock.

Table 7: Impact on CPP Valuation (Dollars in Billions)

	September 30, 2010 Reported Value for CPP	Effect of 10% Increase	Effect of 10% Decrease
CPP - No Citigroup	$ 33.92	$ 35.57	$ 31.06
% change from current	N/A	4.3%	(8.4)%
CPP - Citigroup	$ 14.31	$ 15.74	$ 12.88
% change from current	N/A	10.0%	(10.0)%
Combined	$ 48.23	$ 51.11	$ 43.94
% change from current	N/A	5.97%	(8.89)%

7 See discussion of valuation methodology in Note 6 of the Financial Statements.

To put this sensitivity analysis in perspective it is useful to consider the range over which actual securities have moved over the past year. Figure A shows the monthly average price of the benchmark preferred as a percentage of par (the CPP – no Citigroup value as of September 30, 2010, represents approximately 88 percent of par, excluding the warrants held by Treasury-OFS). The dashed lines indicate the upper and lower bound price used for the sensitivity analysis. Similarly, Figure B shows the monthly average closing price of the Citigroup common stock (closing price on September 30, 2010, was $3.91) with the dashed lines representing the prices used in the sensitivity analysis. Figure B shows that the securities have been trading within the range used in the analysis as well as outside of this range. This helps to illustrate the uncertainty around the cost estimates.

Figure A: Price Chart of Benchmark Preferred Stock

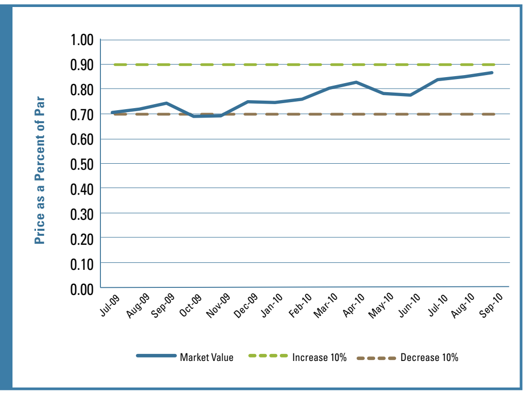


Figure B: Price Chart of Citigroup Common Stock

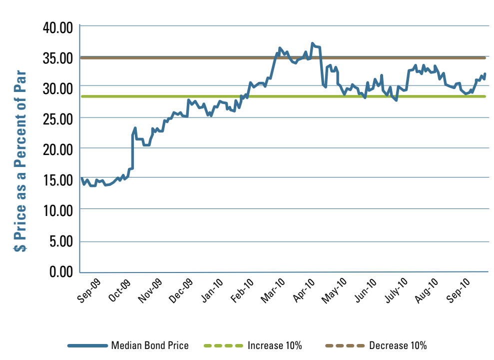
Similar to the CPP, the most important inputs to the valuation of Treasury-OFS' outstanding investments under the AIFP are the market prices of certain traded defaulted bonds of the Old GM and the change in the estimated value of Ally Financial (formerly GMAC) common stock, which is driven by certain pricing metrics of comparable public financial institutions. The bonds of Old GM are used to estimate the value of GM common stock held by Treasury-OFS because the bondholders are entitled to receive GM stock and warrants upon liquidation of Old GM. Table 8 shows the change in estimated value of Treasury-OFS outstanding AIFP investments based on a 10 percent increase and 10 percent decrease in the trading price of the Old GM bonds and separately a 10 percent increase and 10 percent decrease in the estimated value of the Ally Financial (formerly GMAC) common stock price. Figure C shows that the securities have been trading within the range used in the analysis as well as outside of this range, illustrating the uncertainty around the cost estimates[8].

Table 8: Impact on AIFP Valuation (Dollars in Billions)

	September 30, 2010 Reported Value for AIFP	Effect of 10% Increase	Effect of 10% Decrease
Impact of Old GM Bond Price Change on AIFP	$ 52.71	$ 55.29	$ 50.13
% change from current	N/A	4.9%	(4.9)%
Impact of Ally (Formerly GMAC) Price Change on AIFP	$ 52.71	$ 54.00	$ 51.42
% change from current	N/A	2.4%	(2.4)%

Figure C shows the daily prices of the Old GM Bonds for the previous year. The dashed lines represent the high and low price used in the sensitivity analysis.

Figure C: Daily Price of Old GM Bonds



To estimate the value of Treasury-OFS outstanding investments under the PPIP, Treasury-OFS first estimates the cash flows of the portfolio held by the various funds. Treasury-OFS uses a stochastic process to generate 300 potential cash flow outcomes, based on the characteristics of the loans underlying the securities and their behavior under simulated macro economic variables, such as unemployment, mortgage interest rates, short-term rates and home price appreciation. The cash flows are then applied to the waterfall established for the funds to estimate the cash flows to Treasury-OFS. The aggregate of these cash flows (each scenario is equally weighted) is discounted to estimate the value of the program. Table 9 shows the change in the value of the Treasury-OFS outstanding PPIP investment using the scenario which produces the minimum amount of cash flows to Treasury-OFS and the maximum amount of cash flows to Treasury-OFS.

Table 9: Impact on PPIP Valuation (Dollars in Billions)

	September 30, 2010 Reported Value for PPIP	Maximum Cash Flows	Minimum Cash Flows
Dollars	$ 14.40	$ 14.79	$ 13.90
% change from current	N/A	2.7%	(3.5)%

8 On November 3, 2010, GM issued a preliminary prospectus for an initial public offering of stock with an estimated price range between $26 and $29 per share. Due to the uncertainty as to the market price that would results from the initial public offering, the potential effect on the value of Treasury-OFS' investment in GM is unknown and could be significantly different from the September 30, 2010 financial statement valuation.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCE STATEMENT

The Office of Financial Stability's (OFS) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), 31 U.S.C. 3512(c), (d). OFS has evaluated its management controls, internal controls over financial reporting, and compliance with the federal financial systems standards. As part of the evaluation process, we considered the results of extensive documentation, assessment and testing of controls across OFS, as well as the results of independent audits. We conducted our reviews of internal controls in accordance with FMFIA and OMB Circular A-123.

As a result of our reviews, management concludes that the management control objectives described below, taken as a whole, were achieved as of September 30, 2010. Specifically, this assurance is provided relative to Sections 2 (internal controls) and 4 (systems controls) of FMFIA. OFS further assures that the financial management systems relied upon by OFS are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA).

OFS' internal controls are designed to meet the management objectives established by Treasury and listed below:

a. Programs achieve their intended results;
b. Resources are used consistent with the overall mission;
c. Program and resources are free from waste, fraud, and mismanagement;
d. Laws and regulations are followed;
e. Controls are sufficient to minimize any improper or erroneous payments;
f. Performance information is reliable;
g. Systems security is in substantial compliance with all relevant requirements;
h. Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
i. Financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4/FFMIA.

In addition, OFS management conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting. Based on the results of this evaluation, OFS provides unqualified assurance that internal control over financial reporting is appropriately designed and operating effectively as of September 30, 2010, with no related material weaknesses noted.

Timothy G. Massad
Acting Assistant Secretary for Financial Stability

Internal Control Program

Effective internal controls in safeguarding taxpayer dollars while providing financial stability through the Troubled Asset Relief Program (TARP) remains a top priority of Treasury-OFS management. During fiscal year 2010, Treasury-OFS made significant progress in effectively deploying new TARP programs and maturing its internal control environment.

- Treasury-OFS continued to define and deploy new programs as the focus of TARP activities migrated from stabilizing the financial markets to assisting the taxpayer through the Treasury Housing Programs Under TARP. For the Housing Programs Under TARP and other new TARP programs, Treasury-OFS maintained its focus on establishing an initial operating capability for operational processes and implementing effective internal controls.
- Business processes supporting existing programs, including internal control activities, matured through well-defined roles and responsibilities and policies and procedures. Treasury-OFS performed monitoring activities that demonstrated that control procedures were performed consistently and as designed.
- Treasury-OFS made significant progress in addressing areas for improvement in the internal control environment identified through Treasury-OFS' self assessment processes (e.g., OMB A-123 internal controls over financial reporting assessment, annual assurance statement process) and through work performed by the oversight bodies (e.g., GAO, SIGTARP, and COP). This remains a top priority for Treasury-OFS senior management.
- Treasury-OFS made investments in information technology (IT) in fiscal year 2010 to drive efficiencies through automation of the operational and accounting environment and to reduce the overall cost of maintaining TARP.

Treasury-OFS is committed to maintaining an effective Internal Control Program and has a Senior Assessment Team (SAT) to guide the office's efforts to meet the statutory and regulatory requirements surrounding a sound system of internal control. The SAT is chaired by the Deputy Chief Financial Officer (DCFO) and includes representatives from all Treasury-OFS program and support areas. Furthermore, Treasury-OFS has an internal control framework in place that is based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The SAT leverages this framework in communicating control objectives across the organization and its third party service providers.

Treasury-OFS' Internal Control Program Office (ICPO) operates under the direction of the CFO and is guided by the SAT. ICPO monitors the implementation of the internal control framework and is responsible for assessing the achievement of management control objectives. ICPO monitors Treasury-OFS activities to promote the achievement of management control objectives by:

- Integrating management controls into Treasury-OFS business processes through:
  - Developing internal control documentation,
  - Reviewing internal control responsibilities with process owners before major program execution events, and,
  - Real-time monitoring of key control effectiveness during and after significant program execution events;
- Conducting "lessons learned" sessions to identify and remediate areas requiring improvement;
- Periodic testing of key controls; and,
- Monitoring feedback from third party oversight bodies.

In addition, the internal control environment supporting TARP undergoes continuous improvement to remain effective and is subject to significant third party oversight by the Government Accountability Office (GAO), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and the Congressional Oversight Panel (COP).

The Assistant Secretary for Financial Stability reports annually to the Under Secretary for Domestic Finance on the adequacy of the various internal controls throughout the Office of Financial Stability, to include financial management systems compliance. This assurance statement covers Treasury-OFS compliance with the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Government Performance and Results Act (GPRA), and Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. In order to support the Assistant Secretary's letter of assurance, the respective Treasury-OFS divisions prepare individual statements of assurance. These individual statements of assurance provide evidence supporting the achievement of

Treasury-OFS internal control objectives and disclose any noted internal control weaknesses.

Information Technology Systems

For fiscal year 2010, Treasury-OFS developed the Core Investment Transaction Flow (CITF), TARP's system of record and accounting translation engine. CITF automated important operational and financial activities, a major improvement from last year's largely manual financial reporting process.

Other IT systems are supported by financial agents who provide services to the Department of the Treasury. The Financial Agency Agreements maintained by the Treasury Office of the Fiscal Assistant Secretary in support of Treasury-OFS require the financial agents to design and implement suitably robust IT security plans and internal control programs, to be reviewed and approved by Treasury at least annually.

In addition, Treasury-OFS utilizes financial systems maintained by Treasury Departmental Offices and different Treasury bureaus. These systems are in compliance with federal financial systems standards and undergo regular independent audits

Compliance with the Improper Payments Information Act (IPIA)

The elimination of improper payments is a major focus of Treasury-OFS senior management. Managers are held accountable for developing and strengthening financial management controls to detect and prevent improper payments, and thereby better safeguard taxpayer dollars.

Treasury-OFS carried out its fiscal year 2010 IPIA review per Treasury-wide guidance and did not assess any programs or activities as susceptible to significant erroneous payments.

However, management did identify a small number of HAMP investor cost share payments the amounts of which were incorrect due to unclear guidelines related to escrow payments and data integrity issues from servicers related to determinations of homeowner income. While the overall impact of these improper payments was immaterial to the financial statements, Treasury-OFS management is in the process of implementing corrective actions at the servicer-level to remedy this issue. Treasury-OFS will continue to monitor this issue closely through resolution.

Areas for Improvement

Over the next year, Treasury-OFS management will focus on maturing its internal control environment in several key areas as follows:

- As operational and accounting processes evolve over time, there is a continued need for Treasury-OFS to develop and update policies and procedures and internal control documentation to detail the controls in place to mitigate the risks identified.
- Treasury-OFS relies on financial agents to provide many of the business processes and controls supporting its programs. The Housing programs, in particular, have grown in number, scale and complexity over the last year. Treasury-OFS continues to assess the adequacy of internal controls provided by third parties as they develop their program capabilities. However, Treasury-OFS will need to heighten its oversight practices to monitor controls as these programs grow and mature. For example, Treasury-OFS will work to provide clarity on certain Home Affordable Modification Program (HAMP) policy guidelines, enhance monitoring controls over Housing program financial agents, and assess the adequacy of staffing and systems at financial agents.
- Over the past year, Treasury-OFS developed information technology capabilities to increase efficiency and automate some of Treasury-OFS' manual processes. Treasury-OFS IT management will continue to mature the information technology control environment in areas such as privileged access and monitoring procedures where operating effectiveness issues were identified.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Treasury-OFS' Troubled Asset Relief Program, consistent with the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Office of Financial Stability and the Department of the Treasury in accordance with section 116 of EESA and Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

OPERATIONAL GOALS

Operational Goal One: Ensure the Overall Stability and Liquidity of the Financial System

Subgoal 1a: Make capital available to viable institutions.

Through the Capital Purchase Program, Treasury-OFS provided capital infusions directly to banks and thrifts deemed viable by their regulators.

Capital Purchase Program

1. Program and Goals

Treasury-OFS launched the Capital Purchase Program (CPP), the largest and most significant program under EESA, on October 14, 2008. At the close of the program, Treasury-OFS had invested approximately $205 billion under the Capital Purchase Program.

The Capital Purchase Program was designed to bolster the capital position of viable institutions of all sizes and, in doing so, to build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending and continue to provide other services to consumers and businesses, even while absorbing write-downs and charge-offs on loans that were not performing.

Of the originally planned $250 billion in total possible commitments to CPP, Treasury-OFS invested $125 billion in eight of the country's largest financial institutions. The remaining $125 billion was made available to qualifying financial institutions (QFIs) of all sizes and types across the country, including banks, savings and loan associations, bank holding companies and savings and loan holding companies. QFIs interested in participating in the program had to submit an application to their primary federal banking regulator. The minimum subscription amount available to a participating institution was one percent of risk-weighted assets. The maximum subscription amount was the lesser of $25 billion or three percent of risk-weighted assets.

In the period following announcement of the Capital Purchase Program, Treasury-OFS provided $205 billion in capital to 707 institutions in 48 states, including more than 450 small and community banks and 22 certified community development financial institutions (CDFIs) (see Table 10 below). The largest investment was $25 billion and the smallest was $301,000. The final investment under the CPP was made in December 2009.

Table 10
CPP Initial Investment Profile
(Dollars in billions)

	CPP Participants		Investment	
Asset Range	Number	Percent	Amount	Percent
<$1billion	473	66.9%	3.8	1.8%
$1 billion - $10 billion	177	25.0%	10.0	4.9%
>$10 billion	57	8.1%	191.1	93.3%
Total	707	100%	204.9	100%

Treasury-OFS received preferred stock or debt securities in exchange for these investments. There is no fixed date on which the financial institutions must redeem the preferred stock—or repay Treasury-OFS. This is necessary for the investment to qualify as "Tier 1" capital under regulatory requirements. However, there are incentives for the financial institutions to repay. Institutions may repay Treasury-OFS after consultation with the appropriate federal regulator. To date, Treasury-OFS has received approximately $153 billion in CPP repayments.

Most financial institutions participating in the Capital Purchase Program pay Treasury-OFS a dividend rate of five percent per year, which will increase to nine percent a year after the first five years. In the case of Subchapter S-corporations, Treasury-OFS acquires subordinated debentures. The subordinated debenture interest rate is 7.7 percent per year for the first five years and 13.8 percent thereafter; however, the total amount of S-corporation dividends payable per year is less than $40 million. To date, Treasury-OFS has received approximately $10 billion in CPP dividends and interest and $3 billion in net proceeds received from the sale of Citigroup common stock in excess of cost.

Treasury-OFS also received warrants to purchase common shares or other securities from the financial institutions at the time of the CPP investment. The purpose of the additional securities is to provide opportunities for taxpayers to reap additional returns on their investments as CPP participants recover. To date, Treasury-OFS has received more than $8 billion in proceeds from the sale/repurchase of CPP and TIP warrants.

a. Small institutions

Smaller financial institutions make up the vast majority of participants in the CPP. Of the 707 applications approved and funded by Treasury-OFS through the Capital Purchase Program by the time it closed on December 31, 2009, 473 or 67 percent were institutions with less than $1 billion in assets.

In May 2009, after many larger institutions started raising capital from the private debt and equity markets, Treasury-OFS re-opened the CPP application window for institutions with less than $500 million in assets. This initiative gave smaller institutions, which did not have the same access to the capital markets as larger institutions, an opportunity to receive additional CPP investments, and Treasury-OFS increased the amount of capital available to smaller institutions under the program. Originally, institutions were eligible for a CPP capital investment that represented up to three percent of risk-weighted assets. Upon re-opening the CPP for smaller institutions, Treasury-OFS raised the amount of funds available to five percent of risk-weighted assets, and did not require additional warrants for the incremental investment.

b. TARP CPP investments were structured as non-voting preferred stock, which provided crucial capital support without creating government control

In 2008 Treasury-OFS decided that the most effective way to try to stabilize the nation's financial system was to provide capital to QFIs. The majority of TARP investments were made in the form of non-voting preferred stock. In order to achieve the objective of providing capital support, and meet bank regulatory requirements for Tier 1 capital, TARP could not require that a CPP participant repay Treasury-OFS at a fixed date, as one would with a loan.

Preferred stock generally is nonvoting (except in limited circumstances), while common stock has full voting rights. Therefore, most TARP investments are nonvoting. The preferred stock does not entitle Treasury-OFS to board seats or board observers, except in the event dividends are not paid for six quarters, in which case Treasury-OFS has the right to elect two directors to the board.

2. Status as of September 2010

a. Repayments – getting TARP funds back

CPP participants may repay Treasury-OFS under the conditions established in the purchase agreements as amended by the American Recovery and Reinvestment Act (ARRA). Treasury-OFS also has the right to sell the securities. However, Treasury-OFS does not have the right to require repayment. The repayment price is equal to what Treasury-OFS paid for the shares, plus any unpaid dividends or interest.

As of September 30, 2010, Treasury-OFS has received over $152 billion in CPP repayments. Of that amount, approximately $13.1 billion (excluding net proceeds from sale of common stock in excess of cost – see below) is from the sales of Citigroup common stock through September 30, 2010.

b. Returns for taxpayers

1) Dividend and interest payments

As is typical for a preferred stock investment, financial institutions must decide whether to pay the dividends; they can elect instead to conserve their capital. In some instances, Treasury-OFS received "cumulative" dividends. That is, if the dividends are not paid in any quarter, they are added to the liquidation preference, thus increasing the claim of the holder of the preferred. In other cases, the dividends were "noncumulative". If a financial institution fails to pay dividends for six quarterly periods, Treasury-OFS has the right to appoint two directors to the bank's board.

From inception through September 30, 2010, total dividends and interest received from Capital Purchase Program investments is approximately $10 billion. In addition, the sales of Citigroup common stock through September 30, 2010 have generated $3 billion of gains (amounts in excess of the recovered principal amount of the Citigroup investment referred to above).

2) Overall returns

The CPP is expected to generate a positive return to taxpayers, as are the other bank support programs (Targeted Investment Program and Asset Guarantee Program) taken as a whole. The ultimate return will depend on several factors, including market conditions and performance of individual companies.

Citigroup

Under the CPP, Treasury-OFS purchased $25 billion in preferred stock from Citigroup in October 2008. This preferred stock had a dividend rate of 5 percent per annum. Under the TIP, Treasury-OFS purchased $20 billion in additional preferred stock from Citigroup in December 2008. That preferred stock had a dividend rate of 8 percent per annum. Treasury-OFS also received warrants in both transactions. As part of an exchange offer designed to strengthen Citigroup's capital, Treasury-OFS exchanged all of its preferred stock in Citigroup for a combination of common stock and trust preferred securities.

Citigroup Common Stock Disposition

- Pursuant to the June 2009 Exchange Agreement between Treasury-OFS and Citigroup, which was part of a series of exchange offers conducted by Citigroup to strengthen its capital base, Treasury-OFS exchanged the $25 billion in preferred stock it received in connection with Citigroup's participation in the Capital Purchase Program for approximately 7.7 billion shares of common stock at a price of $3.25 per share.

- During fiscal year 2010, Treasury-OFS entered into three pre-arranged written trading plans with Morgan Stanley & Co. Incorporated as its sales agent: in April, June, and July. Under the agreement, the agent was provided discretionary authority to sell shares of Citigroup common stock held by Treasury-OFS under certain parameters.

- As of September 30, 2010, Treasury-OFS had sold approximately 4.0 billion shares of Citigroup common stock for total gross proceeds of $16.1 billion, resulting in $3.0 billion in net proceeds from the sale of common stock in excess of cost.

CPP Quarterly Report

An interagency group consisting of representatives from Treasury, the Federal Reserve Board, and other Federal banking agencies conducts periodic analysis of the effect of TARP programs on banking organizations and their activities, and publishes the results in reports available at *www.FinancialStability.gov/impact/CPPreport.html*.

Annual Use of Capital Survey

Treasury-OFS has also conducted an annual Use of Capital Survey to obtain insight into the lending, financial intermediation, and capital building activities of all recipients of government investment through CPP funds. Collection of the Use of Capital survey data began during March 2010. Data and survey results are available at *www.FinancialStability.gov/useofcapital*. The overwhelming majority of respondents (85 percent) indicated that after the receipt of CPP capital their institutions increased lending or reduced lending less than otherwise would have occurred. About half of the respondents (53 percent) indicated that their institutions increased reserves for non-performing assets after the receipt of CPP capital. Nearly half of the respondents (46 percent) noted that their institutions held the CPP capital as a non-leveraged increase to total capital.

Community Development Capital Initiative

Communities underserved by traditional banks and financial services providers have found it more difficult to obtain credit in the current economic environment. Community Development Financial Institutions (CDFIs) exist to provide financing to these communities. CDFIs offer a wide range of traditional and innovative financial products and services designed to help their customers access the financial system, build wealth and improve their lives and the communities in which they live. In particular, CDFIs focus on providing financial services to low- and moderate- income, minority, and other underserved communities.

1. Program and Goals

Most CDFIs have been adversely affected by the financial crisis. Treasury-OFS launched the Community Development Capital Initiative to help viable certified CDFIs and the communities they serve cope with effects of the financial crisis.

Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent, compared to the 5 percent rate offered under the Capital Purchase Program. CDFI banks and thrifts applied to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP.

CDFI credit unions could also apply to receive secondary capital investments at rates equivalent to those offered to CDFI banks and thrifts and with similar terms. These institutions could apply for up to 3.5 percent of total assets, which is an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.

Treasury-OFS established a process for reviewing CDCI applications that relied on the appropriate federal regulators. For this program, viability was determined by the CDFI's federal regulator on a pro-forma basis. In addition, CDFIs that participated in CPP and were in good standing could exchange securities issued under CPP for securities under this program.

2. Status as of September 2010

Treasury-OFS completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is $570 million for 84 institutions. Of this amount, $363.3 million from 28 banks was exchanged from investments under the Capital Purchase Program into the CDCI.

Subgoal 1b: Provide targeted assistance as needed.

Through the Targeted Investment Program, Asset Guarantee Program, AIG Investment Program, and the Automotive Industry Financing Program, Treasury-OFS provided direct aid to certain institutions in order to mitigate the potential risks to the financial system and the economy as a whole from the difficulties facing these firms.

Targeted Investment Program

Treasury-OFS established the Targeted Investment Program (TIP) in December 2008. The program gave Treasury-OFS the necessary flexibility to provide additional or new funding to financial institutions that were critical to the functioning of the financial system. The TIP was considered "exceptional assistance" for purposes of executive compensation requirements.

1. Program and Goals

Through the Targeted Investment Program, Treasury-OFS sought to prevent a loss of confidence in critical financial institutions, which could result in significant financial market disruptions, threaten the financial strength of similarly situated financial institutions, impair broader financial markets, and undermine the overall economy. Treasury-OFS invested $20 billion in each of Bank of America and Citigroup under the Targeted Investment Program, which investments were in addition to those that the banks received under the CPP. Like the CPP, Treasury-OFS invested in preferred stock, and received warrants to purchase common stock in the institutions. However, the TIP investments provided for annual dividends of eight percent, which was higher than the CPP rate, and also imposed greater reporting requirements and more onerous terms on the companies than under the CPP terms, including restricting dividends to $0.01 per share per quarter, restrictions on executive compensation, restrictions on corporate expenses, and other measures.

2. Status as of September 2010

In December 2009, both participating institutions repaid their TIP investments in full, with dividends. Total dividends received from Targeted Investment Program investments were about $3 billion during the life of the program. Treasury-OFS also received warrants from each bank which provide the taxpayer with additional gain on the investments. Treasury-OFS sold the BofA warrants and continues to hold Citigroup warrants. TIP is closed and will result in a positive return for taxpayers

American International Group, Inc. (AIG) Investment Program

In September of 2008, panic in the financial system was deep and widespread as previously discussed. Amidst these events, on Friday, September 12, American International Group (AIG) officials informed the Federal Reserve and Treasury that the company was facing potentially fatal liquidity problems. Although it was neither AIG's regulator nor supervisor, the Federal Reserve Bank of New York (FRBNY) immediately brought together a team of people from the Federal Reserve, the New York State Insurance Department, and other experts to consider how to respond to AIG's problems. The Federal Reserve Act authorizes the Federal Reserve to provide liquidity to the financial system in times of severe stress, and it acted to fulfill that responsibility.

At the time, AIG was the largest provider of conventional insurance in the world, with approximately 75 million individual and corporate customers in over 130 countries. AIG's assets exceeded $1 trillion. It was significantly larger than Lehman Brothers. It insured 180,000 businesses and other entities employing over 100 million people in the U.S. It was a large issuer of commercial paper and the second largest holder of U.S. municipal bonds. AIG's parent holding company engaged in financial activities that were well beyond the business of life insurance and property and casualty insurance. Its financial products unit was a significant participant in some of the newest, riskiest, and most complex transactions of the financial system.

In the chaotic environment of September 2008, the Federal Reserve and Treasury concluded that AIG's failure could be catastrophic. Among other things, if AIG had failed, the crisis would have almost certainly spread to the entire insurance industry, and its failure would have directly affected the savings of millions of Americans. Therefore, the federal government took action to protect the financial system.

AIG needed a durable restructuring of both its balance sheet and its business operations. Falling asset prices generated substantial losses on the company's balance sheet. They also increased the payments to counterparties that AIG was required to make under the terms of credit protection contracts it had sold. AIG's insurance subsidiaries experienced significant cash outflows related to a securities lending program, as the value of residential mortgage-backed securities that they had purchased and loaned against cash collateral continued to fall.

The federal government faced escalating and unprecedented challenges on many different fronts of the financial crisis during September, October, and November 2008. During that time, the Federal Reserve and Treasury-OFS took a series of steps to prevent AIG's disorderly failure and mitigate systemic risks.

1. Program and Goals

The initial assistance to AIG was provided by the FRBNY before the passage of EESA and the creation of TARP. The FRBNY provided loans to AIG under the section 13(3) authority of the Federal Reserve Act to lend on a secured basis under "unusual and exigent" circumstances to companies that are not depository institutions:

- In September 2008, the FRBNY provided an $85 billion credit facility to AIG, and received preferred shares which currently have approximately 79.8 percent of the voting rights of AIG's common stock (known as Series C). The FRBNY created the AIG Credit Facility Trust (the Trust) to hold the shares for the benefit of the U.S. Treasury but the Department of the Treasury does not control the Trust and cannot direct its trustees.

After TARP was enacted, the Treasury-OFS and the Federal Reserve continued to work together to address the challenges posed by AIG:

- In November 2008, the Federal Reserve and Treasury-OFS jointly announced a package of actions designed to address the continuing vulnerabilities in AIG's balance sheet that threatened its viability and its credit ratings. Treasury-OFS invested $40 billion in senior preferred stock of AIG under the authority granted by EESA (the preferred stock was subsequently exchanged in April 2009, for face value plus accrued dividends, into $41.6 billion of a different series of preferred stock), and it also received warrants to purchase common shares in the firm. The funds were used immediately to reduce the loans provided by the FRBNY. As part of the restructuring, the FRBNY also agreed to lend up to $22.5 billion to a newly created entity, Maiden Lane II LLC, to fund the purchase of residential mortgage-backed securities from the securities lending portfolio of several of AIG's regulated U.S. insurance subsidiaries, and up to $30 billion to a second newly created entity, Maiden Lane III LLC, to fund the purchase of multi-sector collateralized debt obligations from certain counterparties of AIG Financial Products Corp (AIGFP).
- In April 2009, Treasury-OFS created an equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional shares of preferred stock to Treasury-OFS. As of September 30, 2010, AIG has drawn $7.5 billion from the facility and the remainder is expected to be used in connection with the restructuring plan discussed below.
- In December 2009, the Federal Reserve received preferred equity interests in two special purpose vehicles (SPVs) formed to hold the outstanding stock of AIG's largest foreign insurance subsidiaries, American International Assurance Company (AIA) and American Life Insurance Company (ALICO), in exchange for a $25 billion reduction in the balance outstanding and maximum credit available under AIG's revolving credit facility with the FRBNY. The transactions positioned AIA and ALICO for initial public offerings or sale.

2. The AIG Restructuring Plan and Taxpayer Exit

On September 30, 2010, AIG announced that it had entered into an agreement-in-principle with the U.S. Department of the Treasury, the FRBNY, and the Trust. The restructuring plan, if completed as announced, will accelerate the timeline for the federal government's recovery of its investment in AIG and will put Treasury-OFS in a considerably stronger position to recoup Treasury-OFS' investment in the company. Giving effect to the proposed restructuring, the lifetime cost of Treasury-OFS' investment in AIG would be $5 billion. This lifetime cost reflects the effects of restructuring when valued at October 1, 2010 including principally the following: (i) the outstanding preferred stock investment is exchanged for common stock and valued at the market price of $38.86 at October 1, 2010, and (ii) the undrawn commitment of $22.3 billion is disbursed and is valued consistent with Treasury-OFS' methodology for valuing its non-traded securities. Under this methodology, Treasury-OFS estimates that it will not incur any loss on the additional disbursements because the aggregate value of the assets supporting the preferred interests in the Special Purpose Vehicles that Treasury-OFS will receive for the disbursements exceeds the liquidation preference of the preferred interests. The common stock price will vary over time, and the price realized by Treasury-OFS in disposing of common shares will likely not be the same as this price, which would result in changes, possibly material, to this lifetime cost.

a. *Repaying and terminating the FRBNY Credit Facility with AIG*

As of September 30, 2010, AIG owed the FRBNY approximately $21 billion in senior secured debt under the FRBNY credit facility. Under the plan, AIG will repay this entire amount and terminate the FRBNY senior secured credit facility. Funding for this is expected to come primarily from the proceeds of the initial public offering of the company's Asian life insurance business (AIA) and the pending sale of its foreign life insurance company (ALICO) to MetLife. As of November 5, 2010, AIG completed an IPO of AIA selling approximately 67 percent for total proceeds of $20.5 billion and closed the sale of ALICO for total proceeds of $16.2 billion, approximately $7.2 billion of which is cash.

b. *Facilitating the orderly exit of the U.S. Government's interests in two special purpose vehicles (SPVs) that hold AIA and ALICO*

As of September 30, 2010, the FRBNY holds preferred interests in two AIG-related SPVs totaling approximately $26 billion. Under the plan, AIG will draw up to all of the remaining $22.3 billion of TARP funds available to it (under the Series F preferred stock facility provided in April 2009) and Treasury-OFS will receive an equal amount of the FRBNY's preferred interests in the SPVs. Over time, AIG is expected to repay the FRBNY and Treasury-OFS for these preferred interests through proceeds from the sales of AIG Star Life Insurance and AIG Edison Life Insurance, the monetization of the remaining equity stake in AIA, the sale of MetLife equity securities that AIG will own after the close of the ALICO sale, and the monetization of certain other designated assets. The aggregate value of the assets underlying the preferred interests in the SPVs exceeds the liquidation preference of the preferred interests. As a result, the net cost associated with the $22.3 billion of draws is assumed to be zero if the restructuring plan is completed as announced. See also footnote 3 to Table 6 in Part I.

c. *Retiring AIG's remaining TARP support*

To date, Treasury-OFS has invested approximately $47.5 billion of TARP funds in AIG. Under the plan, Treasury-OFS is expected to receive approximately 1.1 billion shares of AIG common stock in exchange for its existing TARP investments in AIG. The Department of the Treasury is also expected to receive an additional 563 million shares of common stock from the exchange of the Series C preferred shares held by the Trust on behalf of the United States taxpayers. After the exchange is completed, it is expected that Treasury-OFS' shares will be sold into the public markets over time. The lifetime cost of the TARP investment in AIG after giving effect to the restructuring (as shown in Table 6) does not include any recovery from the sale of the shares of AIG common stock to be received by Treasury from the Trust that are in addition to Treasury-OFS' shares.

The plan is still subject to a number of contingencies, and much work remains to be done to close the transactions. Nevertheless, the plan reflects the substantial progress that AIG and the federal government have made in restructuring the company and reducing the systemic risk that it once posed. The plan also represents a significant step towards ending the federal government's role in providing assistance to the company.

Over the past two years, AIG has recruited a new CEO, a new Chief Risk Officer, a new General Counsel, a new Chief Administrative Officer, and an almost entirely new Board of Directors. All of these executives and directors are committed to the objective of executing the restructuring plan and paying back taxpayers as promptly as practicable. In addition, the profitability of the AIG's core business – its insurance subsidiaries – has been steadily improving, as has the market's perception of the value of these subsidiaries. The improvement in the value of these businesses and their ultimate sale are central to the AIG restructuring plan.

Upon completion of the restructuring plan, AIG is expected to be a simplified life, property and casualty insurer with solidly capitalized insurance subsidiaries, adequate liquidity, and a stable balance sheet.

Asset Guarantee Program

1. Program and Goals

Under the Asset Guarantee Program (AGP), Treasury-OFS acted to support the value of certain assets held by qualifying financial institutions, by agreeing to absorb a portion of the losses on those assets. The program was conducted jointly by Treasury, the Federal Reserve and the FDIC. Like the Targeted Investment Program, it was designed for financial institutions whose failure could harm the financial system and reduce the potential for "spillover" to the broader financial system and economy.

a. Bank of America

In January 2009, Treasury-OFS, the Federal Reserve and the FDIC agreed in principle to share potential losses on a $118 billion pool of financial instruments owned by Bank of America, consisting of securities backed by residential and commercial real estate loans and corporate debt and derivative transactions that reference such securities, loans and associated hedges. If the arrangement had been finalized, Treasury-OFS and the FDIC would have received preferred stock and warrants as a premium for the guarantee. The announcement of the transaction (and the Citigroup transaction discussed below) was widely welcomed by the markets and contributed immediately to helping restore investor confidence in the financial institution and the banking system generally. In May 2009, before the transaction was finalized, Bank of America announced its intention to terminate negotiations with respect to the loss-sharing arrangement and in September 2009, the federal government and Bank of America entered into a termination agreement. Bank of America agreed to pay a termination fee of $425 million to the federal government parties, $276 million of which went to Treasury-OFS. The fee compensated the federal government for the value that Bank of America had received from the announcement of the federal government's willingness to guarantee and share losses on the pool of assets from and after the date of the term sheet. The termination fee was determined by reference to the fees that would have been payable had the guarantee been finalized. No claims for loss payments were made to the federal government, nor was any TARP or other funds spent. Thus, the fee was a net gain for taxpayers.

b. Citigroup

In January 2009, Treasury, the Federal Reserve and the FDIC similarly agreed to share potential losses on a $301 billion pool of Citigroup's covered assets. The arrangement was finalized and, as a premium for the guarantee, Treasury-OFS and the FDIC received $7.0 billion of preferred stock, with terms that were similar to those in the TIP investment and more onerous than in the CPP, including a dividend rate of eight percent. Treasury-OFS also received warrants to purchase 66.5 million shares of common stock. Although the guarantee was originally designed to be in place for five to ten years, Citigroup requested that it be terminated in December 2009 in conjunction with Citigroup's repayment of the $20 billion TIP investment. This was because Citigroup's financial condition had improved and the bank raised over $20 billion of private capital. The banking regulators approved this request.

In connection with the termination, Treasury-OFS and the FDIC kept most of the premium paid. That is, these parties retained a total of $5.3 billion of the $7.0 billion of preferred stock (which had since been converted to trust preferred securities). Of this amount, Treasury-OFS retained $2.23 billion, and the FDIC and Treasury-OFS agreed that, subject to certain conditions, the FDIC would transfer to Treasury-OFS $800 million of their Citigroup trust preferred stock holding plus dividends thereon contingent on Citigroup repaying its previously-issued FDIC debt under the FDIC's Temporary Liquidity Guarantee Program which expires on December 31, 2012.

For the period that the Citigroup asset guarantee was outstanding prior to termination in December 2009, Citigroup made no claims for loss payments to the federal government, and consequently Treasury-OFS made no guarantee payments of TARP funds to Citigroup. Thus, all payments received to date, and the income received from the sale of the securities described above, will constitute a net gain for the taxpayer. The cumulative total dividends received through September 30, 2010 from the securities totaled approximately $440 million. On September 30, 2010, Treasury-OFS agreed to sell the trust preferred securities for approximately $2.25 billion and on October 5, 2010, the transaction was consummated. Treasury-OFS still holds its Citigroup warrants which should provide an additional return for taxpayers.

2. Status as of September 2010

The Asset Guarantee Program is now closed. No Treasury-OFS payments were made. The fee from Bank of America, and securities and dividends received from Citigroup, represents a positive return for taxpayers.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was begun in December 2008 to prevent a significant disruption of the U.S. automotive industry, because the potential for such a disruption posed a systemic risk to financial market stability and would have had a negative effect on the economy.

Recognizing both GM and Chrysler were on the verge of disorderly liquidations, Treasury-OFS extended temporary loans to GM and Chrysler in December 2008. After the Obama Administration took office, it agreed to provide additional investments conditioned on each company and its stakeholders participating in a fundamental restructuring. Sacrifices were made by unions, dealers, creditors and other stakeholders, and the restructurings were achieved through bankruptcy court proceedings in record time. As a result, General Motors Company and Chrysler Group LLC are more competitive and viable companies, supporting American jobs and the economy. Operating results have improved, the industry has added jobs, and the TARP investments have begun to be repaid.

1. Programs and Goals

a. Automotive companies

Short-term funding was initially provided to General Motors (GM) and Chrysler on the condition that they develop plans to achieve long-term viability. In the spring and summer of 2009, GM and Chrysler developed satisfactory viability plans and successfully conducted sales of their assets to new entities in bankruptcy proceedings. Chrysler completed its sale process in 42 days and GM in 40 days. Treasury-OFS provided additional assistance during these periods.

In total, Treasury-OFS has provided approximately $80 billion in loans and equity investments to GM, GMAC (now known as Ally Financial), Chrysler, and Chrysler Financial. The terms of Treasury's assistance impose a number of restrictions including rigorous executive compensation standards, limits on luxury expenditures, and other corporate governance requirements.

While some have questioned why TARP was used to support the automotive industry, both the Bush and Obama Administrations determined that Treasury's investments in the auto companies were consistent with the purpose and specific requirements of EESA. Among other things, Treasury-OFS determined that the auto companies were and are interrelated with entities extending credit to consumers and dealers because of their financing subsidiaries and other operations, and that a disruption in the industry or an uncontrolled liquidation would have had serious effects on financial market stability, employment and the economy as a whole.

b. Supplier and warranty support programs

In the related Auto Supplier Support Program (ASSP), Treasury-OFS provided loans to ensure that auto suppliers receive compensation for their services and products, regardless of the condition of the auto companies that purchase their products. In the Auto Warranty Commitment Program (AWCP), Treasury-OFS provided loans to protect warranties on new vehicles purchased from GM and Chrysler during their restructuring periods.

In early 2009, auto suppliers faced the risk of uncontrolled liquidations across the sector. Fifty-four (54) supplier-related bankruptcies occurred in 2009 as the industry went through a painful restructuring. Today, in part due to the support provided by Automotive Supplier Support Program (ASSP), the auto supply base appears to have stabilized. Suppliers are now breaking even at a lower level of North American production.

2. General Motors

Treasury-OFS provided $50 billion under TARP to General Motors. This began in December 2008, with a $13.4 billion loan to General Motors Corporation (GM or Old GM) to fund working capital. Under the loan agreement, GM was required to submit a viable restructuring plan. The first plan GM submitted failed to establish a credible path to viability, and the deadline was extended to June 2009 for GM to develop an amended plan. Treasury-OFS loaned an additional $6 billion to fund GM during this period.

To achieve an orderly restructuring, GM filed for bankruptcy on June 1, 2009. Treasury-OFS provided $30.1 billion under a debtor-in-possession financing agreement to assist GM during the restructuring. A newly formed entity, General Motors Company purchased most of the assets of Old GM under a sale pursuant to Section 363 of the bankruptcy code (363 Sale). When the sale to General Motors Company was completed on July 10, Treasury-OFS converted most of its loans to 60.8 percent of the common equity in the General Motors Company and $2.1 billion in preferred stock. At that time, Treasury-OFS held $6.7 billion in outstanding loans.

Approximately $986 million remained with Old GM (now known as Motors Liquidation Company) for wind-down costs associated with its liquidation.

a. Repayments

General Motors Company repaid the $6.7 billion loan in full on April 21, 2010. (The rest of the investment is equity which Treasury-OFS expects to sell as described below.)

Ownership structure

General Motors Company currently has the following ownership: Treasury-OFS (60.8 percent), GM Voluntary Employee Benefit Association (VEBA) (17.5 percent), the Canadian Government (11.7 percent), and Old GM's unsecured bondholders (10 percent). As part of the restructuring, GM issued warrants to acquire additional shares of common stock to VEBA and Old GM (for distribution to the creditors of Old GM following confirmation of a plan of liquidation by the bankruptcy court).

b. General Motors Company initial public offering

Treasury-OFS' most likely exit strategy for the AIFP equity investments is a gradual sale beginning with an initial public offering of General Motors Company. In June 2010, Treasury-OFS provided guidance on its role in the exploration of an IPO by General Motors Company. Consistent with this guidance:

- The timing of the offering is being determined by General Motors Company and the IPO process is being managed by General Motors Company. Treasury-OFS will determine whether to sell shares and the price at which it will sell shares.
- The selection of the lead underwriters was made by General Motors Company, subject to Treasury-OFS' agreement that the selection was reasonable. Treasury-OFS will determine the fees to be paid to the underwriters.

In August 2010, General Motors Company filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission (SEC) for a proposed IPO consisting of common stock to be sold by certain of its stockholders, including Treasury, and the issuance by the company of its Series B mandatory convertible junior preferred stock. GM has filed a registration statement for an initial public offering (IPO). If the IPO is completed, Treasury-OFS will use the market price for GM common stock to value its investment in the future. Because there is no market price today, Treasury-OFS cannot value its investment in this manner and instead uses its methodology for non-traded securities. The actual price that would be obtained from the IPO is uncertain and will vary, perhaps significantly, from the September 30, 2010 valuation. However, if Treasury-OFS were to value its investment at the IPO range of $26 to $29 per share announced by GM in the preliminary prospectus dated November 3, 2010, Treasury-OFS' estimated cost for the AIFP would increase by $3 billion to $6 billion. GM has also agreed, subject to the closing of the IPO, to repurchase $2.1 billion of preferred shares issued to Treasury-OFS at 102 percent of par value.

3. Chrysler

Treasury-OFS has provided a total commitment of approximately $14 billion to Chrysler and Chrysler Financial of which more than $12 billion has been utilized. In January 2009, Treasury-OFS loaned $4 billion to Chrysler Holding (the parent of Chrysler Financial and Old Chrysler). Under the loan agreement, Chrysler was required to implement a viable restructuring plan. In March 2009, the Administration determined that the business plan submitted by Chrysler failed to demonstrate viability and concluded that Chrysler was not viable as a standalone company.

The Administration subsequently laid out a framework for Chrysler to achieve viability by partnering with the international car company Fiat. As part of the planned restructuring, in April 2009, Chrysler filed for bankruptcy protection. In May 2009, Treasury-OFS provided $1.9 billion to Chrysler (Old Chrysler) under a debtor-in-possession financing agreement for assistance during its bankruptcy proceeding.

a. Chrysler Group LLC

In June 2009, a newly formed entity, Chrysler Group LLC, purchased most of the assets of Old Chrysler under a 363 (bankruptcy) Sale. Treasury-OFS provided a $6.6 billion loan commitment to Chrysler Group LLC (as of September 30, 2010, and 2009, $2.1 billion remained undrawn), and received a 9.9 percent equity ownership in Chrysler Group LLC. Fiat transferred valuable technology to Chrysler and, after extensive consultation with the Administration, committed to building new fuel efficient cars and engines in U.S. factories.

As of September 30, 2010, Treasury-OFS' investments in Chrysler Group LLC consist of 9.9 percent of common equity and a $7.1 billion loan (including $2.1 billion of undrawn commitments and $500 million assumed from Chrysler Holding). Chrysler Group LLC currently has the following ownership: Chrysler Voluntary Employee Benefit Association (VEBA) (67.7 percent), Fiat (20 percent), Treasury-OFS (9.9 percent), and the Government of Canada (2.5 percent).

b. Old Chrysler

In April 2010, the bankruptcy court approved Old Chrysler's Plan of Liquidation. As a result, the $1.9 billion debtor-in-possession loan provided to Old Chrysler in May 2009 was extinguished and the assets remaining with Old Chrysler, including collateral security attached to the loan, were transferred to a liquidation trust. Treasury-OFS retained the right to recover the proceeds from the liquidation of the specified collateral, but does not expect a significant recovery from the liquidation proceeds.

c. Settlement with Chrysler Holding

The original $4 billion loan made to Chrysler Holding in January 2009 went into default when Old Chrysler filed for bankruptcy. In July 2009, $500 million of that loan was assumed by Chrysler Group LLC. As a result of a settlement agreement in May 2010, Treasury-OFS accepted a settlement payment of $1.9 billion as satisfaction in full of the remaining debt obligations ($3.5 billion) associated with the original loan. The final repayment, while less than face value, was more than Treasury-OFS had previously estimated to recover following the bankruptcy and greater than an independent valuation provided by Keefe, Bruyette and Woods, Treasury's adviser for the transaction.

d. Chrysler Financial

In January 2009, Treasury-OFS announced that it would lend up to $1.5 billion to a special purpose vehicle (SPV) created by Chrysler Financial to enable the company to finance the purchase of Chrysler vehicles by consumers. In July 2009, Chrysler Financial fully repaid the loan, including the additional notes that were issued to satisfy the EESA warrant requirement, together with interest.

4. Ally Financial (formerly GMAC)

Through September 30, 2010, Treasury-OFS had invested approximately $17 billion in Ally Financial. This began with an investment of $5 billion in December 2008. Treasury-OFS also lent $884 million of TARP funds to GM (one of GMAC's owners) for the purchase of additional ownership interests in a rights offering by GMAC. In May 2009, federal banking regulators required GMAC to raise additional capital by November 2009 in connection with the SCAP/stress test. Treasury-OFS exercised its option to exchange the loan with GM for 35.4 percent of common membership interests in GMAC. Treasury-OFS also purchased $7.5 billion of convertible preferred shares from GMAC in May 2009, which enabled GMAC to partially meet the SCAP requirements. Additional Treasury-OFS investments in GMAC were contemplated to enable GMAC to satisfy the SCAP requirements. These were completed in December 2009, when Treasury-OFS invested an additional $3.8 billion in GMAC, increasing the percentage of ownership. As of September 30, 2010, Treasury's investment in Ally Financial consists of 56.3 percent of the common stock, $11.4 billion of mandatorily convertible preferred securities (which may be converted into common stock at a later date) and $2.7 billion of trust preferred securities. If the mandatorily convertible preferred securities were converted, Treasury-OFS ownership would increase to 80.48 percent

5. Status as of September 2010

a. Outlook on automotive industry following restructurings and repayments

As the outlook for the domestic auto industry has improved and the estimated value of Treasury's investments has increased, the projected cost to taxpayers of AIFP has decreased. The cost of AIFP from inception through September 30, 2010 was $13.9 billion, as compared to the cost through September 30, 2009 of $30.5 billion.

Subgoal 1c: Increase liquidity and volume in securitization markets.

The Community Development Capital Initiative, the Term Asset-Backed Securities Loan Facility, the SBA 7a Securities Purchase Program and the Public-Private Investment Program were developed by Treasury-OFS to help restore the flow of credit to consumers and small businesses.

Consumer and Business Lending Initiative

Community Development Capital Initiative

CDCI contributed to this subgoal, but is discussed in detail above following the Capital Purchase Program because of the link between the two programs.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) is a key part of the Financial Stability Plan and the major initiative under the TARP's Consumer and Business Lending Initiative (CBLI). TALF is a joint Federal Reserve-Treasury-OFS program that was designed to restart the asset-backed securitization markets that had ground to a virtual standstill during the early months of this financial crisis. The ABS markets historically have helped to fund a substantial share of credit to consumers and businesses. The effects of this issuance standstill were many: limited availability of credit to households and businesses of all sizes, an unprecedented widening of interest rate spreads, sharply contracting liquidity in the capital markets and a potential to further weaken U.S. economic activity.

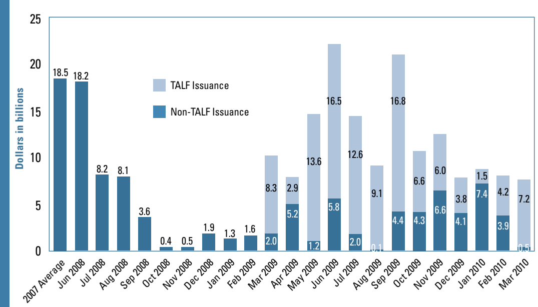
1. Program and Goals

a. Program design

Pursuant to its Federal Reserve Act Section 13(3) authority, the Federal Reserve Bank of New York (FRBNY) agreed to extend up to $200 billion in non-recourse loans to borrowers to enable the purchase of newly issued asset-backed securities (including newly issued CMBS and legacy CMBS) AAA-rated securities including those backed by consumer loans, student loans, small business loans, and commercial real estate loans. In return, the borrowers pledged the eligible collateral with a risk premium ("haircut") as security for the loans. Should a borrower default upon its TALF loan or voluntarily surrender the collateral, the collateral would be seized and sold to TALF LLC, a special purpose vehicle created by FRBNY to purchase and hold seized or surrendered collateral. Through September 30, 2010, TALF LLC has not purchased any collateral from the FRBNY.

Treasury-OFS' role in TALF is to provide credit protection for the program through the purchase of subordinated debt in TALF LLC. The funds would be used to purchase the underlying collateral associated with the FRBNY TALF loans in the

Figure D: Total Consumer and TALF ABS Issuance from June 2008 through March 2010 (Dollars in billions)



Source: FRBNYTALF Subscription Report

event the borrower surrendered the collateral or defaulted upon its loan. Treasury-OFS originally committed to purchase $20 billion in subordinated debt from TALF LLC, or 10 percent of the maximum amount of loans that could be issued. This commitment was later reduced to $4.3 billion after the program closed to new lending in June 2010 with $43 billion in loans outstanding, so that the commitment remained at 10 percent of the outstanding loans.

Although TALF was designed to provide up to $200 billion in loans secured by eligible collateral, the positive effects of TALF on liquidity and interest rate spreads resulting from the announcement of TALF made utilization of the full amount unnecessary. As TALF positively impacted the market for asset-backed securities, investors became able to access cheaper funds in the restarted capital markets. The program was at first extended past the original termination date of December 2009 to March 2010, for non-mortgage-backed ABS and legacy CMBS collateral, and to June 2010, for newly issued CMBS collateral. Given the improvements in the markets, at the time of the closing of the program in June 2010, the FRBNY had disbursed approximately $70 billion in loans under TALF. Of that amount, $29.7 billion (or 47 percent) in TALF loans remained outstanding as of September 30, 2010.

b. Protection of taxpayer interests

TALF was designed to provide borrowers with term loans of up to five years against highly rated securities, which are forfeited in the event a loan is not repaid. TALF employs a number of other safeguards to protect taxpayers' interests including the following:

- TALF borrowers bear the first loss risk in all securities pledged as collateral for TALF loans due to the substantial haircuts (set by reference to borrower's equity in the securities) required of those borrowers. Haircuts ranged from 5 percent to 20 percent based on asset quality thereby further limiting risk.

- Eligible securities must have received two AAA ratings from a major rating agency, and have never been rated below AAA or placed on watch for downgrade by a major rating agency.
- Protection is provided by the risk premium included in the TALF loan rates. The interest rate spread provides accumulated excess interest in TALF LLC as a first loss position. The available excess spread to fund forfeited loans is $501 million as of September 30, 2010.
- Each ABS issuer must engage an external auditor to offer an opinion that supports management's assertion that the ABS is TALF eligible. Further protection is provided by FRBNY and their collateral monitors responsible for assessing the risk associated with ABS and CMBS collateral and performing due diligence.

2. Status as of September 2010

TALF helped encourage lending to consumers and businesses while operating under a conservative structure that protects taxpayer interests. The facility has ceased making new loans as noted above. By improving credit market functioning and adding liquidity to the system, TALF has provided critical support to the financial system. This has allowed lenders to meet the credit needs of consumers and small businesses, and has strengthened the overall economy.

Specifically, TALF helped increase credit availability and liquidity in the securitization markets and reduced interest rate spreads. Secondary spreads narrowed significantly across all eligible asset classes by 60 percent or more. For instance, spreads on AAA-rated auto receivables fell sharply from a peak of 600 basis points in the fourth quarter of 2008 to 27 basis points over their benchmarks on September 30, 2010. Spreads in the secondary market for CMBS have declined from 1500 basis points over its benchmark to 210 basis points as of September 30, 2010.

Moreover, the improvements in the secondary credit market contributed to the re-start of the new-issue market. According to the Federal Reserve Bank of New York, issuance of non-mortgage asset-backed securities jumped to $35 billion in the first three months of TALF lending in 2009, after having slowed to less than $1 billion per month in late 2008.

In November 2009, TALF funds also facilitated the first issuance of commercial mortgage-backed securities since June 2008. This helped re-open the market for such securities. Following that transaction, there have been additional commercial mortgage-backed transactions funded without assistance from TALF.

Treasury-OFS loaned TALF LLC $100 million of the original $20 billion committed. The maturity date on the Treasury-OFS loan to the TALF LLC is March 2019. The loans made by TALF mature at the latest by March 2015. To date, the TALF program has experienced no losses and all outstanding TALF loans are well collateralized. Treasury-OFS and FRBNY continue to see it as highly likely that the accumulated excess interest spread will cover any loan losses that may occur without recourse to the dedicated TARP funds. Therefore, Treasury-OFS does not expect any cost to the taxpayers from this program.

Public-Private Investment Program

The Legacy Securities Public Private Investment Program (PPIP) was designed to purchase troubled legacy securities (i.e., non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS")) that were central to the problems facing the U.S. financial system, and thereby help ensure that credit is available to households and businesses and ultimately drive the U.S. toward economic recovery.

1. Program Goals and Design

a. The Goal: Unlock credit markets for legacy securities to allow financial institutions to repair their balance sheets and extend new credit

During the crisis, many financial institutions and investors were under extreme pressure to reduce indebtedness. This de-leveraging process pushed down the market prices for many financial assets, including troubled legacy RMBS and CMBS, below their fundamental value. Institutions and investors were trapped with hard-to-value assets, marked at distressed prices on their balance sheets, which constrained liquidity and the availability of credit in these markets.

The purpose of PPIP was to draw new private capital into the market for legacy RMBS and CMBS by providing financing on attractive terms as well as a matching equity investment made by Treasury-OFS. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses.

The key objectives of the Public Private Investment Program include:

- Support market functioning by acting as a catalyst to bring private capital back to the market for legacy RMBS and CMBS;
- Facilitate price discovery in the markets for mortgage-backed securities, thereby reducing the uncertainty regarding the value of such securities among the banks and other financial institutions holding them and enabling these financial institutions to sell such assets and raise new private capital;
- Restore confidence in and create an environment conducive to new issuance of new credit; and
- Protect taxpayer interests and generate returns through long-term investments in eligible assets by following predominantly a buy and hold strategy.

b. Program Design

Following the completion of obtaining commitments from private investors, Treasury-OFS has committed approximately $22 billion of equity and debt financing to eight Public Private Investment Funds (PPIFs). Treasury-OFS matches equity dollar-for-dollar and will loan up to the amount of equity raised by the PPIFs. These funds were established by private sector fund managers for the purpose of purchasing eligible RMBS and CMBS from eligible financial institutions under EESA. This represented a reduction from Treasury's initial allocation of $30 billion (for nine PPIFs) in potential capital commitments, because there was less aggregate demand from private sector investors due to improved market conditions for legacy non-agency RMBS and CMBS.

The equity capital raised from private investors by the PPIP fund managers has been matched by Treasury. Treasury-OFS has also provided debt financing up to 100 percent of the total equity committed to each PPIF. PPIFs have the ability to invest in eligible assets over a three-year investment period. They then have up to five additional years, which may be extended for up to two more years, to manage these investments and return the proceeds to Treasury-OFS and the other PPIF investors. PPIP fund managers retain control of asset selection, purchasing, trading, and disposition of investments.

The profits generated by a PPIF, net of expenses, will be distributed to the investors, including Treasury, in proportion to their equity capital investments. Treasury-OFS also receives warrants from the PPIFs, which gives Treasury-OFS the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The program structure allows for risk to be spread between the private investors and Treasury, and provides taxpayers with the opportunity for positive returns.

The following fund managers currently participate in PPIP:

- AllianceBernstein, LP and its sub-advisors Greenfield Partners, LLC and Rialto Capital Management, LLC;
- Angelo, Gordon & Co., L.P. and GE Capital Real Estate;
- BlackRock, Inc.;
- Invesco Ltd.;
- Marathon Asset Management, L.P.;
- Oaktree Capital Management, L.P.;
- RLJ Western Asset Management, LP.; and

- Wellington Management Company, LLP

In addition, PPIP fund managers have established meaningful partnership roles for small, minority-, and women-owned businesses. These roles include, among others, asset management, capital raising, broker-dealer, investment sourcing, research, advisory, cash management and fund administration services. Collectively, PPIP fund managers have established relationships with ten leading small-, minority-, and women-owned firms, located in five different states.

2. Status as of September 2010

a. *PPIF status*

Through September 30, 2010, the PPIFs have completed funding commitments from private investors for approximately $7.4 billion of private sector equity capital, which was matched 100 percent by Treasury, representing $14.7 billion of total equity capital. Treasury-OFS also committed to provide $14.7 billion of direct loans, representing $29.4 billion of total purchasing power to the program. As of September 30, 2010, PPIFs have drawn-down approximately $18.6 billion of total capital (63 percent of total purchasing power)[9], which has been invested in eligible assets and cash equivalents pending investment. After the announcement of the program contributed to improved market conditions, Treasury-OFS reduced its maximum commitment from $30 billion to $22.4 billion which allowed Treasury-OFS to accomplish certain of its objectives with a reduced amount of taxpayer funds.

b. *Support market functioning*

The announcement and subsequent implementation of PPIP were considered keys to reducing the illiquidity discount embedded in these legacy securities and the uncertainty associated with their value, which created an environment conducive for financial institutions to begin trading and selling their holdings of such assets. According to the National Information Center, the non-agency RMBS and CMBS holdings of the top 50 bank holding companies holdings were $237 billion as of June 30, 2010, approximately $47 billion or 17 percent lower than levels from a year earlier. PPIP played a role in helping restart the market for such securities, thereby allowing banks and other financial institutions to begin reducing their holdings in such assets at more normalized prices.

9 Includes $13.8 billion of Treasury-OFS loans and equity, net of $336 million of amounts returned from a wound-down PPIF.

c. *Facilitate price discovery*

Since the announcement of PPIP in March 2009, prices for representative legacy securities have increased by as much as 75 percent for RMBS and CMBS.

d. *Extending New Credit*

Since the announcement of the program in March 2009, approximately ten new CMBS and RMBS transactions have been brought to market, collectively representing approximately $5 billion in new issuance to date. Although smaller than the annual issuance prior to the financial crisis, these transactions, particularly in CMBS, represent meaningful steps toward new credit formation in the marketplace.

Small Business and Community Lending Initiatives - SBA 7a Securities Purchase Program

Small businesses have played an important role in generating new jobs and growth in our economy. The Small Business Administration's (SBA) 7(a) Loan Guarantee Program assists start-up and existing small businesses that face difficulty in obtaining loans through traditional lending channels. SBA 7(a) loans help finance a wide variety of business needs, including working capital, machinery, equipment, furniture and fixtures.

1. Program and Goals

To ensure that credit flows to entrepreneurs and small business owners, Treasury-OFS developed the SBA 7(a) Securities Purchase Program to purchase SBA guaranteed securities from pool assemblers. By purchasing in the open market, Treasury-OFS injected liquidity - providing cash to pool assemblers - enabling those entities to purchase additional loans from loan originators. In this manner, Treasury-OFS acted as a patient provider of incremental liquidity to foster a fluid secondary market, which in turn benefits small business lending.

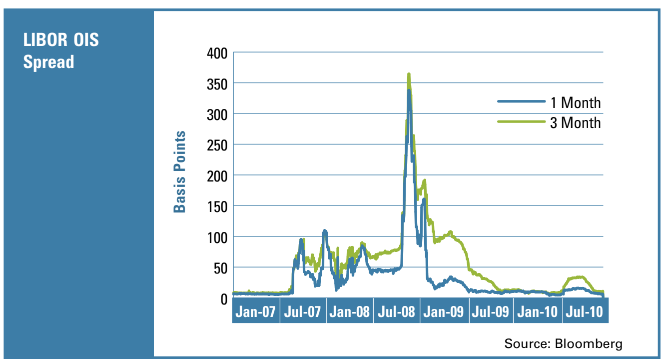
Since the launch of the program Treasury-OFS has conducted transactions with two pool assemblers. An external asset manager purchases the SBA 7(a) securities on behalf of Treasury-OFS directly from those pool assemblers (sellers) in the open market. Treasury-OFS utilized independent valuation service providers to gain additional market insight in order to make informed purchases.

2. Status as of September 2010

Securities purchased by Treasury-OFS comprised about 700 loans ranging across approximately 17 diverse industries including: retail, food services, manufacturing, scientific and technical services, health care and educational services. The program has supported loans from 39 of the 50 states in the country, indicating a broad geographic impact. As of September 30, 2010, Treasury-OFS has conducted 31 transactions totaling approximately $357 million. All securities were purchased at a premium.

Indicators of Impact for Subgoal 1C:

During the financial crisis, interbank lending froze. The LIBOR (spreads of the term London interbank offered rate) from mid-2007 to mid-2008 widened from a range of 100 basis points to 200 basis points for a specific three-month LIBOR spread rate. In the fall of 2008, the LIBOR spread rose to a peak of nearly 360 basis points.



TARP actions stimulated confidence in the financial system, and combined with the expansion of lending facilities by the Federal Reserve, helped to lower the LIBOR spread rate to 100 basis points by January 2009. TARP is commonly credited with helping tighten spreads because the Federal Reserve's actions alone (before TARP) were not sufficient to ease the credit crisis. The ability of financial institutions to address their losses and balance sheet capitalization, both through the TARP, provided elements for a rebound in bank valuations and a further narrowing in the LIBOR spread rate to the under 40 basis point pre-crisis level.

Operational Goal Two: Prevent Avoidable Foreclosures and Preserve Homeownership

Through the Treasury Housing Programs Under TARP, Treasury-OFS created a mortgage modification program that provides incentives to mortgage servicers, investors, and homeowners to work together to reduce eligible homeowners' monthly payments to affordable levels based on the homeowner's current income.

Housing Programs

Making Home Affordable

In January 2009, the nation's housing market had been in broad decline for 18 months. EESA authorities enabled Treasury-OFS to develop a voluntary program that would support servicers' efforts to modify mortgages, consistent with the protection of taxpayers. While the serious effects of the recession and financial crisis on the housing market and foreclosures persist, this Administration has taken aggressive action on many fronts, including under TARP, and has made considerable progress in helping to stabilize the housing market

- Treasury-OFS launched the Making Home Affordable (MHA) program, which includes the Home Affordable Modification Program (HAMP), under TARP. Under this program, Treasury-OFS pays the cost of modifications of loans not held by government-sponsored enterprises (GSEs) while the GSEs pay the cost of modifications of loans held by GSEs. HAMP has helped hundreds of thousands of responsible homeowners reduce their mortgage payments by an average of $500 per month and avoid foreclosure. MHA has also spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer

As the housing crisis has evolved, Treasury-OFS has responded to the unemployment and negative equity problems by adjusting HAMP and instituting additional programs. For example:

- Treasury-OFS launched the Housing Finance Agency (HFA) Hardest Hit Fund to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines.

- Treasury-OFS and the Department of Housing and Urban Development (HUD) enhanced the FHA- Refinance program to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages.

To protect taxpayers, MHA housing initiatives have pay-for-success incentives: funds are spent only when transactions are completed and thereafter only as long as those contracts remain in place. Therefore, funds will be disbursed over many years. The total cost of the housing programs cannot exceed—and may be less than—$46 billion, which is the amount committed to that purpose. Making Home Affordable is a collection of multiple initiatives. The individual programs and their purposes are detailed below.

Making Home Affordable Program (MHA)

Home Affordable Modification Program (HAMP)

The Home Affordable Modification Program (HAMP) is the largest program within MHA and includes several additional components to complement first lien modifications. HAMP provides eligible homeowners the opportunity to reduce their monthly first lien mortgage payments to 31 percent of their gross (pre-tax) income.

To qualify for HAMP, a borrower must:

- Own a one- to four-unit home that is a primary residence;
- Have received a mortgage on or before January 1, 2009;
- Have a mortgage payment (including principal, interest, taxes, insurance, and homeowners association dues) that is more than 31 percent of the homeowner's gross monthly income; and
- Owe not more than $729,750 on a first mortgage for a one–unit property (there are higher limits for two– to four– unit properties).

To create an affordable payment, a participating servicer applies a series of modification steps in the following order: rate reduction to as low as two percent; term extension up to 40 years; and principal deferral (or forgiveness, at the servicer's option). The modified interest rate is fixed for a minimum of five years. Beginning in year six, the rate may increase no more than one percentage point per year until it reaches the Freddie Mac Primary Mortgage Market Survey rate (essentially the market interest rate) at the time the permanent modification agreement was prepared.

Before a mortgage is permanently modified, the homeowner must make the new, reduced monthly mortgage payment on time and in full during a trial period of three or four months. Homeowners who make payments on permanently modified loans on time accrue an incentive of $1,000 per year for five years to reduce the amount of principal they owe up to $5,000

Home Price Decline Protection Program (HPDP)

The HPDP provides, an additional component of HAMP, incentives to investors to partially offset losses from home price declines.

Principal Reduction Alternative (PRA)

Under the Principal Reduction Alternative (PRA), an additional component of HAMP, servicers are required to evaluate the benefit of principal reduction and are encouraged to offer principal reduction whenever the NPV result of a HAMP modification using PRA is greater than the NPV result without considering principal reduction. Incentives are paid based on the dollar value of the principal reduced.

The Unemployment Program (UP)

The Unemployment Program (UP), an additional component of HAMP, requires participating servicers to grant qualified unemployed borrowers a forbearance period during which their mortgage payments are temporarily reduced for a minimum of three months, and up to six months for some borrowers, while they look for new jobs. If a homeowner does not find a job before the temporary assistance period is over or finds a job with a reduced income, the homeowner will be evaluated for a permanent HAMP modification or may be eligible for certain alternatives to the modification program under MHA. No incentives are paid by Treasury-OFS.

Home Affordable Foreclosure Alternatives (HAFA) Program

Under the Home Affordable Foreclosure Alternatives (HAFA) Program, an additional component of HAMP, Treasury-OFS provides incentives for short sales and deeds-in-lieu of foreclosure for circumstances in which borrowers are unable or unwilling to complete the HAMP modification process. Borrowers are eligible for relocation assistance of $3,000 and servicers receive a $1,500 incentive for completing a short sale or deed-in-lieu of foreclosure. In addition, investors are paid up to $2,000 for allowing short sale proceeds to be distributed to subordinate lien holders.

FHA-HAMP Program

The FHA-HAMP Program, an additional component of MHA, provides the same incentives as HAMP for Federal Housing administration (FHA) guaranteed loans.

Second Lien Modification Program (2MP)

Under the Second Lien Modification Program (2MP), an additional component of MHA, Treasury-OFS provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when a modification has been initiated on the first lien mortgage for the same property under HAMP. Under 2MP, when a borrower's first lien is modified under HAMP and the servicer of the second lien is a 2MP participant, that servicer must offer to modify the borrower's second lien according to a defined protocol, which provides for a lump sum payment from Treasury-OFS in exchange for full extinguishment of the second lien, or a reduced lump sum payment from Treasury-OFS in exchange for a partial extinguishment and modification of the borrower's remaining second lien.

Treasury/FHA Second Lien Program (2LP)

The Treasury/FHA Second Lien Program (2LP), an additional component of MHA, provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their first lien mortgages under the FHA-Refinance Program.

Rural Development (RD) HAMP Program

The RD-HAMP Program provides incentives for modified United States Department of Agriculture (USDA) guaranteed mortgages.

The PRA, RD-HAMP, and 2LP programs were announced late in the fiscal year and no activity has occurred in these programs.

Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF)

In February 2010, the Obama Administration announced the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF), allowing state housing finance agencies (HFAs) in the nation's Hardest Hit housing markets and high unemployment to design innovative, locally targeted foreclosure prevention programs. States included those which have had average home price declines greater than 20 percent since the housing market downturn, accounting for the majority of "underwater" mortgages in the country or have concentrated areas of economic distress due to unemployment or had an unemployment rate at or above the national average for the past year.

A total of $7.6 billion is being made available to 18 states and the District of Columbia. These states include Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. As of September 30, 2010, $56.1 million has been disbursed to states participating in HHF – largely for administrative and startup expenses.

To receive funding, programs must satisfy the requirements for funding under EESA. These requirements include that the recipient of funds must be an eligible financial institution and that the funds must be used to pay for programs designed to prevent avoidable foreclosures and other permitted uses under EESA. HFAs designed the state programs, tailoring the housing assistance to their local needs. Further information on the funded programs is available at *www.FinancialStability.gov/roadtostability/hardesthitfund.html.*

Support for the FHA Refinance Program

In March 2010, the Administration announced enhancements to an existing FHA program that will permit lenders to provide additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. This program, known as the FHA Short Refinance program, will provide more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans.

Among other requirements:

- The homeowner must be current on the existing first lien mortgage;
- The homeowner must occupy the home as a primary residence and have a qualifying credit score;

- The mortgage investor must reduce the amount owed on the original loan by at least ten percent;
- The new FHA loan must have a balance less than the current value of the home; and
- Total mortgage debt for the borrower after the refinancing, including both the first lien mortgage and any other junior liens, cannot be greater than 115 percent of the current value of the home – giving homeowners a path to regain equity in their homes and an affordable monthly payment

TARP funds will be made available up to approximately $8 billion in the aggregate to provide additional coverage to lenders for a share of potential losses on these loans and to provide incentives to support the write-downs of second liens and encourage participation by servicers.

HAMP Results

The incentives offered under HAMP are helping American homeowners and assisting in stabilizing the housing market. The HAMP Program is designed to help make housing affordable to American homeowners who are strained by the double impact of high mortgage payments and a significantly reduced home value. The program has reached out to these borrowers and provided an industry-leading solution for servicers to negotiate lower mortgage payments with qualifying homeowners which allows those homeowners to make continued mortgage payments through a trial program and remain in their homes.

Through September 30, 2010, 144 active servicers have signed up for MHA. Between loans covered by these servicers and loans owned or guaranteed by the GSEs, more than 85 percent of first-lien residential mortgage loans in the country are now held by servicers participating in the program. Through September 30, 2010, Treasury-OFS has made commitments to fund up to $29.9 billion in HAMP payments.

After 18 months, more than 1.3 million homeowners participating in HAMP have entered into trial modifications that reduced their mortgage payments to more affordable levels. This includes 619,000 homeowners with non-GSE loans. Nearly 500,000 homeowners participating in the HAMP have had their mortgage terms modified permanently, with over 220,000 of those participants in non-GSE loans that would be funded by Treasury-OFS

Housing Scorecard

On June 21, 2010, the U.S. Department of Housing and Urban Development (HUD) and the Treasury-OFS introduced a Monthly Housing Scorecard on the nation's housing market. Each month the scorecard presents key housing market indicators and highlights the impact of the Administration's housing recovery efforts, including assistance to homeowners through the Federal Housing Administration (FHA) and the Home Affordable Modification Program. The Housing Scorecard is available at *www.hud.gov/scorecard*.

Operational Goal Three: Protect Taxpayers' Interests

Treasury-OFS manages TARP investments to minimize costs to taxpayers and receives income on its holdings of preferred equity and other TARP investments in the form of interest, dividends and fees. Treasury-OFS also takes steps to ensure that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

Consistent with the statutory requirements, Treasury-OFS' four overarching portfolio management guiding principles are as follows:

- Protect taxpayer investments and maximize overall investment returns within competing constraints,
- Promote stability for and prevent disruption of financial markets and the economy,
- Bolster market confidence to increase private capital investment, and
- Dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact.

Treasury-OFS' asset management approach is designed to implement the guiding principles. Treasury-OFS protects taxpayer investments and promotes stability through evaluating systemic and individual risk from standardized reporting and proactive monitoring and ensuring adherence to EESA and compliance with contractual agreements. By avoiding involvement in day to day company management decisions and exercising its rights as a common shareholder only on core governance issues, Treasury-OFS seeks to bolster market confidence to increase private capital investment. Treasury-OFS also adheres to certain principles in connection with restructurings or exchange offers involving TARP recipients, including minimizing taxpayer loss, enhancing and preserving institutional viability, treating like investments across programs consistently, and minimizing negative governmental impact. Such efforts help to prevent disruption of financial markets and the economy.

Treasury-OFS seeks to exit investments as soon as practicable to remove Treasury-OFS as a shareholder, eliminate or reduce Treasury-OFS exposure, return TARP funds to reduce the federal debt, and encourage private capital formation to replace federal government investment. The desire to achieve such objectives must be balanced against a variety of other objectives, including avoiding further financial market and/or economic disruption, and the potentially negative impact to the issuer's health and/or capital raising plans from Treasury-OFS' disposition. Treasury-OFS must also consider the limited ability to sell an investment to a third party due to the absence of a trading market or lack of investor demand, and the possibility of achieving potentially higher returns through a later disposition. An issuer typically needs the approval of its primary federal regulator in order to repay Treasury-OFS and therefore regulatory approvals also affect how quickly an institution can repay.

Because of the size of certain positions as well as the overall portfolio, successful disposition will take time, as well as expertise. In addition, information about Treasury-OFS' intentions with respect to its investments could be material information and premature release of such information could adversely affect the ability of Treasury-OFS to achieve its objectives. Therefore, Treasury-OFS will make public announcements of its disposition plans when it is appropriate to do so in light of these objectives and constraints.

Treasury-OFS tracks the fair value of the assets in the TARP portfolio. The value of publicly traded common stock can be measured by market quotations. Most of Treasury-OFS' investments, however, consist of securities and instruments for which no market value exists. Such securities include preferred stocks, warrants, loans, and other debt securities, as well as common stock of private companies. As a result, Treasury-OFS has developed internal market-based valuation models in consultation with Treasury-OFS' external asset managers and in compliance with EESA. For purposes of its financial statements, Treasury-OFS calculates valuations in accordance with the Federal Credit Reform Act of 1990, as well as OMB guidelines.

Portfolio Management Approach

In managing the TARP investments, Treasury-OFS takes a disciplined portfolio approach with a review down to the individual investment level. Treasury-OFS aims to monitor risk and performance at both the overall portfolio level and the individual investment level. Given the unique nature and the size of the portfolio, risk and performance are linked to the overall financial system and the economy.

In conducting the portfolio management activities, Treasury-OFS employs a mix of dedicated professionals and external asset managers. These external asset managers provide market specific information such as market prices and valuations as well as detailed credit analysis using public information on a periodic basis.

Risk Assessment

Treasury-OFS has developed procedures to identify and mitigate investment risk. These procedures are designed to identify TARP recipients that are in a significantly challenged financial condition to ensure heightened monitoring and additional diligence and to determine appropriate responses by Treasury-OFS to preserve the taxpayers' investment and minimize loss as well as to maintain financial stability. Specifically, Treasury-OFS' external asset managers review publicly available information to identify recipients for which pre-tax, pre-provision earnings and capital may be insufficient to offset future losses and maintain required capital. For certain institutions, Treasury-OFS and its external asset managers engage in heightened monitoring and due diligence that reflects the severity and timing of the challenges.

Although Treasury-OFS relies on the recommendations of federal banking regulators in connection with reviewing and approving applications for assistance, Treasury-OFS does not have access to non-public information collected by federal banking regulators on the financial condition of TARP recipients. To the contrary, there is a separation between the responsibilities of Treasury-OFS as an investor and the duties of the federal government as regulator.

The data gathered through this process is used by Treasury-OFS in consultation with its external managers and legal advisors to determine a proper course of action. This may include making recommendations to management or working with management and other security holders to improve the financial condition of the company, including through recapitalizations or other restructurings. These actions are similar to those taken by large private investors in dealing with troubled investments. Treasury-OFS does not seek to influence the management of TARP recipients for non-financial purposes.

Exchanges and Restructurings

TARP recipients may also seek Treasury-OFS' approval for exchange offers, recapitalizations or other restructuring actions to improve their financial condition. Treasury-OFS evaluates each such proposal based on its unique facts and circumstances, and takes into account the following principles in all cases:

- Pro forma capital position of the institution,
- Pro forma position of Treasury-OFS investment in the capital structure,
- Overall economic impact of the transaction to the federal government,
- Guidance of the institution's primary federal supervisor, and
- Consistent pricing with comparable marketplace transactions.

Compliance

Treasury-OFS also takes steps to ensure that TARP recipients comply with their TARP-related statutory and contractual obligations. Statutory obligations include executive compensation restrictions. Contractual obligations vary by investment type. For most of Treasury-OFS' preferred stock investments, TARP recipients must comply with restrictions on payment of dividends and on repurchases of junior securities, so that funds are not distributed to junior security holders prior to repayment of the federal government. Recipients of exceptional assistance must comply with additional restrictions on executive compensation, lobbying, corporate expenses and internal controls and must provide quarterly compliance reports. For AIFP loans, additional restrictions and enhanced reporting requirements are imposed, which is typical with debt investments compared to equity investments.

All servicers voluntarily participating in MHA have contractually agreed to follow the MHA program guidelines, which require the servicer to offer a MHA modification to all eligible borrowers and to have systems that can process all MHA-eligible loans. Servicers are subject to periodic, on-site compliance reviews performed by Treasury-OFS's compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac, to ensure that servicers satisfy their obligations under MHA requirements in order to provide a well-controlled program that assists as many deserving homeowners as possible to retain their homes while taking reasonable steps to prevent fraud, waste and abuse. Treasury-OFS works closely with MHA-C to design and refine the compliance program and conducts quality assessments of the activities performed by MHA-C.

Warrant Sales Results

Treasury-OFS adheres to a consistent process for evaluating bids from institutions to repurchase their warrants. Upon receiving a bid for a warrant repurchase, Treasury-OFS utilizes (i) market quotes, (ii) independent, third party valuations, and (iii) model valuations to assess the bid. Treasury-OFS began selling warrants back to banks that had repaid the TARP investment in May 2009.

For the 50 fully repaid CPP investments representing $131.8 billion in capital, Treasury-OFS has received a return of 4.2 percent from dividends and an added 4.4 percent return from the sale of the warrants for a total return of 8.6 percent. For the $20 billion TIP investment in Bank of America Corporation, Treasury-OFS received a return of 7.2 percent from dividends and an added 6.3 percent return from the sale of the warrants for a total return of 13.5 percent. These returns are not predictive of the eventual returns on the entire CPP and TIP portfolios.

On August 4, 2010, Treasury-OFS released the second Warrant Disposition Report. Through September 30, 2010, Treasury-OFS has received over $8 billion in warrant repurchases by and sales to 64 institutions. For the full report, please visit *www.FinancialStability.gov/docs/TARP_WRRTDISP_80310.pdf*

Operational Goal Four: Promote Transparency

Treasury-OFS is committed to transparency and accountability in all of its programs and policies, including all programs established under EESA. To protect taxpayers and ensure that every dollar is directed toward promoting financial stability, Treasury-OFS established comprehensive accountability and transparency measures.

A. Comprehensive Measures

Treasury-OFS publishes hundreds of reports other information about TARP so that the public knows how the money was spent, who received it and on what terms. This includes all contracts governing any investment or expenditure of TARP funds, and more than 275 reports over two years. All of these reports and information are posted on the Treasury-OFS website, *www.FinancialStability.gov*, including:

- Lists of all the institutions participating in TARP programs, and all of the investments Treasury-OFS has made;
- All investment contracts defining the terms of those investments within five to ten business days of a transaction's closing;
- All contracts with Treasury-OFS service providers involved with TARP programs;
- A report of each transaction within two business days of completing the transaction;
- Monthly reports of dividend and interest received, which allow the American people to see and evaluate the investment income they are receiving from these investments;
- Monthly reports to Congress, which present updates on Treasury-OFS investments and programs in a clear, concise manner, and answer basic questions that many Americans have, such as how TARP funds are invested;
- Monthly reports detailing the progress of modifications under the Making Home Affordable program;
- All program guidelines, within two business days of any program launch; and
- A monthly lending survey, and an annual use of capital survey, which contains detailed information on the lending and other activities of banks that have received TARP funds to help the public understand what banks are doing with their TARP funds.

Treasury-OFS has worked to maximize the transparency of the housing program to borrowers and ensure that servicers are held accountable. Every borrower is entitled to a clear explanation if he or she is determined to be ineligible for a HAMP modification. Treasury-OFS has established denial codes that require servicers to report the reason for modification denials in writing to Treasury-OFS. Servicers are required to use those denial codes as a uniform basis for sending letters to borrowers who are evaluated for HAMP but denied a modification. In those letters, borrowers will be provided with a phone number to contact their servicers as well as the phone number of the HOPE hotline, which has counselors who are trained to work with borrowers to help them understand reasons they may have been denied modifications and explain other modification or foreclosure prevention options that may be available to them.

Treasury-OFS increased transparency and public access to the Net Present Value (NPV) model – a key component of the eligibility test for HAMP – in releasing the NPV white paper, which explains the methodology used in the NPV model. To ensure accuracy and reliability, Freddie Mac, Treasury-OFS's compliance agent, conducts periodic audits of servicers' implementation of the model and requires servicers to use models which meet Treasury-OFS's NPV specifications or to revert back to Treasury-OFS' NPV application. As required by the Dodd-Frank Act, Treasury-OFS is preparing to establish a web portal that borrowers can access to run a NPV analysis on their own mortgages, and that borrowers who are turned down for a HAMP modification can use.

B. Audited Financial Statements

Treasury-OFS prepares separate financial statements for TARP on an annual basis. This is the second audited Treasury-OFS Agency Financial Report, presented for the fiscal year ended September 30, 2010 and for the period ended September 30, 2009. The initial AFR for the period ended September 30, 2009 was released in December 2009. Both reports are available at *www.FinancialStability.gov*.

In its first year of operations, TARP's financial statements received an unqualified ("clean") audit opinion from its auditors, the Government Accountability Office, and a separate "clean" report on internal control over financial reporting found no material weaknesses -- unprecedented achievements for a start-up operation with an extraordinary emergency mission. As a result of these efforts, Treasury-OFS received a Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants.

C. TARP Retrospective Report

In October 2010, Treasury-OFS published the TARP Two-Year Retrospective. This report includes information on TARP programs and the effects of TARP and other federal government actions to address the financial crisis. Readers are invited to refer to this document at *www.FinancialStability.gov/docs/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf*.

D. Oversight by Four Separate Agencies

Congress also established four avenues of oversight for TARP:

- The Financial Stability Oversight Board, established by EESA §104;
- Specific responsibilities for the Government Accountability Office as set out in EESA §116;
- The Special Inspector General for TARP, established by EESA §121; and
- The Congressional Oversight Panel, established by EESA §125.

Treasury-OFS has productive working relationships with all of these bodies, and cooperates with each oversight agency's effort to produce periodic audits and reports that focus on the many aspects of TARP. Individually and collectively, the oversight bodies' audits and reports have made and continue to make important contributions to the development, strengthening, and transparency of TARP programs.

E. Congressional Hearings and Testimony

Treasury-OFS officials have testified in numerous Congressional hearings since TARP was created. Copies of the written testimony are prepared for those hearings and are available at *www.FinancialStability.gov/latest/pressreleases.html*.

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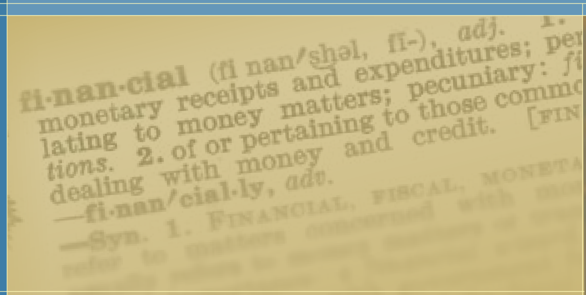
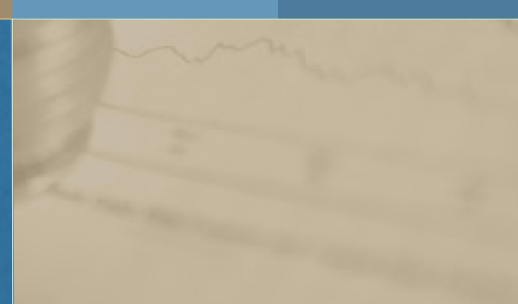
PART 2:

FINANCIAL SECTION





MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to provide the Office of Financial Stability's (OFS) Agency Financial Report for fiscal year 2010. This report provides readers information on financial results relating to the Troubled Asset Relief Program (TARP) as required by the Emergency Economic Stabilization Act (EESA) and other laws.

For fiscal year 2010, the Government Accountability Office (GAO) provided Treasury-OFS unqualified audit opinions on the fair presentation of our financial statements and the effectiveness of our internal control over financial reporting. The auditors determined that we had no material weaknesses and concluded that Treasury-OFS successfully addressed one of the significant deficiencies identified in the prior year's audit relating to internal control over financial reporting. However, GAO continued to report a significant deficiency in internal control over our accounting and financial reporting processes.

As a second year organization executing large and complicated programs, we are extremely proud of these audit results. I would like to acknowledge senior management's commitment to good governance as well as the discipline, transparency, and care exhibited by Treasury-OFS employees in the creation and execution of our organization's policies and procedures.

For fiscal year 2010, net income from operations was $23.1 billion resulting in a cumulative net cost of operations of $18.5 billion since inception. The reduction in cost is primarily due to the early repurchase of TARP investments by the larger banks and an improvement in the financial markets and the economy.

During the past year, Treasury-OFS focused on further strengthening its rigorous internal control processes around obligations, transaction processing, disbursement, collections, and financial reporting. While our processes continue to mature, the audit opinions evidence successes surrounding internal controls over financial reporting implementation across the organization. In fiscal year 2010, Treasury-OFS developed a subsidiary ledger for tracking TARP equity investments and loans and the supporting accounting data. This new ledger will provide automated controls over reporting financial information with appropriate separation of duties. In addition, we implemented credit model enhancements to reduce the possibility of human error in loading assumption data.

On October 3, 2010, authority to make new commitments to purchase troubled assets expired under the EESA. While new obligations are prohibited, funding under our existing commitments for housing and other programs will continue to be disbursed and many assets in our investment program are currently outstanding. As a result, the organization will primarily focus on managing current investment assets and implementing the housing programs.

I feel fortunate to have had the chance to play a role in the continuing tradition of sound fiscal stewardship at Treasury-OFS. This organization recognizes the importance of a proper control environment and will continue to uphold the highest standards of integrity as we carry out our fiduciary responsibilities to the American public. Moving forward, we will continue to strengthen our financial management capacity. In particular, we will continue to enhance our procedures, documentation, and controls over systems in order to protect taxpayer interests and ensure transparency in our activities.

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

GAO
Accountability ★ Integrity ★ Reliability

United States Government Accountability Office
Washington, D.C. 20548

To the Acting Assistant Secretary for Financial Stability

In accordance with the Emergency Economic Stabilization Act of 2008 (EESA),[1] we are required to audit the financial statements of the Troubled Asset Relief Program (TARP), which is implemented by the Office of Financial Stability (OFS).[2] In our audit of OFS's financial statements for TARP for fiscal years 2010 and 2009,[3] we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010; and
- no reportable noncompliance in fiscal year 2010 with provisions of laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusion on Management's Discussion and Analysis (MD&A) and other required supplementary and other accompanying information; (3) our audit objectives, scope, and methodology; and (4) OFS's comments on a draft of this report. In addition to our responsibility to audit OFS's annual financial statements for TARP, we also are required under EESA to report at least every 60 days on the findings resulting from our oversight of the actions

[1]Section 116(b) of EESA, 12 U.S.C. § 5226(b), requires that the Department of the Treasury (Treasury) annually prepare and submit to Congress and the public audited fiscal year financial statements for TARP that are prepared in accordance with generally accepted accounting principles. Section 116(b) further requires that GAO audit TARP's financial statements annually in accordance with generally accepted auditing standards.

[2]Section 101 of EESA, 12 U.S.C. § 5211, established OFS within Treasury to implement TARP.

[3]Fiscal year 2009 for TARP covers the period October 3, 2008 (date of the Office of Financial Stability's inception) through September 30, 2009.

taken under TARP.[4] This report responds to both of these requirements. We have issued numerous other reports on TARP in connection with this 60-day reporting responsibility which can be found on GAO's Web site at http://www.gao.gov.

Opinion on Financial Statements

OFS's financial statements for TARP, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, OFS's assets, liabilities, and net position as of September 30, 2010, and 2009, and its net cost, changes in net position, and budgetary resources for fiscal years 2010 and 2009.

As discussed in notes 2 and 6 to OFS's financial statements for TARP, the valuation of TARP direct loans, equity investments, and asset guarantee program is based on estimates using economic and financial credit subsidy models. The estimates use entity-specific as well as relevant market data as the basis for assumptions about future performance, and incorporate an adjustment for market risk to reflect the variability around any unexpected losses. In valuing the direct loans, equity investments, and asset guarantee program, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated subsidy allowance and related subsidy income/costs reported in the financial statements;[5] however, there are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. The estimates have an added uncertainty resulting from the unique nature of transactions associated with the multiple initiatives undertaken for TARP and the lack of historical

[4]Section 116 of EESA, 12 U.S.C. § 5226, requires the Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

[5]The subsidy income/cost is composed of (1) the change in the subsidy cost allowance, net of write-offs; (2) net intragovernmental interest cost; (3) certain inflows from the direct loans and equity investments (e.g., dividends, interest, net proceeds from sales and repurchases of assets in excess of cost, and other realized fees), and (4) the change in the estimated discounted net cash flows related to the asset guarantee program.

program experience upon which to base the estimates. In addition, there are significant uncertainties related to the potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on the amounts that OFS will realize from its investments. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantee program as of September 30, 2010, and 2009, that totaled $145.5 billion and $239.7 billion respectively, and the amounts that OFS will ultimately realize from these assets, and such differences may be material. These differences will also affect the ultimate cost of TARP. Further, the ultimate cost will change as OFS continues to acquire assets under obligations that existed as of October 3, 2010, and incur related subsidy costs as well as incur costs under other TARP initiatives relating to Treasury Housing Programs under TARP.[6]

As discussed in note 1 to the financial statements, while OFS's financial statements for TARP reflect activity of OFS in implementing TARP, including providing resources to various entities to help stabilize the financial markets, the statements do not include the assets, liabilities, or results of operations of commercial entities in which OFS has a significant equity interest. According to OFS officials, OFS's investments were not made to engage in the business activities of the respective entities and OFS has determined that none of these entities meet the criteria for a federal entity.

Opinion on Internal Control

Although certain internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria

[6]Section 120 of EESA, 12 U.S.C. § 5230, established that the authorities under sections 101(a), excluding Section 101(a)(3), and Section 102, shall terminate on December 31, 2009. Section 120 of EESA further established that the Secretary of the Treasury, upon submission of a written certification to Congress, may extend the authority provided under these sections of EESA to expire no later than 2 years from the date of the enactment of EESA (Oct. 3, 2008). On December, 9, 2009, the Secretary provided the written certification to extend EESA to October 3, 2010. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010), (1) reduced Treasury's authority to purchase or insure troubled assets to a maximum of $475 billion and (2) prohibited Treasury, under EESA, from incurring any obligations for a program or initiative unless the program or initiative had already been initiated prior to June 25, 2010.

established under 31 U.S.C. § 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

During fiscal year 2010, OFS addressed one significant deficiency and made progress in addressing the other significant deficiency that we reported for fiscal year 2009.[7] Specifically, OFS sufficiently addressed the issues that resulted in a significant deficiency in fiscal year 2009 regarding OFS's verification procedures over the data used for asset valuations such that we no longer consider this to be a significant deficiency as of September 30, 2010. In addition, OFS addressed many of the issues related to the other significant deficiency we reported for fiscal year 2009 concerning its accounting and financial reporting processes. However, the remaining control issues along with other control deficiencies in this area that we identified in fiscal year 2010 collectively represent a continuing significant deficiency in OFS's internal control over its accounting and financial reporting processes. Specifically, we found the following:

- While improvements were noted in OFS's review and approval process for preparing its financial statements, notes, and MD&A for TARP from what we had found for fiscal year 2009, we continued to identify incorrect amounts and inconsistent disclosures in OFS's draft financial statements, notes, and MD&A that were significant, but not material, and that were not detected by OFS.

- For fiscal year 2009, we reported that OFS had not finalized its procedures related to its process for accounting for certain program transactions, preparing its September 30, 2009, financial statements, and its oversight and monitoring of financial-related services provided to OFS by asset managers and certain financial agents. During fiscal year 2010, we found that most of these procedures were finalized. However, we identified instances where OFS's procedures were not always followed or effectively implemented.

[7]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

- OFS's documentation was incomplete for certain areas of its asset valuation process. Specifically, some valuation methodology changes and the basis for certain assumptions derived from informed opinion that were used in valuing TARP's assets were not included in its written documentation.[8] After we notified OFS that the documentation was incomplete, it was able to provide adequate additional information about its asset valuation process.

- OFS did not have adequate procedures to determine whether the tool and related guidance it used properly calculated valuations for certain TARP assets with projected future disbursements.[9] OFS's use of the tool and related guidance resulted in errors in the valuation of such assets.

OFS had other controls over TARP transactions and activities that reduced the risk of misstatements resulting from these deficiencies. For significant errors and issues that were identified, OFS revised the financial statements, notes, and MD&A, as appropriate. Properly designed and implemented controls over the accounting and financial reporting processes are key to providing reasonable assurance regarding the reliability of the balances and disclosures reported in the financial statements and related notes in conformity with generally accepted accounting principles. Misstatements may occur in other financial information reported by OFS and not be prevented or detected because of this significant deficiency.

We reported on the two significant deficiencies identified last year and provided OFS recommendations to address these and other less significant issues.[10] The significant deficiency identified for fiscal year 2010, although not considered to be a material weakness, is important enough to merit management's attention. We will be reporting additional details concerning this significant deficiency separately to OFS management, along with some recommendations for corrective actions. During our fiscal year 2010 audit,

[8]Informed opinion refers to the judgment of agency staff or others who make subsidy estimates based on their programmatic knowledge, experience, or both. Informed opinion is considered an acceptable approach under Federal Accounting Standards Advisory Board *Technical Release 6* when adequate historical data does not exist.

[9]The tool and related guidance used by OFS in its TARP asset valuation process is provided to federal agencies for performing valuations under the Federal Credit Reform Act of 1990.

[10]GAO, *Management Report: Improvements Are Needed in Internal Control Over Financial Reporting for the Troubled Asset Relief Program*, GAO-10-743R (Washington, D.C.: June 30, 2010).

we also identified other deficiencies in OFS's system of internal control that we consider not to be material weaknesses or significant deficiencies. We have communicated these matters to management and, where appropriate, will report on them separately. We will follow up in our fiscal year 2011 audit on OFS's progress in implementing our recommendations.

Compliance with Laws and Regulations

Our tests of OFS's compliance with selected provisions of laws and regulations for fiscal year 2010 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

OFS's MD&A, other required supplementary information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We did not audit and we do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with OFS officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or the form and content guidance in Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*.

Objectives, Scope, and Methodology

OFS management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness; and (3) complying with applicable laws and regulations. OFS management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2010, based on the criteria established under FMFIA. OFS management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) OFS's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) OFS management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and (2) performing limited procedures with respect to certain other information accompanying the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting;
- considered OFS's process for evaluating and reporting on internal control over financial reporting that OFS is required to perform by FMFIA and Section 116(c) of EESA;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
- tested relevant internal control over financial reporting;
- tested compliance with selected provisions of the following laws and regulations: EESA, as amended; the Antideficiency Act; the Federal Credit Reform Act of 1990; the Dodd-Frank Wall Street Reform and Consumer Protection Act; and the Purpose Statute; and
- performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to OFS. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for fiscal year 2010. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments

In commenting on a draft of this report, the Acting Assistant Secretary, Office of Financial Stability, stated OFS concurred with the significant deficiency in its internal control over financial reporting that GAO identified. He also stated that OFS is committed to correcting the deficiency. The complete text of OFS's comments is reprinted in appendix II.

Gary T. Engel
Director
Financial Management and Assurance

November 5, 2010

Appendix I

Management's Report on Internal Control over Financial Reporting

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Management's Report on Internal Control over Financial Reporting

The Office of Financial Stability's (OFS) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

OFS management is responsible for establishing and maintaining effective internal control over financial reporting. OFS management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2010, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2010, OFS's internal control over financial reporting was effective.

Office of Financial Stability

Timothy G. Massad
Acting Assistant Secretary for Financial Stability

Lorenzo Rasetti
Chief Financial Officer

November 5, 2010

APPENDIX II

OFS Response to Auditor's Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 10, 2010

Mr. Gary T. Engel
Director, Financial Management and Assurance
U.S. Government Accountability Office

Dear Mr. Engel:

We have reviewed the Independent Auditor's Report concerning your audit of the Office of Financial Stability's (OFS) fiscal year 2010 financial statements. As an organization in its second year executing complex programs unique to the Federal government, OFS is proud to receive an unqualified opinion on our financial statements and an unqualified opinion on management's assertion that our internal controls were operating effectively. We are also pleased that there were no reportable instances of noncompliance with laws or regulations.

Your audit report did identify one significant deficiency in internal controls in the area of accounting and financial reporting processes. We concur with this finding and are committed to pursuing remediation plans until the deficiency is corrected.

We appreciate the professionalism and commitment demonstrated by your staff throughout the audit process. The audit process was valuable for us and resulted in concrete improvements in our operations and financial management efforts.

OFS is committed to maintaining the high standards and transparency reflected in these audit results as we carry out our responsibilities for managing the Troubled Asset Relief Program (TARP).

Sincerely,

Timothy G. Massad
Acting Assistant Secretary
Office of Financial Stability

FINANCIAL STATEMENTS

The Office of Financial Stability (OFS) prepares financial statements for the Troubled Asset Relief Program (TARP) as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it and as required by Section 116 of the Emergency Economic Stabilization Act of 2008 (EESA). Preparation of these statements is also an important part of the OFS's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources. The OFS management is responsible for the accuracy and propriety of the information contained in the financial statements and the quality of internal controls. The statements are, in addition to other financial reports, used to monitor and control budgetary resources. The OFS prepares these financial statements from its books and records in conformity with the accounting principles generally accepted in the United States for federal entities and the formats prescribed by the Office of Management and Budget (OMB).

While these financial statements reflect activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include, as more fully discussed in Note 1, the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest.

The statements presented are for the year ended September 30, 2010 and for the period from October 3, 2008 (the inception of OFS) through September 30, 2009.

The Balance Sheet summarizes the OFS assets, liabilities and net position as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The Statement of Net Cost shows the net cost of operations for the reporting period.

The Statement of Changes in Net Position presents the OFS ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position. The ending balances of both components of net position are also reported on the Balance Sheet.

The Statement of Budgetary Resources provides information about funding and availability of budgetary resources and the status of those resources at the end of the reporting period.

Office of Financial Stability (Troubled Asset Relief Program)

BALANCE SHEET

As of September 30, 2010 and 2009

Dollars in Millions	2010	2009
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 4)	$ 98,664	$ 97,733
Asset Guarantee Program (Note 6)	815	-
Total Intragovernmental Assets	99,479	97,733
Accounts Receivable	4	-
Troubled Asset Relief Program:		
Direct Loans and Equity Investments, Net (Note 6)	142,452	237,892
Asset Guarantee Program (Note 6)	2,240	1,765
Total Assets	$ 244,175	$ 337,390
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable and Other Liabilities	$ 5	$ 5
Principal Payable to the Bureau of the Public Debt (Note 8)	140,404	143,335
Due to the General Fund (Note 3)	25,112	109,748
Total Intragovernmental Liabilities	165,521	253,088
Accounts Payable and Other Liabilities	134	73
Liability for Treasury Housing Programs under TARP (Note 5)	283	1
Total Liabilities	$ 165,938	$ 253,162
Commitments and Contingencies (Note 7)	-	-
NET POSITION		
Unexpended Appropriations	$ 79,783	$ 84,229
Cumulative Results of Operations	(1,546)	(1)
Total Net Position	$ 78,237	$ 84,228
Total Liabilities and Net Position	$ 244,175	$ 337,390

The accompanying notes are an integral part of these financial statements.

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF NET COST

For the Year Ended September 30, 2010
And the Period Ended September 30, 2009

Dollars in Millions	2010	2009
Gross Cost:		
Subsidy Cost (Income) (Note 6)		
Direct Loan and Equity Investment Programs (Including $8,013 in 2010 and $2,916 in 2009 of Net Proceeds from Sales and Repurchases of Assets in Excess of Cost)	$ (22,698)	$ 43,605
Asset Guarantee Program	(1,505)	(2,201)
Total Program Subsidy Cost (Income)	(24,203)	41,404
Interest Expense on Borrowings from the Bureau of the Public Debt (Note 9)	5,913	6,436
Treasury Housing Programs Under TARP (Note 5)	825	2
Administrative Cost	296	167
Total Gross Cost (Income)	$ (17,169)	$ 48,009
Less Earned Revenue:		
Dividend and Interest Income - Programs (Note 6)	(7,242)	(9,503)
Interest Income on Financing Account (Note 9)	(1,173)	(3,649)
Subsidy Allowance Amortization (Note 9)	2,502	6,716
Net Earned Revenue	$ (5,913)	$ (6,436)
Total Net Cost of (Income from) Operations	$ (23,082)	$ 41,573

The accompanying notes are an integral part of these financial statements.

PART 2: FINANCIAL SECTION

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2010
And the Period Ended September 30, 2009

Dollars in Millions	2010 Unexpended Appropriations	2010 Cumulative Results of Operations	2009 Unexpended Appropriations	2009 Cumulative Results of Operations
Beginning Balances	$ 84,229	$ (1)	$ -	$ -
Budgetary Financing Sources				
Appropriations Received	5,151	-	238,268	-
Appropriations Used	(9,597)	9,597	(154,039)	154,039
Other Financing Sources	-	(34,224)	-	(112,467)
Total Financing Sources	(4,446)	(24,627)	84,229	41,572
Net (Cost of) Income from Operations	-	23,082	-	(41,573)
Net Change	(4,446)	(1,545)	84,229	(1)
Ending Balances	$ 79,783	$ (1,546)	$ 84,229	$ (1)

The accompanying notes are an integral part of these financial statements.

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010
And the Period Ended September 30, 2009

Dollars in Millions	2010 Budgetary Accounts	2010 Nonbudgetary Financing Accounts	2009 Budgetary Accounts	2009 Nonbudgetary Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balances Brought Forward	$ 28,156	$ 8,945	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	1,173	39,364	-	-
Budget Authority:				
Appropriations	5,151	-	238,268	-
Borrowing Authority	-	69,440	-	309,971
Spending Authority from Offsetting Collections				
Earned: Collected	-	156,112	-	243,072
Change in Unfilled Orders Without Advance	-	(5,111)	-	28,927
Total Budget Authority	34,480	268,750	238,268	581,970
Permanently Not Available	-	(107,976)	-	(120,841)
TOTAL BUDGETARY RESOURCES (Note 10)	$ 34,480	$ 160,774	$ 238,268	$ 461,129
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred - Direct	$ 23,405	$ 150,226	$ 210,112	$ 452,184
Unobligated Balance:				
Apportioned and Available	142	7,692	28,156	7,009
Not Available	10,933	2,856	-	1,936
TOTAL STATUS OF BUDGETARY RESOURCES	$ 34,480	$ 160,774	$ 238,268	$ 461,129
CHANGE IN OBLIGATED BALANCES				
Obligated Balance Brought Forward:				
Unpaid Obligations	$ 56,151	$ 79,202	$ -	$ -
Uncollected Customer Payments from Federal Sources	-	(28,927)	-	-
Obligated Balance, Net, Brought Forward	56,151	50,275	-	-
Obligations Incurred	23,405	150,226	210,112	452,184
Gross Outlays	(9,255)	(148,146)	(153,961)	(372,982)
Recoveries of Prior Year Unpaid Obligations	(1,173)	(39,364)	-	-
Change in Uncollected Customer Payments from Federal Sources	-	5,111	-	(28,927)
Obligated Balance, Net, End of Period:				
Unpaid Obligations	69,128	41,918	56,151	79,202
Uncollected Customer Payments from Federal Sources	-	(23,816)	-	(28,927)
Obligated Balance, Net, End of Period	$ 69,128	$ 18,102	$ 56,151	$ 50,275
NET OUTLAYS				
Gross Outlays	$ 9,255	$ 148,146	$ 153,961	$ 372,982
Offsetting Collections	-	(156,112)	-	(243,072)
Distributed Offsetting Receipts	(118,860)	-	(2,720)	-
NET OUTLAYS	$ (109,605)	$ (7,966)	$ 151,241	$ 129,910

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Reporting Entity

The Troubled Asset Relief Program (TARP) was authorized by the Emergency Economic Stabilization Act of 2008 (EESA or "the Act"). The Act gave the Secretary of the Treasury (the Secretary) broad and flexible authority to establish the TARP to purchase and insure mortgages and other troubled assets, which permits the Secretary to inject capital into banks and other commercial companies by taking equity positions in those entities, if needed, to stabilize the financial markets.

The EESA established certain criteria under which the TARP would operate, including provisions that impact the budgeting, accounting, and reporting of troubled assets acquired under the Act. Section 101(a) of the EESA provided the authority for the Secretary to purchase troubled assets, and Section 101(a)(3) of the EESA established the Office of Financial Stability (OFS) to implement the TARP. Section 102 of the EESA required the Secretary to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. Section 115 of the EESA limited the authority of the Secretary to purchase troubled assets up to $700.0 billion outstanding at any one time, calculated at the aggregate purchase prices of all troubled assets held. Amendments to Section 115 of EESA during the period ended September 30, 2009 reduced that authority by $1.3 billion, from $700 billion to $698.7 billion. Section 120 of the EESA established that the authorities under Sections 101(a), excluding Section 101(a)(3) and Section 102 of the EESA would terminate December 31, 2009 unless extended upon submission of a written certification to Congress by the Secretary of the Treasury. On December 9, 2009, the Secretary extended the program authorities through October 3, 2010. In July, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act amended Section 115 of EESA, limiting the TARP's authority to a total of $475 billion cumulative obligations (i.e. purchases and guarantees) and prohibiting any new obligations for programs or initiatives that had not been publically announced prior to June 25, 2010. There was $474.77 billion of obligations outstanding against the Section 115 authority as of September 30, 2010 and $381.3 billion of obligations outstanding as of September 30, 2009.

Under the provisions of the EESA, the OFS implemented the TARP which resulted in the development of the following programs: the Capital Purchase Program (CPP); American International Group, Inc. Investment Program (AIG, formerly known as the Systemically Significant Failing Institutions Program); the Targeted Investment Program (TIP); the Automotive Industry Financing Program (AIFP); the Consumer and Business Lending Initiative (CBLI); the Public-Private Investment Program (PPIP); and the Asset Guarantee Program (AGP); (see Note 6 for details regarding all of these programs); as well as the Treasury Housing Programs Under the TARP (see Note 5).

While these financial statements reflect the activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest. Through the purchase of troubled assets, the OFS has entered into several different types of direct loan, equity investment, and asset guarantee program arrangements with private entities. These direct loans, equity investments, and asset guarantees were made with the intent of helping to stabilize the financial markets and mitigating, as best as possible, any adverse impact on the economy. These direct loans, equity investments, and asset guarantees were not made to engage in the business activities of the respective private entities. Based on this intent, the OFS has concluded that such direct loans, equity investments, and asset guarantees are considered "bail outs", under the provisions of paragraph 50 of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*. In addition, these entities are not included in the Federal budget, and therefore, do not meet the conclusive criteria in SFFAC No. 2. As such, the OFS determined that none of these entities meet the criteria to be classified as a federal entity. Consequently, their assets, liabilities, and results of operations are not consolidated in these OFS financial statements.

In addition, the OFS has made loans and investments in certain Special Purpose Vehicles[10] (SPV). SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control over an SPV to carry out government powers and missions, as criteria in the determination about whether the SPV should be classified as a federal entity. The OFS has concluded that none of the SPVs meet the conclusive or indicative criteria to be classified as a federal entity. As a result, the assets, liabilities and results of operations of the SPVs are not included in these OFS financial statements. The OFS has recorded the loans and investments in private entities and investments in SPVs in accordance with Credit Reform Accounting, as discussed below. Additional disclosures regarding these SPV investments are included in Note 6, see Automotive Industry Financing Program, Term Asset-Backed Loan Facility and the Public-Private Investment Program.

The EESA established the OFS within the Office of Domestic Finance of the Department of the Treasury (Treasury). The OFS prepares stand-alone financial statements to satisfy EESA's requirement for the TARP to prepare annual financial statements. Additionally, as an office of the Treasury, its financial statements are consolidated into Treasury's annual Performance and Accountability Report.

10 The OFS invested in SPVs under the Consumer and Business Lending Initiative, the Automotive Industry Financing Program and the Public-Private Investment Program.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements include the operations of the OFS and have been prepared from the accounting records of the OFS in conformity with accounting principles generally accepted in the United States for federal entities (Federal GAAP), and the OMB Circular A-136, *Financial Reporting Requirements*, as amended. Federal GAAP includes the standards issued by the Federal Accounting Standards Advisory Board (FASAB). The FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards-setting body for the U.S. Government. As such, the FASAB is responsible for establishing Federal GAAP for Federal reporting entities.

The FASAB issued the Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* in July, 2009. SFFAS No. 34 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with Federal GAAP.

In addition to the above, Section 123(a) of the EESA requires that the budgetary cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities, be determined in accordance with the Federal Credit Reform Act of 1990 (FCRA). Section 123(b) (1) of the EESA requires that the budgetary costs of troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. As a result of this requirement, the OFS considered market risk in its calculation and determination of the estimated net present value of its direct loans, equity investments and asset guarantee program for budgetary purposes. Similarly, market risk is considered in the valuations for financial reporting purposes (see Note 6 for further discussion).

Consistent with the accounting policy for equity investments made by Treasury in private entities, the OFS accounts for its equity investments at fair value, defined as the estimated amount of proceeds the OFS would receive if the equity investments were sold to a market participant. The OFS uses the present value accounting concepts embedded in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended (SFFAS No. 2), to derive fair value measurements. The OFS concluded that the equity investments were similar to direct loans in that there is a stated rate and a redemption feature which, if elected, requires repayment of the amount invested. Furthermore, consideration of market risk provides a basis to arrive at a fair value measurement. Therefore, the OFS uses SFFAS No. 2 (as more fully discussed below) for reporting and disclosure requirements of its equity investments.

Federal loans and loan guarantees are governed by FCRA for budgetary accounting and the associated FASAB accounting standard SFFAS No. 2 for financial reporting. The OFS applies the provisions of the SFFAS No. 2 when accounting and reporting for direct loans, equity investments, asset guarantee program and the Federal Housing Administration (FHA)-Refinance Program. Direct loans and equity investments disbursed and outstanding are recognized as assets at the net present value of their estimated future cash flows. Outstanding asset guarantees are recognized as liabilities or assets at the net present value of their estimated future cash flows. Liabilities under the FHA-Refinance Program are recognized at the net present value of their estimated future cash flows when the guaranteed loans are disbursed. For direct loans and equity investments, the subsidy allowance account represents the difference between the face value of the outstanding direct loan and equity investment balance and the net present value of the expected future cash flows, and is reported as an adjustment to the face value of the direct loan or equity investment.

The OFS recognizes dividend income associated with equity investments when declared by the entity in which the OFS has invested and when received in relation to any repurchases, exchanges and restructurings. The OFS recognizes interest income when earned on performing loans. The OFS reflects changes, referred to as reestimates, in the value of direct loans, equity investments, and asset guarantee program in the subsidy cost on the Statement of Net Cost annually. The OFS has received common stock warrants, additional preferred stock (referred to as warrant preferred stock) or additional notes, as additional consideration for providing direct loans and equity investments made and the asset guarantee program. The OFS accounts for the warrants and warrant preferred stock received under Section 113 of EESA as fees under SFFAS No. 2, and, as such, the value of the warrants, warrant preferred stock and additional notes, when the assets are sold, is a reduction of the subsidy allowance.

Use of Estimates

The OFS has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and cost to prepare these financial statements. Actual results could significantly differ from these estimates. Major financial statement line items that include estimates are TARP Direct Loans and Equity Investments, Net and the Asset Guarantee Program on the Balance Sheet, and related subsidy cost on the Statement of Net Cost (see Note 6).

The most significant differences between actual results and estimates may occur in the valuation of direct loans, equity investments, and the asset guarantee program. The forecasted future cash flows used to determine these amounts as of fiscal year end are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities which the OFS has an equity interest, estimates of expected default, and prepayment rates. Forecasts of future financial results have inherent uncertainty and the OFS's TARP Direct Loans and Equity Investments, Net and Asset Guarantee Program line items as of fiscal year end are reflective of relatively illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions. Additional discussion related to sensitivity analysis of factors affecting estimates can be found in the Management Discussion and Analysis section of the Agency Financial Report.

Credit Reform Accounting

The FCRA provides for the use of program, financing, and general fund receipt accounts to separately account for activity related to direct loans and loan guarantees. These accounts are classified as either budgetary or non-budgetary in the Statement of Budgetary Resources. The budgetary accounts include the program and general fund receipt accounts, and the non-budgetary accounts consist of the credit reform financing accounts.

As discussed previously, the OFS accounts for the cost of direct loans, equity investments, the asset guarantee program and the FHA-Refinance Program in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting and SFFAS No. 2 for financial reporting.

The authoritative guidance for financial reporting is primarily contained in the SFFAS No. 2, as amended by the SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and the SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*.

In accordance with SFFAS No. 2, the OFS maintains program accounts which receive appropriations and obligate funds to cover the subsidy cost of direct loans, equity investments, asset guarantee program and the FHA-Refinance Program and disburses the subsidy cost to the OFS financing accounts. The financing accounts are non-budgetary accounts that are used to record all of the cash flows resulting from the OFS direct loans, equity investments and asset guarantee program[11]. Cash flows include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from the sale of stock and warrants, borrowings from Treasury, negative subsidy and the subsidy cost received from the program accounts.

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows: (1) Borrowing for program funds under Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements; (2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and (3) the Troubled Assets Insurance Financing Fund (TAIFF) under Section 102(d).

11 For the Asset Guarantee Program, OFS has established the Troubled Assets Insurance Financing Fund, which is the program's financing account under the FCRA, as required by Section 102(d) of the EESA.

The OFS uses general fund receipt accounts to record the receipt of amounts paid from the financing accounts when there is a negative subsidy or negative modification (a reduction in subsidy cost due to changes in program policy or terms that change estimated future cash flows) from the original estimate or a downward reestimate. Amounts in the general fund receipt accounts are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the general fund receipt account is no longer included in the OFS's fund balance reporting.

The SFFAS No. 2 requires that the actual and expected costs of federal credit programs be fully recognized in financial reporting. The OFS calculated and recorded an initial estimate of the future performance of direct loans, equity investments, and asset guarantee program. The data used for these estimates were reestimated at the fiscal year-end to reflect adjustments for market risk, asset performance, and other key variables and economic factors. The reestimate data was then used to estimate and report the "Subsidy Cost" in the Statement of Net Cost. A detailed discussion of the OFS subsidy calculation and reestimate assumptions, process and results is provided in Note 6.

Fund Balance with Treasury

The Fund Balance with Treasury includes general, financing and other funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by the Treasury, and the OFS's records are reconciled with those of the Treasury on a regular basis.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent unanticipated collections in excess of the amounts apportioned which are unavailable. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority.

Troubled Asset Relief Program Direct Loans and Equity Investments, Net

Troubled Asset Relief Program Direct Loans and Equity Investments, Net represents the estimated net outstanding amount of the OFS direct loans and equity investments, exclusive of the Treasury Housing Programs Under TARP. The direct loan and equity investment balances have been determined in accordance with the provisions of SFFAS No. 2 (see Note 6). Writeoffs of gross direct loan and equity investment balances (presented in Note 6 table) are recorded when a legal event, such as a bankruptcy with no further chance of recovery, or extinguishment of a debt instrument by agreement, occurs. Under SFFAS 2, writeoffs do not affect the Statement of Net Cost because the written-off asset is fully reserved. Therefore, the write-off removes the asset balance and the associated subsidy allowance.

Asset Guarantee Program

The Asset Guarantee Program line item on the Balance Sheet as of September 30, 2009 represents the asset value resulting from the net present value of the estimated cash inflows that were in excess of the estimated future claim payments. During fiscal year 2010, the OFS and the Federal Deposit Insurance Corporation (FDIC) entered into a termination agreement with the program's remaining participant, Citigroup. As a result, the Asset Guarantee Program line item (non-intragovernmental asset) represents the net present value of the estimated cash inflows from Citigroup trust preferred securities that OFS held after the guarantee was terminated. The intragovernmental Asset Guarantee Program line item is the estimated value of certain Citigroup trust preferred securities currently held by the FDIC. Under the termination agreement, the FDIC has agreed to transfer to the OFS these securities less any losses on FDIC's guarantee of Citigroup debt. See Note 6.

General Property and Equipment

Equipment with a cost of $50,000 or more per unit and a useful life of two years or more is capitalized at full cost and depreciated using the straight-line method over the equipment's useful life. Other equipment not meeting the capitalization criteria is expensed when purchased. Software developed for internal use is capitalized and amortized over the estimated useful life of the software if the cost per project is greater than $250,000. However, OFS may expense such software if management concludes that total period costs would not be materially distorted and the cost of capitalization is not economically prudent. Based upon these criteria, the OFS reports no capitalized property, equipment or software on its Balance Sheet as of September 30, 2010 and 2009.

Accounts Payable and Other Liabilities

Accounts Payable and Other Liabilities are amounts due to intragovernmental or public entities that will generally be liquidated during the next operating cycle (within one year from the balance sheet date).

Principal Payable to the Bureau of the Public Debt

Principal Payable to the Bureau of the Public Debt (BPD) represents the net amount due for equity investments, direct loans, and asset guarantee program funded by borrowings from the BPD as of the end of the fiscal year. Additionally, OFS borrows from the BPD for payment of intragovernmental interest and payment of negative subsidy cost to the general fund, as necessary. See Note 8.

Due to the General Fund

Due to the General Fund represents the amount of accrued downward reestimates and, for fiscal year 2010, one downward modification not yet funded, related to direct loans, equity investments and asset guarantee programs as of September 30, 2010 and 2009. See Notes 3 and 6.

Liabilities for the Treasury Housing Programs Under TARP

There are three initiatives in the Treasury Housing Programs: the Making Home Affordable Program, the Housing Finance Agency Hardest Hit Fund and the Federal Housing Administration Refinance Program (see Note 5). The OFS has determined that credit reform accounting is not applicable to the Treasury Housing Programs Under TARP except the FHA-Refinance Program, since there are no incoming cash flows to be valued. Therefore, liabilities for the Making Home Affordable Program and Housing Finance Agency Hardest Hit Fund for payments to servicers and investors, including principal balance reduction payments for the accounts of borrowers are accounted for in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. A liability is recognized for any unpaid amounts due as of the reporting date. The liability estimate is based on information about loan modifications reported by participating servicers for the Making Home Affordable Program and participating states for the Housing Finance Agency Hardest Hit Fund.

Unexpended Appropriations

Unexpended Appropriations represents the OFS undelivered orders and unobligated balances in budgetary appropriated funds as of September 30, 2010 and 2009.

Cumulative Results of Operations

Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, represents the net results of the OFS operations not funded by appropriations or some other source, such as borrowing authority, from inception through fiscal year end. For fiscal year 2010, there were $1.5 billion of unfunded upward reestimates that increased subsidy cost. The appropriations for this increase in cost will be received next fiscal year. Until then, the cost is recorded as negative Cumulative Results of Operations. The Other Financing Sources line in the Statement of Changes in Net Position for each year consists primarily of transfers due to the Treasury General Fund relating to downward reestimates. Each program's reestimates, upward and downward, are recorded separately, not netted together.

Leave

A liability for OFS employees' annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance and Workers' Compensation Benefits

The OFS employees may choose to participate in the contributory Federal Employees Health Benefit and the Federal Employees Group Life Insurance Programs. The OFS matches a portion of the employee contributions to each program. Matching contributions are recognized as current operating expenses.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. Future workers' compensation estimates are generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

Employee Pension Benefits

The OFS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and may contain early retirement or other special features. The OFS contributions to retirement plans and Social Security, as well as imputed costs for pension and other retirement benefit costs administered by the Office of Personnel Management, are recognized on the Statement of Net Cost as Administrative Costs. Federal employee benefits also include the Thrift Savings Plan (TSP). For FERS employees, a TSP account is automatically established and the OFS matches employee contributions to the plan, subject to limitations. The matching contributions are also recognized as Administrative Costs on the Statement of Net Cost.

Related Parties

The nature of related parties and descriptions of related party transactions are discussed within Notes 1 and 6.

Note 3. Due to the General Fund

As of September 30, 2010, the OFS accrued $25.1 billion of downward reestimates and one downward modification payable to the General Fund (See Note 6). Due to the General Fund is a Non-Entity liability on the Balance Sheet. At September 30, 2009, Due to the General Fund payable was $109.7 billion for downward reestimates.

Note 4. Fund Balances with Treasury

Fund Balances with Treasury, by fund type and status, are presented in the following table as of September 30, 2010 and 2009:

(Dollars in Millions)	2010	2009
Fund Balances:		
General Funds	$ 45,438	$ 45,650
Program Funds	34,766	38,658
Financing Funds	18,460	13,425
Total Fund Balances	$ 98,664	$ 97,733
Status of Fund Balances:		
Unobligated Balances		
Available	$ 7,834	$ 35,165
Unavailable	13,790	1,936
Obligated Balances Not Yet Disbursed	77,040	60,632
Total Status of Fund Balances	**$ 98,664**	**$ 97,733**

Included in the OFS Financing Funds balance are premium collections of $265.2 million during fiscal year 2010 and $174.8 million for the period ended September 30, 2009 related to the AGP that are required by the EESA Section 102(d) to be maintained in the Troubled Asset Insurance Financing Fund (see Note 6).

Note 5. The Treasury Housing Programs Under TARP

Fiscal year 2010 has seen an expansion of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

1) Making Home Affordable Program (MHA);
2) Housing Finance Agency (HFA) Hardest Hit Fund; and
3) Federal Housing Administration (FHA)-Refinance Program.

Under MHA, the initial programs rolled out in the period ended September 30, 2009 were the Home Affordable Modification Program (HAMP) including the Home Price Decline Protection Program (HPDP).

MHA includes HAMP, FHA-HAMP, Second Lien Program (2MP), Treasury/FHA Second Lien Program (FHA 2LP) (extinguishment of 2nd lien portion of the program), and Rural Development (RD-HAMP). The HAMP includes first lien modifications, the HPDP, the Principal Reduction Alternative Waterfall Program (PRA), the Unemployment Program (UP), and the Home Affordable Foreclosure Alternatives Program (HAFA). The HAMP first lien modification program provides for one-time, monthly and annual incentives to servicers, borrowers, and investors who participate in the program whereby the investor and OFS share the costs of modifying qualified first liens. The HPDP provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs have been introduced under HAMP to complement the first lien modification program and HPDP. The Principal Reduction Alternative Waterfall Program (PRA) offers mortgage relief to eligible homeowners whose homes are worth significantly less than the remaining amounts outstanding under their first-lien mortgage. The Unemployment Program (UP) offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. The UP will not have a financial impact on the OFS because no incentives are paid by OFS. Finally, the Home Affordable Foreclosure Alternatives Program (HAFA) is designed to assist eligible borrowers unable to retain their homes through a HAMP modification by simplifying and streamlining the short sale and deed in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

Fiscal year 2010 has also seen the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their FHA-insured first lien mortgages under the FHA-Refinance Program. The RD-HAMP Program provides HAMP incentives for USDA guaranteed mortgages.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. Servicers have until December 31, 2012 to enter into mortgage modifications with borrowers.

Included in administrative costs are fees paid to Fannie Mae and Freddie Mac. Fannie Mae provides direct programmatic support as a third party agent on behalf of the OFS. Freddie Mac provides compliance oversight as a third party agent on behalf of the OFS, and the servicers work directly with the borrowers to modify and service the borrowers' loans.

The Housing Finance Agency (HFA) Hardest Hit Fund was implemented in 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C. Approved states develop and roll out their own programs with timing and types of programs offered targeted to address the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers.

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) which is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. HUD will pay a portion of the amount refinanced to the investor and OFS will pay incentives to encourage the extinguishment of second liens associated with the refinanced mortgages. OFS established a Letter of Credit to fund the OFS portion of any claims associated with the FHA-insured mortgages. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012 and OFS will honor its share of claims against the Letter of Credit through 2020. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. However, in fiscal year 2010, OFS paid $3 million to establish the Letter of Credit.

The table below recaps payments and accruals as of September 30, 2010 and September 30, 2009. As noted above, the UP is structured so that there is no financial impact on the OFS. Although in operation on September 30, 2010 the PRA, FHA-HAMP, 2LP and RD-HAMP had not been in operation for a period long enough to have fiscal year 2010 financial activity.

TREASURY HOUSING PROGRAMS UNDER TARP

	(Dollars in Billions) Commitments	(Dollars in Thousands) Payments		(Dollars in Thousands) Accruals	
	9/30/2010	9/30/2010	9/30/2009	9/30/2010	9/30/2009
MHA	$ 29.9				
HAMP (1st Lien)	-	$ 473,592	$ 946	$ 175,415	$ 1,361
HPDP	-	8,755	-	107,914	-
PRA[1]	-	-	-	-	-
UP[2]	-	N/A	N/A	N/A	N/A
HAFA[3]	-	1,627	-	N/A	-
FHA HAMP	-	-	-	24	-
2MP	-	11	-	5	-
2LP[1]	-	-	-	-	-
RD-HAMP[1]	-	-	-	-	-
HFA Hardest Hit Fund	7.6	56,120	-	-	-
FHA-Refinance	8.1	3,015	-	-	-
TOTALS	$ 45.6	$ 543,120	$ 946	$ 283,358	$ 1,361

[1] No FY2010 activity with financial impact.

[2] No financial impact.

[3] HAFA payments are made in the month earned and not accrued.

For fiscal year 2010, cost for Treasury Housing Programs Under TARP totaled $825 million; for the period ending September 30, 2009, cost totaled $2 million.

Note 6. Troubled Asset Relief Program Direct Loans and Equity Investments, Net and Asset Guarantee Program

Direct Loan, Equity Investments and Asset Guarantee Program

The OFS administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The OFS has made direct loans, equity investments and entered into asset guarantees. The table below recaps OFS programs by title and type:

Program	Program Type
Capital Purchase Program	Equity Investment/ Subordinated Debentures
American International Group, Inc. Investment Program	Equity Investment
Targeted Investment Program	Equity Investment
Automotive Industry Financing Program	Equity Investment and Direct Loan
Consumer and Business Lending Initiative:	
• Term Asset-Backed Securities Loan Facility	Subordinated Debentures
• SBA 7(a) Security Purchase Program	Direct Loan
• Community Development Capital Initiative	Equity Investment
Public-Private Investment Program	Equity Investment and Direct Loan
Asset Guarantee Program	Asset Guarantee

The OFS applies the provisions of SFFAS No. 2 to account for direct loans, equity investments and the asset guarantee program. This standard requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash-flow estimates for each transaction reflect the actual structure of the instruments. For each of these instruments, analytical cash flow models generate estimated cash flows to and from the OFS over the estimated term of the instrument. Further, each cash-flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The models also incorporate an adjustment for market risk to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows (the "unexpected loss").

The adjustment for market risk requires the OFS to determine the return that would be required by market participants to enter into similar transactions or to purchase the assets held by OFS. Accordingly, the measurement of the assets attempts to represent the proceeds expected to be received if the assets were sold to a market participant. The methodology employed for determining market risk for equity investments generally involves a calibration to market prices of similar securities that results in measuring equity investments at fair value. The adjustment for market risk for loans is intended to capture the risk of unexpected losses, but not intended to represent fair value, i.e. the proceeds that would be expected to be received if the loans were sold to a market participant. The OFS uses market observable inputs, when available, in developing cash flows and incorporating the adjustment required for market risk. For purposes of this disclosure, the OFS has classified the various investments as follows, based on the observability of inputs that are significant to the measurement of the asset:

Quoted prices for Identical Assets: The measurement of assets in this classification is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.

Significant Observable Inputs: The measurement of assets in this classification is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.

Significant Unobservable Inputs: The measurement of assets in this classification is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

The table below displays the assets held by the observability of inputs significant to the measurement of each value:

(Dollars in Millions)	As of September 30, 2010			
Program	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	Total
Capital Purchase Program	$ 14,899	$ -	$ 33,334	$ 48,233
American International Group Investment Program[1]	-	-	26,138	26,138
Targeted Investment Program	-	-	1	1
Automotive Industry Financing Program	-	-	52,709	52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) securities and CDCI	-	-	966	966
Public-Private Investment Program	-	-	14,405	14,405
Asset Guarantee Program	2,240	815	-	3,055
Total TARP Program	**$ 17,139**	**$ 815**	**$ 127,553**	**$ 145,507**

(Dollars in Millions)	As of September 30, 2009			
Program	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	Total
Capital Purchase Program	$ 37,231	$ -	$ 104,440	$ 141,671
American International Group Investment Program[1]	-	-	13,152	13,152
Targeted Investment Program	-	40,341	-	40,341
Automotive Industry Financing Program	-	-	42,284	42,284
Consumer and Business Lending Initiative, which includes TALF	-	-	444	444
Asset Guarantee Program	-	-	1,765	1,765
Total TARP Program	**$ 37,231**	**$ 40,341**	**$ 162,085**	**$ 239,657**

1 Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

The following provides a description of the methodology used to develop the cash flows and incorporate the market risk into the measurement of the OFS assets.

Financial Institution Equity Investments[12]

The estimated values of preferred equity investments are the net present values of the expected dividend payments and repurchases. The model assumes that the key decisions affecting whether or not institutions pay their preferred dividends are made by each institution based on the strength of their balance sheet. The model assumes a probabilistic evolution of each institution's asset-to-liability ratio (the asset-to-liability ratio is based on the estimated fair value of the institution's assets against its liabilities). Each institution's assets are subject to uncertain returns and institutions are assumed to manage their asset to liability ratio in such a way that it reverts over time to a target level. Historical volatility is used to scale the likely evolution of each institution's asset-to-liability ratio.

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of US banks over the period 1990-2009. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical

12 This consists of equity investments made under CPP, CDCI, and TIP.

bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment is obtained through a calibration process to the market value of certain trading securities of financial institutions within the TARP programs. The OFS estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price.

AIG Investment

The method used to measure AIG preferred shares is broadly analogous to the approach used to measure financial institution preferred shares. However, greater uncertainty exists for the valuation of preferred shares for AIG. First, the size of OFS's holding of preferred shares relative to AIG's total balance sheet makes the valuation extremely sensitive to assumptions about the recovery ratio for preferred shares should AIG enter default. Second, no comparable traded preferred shares exist. Therefore, OFS based the AIG valuation on the observed market values of publicly traded junior subordinated debt, adjusted for OFS's position in the capital structure. Further, based on certain publicly available third party sources, assumptions about payouts in different outcomes and the probability of some outcomes were made. Finally, an external asset manager provided estimated fair value amounts, premised on public information, which also assisted OFS in its measurement. These different factors were all used in determining the best estimate for the AIG assets. The adjustment for market risk is incorporated in the data points the OFS uses to determine the measurement for AIG as all points rely on market data.

Asset Guarantee Program

As of September 30, 2009, the value of the asset guarantee program reflected the net present value of estimated default-claim payments by the OFS, net of income from recoveries on defaults, fees (including equity received), or other income. Default-claim payments were based on estimated losses on the guaranteed assets. Key inputs into these estimates are forecasted gross domestic product, unemployment rates and home price depreciation, in a base scenario and a stress scenario. During fiscal year 2010, an agreement was entered into to terminate the guarantee of OFS to pay for any defaults. After the termination, the OFS still held some of the trust preferred securities (initially received as the guarantee fee) issued by Citigroup and the potential to receive $800 million (liquidation preference) of additional Citigroup trust preferred securities from the FDIC, see further discussion below under the heading of Asset Guarantee Program. As such, as of September 30, 2010, the value of the instruments within the AGP is the value of the trust preferred securities held and the estimated cash flows associated with the contingent right to receive additional trust preferred securities. On September 30, 2010, the OFS entered into an agreement to sell[13] the trust preferred securities held within AGP, and the value of the trust preferred securities is approximately the sales price and the contingent right is valued in a similar manner as the financial institutions preferred equity investments noted above.

Investments in Special Purpose Vehicles

The OFS has made certain investments in financial instruments issued by special purpose vehicles (SPVs). Generally, the OFS estimates the cash flows of the SPV and then applies those cash flows to the waterfall governing the priority of payments out of the SPV.

For the loan associated with the Term Asset-Backed Securities Loan Facility (TALF), the OFS model derives the cash flows to the SPV, and ultimately the OFS, by simulating the performance of underlying collateral. Loss probabilities on the underlying collateral are calculated based on analysis of historical loan loss and charge off experience by credit sector and subsector. Historical mean loss rates and volatilities are significantly stressed to reflect recent and projected performance. Simulated losses are run through cash flow models to project impairment to the TALF-eligible securities. Impaired securities are projected to be purchased by the SPV, requiring additional OFS funding. Simulation outcomes consisting of a range of loss scenarios are probability-weighted to generate the expected net present value of future cash flows.

13 See further discussion of sale under Asset Guarantee Program below.

For the PPIP investments and loans made in the Public Private Investment Funds (PPIF), the OFS model derives cash flows to the SPV by simulating the performance of the collateral supporting the residential mortgage-backed securities (RMBS) and commercial mortgage backed securities (CMBS) held by the PPIF (i.e. performance of the residential and commercial mortgages). The simulated cash flows are then run through the waterfall of the RMBS/CMBS to determine the cash flows to the SPV. Once determined, the cash flows are run through the waterfall of the PPIF to determine the expected cash flows to the OFS through both the equity investments and loans. Inputs used to simulate the cash flows are unemployment forecast, home price appreciation/depreciation forecast, the current term structure of interest rates, historical pool performance as well as estimates of the net income and value of commercial real estate supporting the CMBS.

SBA 7(a) Securities

The valuation of SBA 7(a) securities is based on the discounted estimated cash-flows of the securities.

Auto Industry Financing Program (AIFP) Investments and Loans

The valuation of equity investments was performed in a manner that is broadly analogous to the methodology used for financial institution equity investments, with reliance on publicly traded securities to benchmark the assumptions of the valuation exercise. AIFP loans with potential value are valued using rating agency default probabilities.

As part of the General Motors (GM) bankruptcy proceedings, OFS received a 60.8 percent stake in the common equity of General Motors Company (New GM). Because the unsecured bond holders in General Motors Corporation (Old GM) received 10 percent of the common equity ownership and warrants in New GM, the expected recovery rate implied by the current trading prices of the Old GM bonds provides the implied value of the New GM equity. OFS used this implied equity value to account for its common stock ownership in New GM. The adjustment for market risk is incorporated in the data points the OFS uses to determine the measurement for GM as all points rely on market data.

For GMAC, Inc (GMAC – currently known as Ally Financial) trust preferred equity instruments, OFS estimates the value based on comparable publicly traded securities adjusted for factors specific to GMAC, such as credit rating. For investments in GMAC's common equity and mandatorily convertible preferred stock, which is valued on an "if-converted" basis, the OFS uses certain valuation multiples such as price-to-earnings and price-to-tangible book value to estimate the value of the shares. The multiples are based on those of comparable publicly-traded entities. The adjustment for market risk is incorporated in the data points the OFS uses to determine the measurement for GMAC as all points rely on market data.

OFS values direct loans using an analytical model that estimates the net present value of the expected principal, interest, and other scheduled payments taking into account potential defaults. In the event of an institution's default, these models include estimates of recoveries, incorporating the effects of any collateral provided by the contract. The probability of default and losses given default are estimated by using historical data when available, or publicly available proxy data, including credit rating agencies historical performance data. The models also incorporate an adjustment for market risk to reflect the additional return on capital that would be required by a market participant.

Subsidy Cost

The recorded subsidy cost of a direct loan, equity investment or asset guarantee is based on the estimated future cash flows calculated as discussed above. The OFS actions, as well as changes in legislation, that change these estimated future cash flows change subsidy costs and are recorded as modifications. The cost of a modification is recognized as a modification expense, included in subsidy cost, when the direct loan, equity investment, or asset guarantee is modified. During fiscal year 2010, modifications occurred within the Capital Purchase Program, the Asset Guarantee Program and the Automotive Industry Financing Program. During the period ended September 30, 2009, modifications occurred within the Capital Purchase Program; Consumer and Business Lending Initiative; the American International Group, Inc. Investment Program; and the Automotive Industry Financing Program. See detailed discussion related to each program and related modifications below. Total net modification cost for the year ended September 30, 2010 was $47.9 million. For the period ended September 30, 2009, net modification costs were $412.1 million.

The following table recaps gross loan or equity investment, subsidy allowance, and net loan or equity investment by TARP program. Detailed tables providing the net composition, subsidy cost, modifications and reestimates, along with a reconciliation of subsidy cost allowances as of and for the year ended September 30, 2010 and the period ended September 30, 2009, are provided at the end of this Note for Direct Loans and Equity Investments, detailed by program, and for the Asset Guarantee Program separately.

Descriptions and chronology of significant events by program are after the summary table.

(Dollars in Millions)	As of September 30, 2010		
Program	Gross Direct Loan or Equity Investment	Subsidy Allowance	Net Direct Loan or Equity Investment
Capital Purchase Program	$ 49,779	$ (1,546)	$ 48,233
American International Group Investment Program[1]	47,543	(21,405)	26,138
Targeted Investment Program	-	1	1
Automotive Industry Financing Program	67,238	(14,529)	52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) securities and CDCI	908	58	966
Public-Private Investment Program	13,729	676	14,405
Total TARP Program	**$ 179,197**	**$ (36,745)**	**$ 142,452**

(Dollars in Millions)	As of September 30, 2009		
Program	Gross Direct Loan or Equity Investment	Subsidy Allowance	Net Direct Loan or Equity Investment
Capital Purchase Program	$ 133,901	$ 7,770	$ 141,671
American International Group Investment Program[1]	43,206	(30,054)	13,152
Targeted Investment Program	40,000	341	40,341
Automotive Industry Financing Program	73,762	(31,478)	42,284
Consumer and Business Lending Initiative, which includes TALF	100	344	444
Public-Private Investment Program	-	-	-
Total TARP Program	**$ 290,969**	**$ (53,077)**	**$ 237,892**

1/ Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

Capital Purchase Program

In October 2008, the OFS began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the OFS purchased senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0% through year five, increasing to 9.0% in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others and payable when and if declared by the institution's board of directors. Under the original terms of the senior preferred stock the QFI may not redeem the shares within the first three years of the date of the investment, unless it had received the proceeds of one or more Qualified Equity Offerings (QEO)[14] which results in aggregate gross proceeds to the QFI of not less than 25.0% of the issue price of the senior preferred stock. QFIs that are Sub-chapter S corporations issued subordinated

14 A Qualified Equity Offering is defined as the sale by the QFI after the date of the senior preferred stock investment of Tier 1 perpetual preferred stock or common stock for cash.

debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7% for the first 5 years and 13.8% for the remaining years.

In February 2009 and May 2009, the United States Congress passed the American Recovery and Reinvestment Act of 2009 and the Helping Families Save Their Homes Act of 2009, respectively. These acts contained amendments to the EESA (EESA Amendments) which require the Secretary to allow QFIs to repay at any time, subject to regulatory approval, regardless of whether the 25.0% or greater QEO was accomplished. The ability of a QFI to repay the OFS investment prior to year 3 or a 25.0% QEO was not considered in the original subsidy cost estimate. Therefore, a modification cost of $77.7 million was recorded for the period ended September 30, 2009 as a result of these amendments.

In addition to the senior preferred stock, the OFS received warrants, as required by section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. The warrants have an aggregate exercise price equal to 15.0% of the total senior preferred stock investment. The exercise price per share used to determine the number of shares of common stock subject to the warrant was calculated based on the average closing prices of the common stock on the 20 trading days ending on the last day prior to the date the QFI's application was preliminarily approved for participation in the program. The warrants include customary anti-dilution provisions. Prior to December 31, 2009, in the event a public QFI completed one or more QEOs with aggregate gross proceeds of not less than 100.0% (100.0% QEO) of the senior perpetual preferred stock investment, the number of shares subject to the warrants was reduced by 50.0%. As of September 30, 2009, 19 QFIs had reduced shares pursuant to the provision. As of December 31, 2009, a total of 38 QFIs reduced the number of shares available under the warrants as a result of this provision. The warrants have a 10 year term. Subsequent to December 31, 2009, the OFS may exercise any warrants held in whole or in part at any time.

The OFS received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0% (13.8% interest rate for subordinate debentures) and a liquidation preference equal to 5.0% of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in the OFS holding additional senior preferred stock (subordinated debentures) (collectively referred to as "warrant preferred stock") of non-public QFIs. The OFS did not receive warrants from financial institutions considered Community Development Financial Institutions (CDFIs). A total of 35 and 20 institutions considered CDFIs were in the CPP portfolio as of September 30, 2010, and 2009, respectively.

The EESA Amendments previously discussed also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, a QFI, upon the repurchase of its senior preferred stock, also has the contractual right to repurchase the common stock warrants at the market price.

The following table provides key data points related to the CPP. In addition, 106 and 38 QFIs have not declared and paid one or more dividends to the OFS under CPP as of September 30, 2010 and September 30, 2009, respectively:

CPP INVESTMENT

(Dollars in Billions)	Fiscal Year 2010	Period Ended September 30, 2009
Number of Institutions Participating	707	685
Outstanding Beginning Balance, Investment in CPP Institutions	$ 133.9	$ 0.0
Purchase Price, Current Year Investments	0.3	204.6
Repayments and Sales of Investments	(81.4)	(70.7)
Write-offs and Losses	(2.6)	-
Transfers to CDCI	(0.4)	-
Outstanding Ending Balance, Investment in CPP Institutions	**$ 49.8**	**$ 133.9**
Interest and Dividends Collections	$ 3.1	$ 6.8
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	$ 6.7	$ 2.9

The task of managing the investments in CPP banks may require that the OFS enter into certain agreements to exchange and/or convert existing investments in order to achieve the best possible return for taxpayers. In the period ended September 30, 2009, the OFS entered into an exchange agreement with Citigroup under which the OFS exchanged $25.0 billion, at $3.25 per share, of its investment in senior preferred stock for 7.7 billion common shares of Citigroup. This exchange transaction was not considered in the original subsidy cost estimate for CPP. As a result, the OFS recorded a modification cost of $1.8 billion for the period ended September 30, 2009. In April 2010, the OFS began a process of selling the Citigroup common stock. As of September 30, 2010, the OFS had sold approximately 4.0 billion shares for total proceeds of $16.1 billion resulting in proceeds from sales in excess of cost of $3.0 billion. As of September 30, 2010, the OFS continues to hold approximately 3.7 billion shares of Citigroup common stock with an estimated fair value of $14.3 billion, based on the September 30, 2010 closing price of $3.91 per share. Included in shares held as of September 30, 2010, is approximately 77.2 million shares which were sold prior to or on September 30, 2010, but did not settle until October 2010. Proceeds from these sales were $302.7 million resulting in proceeds from sales in excess of cost of $51.9 million.

In addition to the above transaction, the OFS has entered into other transactions with various financial institutions including, exchanging existing preferred shares for a like amount of non tax-deductible Trust Preferred Securities, shares of mandatorily convertible preferred securities and selling preferred shares to acquiring financial institutions. Generally the transactions are entered into with financial institutions in poor financial condition with a high likelihood of failure. As such, in accordance with SFFAS No. 2, these transactions are considered workouts and not modifications. The changes in cost associated with these transactions are captured in the year-end reestimates.

During fiscal year 2010, certain financial institutions participating in CPP which are in good standing became eligible to exchange their OFS-held stock investments to preferred stock under the Community Development Capital Initiative (CDCI) of the Consumer and Business Lending Initiative Program (CBLI). The exchange of stock is treated as a repayment of CPP investments from the participating financial institution and a distribution for the CDCI. See further discussion of the CBLI and CDCI below. This was not considered in the formulation estimate for the CPP program. As a result, OFS recorded a modification cost savings of $31.9 million in the CPP program for this option during fiscal year 2010.

Failed institutions

In November 2009, a CPP participant, CIT Group, filed for Chapter 11 Bankruptcy. The OFS had invested $2.3 billion in senior preferred stock of CIT Group and received a warrant for the purchase of common stock. In fiscal year 2010, as a result of the bankruptcy proceedings, the OFS wrote off the $2.3 billion investment in CIT Group and will not recover any amounts associated with it. In addition, during fiscal year 2010, four other financial institutions within the CPP portfolio either filed for bankruptcy or were closed by their regulators. The OFS had invested approximately $396.3 million into these institutions. The OFS does not anticipate recovery on these investments and therefore the value of these shares are reflected at zero as of September 30, 2010. The ultimate amount received, if any, from the investments in institutions that filed for bankruptcy and institutions closed by regulators will depend primarily on the outcome of the bankruptcy proceedings and of the receivership.

American International Group, Inc. Investment Program (AIG)

The OFS provided assistance to certain systemically significant financial institutions on a case by case basis in order to provide stability to institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to prevent broader disruption to financial markets.

In November 2008, the OFS invested $40.0 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0% compounded quarterly. The OFS also received a warrant for the purchase of approximately 53.8 million shares (adjusted to 2.7 million shares after a 20:1 reverse stock split) of AIG common stock. On April 17, 2009, AIG and the OFS restructured their November 2008 agreement. Under the restructuring, the OFS exchanged $40.0 billion of cumulative Series D preferred stock for $41.6 billion of non-cumulative 10.0% Series E preferred stock. The amount of Series E preferred stock is equal to the original $40.0 billion, plus approximately $733.0 million in undeclared dividends as of the February 1, 2009, scheduled quarterly dividend payment date, $15.0 million in dividends compounded on the undeclared dividends, and an additional $855.0 million in dividends from February 1, 2009, but not paid as of April 17, 2009. AIG's restructured agreement kept the quarterly dividend payment dates of May 1, August 1, November 1, and February 1, as established by the original November 2008 agreement. The original subsidy cost estimate did not consider this restructuring, which resulted in a modification cost of $127.2 million being recorded. The OFS requested and received an appropriation for this additional cost in the period ended September 30, 2009.

In addition to the exchange, the OFS agreed to make available an additional $29.8 billion capital facility to allow AIG to draw additional funds if needed to assist in AIG's restructuring. The OFS investment related to the capital facility consists of Series F non-cumulative perpetual preferred stock with no initial liquidation preference, and a warrant for the purchase of 3,000 shares (adjusted to 150 shares after a 20:1 reverse stock split of AIG common stock). This liquidation preference increases with any draw down by AIG on the facility. The dividend rate applicable to these shares is 10.0% and is payable quarterly, if declared, on the outstanding liquidation preference. For the fiscal year ended September 30, 2010 and the period ended September 30, 2009, $4.3 billion and $3.2 billion, respectively, has been funded by the OFS to AIG under this additional capital facility. Consistent with SFFAS No.2, the unused portion of the AIG capital facility is not recognized as an asset as of September 30, 2010 and 2009.

According to the terms of the preferred stock, if AIG misses four dividend payments, the OFS may appoint to the AIG board of directors, the greater of two members or 20.0% of the total number of directors of the Company. The ability to appoint such directors shall remain in place until dividends payable on all outstanding shares of the Series E Preferred Stock have been declared and paid in full for four consecutive quarterly dividend periods, subject to revesting for each and every subsequent missed dividend payment. On April 1, 2010, the OFS appointed two directors to the Company's board as a result of non-payments of dividends. The additional two directors increased the total number of AIG directors to twelve.

On September 30, 2010, the Treasury, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring plan provides for, among other items, the conversion of currently outstanding Series E & F preferred stock to 1.092 billion shares of AIG common stock. Under the plan, the current undrawn portion of Series F will be available to AIG for the repayment of certain amounts owed to the Federal Reserve Bank of New York and for general corporate liquidity. The plan is still subject to a number of conditions which must be met in order to close. OFS management believes that the implementation of this plan would not result in additional losses on the AIG investment. See additional discussion regarding the proposed restructuring plan within the Management's Discussion and Analysis section of the Agency Financial Report.

Targeted Investment Program

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. The OFS considered institutions as candidates for the TIP on a case-by-case basis, based on a number of factors including the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

In the period ended September 30, 2009, the OFS invested $20.0 billion in each of Bank of America and Citigroup under TIP. Under each agreement, the OFS purchased $20.0 billion of perpetual preferred stock with an annual cumulative dividend rate of 8% and received a warrant for the purchase of common stock. In December 2009, Bank of America and Citigroup repaid the amounts invested by OFS along with dividends through the date of repayment. The amounts remaining within the TIP subsidy cost allowance represent the estimated value of the Citigroup warrant still held by the program.

During fiscal year 2010, the OFS received $1.1 billion in dividends under the TIP and proceeds of $1.2 billion from the auction of the Bank of America warrants. In the period ended September 30, 2009, the OFS received $1.9 billion in dividends under this program.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was designed to prevent a significant disruption of the American automotive industry, which could have had a negative effect on the economy of the United States.

General Motors (GM)

In the period ended September 30, 2009, the OFS provided $49.5 billion to GM through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while GM was in bankruptcy. The OFS assigned its rights in these loans (with the exception of $986.0 million which remained in GM for wind down purposes and $7.1 billion that would be assumed) and previously received common stock warrants to a newly created entity (General Motors Company). General Motors Company used the assigned loans and warrants to credit bid for substantially all of the assets of GM in a sale pursuant to Section 363 of the Bankruptcy Code. Upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the OFS received $2.1 billion in 9.0% cumulative perpetual preferred stock and 60.8% of the common equity interest in General Motors Company. In addition, General Motors Company assumed $7.1 billion of the DIP loan, simultaneously paying $0.4 billion (return of warranty program funds), resulting in a balance of $6.7 billion. The assets received by the OFS as a result of the assignment and Section 363 sale are considered recoveries of the original loans for subsidy cost estimation purposes. Recovery of the $986.0 million remaining in GM is subject to the final outcome of the bankruptcy proceedings. During fiscal year 2010, the OFS had received the remaining $6.7 billion as full repayment of the DIP loan assumed. In addition as of September 30, 2010 the OFS had received $188.8 million in dividends and $343.1 million in interest on General Motors Company preferred stock and the loan prior to repayment, respectively. The OFS received $34.1 million in dividends on the preferred stock and no interest on the loan during the period ended September 30, 2009. On October 27, 2010, the OFS signed a Letter Agreement with GM agreeing to sell the preferred stock to GM. GM will repurchase the preferred stock for 102% of the liquidation amount.

OFS has not yet determined whether to sell any of its shares of General Motors Company common stock in connection with the company's proposed initial public offering. Due to the uncertainty as to the market price that would result from the initial public offering, the potential effect on the value of OFS's investment in General Motors Company is unknown and could be significantly different from the September 30, 2010 financial statement value.

GMAC LLC Rights Offering

In December 2008, the OFS agreed, in principal, to lend up to $1.0 billion to GM for participation in a rights offering by GMAC (now known as Ally Financial, Inc.) in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interest acquired in the rights offering. The loan agreement specified that at any time, at the option of the lender (OFS), the unpaid principal and accrued interest was exchangeable for the membership interest purchased by GM during the rights offering. The loan was funded for $884.0 million. In May 2009, the OFS exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36% of the voting interest at the time, in GMAC in full satisfaction of the loan. In addition, during the period ended September 30, 2009, the OFS received $9.1 million in interest while the loan was outstanding. The conversion to GMAC shares was not considered in the original subsidy cost. As a result, a modification was recorded reducing the estimated subsidy cost by approximately $1.6 billion for the period ended September 30, 2009. As of September 30, 2010 the OFS continues to hold the GMAC shares obtained in this transaction (see further discussion of OFS's GMAC holdings under GMAC, Inc. in this note.).

Chrysler Holding LLC (Chrysler)

In the period ended September 30, 2009, the OFS invested approximately $5.9 billion in Chrysler. Specifically, $4.0 billion was for general and working capital purposes (General Purpose Loan) and $1.9 billion was for DIP financing while Chrysler was in bankruptcy (DIP Loan). Upon entering bankruptcy, a portion of Chrysler was sold to a newly created entity (New Chrysler). Under the terms of the bankruptcy agreement, $500.0 million of the general purpose loan was assumed by the New Chrysler (see discussion under Chrysler Exit for discussion of note terms).   In fiscal year 2010, the OFS received approximately $1.9 billion and subsequently wrote-off the remaining $1.6 billon of the General Purpose Loan. Recovery of the DIP Loan is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler. During fiscal year 2010 the OFS received $40.2 million in recoveries on the DIP loan. OFS did not receive any interest on these loans during the fiscal year 2010. During the period ended September 30, 2009, the OFS had received $52.1 million in interest payments from these loans.

Chrysler Exit

In May 2009, the OFS committed to make a loan to New CarCo Acquisition LLC (Chrysler Group LLC), the company that purchased certain assets of Chrysler. The final terms of the credit agreement resulted in a loan to New Chrysler for approximately $7.1 billion. This amount consists of a commitment to fund up to $6.6 billion of new funding and $500.0 million of assumed debt[15] from the OFS January 2, 2009 General Purpose Loan with Chrysler, described above. The loan was secured by a first priority lien on the assets of Chrysler Group LLC. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. The following describes the terms of Tranches B and C.

The maximum funding under Tranche B was $2.0 billion and was funded on the closing date of the agreement. Interest on Tranche B is generally[16] 3 Month Eurodollar plus 5.0% margin. Tranche B is due and payable on December 10, 2011, provided that the Chrysler Group LLC may elect to extend the maturity of up to $400.0 million of Tranche B to the Tranche C maturity date. If so elected, the applicable margin will increase from 5.0% to 6.5%.

The maximum funding under Tranche C is approximately $4.64 billion, of which approximately $2.58 billion was funded on the closing date. Interest on Tranche C is 3 Month Eurodollar plus 7.91% margin. On June 10, 2016, the Tranche C loan is due to be prepaid to the extent the funded amount is greater than 50.0% of the closing date commitment amount, taking into consideration amounts previously prepaid as a voluntary prepayment. The remaining balance of the Tranche C loan is due and payable on June 10, 2017.

Interest on both the Tranche B and Tranche C was payable in-kind through December 2009 and added to the principal balance of the respective Tranche. Subsequently, interest is paid quarterly beginning on March 31, 2010. In addition, additional in-kind interest is being accrued in the amount of $17.0 million per quarter. Such amount will be added to the Tranche C loan balance subject to interest at the appropriate rate.

The OFS also obtained other consideration, including a 9.85% equity interest in Chrysler Group LLC and additional notes[17] with principal balances of $288.0 million and $100.0 million[18]. As of September 30, 2009, the OFS had funded approximately $4.6 billion under this facility, which was outstanding as of September 30, 2010 and 2009. During fiscal year 2010, the OFS received $381.8 million in interest payments. No interest was due for payment in the period ended September 30, 2009. For the year ended September 30, 2010, the OFS has recognized $344.4 million of in-kind interest that has been capitalized. No in-kind interest was recognized in the period ended September 30, 2009.

Chrysler Financial

In January 2009, the OFS loaned $1.5 billion to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. On July 14, 2009, the loan and additional note of $15.0 million were paid in full. In addition, during the period ended September 30, 2009, the OFS received $7.4 million in interest payments while this loan was outstanding.

15 The assumed debt contains the same terms as the Tranche C loan with respect to mandatory prepayment, interest and maturity.

16 For both Tranche B and C, an Alternative Base Rate (defined in agreement) is available at the option of the OFS in certain situations defined in the agreement.

17 The additional notes bear the same interest rate and maturity as the Tranche C loan.

18 Interest begins to accrue on this note after certain events, defined in the credit agreement, have taken place.

Auto Supplier Support Program

In April 2009, under the Auto Supplier Support Program, OFS committed $5.0 billion in financing for the Auto Supplier Program as follows: $3.5 billion for GM suppliers and $1.5 billion for Chrysler suppliers. These commitments were subsequently reduced to $2.5 billion for GM suppliers and $1.0 billion for Chrysler suppliers per the loan agreements. Under the program, suppliers were able to sell their receivable to a SPV, created by the respective automaker, at a discount. The OFS provided approximately $413.1 million of funding to this program during the period ended September 30, 2009. The bankruptcy of Chrysler and GM did not impact this program, as both companies were allowed to continue paying suppliers while in bankruptcy. The OFS received $5.9 million in interest during the period ended September 30, 2009. The $413.1 million was repaid in fiscal year 2010 along with approximately $9.0 million in interest and $101.1 million in fees and other income.

Auto Warranty Program

In April 2009 and May 2009, the OFS loaned approximately $280.0 million to Chrysler and $360.6 million to GM, respectively, to capitalize SPVs created by Chrysler and GM to finance participation in the Warranty Commitment Program (warranty program). The OFS also received additional notes as consideration for its loans in an amount equal to 6.67% of the funded amounts. The warranty program covered all warranties on new vehicles purchased from Chrysler and GM during the period in which Chrysler and GM were restructuring. In the period ended September 30, 2009, the OFS received all principal amounts due on the Auto Warranty Program loans from both GM and Chrysler and terminated the warranty program. Interest in the amount of $3.1 million was received by the OFS from Chrysler during the period ended September 30, 2009. No interest was received in connection with the GM repayment. The GM additional note was assigned to the General Motors Company as part of the bankruptcy proceedings and extinguished as part of the credit bid for the assets of old GM. In fiscal year 2010, the Chrysler additional note was written off with the remaining portion of the Chrysler General Purpose Loan.

GMAC Inc. (GMAC-currently known as Ally Financial)

In December 2008, the OFS purchased preferred membership interests for $5.0 billion that were converted to senior preferred stock with an 8.0% annual distribution right (dividends) from GMAC. Under the agreement, GMAC issued warrants to the OFS to purchase, for a nominal price, additional preferred equity in an amount equal to 5.0% of the preferred equity purchased. These warrants were exercised at closing of the investment transaction. The additional preferred stock provided for a 9.0% annual distribution right. During the period ended September 30, 2009, the OFS received $265.2 million in dividends associated with these preferred and warrant preferred shares. On December 30, 2009, this preferred stock (including the warrant preferred shares) was exchanged for 105.0 million shares of GMAC's Series F-2 Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (Series F-2) shares (described below). This exchange was not considered in the original subsidy estimate for GMAC; therefore OFS recorded a modification cost of $1.5 billion in fiscal year 2010.

In May 2009, the OFS published a non-binding term sheet to invest $13.1 billion to support GMAC, subject to definitive documentation and GMAC's capital needs. In the period ended September 30, 2009, OFS invested $7.5 billion (150.0 million shares) in 9.0% Mandatorily Convertible Preferred Stock in GMAC to support its ability to originate new loans to Chrysler dealers and consumers, and help address GMAC's capital needs. The preferred stock have a liquidation preference of $50 per share and are convertible in whole or in part, at any time, at the option of GMAC, subject to the approval of the Federal Reserve. In addition, the OFS received warrants to purchase an additional 7.5 million shares of Mandatorily Convertible Preferred Stock, which were exercised upon closing of the transaction. In December 2009, 97.5 million shares (which include the warrant preferred shares) were exchanged for GMAC's Series F-2 shares (discussed below) and the remaining 60 million were converted to 259,200 shares of GMAC common stock.

In addition to the exchanges and conversions discussed above, on December 30, 2009, the OFS entered into the following transactions with GMAC to assist it in complying with the requirements of the Federal Reserve Board's Supervisory Capital Assessment Program:

1. Purchased $2.54 billion (2.54 million shares with a face value of $1,000) of 8.0% Trust Preferred Securities and received a warrant for an additional $127 million of the Trust Preferred Securities, which was immediately exercised. GMAC

issued $2.747 billion of subordinate debentures to a trust, established by GMAC, which in turn issued the trust preferred securities. The trust preferred securities pay cumulative cash distributions of 8%. GMAC may defer payments on the debentures (and the trust may defer distributions on the trust preferred securities) for a period of up to 20 consecutive quarters, but such distributions will continue to accrue through any such deferral period. GMAC has not elected to defer payments. The Trust Preferred Securities have no stated maturity date, but must be redeemed upon the redemption or maturity of the debentures (February 15, 2040).

2. Purchased $1.25 billion (25 million shares) of GMAC's Series F-2, $50 liquidation preference per share. The Series F-2 is convertible into GMAC common stock at the option of GMAC subject to the approval of the Federal Reserve and consent by the OFS or pursuant to an order by the Federal Reserve compelling such conversion. The Series F-2 is also convertible at the option of the OFS upon certain specified corporate events. Absent an optional conversion, the Series F-2 will automatically convert to common stock after 7 years from the issuance date. The initial conversion rate is .00432 and is subject to a "reset" such that the conversion price will be adjusted in 2011, if beneficial to OFS, based on the market price of private capital transactions occurring in 2010 and certain anti-dilution provisions. The Series F-2 have a stated dividend rate of 9%, payable when and if declared by the board of directors. The Series F-2 may be redeemed by GMAC, subject to certain limitations and restrictions. The OFS also received a warrant to purchase $62.5 million (1.25 million shares) of additional Series F-2, which was immediately exercised.

As a result, after the December 30, 2009 transaction, the OFS had the following investments in GMAC as of September 30, 2010:

	Number of Shares	Investment amount / % ownership (dollars in millions)
8% Trust Preferred Securities		
Purchased	2,540,000	$ 2,540
Received from warrant exercise	127,000	127
Total Trust Preferred Securities	2,667,000	$ 2,667
Series F-2 Mandatorily Convertible Securities		
Purchased /exchanged for	227,500,000	$ 11,375
Received from warrant exercise	1,250,000	63
Total Series F-2[10]	228,750,000	$ 11,438
Common Stock[11]	450,121	56.3%

In fiscal year 2010, the OFS received $1.2 billion in dividends from GMAC. In the period ended September 30, 2009, the OFS received $430.6 million in dividends from GMAC.

Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative is intended to help unlock the flow of credit to consumers and small businesses. Three programs were established to help accomplish this. The Term Asset-Backed Securities Loan Facility was created to help jump start the market for securitized consumer and small business loans. The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. The Community Development Capital Initiative was created to provide additional low cost capital to small banks to encourage more lending to small businesses. Each program is discussed in more detail below.

19 These shares are convertible into 988,200 shares of GMAC common stock, which if combined with common stock currently held by OFS would represent approximately 80.5% ownership of GMAC.

20 Includes shares received upon conversion of GMAC Rights Loan discussed above.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created by the Federal Reserve Board (FRB) to provide low cost funding to investors in certain classes of Asset Backed Securities (ABS). The OFS agreed to participate in the program by providing liquidity and credit protection to the FRB.

Under the TALF, the Federal Reserve Bank of New York (FRBNY), as implementer of the TALF program, originated loans on a non-recourse basis to purchasers of certain AAA rated ABS secured by consumer and commercial loans and commercial mortgage backed securities. Generally ABS issued after January 1, 2009 are eligible collateral under the TALF program. In addition, SBA securities issued after January 1, 2008 and CMBS issued prior to January 2009 and originally AAA rated are eligible collateral. TALF loans have a term of 3 or 5 years and are secured solely by eligible collateral. Haircuts (a percentage reduction used for collateral valuation) are determined based on the riskiness of each type of eligible collateral and the maturity of the eligible collateral pledged to the FRBNY. The "haircuts" provide additional protection to the OFS by exposing the TALF borrowers to some risk of loss. Interest rates charged on the TALF loans depend on the weighted average maturity of the pledged collateral, the collateral type and whether the collateral pays fixed or variable interest. The program ceased issuing new loans on June 30, 2010. As of September 30, 2010, approximately $29.7 billion of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY has entered into a put agreement with the TALF, LLC, a special purpose vehicle created by the FRBNY. In the event of a TALF borrower default, the FRBNY will seize the collateral and sell it to the TALF, LLC under this agreement. The TALF, LLC receives a monthly fee equal to the difference between the TALF loan rate and the FRBNY's fee (spread) as compensation for entering into the put agreement. The accumulation of this fee will be used to fund purchases. In the event there are insufficient funds to purchase the collateral, the OFS originally committed to invest up to $20.0 billion in non-recourse subordinated notes issued by the TALF, LLC. On July 19, 2010, the OFS's commitment was reduced to $4.3 billion. The subordinated notes bear interest at 1 Month LIBOR plus 3.0% and mature 10 years from the closing date, subject to extension. The OFS disbursed $100.0 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the spread is not sufficient to cover purchases. Any amounts needed in excess of the OFS commitment and the fee would be provided through a loan from the FRBNY. Upon wind-down of the TALF, LLC (collateral defaults, reaches final maturity or is sold), the cash balance will be disbursed according to the following payment priority:

1. FRBNY principal balance
2. OFS principal balance
3. FRBNY interest
4. OFS interest
5. Remaining cash balance – 90.0% to the OFS, 10.0% to the FRBNY

During the period ended September 30, 2009, subsequent to the initial cost estimates prepared for the TALF, certain changes were made to the terms of the program, including increasing the term to 5 years and the addition of different types of acceptable collateral. These program changes resulted in a modification for the period ended September 30, 2009, increasing the original cost estimate by $8.0 million.

The TALF, LLC is owned, controlled and consolidated by the FRBNY. The credit agreement between the OFS and the TALF, LLC provides the OFS with certain rights consistent with a creditor but would not constitute control. As such, TALF, LLC is not a federal entity and the assets, liabilities, revenue and cost of TALF, LLC are not included in the OFS financial statements.

As of September 30, 2010 and 2009, no TALF loans were in default and consequently no collateral was purchased by the TALF, LLC.

SBA 7(a) Security Purchase Program

In March 2010, the OFS began the purchase of securities backed by Small Business Administration 7(a) loans (7(a) Securities) as part of the Unlocking Credit for Small Business Initiative. Under this program OFS purchases 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. Generally, the OFS entered into a trade to purchase 7(a) Securities with actual settlement and delivery to occur one to three months in the future. As of September 30, 2010, OFS has entered into trades to purchase $356.3 million (excluding purchased accrued interest) of these securities. Of this amount, $240.7 million has settled with the remaining trades to be settled by December 30, 2010. During fiscal year 2010, the OFS received $3.5 million in interest and principal payments on these securities.

Community Development Capital Initiative

In February 2010, the OFS announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFIs). Under the terms of the program, the OFS purchases senior preferred stock (or subordinated debt) from eligible CDFI financial institutions. The senior preferred stock has an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years.

For CDFI credit unions, the OFS purchased subordinated debt at rates equivalent to those offered to CDFI financial institutions and with similar terms. These institutions may apply for up to 3.5 percent of total assets - an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their current CPP preferred shares (subordinated debt) for CDCI preferred shares (subordinated debt). These exchanges were treated as a disbursement from CDCI and a repayment to CPP.

As of September 30, 2010, the OFS has invested $570.1 million ($363.3 million was a result of exchanges from CPP) in 84 institutions under the CDCI.

Public-Private Investment Program

The PPIP is part of the OFS's efforts to help restart the market and provide liquidity for legacy assets. Under this program, the OFS made equity investment in and loans to investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment was used to match private capital and equaled approximately 50.0% of the total equity invested. The loan is, at the option of the investment manager, equal to 50.0% or 100.0% of the total equity (including private equity). As of September 30, 2010, all PPIFs have elected to receive loans up to 100% of total equity. The loans bear interest at 1 Month LIBOR, plus 1.0%, which accrues monthly and is payable on the tenth business day of the month following the accrual period. The maturity date of the loan is the earlier of 10 years or the termination of the PPIF. The loan can be prepaid, subject to compliance with the priority of payments discussed below, without penalty. The PPIF will terminate in 8 years from the commencement of the fund. The governing documents of the funds allow for 2 one year extensions, subject to approval of the OFS. The loan agreements also require purchased security cash flows from securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help ensure secured parties are paid before equity holders. Specifically, security cash flows collected are disbursed as follows (steps 7 through 10 are at the discretion of the PPIF),

1. To pay administrative expenses, excluding certain tax expenses of the Partnership;
2. To pay interest or margin due on permitted interest rate hedges;
3. To pay current period interest due to the Lender[21];
4. To pay amounts due to an interest reserve account if the total deposit in the interest reserve account is less than the required interest reserve account;
5. To pay principal on the Loan required when the minimum Asset Coverage Ratio Test is not satisfied as of the prior month end;

21 The Lender is OFS

6. To pay other amounts due on permitted interest rate hedges not paid in accordance with step 2. above;
7. For investment in Temporary Investments, prepayments of the Loan and/or investment in eligible Assets during the investment period, which is three years from the Initial Closing Date (the "Investment Period");
8. For distribution to partners after step 1 through 7 not to exceed the lesser of: (a) cumulative consolidated net interest income for the preceding twelve months or (b) 8% on the funded capital commitments, so long as no event of default is then continuing and the appropriate Asset Coverage Ratio Requirement is satisfied;
9. To pay the Loan not to exceed the lesser of (a) prepayment on the Loan as scheduled or (b) an amount which reduces the Loan to zero, provided that dollar for dollar credit is given for any optional prepayments of the Loan made during the related collection period on any date prior to the applicable determination date; and
10. Remaining amounts to be used or distributed in accordance with the limited partnership agreement after repayment of the Loan.

The loan is subject to certain affirmative and negative covenants as well as a financial covenant, the Asset Coverage Test. The Asset Coverage Test generally requires that the Asset Coverage Ratio be equal to or greater than 150%. The Asset Coverage Ratio is a percentage obtained by dividing total assets of the PPIF by the principal amount of the loan and accrued and unpaid interest on the loan. Failure to comply with the test could require accelerated repayment of loan principal (see step 7 above) and prohibit the PPIF from borrowing additional funds under the loan agreement.

As a condition of its investment, the OFS also received a warrant from the PPIFs entitling the OFS to 2.5% of investment proceeds (excluding those from temporary investments) otherwise allocable to the non-OFS partners. The warrant payment will be distributed by the PPIF to the OFS following the return of 100% of the non-OFS partner's capital contributions to the PPIF.

The PPIFs pay a management fee to the fund manager from the OFS's share of investment proceeds. During the Investment Period, the management fee is equal to 0.20% per annum of the OFS's capital commitment as of the last day of the applicable quarter. Thereafter, the management fee will be equal to 0.20% per annum of the lesser of (a) the OFS's capital commitment as of the last day of the applicable quarter and (b) the OFS Interest Value as of the last day of the quarter.

The PPIFs are allowed to purchase commercial mortgage-backed securities (CMBS) and non-agency residential mortgage-backed securities (RMBS) issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets (eligible assets) and not other securities. The PPIFs may invest in the aforementioned securities for a period of 3 years using proceeds from capital contribution, loans and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States.

As of September 30, 2010 the total market value of the eligible assets held by all PPIFs was approximately $19.3 billion. The approximate split between RMBS and CMBS was 82% RMBS and 18% CMBS.

On January 4, 2010, the OFS entered into a Winding-up and Liquidation Agreement with one of the PPIFs. Prior to the signing of the agreement, the OFS had invested $356.3 million ($156.3 million equity investment and $200.0 million loan) in the fund. Upon final liquidation, the OFS received $377.4 million representing return of the original investment, interest on the loan and return on the equity investment and warrant.

As of September 30, 2010, the OFS had signed definitive limited partnership and loan agreements with eight investment managers, committing to disburse up to $22.1 billion. During fiscal year 2010, OFS disbursed $4.9 billion as equity investment and $9.2 billion as loans to PPIFs. As of September 30, 2009, no investment managers had made any investments under PPIP and the OFS had not disbursed any funds. During fiscal year 2010, the OFS received (excluding amounts repaid in liquidation discussed above) $56.0

million in interest on loans and $151.8 million (net of management fees of $7.2 million) of income on the equity investments. In addition, the OFS received $72.0 million in loan principal repayments.

Asset Guarantee Program

The Asset Guarantee Program (AGP) provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. The AGP was applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly.

Section 102 of the EESA required the Secretary to establish the AGP to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities, and established the Troubled Assets Insurance Financing Fund (TAIFF). In accordance with Section 102(c) and (d) of the EESA, premiums from financial institutions, are collected and all fees are recorded by the OFS in the TAIFF. In addition, Section 102(c) (3) of the EESA requires that the original premiums assessed are "set" at a minimum level necessary to create reserves sufficient to meet anticipated claims.

The OFS completed its first transaction under the AGP in January 2009, when it finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the OFS, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank of New York (FRBNY) (collectively the USG Parties) provided protection against the possibility of large losses on an asset pool of approximately $301.0 billion of loans and securities backed by residential and commercial real estate and other such assets, which remained on Citigroup's balance sheet. The OFS's guarantee was limited to $5.0 billion.

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0% stated dividend rate and a warrant for the purchase of common stock; $4.0 billion and the warrant were issued to the OFS, and $3.0 billion was issued to the FDIC. The OFS received $265.2 million and $174.8 million during the periods ending September 30, 2010 and September 30, 2009, respectively, in dividends on the preferred stock received as compensation for this arrangement. These dividends have been deposited into the TAIFF. The OFS had also invested in Citigroup through CPP and the TIP.

As of September 30, 2009, the net present value of the estimated cash inflows from the preferred stock and warrant received by the OFS from Citigroup as a premium was greater than the estimated net present value of future claims payments, resulting in an asset of $1.765 billion, after reestimates.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement the OFS cancelled $1.8 billion of the preferred stock previously issued to OFS. In addition, the FDIC agreed to transfer to the OFS $800 million of their trust preferred stock holding plus dividends thereon contingent on Citigroup repaying its previously issued FDIC guaranteed debt. The contingent receipt of additional preferred shares from the FDIC is included in the subsidy calculation for AGP, based on the expected value. Termination of the agreement was not considered in the formulation estimates of the guarantee and therefore the termination resulted in a negative modification cost (reduction of cost) of $1.4 billion recorded in fiscal year 2010. On September 29, 2010, the OFS exchanged its existing Trust Preferred Securities for securities containing market terms to facilitate a sale. On September 30, 2010, the OFS agreed to sell its Trust Preferred Securities it holds for $2.246 billion. The Trust Preferred Securities are valued at approximately the sales price in the financial statements. The sale settled on October 5, 2010.

In January 2009, the USG Parties and Bank of America signed a Summary of Terms (Term Sheet) pursuant to which the USG Parties agreed to guarantee or lend against a pool of up to $118.0 billion of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America notified the USG Parties of its desire to terminate negotiations with respect to the guarantee contemplated in the Term Sheet. All parties agreed that Bank of America received value for entering into the Term Sheet with the USG Parties and that the USG Parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of

America would have paid for the guarantee from the date of the signing of the Term Sheet through the termination date. Under the terms of the settlement, the U.S. Treasury received $276.0 million for its role in the guarantee agreement through the OFS. All the OFS funds received for the settlement were deposited in the TAIFF and subsequently paid to the Treasury General Fund. The $276 million received by the OFS pursuant to the settlement is reflected in the OFS Statement of Net Cost as a reduction of the AGP subsidy cost in the period ended September 30, 2009.

Subsidy Reestimates

The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates for all programs were performed using actual financial transaction data through September 30, 2010 and 2009. Market and security specific data publicly available as of September 30, 2010, was used for the CPP, AGP, TIP, AIG, CDCI, AIFP and SBA programs in the reestimate calculations for fiscal year 2010. Security specific data through June 30, 2010, with market prices through September 30, 2010, was used for the PPIP and TALF programs in the reestimate calculations for fiscal year 2010. Market and security specific data publicly available as of September 30, 2009, was used for the CPP, AGP, TIP and AIFP direct loans and data through August 31, 2009, was used for the equity portion of AIFP, AIG and TALF programs in the reestimate calculations for the period ending September 30, 2009.

The OFS assessed using security specific data available as of September 30, 2010 and, in its determination, there were no significant changes to the portfolio characteristics or performance of the PPIP and TALF programs that would require a revision to the reestimates for fiscal year 2010.

For the period ending September 30, 2009, the OFS assessed the key inputs of the reestimates using data publically available as of September 30, 2009, and in its determination, there were no significant changes to the key inputs for the three programs for which August 31, 2009, data was used that required a revision to the reestimates.

Net downward reestimates for the year ended September 30, 2010 and the period ended September 30, 2009 totaled $30.3 billion and $109.7 billion, respectively. Descriptions of the reestimates, by OFS Program, are as follows:

CPP

The net upward reestimate for the CPP of $3.9 billion for the year ended September 30, 2010 is the net result of a decrease in the price of Citigroup common stock that was partially offset by an increase in the estimated value of the other investments within the CPP, due to improved market conditions during the period.

The $70.7 billion in repurchases during the period ended September 30, 2009 accounted for $9.7 billion of the $72.4 billion in downward reestimates in the CPP for the period. Projected repurchases of $30.0 billion for fiscal year 2010 accounted for approximately $5.4 billion, with the $57.3 billion balance in downward reestimates in the CPP for the period ended September 30, 2009 primarily due to improved market conditions from when the original estimate was made in December 2008.

AIG

The $12.0 billion in downward reestimates for the AIG Investment Program for the year ended September 30, 2010 are due to an increase in the estimated value of AIG assets and subordinated debt and improvements in market conditions over the period.

The $1.1 billion in downward reestimates for the AIG Investment Program in the period ended September 30, 2009 was primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

TIP

The $1.9 billion in net downward reestimates in the TIP in fiscal year 2010 included $2.2 billion in downward reestimates due to the repurchase of the program's investments by the two institutions participating in the program. That downward reestimate amount was partially offset by a $0.3 billion upward reestimate from a slight reduction in the estimated value of outstanding warrants.

The $21.5 billion in downward reestimates in the TIP in the period ended September 30, 2009 was primarily due to improved market conditions from when the original estimates were made in December 2008 and January 2009. Approximately $2.3 billion was due to a $20.0 billion repurchase forecast for fiscal year 2010.

AIFP

The $19.3 billion in downward reestimates for the AIFP direct loan and equity investments for the year ended September 30, 2010 was due to $1.8 billion in payments exceeding projections, a reduction in estimated defaults due to improvements in the domestic automotive industry, and an increase in the bond prices and valuations used to estimate the cost of the remaining AIFP investments.

The approximately $10.6 billion in downward reestimates for the direct loans-AIFP in the period ended September 30, 2009 was primarily the result of the post bankruptcy improved financial position of one of the major companies participating in the program. The $2.7 billion in downward reestimates for the AIFP equity programs in the period ended September 30, 2009 were primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

CBLI

The TALF and SBA programs within the CBLI had a total upward reestimate of less than $0.1 billion for the year ended September 30, 2010. The TALF program had a $23 million upward reestimate mostly due to a projected reduction in the size of the portfolio and higher than projected repayments. The SBA program had an upward reestimate of less than $1 million due to an increase in projected interest rates and a reduction in market risks. The CDCI program had $7.3 million in upward reestimates for the period.

The $0.2 billion in downward reestimates for the TALF in the period ended September 30, 2009 was due to projected improved performance of the securities within the program versus the original estimate.

PPIP

The $1.0 billion in downward reestimates for the PPIP debt and equity programs for the year ended September 30, 2010 was the net of a $1.2 billion upward reestimate in the PPIP debt program and $2.2 billion in downward reestimates for the PPIP equity programs mostly due to the use of actual portfolio data for reestimates rather than the proxy data used in developing the baseline estimates and changes in market risks.

AGP

The AGP had a net $0.1 billion downward reestimate for the year ended September 30, 2010. The reestimate amounts exclude an estimated cost savings of $1.4 billion that resulted from the cancellation of the $5.0 billion guarantee because this transaction was reflected in the subsidy modifications during fiscal year 2010.

The $1.2 billion in downward reestimates for the AGP in the period ended September 30, 2009 was primarily due to improvements in market conditions from when the guarantee was committed in January 2009. The improved market conditions resulted in an increase in the projected AGP asset due to the net present value of the estimated cash inflows from the preferred stock and warrants received by the OFS from Citigroup as a premium being greater than the estimated value of future claim payments associated with the $5.0 billion asset guarantee.

Summary Tables

The following detailed tables provide the net composition, subsidy cost, modifications and reestimates, a reconciliation of subsidy cost allowance and budget subsidy rates and subsidy by component for each TARP direct loan, equity investment or asset guarantee program for the year ended September 30, 2010 and the period ended September 30, 2009:

TROUBLED ASSET RELIEF PROGRAM LOANS AND EQUITY INVESTMENTS

(Dollars in Millions)	TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
As of September 30, 2010							
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 179,197	$ 49,779	$ 47,543	$ -	$ 67,238	$ 908	$ 13,729
Subsidy Cost Allowance	(36,745)	(1,546)	(21,405)	1	(14,529)	58	676
Direct Loans and Equity Investments Outstanding, Net	$ 142,452	$ 48,233	$ 26,138	$ 1	$ 52,709	$ 966	$ 14,405
New Loans or Investments Disbursed	$ 23,373	$ 277	$ 4,338	$ -	$ 3,790	$ 811	$ 14,157
Obligations for Loans and Investments not yet Disbursed	$ 36,947	$ -	$ 22,292	$ -	$ 2,066	$ 4,339	$ 8,250
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 53,077	$ (7,770)	$ 30,054	$ (341)	$ 31,478	$ (344)	$ -
Subsidy Cost for Disbursements and Modifications	7,533	(16)	4,293	-	2,644	275	337
Interest and Dividend Revenue	6,977	3,131	-	1,143	2,475	-	228
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	8,013	6,676	-	1,237	99	-	1
Net Interest Expense on Borrowings from BPD and Financing Account Balance	(4,690)	(2,018)	(981)	(161)	(1,309)	(20)	(201)
Writeoffs	(3,934)	(2,334)	-	-	(1,600)	-	-
Balance, End of Period, Before Reestimates	66,976	(2,331)	33,366	1,878	33,787	(89)	365
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Balance, End of Period	$ 36,745	$ 1,546	$ 21,405	$ (1)	$ 14,529	$ (58)	$ (676)
Reconciliation of Subsidy Cost:							
Subsidy Cost for Disbursements	$ 6,067	$ 16	$ 4,293	$ -	$ 1,146	$ 275	$ 337
Subsidy Cost for Modifications	1,466	(32)	-	-	1,498	-	-
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Total Direct Loan and Equity Investment Programs Subsidy Cost (Income)	$ (22,698)	$ 3,861	$ (7,668)	$ (1,879)	$ (16,614)	$ 306	$ (704)

TROUBLED ASSET RELIEF PROGRAM LOANS, EQUITY INVESTMENTS AND ASSET GUARANTEE PROGRAM BUDGET SUBSIDY RATES:

(Dollars in Millions)	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates (see Note below):							
As of September 30, 2010							
Interest Differential		-25.62%			37.70%	30.39%	11.72%
Defaults		16.36%			13.78%	3.93%	0.00%
Fees and Other Collections		-3.00%			-0.38%	0.00%	-0.41%
Other		18.03%			-20.85%	-0.41%	-10.34%
Total Budget Subsidy Rate (See Note below)	N/A	5.77%	N/A	N/A	30.25%	33.91%	0.97%
Subsidy Cost by Component:							
Interest Differential		$ (71)	$ 1,415		$ 1,429	$ 246	$ 1,880
Defaults		45	2,907		522	32	-
Fees and Other Collections		(8)	-		(15)	-	(55)
Other		50	(29)		(790)	(3)	(1,488)
Total Subsidy Cost, Excluding Modifications and Reestimates	N/A	$ 16	$ 4,293	N/A	$ 1,146	$ 275	$ 337

"Note: The rates reflected in the table above are FY 2010 budget execution rates by program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy cost (income) for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy cost (income) reported in the current year also includes modifications and re-estimates.Therefore, the *Total Subsidy Cost Excluding Modifications and Reestimates* will not equal the *New Loans or Investments Disbursed* multiplied by the *Budget Subsidy Rate.*

TROUBLED ASSET RELIEF PROGRAM LOANS AND EQUITY INVESTMENTS

(Dollars in Millions)	TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
As of September 30, 2009							
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 290,969	$ 133,901	$ 43,206	$ 40,000	$ 73,762	$ 100	$ -
Subsidy Cost Allowance	(53,077)	7,770	(30,054)	341	(31,478)	344	-
Direct Loans and Equity Investments Outstanding, Net	$ 237,892	$ 141,671	$ 13,152	$ 40,341	$ 42,284	$ 444	$ -
New Loans or Investments Disbursed	$ 363,826	$ 204,618	$ 43,206	$ 40,000	$ 75,902	$ 100	$ -
Obligations for Loans and Investments not yet Disbursed	$ 51,681	$ -	$ 26,629	$ -	$ 5,152	$ 19,900	$ -
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Subsidy Cost for Disbursements and Modifications	152,179	57,386	31,552	19,540	43,797	(96)	-
Interest and Dividend Collections	9,329	6,790	-	1,862	677	-	-
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	2,916	2,901	-	-	15	-	-
Net Interest Income (Expense) on Borrowings from BPD and Financing Account Balance	(2,773)	(2,428)	(373)	(276)	309	(5)	-
Balance, End of Period, Before Reestimates	161,651	64,649	31,179	21,126	44,798	(101)	-
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	-
Balance, End of Period	$ 53,077	$ (7,770)	$ 30,054	$ (341)	$ 31,478	$ (344)	$ -
Reconciliation of Subsidy Cost:							
Subsidy Cost (Income) for Disbursements	$ 151,767	$ 55,520	$ 31,425	$ 19,540	$ 45,386	$ (104)	$ -
Subsidy Cost (Income) for Modifications	412	1,866	127	-	(1,589)	8	-
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	-
Total Direct Loan and Equity Investment Programs Subsidy Cost (Income)	$ 43,605	$ (15,033)	$ 30,427	$ (1,927)	$ 30,477	$ (339)	$ -

TROUBLED ASSET RELIEF PROGRAM LOANS, EQUITY INVESTMENTS AND ASSET GUARANTEE PROGRAM BUDGET SUBSIDY RATES:

(Dollars in Millions)	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates (see Note below):							
As of September 30, 2009							
Interest Differential	0.00%	5.97%	-45.52%	9.31%	6.97%	5.87%	
Defaults	43.62%	25.60%	123.56%	48.38%	54.21%	0.00%	
Fees and Other Collections	-53.23%	0.00%	0.00%	0.00%	0.00%	0.00%	
Other	-5.37%	-4.58%	4.74%	-8.84%	-3.13%	-110.10%	
Total Budget Subsidy Rate (See Note below)	-14.98%	26.99%	82.78%	48.85%	58.05%	-104.23%	N/A
Subsidy Cost (Income) by Component:							
Interest Differential	$	$ 12,279	$ (17,280)	$ 3,724	$ 5,446	$ 6	
Defaults	2,181	52,655	46,906	19,352	42,384	-	
Fees and Other Collections	(2,662)	-	-	-	-	-	
Other	(270)	(9,414)	1,799	(3,536)	(2,444)	(110)	
Total Subsidy Cost (Income), Excluding Modifications and Reestimates	$ (751)	$ $55,520	$ $31,425	$ 19,540	$ 45,386	$ (104)	N/A

Note: The rates reflected in the "Budget Subsidy Rate" table above are weighted rates for the program. To compensate for the weighting of the various risk category subsidy rates, the "by component" dollar amounts reflected were computed as a ratio of the component rate to the total weighted subsidy rate multiplied by the subsidy cost (income) for the program. Therefore, the *Total Subsidy Cost (Income) Excluding Modifications and Reestimates* will not equal the *New Loans or Investments Disbursed* multiplied by the *Budget Subsidy Rate*.

TROUBLED ASSET RELIEF PROGRAM ASSET GUARANTEE PROGRAM
(Dollars in Millions)

	As of September 30, 2010	2009
Asset Guarantees Outstanding:		
Outstanding Principal Amount of Guaranteed Loans, Face Value	$ -	$ 301,000
Amount of Outstanding Principal Guaranteed	-	5,000
Asset Guarantee Program:		
Intragovernmental Portion (See Note)	815	-
Portion held by OFS, net	2,240	1,765
Total Asset Guarantee Program	**$ 3,055**	**$ 1,765**
Reconciliation of Asset Guarantee Program		
Balance, Beginning of Period	$ (1,765)	$ -
Subsidy Income for Disbursements and Modifications	(1,418)	(751)
Dividend Revenue	265	175
Net Interest Income on Borrowings from BPD and Financing Account Balance	(50)	(15)
Balance, End of Period, Before Reestimates	(2,968)	(591)
Subsidy Reestimates	(87)	(1,174)
Balance, End of Period	$ (3,055)	$ (1,765)
Reconciliation of Subsidy Cost (Income)		
Subsidy Income for Disbursements	$ -	$ (751)
Subsidy Income for Modifications	(1,418)	-
Subsidy Reestimates	(87)	(1,174)
Cancellation Fees Collected	-	(276)
Total Asset Guarantee Program Subsidy Income	$ (1,505)	$ (2,201)

Note: The net present value of the future cash flows for the Asset Guarantee Program consists of (i) $800 million of Citigroup trust preferred securities, plus dividends thereon, that the FDIC agreed to transfer to OFS contingent on Citigroup repaying previously issued FDIC guaranteed debt and (ii) additional Citigroup trust preferred securities valued at $2,240, for a total of $3,055.

Note 7. Commitments and Contingencies

The OFS is party to various legal actions and claims brought by or against it. In the opinion of management and the Chief Counsel, the ultimate resolution of these legal actions and claims will not have a material effect on the OFS financial statements. The OFS has not incurred any loss contingencies that would be considered probable or reasonably possible for these cases. Refer to Note 6 for additional commitments relating to the TARP's Direct Loan and Equity Investments and Asset Guarantee Program.

Note 8. Principal Payable to the Bureau of the Public Debt (BPD)

Equity investments, direct loans, and the asset guarantee program accounted for under credit reform accounting are funded by subsidy appropriations and borrowings from the BPD. The OFS also borrows funds to pay the Treasury General Fund for negative subsidy costs and downward reestimates in advance of receiving the expected cash flows that cause the negative subsidy or downward reestimate. The OFS makes periodic principal repayments to the BPD based on the analysis of its cash balances and future disbursement needs. All debt is intragovernmental and covered by budgetary resources. See additional details on borrowing authority in Note 10, Statement of Budgetary Resources.

Debt transactions for the year ended September 30, 2010 and the period ended September 30, 2009 were as follows:

(Dollars in Millions)	2010	2009
Beginning Balance, Principal Payable to the BPD	$ 143,335	$ -
New Borrowings	49,025	215,593
Repayments	(51,956)	(72,258)
Ending Balance, Principal Payable to the BPD	**$ 140,404**	**$ 143,335**

Borrowings from the BPD by the TARP program, outstanding as of September 30, 2010 and 2009, were as follows:

(Dollars in Millions)	2010	2009
Capital Purchase Program	$ 49,503	$ 77,232
American International Group, Inc. Investment Program	23,061	12,531
Targeted Investment Program	710	20,460
Automotive Industry Financing Program	45,706	32,134
Consumer & Business Lending Initiative	1,073	204
Public-Private Investment Program	17,918	-
Asset Guarantee Program	2,433	774
Total Borrowings Outstanding	**$ 140,404**	**$ 143,335**

Borrowings are payable to the BPD as collections are available. As of September 30, 2010, borrowings carried terms ranging from 5 to 31 years. Interest rates on borrowings ranged from 2.2% to 4.7%. At September 30, 2009, borrowing terms ranged from 2 to 30 years, and interest rates were from 1.0% to 4.5%.

Note 9. Statement of Net Cost

The Statement of Net Cost (SNC) presents the net cost of operations for the OFS under the Department of the Treasury's strategic goal of ensuring that U.S. and World economies perform at full economic potential. The OFS has determined that all initiatives and programs under the TARP fall within this strategic goal.

The OFS SNC reports the accumulated full cost of the TARP's output, including both direct and indirect costs of the program services and output identifiable to TARP, in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*.

The OFS SNC for fiscal year 2010 includes $5.9 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and $1.2 billion in intragovernmental revenues relating to interest income on financing account balances. The SNC for the period ended September 30, 2009 included $6.4 billion of cost and $3.6 billion of revenues for intragovernmental borrowings and interest income.

Subsidy allowance amortization on the SNC is the difference between interest income on financing fund account balances, dividends and interest income on direct loans, equity investments, and the asset guarantee program from TARP participants, and interest expense on borrowings from the BPD. Credit reform accounting requires that only subsidy cost, not the net of other costs (interest expense and dividend and interest income), be reflected in the SNC. The subsidy allowance account is used to present the loan or equity investment at the estimated net present value of future cash flows.

Note 10. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) presents information about total budgetary resources available to the OFS and the status of those resources. For the year ended September 30, 2010, the OFS's total resources in budgetary accounts were $34.5 billion and resources in non-budgetary financing accounts, including borrowing authority and spending authority from collections of loan principal, liquidation of equity investments, interest and fees, were $160.8 billion. For the period ended September 30, 2009, budgetary resources totaled $238.3 billion and resources in non-budgetary financing accounts totaled $461.1 billion.

Permanent Indefinite Appropriations

The OFS receives permanent indefinite appropriations annually, if necessary, to fund increases in the projected subsidy costs of direct loans, equity investment and asset guarantee programs as determined by the reestimation process required by the FCRA.

Additionally, Section 118 of the EESA states that the Secretary may issue public debt securities and use the resulting funds to carry out the Act and that any such funds expended or obligated by the Secretary for actions authorized by this Act, including the payment of administrative expenses, shall be deemed appropriated at the time of such expenditure or obligation.

Borrowing Authority

The OFS is authorized to borrow from the BPD when funds needed to disburse direct loans and equity investments, and to enter into asset guarantee arrangements, exceed subsidy costs and collections in the non-budgetary financing accounts. For the year ended September 30, 2010, the OFS had borrowing authority of $69.4 billion. Of this total, $10.2 billion was available as of September 30, 2010. For the period ended September 30, 2009, the OFS had borrowing authority of $310.0 billion, and of that, $45.8 billion was available.

The OFS uses dividends and interest received as well as principal repayments on direct loans and liquidation of equity investments to repay debt in the non-budgetary direct loan, equity investment and asset guarantee program financing accounts. These receipts are not available for any other use per credit reform accounting guidance.

Apportionment Categories of Obligations Incurred: Direct versus Reimbursable Obligations

All of the OFS apportionments are Direct and are Category B. Category B apportionments typically distribute budgetary resources on a basis other than calendar quarters, such as by activities, projects, objects or a combination of these categories. The OFS obligations incurred are direct obligations (obligations not financed from intragovernmental reimbursable agreements).

Undelivered Orders

Undelivered orders as of September 30, 2010 were $68.7 billion in budgetary accounts, and $41.9 billion in non-budgetary financing accounts. At September 30, 2009, undelivered orders were $56.1 billion in budgetary accounts, and $79.2 billion in non-budgetary financing accounts.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Federal agencies and entities are required to explain material differences between amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U. S. Government (the President's Budget).

The President's Budget for 2012, with the "Actual" column completed for fiscal year 2010, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2011. The Budget will be available from the Government Printing Office.

The 2011 Budget of the U. S. Government, with the "Actual" column completed for for the period ended September 30, 2009, was published in February 2010 and reconciled to the SBR. The only differences between the two documents were due to rounding.

Note 11. Reconciliation of Obligations Incurred to Net Cost of (Income from) Operations

The OFS presents the SNC using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the SBR. The reconciliation of obligations incurred to net cost of operations shown below categorizes the differences between the two, and illustrates that the OFS maintains reconcilable consistency between the two types of reporting.

The Reconciliation of Obligations Incurred to Net Cost of (Income from) Operations for the Year Ended September 30, 2010 and the Period Ended September 30, 2009 is as follows:

Dollars in Millions	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 173,631	$ 662,296
Spending Authority from Offsetting Collections and Recoveries	(191,538)	(271,999)
Offsetting Receipts	(118,860)	(2,720)
Net obligations	**(136,767)**	**387,577**
Other Resources	1	-
Total Resources Used to Finance Activities	**(136,766)**	**387,577**
Resources Used to Finance Items Not Part of Net Cost (Income from) Operations:		
Net Obligations in Direct Loan, Equity Investment and Asset Guarantee Financing Funds	40,139	(180,185)
Increase in Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(12,639)	(56,073)
Resources that Fund Prior Period Expenses and Downward Reestimates	109,747	-
Total Resources Used to Finance Items Not Part of Net Cost of (Income from) Operations	**137, 247**	**(236,258)**
Total Resources Used to Finance the Net Cost of (Income from) Operations	**481**	**151,319**
Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period:		
Accrued Downward Reestimate and Modification of Subsidy Cost, Net of Unfunded Upward Reestimates	(23,563)	(109,748)
Other	-	2
Total Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period	**(23,563)**	**(109,746)**
Net Cost of (Income from) Operations	**$ (23,082)**	**$ 41,573**

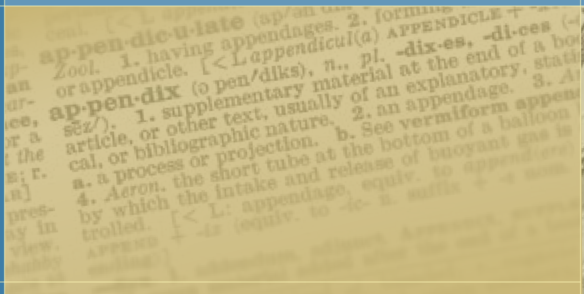
REQUIRED SUPPLEMENTARY INFORMATION
OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM) COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(UNAUDITED)

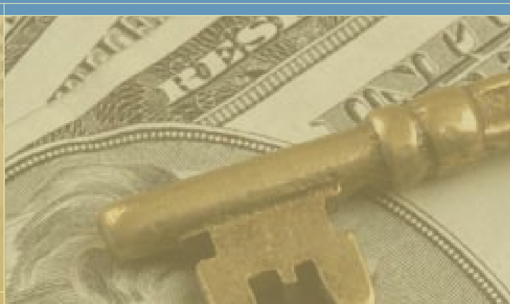
	2010					
	Combined		TARP Programs		TARP Administrative	
Dollars in Millions	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES						
Unobligated Balances Brought Forward	$ 28,156	$ 8,945	$ 28,126	$ 8,945	$ 30	$ -
Recoveries of Prior Year Unpaid Obligations	1,173	39,364	1,118	39,364	55	-
Budget Authority:						
Appropriations	5,151	-	4,745	-	406	-
Borrowing Authority	-	69,440	-	69,440	-	-
Spending Authority from Offsetting Collections						
Earned: Collected	-	156,112	-	156,112	-	-
Change in Unfilled Orders Without Advance	-	(5,111)	-	(5,111)	-	-
Total Budget Authority	34,480	268,750	33,989	268,750	491	-
Permanently Not Available	-	(107,976)	-	(107,976)	-	-
TOTAL BUDGETARY RESOURCES (Note 10)	$ 34,480	$ 160,774	$ 33,989	$ 160,774	$ 491	$ -
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred - Direct	$ 23,405	$ 150,226	$ 23,040	$ 150,226	$ 365	$ -
Unobligated Balance:						
Apportioned and Available	142	7,692	101	7,692	41	-
Not Available	10,933	2,856	10,848	2,856	85	-
TOTAL STATUS OF BUDGETARY RESOURCES	$ 34,480	$ 160,774	$ 33,989	$ 160,774	$ 491	$ -
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward:						
Unpaid Obligations	$ 56,151	$ 79,202	$ 55,992	$ 79,202	$ 159	$ -
Uncollected Customer Payments from Federal Sources	-	(28,927)	-	(28,927)	-	-
Obligated Balance, Net, Brought Forward	56,151	50,275	55,992	50,275	159	-
Obligations Incurred	23,405	150,226	23,040	150,226	365	-
Gross Outlays	(9,255)	(148,146)	(9,016)	(148,146)	(239)	-
Recoveries of Prior Year Unpaid Obligations	(1,173)	(39,364)	(1,118)	(39,364)	(55)	-
Change in Uncollected Customer Payments from Federal Sources	-	5,111	-	5,111	-	-
Obligated Balance, Net, End of Period:						
Unpaid Obligations	69,128	41,918	68,898	41,918	230	-
Uncollected Customer Payments from Federal Sources	-	(23,816)	-	(23,816)	-	-
Obligated Balance, Net, End of Period	$ 69,128	$ 18,102	$ 68,898	$ 18,102	$ 230	$ -
NET OUTLAYS						
Gross Outlays	$ 9,255	$ 148,146	$ 9,016	$ 148,146	$ 239	$ -
Offsetting Collections	-	(156,112)	-	(156,112)	-	-
Distributed Offsetting Receipts	(118,860)	-	(118,860)	-	-	-
NET OUTLAYS	$ (109,605)	$ (7,966)	$ (109,844)	$ (7,966)	$ 239	$ -

REQUIRED SUPPLEMENTARY INFORMATION
OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 30, 2009
(UNAUDITED)

	2009					
	Combined		TARP Programs		TARP Administrative Fund	
Dollars in Millions	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES						
Unobligated Balances Brought Forward	$ -	$ -	$ -	$ -	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	-	-	-	-	-	-
Budget Authority:						
Appropriations	238,268	-	237,989	-	279	-
Borrowing Authority	-	309,971	-	309,971	-	-
Spending Authority from Offsetting Collections						-
Earned: Collected	-	243,072	-	243,072	-	-
Change in Unfilled Orders Without Advance	-	28,927	-	28,927	-	-
Total Budget Authority	238,268	581,970	237,989	581,970	279	-
Permanently Not Available	-	(120,841)	-	(120,841)	-	-
TOTAL BUDGETARY RESOURCES (Note 10)	$ 238,268	$ 461,129	$ 237,989	$ 461,129	$ 279	$ -
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred - Direct	$ 210,112	$ 452,184	$ 209,863	$ 452,184	$ 249	$ -
Unobligated Balance:						
Apportioned and Available	28,156	7,009	28,126	7,009	30	-
Not Available	-	1,936	-	1,936	-	-
TOTAL STATUS OF BUDGETARY RESOURCES	$ 238,268	$ 461,129	$ 237,989	$ 461,129	$ 279	$ -
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward:						
Unpaid Obligations	$ -	$ -	$ -	$ -	$ -	$ -
Uncollected Customer Payments from Federal Sources	-	-	-	-	-	-
Obligated Balance, Net, Brought Forward	-	-	-	-	-	-
Obligations Incurred	210,112	452,184	209,863	452,184	249	-
Gross Outlays	(153,961)	(372,982)	(153,871)	(372,982)	(90)	-
Recoveries of Prior Year Unpaid Obligations	-	-	-	-	-	-
Change in Uncollected Customer Payments from Federal Sources	-	(28,927)	-	(28,927)	-	-
Obligated Balance, Net, End of Period:						
Unpaid Obligations	56,151	79,202	55,992	79,202	159	-
Uncollected Customer Payments from Federal Sources	-	(28,927)	-	(28,927)	-	-
Obligated Balance, Net, End of Period	$ 56,151	$ 50,275	$ 55,992	$ 50,275	$ 159	$ -
NET OUTLAYS						
Gross Outlays	$ 153,961	$ 372,982	$ 153,871	$ 372,982	$ 90	$ -
Offsetting Collections	-	(243,072)	-	(243,072)	-	-
Distributed Offsetting Receipts	(2,720)	-	(2,720)	-	-	-
NET OUTLAYS	$ 151,241	$ 129,910	$ 151,151	$ 129,910	$ 90	$ -

APPENDICES





APPENDIX A:
OVERSIGHT ENTITIES

Per the EESA requirements, Treasury-OFS has four oversight entities with specific responsibilities with regard to TARP, which are the Financial Stability Oversight Board, the Government Accountability Office, the Office of the Special Inspector General for TARP, and the Congressional Oversight Panel. A summary of the responsibilities and activities of each of these entities is provided below.

Financial Stability Oversight Board

The Oversight Board was established by section 104 of EESA to help oversee TARP and other emergency authorities and facilities granted to the Secretary of the Treasury under EESA. The Oversight Board is composed of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Federal Housing Finance Agency, the Chairman of the Securities and Exchange Commission, and the Secretary of the Department of Housing and Urban Development. Through Oversight Board meetings and consultations between the staffs of the agencies represented by each Member of the Oversight Board, the Oversight Board reviews and monitors the development and ongoing implementation of the policies and programs under TARP to restore liquidity and stability to the U.S. financial system. The Oversight Board meets each month, and receives presentations and briefings from Treasury-OFS officials and, where appropriate, other government officials, including officials from the other agencies represented on the Oversight Board, concerning the implementation and the effects of the programs established under TARP.

The Oversight Board also monitors Treasury's responses to the recommendations made by SIGTARP and the GAO. Throughout fiscal year 2010, the Oversight Board received updates on Treasury's progress in addressing the issues raised by these oversight bodies with respect to transparency, the establishment of internal controls, compliance and risk monitoring, staffing and Treasury's communication strategy. In addition, staff of the Oversight Board and of the agencies represented by each Member of the Oversight Board continued to have regular discussions with representatives from the SIGTARP and GAO to discuss recent and upcoming activities of the oversight bodies. These efforts continued to help facilitate coordinated oversight and minimize the potential for duplication.

Based on this dialogue and analysis, the Oversight Board issues a Quarterly Report for each three-month period that describes its activities for that quarter, its assessment of the effects of TARP programs on financial stability and housing markets in the quarter, and developments in TARP programs and administration during the quarter. Copies of approved minutes of the Oversight Board's meetings and the Quarterly Reports are made available on the internet at: ***http://www.financialstability.gov/about/oversight.html***.

Government Accountability Office (GAO)

Section 116(a)(3) of EESA stipulates that "the Comptroller General [who heads the GAO] shall submit reports of findings … regularly and no less frequently than once every 60 days, to the appropriate committees of Congress." "The Comptroller may also submit special reports … as warranted by the findings of its oversight activities." Section 116(b)(1) provides for the Comptroller General to conduct an annual audit of TARP financial statements in accordance with generally accepted auditing standards.

Treasury-OFS has a statutory obligation under Section 116(b)(3) of EESA to take corrective actions in response to audit deficiencies identified by the Comptroller General or other auditor engaged by the TARP or certify to the appropriate committees of Congress that no action is necessary or appropriate. In addition, under Section 236 of the Legislative Reorganization Act of 1970, Treasury-OFS is required to respond in writing to Congress within 60 days of the issuance date of a GAO report.

Currently, the GAO is engaged in 10 audits related to TARP. Treasury-OFS responds to information requests from the GAO by providing responsive documents and other information and facilitating comprehensive briefings on TARP programs with senior Treasury-OFS staff. In addition, Treasury-OFS apprises the GAO of key developments in current and proposed programs and policies under EESA.

Between December 2008 and September 2010, the GAO issued 74 recommendations in its 20 published reports. The topics addressed by GAO's recommendations are (1) transparency, reporting, and accountability; (2) management infrastructure; and (3) communication. In response to the recommendations, the Treasury-OFS has developed remediation plans and regularly communicates the status of its remediation efforts to the GAO and will continue to do so in fiscal year 2011. Treasury-OFS has fully or partially implemented 72 of the recommendations and the remaining recommendations have been deemed closed by the GAO and/or Treasury-OFS has taken no action

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The Office of the Special Inspector General for TARP (SIGTARP)

Section 121 of EESA created the SIGTARP. The objectives of SIGTARP are to investigate and prevent fraud, waste and abuse in TARP programs, while promoting transparency in TARP programs.

SIGTARP must report to Congress each quarter certain information about TARP regarding the preceding quarter. As of September 30, 2010, SIGTARP has issued seven quarterly reports. SIGTARP also has a duty under EESA to conduct audits and investigations of the purchase, management, and sale of assets under any TARP program, and with certain limitations, any other action under EESA. As of September 30, 2010, SIGTARP had published 11 audit reports and is currently conducting ten audits that are at various stages.

Treasury-OFS has worked closely with SIGTARP and maintains open lines of communications with audit staff and investigations of TARP programs. Treasury-OFS staff also regularly provides updates to SIGTARP about program design and implementation. Treasury-OFS has benefited from SIGTARP's involvement in the development of TARP programs and policies as Treasury-OFS pursues our common goal of carrying out the objectives of EESA, which are to promote financial stability and protect the interests of the taxpayers.

As of September 30, 2010, SIGTARP has issued 64 recommendations in its reports. General topics addressed by SIGTARP's recommendations include establishing goals, metrics, costs and expected participation for the TARP housing programs; documenting communications with TARP recipients concerning the warrant repurchase process; and conducting independent testing of TARP recipients' compliance with TARP contractual requirements. Treasury-OFS has carefully considered SIGTARP's recommendations in prior reports, and has submitted responses describing the actions Treasury-OFS has taken or will take to address them. Treasury-OFS' policies and programs currently address many of the issues SIGTARP raised in its recommendations. Treasury has implemented or is in the process of implementing 53 of the 64 SIGTARP recommendations and has declined to implement nine of the recommendations. Additionally, SIGTARP has concurred with Treasury's assessment that two of SIGTARP's 64 recommendations are no longer applicable due to subsequent events

Congressional Oversight Panel (COP)

The COP consists of five panel members appointed as follows: one member appointed by the Speaker of the House of Representatives; one member appointed by the minority leader of the House of Representatives; one member appointed by the majority leader of the Senate; one member appointed by the minority leader of the Senate; and one member appointed by the Speaker of the House of Representatives and the majority leader of the Senate, after consultation with the minority leader of the Senate and the minority leader of the House of Representatives. In October 2010, Senator Ted Kaufman of Delaware was appointed to replace Elizabeth Warren on the panel. He was elected by his fellow members to serve as the Chair of this panel. The COP also employs a professional staff, numbering approximately 27, who are responsible for carrying out the day-to-day work of the Panel. The COP also reaches out to experts, primarily academics, to conduct analyses in support of their work.

The COP's mandate includes assessing the impact of Treasury-OFS' spending to stabilize the economy, evaluating market transparency, ensuring effective foreclosure mitigation efforts, and guaranteeing that Treasury-OFS' actions are in the best interest of the American people. Unlike the other oversight bodies, EESA mandated that COP's work would end six months after the expiration of the TARP spending authority which means that it will cease to exist on April 3, 2011.

EESA requires the COP to produce a report every 30 days examining Treasury's efforts and the impact on the economy of those efforts. The statute grants the COP the authority to hold hearings, review official data, and write reports on actions taken by Treasury-OFS and financial institutions and their effect on the economy. Generally, the COP focuses on one program or topic each month and produces a report that describes the program, assesses its design and implementation and, in some instances, presents recommendations. Many of its recommendations have focused on issues of transparency and what COP views as the need to be clearer on goals and metrics so that taxpayers can better understand whether their monies are being effectively utilized.

The COP staff uses public information to develop the outlines of their reports, then follows up with requests of information, documents, and data from Treasury-OFS. Treasury-OFS engages with COP on a regular basis, offering briefings on the topic of their current focus, as well as any new initiatives or changes in Treasury-OFS programs.

The COP holds semi-regular hearings on Capitol Hill, often timed to coincide with its work on a particular report. Treasury-OFS makes its senior staff available to appear before the COP as witnesses; the Secretary of the Treasury appears before the COP on a quarterly basis, and the Assistant Secretary for Financial Stability is made available as requested for other hearings. Other Treasury-OFS officials have also appeared before the COP as requested.

APPENDIX B:
TARP GLOSSARY

Asset-Backed Security (ABS): A financial instrument representing an interest in a pool of other assets, typically consumer loans. Most ABS are backed by credit card receivables, auto loans, student loans, or other loan and lease obligations.

Asset Guarantee Program (AGP): A TARP program under which Treasury, together with the Federal Reserve and the FDIC, agreed to share losses on certain pools of assets held by systemically significant financial institutions that faced a high risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets.

Automotive Industry Financing Program (AIFP): A TARP program under which Treasury-OFS provided loans or equity investments in order to avoid a disorderly bankruptcy of one or more auto companies that would have posed a systemic risk to the country's financial system.

Capital Purchase Program (CPP): A TARP program pursuant to which Treasury-OFS invested in preferred equity securities and other securities issued by financial institutions.

Commercial Mortgage-Backed Securities (CMBS): A financial instrument representing an interest in a commercial real estate mortgage or a group of commercial real estate mortgages.

Commercial Paper (CP): An unsecured debt instrument with a short maturity period, 270 days or less, typically issued by large financial institutions or other large commercial firms.

Community Development Capital Initiative (CDCI): A TARP program that provides low-cost capital to CDFIs to encourage lending to small businesses and help facilitate the flow of credit to individuals in underserved communities.

Community Development Financial Institution (CDFI): A financial institution that focuses on providing financial services to low- and moderate- income, minority and other underserved communities, and is certified by the CDFI Fund, an office within Treasury-OFS that promotes economic revitalization and community development.

Consumer and Business Lending Initiative (CBLI): A series of programs created under TARP which included the TALF, the CDCI, and the SBA 7(a) Securities Purchase Program. These were designed to jump start the credit markets that provide financing to consumers and businesses and otherwise support small banks.

Emergency Economic Stabilization Act (EESA): The law that created the Troubled Asset Relief Program (TARP).

Government-Sponsored Enterprises (GSEs): Private corporations created by the U.S. Government. Fannie Mae and Freddie Mac are GSEs.

Home Affordable Modification Program (HAMP): A TARP program Treasury-OFS established to help responsible but struggling homeowners reduce their mortgage payments to affordable levels and avoid foreclosure.

Legacy Securities: CMBS and non-agency RMBS issued prior to 2009 that were originally rated AAA or an equivalent rating by two or more NRSROs without ratings enhancement and that are secured directly by actual mortgage loans, leases or other assets and not other securities.

Making Home Affordable (MHA): A comprehensive plan to stabilize the U.S. housing market and help responsible, but struggling, homeowners reduce their monthly mortgage payments to more affordable levels and avoid foreclosure. HAMP is part of MHA.

Mortgage-Backed Securities (MBS): A type of ABS representing an interest in a pool of similar mortgages bundled together by a financial institution.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

Non-Agency Residential Mortgage-Backed Securities: RMBS that are not guaranteed or issued by Freddie Mac, Fannie Mae, any other GSE, Ginnie Mae, or a U.S. federal government agency.

Preferred Stock: Equity ownership that usually pays a fixed dividend and gives the holder a claim on corporate earnings superior to common stock owners. Preferred stock also has priority in the distribution of assets in the case of liquidation of a bankrupt company.

Public-Private Investment Fund (PPIF): An investment fund established to purchase Legacy Securities from financial institutions under PPIP.

Public-Private Investment Program (PPIP): A TARP program designed to improve the health of financial institutions holding real estate-related assets. The program is designed to increase the flow of credit throughout the economy by partnering with private investors to purchase Legacy Securities from financial institutions.

Qualifying Financial Institution (QFI): Private and public U.S.-controlled banks, savings associations, bank holding companies, certain savings and loan holding companies, and mutual organizations.

Residential Mortgage-Backed Securities (RMBS): A financial instrument representing an interest in a group of residential real estate mortgages.

SBA: U.S. Small Business Administration.

SBA 7(a) Securities Purchase Program: A TARP program under which Treasury-OFS purchases securities backed by the guaranteed portions of the SBA 7(a) loans.

Servicer: An administrative party that collects payments and generates reports regarding mortgage payments.

Targeted Investment Program (TIP): A TARP program that was created to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system.

Term Asset-Backed Securities Loan Facility (TALF): A program under which the Federal Reserve Bank of New York makes term non-recourse loans to buyers of AAA-rated Asset-Backed Securities in order to stimulate consumer and business lending by the issuers of those securities. Treasury-OFS used TARP funds to provide credit support for the TALF as part of its Consumer and Business Lending Initiative.

Tier 1 Capital or "core capital": A measure of a bank's assets and liabilities that includes primarily common equity (including retained earnings), limited types and amounts of preferred equity, certain minority interests, and limited types and amounts of trust preferred securities, but excludes goodwill, certain other intangibles and certain other assets. It is used by banking regulators as a measure of a bank's ability to sustain future losses and still meet depositor's demands.

Tier 1 Common (also known as Tangible Common Equity or TCE): A measure of a bank's assets and liabilities calculated by removing all non-common elements from Tier 1 Capital, e.g., preferred equity, minority interests, and trust preferred securities. It can be thought of as the amount that would be left over if the bank were dissolved and all creditors and higher levels of stock, such as preferred stock, were paid off. Tier 1 Common is the highest "quality" of capital in the sense of providing a buffer against loss by claimants on the bank. Tier 1 Common is used in calculating the Tier 1 Common Ratio which determines the percentage of a bank's total assets that is categorized as Tier 1 Common. Generally, the higher the percentage, the better capitalized the bank. Preferred stock is an example of capital that is counted in Tier 1 Capital, but not in Tier 1 Common.

Troubled Asset Relief Program (TARP): The Troubled Asset Relief Program, which was established under EESA to stabilize the financial system and prevent a systemic collapse.

Trust Preferred Security: A security that has both equity and debt characteristics, created by establishing a trust and issuing debt to it. A company may create a trust preferred security to realize tax benefits, since the trust is tax deductible.

Warrant: A financial instrument that represents the right, but not the obligation, to purchase a certain number of shares of common stock of a company at a fixed price.

OFFICE OF FINANCIAL STABILITY

Websites:

www.FinancialStability.gov

www.MAKINGHOMEAFFORDABLE.gov

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Housing Scorecard:

www.hud.gov/scorecard

Warrant Disposition Report:

www.financialstability.gov/latest/reportsanddocs.html

U. S. Budget and Economic Outlook:

www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf

Housing Finance Agency Hardest Hit Fund:

www.financialstability.gov/roadtostability/hardesthitfund.html

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www.financialstability.gov/latest/speeches-testimony.html www.FINANCIALSTABILITY.gov