



UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF FINANCIAL STABILITY

Troubled Asset Relief Program:
Three Year Anniversary Report
A Supplement to the TARP Two Year Retrospective



Troubled Asset Relief Program
Office of Financial Stability

October 2011

“The unavoidable fact is that the bailout, aka the TARP (for Troubled Asset Relief Program) has been an astonishing success, and its once-noisy critics are suddenly silent, as well they should be.

[“Our view on TARP: Hated bank bailout is about to turn a profit”](#)

USA Today

February 8, 2011

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Message from the Assistant Secretary

Ladies and Gentlemen:

On the third anniversary of the Emergency Economic Stabilization Act of 2008 that created the Troubled Asset Relief Program (TARP), we present this supplement to our Two Year Retrospective Report. This supplement details the progress we have made over the past year in exiting our outstanding TARP investments.



Several important milestones were achieved during TARP's third year. Our banking investments have resulted in a positive return for taxpayers, while also helping to keep institutions better capitalized to ensure the overall stability of our financial system. We saw a successful Initial Public Offering (IPO) for General Motors and exited our investment in Chrysler Group, six years earlier than expected. We also closed a major restructuring plan for American International Group, Inc. (AIG), marking a major milestone in the company's remarkable turnaround and putting taxpayers in a better position to recover their investment in the company. While the housing market remains depressed, TARP's initiatives to assist struggling homeowners have helped hundreds of thousands of families keep their homes and set new standards for mortgage service providers that have indirectly helped millions more.

We have not yet fully repaired the damage from this terrible crisis and still face serious challenges to our economic recovery. Millions remain unemployed and the housing market remains quite weak. This past year, our economy has suffered from further shocks that hit the world economy and slowed growth quite substantially. And while the effects of the earthquake and tsunami in Japan and oil price increases are starting to fade, we are still experiencing the effects of the European debt crisis and the deep concern over whether the political system in United States is up to the challenge of addressing our long-term issues of growth, competitiveness, and fiscal sustainability. The recent market volatility has also adversely affected the value of our remaining TARP investments.

Nevertheless, as a result of the actions taken under TARP and other emergency measures, as well as the financial regulatory reforms we have implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act, our financial system is in a better position to deal with these challenges and to promote economic growth.

Sincerely,

A handwritten signature in blue ink that reads "Timothy G. Massad". The signature is fluid and cursive.

Timothy G. Massad
Assistant Secretary for Financial Stability

Executive Summary: Where We Stand

As of August 31, 2011	Maximum Allocation	Total Spent	Outstanding Investment Balance	Estimated Lifetime Cost (Gain) as of 6/30/11 ¹
Banking Programs	\$ 250.46	\$ 245.10	\$ 19.55	\$ (21.71)
Credit Market Programs	\$ 27.07	\$ 17.87	\$ 16.40	\$ (2.35)
Automotive Industry Financing Program (AIFP)	\$ 79.69	\$ 79.69	\$ 37.17	\$ 14.33
American International Group (AIG)	\$ 67.84	\$ 67.84	\$ 50.92	\$ 17.30
Treasury Housing Programs	\$ 45.60	\$ 2.23		\$ 45.60
Total for TARP Programs	\$ 470.67	\$ 412.73	\$ 124.04	\$ 53.17
Additional AIG Common Shares Held by Treasury				\$ (16.48)
Total with Additional AIG Common Shares	\$ 470.67	\$ 412.73	\$ 124.04	\$ 36.69

In 2008, the American economy faced the most severe challenges we have seen since the Great Depression. The banking sector, credit markets, the domestic automotive industry, and the housing market were under pressure not seen in decades. At the height of the crisis, credit was effectively frozen for households and businesses, including financial firms of all sizes.

Today, despite continuing challenges, our financial system is more stable and in a better position to promote economic recovery as a result of the actions taken by the government over the past three years.

The Troubled Asset Relief Program (TARP) is now winding down. The government's authority to make new investments through the program expired on October 3, 2010. The U.S. Department of the Treasury (Treasury) has already recovered more than three-fourths of the funds disbursed, and the government is now in a position to recover more funds for the taxpayers and at a faster rate than anyone could have predicted in 2008. The tasks ahead for TARP are to recover the outstanding investments in the financial sector and auto industry in a manner that maximizes the return for taxpayers while continuing to assist homeowners seeking to avoid foreclosure.²

¹ Estimated lifetime cost figures shown above are currently updated quarterly in conjunction with the Office of Management and Budget. The value of outstanding investments in publicly-traded securities is calculated by using the aggregate value of the investments at market prices as of June 30, 2011. See also discussion of impact of market volatility on page 3.

² Treasury committed up to \$45.6 billion to help homeowners avoid foreclosure under TARP. These housing investments were never intended to be recovered and we do not expect them to result in any repayments.

Exiting the Taxpayers' Investments

In passing the Emergency Economic Stabilization Act (EESA) in 2008, Congress originally authorized \$700 billion for TARP. That authority was reduced to \$475 billion by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) becoming law in July 2010. Of the \$413 billion disbursed to date, the government, as of August 31, 2011, has already received back a total of \$314 billion, representing more than 76 percent of all TARP investments.

The final cost of 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 business prospects of specific institutions. Estimates for investments in common shares, such as General Motors and American International Group, Inc. (AIG), are highly sensitive to market prices. Recent stock market volatility has lowered the value of some TARP investments, including those common shares. As reported in the [TARP Monthly 105\(a\) Report for August 2011](#),³ the value of those common shares held by Treasury declined by \$9 billion from June 30, 2011 to August 31, 2011. TARP's estimated lifetime cost figures are updated quarterly in conjunction with the Office of Management and Budget.

“It isn't often that the government launches a major program that achieves its main goals at a tiny fraction of its estimated costs. That's the story of TARP — the Troubled Assets Relief Program. Created in October 2008 at the height of the financial crisis, it helped stabilize the economy, using only \$410 billion of its authorized \$700 billion. And most of that will be repaid.”

[“Why Tarp Has Been a Success Story”](#)
Robert Samuelson, The Washington Post

The following is an overview of the current status of all TARP investment programs.

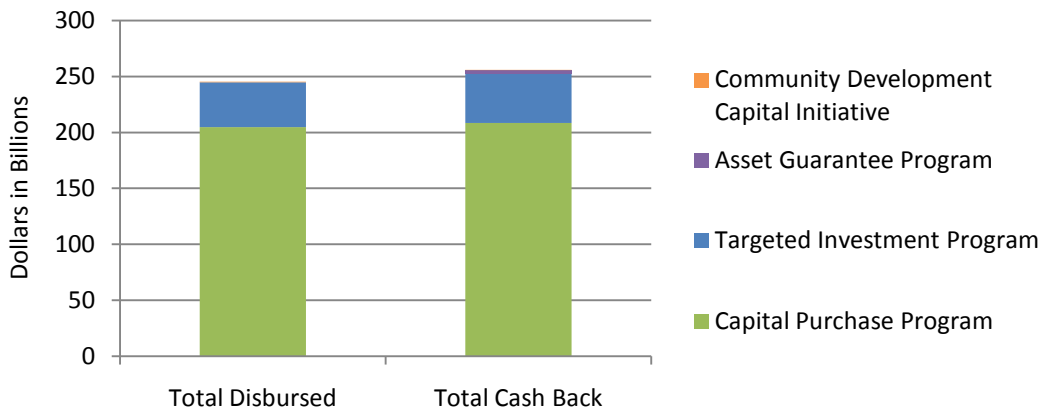
Banking Programs

Treasury's programs to stabilize banks have continued to strengthen the financial system as more banks have repaid the government's investments, replacing public support with private capital. At the peak of the crisis, the U.S. government had made investments in banks representing approximately 88 percent of U.S. bank holding companies by assets. Today, banks that have not yet repaid Treasury for its investments represent less than 8 percent of bank holding companies by assets.

As of August 31, 2011, taxpayers have recovered \$256 billion from TARP's bank programs through repayments, dividends, interest, warrant sales, and other income. That exceeds the original \$245 billion investment Treasury made through those programs, most of which - \$234 billion - was invested under the Bush Administration.

³ [http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/105/Documents105/August%202011%20105\(a\)%20Report%20Final.pdf](http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/105/Documents105/August%202011%20105(a)%20Report%20Final.pdf)

TARP Banking Programs as of August 31, 2011



As of August 31, 2011, Treasury still holds investments in approximately 460 banks. Many of these institutions are small, community banks or certified community development financial institutions (CDFIs), which were especially hard hit by the collapse of the commercial real estate market. Many of these institutions lack access to the capital markets. Therefore, many are not yet able to raise funds to repay the Treasury investment.

Automotive Industry Programs

Treasury, under both the Bush and Obama Administrations, invested approximately \$80 billion to prevent a collapse of the American automotive industry in the midst of the financial crisis. Such a collapse could have had a catastrophic impact on our financial system and economy. These investments, coupled with the stringent conditions placed on the companies, have resulted in a remarkable turnaround of the domestic auto industry. This turnaround would not have been possible without the government's actions.

During the past year, Treasury has also made substantial progress toward exiting its investments in automotive companies. Although we are estimated to incur a loss on these investments, it will be far less than originally expected.

Investment in American International Group, Inc.

We continue to make substantial progress toward recovering our investment in AIG. In January 2011, AIG, Treasury, and the Federal Reserve Bank of New York (FRBNY) completed a major restructuring plan. This represented the culmination of two years of hard work by all parties involved to stabilize the company. The government brought in new management that has taken many actions to turn around the business. This includes unwinding the financial products group that was responsible for much of the risk that led to AIG's problems, and selling many non-core assets, including several foreign subsidiaries.

During the financial crisis, the government's support for AIG totaled approximately \$180 billion in loans and commitments from the FRBNY and Treasury. As of today, the FRBNY's direct loans to AIG have been repaid. The government's remaining investment in AIG consists of \$51

billion of common stock and preferred investments held by Treasury. In addition, \$18.8 billion is owed to the FRBNY by Maiden Lane II and III – two limited liability corporations created to alleviate capital and liquidity pressures on AIG during the 2008 crisis.

Credit Market Programs

Under TARP, Treasury initiated three programs to help restart credit markets for households and businesses.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) is a joint program with the Federal Reserve. This program was launched in March 2009 with the aim of helping to restart the asset-backed securitization (ABS) markets that provide credit to consumers and small businesses. These markets were severely impacted by the financial crisis.

TALF helped to increase credit availability and liquidity in the securitization markets while reducing interest rate spreads. TALF funds have also facilitated the first issuance of commercial mortgage-backed securities (CMBS) leading to additional commercial mortgage-backed deals funded without assistance from TALF. Treasury does not expect to incur any cost to the taxpayers from this program.

Public-Private Investment Program

The Legacy Securities Public-Private Investment Program (PPIP) supports credit market functions by bringing private capital back into the market for legacy securities (*i.e.*, non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities). The goal is to help restart the market for these legacy securities and extend new credit to households and businesses.

The total purchasing power of the program is \$29.4 billion, with approximately \$7.4 billion coming from private sector equity commitments and the remaining \$22 billion committed by Treasury. Although the funds have generated positive investment returns for taxpayers, it is still too early to draw any long-term conclusions about the performance of individual Public-Private Investment Funds (PPIFs), or PPIP in general from the data reported to date.

SBA 7(a) Securities Purchase Program

To help unlock credit for small businesses, Treasury launched the SBA 7(a) Securities Purchase Program. Under this program, Treasury purchased securities backed by the government guaranteed portion of SBA 7(a) small business loans. In this way, Treasury provided additional liquidity to the market in order to increase overall small business lending.

Prices for these securities have strengthened and Treasury is exiting this program. As of August 31, 2011, we have already sold approximately 40 percent of the investments in our portfolio and the remaining investments have a principal value of approximately \$170 million.

Housing Programs

Treasury's Office of Financial Stability (OFS) established several programs to prevent avoidable foreclosures. These programs were part of TARP's overall mission to restore financial stability.

Making Home Affordable Program

The Making Home Affordable Program (MHA) helps homeowners avoid preventable foreclosure. The Home Affordable Modification Program (HAMP), the principal component of MHA, is designed to reduce mortgage payments permanently to affordable levels for qualifying homeowners.

As of August 31, 2011, more than 800,000 homeowners have received permanent mortgage modifications under HAMP. Homeowners who have permanently modified their mortgages save a median of more than \$525 per month on their mortgage payments. Their total savings through August 31, 2011 are nearly \$8.3 billion. This program has also indirectly helped millions more families by changing industry practices and standards.

Hardest Hit Fund

The second major housing program under TARP is the Hardest Hit Fund (HHF), which provides funding to assist struggling homeowners in 18 states plus the District of Columbia. These areas have been the most adversely affected in the housing market downturn.

HHF provides funds to participating Housing Finance Agencies (HFAs) to design and implement locally-tailored programs to leverage local resources and meet the needs of homeowners in their area. Most HHF programs target assistance toward unemployed homeowners and those with homes that are worth less than the value of their mortgages.

Reforming the System

Three years ago, our country was hit with the worst financial crisis since the Great Depression. It was a crisis of confidence and credit – one that threatened to bring down the very institutions, markets, and infrastructure that keep money flowing all throughout our economy.

And while we still face enormous challenges, the system is stronger today as a direct result of the broad set of emergency measures begun by the Bush Administration and then continued and enhanced by the Obama Administration. But these measures were not designed to address the underlying problems that led to the financial crisis. For that reason, President Obama signed the historic Dodd-Frank Act, an overhaul of the regulation of the financial industry. This legislation, which is now being implemented, gives the government better tools to protect consumers and new authority that builds a stronger and more resilient financial system less vulnerable to crisis.

The Dodd-Frank Act empowers the government to break apart large firms whose imminent failure could threaten our financial system, thereby giving us the tools to help prevent the problem of “too-big-to-fail.” The law allows the government to keep a watchful eye over the system and curb excessive risk-taking, while supporting investment and growth. It brings the derivatives market out of the shadows. It also protects consumers from the most abusive and deceptive practices that helped to create the crisis in the first place.

Regulators are also working with their international counterparts to promote consistency in global regulatory reform, particularly with regard to implementing the new Basel III capital and liquidity standards, strengthening supervision, designing capital surcharges, and developing a framework for the resolution of large, globally active financial institutions. They are also promoting harmonization for the oversight of derivatives markets and regulating global financial infrastructures.

“The much maligned Troubled Asset Relief Program spent less and cost less than expected, as it helped stabilize the nation's financial industry. The reality of TARP is different from popular perceptions. However flawed TARP might have been, the gamble that things would have turned out just fine without it was too great to take.

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“CRITICS on the left and right must acknowledge an awkward truth: the Troubled Asset Relief Program was needed, it worked and it was cheap.”

[“TARP Worked, Deal with It”](#)

The Seattle Times Editorial
March 1, 2011

Where Our Programs Stand

Capital Purchase Program

The Capital Purchase Program (CPP) 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.

Treasury provided \$205 billion in capital to 707 institutions in 48 states, Puerto Rico, and the District of Columbia, including more than 450 small and community banks and 22 CDFIs. The largest investment was \$25 billion and the smallest was \$301,000. The final investment under the CPP was made in December 2009.

Status as of August 31, 2011

Over the course of the last year, Treasury has made significant progress in recovering investments made through the CPP.

CPP Snapshot as of August 31, 2011

CPP Cumulative Investments			
Amount Invested:		\$204.9 billion	
Largest Investment:		\$25 billion	
Smallest Investment:		\$301,000.00	
CPP Institutions (Banks in 48 states, D.C. and Puerto Rico)		CPP Income to Treasury	
Total Institutions Funded:	707	Total Amount of Repayments^a:	\$183.26 billion
Full Repayments:	126	Total Dividends, Interest, & Fee Income:	\$11.2 billion
SBLF Repayments:	65	Citigroup Gain:	\$6.85 billion
CDCI Conversions:	28	Total Warrant Income ^b :	\$7.57 billion
Partial Repayments:	13		
Sold Investments:	10		
In Bankruptcy/Receivership:	12		
Merged Institutions:	2		
Total Remaining Institutions:	464	Total CPP Income^c:	\$208.9 billion

a/ Includes repayment of \$25 billion from completed Citi common stock conversion, \$335,724,000 from Community Development Capital Initiative (CDCI) conversions and \$856,739,000 from Small Business Lending Fund (SBLF) refinancings.

b/ Gross proceeds excluding commissions paid. Includes proceeds from exercised warrants.

c/ Total CPP Income includes income from CDCI conversions, while the chart above excludes this income.

Funds Recovered

On March 31, 2011, TARP banking programs began to earn a positive return. Since then, every dollar we have received in repayment from a bank is an additional gain for the taxpayers. Treasury currently estimates that the CPP, along with the other TARP banking programs, will ultimately provide a lifetime positive return of more than \$20 billion to taxpayers. This overall gain includes losses of approximately \$3.2 billion to date on investments in a limited number of institutions that failed or in which Treasury has had to restructure its investment to improve the chance for recovery.

Repayments

Banks may repay Treasury at any time, as long as their regulators approve. Treasury's approval is not needed, and Treasury does not have the right to require repayment. Treasury also has the right to sell the securities. As of August 31, 2011, Treasury has received a total of \$208.46 billion in repayments, dividends, and interest and 243 banks have exited the program.

Citigroup

Treasury purchased \$25 billion in preferred stock from Citigroup (Citi) under the CPP in October 2008. As part of a June 2009 Exchange Agreement between Treasury and Citi, Treasury exchanged the \$25 billion in preferred stock it received in connection with Citi's participation in CPP for approximately 7.7 billion shares of common stock at a price of \$3.25 per share.

- In December 2010, Treasury completed the sale of its final 2.4 billion shares of common stock in Citi for proceeds of \$10.5 billion.
- In January 2011, Treasury completed a public auction of warrants to purchase Citi common stock received in connection with the CPP and additional investments in Citi discussed below. Proceeds from these warrant sales were approximately \$312 million.

Treasury has now exited from all TARP investments in Citi with a realized gain of \$12.3 billion on the \$45 billion invested in the institution.^{4, 5}

The Small Business Lending Fund

Established by the Small Business Jobs Act of 2010, the Small Business Lending Fund (SBLF) encourages lending to small businesses by providing capital to qualified community banks and community development loan funds with assets of less than \$10 billion. SBLF is not a TARP program. Congress provided in the law that recipients of CPP funds are eligible for SBLF if certain conditions are met. Congress also provided that banks can use SBLF funds to refinance TARP investments. In order to be eligible for SBLF funding, institutions seeking to refinance TARP investments must meet all of the eligibility requirements that otherwise apply to SBLF participants, plus the following additional requirements:

- The institution must be in material compliance with all the terms, conditions, and covenants of its CPP agreement and financial instrument;
- The institution must not have missed more than one dividend payment under CPP (where a missed payment is defined as a payment submitted more than 60 days after the due date);
- The institution must pay, in immediately available funds, the amount of any unpaid dividends for the payment period prior to the SBLF closing date, plus accrued and unpaid

⁴ Treasury invested \$25 billion through CPP and \$20 billion through TIP.

⁵ The FDIC currently holds certain trust preferred securities under the AGP valued at approximately \$800 million. The FDIC has agreed to transfer to the Treasury these securities less any losses on the FDIC's guarantee of Citi debt.

dividends as of the date of refinancing for the payment period that includes the closing date;

- All outstanding CPP securities must be redeemed in full at the time of the refinancing. If the value of CPP securities and any accrued dividends and interest is greater than the maximum amount of permissible SBLF funding, the bank must redeem the additional CPP securities using its own funds on or before the date it receives SBLF funding; and
- Any unexercised warrants that the bank has issued to Treasury under CPP will remain outstanding after CPP refinancing through the SBLF, unless they are repurchased.

As of August 31, 2011, 65 institutions have repurchased their CPP securities using SBLF funds, totaling more than \$857 million.

Warrants

As required by EESA, Treasury received warrants from TARP banks to provide taxpayers with an additional return on the government's investment. For CPP investments in privately-held companies, S-corporations, or certain mutual institutions, Treasury received warrants to purchase, at a nominal cost, additional preferred stock or subordinated debentures. Treasury immediately exercised such warrants at the closings of the investments. These additional securities are generally repurchased by the institution at the same time it repurchases its outstanding CPP preferred shares or subordinated debentures.

For CPP investments in public institutions, Treasury received warrants to purchase shares of common stock with an exercise price based on the market price of the common stock as of the date of the CPP investment (calculated on a 20-trading day trailing average). As public institutions have exited the CPP, most have repurchased their warrants at an agreed upon fair market value. In those instances where an institution has not repurchased its warrants, Treasury has followed a policy of selling the warrants utilizing a modified Dutch public auction methodology as quickly as is practicable.

Between October 1, 2010 and August 31, 2011, Treasury received approximately \$637 million in gross proceeds from the disposition of warrants associated with 26 CPP investments. Of these, 22 were repurchased by the financial institution that issued them and four were sold by Treasury through public offerings. Since the start of the CPP program, Treasury has realized \$7.6 billion in proceeds from the sale of CPP warrants, excluding fees and commissions. There have been 64 repurchases and 19 auctions in the aggregate.⁶

As of August 31, 2011, Treasury held warrants to purchase common stock in 41 financial institutions that have fully repaid their CPP investments and in 142 publicly traded companies in which the CPP investment is still outstanding. Treasury intends to continue to execute a consistent and transparent disposition process that achieves fair market values and protects taxpayer interests.

⁶ Treasury also sold warrants from Citi and Bank of America under the Targeted Investment Program (see page 13).

Treasury periodically issues [reports detailing the disposition of CPP warrants](#).⁷ The most recent report contains information through June 30, 2011.

Dividends and Interest Payments

As of August 31, 2011, total dividends and interest received from CPP investments is approximately \$11.2 billion. Two hundred twenty-six institutions have missed at least one payment representing approximately \$253.5 million in non-current cumulative dividends, or just over 2 percent of the dividends received over the life of the program. Treasury issues a [monthly report](#)⁸ detailing dividends and interest received, as well as missed payments.

Under the terms of the CPP, Treasury has the contractual right to elect up to two members to the board of a CPP recipient in the event that an institution misses a sixth dividend or interest payment on the preferred stock issued to Treasury. Treasury has also sent observers to monitor the board meetings of many CPP institutions after they have missed 5 dividend payments. The insights of the observers help Treasury in deciding which banks would benefit most from election of directors and in selecting appropriate candidates. As of August 31, 2011, Treasury has elected a total of three directors to the boards of two banks. These individuals are not government employees and do not represent Treasury. By law, they must represent all shareholders and they have the same fiduciary duties as all other directors.

Lending by CPP Banks

As part of our commitment to transparency, Treasury conducts monthly bank lending surveys to provide information on banks' lending activities to help taxpayers assess the lending and other activities of banks receiving government investments.

[The CPP Monthly Lending Report](#)⁹ includes all participants in the CPP and includes three data points on a monthly basis: average outstanding balances of consumer loans, commercial loans, and total of consumer and commercial loans from all CPP participants.

In early 2009, Treasury began publishing a [Monthly Lending and Intermediation Snapshot](#)¹⁰ that includes quantitative information on three major categories of lending – consumer, commercial, and other activities from the 22 largest recipients of CPP funds. Once institutions repay their CPP funds they are no longer required to submit Snapshot data. As of August 2011, only one bank of the 22 largest CPP recipients remains in the program and submits monthly Snapshot data.

⁷ <http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/other/Pages/default.aspx>

⁸ <http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/dividends-interest/Pages/default.aspx>

⁹ <http://www.treasury.gov/initiatives/financial-stability/results/cpp/lending-report/Pages/default.aspx>

¹⁰ <http://www.treasury.gov/initiatives/financial-stability/results/cpp/snapshot/Pages/default.aspx>

Supervisory Capital Assessment Program

When President Obama took office, the Administration believed that recapitalizing the financial system with private capital was necessary to restore financial stability. However, private capital could not be attracted at first because confidence in our financial system had been severely eroded; investors questioned whether institutions were healthy enough to survive, and doubted whether many institutions really knew their true condition. Therefore, Treasury worked with the federal banking agencies to develop a one-time, forward-looking assessment or “stress test” - known as the Supervisory Capital Assessment Program (SCAP) - for the 19 largest U.S. bank holding companies. The design of the tests and their results were made public, a novel step that was taken because of the unprecedented need to restore confidence.

The results of the SCAP assessments were released in May 2009. The stress test found that nine of the largest bank holding companies had adequate capital to withstand more severe economic conditions. Of the ten bank holding companies that were identified as needing to raise more capital, nine met or exceeded the capital raising requirements through private efforts. Only one institution, Ally Financial (formerly GMAC), required additional funds under TARP to meet its SCAP requirements. This assistance was provided through the Automotive Industry Financing Program. The stress test helped restore confidence, bring private capital back into the system, and enable many banks to repay the TARP investments made by Treasury.

Targeted Investment Program

Treasury established the Targeted Investment Program (TIP) in December 2008. Through the TIP, Treasury sought to prevent a loss of confidence in certain 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 invested \$20 billion in Bank of America and \$20 billion in Citi under the TIP. These investments were in addition to those that the banks received under the CPP.

In December 2009, both participating institutions repaid their TIP investments in full, with dividends. Treasury also received warrants from each bank,¹¹ and on January 25, 2011, [Treasury sold its warrants from Citi](#),¹² which completed the disposition of its investments in this program. Treasury had previously sold its warrants received from Bank of America. Treasury has realized a gain of \$4.43 billion on its total investment of \$40 billion under this program.

¹¹ These warrants were in addition to warrants received from Citi and Bank of America under the Capital Purchase Program (see page 8).

¹² <http://www.treasury.gov/press-center/press-releases/Pages/tg1033.aspx>

Asset Guarantee Program

The Asset Guarantee Program (AGP) was conducted jointly by Treasury, the Federal Reserve, and the FDIC. Like the TIP, the AGP was used to help certain financial institutions facing a potential loss of market confidence due in large part to their holdings of distressed or illiquid assets. By helping to limit the institution's exposure to losses on illiquid or distressed assets, the AGP helped the institution maintain the confidence of depositors and other funding sources.

The AGP was used in a limited fashion to assist Bank of America and Citi in conjunction with the TIP investments in those institutions. The arrangements established under the AGP were terminated in the course of 2009 and 2010 at a net return to taxpayers, as described in the [TARP Two Year Retrospective](#).¹³ While no payments by Treasury were ever made to Bank of America or Citi under these arrangements, the government was compensated through a termination fee from Bank of America and securities and dividends from Citi.

To date, the AGP has generated a total return to taxpayers of approximately \$3.04 billion. Treasury still expects to receive another \$800 million in Citi trust preferred securities that are being held by the FDIC pending termination of FDIC guarantees of Citi debt. These securities would provide the taxpayer with an additional gain.

¹³ http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf

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. CDFIs exist to provide financing to these communities. Treasury launched the Community Development Capital Initiative (CDCI) to help viable certified CDFIs and the communities they serve cope with effects of the financial crisis. CDFIs are certified by Treasury's CDFI Fund, which was created for the purpose of promoting economic revitalization and community development in low-income communities.

Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent per annum, compared to the 5 percent annual rate under the CPP. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after 8 years, compared to 5 years under CPP. CDFIs that participated in CPP and were in good standing could exchange securities issued under CPP for securities under the more favorable terms of this program.

Treasury completed funding under this program in September 2010. The total investment amount for the program was approximately \$570 million for 84 institutions. Of this amount, approximately \$363.3 million (\$355.7 million from principal and \$7.6 million from warrants) represented exchanges by 28 banks of investments under the CPP into the CDCI.

Term Asset-Backed Securities Loan Facility

TALF is a joint Federal Reserve-Treasury program that was designed to restart the ABS markets that provide credit to consumers and small businesses, which ground to a virtual standstill during the early months of the financial crisis.

To enable the purchase of eligible AAA-rated asset-backed securities, the FRBNY agreed to extend up to \$200 billion in non-recourse loans to investors. In return, borrowers pledged the acquired ABS collateral as security for the loan. Should a borrower default upon its loan or voluntarily surrender the collateral, such collateral would be seized and sold to TALF LLC, a special purpose vehicle created by FRBNY to purchase and hold seized or surrendered collateral.

Treasury's role in TALF was to provide credit protection in the form of a \$20 billion subordinated loan commitment to TALF LLC, representing 10 percent of the maximum loan balance that could be issued by the FRBNY. TALF LLC could then use the funds from the subordinated loan to purchase underlying ABS collateral in the event a borrower surrendered its collateral due to a default on its loan. Credit protection would be provided by the risk premium included in the TALF loan rates. This interest rate spread provides accumulated excess interest within TALF LLC and serves as the first loss position.

The program closed to new lending in June 2010. At the time, there were \$43 billion in loans outstanding and therefore Treasury's commitment was reduced to \$4.3 billion, or 10 percent of the amount then outstanding.

The maturity date on the Treasury's subordinated loan commitment to TALF LLC is March 2019. Treasury's engagement may extend beyond this period if collateral is sold to TALF LLC. To date, Treasury has funded \$100 million of its \$4.3 billion subordinated loan commitment to TALF LLC, and no borrowers have defaulted on their TALF loans or surrendered their collateral. As of August 31, 2011, the total outstanding loan balance was \$11.6 billion (or approximately 16 percent of the original loan balance) and the accumulated excess spread in TALF LLC, which serves as a first loss protection, totaled \$675 million. Currently, Treasury does not expect any cost to the taxpayers from this program.

Public-Private Investment Program

During the crisis, many financial institutions and investors were under extreme pressure to reduce indebtedness. This deleveraging process pushed down the market prices for many financial assets, including troubled legacy securities (i.e., 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.

PPIP was designed to support market functioning and facilitate price discovery by bringing private capital back into the market for legacy RMBS and CMBS. It does this by providing financing on attractive terms as well as a matching equity investment made by Treasury. The goal is to help restart the market for these legacy securities, thereby helping financial institutions begin to remove these assets from their balance sheets, allowing them to re-deploy their capital and extend new credit to households and businesses.

The investment objective of PPIP is to generate attractive returns for taxpayers and private investors through long-term opportunistic investments in legacy RMBS and CMBS by following predominantly a buy and hold strategy.

PPIP is made up of eight PPIFs. The PPIFs have completed fundraising and closed on approximately \$7.4 billion of private sector equity capital commitments, which has been matched 100 percent by Treasury, representing \$14.7 billion of total equity capital commitments. Treasury also has committed \$14.7 billion of debt capital, bringing total purchasing power of the program to \$29.4 billion.

The PPIFs are in their second year of investing and are expected to continue deploying and reinvesting their capital in eligible legacy RMBS and CMBS through 2012. Thereafter, each PPIF has up to five additional years, which may be extended with Treasury's permission for an additional two years, to manage the portfolio and return proceeds to Treasury and private investors.

As of June 30, 2011, PPIFs have collectively drawn-down approximately \$22.2 billion of total capital (75.6 percent of total purchasing power). Detailed information on the status of PPIP can be found in the most recent [quarterly report](#).¹⁴

Each of the eight PPIFs has generated positive investment returns for Treasury thus far, with net internal rates of return since inception ranging from 8.3 percent to 32.2 percent as of June 30, 2011. Treasury has received approximately \$714 million in net cumulative equity distributions, approximately \$147 million in cumulative interest payments and approximately \$777 million in cumulative debt principal payments from the PPIFs as of June 30, 2011.

¹⁴ <http://www.treasury.gov/initiatives/financial-stability/programs/Credit%20Market%20Programs/ppip/Documents/External%20Report%20-%2006-11%20vFinal.pdf>

PPIFs are now more than halfway through their three-year investment periods and performance to date may be disproportionately impacted by structuring and transaction costs and the pace of capital deployment by each PPIF. Because of this, industry practice counsels that, at this stage, any performance analysis done on these funds would not generate meaningful results and it would be premature to draw any long-term conclusions about the performance of individual PPIFs or PPIP in general from the data reported to date.

SBA 7(a) Securities Purchase Program

Small businesses play an important role in generating new jobs and growth in our economy. The SBA 7(a) Loan Guarantee Program assists start-up and existing small businesses that face difficulty in obtaining financing through traditional lending channels.

To ensure that credit flows to entrepreneurs and small business owners, Treasury took measures to complement the Obama Administration's actions to help small businesses recover and grow, including a program to purchase SBA guaranteed securities. By purchasing securities in the open market, Treasury injected liquidity - providing cash to pool assemblers - enabling those entities to purchase additional loans from loan originators. In this manner, Treasury acted as a patient provider of incremental liquidity to foster a fluid secondary market, which in turn benefits small business lending. From March through September of 2010, Treasury made open market purchases from participating pool assemblers of SBA 7(a) securities backed by the guaranteed portion of SBA loans.

Treasury originally invested in 31 SBA 7(a) securities with a value of approximately \$368 million. Those securities were comprised of 1,001 loans from 17 different industries, including retail, food services, manufacturing, scientific and technical services, healthcare, educational services, and others. The market received the program well based on comments from market participants and the fact that secondary market prices strengthened.

Treasury ceased purchasing securities in conjunction with the expiration of purchase authority in October 2010.

In June 2011, Treasury began disposing of the SBA 7(a) securities portfolio. As of August 31, 2011, Treasury has sold a total of 12 securities through two sales for approximately \$151.5 million, representing overall gains and income for the program of approximately \$4.5 million. Treasury continues to hold 19 SBA 7(a) securities with the time and pace of remaining sales subject to market conditions.

While disposition of these SBA 7(a) securities has begun and will continue as part of Treasury's ongoing efforts to wind down TARP, the Obama Administration will continue taking steps to help ensure that small businesses have the capital they need to create jobs and strengthen economic growth through the implementation of the Small Business Jobs Act, which includes the SBLF. More information on SBLF can be found under the Capital Purchase Program on page 9.

Automotive Industry Financing Program

Three years ago, GM and Chrysler were on the verge of collapse. The uncontrolled liquidation of these two companies would have significantly disrupted the U.S. automotive industry and caused additional strain on an already weakened financial system and economy

Treasury, under President Bush, extended loans to GM and Chrysler. When President Obama took office, he decided to provide additional investment only if the companies engaged in fundamental restructuring. Both companies were required to develop plans to achieve long-term viability, under which all stakeholders, including unions, dealers, creditors, and others, would make substantial sacrifices.

In total, Treasury invested approximately \$80 billion in GM, Chrysler, Ally Financial and Chrysler Financial. The failure of these companies would have had severe implications for the financial system and could have resulted in a million jobs being lost.

“In Detroit, Chrysler added a second shift at its Jefferson North plant. GM is adding a third shift at its Hamtramck plant for the first time ever. In Indiana, Chrysler is investing more than \$1.3 billion in its Kokomo facilities. And across the country, GM plans to hire back every single one of its laid-off workers by the end of the year -- every single one.”

President Barack Obama
Remarks to the Chrysler Group
Toledo Supplier Park
Toledo, Ohio, June 3, 2011

Today, Detroit’s Big Three have all returned to profitability and gained market share for the first time since 1995. While the American auto industry continues to face substantial challenges, its future prospects are stronger than they have been in over a decade. This turnaround would not have taken place if not for the assistance provided under TARP.

General Motors

In 2010, GM posted its first annual profit since 2004. GM’s first quarter 2011 profit was nearly triple its profit from the same quarter just a year prior. Since emerging from bankruptcy, the company has added shifts at six of its plants to address growing demand. At GM plants in Kansas, Indiana, Michigan and Ohio these shifts will result in thousands of new jobs.

GM is also on a path to repay the taxpayers for their assistance. In November 2010, GM completed a successful IPO, one of the largest ever by a U.S. company. As part of the IPO, Treasury sold approximately 412.3 million shares of GM common stock at \$33.00 per share, and thereby recovered approximately \$13.5 billion of the taxpayers’ investment.

In addition, following the IPO, GM repurchased all of Treasury’s preferred stock issued under TARP. This brought the total amount of funds that taxpayers had received to date in return for their investment in GM to more than \$24 billion.

Treasury’s remaining investment in GM consists of approximately 500 million shares of common stock, representing a 32.0 percent stake in the company.

Chrysler

Since emerging from bankruptcy, Chrysler has lowered its structural costs, adopted new technologies, rejuvenated its product line, and rebuilt its brands. As of August 2011, the company had achieved six consecutive quarters of operating profit and on March 31, 2011, Chrysler realized its first quarter of positive net income since exiting bankruptcy.

On May 24, 2011, Chrysler repaid its outstanding TARP loans to Treasury, six years before the loans were scheduled to mature in 2017. Secretary Geithner called Chrysler's early repayment, "an important step in the turnaround of this company and the resurgence of the auto industry."

"Two years later, all three American automakers have returned to profitability, the industry has added new shifts and 115,000 jobs, and GM and Chrysler have returned more than 50 percent of the government's investment. The industry is mounting one of the most improbable turnarounds in recent history."

Secretary Timothy Geithner
"A Rescue Worth Fueling"
The Wall Street Journal; May 31, 2011

On July 21, 2011, the government sold to Fiat Treasury's 6 percent fully diluted equity interest in Chrysler Group and Treasury's interest in an agreement with the UAW retiree trust. Treasury received \$560 million in proceeds, \$500 million for its 98,461 shares or 6 percent fully diluted equity interest in Chrysler Group, and \$60 million for its rights under an agreement with the UAW retirement trust pertaining to the trust's shares in Chrysler Group. With the closing of this transaction, Treasury fully exited its investment in Chrysler Group under TARP.

In total, Treasury committed \$12.4 billion to Old Chrysler and Chrysler Group under TARP. To date, more than \$11.1 billion of that amount has been returned to taxpayers through principal repayments, interest, and cancelled commitments. Treasury is unlikely to fully recover the difference of \$1.3 billion owed by Old Chrysler.

Ally Financial

As part of the government's assistance to the automotive industry, Treasury invested a total of \$16.3 billion of TARP funds in Ally Financial. Ally provides financing to auto dealers and consumers.

On March 2, 2011, Treasury sold \$2.5 billion of its Ally Financial trust preferred securities. Additionally, Treasury has received \$2.5 billion in dividends, bringing the total proceeds to date from Ally Financial to \$5.1 billion.

Treasury continues to hold \$5.9 billion of mandatory convertible preferred stock in Ally and 74 percent of the outstanding shares of Ally's common stock.

In the months ahead, Treasury will focus on continuing to exit our remaining AIFP commitments, while recovering as much as possible for the taxpayers.

Investment in American International Group, Inc.

In the chaotic environment of September 2008, AIG - the largest provider of conventional insurance in the world, the largest issuer of commercial paper, and the second largest holder of U.S. municipal bonds - was on the brink of failure.

“For all the recriminations, TARP has helped. It helped to stabilize financial markets. It helped banks survive the meltdown. Extended to AIG, General Motors and Chrysler, it almost certainly helped to lessen the impact of the recession and may well have headed off an economic catastrophe.”

“TARP Surprise”
The Chicago Tribune
Editorial, October 2, 2010

In light of the impact such a failure could have had on global financial and insurance markets, the government provided financial assistance to AIG, initially in the form of loans by the FRBNY and later under TARP. At its peak, the government committed approximately \$180 billion to AIG, with \$70 billion of that committed by Treasury under TARP.¹⁵ As of today, the government has recovered a majority of the funds provided and is working diligently to recover the remaining assistance.

The taxpayers’ recovery of these funds has required a fundamental restructuring of AIG’s balance sheet and its business operations. Treasury and the FRBNY have spent the past two years working in close coordination with AIG to achieve this. The process has included recruiting an almost entirely new Board of Directors

and bringing in new members to the executive team, winding down riskier parts of the business, and selling non-core assets.

In January 2011, AIG, Treasury, the FRBNY and the AIG Credit Facility Trust (the Trust) completed a complex restructuring transaction that was part of a plan announced in September 2010 and described in the [Two Year Retrospective](#).¹⁶ The restructuring plan was designed to accelerate the timeline for AIG’s repayment of the government support and facilitate its transition from a majority government-owned and supported entity to a financially sound and independent entity.

The outstanding loans from the FRBNY were repaid in full in January, 2011. This was achieved in part through the sale by AIG of certain non-core assets, including some of its overseas businesses. Treasury’s interests were converted into AIG common stock as well as preferred interests in certain AIG subsidiaries. The shares held by the AIG Credit Facility Trust, which was created by the FRBNY, were distributed to Treasury.

Following completion of this transaction, in May 2011, AIG and Treasury completed a public offering of AIG common stock. Although AIG had remained a company with publicly traded common stock, it had not sold common shares in almost three years and it had undergone substantial business, organizational and operational changes, and therefore needed to reintroduce

¹⁵ Only \$68 billion of that was disbursed; the other \$2 billion commitment was cancelled and never drawn.

¹⁶ http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf

itself to the equity market. AIG completed a fully marketed registered offering in which Treasury sold 200 million AIG common shares, and AIG sold an additional 100 million primary shares, at \$29.00 per share.

The aggregate gross proceeds to Treasury from the offering were \$5.8 billion.¹⁷ Also with the closing, AIG's right to draw down on the \$2 billion commitment under the series G capital facility was terminated. Treasury's percentage ownership of AIG's outstanding shares of common stock declined from 92 percent to 77 percent.

In August 2011, AIG completed the sale of its Nan Shan life insurance subsidiary and used the \$2.15 billion in proceeds to reduce Treasury's outstanding preferred equity interests to \$9.3 billion. As of August 31, 2011, Treasury's total investment in AIG stands at \$51 billion. In addition, the FRBNY has loans to Maiden Lane II and III (\$18.8 billion, including principal and accrued interest outstanding). These loans are collateralized by assets with value well in excess of the outstanding loan balances (\$31.4 billion). AIG has no other obligations to the FRBNY.

¹⁷ \$3.83 billion of which are allocable to TARP and \$1.97 billion represent shares held by the beneficial trust held by Treasury.

Housing Initiatives

Treasury established several programs under TARP to support the Administration's broader efforts to stabilize the housing market. A complete overview on the history of Treasury's housing programs, the rationale for their creation, and their overarching objectives can be accessed in the [TARP Two Year Retrospective Report](#).¹⁸

Program Updates

Treasury is operating two central housing assistance programs under TARP:¹⁹

- Making Home Affordable (MHA)
- The Hardest Hit Fund (HHF)

A. Making Home Affordable Program Update

MHA is the principal housing program under TARP. Launched in 2009, the goal of MHA is to provide mortgage relief to homeowners and help prevent avoidable foreclosures. The cornerstone of MHA is the Home Affordable Modification Program (HAMP).

HAMP Modifications

As of August 31, 2011, HAMP has enabled more than 800,000 homeowners to secure permanent modifications of their mortgages. Homeowners receiving permanent modifications save a median of more than \$525 each month.

At the same time, mortgages modified under HAMP continue to perform well over time. Based on data in the June 2011 [Making Home Affordable Program Performance Report](#),²⁰ at six months, more than 93 percent of homeowners remain in permanent modifications, with just 10.5 percent of homeowners more than 60 days delinquent.

Payment reduction appears strongly correlated with permanent modification sustainability. At one year, more than 91 percent of homeowners with payment reduction greater than 50 percent remain in the program, exceeding the performance of modifications with less substantial payment reductions.

HAMP requires servicers to evaluate homeowners who are ineligible for the program for all other foreclosure avoidance options, including proprietary mortgage modifications. While more

¹⁸ http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf

¹⁹ Treasury also supports the Federal Housing Administration's (FHA) Short Refinance Program, which allows eligible borrowers who are current on their mortgage but owe more than their home is worth, to re-finance into a FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan. Nearly \$3.0 billion in TARP funds will be available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens, and an additional \$8.1 billion is committed to cover a share of any losses on the loans.

²⁰ <http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx>

than 800,000 homeowners have received permanent modifications under HAMP, the program has indirectly helped many more by changing industry standards and practices as discussed below. Since the spring of 2009, there have been more than 2.5 million additional mortgage modifications reported by the HOPE NOW Alliance outside of HAMP, in part because of the standards HAMP has established.

The main reasons homeowners are ineligible for HAMP and therefore will be evaluated for other assistance include: (1) their mortgage payment is already below a 31 percent of debt-to-income ratio, (2) the homeowner did not complete the application including a submission of documents and (3) the property was either non-owner occupied or vacant. To improve the homeowner experience, a public Net Present Value (NPV) model is now published to better inform homeowners of their eligibility for the program.

To expand homeowner eligibility for HAMP in response to the evolving housing crisis, additional program enhancements have been launched. These include:

- Principal Reduction Alternative Waterfall Program (PRA) to address homeowners with a loan-to-value ratio exceeding 115 percent;
- Unemployment Program (UP) designed to provide forbearance for currently unemployed homeowners; and
- Second Lien Modification Program (2MP) to provide a mechanism for servicers to modify second liens consistent with the homeowner's first lien modification.

Setting New Standards

MHA has a comprehensive compliance program to ensure that servicers fairly evaluate homeowners for assistance and follow program guidelines. Treasury requires participating servicers to take specific actions to improve their servicing processes to more effectively assist struggling homeowners. While more progress needs to be made, servicers are focusing attention on the areas identified through regular compliance and program reviews.

Beyond the individual homeowners who are being helped, Treasury's housing programs are developing servicing practices that are becoming standard practice among servicers. Examples include:

- Requiring the 20 largest participating mortgage servicers to establish a single point of contact for homeowners seeking assistance, to ensure that a single, knowledgeable case manager can guide them through the modification process;
- Requiring participating mortgage servicers to limit the practice of "dual tracking" – where mortgage servicers begin the foreclosure process while simultaneously evaluating homeowners for assistance; and
- Requiring participating mortgage servicers to provide qualified unemployed homeowners with a forbearance period of 12 months, subject to investor and regulator guidelines, during which their monthly payments are temporarily reduced while they look for a new

job. This guidance follows a similar temporary extension by the Federal Housing Administration (FHA) for all FHA mortgages to reflect longer periods of unemployment that are currently taking place.

Treasury publishes quarterly assessments of servicer performance, which measure compliance with program guidelines and performance on established benchmarks in key areas. Treasury hopes these assessments will set the standard for transparency about mortgage servicer efforts to assist homeowners and encourage servicers to correct identified instances of non-compliance. For the second quarter of calendar year 2011, two servicers were identified as in need of substantial improvement. Treasury is withholding payment of incentives owed to these servicers.²¹

[Transparency in Treasury's Housing Programs](#)

Over the past year, Treasury has greatly expanded and enhanced our reporting capability to ensure that our housing programs are operating in full view of the public.

The [Making Home Affordable Program Performance Report](#)²² is a monthly report that provides data on each of the programs under MHA as well as data showing performance by participating mortgage servicers. This is one of the only reports available that includes servicer-specific loan information and information on homeowners' experiences.

Treasury has also set new industry benchmarks by issuing detailed monthly reports about servicer efforts to assist struggling homeowners as described above in the Making Home Affordable Program Servicer Assessments.

Reports on disbursements made through Treasury's housing programs can also be found in the [Daily TARP Updates](#),²³ published online.

Every month Treasury and the U.S. Department of Housing and Urban Development (HUD) publish the Administration's [Monthly Housing Scorecard](#).²⁴ This comprehensive report provides a snapshot of the health of the nation's housing market. It includes key housing market indicators and highlights the impact of the Administration's housing recovery efforts.

Finally, in January 2011, Treasury released the [Making Home Affordable Data File](#),²⁵ (MHA Data File), which includes detailed characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data. The MHA Data File offers in-depth mortgage loan-level data and is intended to take a deeper dive into the data of the MHA program. Treasury will update the file monthly and will expand reporting to include newer initiatives that are part of MHA.

²¹ Two servicers, Bank of America and JP Morgan Chase Bank, were determined to need substantial improvement in the second quarter of 2011 and their servicer incentives are being withheld.

²² <http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx>

²³ <http://www.treasury.gov/initiatives/financial-stability/briefing-room/Pages/briefing-room.aspx>

²⁴ http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard

²⁵ http://www.treasury.gov/initiatives/financial-stability/results/Pages/mha_publicfile.aspx

Home Affordable Foreclosure Alternatives Program

Additionally, the Home Affordable Foreclosure Alternatives Program (HAFA) helps homeowners exit their homes and transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. HAFA provides a defined process along with incentives for short sales and deeds-in-lieu of foreclosure.

Through August 31, 2011, HAFA has helped nearly 29,000 homeowners reach short sale agreements to exit their home through a short sale or deed-in-lieu of foreclosure. Nearly 13,000 homeowners have completed these short sales or deed-in-lieu transactions. HAFA provides up to \$3,000 for relocation assistance after a homeowner exits the home.

B. The Hardest Hit Fund

The second major housing program being conducted under TARP is HHF, which provides \$7.6 billion to 18 states and the District of Columbia to assist struggling homeowners through locally-tailored programs. These areas were chosen because they have experienced steep home price declines or higher than average unemployment in the economic downturn. The programs are administered by each state's respective Housing Finance Agency (HFA).

States have developed principal reduction, reinstatement, short sale/transition assistance, modification assistance and mortgage payment programs. Across the program, 70 percent of the funds are targeted to help unemployed borrowers, primarily through reinstatement and programs that help homeowners pay their mortgage while looking for work.

HHF Program Update

The following are highlights through July 31, 2011.

- All 19 HFAs are now offering assistance statewide and accepting homeowner applications for assistance.
- The five largest servicers (GMAC Mortgage, Bank of America, JPMorgan Chase, CitiMortgage, and Wells Fargo) are now participating in programs with all 19 HFAs; several states have more than 100 participating servicers.
- Fannie Mae and Freddie Mac, the FHA, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture Rural Housing Service have issued guidance strongly encouraging their servicers to participate in unemployment programs under HHF.
- All 19 HFAs have created extensive infrastructure to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating homeowner portals to apply for assistance, and hiring underwriters and other staff to review and approve applications.

Homeowner Outreach

During the past year, Treasury has greatly enhanced outreach to homeowners. To help the greatest number of homeowners understand their options, Treasury and HUD launched “[Frozen](#),”²⁶ a multi-media public service advertising campaign with the Ad Council. This campaign was created based on feedback from homeowners across the country who expressed that their mortgage concerns made them feel “frozen” into place and unsure of where to turn for help. The campaign aims to inspire homeowners to reach out now by calling 888-995-HOPE (4673) to work with a HUD-approved housing counselor to explore their options to avoid foreclosure. The campaign includes television, radio, print, out of home, and online PSAs in English and Spanish.

Additionally, we continue to host outreach events that offer an opportunity for homeowners to meet face-to-face with their mortgage servicer and a HUD-approved housing counselor to discuss their options for avoiding foreclosure. To date, Treasury has hosted 59 such events. In total, nearly 60,000 homeowners across the country have attended them.

²⁶ <http://www.makinghomeaffordable.gov/news/psa-campaigns/Pages/default.aspx>

Executive Compensation

EESA, as amended by the American Recovery and Reinvestment Act (ARRA), set standards for executive compensation and corporate governance for all recipients of financial assistance under TARP. Under ARRA, Treasury promulgated the Interim Final Rule TARP Standards for Compensation and Corporate Governance (the Rule) on June 15, 2009. The Rule created the Office of the Special Master (OSM) and Kenneth R. Feinberg was appointed as Special Master. Pursuant to the Rule, the Special Master was delegated the responsibility to review and approve the compensation of top executives at firms that received “exceptional assistance.” In 2009, these firms were AIG, Bank of America, Citi, GM, Chrysler, Ally Financial and Chrysler Financial. As of today, as a result of repayments, these firms are AIG, GM and Ally Financial.

The Special Master conducted extensive reviews of executive compensation for the 2009, 2010 and 2011 calendar years at the companies that continued to have “exceptional assistance” outstanding in each year, and imposed requirements based on the following key principles:

- For the top 25 individual pay packages: (i) limit cash salary, (ii) pay incentives in long-term restricted stock, (iii) limit perquisites and “other” compensation, and (iv) limit executive pension and retirement programs; and
- For the next 26-100 employees’ compensation structures: (i) restrict short-term cash compensation, (ii) tie incentive compensation to real achievement, (iii) make sure compensation structures have a long-term focus, and (iv) align pay practices with shareholder and taxpayer interests.

The review and approval by the Special Master has led to significant reductions in compensation at these firms.

ARRA also required the Secretary to conduct a retroactive Look Back Review of bonuses, retention awards, and other compensation paid to each TARP recipient’s top 25 executives prior to the publication of the Rule. The OSM carried out the Look Back Review and did not determine that any reviewed payment was inconsistent with the law or the public interest. However, this outcome did not express a conclusion that these payments were appropriate or advisable, particularly in light of the circumstances facing the financial system generally, and some institutions specifically, in late 2008 and early 2009.

The executive compensation landscape has changed significantly over the past few years. While the OSM focuses on its responsibilities under TARP, a much broader policy initiative is moving forward. In September 2009, G-20 leaders endorsed worldwide standards intended to align compensation practices with long-term value creation and financial stability. In the United States, the federal banking regulators have addressed executive compensation through efforts including the issuance of guiding principles and proposed regulations under the Dodd-Frank Act. These efforts are critical steps to address compensation issues that contributed to the financial crisis, and significant progress has been made to date.

In September 2010, after fourteen months of service, Kenneth R. Feinberg resigned as Special Master for TARP Executive Compensation and issued the Final Report of Special Master Kenneth R. Feinberg (Final Report). The Final Report summarizes the work of the OSM during Mr. Feinberg's tenure as Special Master and includes an overview of the compensation determinations issued for the 2009 and 2010 calendar years. Following Mr. Feinberg's departure, Patricia Geoghegan, who had worked with Mr. Feinberg since the summer of 2009, was appointed to serve as the Acting Special Master for TARP Executive Compensation.

Oversight and Accountability

Treasury 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 established comprehensive accountability and transparency measures. EESA established an unprecedented level of oversight for TARP by designating four separate entities to oversee the operations of TARP: the Financial Stability Oversight Board (FinSOB); the Government Accountability Office (GAO); the Special Inspector General for TARP (SIGTARP); and the Congressional Oversight Panel (COP, which ceased operations on April 3, 2011, as set out in EESA).

Treasury cooperates with each oversight body's efforts to review TARP programs and to produce periodic audits and reports. On average, Treasury responds to approximately 85 requests for information per month (more than four per business day) by these entities. To date, Treasury also has responded to over 80 reports from GAO, COP, SIGTARP and FinSOB; and Treasury has participated in at least 25 Congressional hearings on TARP. Individually and collectively, the work performed by TARP's oversight bodies has made and continues to make important contributions to the development, strengthening, and transparency of TARP programs. Treasury welcomes this oversight and, to date, has adopted over one hundred recommendations made by these oversight bodies.

Treasury prepares separate financial statements for TARP, which are audited annually by the GAO. In its first two years of operations, TARP's financial statements received unqualified (clean) audit opinions and clean separate opinions on internal control over financial reporting, and there were no material weaknesses reported in any of the opinions - unprecedented achievements for a start-up operation of this scale. As a result of these efforts, OFS received two consecutive Certificates of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants. These financial statements along with extensive information about the programs can be reviewed in the [annual reports for TARP](#).²⁷

In addition, Treasury regularly provides comprehensive information to the public to help American taxpayers better understand the status of our programs, how TARP money was spent, who received it and on what terms, and what has been recovered. This includes all contracts governing any investment or expenditure of TARP funds. All of these reports and information are posted on our website, www.FinancialStability.gov, including:

- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and information on the estimated cost of TARP;
- A monthly housing report containing detailed metrics on the housing programs;
- A quarterly report on PPIP that provides detailed information on the funds, their investments, and returns;

²⁷ http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/2010%20OFS%20AFR%20Nov%2015.pdf

- A report on each transaction (such as an investment in or repayment by an institution) within two business days of completing the transaction;
- A quarterly report that details all dividend and interest payments;
- Periodic reports on the sale of warrants, which includes information on auctions as well as on how the sale price was determined in the case of any repurchase of warrants by a TARP recipient;
- Monthly lending and use of capital surveys that contain detailed information on the lending and other activities of banks that have received TARP funds; and
- A Two Year Retrospective and Annual Citizens' Reports that describe the activities of OFS.

To ensure the highest level of transparency and accountability, Treasury makes daily information available online for taxpayers to track the current repayment status of all TARP investments, including:

- [The Daily TARP Tracker](#)²⁸ provides an overall snapshot of the progress being made toward recovering taxpayer dollars through repayments, dividends, interest, and other income.
- [The Daily TARP Update](#)²⁹ includes a daily snapshot of the latest financial data related to each TARP program.

Finally, Treasury posts on its website every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program.

²⁸ <http://www.treasury.gov/initiatives/financial-stability/results/Pages/TarpTracker.aspx>

²⁹ <http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/tarp-daily-summary-report/Pages/default.aspx>

Cost of the Government's Financial Stability Programs: A Broader View

As noted earlier, although \$700 billion was authorized for TARP, the cost of TARP will ultimately be far less. But TARP was only part of the government's response to the crisis.

In 2008 and 2009, Treasury, the Federal Reserve, and the FDIC put a comprehensive set of emergency programs in place to stabilize the financial sector.

In addition to TARP, these actions included purchases of mortgage-backed securities to keep interest rates low, broad based guarantees of transaction accounts at banks and money market funds, liquidity facilities provided by the Federal Reserve, and support for Fannie Mae and Freddie Mac. [A more detailed list of these measures can be found here.](#)

We estimate that in the aggregate, the direct fiscal cost of the government's comprehensive set of emergency programs to stabilize the financial sector will result in relatively little cost for taxpayers, particularly as compared to other experiences with financial crises. For instance, cleaning up the U.S. savings and loan crisis resulted in a net fiscal cost of 2.4 percent of GDP.

The estimates depend on future financial and economic conditions, in particular the path of interest rates, future bank losses, the evolution of the housing market, and how quickly emergency programs are unwound. And the estimates do not include the cost (or benefits) of ARRA. In addition, the estimate does not reflect the complete cost of the recent financial crisis. Millions of Americans have lost their jobs, businesses have failed, and tax revenues have fallen, creating significant challenges for federal, state, and municipal governments that are acting to cushion the blow from a deep recession.

For a discussion of the returns and losses from all of the government's emergency programs, including an explanation of the methodology and assumptions in these estimates, please see Treasury's [analysis](#)³⁰ from March, 2011.³¹

³⁰<http://www.treasury.gov/connect/blog/Documents/Financial%20Stabilization%20Program%20Update%20March%202011%20FINAL.pdf>

³¹ The analysis includes estimated TARP costs that differ from current estimates, due to changes in the value of some TARP investments as mentioned elsewhere in this report.

"Things have turned out far better than expected because the massive government intervention calmed the markets, and Uncle Sam had to make good on only a tiny fraction of the obligations that taxpayers guaranteed.

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"Uncle Sam bought assets at what turned out to be near-bottom prices amid the market panic; the value of Sam's holdings has since soared.

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"The more than \$14 trillion of government investments, securities purchases, and loan guarantees -- of which TARP never amounted to more than \$411 billion (although it was authorized to spend up to \$700 billion) -- stabilized the whole financial system."

Alan Sloan
Senior Editor at *Fortune*
July 8, 2011

See Mr. Sloan's [complete independent analysis](#) on the overall cost of the government's interventions.

The Dodd-Frank Act After One Year

TARP and the other actions taken by the government in response to the financial crisis of 2008 helped prevent a devastating financial collapse. However, fundamental reform of our financial regulatory system was needed to address many of the underlying causes of the crisis and to help prevent a similar situation from occurring again. In July 2010, Congress passed and President Obama signed into law the Dodd-Frank Act, which was designed to strengthen safeguards for consumers and investors and to provide better tools for limiting risk in major financial institutions and the financial markets. When fully implemented, the Dodd-Frank Act will help create a stronger, more resilient financial system - less vulnerable to crisis, more efficient in allocating financial resources, and less vulnerable to fraud and abuse.

Much progress has been made as part of the implementation of the Dodd-Frank Act, including in the following areas:

- Authority for regulators to impose more conservative limits on risk that could threaten the stability of the financial system was provided in order to lower the risk of failure of large financial institutions and reduce the damage to the broader economy of such failures.
- The Consumer Financial Protection Bureau (CFPB) was established and has now begun efforts to increase consumer protection.³² The Dodd-Frank Act created the CFPB to concentrate authority and accountability for consumer protection in a single federal agency, with the ability to enforce protections on banks as well as other types of firms involved in the business of consumer finance. A number of initiatives aligned with these goals are already underway at the CFPB, many of which can be found on the Bureau's website, www.ConsumerFinance.gov. Among its duties, the CFPB will conduct rulemakings with respect to federal consumer financial laws, take consumer complaints, promote financial education, and monitor financial markets for new risks to consumers;
- A new regulatory framework for the over-the-counter derivatives market was created to increase oversight, transparency, and stability in this previously unregulated area.
- Federal banking regulators have proposed (or are in the process of developing) rules affecting hedge funds, securitization markets, derivatives markets, and asset-backed securities;
- Federal banking regulators have created a new orderly liquidation authority regime and orderly resolution plans to break up and wind down a failing financial firm in a manner that protects taxpayers and the economy;
- The Financial Stability Oversight Council (FSOC) continues to monitor potential risks to U.S. financial stability. On July 26, 2011, [FSOC released its First Annual Report](#),³³ and fulfilled explicit statutory requirements, including the completion of several studies on topics such as proprietary trading, concentration limits, and securitization;

³² <http://www.treasury.gov/press-center/press-releases/Pages/tg1254.aspx>

³³ <http://www.treasury.gov/press-center/press-releases/Pages/tg1257.aspx>

- FSOC continues the process for determining which nonbank financial companies will be supervised by the Federal Reserve and subjected to heightened prudential standards, and for designating the systemically important financial market utilities that will be subject to risk management standards;
- The Federal Insurance Office is working to monitor all aspects of the insurance industry in order to identify issues and gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or within the financial system; and
- The Office of Financial Research is working to improve the quality of available financial data and allow for a more robust analysis of the financial system for FSOC and its member agencies.

Links for Further Information

[Glossary of Terms](#)³⁴

Office of Financial Stability at www.FinancialStability.gov

- The [Two Year Retrospective](#)³⁵ published October 3, 2010
- Updated [Agency Financial Reports and Citizens' Reports](#)³⁶
- Regularly Published [Reports](#)³⁷ such as the TARP Daily Update and Monthly 105(a) Report

U.S. Department of the Treasury at www.Treasury.gov

- Department of the Treasury [Press Center](#)³⁸

Housing Initiatives at www.MakingHomeAffordable.gov

- Monthly Servicer and Performance [Reports](#)³⁹
- Monthly Housing Scorecard from the [U.S. Department of Housing and Urban Development](#)⁴⁰

Cost of Government Wide Financial Stability Efforts

- Estimated cost of the Government intervention as calculated by [Treasury](#)⁴¹ and [Alan Sloan](#)⁴², Senior Editor at *Fortune*.

TARP in the News

- “[TARP Surprise](#)⁴³,” The Chicago Tribune Editorial: October 2, 2010
- “[Why Tarp Has Been a Success Story](#)⁴⁴,” Robert Samuelson, The Washington Post: March 27, 2011
- “[TARP Worked, Deal With It](#)⁴⁵,” The Seattle Times Editorial: March 1, 2011
- “[Our View on TARP: Hated bank bailout is about to turn a profit](#)⁴⁶,” USA Today: February 8, 2011

³⁴ <http://www.treasury.gov/initiatives/financial-stability/glossary/Pages/Default.aspx>

³⁵ [http://www.treasury.gov/initiatives/financial-stability/briefing-](http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf)

[room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf](http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/TARP%20Two%20Year%20Retrospective_10%2005%2010_transmittal%20letter.pdf)

³⁶ http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

³⁷ <http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/Pages/Home.aspx>

³⁸ <http://www.treasury.gov/press-center/Pages/default.aspx>

³⁹ <http://www.treasury.gov/initiatives/financial-stability/results/mha-reports/pages/default.aspx>

⁴⁰ <http://www.hud.gov/scorecard>

⁴¹ <http://www.treasury.gov/connect/blog/Documents/Financial%20Stabilization%20Program%20Update%20March%202011%20FINAL.pdf>

⁴² <http://finance.fortune.cnn.com/2011/07/08/surprise-the-big-bad-bailout-is-paying-off/>

⁴³ [http://articles.chicagotribune.com/2010-10-02/news/ct-edit-tarp-20101002_1_troubled-asset-relief-program-tarp-financial-](http://articles.chicagotribune.com/2010-10-02/news/ct-edit-tarp-20101002_1_troubled-asset-relief-program-tarp-financial-markets)

[markets](http://articles.chicagotribune.com/2010-10-02/news/ct-edit-tarp-20101002_1_troubled-asset-relief-program-tarp-financial-markets)

⁴⁴ http://www.washingtonpost.com/opinions/why-tarp-has-been-a-success-story/2011/03/25/AFEe6jKB_story.html

⁴⁵ http://seattletimes.nwsourc.com/html/editorials/2014368173_edit02tarp.html

⁴⁶ http://www.usatoday.com/news/opinion/editorials/2011-02-09-editorial09_ST_N.htm

www.FinancialStability.gov