EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 15, 2010

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

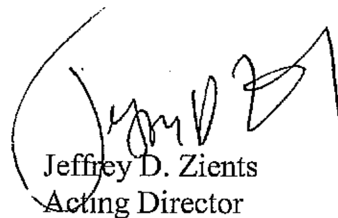
Dear Madam Speaker:

Enclosed and as transmitted to the President of the United States is the Office of Management and Budget's (OMB) report of the estimated cost of assets purchased under the Emergency Economic Stabilization Act of 2008 (EESA).

OMB is required to submit this report to the President and the Congress semi-annually; OMB's first report this year was released with the President's Budget in February. This report analyzes the cost of transactions completed by June 30, 2010, which is consistent with the requirement to analyze transactions completed at least 30 days before each report's publication. The report also provides estimates of expected Troubled Asset Relief Program transactions as presented in the Mid-Session Review of the President's FY 2011 Budget.

OMB will continue to work closely with the Department of the Treasury to monitor the budgetary and programmatic impacts of this important program.

Sincerely,



Jeffrey D. Zients
Acting Director

Enclosure

Identical Letter Sent to the President of the Senate

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 15, 2010

MEMORANDUM FOR THE PRESIDENT

FROM: Jeffrey D. Zients
Acting Director

SUBJECT: Transmittal of the Office of Management and Budget's required report per the Emergency Economic Stabilization Act of 2008

Attached is the Office of Management and Budget's report of the estimated cost of assets purchased under the Emergency Economic Stabilization Act of 2008 (EESA), as required by section 202 of EESA.

OMB is required to submit this report to the President and the Congress semiannually; the first report this year was issued with your February Budget. This report analyzes the cost of transactions completed by June 30, 2010, which is consistent with the requirement to analyze transactions completed at least thirty days before each report's publication. The report also includes a brief discussion of the effects of the Dodd-Frank Act, enacted in July, which reduced allowable cumulative Troubled Asset Relief Program (TARP) investments to $475 billion. OMB will continue to work closely with the Department of the Treasury to monitor the budgetary and programmatic impacts of this important program.

Attachment

OMB Report Under the Emergency Economic Stabilization Act, Section 202

Office of Management and Budget

October 15, 2010

Consistent with the requirements of Section 202 of the Emergency Economic Stabilization Act, this report analyzes Troubled Asset Relief Program (TARP) transactions through May 31, 2010, and includes statutory effects of the Wall Street Reform and Consumer Protection Act of 2010. This report does not cover TARP program developments occurring after May 31, 2010, including Treasury agreements with American Investment Group (AIG) and other programmatic changes occurring after that date. For information on TARP program developments after May 31, 2010, you may consult the Treasury Department's October 5, 2010 report entitled *Troubled Asset Relief Program: Two Year Retrospective*.

OMB Report under the Emergency Economic Stabilization Act, Section 202

The Emergency Economic Stabilization Act of 2008 (EESA, enacted as P.L. 110-343) authorized the Department of the Treasury (Treasury) to purchase or guarantee troubled assets and other financial instruments, provided that the total purchase price paid for assets held by the Secretary at any one time not exceed $700 billion.[1] Treasury implemented the Troubled Asset Relief Program (TARP) under this authority to provide capital to and restore confidence in the strength of U.S. financial institutions, restart markets critical to financing American households and businesses, and address housing market problems and the foreclosure crisis.

Section 202 of P.L. 110-343 requires the Office of Management and Budget (OMB) to report the estimated cost of assets purchased and guarantees issued pursuant to the Act. OMB is required to submit the report semi-annually; the most recent report was issued as part of the *Budget of the United States Government, Fiscal Year 2011* (the Budget).[2] Consistent with the requirement to analyze transactions occurring no less than thirty days before publication, this report analyzes transactions through May 31, 2010.[3] This report does not cover TARP program developments occurring after May 31, 2010, including Treasury agreements with American Investment Group (AIG) and other programmatic changes occurring after that date. For information on TARP program developments after May 31, 2010, you may consult the Treasury Department's October 5, 2010 report entitled *Troubled Asset Relief Program: Two Year Retrospective.*

Summary of Changes. Since the publication of the Budget, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act and financial conditions have continued to improve. This has had two effects on the Administration's implementation of the TARP. First, the Administration has scaled back its planned TARP expenditures in some areas. This is due in part to the Dodd-Frank Act's limiting of TARP purchases to $475 billion, and also because private capital is being injected into the financial markets at higher levels than during the financial crisis.

Second, as a result of improving market conditions and good stewardship, the value of Treasury's existing investments has increased, which is expected to bring the overall cost of TARP down. As noted in Treasury's June 11th press release, total repayments of TARP investments as of May 31, 2010, were approximately $190 billion, which is about half of total disbursements to date of approximately $380 billion.[4] The estimated total deficit impact of TARP programmatic costs, reflecting recent activity and updated market data, is now estimated at $101.3 billion (see Table 1 below). For several programs,

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[1] TARP purchase authority is defined as the purchase price paid for assets held by the Secretary of the Treasury, and Treasury's maximum liability for guaranteed amounts. The purchase authority has been changed in subsequent legislation. The Helping Families Save Their Homes Act of 2009 (P.L. 111-22) lowered TARP authority to $698.7 billion, and in July the Dodd-Frank Wall Street Reform and Consumer Protection Act (PL 111-203) reduced the aggregate TARP program level to $475 billion.

[2] See Chapter 4 of the Analytical Perspectives volume of the 2011 Budget: *"Financial Stabilization Efforts and their Budgetary Effects."* http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/econ_analyses.pdf

[3] This report analyzes transactions related to the sale of Citigroup common stock through June 30, 2010. Other than the description of certain data in Table 1, this report does not reflect the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which occurred too late to incorporate into the 2011 Mid-Session Review (MSR).

[4] See http://www.financialstability.gov/latest/pr_06112010.html

estimated subsidy costs are expected to be lower as market conditions have continued to improve. Several TARP investments have now yielded or are expected to yield a positive return.

Table 1. TARP Program Levels and Costs [1]
(In billions of dollars)

Program	2011 Budget		2011 MSR		Dodd-Frank Act May 31st Valuation	
	Estimated TARP Cumulative Obligations	Subsidy Costs	Estimated TARP Cumulative Obligations	Subsidy Costs	Estimated TARP Cumulative Obligations	Subsidy Costs
Equity Purchases						
Capital Purchase Plan	208.0	1.4	204.9	1.2	204.9	-3.3
AIG Investments	69.8	49.9	69.8	49.9	69.8	47.7
Targeted Investment Program	40.0	-3.7	40.0	-3.7	40.0	-3.6
Automotive Industry Financing Program (AIFP)	16.3	6.3	16.3	6.3	16.3	9.1
Public-Private Investment Program - Equity	10.0	2.0	7.5	1.8	7.5	1.9
Community Development Capital Initiative	N/A	N/A	0.8	0.4	0.8	0.4
Sub-total equity purchases	344.1	55.9	339.3	55.9	339.3	52.2
Direct Loan Programs						
Automotive Industry Financing Program (AIFP)	68.6	24.5	65.5	24.4	65.5	20.5
Term Asset-Backed Securities Loan Facility (TALF)	20.0	-0.5	20.0	-0.5	4.3	-0.7
Public-Private Investment Program - Debt	20.0	-1.7	14.9	-1.3	14.9	-1.4
Small Business 7(a) Program	N/A	N/A	1.0	0.0	0.4	0.0
Other Section 101	40.0	2.7	0.0	0.0	0.0	0.0
Sub-total direct loan programs	148.6	25.0	101.4	22.7	85.1	18.4
Guarantee Programs under Section 102						
Asset Guarantee Program	5.0	-3.0	5.0	-3.0	5.0	-3.0
Non-Add Asset Guarantee Program Face Value	*301.0*		*301.0*		*301.0*	
Sub-Total Guarantee Program	5.0	-3.0	5.0	-3.0	5.0	-3.0
TARP Housing Programs [2,3]	48.8	48.8	48.7	48.7	45.6	45.6
Total TARP obligations and costs	**546.4**	**126.7**	**494.4**	**124.4**	**475.0**	**113.1**
Memorandum:						
Deficit impact before administrative costs and interest effects [4]		*116.8*		*114.5*		*101.3*

[1] Reflects TARP program levels and costs as reported in the 2011 Budget and 2011 MSR. The Dodd-Frank Act May 31st Valuation reflects estimates of current program costs with updated performance data as of May 31st and the effects of the Wall Street Reform and Consumer Protection Act (PL 111-203). Changes in anticipated TARP costs for these factors will be reflected in the 2012 Budget.

[2] Includes three housing initiatives: 1) Making Home Affordable programs, which includes the Home Affordable Modification Program (HAMP); 2) Housing Finance Agency (HFA) Hardest-Hit Fund; and 3) Federal Housing Administration (FHA) Refinance Program.

[3] 2011 MSR obligations and subsidy costs account for a reduction included in the Helping Families Save their Homes Act, as an offset for Special Inspector General for the Troubled Asset Relief Program (SIGTARP) administrative costs.

[4] Total deficit impacts of the TARP program for 2010 include downward interest on reestimates of $9.9 billion. Notional estimate of the effects of improved performance and reductions from PL 111-203 suggest interest on reestimate of $11.8 billion, if these changes in cost were to be executed as of May 31, 2010.

Table 1 reflects several changes in the TARP program since the Budget estimates. Amounts for the Capital Purchase Program were reduced by roughly $3 billion as actual purchases under the program were lower than anticipated. Treasury also eliminated the possibility of increasing its commitment to the Term Asset-Backed Securities Loan Facility (TALF) by $10 billion; reduced amounts planned for the Automotive Industry Financing Program (AIFP) by more than $3 billion; and reduced the planned investments in the Public-Private Investment Program by nearly $8 billion. The Administration also reduced the amount allocated for the Consumer and Business Lending Initiative by removing $30 billion reserved for small business lending initiatives, and instead proposing a separate Small Business Lending Fund outside of the TARP.[5] These changes were reflected in the 2011 MSR, and show a reduction in TARP obligations of roughly $52.4 billion, while expected costs fell $2.3 billion from the estimates in the 2011 Budget. The effects of these changes by program are reflected in the "2011 MSR" column of Table 1.

The Dodd-Frank Act, enacted on July 21, 2010, reduces the authority to purchase troubled assets to $475 billion; requires that repayments of amounts invested under TARP be used solely to reduce the Federal debt and are no longer authorized for additional purchases of trouble assets; and prohibits new obligations for any TARP program or initiative that was not already initiated prior to June 25, 2010. Table

[5] The 2011 Budget assumed that the Treasury would establish $30 billion of small business lending initiatives with roughly a $3 billion cost, and included a placeholder under the TARP program; this assumption has been removed from the May 31st valuation and the Mid-Session Review.

1 also reflects how Treasury has continued to reduce TARP commitments and obligations since the publication of the MSR to conform to the requirements of the Dodd-Frank Act:

1. Treasury reduced its total commitment to the TALF Special Purpose Vehicle (SPV) from $20 billion to $4.3 billion. Treasury's initial $20 billion commitment was intended to support total TALF lending of $200 billion. Because outstanding TALF loans as of June 30, 2010, were $43 billion, Treasury has reduced the amount of TARP support in accordance with the lower TALF volume.
2. Treasury reduced its commitment to the Small Business 7(a) program from $1 billion to $0.4 billion as a result of lower than expected demand.
3. Treasury reduced estimated obligations for the TARP Housing programs by approximately $3.1 billion.

A detailed analysis of specific TARP programs is provided below.

Description of Assets Purchased Through the TARP, by Program

Capital Purchase Program (CPP). Pursuant to EESA, the Treasury created the CPP in October 2008 to restore confidence throughout the financial system by ensuring that the Nation's banking institutions have a sufficient capital cushion against potential future losses and to support lending to creditworthy borrowers. All eligible CPP recipients completed funding by December 31, 2009, and the program will not make new investments. The MSR reflects total TARP purchases of $204.9 billion in preferred stock under the program. As of May 31, 2010, Treasury has received $142.15 billion in redemptions of preferred stock (i.e., principal repayments) and $13.8 billion in revenues from dividends, interest, warrants, and fees.

Table 1 cost estimates from the May 31st valuation also reflect Treasury's sale of 19.5 percent of its holdings of Citigroup common stock through the end of June 2010, for proceeds of approximately $6.18 billion at an average price of $4.12 per share, roughly 27 percent greater returns per share than previously assumed in the 2011 Budget. The MSR projects that Treasury will sell the remainder of its common stock in Citigroup by December 31, 2010. The 2012 budget will reflect updated subsidy costs for actual and expected performance on this and other TARP programs.

American International Group (AIG) Investments. The Federal Reserve Board and the Treasury provided financial support to the American International Group (AIG) in order to strengthen the company's capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers. As of September 30, 2009, the Treasury purchased $40 billion in preferred shares from AIG. It also created an equity capital facility, from which AIG may draw up to $29.8 billion as needed in exchange for additional preferred stock. As of May 31, 2010, Treasury had invested a total of $47.5 billion in AIG through these two vehicles. The MSR assumes a total of $69.8 billion in preferred stock will be purchased or exchanged from AIG over the life of the program.

Targeted Investment Program (TIP). The goal of TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets,

and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased $20 billion in preferred stock from Citigroup and $20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. The MSR estimates continue to reflect no change from the Budget, and reflect Citigroup's and Bank of America's full redemption of Treasury's TIP investments in 2010. The MSR includes payments to Treasury of $1.8 billion in dividends in 2009 and an estimated $791 million in dividend payments in 2010. . In March 2010, Treasury sold Bank of America warrants for $1.5 billion; the proceeds from this warrant sale will be reflected in the updated TIP subsidy cost estimate that will be included in the FY 2012 President's Budget.

Asset Guarantee Program (AGP). Treasury created the AGP to provide Government assurances for assets held by financial institutions that are critical to the functioning of the nation's financial system. In January 2009, the Treasury, the Federal Reserve, and the FDIC negotiated a potential loss-sharing arrangement under the AGP on up to $118 billion of financial instruments owned by Bank of America. In May 2009, Bank of America announced its intention to terminate negotiations with respect to the loss-sharing arrangement. In September 2009, the Treasury, the Federal Reserve, the FDIC, and Bank of America entered into a termination agreement pursuant to which Bank of America agreed to pay a termination fee of $425 million to the Government parties. Of this amount, $276 million was due to Treasury and was paid in 2009.

The Treasury, the Federal Reserve and the FDIC entered into a final agreement for a loss-sharing arrangement with Citigroup on January 15, 2009. Under the agreement, the Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of financial assets held by Citigroup. The agreement was terminated, effective December 23, 2009. The U.S. Government parties did not pay any losses under the agreement, and have kept $5.2 billion of the $7 billion in trust preferred securities[6], of which Treasury retained $2.2 billion, as well as warrants for common shares that were issued by Citigroup as consideration for the guarantee. Treasury is also entitled to receive up to $800 million in additional Citigroup trust preferred securities held by the FDIC (net of any losses suffered by the FDIC) under Citigroup's use of the Temporary Loan Guarantee Program

Automotive Industry Financing Program (AIFP). In December 2008, the Treasury established the AIFP to prevent a disruption of the domestic automotive industry, which posed a systemic risk to the nation's economy. The Budget estimated a total of $84.8 billion extended through loans and equity investments to participating domestic automotive manufacturers, finance companies, and suppliers. In exchange for the assistance provided to automotive manufacturers, Treasury received:

1) 60.8 percent of the common equity and $2.1 billion in preferred stock in New GM when the sale of valuable assets from the old GM to the new GM took place on July 10, 2009. In November 2009, GM agreed, subject to certain conditions, to begin $1 billion quarterly repayments on its $6.7 billion loan. GM fully repaid the loan in April 2010, meeting its publicly stated goal to repay the entire loan by June 2010. Treasury announced in August that it has agreed to be named as a selling shareholder of common stock in GM's registration statement on Form S-1 filed with the Securities and Exchange Commission (SEC) for a proposed initial public offering, though no final decision as to whether to sell has been made at this time. The proposed initial public offering will not include the Series A preferred stock held by Treasury.

[6] Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

2) Treasury also received a $7.1 billion debt security and a 9.9 percent share of the equity in the newly formed, post-bankruptcy Chrysler Group LLC (new Chrysler). As part of the bankruptcy proceedings, new Chrysler also assumed $500 million of debt from Treasury's original $4 billion loan to Chrysler Holding (old Chrysler). Therefore, when the 2011 Budget was published, Treasury held a $3.5 billion loan with old Chrysler in addition to investments in new Chrysler. Since then, in April 2010, Treasury received a $1.9 billion repayment of its investments in old Chrysler. This repayment, while less than the amount Treasury invested, is significantly more than the Administration had previously estimated to recover. As part of the repayment agreement, Treasury agreed to write off the $1.6 billion balance remaining under the $3.5 billion loan to old Chrysler.

The Treasury has also purchased equity investments totaling $16.3 billion in Ally Financial (formerly GMAC).

TARP Housing Programs. To mitigate foreclosures and preserve homeownership, the Administration in February 2009 established a comprehensive $75 billion housing program. Treasury agreed to provide up to $50 billion in funding through the TARP, while the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) agreed to provide up to $25 billion of additional funding.[7] These housing programs focus on creating sustainably affordable mortgages for responsible homeowners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. These programs fall into three initiatives:

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

The MHA initiative includes the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Program (2MP), and the 2nd lien extinguishment portion of the FHA-Refinance Program. Under MHA programs, the Treasury signs contracts with servicers to make incentive payments to the borrowers, servicers, and investors of first and second lien mortgages for successful modifications of the existing mortgages. As of May 31, 2010, 104 mortgage servicers had signed up to participate in the HAMP, over 1.5 million trial modification offers had been extended to borrowers, and over 1.2 million trial modifications were initiated. Over 340,000 permanent modifications were active at the end of May. In addition to providing responsible homeowners with sustainable mortgages, the MHA initiative has also, for the first time, standardized the mortgage modification process across the servicing industry.

Treasury offers other forms of incentives to encourage modifications, or prevent foreclosure under the HAMP, as part of its MHA program. For example, Treasury provides payments to protect against declining home prices as part of encouraging mortgage modifications in communities that have experienced continued home price depreciation. When a mortgage modification is not possible, Treasury offers incentive payments to encourage borrower short sales (sales for less than the value of the mortgage in satisfaction of the mortgage) or deeds-in-lieu (when the homeowner voluntarily transfers ownership of the property to the servicer in full satisfaction of the total amount due on the mortgage) via the Home Affordable Foreclosure Alternatives Program in order to provide a means for borrowers to avoid foreclosure.

[7] For additional information on the program, visit: http://www.makinghomeaffordable.gov/about.html

As part of its ongoing effort to continuously refine targeting of mortgage assistance, the Administration announced several programs in addition to the original HAMP that will give a greater number of responsible borrowers an opportunity to remain in their homes and reduce costly foreclosures. Major programs announced since December 31, 2009, include:

- *HFA Hardest-Hit Fund:* Treasury announced a $4.1 billion Housing Finance Agency (HFA) Hardest-Hit Fund. The program provides HFAs from 18 states and the District of Columbia with funding to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets.
- *Unemployment Assistance (part of HAMP):* Unemployed borrowers that meet eligibility criteria will have an opportunity to receive temporary mortgage payment assistance for a minimum of three months, and up to six months, while they look for a new job.
- *Principal Reduction Alternative (part of HAMP):* Servicers will be required to consider an alternative mortgage modification that emphasizes principal relief for borrowers who owe more than their home is worth. Under the alternative approach, investors will receive incentive payments based on a percentage of each dollar of loan principal written off. Borrowers and investors will receive principal reduction and the incentives, respectively, through a pay-for-success structure.
- *FHA Re-Finance Program*: This program will allow 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. TARP funds will provide incentive payments to extinguish second lien mortgages to facilitate refinancing, and cover a share of FHA's losses. At the time of this publication, the programmatic details of the FHA Re-Finance program are being finalized.

The Administration originally allocated $50 billion to the TARP Housing programs, and MSR reflects a commitment level of $48.7 billion. Following the enactment of the Dodd-Frank Act, Treasury reduced its commitments to the TARP Housing programs to $45.6 billion, and this change is reflected in Table 1.

Consumer and Business Lending Initiative (CBLI). The CBLI is designed to facilitate lending that supports consumers and small businesses, through the Term Asset-Backed Securities Loan Facility (TALF) and dedicated small-business programs.

- *TALF*: The TALF is a joint initiative with the Federal Reserve that provides financing (TALF loans) to private investors to help unfreeze secondary markets for various types of credit. The Treasury provides protection to the Federal Reserve through a loan to the TALF special purpose vehicle (SPV), which was originally available to purchase up to $20 billion in assets acquired through TALF loans in the case of default. The Treasury has disbursed $0.1 billion of this amount to the TALF SPV to implement the program, representing a notional amount used to establish the SPV. The Treasury's total TALF purchases will depend on actual TALF loan defaults. While the Budget included a placeholder of $10 billion in additional TALF support for possible expansion, the Administration has determined those funds are no longer needed. In addition, because the Federal Reserve is no longer making new TALF loans after June 30, 2010, and total outstanding loans were $4.3 billion, Treasury and the Federal Reserve agreed to reduce the maximum amount of assets Treasury will acquire to up to $4.3 billion. This change is reflected in the Dodd-Frank Act May 31st valuation, as shown in Table 1. The Administration's current estimated program costs are similar to the Budget estimates for the existing TALF program.

- *Small Business Lending Support*: In an effort to increase job creation and stimulate economic growth, the Budget notionally allocated $30 billion within the TARP program level for small business lending initiatives. Since the publication of the Budget, the Administration has proposed to implement small business lending support programs separate from TARP. Consistent with this proposal, the amount allocated to the CBLI in MSR and Dodd-Frank Act levels reflects a $30 billion program reduction from levels assumed in the Budget.
- *Community Development Capital Initiative (CDCI):* The CDCI program invests lower-cost capital in Community Development Financial Institutions (CDFIs), which operate in markets underserved by traditional financial institutions. In February 2010, Treasury released program terms for the new CDCI program, under which institutions may receive capital investments of up to 5 percent of risk-weighted assets and pay dividends to Treasury as low as 2 percent per annum. The dividend rate increases to 9 percent after eight years. CDFI credit unions may apply for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts and with similar terms. These institutions may apply for capital investments of 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. The MSR estimates that not more than $0.8 billion in TARP capital will be extended through this program in 2010.
- *SBA 7(a)*: In March 2009, Treasury and the Small Business Administration announced a Treasury program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and as of May 31, 2010, had agreed to purchase securities with an aggregate face value of approximately $112 million. The MSR estimates that Treasury will purchase up to $1 billion through this program in 2010.Treasury reduced its commitment to the Small Business 7(a) program from $1 billion to $0.4 billion as a result of lower-than-expected demand as market conditions had improved since the original announcement of the program. This change is reflected in the Dodd-Frank Act May 31st valuation as shown in Table 1.

Public Private Investment Program (PPIP). The Treasury, in conjunction with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, introduced the PPIP on March 23, 2009, to address the volatile market cycle affecting troubled legacy assets clogging the balance sheets of private-sector financial institutions. The PPIP is designed to improve the financial position of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities). The Treasury implemented the legacy securities PPIP and initially announced that it would provide up to $100 billion, and subsequently reduced this amount to $30 billion in the Budget, since market conditions had improved. PPIP closed for new funding on June 30, 2010. The Treasury has further reduced its commitment to $22.4 billion, since increased investments of private capital have reduced the need for Government intervention in the legacy securities market.

TARP Program Costs in the MSR

This section provides estimates of the cost to taxpayers and the current value and budgetary effects of TARP transactions as reflected in the Mid-Session Review of the 2011 Budget (MSR). The analysis includes what the budgetary effects would have been had all transactions been reflected on a cash basis, and also shows the estimated present value cost for transactions under the Federal Credit Reform Act (FCRA), using Treasury rates to discount the expected cash flows associated with TARP investments

without adjustment to the discount rate for market risks required by EESA. It also includes a comparison of the cost estimates with previous estimates provided by OMB and the Congressional Budget Office (CBO).[8] While this section does not provide a detailed discussion of TARP costs expected under the lower purchase authority of the Dodd-Frank Act, currently estimated costs and program levels under Dodd-Frank are shown in Table 1 earlier in this report.

Through TARP, the Treasury Department has purchased equity under a number of programs, including the Capital Purchase Program, the AIG Investments Program, the Targeted Investment Program, the Public-Private Legacy Securities Investment Program (PPIP), and the Automotive Industry Financing Program (AIFP). Treasury has also made direct loans through the AIFP, the TALF, and the PPIP. Through the TARP Housing programs Treasury provides direct payments to encourage alternatives to foreclosure, and other efforts to support homeowners.

Table 2, below, summarizes the current and anticipated activity under TARP, and the estimated lifetime budgetary costs reflected in the MSR, comparing these amounts with estimates published in the 2011 Budget. The impact of TARP on the deficit is projected to be $114.5 billion in the MSR, down from $116.8 billion projected in the Budget. The subsidy cost, which represents the lifetime net present value cost of TARP obligations, is estimated to be $124.4 billion in the MSR, compared with $126.7 billion in the Budget. Estimated gross TARP obligations as of the Budget totaled $546.4 billion. MSR figures assume TARP gross obligations of $494 billion.

Table 2. Programmatic Costs of Troubled Asset Relief Actions (Excluding Debt Service) [1]
(In billions of dollars)

	2011 Budget		2011 MSR		Change from 2011 Budget to 2011 MSR	
Program	TARP Obligations	Estimated Cost (+) / Savings (-)	TARP Obligations	Estimated Cost (+) / Savings (-)	TARP Obligations	Estimated Cost (+)/ Savings (-)
Equity Purchases	344.1	55.9	339.3	55.9	-4.8	0.0
Structured & direct loans and asset-backed security purchases	148.6	25.0	101.4	22.7	-47.2	-2.3
Guarantees of troubled asset purchases[2]	5.0	-3.0	5.0	-3.0	0.0	0.0
TARP Housing Programs	48.8	48.8	48.7	48.7	0.0	0.0
Total	546.4	126.7	494.4	124.4	-52.1	-2.3
Memorandum:						
Deficit impact before administrative costs and interest effects [3]		*116.8*		*114.5*		*-2.3*

[1] Total reflects estimated TARP obligations and costs as presented in MSR through 2020, before enactment of PL 111-517 which limited TARP program levels to $475 billion.
[2] The face value of assets supported by the Asset Guarantee Program was $301 billion. No further guarantees under the Asset Guarantee program are expected.
[3] Total deficit impacts of the TARP program include downward interest on reestimates of $9.9 billion.

[illegible] of TARP assets are projected to be lower than estimated in the Budget, reflecting lower anticipated program levels for non-TARP Housing programs (i.e., fewer investments) and faster repayment for several TARP programs. Net balances in TARP financing accounts are estimated to be $157.5 billion as of the end of 2010, showing an increased asset value from 2009 as additional TARP investments were made, and improved market conditions and performance under these programs indicated higher values for TARP investments.

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[8] The transaction data in the MSR and in this section of the report are as of May 31, 2010, and also include transactions related to the sale of Citigroup common stock through June 30, 2010. Subsidy rates for these programs reflecting actual performance and updated market information will be updated in the 2012 Budget.
[9] The first reestimates for TARP executed in 2010 were calculated using actual data through September 30, 2009, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the end-of-2010 financing account balances.
[10] Asset value reflects adjustments to the discount rates for market risks, as prescribed under Section 123 of the EESA. Because financial instruments purchased through the TARP Housing programs under TARP have no investment value, they are not included in these amounts.

MSR asset values at the end of 2010 are roughly $32 billion lower than reported in the Budget. The change reflects a reduction in expected new investments, including: (i) reductions in anticipated activity for PPIP, CPP, and AIFP; (ii) the determination that $10 billion in additional support for TALF would not be necessary; (iii) elimination of $30 billion for small business initiatives in light of the proposal to create a lending facility outside of TARP; and (iv) higher than anticipated revenues through proceeds on Citigroup common stock sales and TARP loan repayments. The overall balances of the financing accounts are still estimated to fall in 2011, but increase in 2012 due to anticipated future disbursements of TARP assistance. The value of direct loans is expected to increase to $56.9 billion in 2012 as current TARP obligations to purchase are realized in the PPIP and TALF programs. The aggregate financing account balances are then estimated to decline in the subsequent years, reflecting the wind-down of the TARP program as its assets and loans acquired are repaid, sold, or written off. Total outstanding TARP equity purchases are expected to decline during 2010, as the value is realized through participant repurchases of stock and Treasury revenues from asset sales. Starting in 2018, negative values indicate an expected reduction in subsidy costs from those included in the 2011 President's Budget — i.e., a downward reestimate when the subsidy costs for Direct Loan programs are reestimated in the 2012 Budget. Estimates for the AGP are the same as presented in the Budget, with balances declining gradually as the value on preferred stock and warrants received as consideration for TARP guarantees is realized. Reestimates to update the subsidy cost to reflect the actual activity through 2010 and revised future estimates for all non-TARP Housing programs will be included in the 2012 Budget.

Table 3. Troubled Asset Relief Program Current Value[1]

(In billions of dollars)

	Actual	Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financing Account Balances:												
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	102.1	87.4	87.8	86.3	81.7	77.4	72.8	63.7	53.1	27.9	12.1
Troubled Asset Relief Program Direct Loan Financing Account[2]	23.9	53.1	56.3	56.9	56.1	52.8	44.7	25.9	14.5	-1.2	-3.6	-4.0
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.3	2.1	2.1	1.8	1.7	1.6	1.5	1.4	1.4	1.3	1.3
Total Financing Account Balances	**129.9**	**157.5**	**145.9**	**146.8**	**144.2**	**136.2**	**123.8**	**100.2**	**79.6**	**53.3**	**26.7**	**9.4**

[1] Current value as reflected in the Mid-Session Review of the 2011 President's Budget.

[2] "Negative" amounts for direct loan valuations indicate performance for direct loans exceeds that assumed in the most recent subsidy cost estimates, indicating an expected downward reestimate for TARP direct loans in the 2012 Budget.

Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt, Based on the FCRA/EESA Methodology. The estimates of the deficit and debt in the MSR reflect the impact of TARP as estimated under FCRA and Section 123 of EESA. The deficit estimates include the budgetary costs for each program under TARP, plus administrative expenses, certain indirect interest effects of credit programs, and debt service costs on Treasury borrowing to finance the program. Under MSR estimates, TARP programmatic costs are expected to reduce the 2010 deficit by $82.2 billion, capturing direct program costs and downward reestimates of $114.5 billion (including interest on reestimates). Overall, TARP is expected to reduce the 2010 deficit by $103.1 billion, largely due to the interest payments to Treasury from the TARP financing accounts, but also capturing administrative costs and Special Inspector General for TARP activities.

The estimates of debt due to TARP include borrowing to finance both the deficit impact of TARP activity and the funding requirements of TARP's non-budgetary financing accounts. These estimates are shown in Table 4. Debt held by the public due to TARP is $203.3 billion as of the end of 2010, or $39.8 billion less than estimated in the Budget driven primarily by lower program levels anticipated in MSR. Total debt held by the public due to TARP declines in later years as TARP loans are repaid and TARP equity purchases are sold or redeemed.

Debt held by the public net of financial assets reflects the cumulative amount of money the Federal Government has borrowed from the public and not repaid, minus the current value of financial assets such as loan assets, private-sector securities, or equities held by the Government. While debt held by the public is a key measure for examining the impact of TARP, it provides incomplete information on the program's effect on the Government's financial condition. The U.S. Government holds financial assets as a result of TARP assistance, which must be offset against debt held by the public and other financial liabilities to achieve a more complete understanding of the Government's financial condition.

The specific effects of TARP on these estimates are also displayed in Table 4. Accounting for the financial assets acquired through TARP (which are also reflected in Table 3's values), the impact of the program on debt net of financial assets is expected to be $45.8 billion as of the end of 2010.

Under the FCRA, the financing account earns and pays interest at the same rate used to discount cash flows for the credit subsidy cost. Section 123 of EESA requires an adjustment to the discount rate to reflect market risks. This results in subsidy costs for TARP equity purchases, direct loans, and guarantees that are higher than the net present value cost using Treasury discount rates under FCRA. Actual cash flows as of September 30, 2009, already reflect the effect of any realized market risks to that point, and therefore actual credit transactions in financing accounts reflect Treasury interest rates under FCRA, with no adjustment.[11] Future cash flows for interest expense reflect a risk-adjusted discount rate, consistent with the FCRA requirement that financing account interest be earned or paid at the same rate used to discount the cash flows. This aligns the financing account balances with the current subsidy cost reflected in the Budget. Over time, if actual transactions with the public are consistent with projections, the TARP subsidy costs will reflect downward reestimates to return the premium charged under the market risk-adjusted discount rate, while actual Treasury net interest receipts from credit financing accounts will be lower than projections that include the risk-adjusted interest rates.

[11] As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks will have already been realized in the actual cash flows. Therefore, the final subsidy cost for TARP transactions will equal the cost per FCRA, where the net present value reflects discounting with Treasury rates.

Table 4. Troubled Asset Relief Program Effects on the Deficit and Debt[1]
(In billions of dollars)

	Actual	Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Deficit Effect:												
Programmatic and administrative expenses:												
Programmatic expenses:												
Equity purchases	115.3	31.2	0.1	—	—	—	—	—	—	—	—	—
Direct loans and purchases of asset-backed securities	36.9	-0.4	-0.0	—	-0.2	—	—	0.0	—	—	0.0	—
Guarantees of troubled asset purchases	-1.0	-1.4	—	—	—	—	—	—	—	—	—	—
Homeowners Assistance Modification Program	0.0	3.0	7.4	10.2	10.1	7.6	5.4	3.3	1.5	0.3	—	—
Reestimates of credit subsidy costs	—	-114.5	—	—	—	—	—	—	—	—	—	—
Subtotal, programmatic expenses	151.2	-82.2	7.5	10.2	9.8	7.6	5.4	3.3	1.5	0.3	0.0	—
Administrative expenses	0.1	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Special Inspector General for TARP	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, programmatic & administrative expenses	151.3	-81.7	7.9	10.5	10.1	7.9	5.6	3.5	1.6	0.4	0.1	0.1
Interest effects:												
Interest transactions with credit financing accounts [2]	-2.8	-21.8	-18.4	-18.3	-18.4	-17.9	-16.7	-14.9	-12.4	-8.9	-5.0	-1.8
Debt service [3]	0.5	0.4	1.1	3.3	5.6	7.2	6.7	5.7	4.5	3.2	1.9	0.8
Subtotal, interest effects	-2.3	-21.4	-17.3	-15.0	-12.7	-10.7	-10.0	-9.2	-7.9	-5.7	-3.2	-1.0
Total deficit impact	149.0	-103.1	-9.4	-4.6	-2.6	-2.8	-4.4	-5.7	-6.2	-5.2	-3.0	-0.9
Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:												
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	-3.3	-14.7	0.4	-1.5	-4.6	-4.3	-4.6	-9.1	-10.7	-25.1	-15.8
Troubled Asset Relief Program Direct Loan Financing Account	23.9	29.2	3.2	0.6	-0.9	-3.2	-8.1	-18.9	-11.4	-15.6	-2.4	-0.4
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.7	-0.1	-0.0	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0
Total, other transactions affecting borrowing from the public	129.9	27.6	-11.6	0.9	-2.6	-8.0	-12.5	-23.6	-20.5	-26.4	-27.6	-16.3
Change in debt held by the public	278.9	-75.5	-21.1	-3.6	-5.3	-10.7	-16.9	-29.3	-26.8	-31.6	-30.6	-17.2
Debt held by the public	278.9	203.3	182.3	178.7	173.4	162.7	145.8	116.5	89.73	58.1	27.5	10.3
As a percent of GDP	2.0%	1.4%	1.2%	1.1%	1.0%	0.9%	0.8%	0.6%	0.4%	0.3%	0.1%	0.0%
Debt held by the public net of financial assets:												
Debt held by the public	278.9	203.3	182.3	178.7	173.4	162.7	145.8	116.5	89.7	58.1	27.5	10.3
Less financial assets net of liabilities — credit financing account balances:												
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	102.1	87.4	87.8	86.3	81.7	77.4	72.8	63.7	53.1	27.9	12.1
Troubled Asset Relief Program Direct Loan Financing Account	23.9	53.1	56.3	56.9	56.1	52.8	44.7	25.9	14.5	-1.2	-3.6	-4.0
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.3	2.1	2.1	1.8	1.7	1.6	1.5	1.4	1.4	1.3	1.3
Total, financial assets net of liabilities	129.9	157.5	145.9	146.8	144.2	136.2	123.8	100.2	79.6	53.3	25.7	9.4
Debt held by the public net of financial assets	149.0	45.8	36.4	31.8	29.2	26.4	22.1	16.3	10.1	4.9	1.8	0.9
As a percent of GDP	1.0%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

[1] Table reflects the deficit effect of budgetary costs, including interest effects as estimated in the Mid-Session Review of the 2011 Budget.

[2] Projected Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates. Actual credit financing account interest transactions reflect the Treasury rates under the Federal Credit Reform Act.

[3] Includes debt service effects of all TARP transactions that affect borrowing from the public.

Portion of the Deficit Attributable to Any Action Taken by the Secretary. Table 4 above shows the portion of the deficit attributable to actions taken by the Treasury Secretary under the authorities of TARP. As shown in the Budget, the largest effects continue to be for reestimates of TARP activity outstanding as of September 30, 2009; these reestimates were executed in fiscal year 2010. Since the Budget, the largest changes have been due to a reduction in the total anticipated size of TARP from $546.4 billion in the Budget to $494 billion in the MSR. The specific effects are as follows:

- The total effect of TARP reestimates and interest on reestimates was to reduce the deficit impact of TARP by $114.5 billion in 2010, including $104.7 billion in reduced subsidy costs for TARP disbursements as of September 30, 2009, and $9.9 billion in interest on reestimates. As discussed previously, another downward reestimate of TARP costs is anticipated for the 2012 Budget.
- TARP equity purchases in 2010 are expected to increase outlays by $31.2 billion, or roughly $0.1 billion over the level estimated in the Budget. The increase is associated with equity purchases under the new CDCI program, and offset with reductions in expected obligations under the CPP and PPIP from levels assumed in the Budget.
- New disbursements of direct loans under TARP, including the TALF and future actions, are estimated to result in $0.6 billion in net receipts in 2010 through 2016, based on estimated loan disbursements. This is $2.3 billion lower than estimated costs for TARP direct loans in the Budget.
- Savings resulting from the AGP under TARP remain unchanged from the Budget and are estimated to reduce outlays by $1.4 billion in 2010. No further loan guarantee commitments are anticipated under this program.
- Outlays for the TARP Housing programs are estimated at $48.7 billion through 2018. The MSR reflects a slower anticipated outlay rate for these programs than assumed in the Budget.

- Administrative expenses for the TARP program and costs for the Special Inspector General for TARP remain unchanged from estimates in the Budget.
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payment and receipt of interest are budgetary transactions and therefore affect net outlays and the deficit. For TARP financing accounts, projected interest transactions are based on the market-risk adjusted rates used to discount the cash flows. The projected net financing account interest paid to Treasury at market risk adjusted rates is $21.8 billion in 2010 and declines over time as the financing accounts repay borrowing from Treasury through proceeds and repayments on TARP equity purchases and direct loans.[12]
- The full impact of TARP on the deficit includes the cost of Treasury borrowing from the public—debt service—for the higher outlays listed above. Debt service is estimated to reach $7.2 billion in 2014, and fall over time as the TARP program winds down.

Estimate of the Current Value, Deficit and Debt Effects on a Cash Basis. The value of the assets acquired through TARP does not depend on whether the costs of acquiring or purchasing the assets are recorded in the Budget on a cash basis or a credit basis; their value would be the same either way. The Budget records the cost of equity purchases, direct loans, and guarantees as the net expected present value cost to the Government, discounted at the rate required under the FCRA, as adjusted for market risks as required under Section 123 of EESA. Therefore, the net present value cost of the assets is reflected as outlays in the budget, and the value of the assets is reflected in the financing accounts for equity purchases, direct loans, and loan guarantees.[13] If these purchases were instead presented in the Budget on a cash basis, outlays reported in the budget would not be offset by the value of assets purchased. Rather, budget outlays would reflect gross outlays for each disbursement (whether a purchase, a loan disbursement, or a default claim payment), and reflect offsetting collections when cash is received from the public as the assets are later sold, with no obvious indication of whether the outflows and inflows leave the Government in a better or worse financial position.

[12] Consistent with EESA and FCRA budget execution guidelines, actual TARP financing account interest for 2010 will reflect Treasury rates. As a result, the net financing account interest paid to Treasury will be lower than amounts reflected in Table 4, which assume a risk-adjusted rate for future projections as required by EESA.
[13] While Treasury does purchase financial instruments for the TARP Housing programs, instruments purchased through May 31, 2010 have no value and therefore are recorded on a cash basis.

Table 5. Troubled Asset Relief Program Effects on the Deficit and Debt Calculated on a Cash Basis [1]
(In billions of dollars)

	Actual	Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Deficit Effect:												
Programmatic and administrative expenses:												
Programmatic expenses:												
Equity purchases	217.6	-85.5	-26.4	-10.9	-12.8	-15.7	-14.8	-14.6	-18.1	-18.2	-30.2	-17.9
Direct loans and purchases of asset-backed securities	61.1	6.6	-3.2	-6.2	-7.9	-9.8	-14.1	-23.6	-14.6	-16.8	-2.2	-0.1
Guarantees of troubled asset purchases	-0.5	-0.5	-0.4	-0.2	-0.5	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
TARP Housing Programs	0.0	3.0	7.4	10.2	10.1	7.6	5.4	3.3	1.5	0.3	—	—
Subtotal, programmatic expenses	278.3	-76.5	-22.5	-7.2	-11.2	-18.2	-23.8	-35.2	-31.4	-34.9	-32.6	-18.1
Administrative expenses	0.1	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Special Inspector General for TARP	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, programmatic & administrative expenses	278.4	-76.0	-22.2	-6.9	-10.9	-17.9	-23.5	-35.0	-31.2	-34.8	-32.5	-18.0
Debt service [2]	0.5	0.4	1.1	3.3	5.6	7.2	6.7	5.7	4.5	3.2	1.9	0.8
Total deficit impact	**278.9**	**-75.5**	**-21.1**	**-3.6**	**-5.3**	**-10.7**	**-16.9**	**-29.3**	**-26.8**	**-31.6**	**-30.6**	**-17.2**
Change in debt held by the public	278.9	-75.5	-21.1	-3.6	-5.3	-10.7	-16.9	-29.3	-26.8	-31.6	-30.6	-17.2
Debt held by the public	**278.9**	**203.3**	**182.3**	**178.7**	**173.4**	**162.7**	**145.8**	**116.5**	**89.7**	**58.1**	**27.5**	**10.3**
As a percent of GDP	2.0%	1.4%	1.2%	1.1%	1.0%	0.9%	0.8%	0.6%	0.4%	0.3%	0.1%	0.0%
Debt Held by the Public Net of Financial Assets:												
Debt held by the public	278.9	203.3	182.3	178.7	173.4	162.7	145.8	116.5	89.7	58.1	27.5	10.3
Less financial assets net of liabilities — credit financing account balances:												
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	102.1	87.4	87.8	86.3	81.7	77.4	72.8	63.7	53.1	27.9	12.1
Troubled Asset Relief Program Direct Loan Financing Account	23.9	53.1	56.3	56.9	56.1	52.8	44.7	25.9	14.5	-1.2	-3.6	-4.0
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.3	2.1	2.1	1.8	1.7	1.6	1.5	1.4	1.4	1.3	1.3
Total, financial assets net of liabilities	129.9	157.5	145.9	146.8	144.2	136.2	123.8	100.2	79.6	53.3	25.7	9.4
Debt held by the public net of financial assets	**149.0**	**45.8**	**36.4**	**31.8**	**29.2**	**26.4**	**22.0**	**16.3**	**10.1**	**4.9**	**1.8**	**0.9**
As a percent of GDP	1.0%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

[1] Table reflects deficit effect of budgetary costs, substituting estimates calculated on a cash basis for estimates calculated under FCRA and Sec. 123 of EESA.

[2] Includes debt service effects of all TARP transactions affecting borrowing from the public.

Revised Estimate of the Deficit, Debt Held by the Public, and Federal Debt Net of Financial Assets with TARP costs on a Cash Basis. Estimates of the deficit and debt with TARP transactions calculated on a cash basis are reflected in Table 5, for comparison to those estimates in Table 4, in which TARP transactions are calculated consistent with FCRA and Section 123 of EESA.

If TARP transactions were reported on a cash basis, the deficit would include the full amount of Government disbursements for activities such as equity purchases and direct loans, offset by cash inflows from dividend payments, redemptions, and loan repayments occurring in each year. For loan guarantees, the deficit would show fees, claim payouts, or other cash transactions associated with the guarantee as they occurred. Differences between actual and estimated performance, and updated estimates of future performance, would impact the deficit in the year that they occur or are estimated to occur, and there would be no credit reestimates.

Table 5 shows that if TARP transactions were reported on a cash basis, TARP would reduce the deficit in 2010 by an estimated $75.5 billion, so the 2010 deficit would be $27.6 billion higher than estimated in the Budget if TARP were reflected on a cash basis. Under this alternative approach, the impact of TARP on the debt, and on debt held net of financial assets, is the same as under FCRA with adjustments to the discount rate for market risks.

Table 6. Detailed TARP Program Levels and Costs[1]
(In billions of dollars)

Program	2011 President's Budget		2011 MSR [2]	
	Estimated TARP Cumulative Obligations	Subsidy Costs	Estimated TARP Cumulative Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Plan	208.0	1.4	204.9	1.2
AIG Investments	69.8	49.9	69.8	49.9
Targeted Investment Program	40.0	-3.7	40.0	-3.7
Automotive Industry Financing Program (AIFP)	16.3	6.3	16.3	6.3
Public-Private Investment Program - Equity	10.0	2.0	7.5	1.8
Community Development Capital Initiative	N/A	N/A	0.8	0.4
Sub-total equity purchases	344.1	55.9	339.3	55.9
Direct Loan Programs				
Automotive Industry Financing Program (AIFP)	68.6	24.5	65.5	24.4
Term Asset-Backed Securities Loan Facility (TALF)	20.0	-0.5	20.0	-0.5
Public-Private Investment Program - Debt	20.0	-1.7	14.9	-1.3
Small Business 7(a) Program	N/A	N/A	1.0	0.0
Other Section 101	40.0	2.7	0.0	0.0
Sub-total direct loan programs	148.6	25.0	101.4	22.7
Guarantee Programs under Section 102				
Asset Guarantee Program	5.0	-3.0	5.0	-3.0
Non-Add Asset Guarantee Program Face Value	*301.0*		*301.0*	
Sub-Total Guarantee Program	5.0	-3.0	5.0	-3.0
TARP Housing Programs [3]	48.8	48.8	48.7	48.7
Total program costs	**546.4**	**126.7**	**494.4**	**124.4**
Memorandum:				
Deficit impact before administrative costs and interest effects [4]		*116.8*		*114.5*

[1] Estimates do not include the effects of Public Law 111-203, which limited total TARP program levels to $475 billion.

[2] Changes in TARP costs for MSR reflect updates in expected volume, and timing of TARP Housing programs. Changes in cost for updated performance on outstanding TARP assistance will be reflected in the 2012 Budget.

[3] 2011 MSR obligations and subsidy costs account for a reduction included in the Helping Families Save their Homes Act, as an offset for Special Inspector General for the Troubled Asset Relief Program (SIGTARP) administrative costs.

[4] Total deficit impacts of the TARP program include $9.9 billion of interest on downward reestimates.

Differences Between Current and Previous OMB Estimates. Table 6 above shows a total TARP deficit impact of $114.5 billion as reflected in the MSR, a reduction of $2.3 billion from the Budget projection of $116.8 billion. The deficit impact differs from the subsidy cost of $124.4 billion because the deficit impact reflects a $9.9 billion downward interest adjustment, accounting for the time between when the subsidy cost was originally estimated and the time when the reestimate is booked. The amount of the downward interest adjustment has not been updated since the Budget. The subsidy cost of $124.4 billion reflects the estimated present value cost of the program from the date TARP obligations originate.

The reduction in total TARP cost is primarily being driven by a reduction in TARP obligations resulting from fewer anticipated TARP purchases. The MSR reflects $494.0 billion in total TARP obligations, a reduction of $52.4 billion from the Budget ($546.4 billion).[14] $47.4 billion of the reduction is reflected in the structured and direct loans and asset-backed security purchases portfolio, primarily from the "Other Section 101" placeholder amounts assumed in the Budget. The subsidy rates estimated for the MSR have not been updated since the Budget, with the exception of the programs announced after the release of the Budget.

[14] Since the publication of the MSR, Treasury has reduced total TARP obligations to $475 billion, consistent with the Dodd-Frank Act, with an estimated impact on the deficit of $101.3 billion. See pages 2-3 of this report for further discussion.

Table 7. Comparison of OMB and CBO TARP Costs
(In billions of dollars)

	Risk-Adjusted Subsidy Costs	
	CBO [1]	OMB [2]
Capital Purchase Program	-2	1
Targeted Investment Program	-3	-4
AIG Assistance	36	50
Automotive Industry Financing Program	34	31
Term Asset-Backed Securities Loan Facility	1	-1
Asset Guarantee Program	-3	-3
Other Programs [3]	23	1
TARP Housing Programs	22	49
Total	**109**	**124**

[1] The CBO Cost was published in March 2010.
[2] The OMB Rate reflects estimated subsidy costs in the 2011 MSR.
[3] In the OMB Cost, the cost for "Other Programs" reflects an aggregate cost for various programs, including PPIP (Debt and Equity Purchases), CDCI, and Small Business programs.

Differences Between OMB and CBO Estimates. Table 7 shows a comparison of the subsidy costs reflected in the MSR for TARP and the costs estimated by CBO in March 2010.[15] The largest difference between OMB and CBO total subsidy costs are due to the different times at which the estimates were made. The costs estimated by CBO were based on completed, outstanding, and planned activities as of February 17, 2010, and current market data at that time. The subsidy costs reflected in MSR are only updated for program and volume changes, and reflect market data as of December 31, 2009. Treasury's most recent estimate of TARP costs after the enactment of the Dodd-Frank bill (discussed on pages 2-3 of this report) include market data through May 31st 2010 as well as program and volume changes.

CBO projects a total cost of TARP of $109 billion in its March report. In the MSR, OMB estimates the total cost at $124 billion, and in the updated valuation, the total cost is estimated at $113 billion[16]. The primary differences in the overall cost are due to different assumptions about the size of certain programs such as the TARP Housing programs, where CBO estimates that the total size will be $22 billion, compared with MSR estimates of $48.7 billion and updated OMB estimates of $45.6 billion. CBO also includes $45 billion in unallocated TARP funds in its estimate (having a 50 percent placeholder subsidy rate), whereas in the MSR, OMB includes no unallocated TARP funds in its estimates.

[15] United States. Cong. Budget Office. Report on the Troubled Asset Relief Program – March 2010. Washington: CBO, 2010. http://www.cbo.gov/ftpdocs/112xx/doc11227/03-17-TARP.pdf
[16] Estimates do not include interest on reestimates.

Table 8. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS
using Dodd-Frank Act May 31st valuations
(In billions of dollars)

Program	Face Value	Subsidy Cost		Difference	
		EESA Discounting	Treasury Rate Discounting	Cost	Percent
Capital Purchase Plan	204.9	-3.3	-10.6	-6.9	-4%
Targeted Investment Program	40.0	-3.6	-3.5	0.0	0%
Asset Guarantee Program	5.0	-3.0	-3.5	-0.6	-9%
Consumer Business Lending Initiative	5.5	-0.4	-1.1	-0.6	-13%
Public Private Investment Program[1]	22.4	0.5	-5.0	-5.5	-24%
AIG Investments[2]	69.8	47.7	41.6	-5.8	-9%
Automotive Industry Financing Program[1]	81.8	29.6	25.7	-4.3	-5%
TARP Housing Programs[3]	45.6	45.6	45.6	0.0	0%
Total[4]	**475.0**	**113.1**	**89.3**	**-23.7**	**-5%**

[1] Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.
[2] Cost at both discount rates include cost at the formulation rates for $22.3 billion that has not been disbursed, therefore not reestimated.
[3] TARP Housing programs financial instruments have no value, and are reflected on a cash basis. 100% is assumed for the subsidy cost.
[4] Total subsidy costs do not include interest effects or administrative costs.

Differences Between EESA and FCRA Cost Estimates. The Emergency Economic Stabilization Act of 2008 (EESA) directs that for asset purchases and guarantees under the Troubled Asset Relief Program, the cost shall be determined pursuant to the Federal Credit Reform Act of 1990 (FCRA), except that the discount rate shall be adjusted for market risks. EESA's directive to adjust the FCRA discount rate for market risks effectively assumes a higher cost to finance these transactions than the FCRA, which requires that Treasury rates be used to discount cashflows. In implementing this requirement of EESA, the methodologies used by the Administration seek to capture in the cost some estimate of the extra return that a private investor would seek in compensation for uncertainty surrounding risks of default and other losses reflected in the cashflows.[17]

Table 8 compares the subsidy costs and rates of TARP programs discounted at the Treasury rate adjusted for market risk and discounted at the unadjusted Treasury rate. For all programs except TIP and TARP Housing programs, removing the market risk adjustment decreases the subsidy cost and rate. The largest differences in the estimated subsidy rates reflect the most uncertainty regarding the probability of losses. For example, there is greater uncertainty regarding the value of Treasury's investments in AIG and PPIP than there is related to value of Treasury's investments in CPP participants, and so the difference between the market-risk adjusted cost versus the non-adjusted cost is greater for AIG and PPIP than for CPP. Removing the additional return required by private investors to cover that greater uncertainty for Treasury's investment in AIG and PPIP decreases the subsidy rate by 9 and 24 percentage points, respectively, whereas it only decrease the CPP subsidy rate by 4 percentage points. For the TIP and TARP Housing programs, there is no difference in subsidy rates because the TIP program has been fully repaid, and TARP Housing programs is reflected on a cash basis and therefore is not discounted. Using May 31, 2010 valuations, TARP investments discounted at a private investor's cost of borrowing will cost an estimated $113.1 billion or a net subsidy rate of 24 percent. TARP investments discounted at Treasury's cost of borrowing will cost an estimated $89.3 billion or a net subsidy rate of 19 percent, a difference of 5 percentage points.

[17] For example, if there were a 100 percent default expectation on a loan, and losses given default were projected at 100%, the market risk adjustment to the discount rate would be zero. This reflects the fact that there are no unexpected losses if losses are expected to be 100 percent of the face value of the loan.