FINANCIAL STABILITY OVERSIGHT BOARD
QUARTERLY REPORT TO CONGRESS

For the quarter ending
September 30, 2010

Submitted pursuant to section 104(g) of the
Emergency Economic Stabilization Act of 2008

Ben S. Bernanke, Chairperson
Chairman
Board of Governors of the Federal Reserve System

Timothy F. Geithner
Secretary
Department of the Treasury

Shaun Donovan
Secretary
Department of Housing
and Urban Development

Mary L. Schapiro
Chairman
Securities and Exchange Commission

Edward J. DeMarco
Acting Director
Federal Housing Finance Agency

Table of Contents

I. INTRODUCTION

This report constitutes the eighth quarterly report of the Financial Stability Oversight Board ("Oversight Board") pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"). This report covers the period from July 1, 2010, to September 30, 2010 (the "quarterly period").

The Oversight Board was established by section 104 of the EESA to help oversee the Troubled Asset Relief Program ("TARP") and other emergency authorities and facilities granted to the Secretary of the Treasury ("Secretary") under the EESA. The Oversight Board is composed of the Secretary, the Chairman of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the Director of the Federal Housing Finance Agency ("FHFA"), the Chairman of the Securities and Exchange Commission ("SEC"), and the Secretary of the Department of Housing and Urban Development ("HUD"). Through Oversight Board meetings and other activities, the Oversight Board reviews and monitors the development, implementation, and effect of the policies and programs established under the TARP to restore liquidity and stability to the U.S. financial system.

II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on July 28, August 16, and September 29, 2010. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board received presentations and briefings from Treasury officials to assist the Oversight Board in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

Final purchase authority to make commitments under TARP expired on October 3, 2010. In addition, on July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which reduces total TARP commitment authority from $700 billion to $475 billion; prohibits repayments of amounts invested under TARP from being used to increase Treasury's purchase authority under TARP and dedicates repayments to reducing the public debt; and prohibits Treasury from incurring obligations for any program or initiative that was not initiated prior to June 25, 2010.

a. Update on Key Initiatives and Developments

The following highlights some of the key initiatives and developments under TARP and the Financial Stability Plan during the quarterly period, subject to review and oversight by the Oversight Board. Additional details concerning these developments and programs are included in Part IV below.

[1] Approved minutes of the Oversight Board's meetings are made available on the internet at: http://www.FinancialStability.gov/about/oversight.html.

Housing stabilization and foreclosure mitigation

- Making Home Affordable ("MHA") and Home Affordable Modification Program ("HAMP"). Approximately 50,000, 37,000 and 33,000 trial modifications became permanent in June, July and August, respectively. More than 230,000 trials were cancelled during the same three month period, primarily due to insufficient documentation, trial plan payment default, and borrower ineligibility. Most of the cancelled trials were aged trials (trials existing for six months or longer), initiated before the program required documented qualifications to begin trials.

- Federal Housing Administration ("FHA") Short Refinance Program. On September 7, FHA, in conjunction with HUD and Treasury, announced an enhancement to the FHA refinancing program, which is designed to provide a refinance option for homeowners whose mortgage balances significantly exceed the value of their home. Under the terms of the program, which were initially announced in March 2010, the lender on the first-lien primary mortgage must be willing to write-down the loan balance so that the loan-to-value ratio meets FHA guidelines and the borrower's overall mortgage payment burden is within program guidelines. The borrower also must be current on payments at the time of refinance. Treasury will share in responsibility for insurance claim payments, thus sharing in the credit risk of the insured portfolio. Treasury has pledged up to $8 billion of TARP funds for this credit enhancement to the FHA insurance. The actual allocation by Treasury will be based on program volume, and the specific amounts were designed to make the program budget-neutral for FHA and HUD.

- Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund" or "HHF"). On August 11, Treasury announced plans to expand the Hardest Hit Fund initiative by establishing a third funding under HHF to support programs sponsored by state housing finance agencies ("HFAs") in states that have experienced an unemployment rate at or above the national average over the past 12 months. As part of this expansion, Treasury will make up to $2 billion of additional assistance available for HFA-sponsored programs directed at homeowners struggling to make their mortgage payments due to unemployment. On September 29, Treasury announced that it would make an additional $3.5 billion of assistance available for the states and jurisdictions participating in HHF to expand the reach of their programs to help a larger number of struggling homeowners. As of September 30, 2010, approximately $56 million had been disbursed under the HHF for approved plans. Implementation timetables and details vary across the state HFAs and programs. Treasury currently expects that six of the original ten HFA programs should begin to provide assistance to borrowers during the fourth quarter of 2010. All ten of the original states should be implemented during the first quarter of 2011, together with eight of the nine additional FHA programs, and the last FHA program is expected to be operational by the second quarter of 2011.

The Capital and Guarantee Programs for Banking Organizations

- The Capital Purchase Program ("CPP").

  - Of the approximately $205 billion invested under the CPP as of September 30, Treasury has received more than $152 billion in repayments and $10 billion in total dividends from CPP participants. As of September 30, 2010, Treasury had disposed of warrants from 81 banking organizations and had received more than $8 billion in gross proceeds from their dispositions. During the quarterly period, 8 banking organizations repurchased warrants for proceeds of approximately $1.12 billion. Some 123 institutions did not make scheduled dividend or interest payments on Treasury's CPP investments during the quarter. At month-end, 22 institutions had missed five or more quarterly CPP dividend or interest payments.

  - Under the CPP agreements, Treasury cannot demand payment of dividends, but instead has a contractual right to appoint two directors to the institution's board of directors. During the quarter, Treasury announced plans to utilize board observers to inform its decision in that regard. As of September 30, 2010, Treasury observers had attended the board of directors meetings of 14 of the 22 CPP institutions that had missed five or more payments.

  - During the quarter, Treasury exchanged CPP preferred stock for other securities at six institutions as a means to improve overall repayment or recovery prospects. Exchanges made on this basis may be at a rate less than par, and sales by Treasury to a new investor may be made at a discount. The six transactions addressed roughly $1.1 billion of CPP investments. Two of the transactions involved sales of the investment assets to third parties, with a combined discount of about $240 million.

  - As of September 30, five CPP institutions had declared bankruptcy or had their banking subsidiary placed in receivership (CIT Group Inc., UCBH Holdings, Inc., Midwest Banc Holdings, Inc., Sonoma Valley Bancorp, and Pacific Coast National Bancorp), which represent approximately $2.73 billion of CPP investment.

- Update on Citigroup, Inc. ("Citigroup"). As part of the June 2009 Exchange Agreement between Treasury and Citigroup, Treasury exchanged the $25 billion in preferred shares received in connection with Citigroup's participation in the Capital Purchase Program for approximately 7.7 billion shares of common stock. As of September 30, 2010, Treasury has received approximately $13.4 billion of repayments from sales of this Citigroup common stock. In addition, Treasury's sales of Citigroup common stock have generated $3 billion of income in excess of the principal amount Treasury has recovered. On September 30, 2010, Treasury sold the $2.23 billion in preferred securities Treasury had retained as a premium following the termination of the Asset Guarantee Program ("AGP"), receiving proceeds of approximately $2.25 billion. As of September 30, Treasury also had earned total dividends of approximately $440 million from these securities. Treasury still holds some common stock and warrants in Citigroup.

Community Development Capital Initiative ("CDCI")

- Treasury concluded capital investments under the CDCI to community development financial institutions ("CDFIs"). In total, Treasury invested approximately $570 million in 84 CDFIs, some $363 million of which represented exchanges by 28 financial institutions that had been participants in CPP.

American International Group, Inc. ("AIG")

- On September 30, 2010, AIG announced that it had entered into an agreement-in-principle with Treasury, the Federal Reserve Bank of New York ("FRBNY"), and the trustees of the AIG Credit Facility Trust (the "Trust") designed to repay all its obligations to American taxpayers. Under this agreement-in-principle, AIG will repay and terminate the FRBNY senior secured credit facility, primarily using the proceeds from the sale of a subsidiary and the initial public offering of another subsidiary. AIG will use some portion of the remaining $22 billion of TARP funds available to it (under the Series F preferred stock facility provided in April 2009) to purchase the FRBNY's preferred interests in the two special purpose vehicles established to hold these subsidiaries, which interests will then be transferred to Treasury. In addition, the Series C preferred shares held by the trust will be exchanged for common stock and distributed to Treasury.

Automotive Industry Financing Program ("AIFP")

- In August, General Motors ("GM") filed a registration statement with the SEC for a proposed IPO consisting of common stock to be sold by certain of its stockholders, including Treasury, and the issuance by the company of its Series B mandatory convertible junior preferred stock. Treasury was listed as a selling shareholder, and Treasury will retain the right, at all times, to decide whether and at what level to participate in the public stock offering.

b. Aggregate Level of Commitments, Disbursements and Repayments

As part of its oversight activities, the Oversight Board continues to monitor Treasury's effort to wind down TARP and manage the remaining TARP investments. As of September 30, 2010, Treasury had approximately $184 billion in TARP investments and commitments outstanding, exclusive of the housing initiatives. The chart in Figure 1 summarizes TARP commitments, disbursements, and repayments as of September 30, 2010.

Figure 1

TARP/Financial Stability Plan Budget Table

(Status as of COB 09/30/10)

All dollars in billions
All figures are as of COB the prior business day and are subject to adjustment(s) after final reconciliation.

	Planned Allocation	Face Value Obligations	Face Value Disbursed/ Outlays[1]
Capital Purchase Program (CPP)[2]	*204.89*	*204.89*	*204.89*
Targeted Investment Program (TIP)[3]	*40.00*	*40.00*	*40.00*
Asset Guarantee Program (Citigroup loss share agreement)[4]	*5.00*	*5.00*	*0.00*
Capital Assistance Program (CAP)[5]	*0.00*	*0.00*	*0.00*
Consumer & Business Lending Initiative (CBLI)[6, 7]	*5.48*	*5.25*	*0.55*
Legacy Securities Public-Private Investment Program (S-PPIP)[8]	*22.41*	*22.41*	*14.16*
AIG Investment	*69.84*	*69.84*	*47.54*
Automotive Industry Financing Program (AIFP)	*81.76*	*81.76*	*79.69*
Treasury Housing Programs Under TARP[9]	*45.63*	*45.63*	*0.54*
PROGRAM TOTALS[10]:	475.00	474.77	387.38
Remainder of Available Funds ($475 billion):	*0.00*	0.23	87.62
Percentage of Available Funds ($475 billion):	*0%*	0%	18%
Actual Redemptions / Repayments[11]:	*187.56*	*187.56*	*187.56*
Principal Repaid:	*11.60*	*11.60*	*11.60*
Dividends and Other Income Received To Date:	*15.68*		
Interest and Other Income Received To Date:	*1.04*		
Proceeds from the Sale of Warrants (received as a result of Exercised Warrants) and Stock[11]:	*10.18*		
Proceeds from Additional Notes[12]:	*0.12*		

[1] Represents TARP cash that has left the Treasury.

[2] No additional funding transactions exist. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[3] No additional funding transactions exist and all $40B has been repaid. Treasury still holds warrants that will result in additional proceeds to the UST at the time of settlement. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[4] Termination of the Asset Guarantee Program (AGP) Master Agreement occured on 12/23/09. Treasury still holds trust preferred securties with warrants that will result in additional proceeds to the UST at the time of settlement.

[5] The Capital Assistance Program (CAP) closed on 11/09/09 with no investments having been made. Per the Federal Reserve, 18 of the 19 banks participating in the SCAP or "stress tests" were shown to have no additional need for capital or have now fulfilled their need in the private market.

[6] $5.48B has been reserved for the Consumer and Business Lending Initiative, of which $4.3B has been allocated to TALF. $400 million is planned for SBA 7(a) purchases and $780 million is planned for the Community Development Capital Initiative (CDCI). While $30B had been previously reserved for small business initiatives, the Treasury has eliminated this in light of the proposal to create a $30B Small Business Lending Fund outside of TARP through legislation.

[7] Total Face Value obligations, to date, for the Small Business Administration 7(a) includes an additional 20% value added to the net monies projected for each TBA trade that has yet to settle. This amount is added to compensate for the UPB and price variances in order to ensure that the obligation recorded on the trade date will cover the final obligation at settlement. Obligations for TBAs are adjusted accordingly on the settlement date.

[8] TARP funds obligated represents final commitments following the close of the investment period with the eight (8) S-PPIP fund managers effective 06/30/10, in the amount of $22.4 billion.

[9] Planned and obligated TARP funds for housing consist of up to $29.9B in funds that may be provided to servicers under existing agreements for the Making Home Affordable Program (MHA), (ii) up to $7.6B for the HFA Hardest Hit Fund program and (iii) up to $8.1B which will be used for the FHA Short Refinance Program. Funds are disbursed over time.

[10] Pursuant to the "Dodd-Frank Wall Street Reform and Consumer Protection Act", TARP authority has been reduced to a maximum of $475 billion in troubled asset purchases.

[11] Between April 26 and June 30, 2010, Morgan Stanley & Co. Incorporated (Morgan Stanley), on behalf of Treasury, sold 2,608,971,857 shares of Treasury's holding of Citi common stock.

[12] Proceeds from Additional Notes reflect profits from additional loans repaid.

III. EVALUATING THE EFFECTS OF EESA PROGRAMS

In light of severe stresses in the U.S. and global financial markets that came to a head in the fall of 2008, Congress passed EESA to "immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States." Since that time, utilizing the authority provided by EESA, Treasury has implemented or announced a range of programs to stabilize the financial markets and financial institutions, support the flow of credit to consumers and businesses, and help at-risk homeowners remain in their homes and avoid foreclosure. These programs are described in more detail in Part IV of this report and in the previous quarterly reports of the Oversight Board. This section provides the Oversight Board's evaluation to this point of the effects of Treasury's efforts under EESA, building on the assessments made in previous quarterly reports.[2]

The Oversight Board believes that the accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during the quarter. The adverse effects of Europe's financial turmoil during the spring on U.S. markets receded during the quarter and financial markets returned to conditions consistent with a gradual path toward recovery. For example, broad measures of equity prices rose and spreads narrowed in short-term funding markets. Risk spreads for large bank holding companies were on average little changed over the quarter, again remaining well below the levels seen during the fall of 2008. Corporate borrowers continued to access credit markets in the quarter, evidenced by robust bond issuance by nonfinancial firms. Risk spreads for investment-grade corporate borrowers were little changed, on net, and risk spreads for high-yield bonds moved down. Borrowing by households and smaller businesses remained weak, however, and commercial real estate markets continued to exhibit considerable stress. Banks started to loosen modestly their still-tight lending standards on credit cards and commercial and industrial ("C&I") loans to both large and small borrowers, while continuing to report weaker demand for most types of loans. The posture of both lenders and borrowers was once again likely influenced by uncertainty about the pace and shape of recovery.

---

[2] In past quarterly reports, the Oversight Board has indicated that financial-market shocks from the crisis were lessened by Treasury's actions under EESA, and TARP and other government programs contributed to preventing the adverse effects of the crisis from becoming significantly more severe. In particular, TARP capital investments in banking organizations, in conjunction with the Term-Asset Backed Securities Loan Facility ("TALF") and other government programs, contributed to the easing of liquidity pressures and increased market confidence in banking organizations. These factors allowed many organizations in 2009 to raise substantial amounts of common equity and to repay some or all of the capital investments made by Treasury in the organizations under TARP. While lending activity has exhibited significant weakness since the onset of the crisis, the actions of Treasury under TARP likely prevented a greater deterioration in the availability of credit to households, businesses, and communities. At the same time, emerging indications of greater stability in housing market conditions have built on the positive influences of TARP programs and other initiatives by Treasury, the Federal Reserve, HUD, and FHFA. Discussion of conditions and effects of TARP programs in past periods can be found in the Oversight Board's previous quarterly reports at: http://www.financialstability.gov/about/oversight.html.

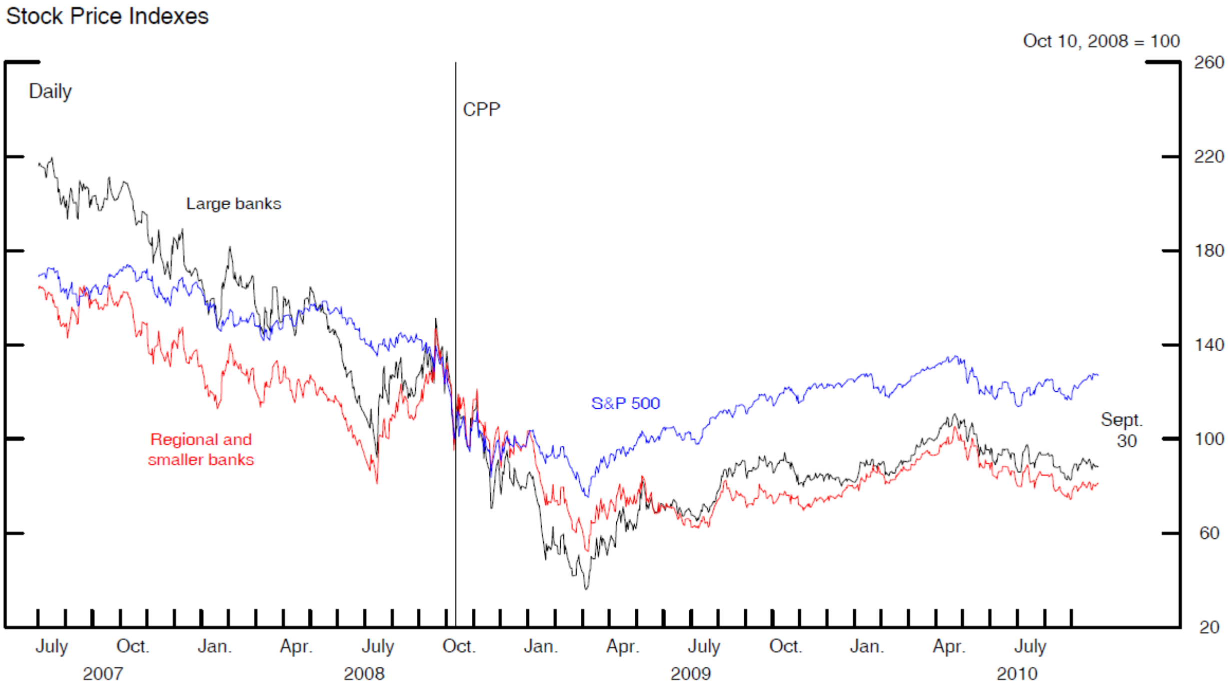
The Oversight Board also believes that Treasury's accumulated actions under TARP, together with other federal programs, continued to provide support to the housing market and assistance to at-risk mortgage borrowers during the quarter. These actions have helped to promote more stable conditions for housing finance and to reduce avoidable foreclosures. Home price indexes moved only narrowly, and mortgage delinquency rates declined modestly. The expiration in April of the first-time homebuyer tax credits program contributed to weaker homes sales volume relative to the second quarter. The homebuyer tax credit had stimulated sales in the second quarter, as some purchases that would likely have otherwise have occurred in the summer were moved forward to the spring. In July and August, the number of permanent mortgage modifications under HAMP grew roughly 35,000 per month. Along with new trial modification offers extended under HAMP, and other loan modification and refinancing efforts undertaken by other government and non-government entities, HAMP modifications have reduced mortgage debt service obligations of participating at-risk borrowers with the goal of creating opportunities for these households to achieve sustainable arrangements. Over the longer horizon, it remains too early to assess the extent to which borrowers with HAMP permanent modifications, or other loan modifications and refinancings, may subsequently default.

a. Assessment of the effect of the actions taken by Treasury in stabilizing financial markets

The Oversight Board believes that the accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during the quarter. After a slight deterioration in financial conditions during the second quarter of 2010, the effects of Europe's financial turmoil on U.S. markets receded during the third quarter and financial markets returned to a gradual path toward recovery.

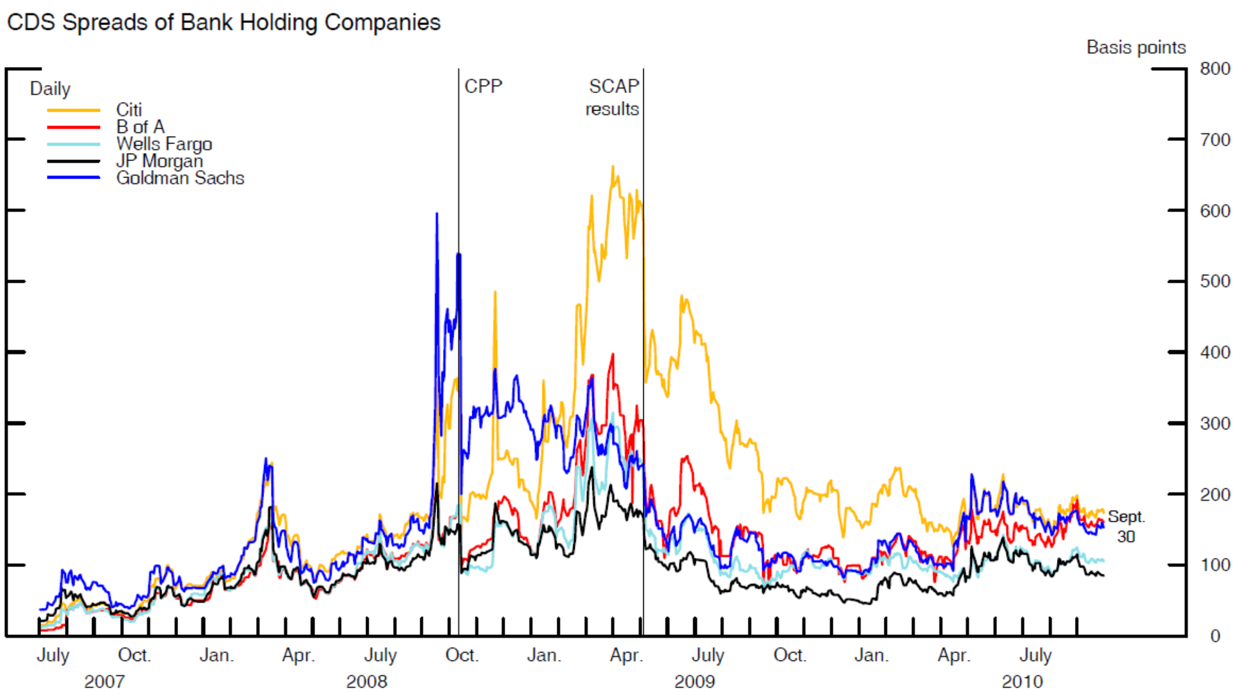
The S&P 500 stock price index increased more than 10 percent in the third quarter of 2010, but bank stocks were, on net, little changed (figure 2). Credit default swap ("CDS") spreads for large bank holding companies, generally considered to be a key indicator of investors' views about the health and prospect of these institutions, were on average little changed over the quarter (figure 3) and remained well below the levels seen in late 2008 and early 2009, prior to the release of the results from the Supervisory Capital Assessment Program ("SCAP").

Figure 2



Note. Large bank ETF consists of 24 banks. Regional and smaller bank ETF consists of 51 banks.
Source. Keefe, Bruyette & Woods, Bloomberg, and Standard and Poor's.

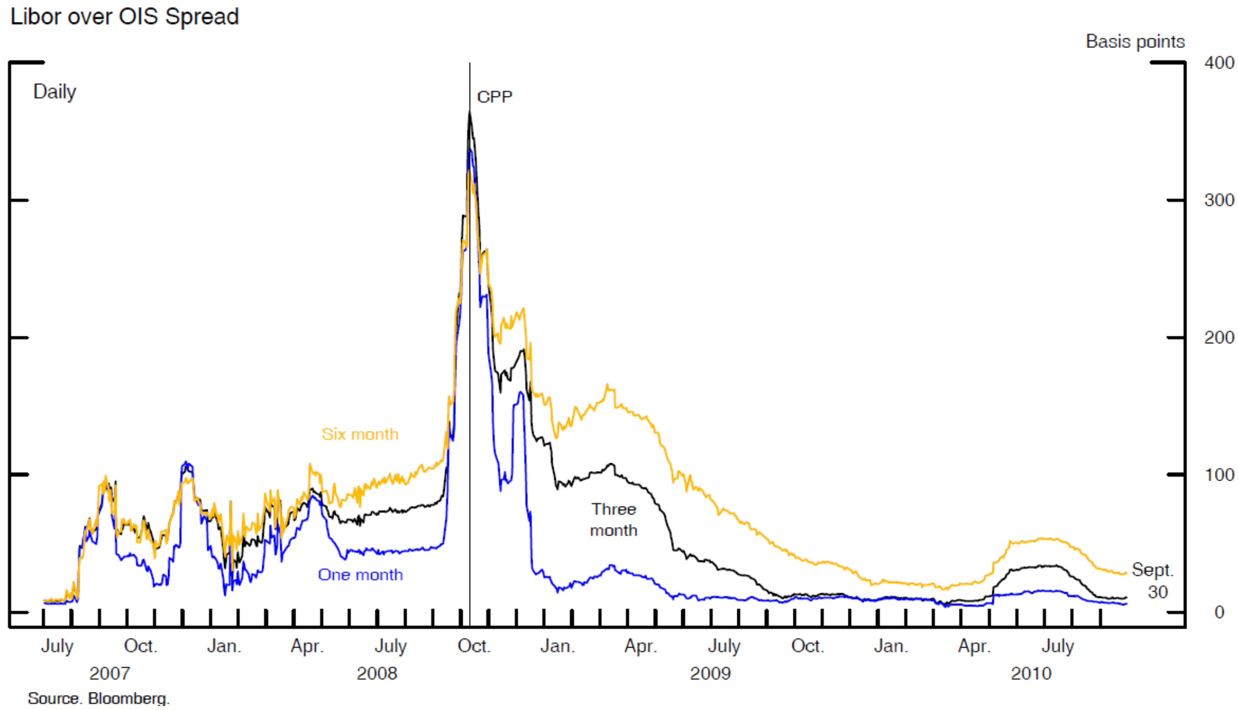
Figure 3



Source. Markit.

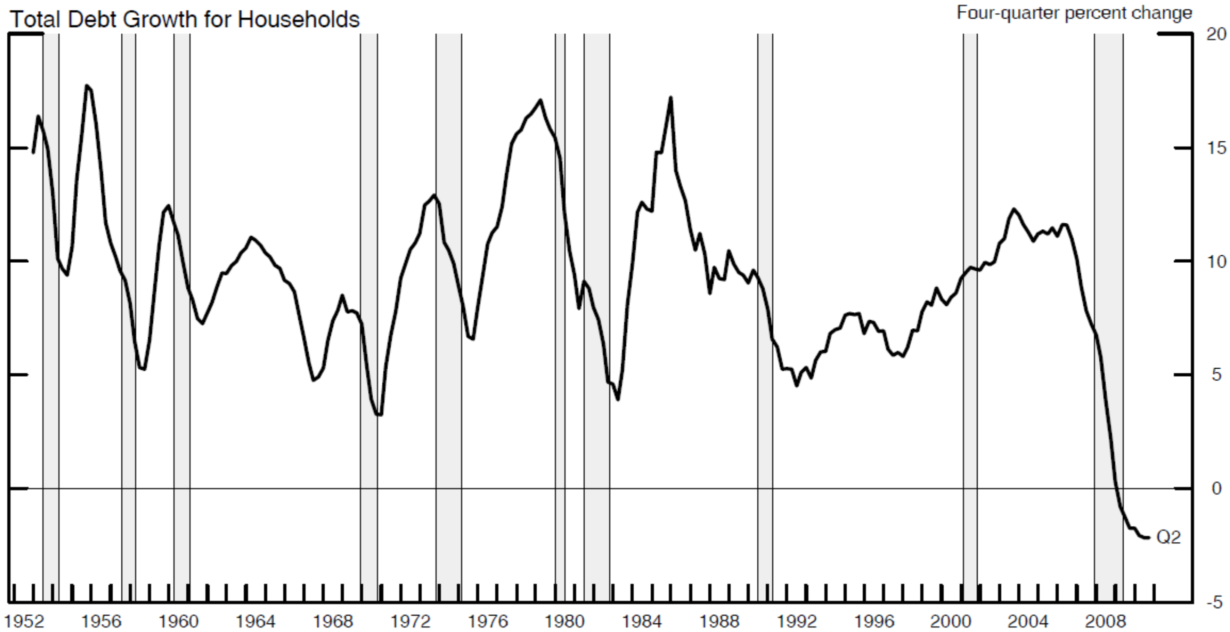
Conditions in interbank markets improved during the quarter, as indicated by the spreads of LIBOR rates to overnight index swap ("OIS") rates, a useful measure of banks' short term borrowing costs (figure 4). These spreads returned to the moderate levels that prevailed at the beginning of the year.

Figure 4



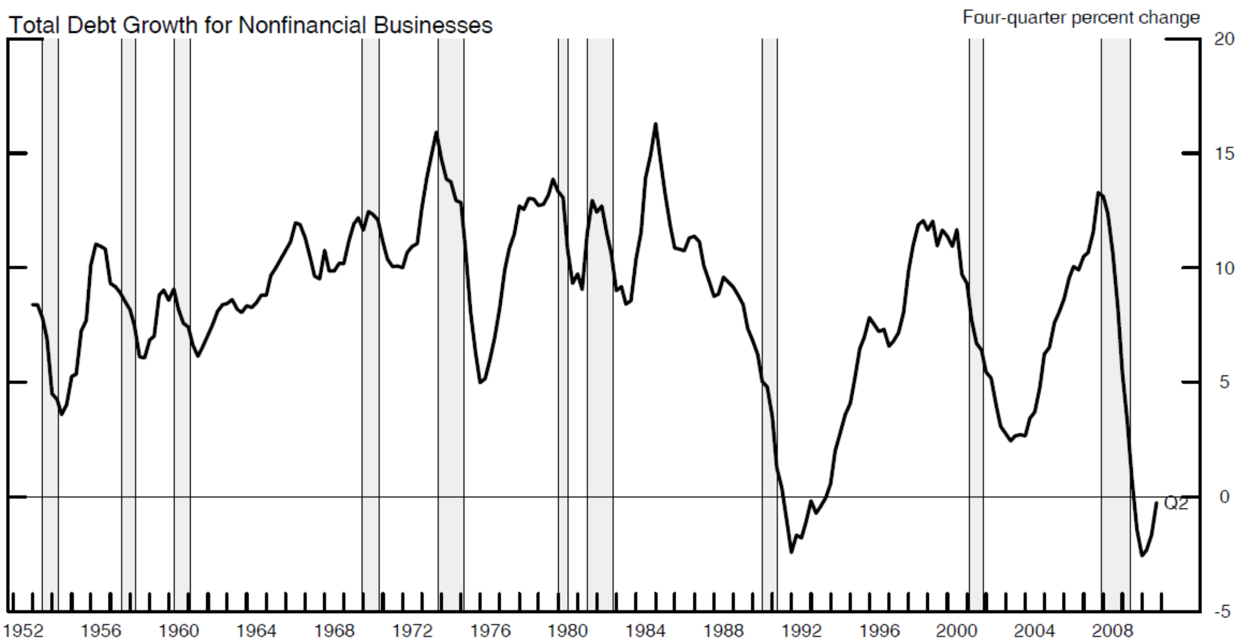
Data from the flow of funds accounts published by the Federal Reserve Board show that debt for households continued to decline through the end of the second quarter (the latest data available, figure 5) and that debt for nonfinancial businesses grew only modestly in the first half of the year (figure 6). In previous macroeconomic downturns, growth in borrowing by households and nonfinancial businesses has tended to slow significantly, followed by strengthening after the trough in economic activity that in most cases has been sharp. In the current recovery since mid-2009, year-over-year changes in private nonfinancial debt have been weaker than in previous recoveries, especially for household debt. Charge-offs of problem loans have been a significant contributor to weakness in the level of business and household debt over the past year.

Figure 5



Source. Federal Reserve Board, Flow of Funds Accounts.
Note. Shaded areas denote NBER recession periods.

Figure 6

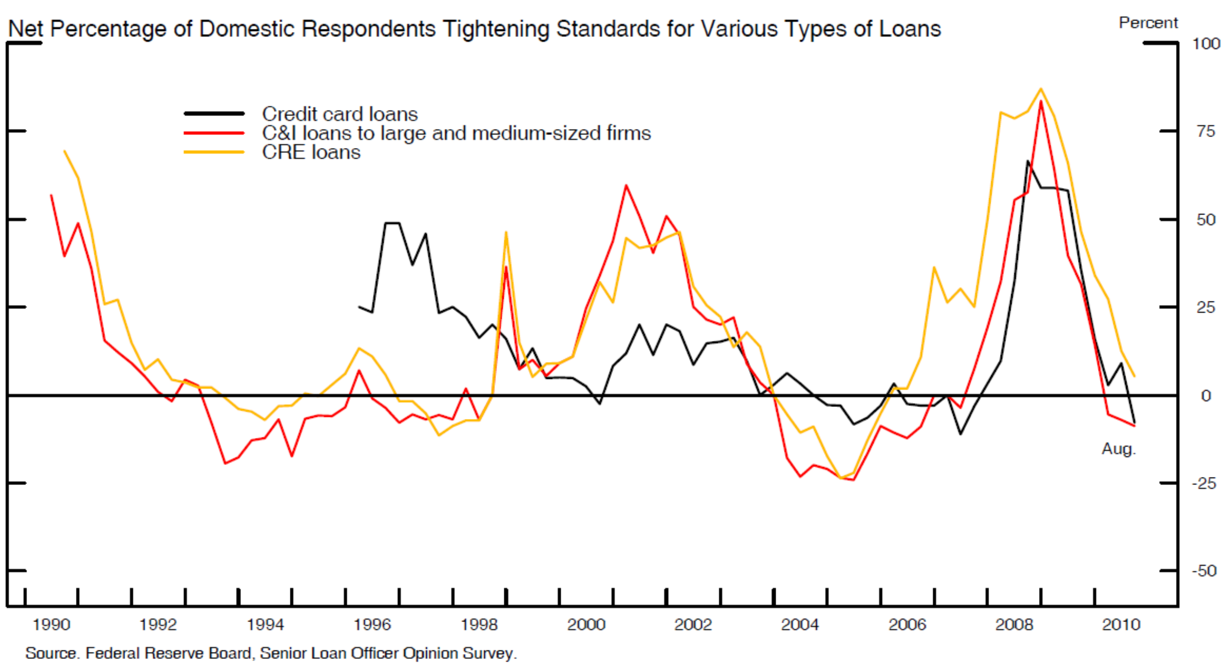


Source. Federal Reserve Board, Flow of Funds Accounts.
Note. Shaded areas denote NBER recession periods.

Disentangling the sources of changes in debt presents significant conceptual and practical challenges. Foremost among these challenges are the inherent difficulties in distinguishing the relative importance of reduced demand for credit due to weaker economic activity, reduced supply of credit because borrowers appear less creditworthy, or reduced supply of credit because lenders face pressures that restrain them from extending credit, such as possible concerns about capital adequacy.

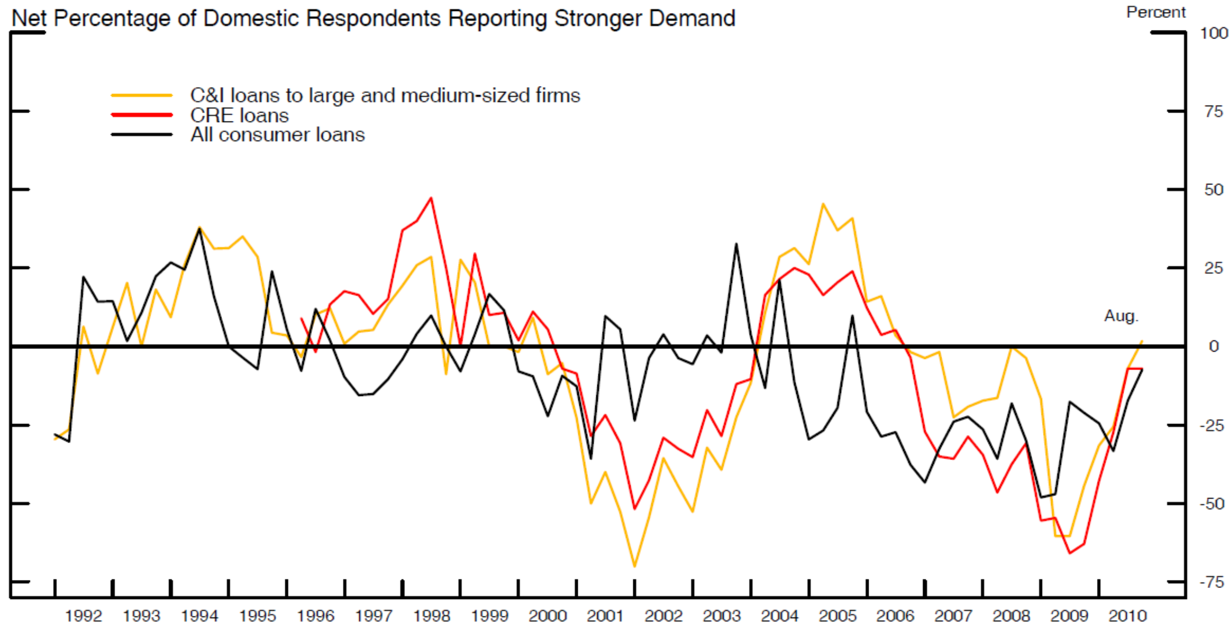
Results from the August Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve provide a useful tool for understanding the impact of some of these factors on credit availability. These results show that, on net, banks started to loosen standards and terms during the quarter on credit cards and C&I loans, though not on commercial real estate ("CRE") loans (figure 7); nonetheless these standards and terms remain very tight after an extended period of increasing the rigor of these standards. Banks also continued to report weaker demand for most types of loans, though the net percentage of banks reporting weaker demand dropped sharply (figure 8).[3]

Figure 7



3 The answers to survey questions about loans to small firms, not explicitly shown in figures 6 and 7, closely parallel the data about loans to large and medium-sized firms reported in those figures.

Figure 8

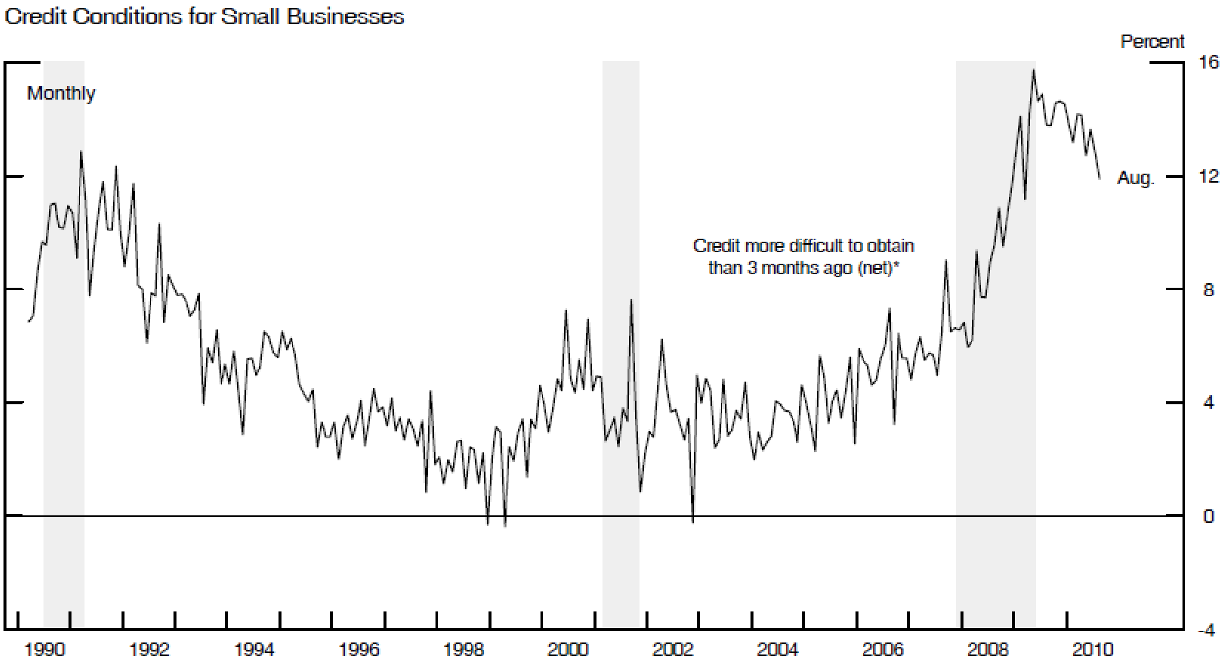


Source. Federal Reserve Board, Senior Loan Officer Opinion Survey.

Similar evidence is provided by the monthly survey of small businesses conducted by the National Federation of Independent Businesses.[4] The proportion of respondents to this survey reporting that credit was "more difficult to obtain" remained near historic highs, although the percentage of respondents providing that assessment once again edged down during the quarter (figure 9). However, a large fraction of businesses identified weak customer demand as their most important business problem, while a much smaller percentage indicated that financing conditions were their most significant business problem (figure 10). These responses highlight the impact of weak demand on the recent weakness in borrowing.

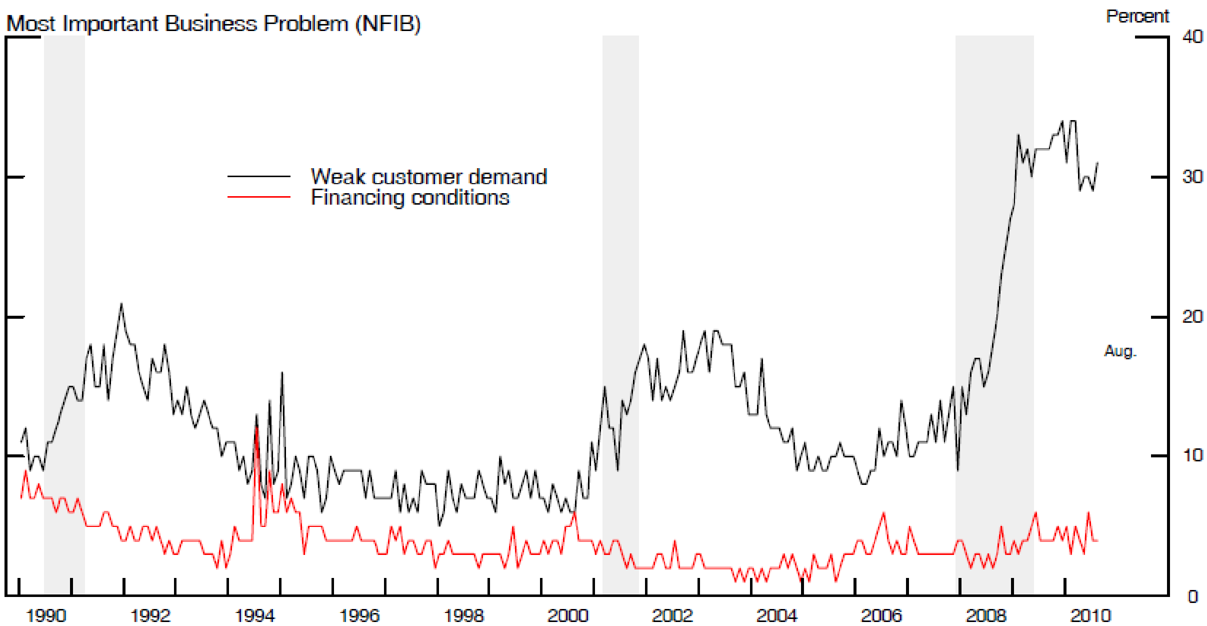
[4] See the National Federation of Independent Businesses ("NFIB") *Small Business Economic Trends*, published monthly by the Research Foundation of the NFIB and available online at: http://www.nfib.com/research-foundation/.

Figure 9



* Of borrowers who sought credit in the past three months, the proportion that reported more difficulty in obtaining credit less the proportion that reported more ease in obtaining credit. Seasonally adjusted.
Source. National Federation of Independent Business.
Note. Shaded areas denote NBER recession periods.

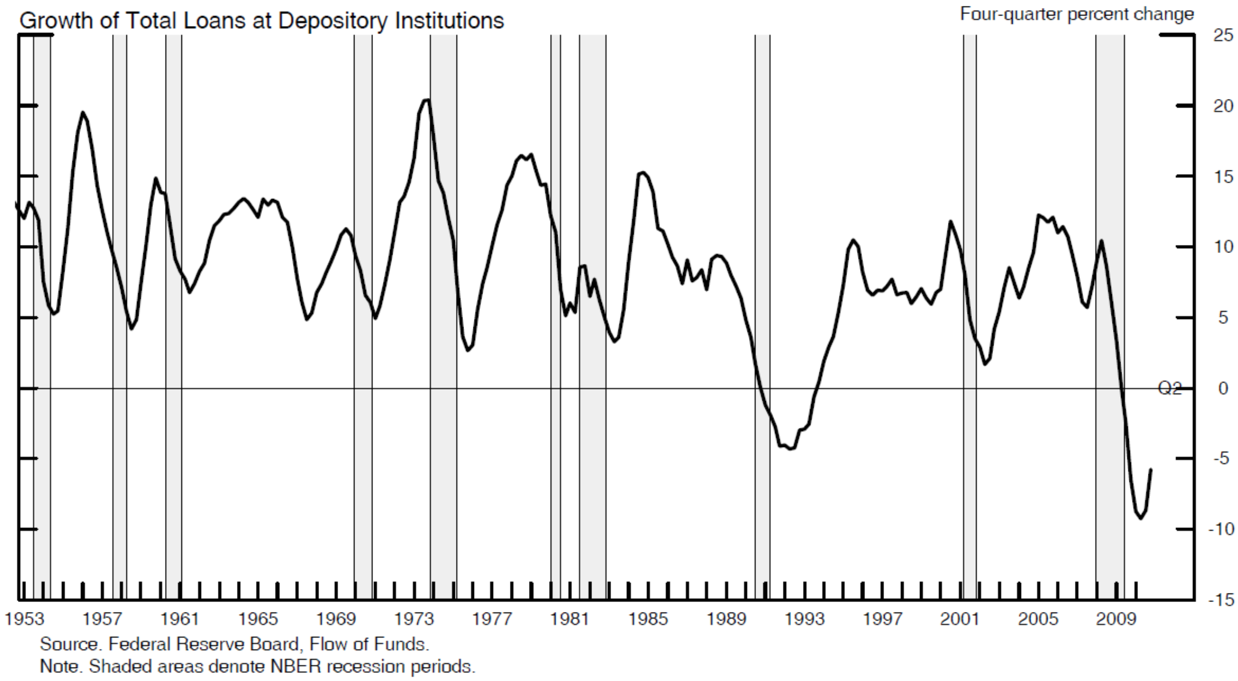
Figure 10



Note. Percent of respondents reporting. Not seasonally adjusted.
Source. National Federation of Independent Businesses.
Note. Shaded areas denote NBER recession periods.

Consistent with these trends in supply and especially in demand for bank credit, flow of funds data show that total loans at depository institutions continued to contract in the second quarter of 2010 (figure 11). Data from the weekly survey of banks summarized in the Federal Reserve's H.8 Statistical Release provide evidence that bank credit to households and, especially to nonfinancial businesses improved during the third quarter, though it remained weak.[5]

Figure 11[6]

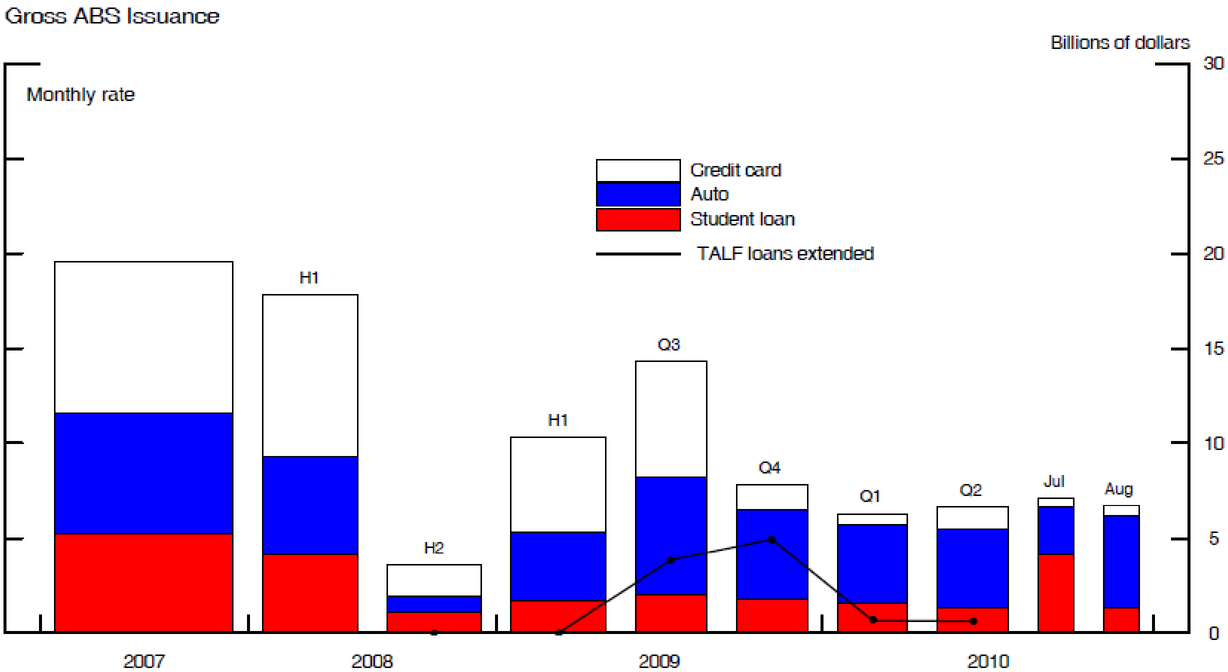


Securitization of household credit in the third quarter of 2010 continued at about the same pace seen in the previous quarter (figure 12), and secondary-market AAA spreads on auto-loans and credit-card asset-backed securities ("ABS") remained low, only a bit higher than before the crisis. However, consumer credit continued to be weak in recent months (figure 13), held down by a combination of sluggish consumer spending, high charge-off rates, and limited credit availability. While conditions in the auto finance market have improved dramatically since last fall, conditions in the credit card market have remained tight. Call Report data show that unused commitments for credit cards at commercial banks fell again in the second quarter.

[5] One indicator sometimes cited in previous quarterly reports was the aggregate change in lending by the largest CPP recipient banks as reported in the Treasury's Monthly Lending and Intermediation Snapshot. As noted in the Oversight Board's report for the first quarter of 2010, the Office of Financial Stability ceased preparing this report after January 2010 data.

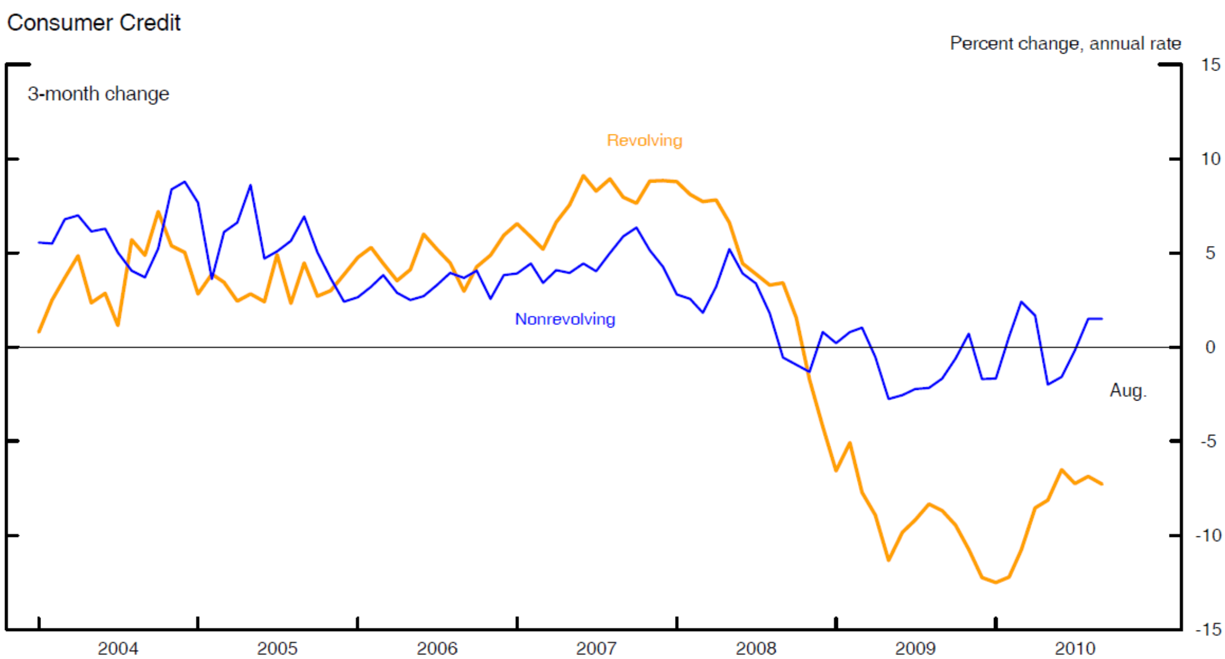
[6] The data have been adjusted to exclude loans related to the consolidation of securitization transactions onto the balance sheets of depository institutions under FAS 166/167.

Figure 12



Note. Auto ABS include car loans and leases and financing for buyers of motorcycles.
Source. Inside MBS & ABS and Merrill Lynch.

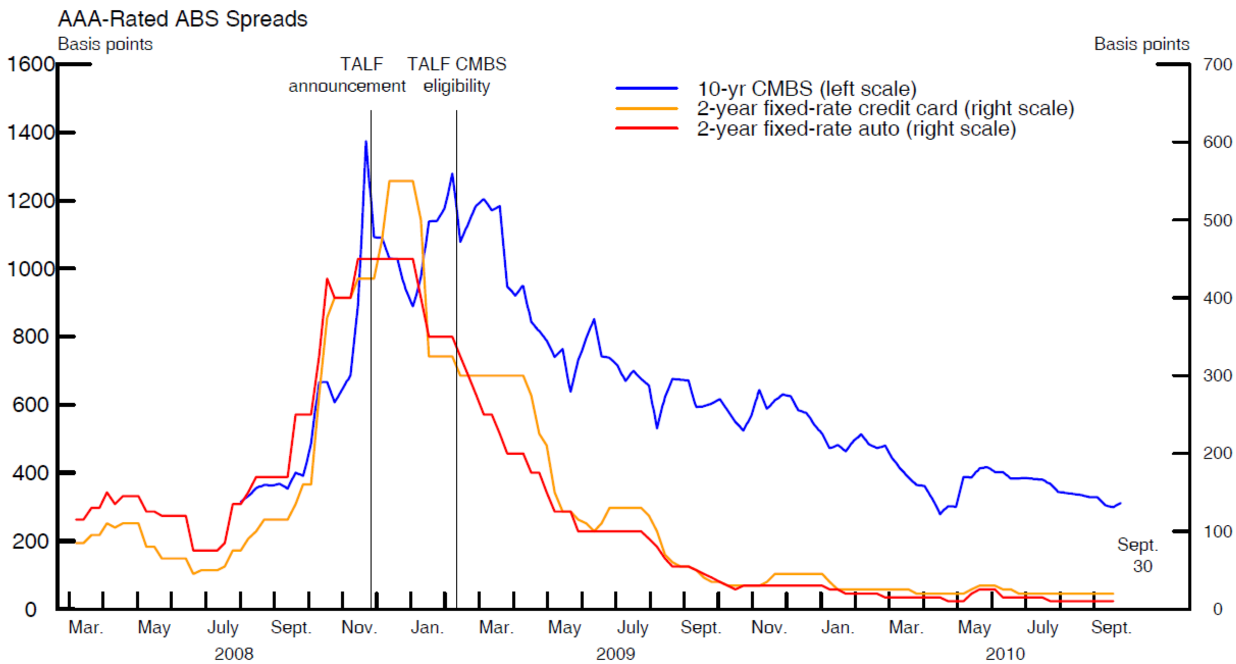
Figure 13



Source. Federal Reserve.

The TALF program was an important factor behind the stabilization of the market for commercial mortgage-backed securities ("CMBS") and spreads on 10-year AAA-rated CMBS dropped dramatically in the period following the announcement and implementation of the program (figure 14). Unlike auto or credit card ABS, however, spreads on CMBS remain substantially above pre-crisis levels. Issuance of new CMBS remains very low, though a few small deals came to market during the third quarter.

Figure 14

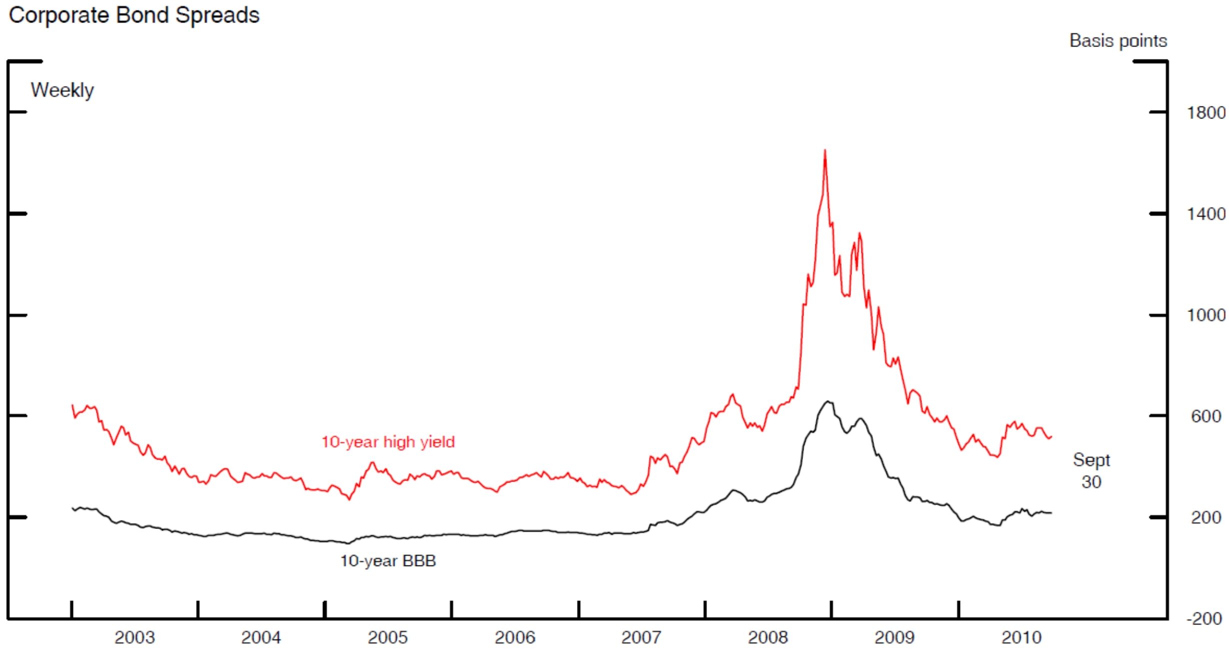


Source. ABS spreads are trader estimates provided by Citigroup, Merrill Lynch.

Overall, commercial real estate markets continued to exhibit considerable stress. Delinquency rates rose and commercial mortgage debt outstanding declined at an annual rate of about 7.5 percent during the second quarter. Many of the construction loans maturing in 2010 were originated in 2006 and 2007, when real estate prices were higher, and are on properties that do not have a regular stream of rental payments. Potential lenders may be less willing to maintain amounts and terms for refinancing properties whose values have fallen and for which cash flow is significantly uncertain.

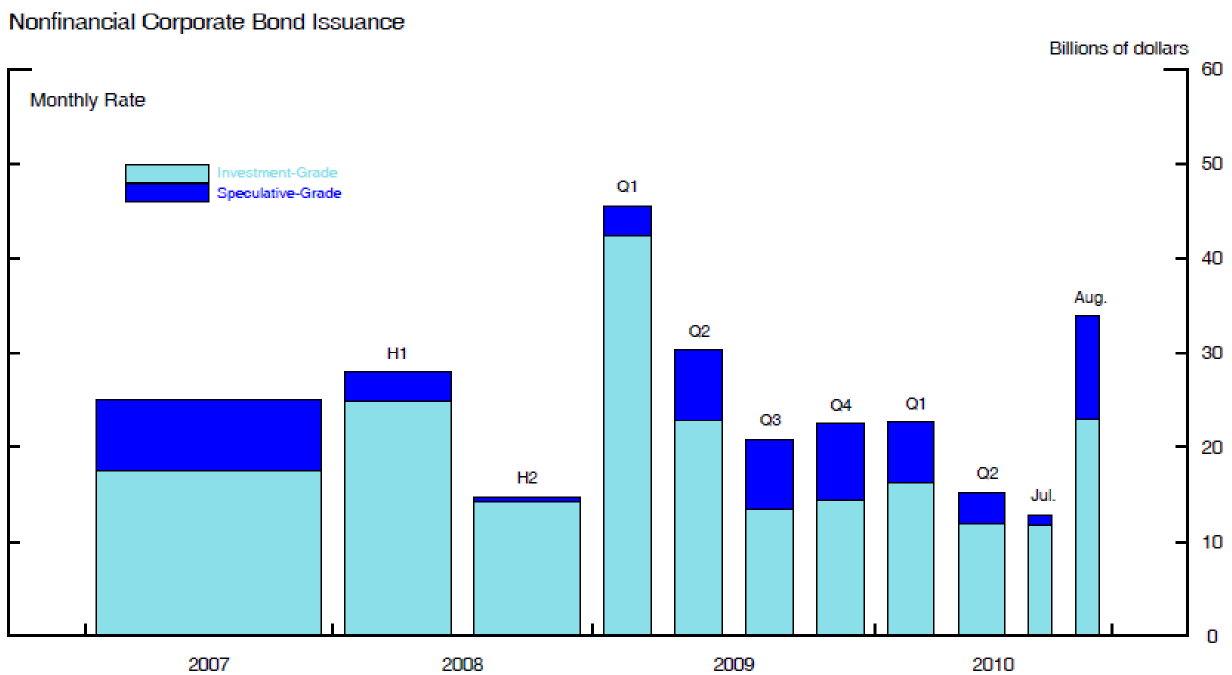
In credit markets for corporate borrowers, corporate bond spreads on investment grade debt were little changed, on net, in the third quarter, while spreads for high-yield bonds moved down (figure 15). Gross bond issuance of both investment grade and speculative grade bonds for nonfinancial corporations was robust in the third quarter (figure 16).

Figure 15



Note. Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

Figure 16



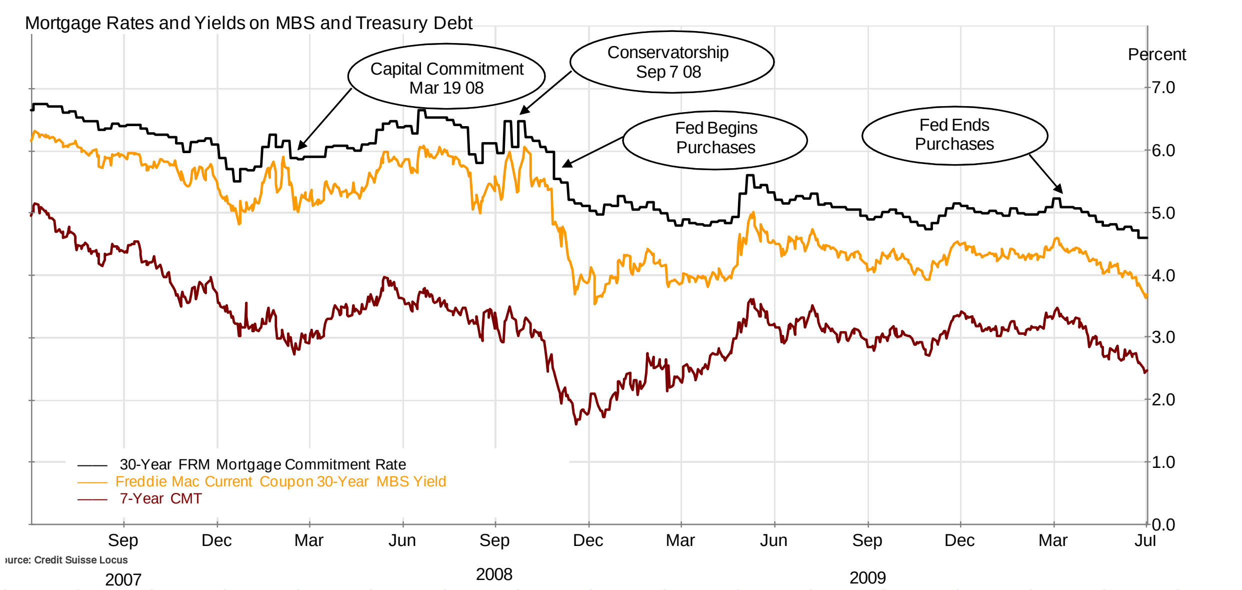
Source. Thomson Financial.

b. Assessment of the effect of the actions taken by Treasury in stabilizing housing markets

Actions taken by the Treasury under TARP, together with Treasury actions taken under the Housing and Economic Recovery Act ("HERA") and actions taken by the Federal Reserve, HUD, and FHFA, continued to support the housing market and provide assistance to mortgage borrowers during the third quarter.

Mortgage interest rates continued to fall during the quarter, in response to further declines in yields on reference Treasury securities (figure 17). As is frequently the case when Treasury rates fall rapidly, mortgage rates fell more slowly. Associated increases in refinance business tend to offset competitive pressures to reduce mortgage rates, and heightened uncertainty about future prepayment rates reduces investor demand for mortgage debt. Nevertheless, rates on 30-year fixed-rate loans have reached historic lows.

Figure 17



Reflecting these influences, for example, during the quarter FHA experienced slower home purchase activity due to the expiration of first-time homebuyer tax credits, and a resurgence of refinancing activity due to historically low interest rates. In June, FHA home purchase insurance endorsements had risen to more than 115,000, the highest level since March 1987.[7] In 1987, home purchase endorsements exceeded 100,000 for six consecutive months (February – July) as FHA loans filled a significant void in the home financing market left by the retrenchment of the private mortgage insurance industry. As the third quarter of 2010 progressed, however, the number of home-purchase-loan insurance endorsements in September 2010 declined to half of the June peak level, while the number of refinance endorsements was 59 percent higher than in June.

[7] The number of FHA home purchase insurance endorsements reached or exceeded 100,000 twice this year (June and July), five times in 2009, and once in 2008.

Foreclosure mitigation efforts under TARP continued to expand during the quarter. Approximately 50,000, 37,000 and 33,000 trial modifications became permanent in June, July and August, respectively. The volume of loans with permanent HAMP modifications rose to nearly 450,000, with another roughly 200,000 in active trials. Through August, some 1.6 million trial offers had been extended and 1.3 million trial modifications started. More than 230,000 trials were cancelled during the same three month period, primarily due to insufficient documentation, trial plan payment default, and borrower ineligibility. Most of the cancelled trials were aged trials (trials existing for six months or longer), initiated before the program required documented qualifications to begin trials. According to HAMP tracking reports for the eight largest servicers, more than 40 percent of borrowers with cancelled trials had subsequently entered into alternative (non-HAMP) modifications.

Lenders also continued to undertake modifications of mortgage loans outside of HAMP. The Hope Now Alliance estimates that the number of loan modifications completed outside of HAMP amounted to more than 350,000 in the three month period, for a total of more than 2 million since the beginning of 2009.

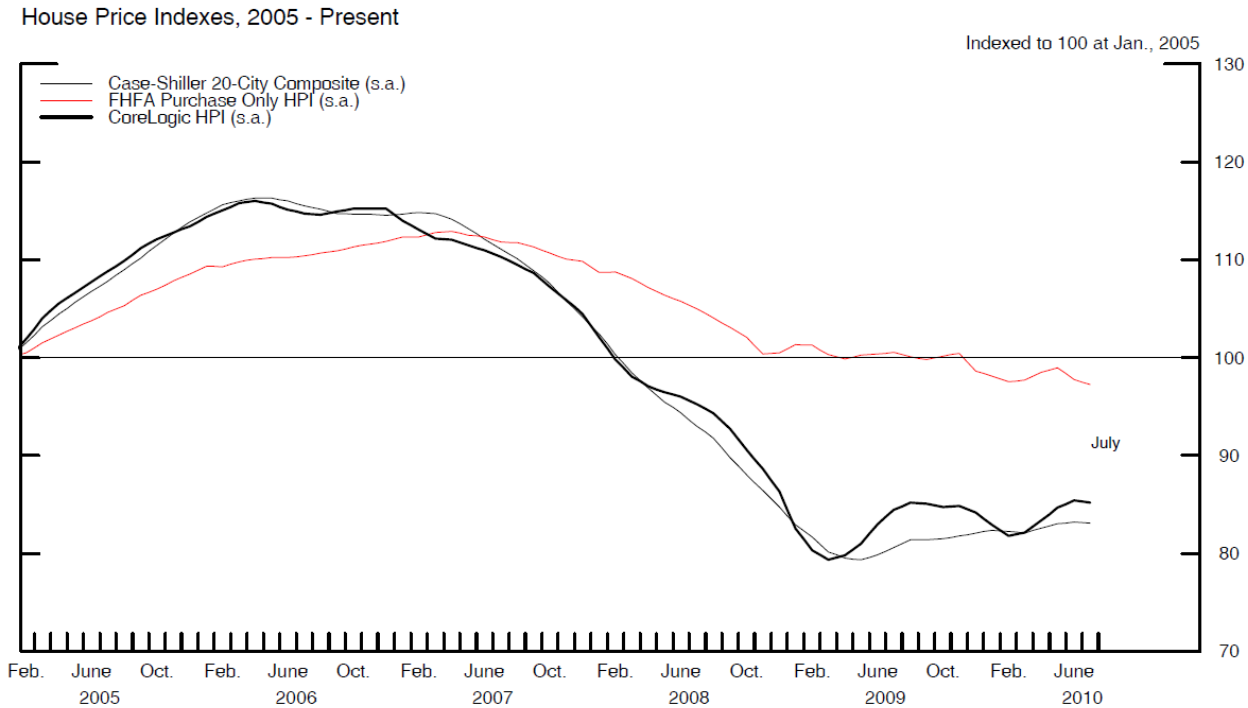
During the quarter, Treasury released initial data on the redefault experience of HAMP permanent modifications. These initial redefault data were significant but potentially encouraging. Fewer than a fifth of loans with HAMP modifications completed in the last quarter of 2009 were 60 days delinquent six months later. Although it is very early in the lives of these modified loans, this initial redefault rate compares favorably to projections made by some analysts of the likely HAMP redefault experience and to the recent redefault experience of loans with non-HAMP mortgage modifications. Nonetheless, it remains too early to assess the extent to which borrowers with HAMP permanent modifications, or other loan modifications and refinancings, may subsequently default.

Volumes for the Home Affordable Refinance Program ("HARP"), a non-TARP program, maintained their previous pace during the second quarter, the latest for which data were available. HARP permits borrowers whose mortgages have been purchased or guaranteed by Fannie Mae or Freddie Mac to refinance with loan-to-value ratios of as much as 125 percent. Through June, some 380,000 borrowers refinanced under the program. That included approximately 88,000 in the second quarter, or 14 percent of all refinances of loans through those institutions.

The government programs described above, combined with low mortgage interest rates have lent important support to housing market conditions over the past two years. The expiration of the second round of first-time homebuyer tax credits, which had stimulated sales in the second quarter, led to weaker markets in the third, as some purchases that would otherwise have occurred in the summer were moved forward to the spring. Combined sales of new and existing single family houses, as measured by the Census Bureau and the National Association of Realtors, declined to below 4 million homes at an annual rate in both July and August, compared with more than 5 million in April and May. Some of the decline is likely temporary, reflecting that the tax credit may have led some homebuyers to accelerate their purchases.

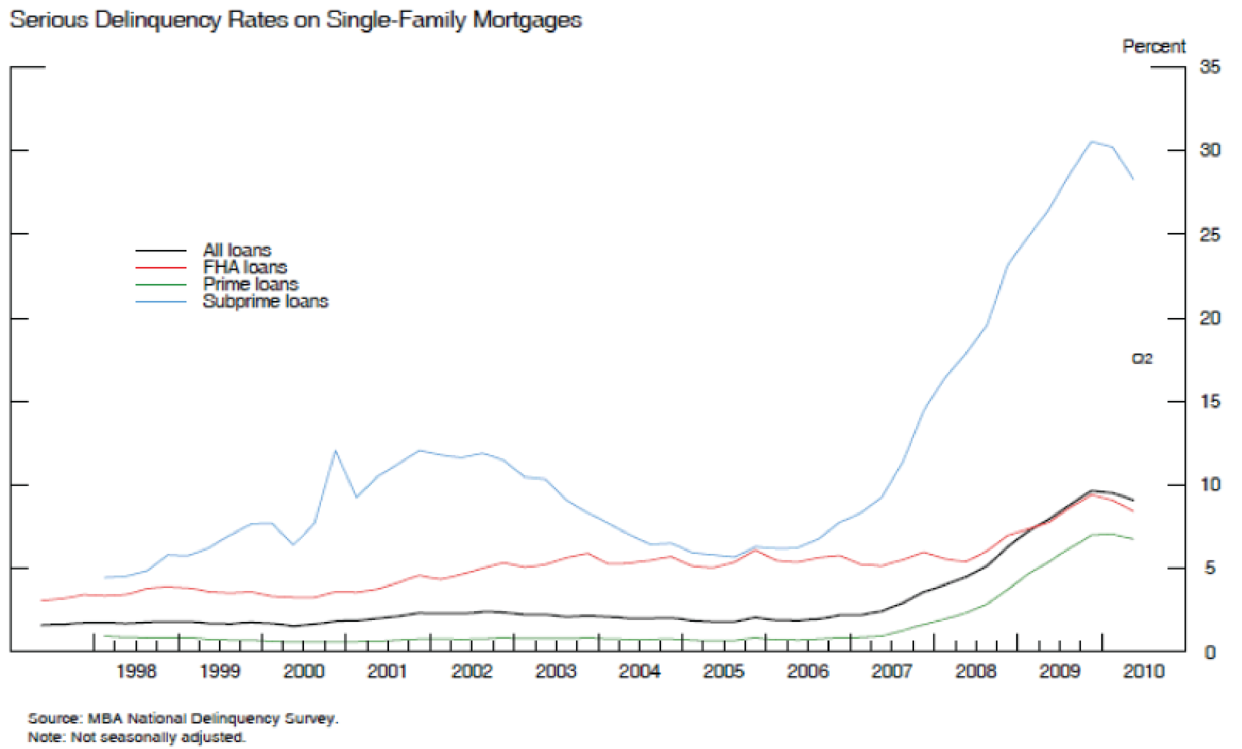
The drop in sales is reflected in recent house price changes. The FHFA, CoreLogic, and Case-Shiller S&P House Price indexes all fell in July on a seasonally adjusted basis (figure 18). The outlook for future price movements continues to be clouded by the large volume of distressed properties potentially for sale over the coming quarters, and the uncertainty about the pace of foreclosures in the future.

Figure 18



Among the factors that could potentially add to the supply of available homes, are those borrowers who are seriously delinquent, that is, more than 90 days past due or in process of foreclosure. The proportion of loans in this troubled category fell in the second quarter after also falling in the first quarter. At Fannie Mae and Freddie Mac, for example, the latest data indicate that the declines continued through July and August, respectively (figure 19). These declines reflect both the significant percentage increase in permanent HAMP modifications since the beginning of 2010 and some decrease in the inflow of new delinquencies.

Figure 19



Within the FHA portfolio, there were tentative indications suggesting that trends in the number of new FHA 90-day default episodes may improve. One recent sign was a decline during the quarter in the share of defaulted FHA loans for which employment- and income-related problems were the primary cause of default, the first such decline in over three years. At the start of 2007, these factors accounted for 26 percent of all (primary) reasons for default. By the fourth quarter of 2009 that share had risen above 50 percent, where it remained in the first and second quarters of 2010. For the third quarter of 2010, the income-and-employment share of reasons for default edged down to 48 percent, a moderate but noteworthy decline.

IV. DISCUSSION OF THE ACTIONS TAKEN BY TREASURY UNDER THE EESA DURING THE QUARTERLY PERIOD

This section provides a more detailed update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under the EESA during the quarterly period, from July 1, 2010 to September 30, 2010, subject to review and oversight of the Oversight Board.[8]

a. End of TARP Commitment Authority

October 3, 2010 was the second anniversary of the EESA, which created TARP, and marked the end of the authority to make new financial commitments. On September 30, 2010, Herbert M. Allison, Jr. also departed as the Assistant Secretary for Financial Stability. Treasury Secretary Geithner named Timothy G. Massad, who previously served as Chief Counsel and Chief Reporting Officer for the Office of Financial Stability, as Acting Assistant Secretary for Financial Stability.

b. Projected Cost of TARP Programs

According to Treasury's latest re-estimate of the cost of TARP programs, the expected overall cost of TARP will be approximately $50 billion, a reduction due, in part, to improved economic conditions. The ultimate cost of TARP and other financial policies will depend on how financial markets and the economy perform in the future. If financial and economic conditions deteriorate, prospects for TARP investments will also deteriorate. The costs are expected to come from losses related to TARP investments in auto companies and foreclosure mitigation efforts.

Treasury provides updated cost assessments for TARP programs four times per year, and prepares separate financial statements for TARP on an annual basis.[9]

As of September 30, 2010:

(i) actual planned commitments for TARP programs remain at $475 billion;
(ii) total capital repayments from TARP programs were more than $204 billion; and
(iii) total revenues from TARP programs were nearly $30 billion.[10]

---

[8] Data related to the HAMP and PPIP programs that became available after September 30, 2010, were not reviewed by the Oversight Board, and are not included in this Section IV.

[9] The initial Agency Financial Report for the year ended September 30, 2009, is available at: www.FinancialStability.gov, and the second Agency Financial Report for the year ending September 30, 2010, will be released in November.

[10] See sub-section (e) - Capital and Guarantee Programs for Banking Organizations, paragraphs (a)(v) & (vi), and (b).

c. Reduction of TARP commitment authority under the Dodd-Frank Act

On July 21, 2010, President Obama signed the Dodd-Frank Act, which made the following changes: (i) total TARP commitment authority was reduced from $700 billion to $475 billion; (ii) repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the public debt; and (iii) obligations may not be incurred for any program or initiative that was not initiated prior to June 25, 2010.

Figure 20 below shows the changes in the planned commitments under TARP as announced by Treasury before and after passage of the Dodd-Frank Act. Key changes to the TARP purchase authority included:

(i) *Term Asset-Backed Securities Loan Facility ("TALF*"): The facility balances have continued to fall during the quarter, reaching approximately $43 billion at the end of June 2010, far less than the amount originally anticipated, and Treasury's commitment was reduced from $20 billion to approximately $4.3 billion.

(ii) *Section 7(a) Securities Purchase Program*: Treasury committed not more than $400 million on this program, designed to help the small business lending market.

(iii) *Small Business Lending Initiatives:* TARP no longer includes $30 billion for initiatives in this area. Legislation to create a $30 billion Small Business Lending Fund outside of TARP was approved by Congress in September.

(iv) *Public Private Investment Program*: Treasury has committed approximately $22 billion in debt and equity capital to the eight funds. The program did not use its planned commitment size of $30 billion because there was less aggregate demand from private sector investors due to improved market conditions for legacy non-agency residential and commercial mortgage-backed securities.

(v) *Automotive Industry*: Treasury committed a total of $82 billion under TARP in restructuring GM, Chrysler, and the automotive financing companies. Treasury has recovered $11 billion and is working with the companies to arrange for repayment or sale of its remaining investments as soon as practicable. Approximately $3 billion of commitments were unused in the Automotive Supplier Support Program, which is now closed after full repayment to Treasury.

(vi) *Housing*: A total of approximately $46 billion, a reduction of $3 billion from its earlier allocation, is allocated for all housing programs and initiatives that address the housing crisis. These include the Making Home Affordable programs, the Hardest Hit Fund initiative, and the FHA Short Refinance Program.

Figure 20

TARP purchase authority reduced to $475 billion

TARP PROGRAM	Previous Allocation	Change	New Allocation
	(US$, billions)		
Capital Purchase Program	$204.9		$204.9
Targeted Investment Program	$40.0		$40.0
Asset Guarantee Program	$5.0		$5.0
AIG	$69.8		$69.8
Term Asset-Backed Securities Loan Facility	$20.0	-$15.7	$4.3
SBA 7(a)	$1.0	-$0.6	$0.4
Community Development Capital Initiative	$0.8	$0.0	$0.8
Small Business Lending Fund	$30.0	-$30.0	$0.0
Public Private Investment Program	$30.4	-$7.9	$22.4
Automotive Industry Financing Program	$84.8	-$3.1	$81.8
Housing/HAMP*	$48.7 *	-$3.1	$45.6
Total	**$535.5**	**-$60.5**	**$475.0**

*** Net of $1.26 billion used to offset the cost of the "Helping Families Save Their Homes Act of 2009", Public Law 111-22**

d. Housing Stabilization and Foreclosure Mitigation

Treasury has indicated that reducing foreclosures for responsible homeowners and further stabilizing the U.S. housing market are key areas to which committed TARP funds will be used going forward. During the quarter, a number of housing-related initiatives were implemented that had been announced prior to June 25, 2010. While Treasury can no longer make new financial commitments under TARP, expenditures to implement existing housing programs will continue to be made incrementally over time.

i. Making Home Affordable ("MHA") and the Home Affordable Modification Program ("HAMP")

a. Overview

HAMP is a component of the Treasury's MHA program. HAMP is designed to help prevent avoidable foreclosures by reducing first-lien mortgage payments to no more than 31 percent of gross monthly income for homeowners who are experiencing a financial hardship.[11] To facilitate and promote modifications, HAMP offers "pay-for-success" incentives to servicers, lenders, investors, and borrowers on permanent modifications, as long as borrowers stay current on their payments.[12] Payment affordability under HAMP is achieved primarily through interest rate reduction, term extensions, and principal forbearance. All loans permanently modified include an interest rate reduction. Under HAMP, the initial interest rate is set for five years.[13]

To participate in HAMP, servicers must have entered into a Servicer Participation Agreement with Fannie Mae, Treasury's financial agent before October 3, 2010. Borrowers may be accepted into the program if they are offered a Home Affordable Modification Trial Period Plan by their servicer on or before December 31, 2012. While homeowners receive immediate assistance through lower monthly mortgage payments once the trial modification starts, Treasury pays incentives only once the permanent modification starts and over time as long as there is no re-default. As of September 30, 2010, Treasury had disbursed approximately $540 million of incentive payments and had total obligations in the amount of approximately $29.9 billion.[14]

---

[11] MHA also includes (i) a refinancing component (HARP) funded outside of TARP that allows homeowners who have loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance at lower interest rates, and (ii) the additional components described later in this section. HAMP also includes additional incentives to encourage investors with properties located in areas where home prices have recently declined and where investors are concerned that price declines may persist (the Home Price Decline Protection ("HPDP")). Treasury has two additional websites that provide information about HAMP, specifically www.hmpadmin.com and www.MakingHomeAffordable.gov. These websites contain comprehensive data, including lists of all participating servicers, copies of all contracts signed by servicers, the Supplemental Directives that establish additional requirements for HAMP, frequently asked questions, a white paper describing the Net Present Value ("NPV") test methodology, and all of the borrower application documents.

[12] Eligible homeowners for modifications under HAMP must, among other things, live in an owner-occupied principal residence, have a mortgage balance less than $729,750, owe monthly mortgage payments that are not affordable (greater than 31 percent of their income) and demonstrate a financial hardship.

[13] If a below-market interest rate was used to bring the borrower's payments within the program's affordability standards, then at the end of five years the reduced interest rate will increase by one percentage point per year until it reaches the cap, which is the Freddie Mac survey rate at the time the trial period began. That rate remained near historic lows at quarter's end. The capped rate is fixed for the life of the loan.

[14] Treasury's Transactions Reports, which are available at www.financialstability.gov/latest/reportsanddocs.html, show the breakdown of the $29.9 billion figure into adjusted cap amounts for each individual servicer.

b. Second Lien Modification Program ("2MP")

Under 2MP, an additional component of MHA, Treasury provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when a modification has been initiated on the first lien mortgage for the same property under HAMP. Under 2MP, when a borrower's first lien is modified under HAMP and the servicer of the second lien is a 2MP participant, that servicer must offer to modify the borrower's second lien according to a defined protocol, which provides for a lump sum payment from Treasury in exchange for full extinguishment of the second lien, or a reduced lump sum payment from Treasury in exchange for a partial extinguishment and modification of the borrower's remaining second lien.[15] On August 13, 2009, Treasury introduced 2MP under Supplemental Directive 09-05, which was subsequently revised on March 26, 2010. As of September 30, Treasury also has signed up nineteen 2MP servicers, which includes the four largest mortgage servicers, who in aggregate service approximately 60 percent of outstanding second liens. The infrastructure necessary to support the 2MP continue to be developed and implemented by Treasury, its financial agent (Fannie Mae), and its servicers.

c. Home Affordable Foreclosure Alternatives ("HAFA") Program

Under the HAFA Program, an additional component of MHA, Treasury provides incentives for short sales and deeds-in-lieu of foreclosure for circumstances in which borrowers are unable or unwilling to complete the HAMP modification process. Borrowers are eligible for relocation assistance of $3,000 and servicers receive a $1,500 incentive for completing a short sale or deed-in-lieu of foreclosure. In addition, investors are paid up to $1,000 for allowing short sale proceeds to be distributed to subordinate lien holders. The HAFA Program became effective on April 5, and is described in the revised version of Supplemental Directive 09-09.

d. The Unemployment Program ("UP")

The UP, an additional component of MHA, requires participating servicers to grant qualified unemployed borrowers a forbearance period during which their mortgage payments are temporarily reduced for a minimum of three months, and up to six months for some borrowers, while they look for new jobs. If a homeowner does not find a job before the temporary assistance period is over or finds a job with a reduced income, the homeowner will be evaluated for a permanent HAMP modification or may be eligible for certain alternatives to the modification program under MHA. UP became effective August 1, 2010 under Supplemental Directive 10-04.

e. Principal Reduction Alternative ("PRA")

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

[15] See also the Treasury/FHA Second Lien Program described below.

program was rolled out to HAMP-participating servicers on June 3 through Supplemental Directive 10-05, and has been incorporated in subsequent versions of the HAMP Net Present Value (NPV) Transaction Tool. Under the contract with each servicer, Treasury cannot compel a servicer to select PRA over the standard HAMP modification even if the NPV of PRA is greater than the NPV of an ordinary HAMP modification.[16]

f. Monthly Housing Scorecard and Servicer Performance Reports

During the quarterly period, HUD and Treasury released three monthly housing scorecards on the nation's housing market (the "Housing Scorecard").[17] The Housing Scorecard incorporates key housing market indicators and highlights the impact of housing recovery efforts, including assistance to homeowners through the FHA and HAMP, and incorporates the monthly MHA Servicer Performance Report. During the quarterly period, monthly Servicer Performance Reports covering June, July, and August 2010 were released.[18]

Approximately 50,000, 37,000 and 33,000 HAMP trial modifications became permanent in June, July and August, respectively (figure 21). HAMP trial modification cancellations continued to rise in June as servicers complied with MHA guidance to make decisions on aged trials (trials existing for six months or longer). In July, however, the number of aged trials decreased from 166,000 to 118,000. This trend continued through August, when existing aged trial modifications fell to fewer than 95,000. Through August, as tracked by Fannie Mae and servicers, the most common causes of cancellations of aged trial modifications included insufficient documentation, missed trial payments, or primary housing expense that is already less than 31 percent of household income. More than half of the homeowners in canceled HAMP trials receive alternative modifications from their servicers or become current on their mortgages. Fewer than 15 percent of homeowners in canceled trials are moving toward foreclosure.

The MHA Servicer Performance Report now includes data, among others, on: the characteristics of permanent modifications, servicer activity, re-default rates, waterfall of eligible borrowers, homeowner experience, HAMP activity by state and metropolitan area, modifications by investor type, and compliance reviews. The full reports can be found at www.FinancialStability.gov/latest/reportsanddocs.html.

Treasury is developing a public data reporting framework for the 2MP, HAFA, UP and PRA programs consistent with the transparency objectives and data reporting controls established for TARP and MHA.

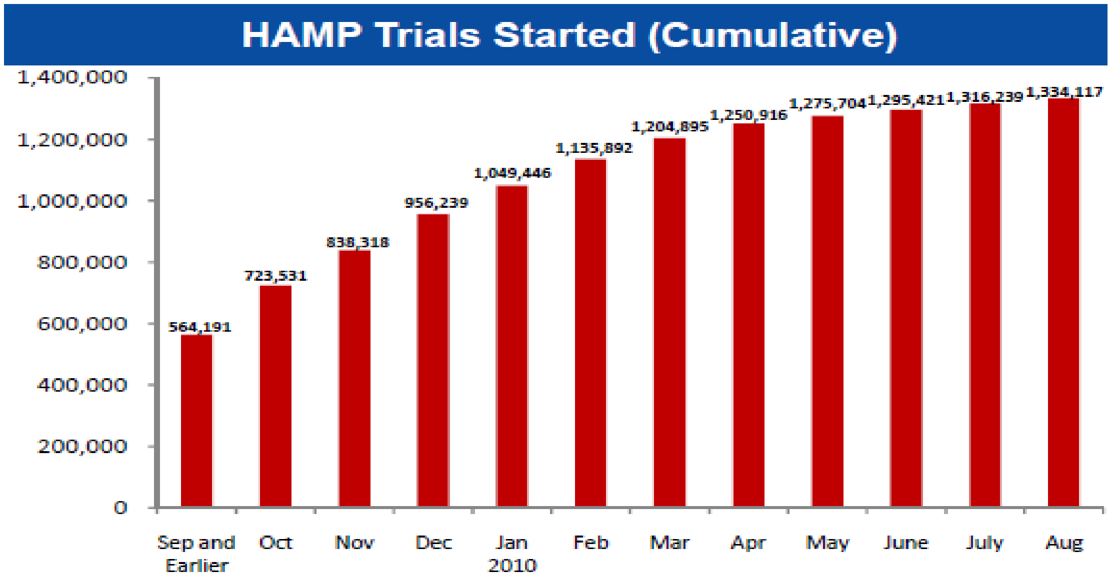
---

[16] On October 15, Supplemental Directive 10-14 was released, which offered additional flexibilities for servicers to offer PRA and gave direction on how borrowers should be evaluated for PRA if already in permanent modifications or trial period plans.

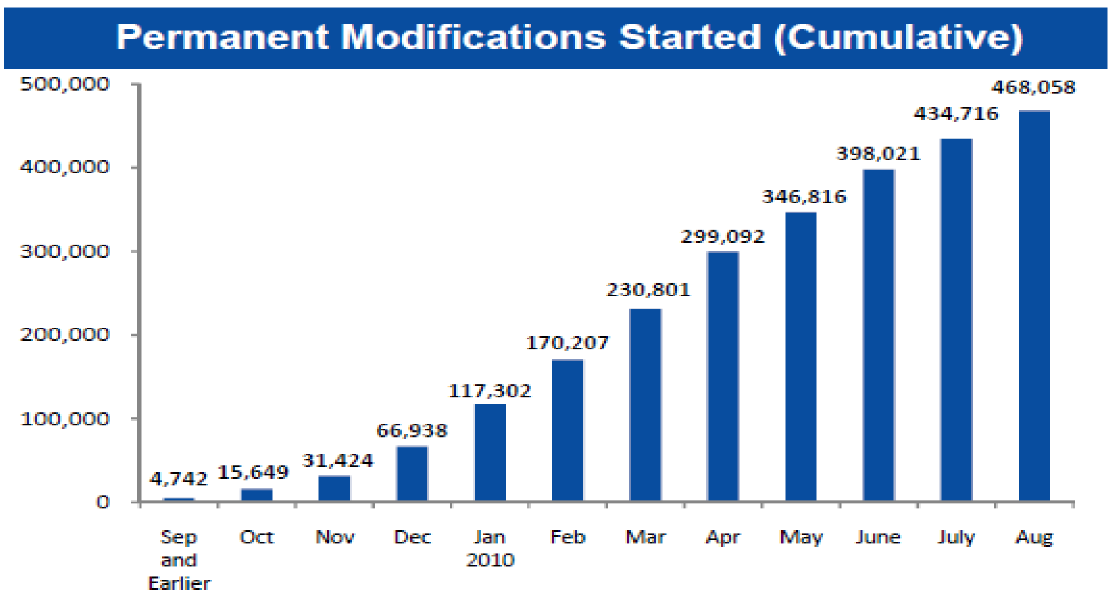
[17] Copies of the monthly Housing Scorecard are available at: www.HUD.gov/scorecard.

[18] Copies of the monthly Servicer Performance Reports are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html.

Figure 21



Source: HAMP system of record.
Note: Servicers may enter new trial modifications into the HAMP system of record anytime before the loan converts to a permanent modification. For example, 26,628 trials have entered the HAMP system of record since the prior report; of those, 17,878 were trials with a first payment recorded in August.



g. Program Guidance and Operational Improvements

As part of continued operational improvements for the housing programs, during the quarterly period, Treasury released the *Handbook for Servicers of Non-GSE Mortgages (the "Handbook")* to provide a consolidated resource for guidance related to Treasury's housing programs including the HAMP, UP and mortgage loans insured or guaranteed by a federal government agency.[19] The handbook is currently being updated to include HAFA, 2MP, and PRA. On October 7, 2010, MHA published an enhanced HAMP Servicer Reporting Requirements document with a new design, a streamlined format, and up-to-date content for servicers using the HAMP Reporting Tool, which includes the following: (i) reporting guidance for HAMP, the HAFA Program, the 2MP and the Treasury Federal Housing Administration -- Home Affordable Modification Program (Treasury FHA-HAMP); (ii) updates on enhanced user-interface functionality with step-by-step guidance for ease of use; (iii) HAMP Reporting Tool screenshots; and (iv) reporting examples.

In August, Treasury also released new Supplemental Directives for the housing programs: SD 10-07, *Interactions with HFA Hardest Hit Fund Programs*, which details the roles and responsibilities of participating servicers in connection with the Hardest Hit Fund programs, and to ensure that borrowers are properly evaluated for the appropriate programs; SD 10-08, *Treasury/FHA Second Lien Program to Support FHA Refinance of Borrowers in Negative Equity Positions*, which provides information for first and second lien servicers on how to adopt and implement the new FHA Refinance Program and Treasury/FHA Second Lien Program; and SD 10-09, *Handbook for Servicers*, which announced the issuance of the Handbook.

In September, three new Supplemental Directives for the Treasury housing programs were released: SD 10-11, *Dodd-Frank Certification Requirement*, regarding ineligibility to receive assistance under the MHA program based on certain felony convictions; SD 10-12, *Treasury/FHA Second Lien Program Effective Date*, which notes that the Treasury/FHA Second Lien Program is effective September 27, 2010; and SD 10-13, *Program Participation Cap Adjustments Pursuant to the Servicer Cap Model*, which provides guidance relating to the establishment of the Servicer Cap Model which will adjust participating servicers' Program Participation Cap effective as of October 1, 2010.

[19] The Handbook can be accessed at: https://www.hmpadmin.com/portal/docs/hamp_servicer/mhahandbook.pdf.

ii. Support for the FHA Short Refinance Program

In March 2010, the Obama Administration announced adjustments to existing FHA programs that will permit lenders to provide additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. This program, known as the FHA Short Refinance program, is designed to provide more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans. Among other requirements: (i) the homeowner must be current on the existing first lien mortgage; (ii) the homeowner must occupy the home as a primary residence and have a qualifying credit score; (iii) the mortgage investor must reduce the amount owed on the original loan by at least ten percent; (iv) the new FHA loan must have a balance less than the current value of the home; and (v) total mortgage debt for the borrower after the refinancing, including both the first lien mortgage and any junior liens, cannot be greater than 115 percent of the current value of the home.

Treasury will support the FHA Short Refinance Program through coverage of the portion of the FHA's losses that exceeds the loss rate that would be otherwise be projected for conforming FHA loans. In September, Treasury and Citibank, N.A. entered into an agreement (the "L/C Facility Agreement"), under which Treasury was subsequently issued a 10-year letter of credit (the "L/C") of up to a maximum $8 billion. The amount and timing of support for potential losses will vary based on the loss rate and the volume of the loans in the program.

Treasury also implemented the Treasury/FHA Second Lien Program ("FHA2LP"), which is a voluntary program that provides incentives to second lien mortgage servicers and investors who agree to full or partial extinguishment of a second lien mortgage loan in conjunction with an FHA Short Refinance that closes on or before December 31, 2012. Second lien servicers participating in FHA2LP must have entered into a Servicer Participation Agreement with Fannie Mae, Treasury's financial agent before October 3, 2010.[20]

iii. Housing Finance Agency ("HFA")Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund")[21]

In February 2010, the Obama Administration announced the $1.5 billion Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HHF") for state housing finance agencies in the nation's hardest hit housing markets to design innovative, locally targeted foreclosure prevention programs, which was followed by the additions described below. From June through September 2010, Treasury executed commitments for the use of a total of $7.6 billion of TARP funds to support programs in eighteen states and the District of Columbia (figure 22). As of September 30, 2010, approximately $56 million had been disbursed under the

[20] See the guidance at www.hmpadmin.com/portal/docs/news/2010/hampupdate080610.pdf and SD 10-08 and SD 10-12.

[21] State-by-state summaries of the Hardest Hit Fund proposals are available at: http://www.MakingHomeAffordable.gov/pr_06232010.html, and copies of the complete proposals are available at http://www.FinancialStability.gov/roadtostability/hardesthitfund.html.

HHF for approved plans. Implementation timetables and details vary across the state HFAs and programs. Treasury currently expects that six of the original ten HFA programs should begin to provide assistance to borrowers during the fourth quarter of 2010. All ten of the original states should be implemented during the first quarter of 2011, together with eight of the nine additional FHA programs, and the last FHA program is expected to be operational by the second quarter of 2011.

Figure 22

Total Commitment to the HHF

Alabama	$	162.52	Indiana	$	221.69	North Carolina	$	482.78
Arizona	$	267.77	Kentucky	$	148.90	Ohio	$	570.40
California	$	1,975.33	Michigan	$	498.61	Oregon	$	220.04
District of Columbia	$	20.70	Mississippi	$	101.89	Rhode Island	$	79.35
Florida	$	1,057.84	Nevada	$	194.03	South Carolina	$	295.43
Georgia	$	339.26	New Jersey	$	300.55	Tennessee	$	217.32
Illinois	$	445.60		TOTAL			$	7,600.00

This first round of the Hardest Hit Fund was intended to help address the housing problems facing those states that have suffered an average home price drop of more than 20 percent from their respective peaks. The states included in this first round of HHF were California, Florida, Arizona, Michigan, and Nevada. Funds were allocated to these states according to a formula based on severity of home price declines and unemployment. HFAs designed the state programs themselves, tailoring the housing assistance to their local needs. Treasury required that the programs comply with the requirements of EESA, such as seeking to prevent avoidable foreclosures.[22]

In March 2010, the Obama Administration announced an expansion of the HFA Hardest Hit Fund to target an additional five states with high shares of their populations living in local areas of concentrated economic distress. While the first HHF targeted five states affected by home price declines greater than 20 percent, the second HHF targeted states with the highest concentration of their populations living in counties with unemployment rates greater than 12 percent, on average, over the months of 2009. (States that were allocated funds under the first HHF program were not eligible for the second HHF program.) The five states that received allocations based on this criterion were North Carolina, Ohio, Oregon, Rhode Island, and South Carolina.

On August 11, 2010, in recognition of the particular challenges faced by states with extraordinarily high unemployment, the Administration announced that Treasury will make an additional $2 billion of assistance available for HHF programs for homeowners struggling to make their mortgage payments due to unemployment. The 18 states and jurisdictions eligible for

[22] All of the funded program designs are posted online at http://www.FinancialStability.gov/roadtostability/hardesthitfund.html.

this additional funding had high sustained unemployment rates over the last 12 months (through June, 2010) that were at or above the national average. This includes nine of the original HHF states (California, Florida, Michigan, Nevada, North Carolina, Ohio, Oregon, Rhode Island and South Carolina), which can use the funding for an existing unemployment bridge program or to implement the model provided, as well as Alabama, the District of Columbia, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey and Tennessee. HFAs in each state will use the funds for targeted unemployment programs that provide temporary assistance to eligible homeowners to help them pay their mortgages while they seek re-employment or additional employment or undertake job training.

On September 29, 2010, the Administration announced that Treasury will make an additional $3.5 billion of assistance available in those the states and jurisdictions participating in HHF to expand the reach of their programs to help more struggling homeowners. Funds were allocated to these 18 states and the District of Columbia based on population size.

e. Capital and Guarantee Programs for Banking Organizations

i. Repayments under the Capital Purchase Program

The CPP, which was the first and largest program established by Treasury under EESA, addressed severely deteriorated conditions in credit markets and acted to stabilize the financial system by providing capital to a broad range of viable U.S. financial institutions. Approximately $205 billion was disbursed to 707 institutions, and final investments occurred in December 2009. As of September 30, 2010, Treasury has received approximately $152.79 billion in total repayments under the CPP. Notable repayments during the quarterly period include Fulton Financial Corporation for $376.5 million and the repayments associated with the sale of Citigroup common stock described below.

ii. Update on Warrant Dispositions

As of September 30, 2010, Treasury had disposed of warrants from 81 banking organizations and had received more than $8 billion in gross proceeds.[23] During the quarterly period, 8 banking organizations repurchased warrants for proceeds of approximately $1.12 billion. During the quarterly period, Treasury completed public auctions for warrants issued by Hartford Financial Services Group, Inc. and Lincoln National Corporation, with gross proceeds of $713.7 million and $216.6 million, respectively. All public auctions to date have been conducted as modified “Dutch” auctions registered under the Securities Act of 1933, in a format where qualified bidders could submit one or more independent bids at different price-quantity combinations and the warrants would be sold at a uniform price that clears the market.

[23] Includes warrant dispositions through auction, repurchase, and repurchase of exercised warrant preferred shares.

iii. Update on Disposition of Citigroup securities

a. Common Stock Associated with the Capital Purchase Program

In March 2010, Treasury announced its intention to dispose of its shares of common stock in Citigroup in an orderly and measured fashion subject to market conditions. Treasury had received these shares of common stock pursuant to the June 2009 exchange agreement between Treasury and Citigroup, which provided for the exchange into common shares of the preferred stock that Treasury purchased in connection with Citigroup's participation in the CPP. Pursuant to the exchange, which was part of a series of exchange offers conducted by Citigroup to strengthen its capital base, Treasury exchanged the CPP investment of $25 billion in preferred stock for approximately 7.7 billion shares of common stock at a price of $3.25 per common share. Treasury has engaged Morgan Stanley & Co. Incorporated ("Morgan Stanley") as its capital markets advisor in connection with the Citigroup dispositions.

During the quarterly period, Treasury completed its third plan for the sale of a total of 1.5 billion shares of common stock in Citigroup with proceeds of approximately $5.86 billion at an average price per share of $3.91. Of the approximately $5.86 billion in total proceeds, approximately $4.88 billion constitutes repayment under the CPP and approximately $988.5 million represents net proceeds for the taxpayer. As of September 30, 2010, Treasury has sold approximately 4.1 billion shares of Citigroup common stock at an average price of $4 per share, for total gross proceeds of approximately $16.4 billion. To enable the sales described above, Citigroup filed a prospectus supplement with the SEC covering Treasury's common stock. These sales of common stock do not include Treasury's holdings of Citigroup trust preferred securities (see below) or warrants for common stock.

b. Trust Preferred Securities Associated with the Asset Guarantee Program

During the quarterly period, Treasury sold the trust preferred securities received from Citigroup pursuant to the Asset Guarantee Program. These securities were received in consideration for Treasury's agreement in January 2009 to share potential losses on a pool of $301 billion of assets held by Citigroup. The loss-sharing arrangement, essentially a form of insurance, also involved the Federal Deposit Insurance Company ("FDIC") and a credit facility from the Federal Reserve. Citigroup paid the Treasury and the FDIC a premium in the form of securities for their willingness to share potential losses over a five to ten year period. In December 2009, the loss-sharing arrangement was terminated at the request of Citigroup. Treasury kept approximately $2.2 billion of the premium (which was originally $4 billion in securities).

For the period that the Citigroup asset guarantee was outstanding prior to termination in December 2009, Citigroup made no claims for loss payments to the government, and consequently Treasury made no guarantee payments of TARP funds to Citigroup. Thus, all payments received to date, combined with the income received from the sale of the securities constituted a net gain to the taxpayer. As of September 30, 2010, total dividends received from the securities were approximately $440 million. On September 30, 2010, Treasury sold the trust preferred securities for proceeds of approximately $2.25 billion. Treasury still holds its

Citigroup warrants and expects to receive another $800 million in Citigroup trust preferred securities from the FDIC.

iv. Update on CPP Dividends and Interest

As of September 30, 2010, Treasury had received approximately $9.9 billion in total dividends and interest from $205 billion of CPP investments (and of which roughly $153 billion has been repaid). During the quarterly period, Treasury received approximately $441.3 million in dividends and interest under the CPP program.[24]

In August 2010, a quarterly payment month for most financial institutions participating in the CPP, Treasury received approximately $333 million in dividend and interest payments from 494 financial institutions, and 123 institutions did not make scheduled dividend or interest payments on Treasury's CPP investments. The missed payments consisted of 96 cumulative dividends (approximately $41.5 million), 19 non-cumulative dividends (approximately $1.8 million), and six S-corporation interest payments (approximately $1.6 million).[25] At month-end, 21 banks had missed four payments, 15 banks had missed five, six banks had missed six, and one bank had missed seven.

a. Board Observers and Directors

Each bank in the CPP entered into a securities purchase agreement with Treasury that provides for the payment of dividends (or interest) at a certain rate. Under the CPP agreements, Treasury cannot demand payment of dividends, but instead has a contractual right to appoint two directors to the institution's board of directors. During the quarter, Treasury announced plans to utilize board observers to inform its decision in that regard. As of September 30, 2010, Treasury observers had attended the board of directors meetings of 14 of the 22 CPP institutions that had missed five or more payments.

If the right to nominate members to the board of directors becomes exercisable at an institution, Treasury will determine whether to nominate up to two members. This determination will be based on Treasury's evaluation of the condition of the institution and the functioning of its board of directors, including the information provided by the observers. If Treasury decides to nominate directors, Treasury will then nominate such members from a list of suitable candidates screened by executive search firms engaged by Treasury for this purpose. Unlike observers, government employees may not act as directors to banks participating in the CPP.

---

[24] Treasury's monthly Dividends and Interest Reports are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html.

[25] References to missed payments exclude institutions that have entered bankruptcy or had a bank subsidiary placed in receivership.

Treasury will prioritize institutions in part based on whether its investment exceeds $25 million.[26]

v. Update on Certain Institutions

a. Exchanges and Dispositions

In limited cases, and in keeping with the objectives of EESA to "restore liquidity and stability to the financial system of the United States" in a manner which "maximizes overall return to taxpayers", Treasury may participate in exchanges of CPP preferred stock for other securities or Treasury may agree to participate in a direct disposition of the CPP investment to new investors who are able to provide fresh equity investment, conduct a capital restructuring or otherwise strengthen the capital position of the bank.[27] Exchanges made on this basis may be at a rate less than par, and sales by Treasury to a new investor may be made at a discount. During the quarterly period, in order to protect taxpayers' interest in the value of certain CPP investments and promote the objectives of EESA, Treasury entered into the agreements described below:

(i) First BanCorp. In July 2010, Treasury completed the exchange of its $400 million of preferred stock in First BanCorp for mandatorily convertible preferred stock, equivalent to the initial investment amount plus capitalized previously accrued and unpaid dividends. Subject to the fulfillment by First BanCorp of certain conditions, including those related to its capital plan, the mandatorily convertible preferred stock may be converted to common stock. First BanCorp has agreed to have Treasury observers attend board of directors meetings.

(ii) Pacific Capital Bancorp ("Pacific Capital"). In August 2010, Treasury completed the exchange with Pacific Capital under which Treasury exchanged its $180.63 million of preferred stock for $195.05 million of mandatorily convertible preferred stock, equivalent to the initial investment amount plus a capitalized amount equal to accrued and unpaid dividends as of the date of closing. In September, following the completion of the conversion conditions, all of Treasury's MCP was converted into 360,833,250 shares of common stock of Pacific Capital. The institution has agreed to have Treasury observers attend board of directors meetings.

---

[26] Further information regarding Treasury's right to nominate members to an institution's board of directors, including FAQs on the subject, is available at: http://www.FinancialStability.gov/roadtostability/capitalpurchaseprogram.html.

[27] In the Agency Financial Report for Fiscal Year 2009, Treasury stated that its four portfolio management guiding principles for the TARP are: (i) protecting taxpayer investments and maximize overall investment returns within competing constraints; (ii) promote stability for and prevent disruption of financial markets and the economy; (iii) bolster market confidence to increase private capital investment; and (iv) dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact.

(iii) Sterling Financial Corporation ("Sterling"). In August, Treasury completed the exchange of its $303 million of preferred stock in Sterling for a like amount of mandatorily convertible preferred stock, pursuant to the terms of the exchange agreement between Treasury and Sterling from April 2010. Because Sterling also fulfilled the conversion conditions set forth in the mandatorily convertible preferred stock, including those related to its capital plan, Treasury's $303 million of mandatorily convertible preferred stock was then converted into 378.75 million shares of common stock.

(iv) Hampton Roads Bankshares, Inc. ("Hampton Roads"). In September, Treasury completed the exchange of its $80.35 million of preferred stock in Hampton Roads for a like amount of mandatorily convertible preferred stock, pursuant to the terms of agreement between Treasury and Hampton Roads entered into on August 12, 2010. Since Hampton Roads also fulfilled the conversion conditions set forth in the mandatorily convertible preferred stock, including those related to its capital plan, Treasury's $80.35 million of mandatorily convertible preferred stock was then converted into 52,225,550 shares of common stock.

(v) South Financial Group, Inc. ("South Financial"). In September, Treasury completed the sale of all preferred stock and warrants issued by South Financial, which represented a CPP investment of $347 million, to Toronto-Dominion Bank ("TD Bank") at an aggregate purchase price of approximately $130.2 million for the preferred stock and $400,000 for the warrants, pursuant to the terms of agreement between Treasury and TD Bank entered into on May 18, 2010.

(vi) TIB Financial Corp. ("TIB Financial"). In September, Treasury completed the sale of all preferred stock and warrants issued by TIB Financial, which represented a CPP investment of $37 million, to North American Financial Holdings, Inc. ("NAFH") at an aggregate purchase price of approximately $12.1 million for the preferred stock and $40,000 for the warrants, pursuant to the terms of agreement between Treasury and NAFH entered into on September 24, 2010.

b. Receivership[28]

Also during the quarterly period, a subsidiary of Sonoma Valley Bancorp was placed into receivership by its regulators. Treasury had invested approximately $8.65 million in preferred stock in Sonoma and received a warrant for the purchase of common shares. It is unlikely that Treasury will receive any significant recovery on this investment.

[28] CPP investments in financial institutions that entered or completed bankruptcy proceedings or had a banking subsidiary placed in receivership during prior quarterly periods are comprised of CIT Group, Inc. ($2.33 billion), UCBH Holdings, Inc. ($299 million), Midwest ($89 million), and Pacific Coast National Bancorp ($4 million).

vi. Update on Bank Lending Surveys

a. Monthly Lending and Intermediation Survey; CPP Monthly Lending Report

The *Monthly Lending and Intermediation Snapshot*, for the 22 largest recipients of CPP investments and which was first published in January 2009 with data from inception of the CPP, provides quantitative information on three major categories of lending – consumer, commercial, and other activities – based on banks' internal reporting, and commentary to explain changes in lending levels for each category. Beginning with the December 2009 Snapshot (released in February 2010), banks that had repaid CPP funds in June 2009 no longer submitted data to Treasury. As the reporting group contracted with additional CPP repayments, Treasury ceased to publish a summary analysis because the aggregate month to month changes are no longer meaningful. However, Treasury continues to publish the individual bank submissions and the underlying data from the banks that continue to submit Snapshot data.[29] Treasury's *Monthly Lending Report* provides data on consumer lending, commercial lending, and total lending for all CPP participants and is published in addition to the Snapshot.[30]

b. The Quarterly CPP Report

Treasury continues to conduct periodic analysis of the effect of TARP programs on banking organizations and their activities. This analysis was first completed by an interagency group (consisting of representatives from Treasury, the Federal Reserve Board, and other Federal banking agency functions). Treasury prepares an analysis of the financial data submitted by depository institutions to their primary federal regulator in Call Reports and Thrift Financial Reports, as well as the Y-9C Reports submitted by large bank holding companies each quarter to the Federal Reserve, and publishes the results in reports, known as the Quarterly CPP Report, available at http://www.FinancialStability.gov/impact/CPPreport.html.

c. Use of Capital Survey

Treasury has also initiated an annual *Use of Capital Survey* to obtain insight into the lending, financial intermediation, and capital building activities of all recipients of government investment through CPP funds. Collection of the Use of Capital survey data began during March, with responses due in the second calendar quarter of 2010. Data and survey results are available at http://www.FinancialStability.gov/useofcapital. The Use of Capital Survey is designed to capture representative information of CPP fund usage without imposing excessive burdens on institutions, and will cover how each financial institution has employed the capital

[29] For complete information, including individual banks' reports, please visit: http://www.FinancialStability.gov/impact/MonthlyLendingandIntermediationSnapshot.htm.

[30] Beginning with the December 2009 reports (released in February 2010), the ten largest institutions that repaid CPP funds in June 2009 no longer submitted data. Past periods are not adjusted. The decrease in balances from November 2009 to December 2009 is reflective of the decrease in the reporting group.

infusion of CPP funds from the date it initially received the funds until the end of 2009. The survey form provides eight possible uses of capital, as well as space for narrative responses.

The initial survey results were published to the *FinancialStability.gov* website in July 2010. The overwhelming majority of respondents (85 percent) indicated that their institutions increased lending or reduced lending less than otherwise would have occurred after the receipt of CPP capital. Just over half of the respondents (53 percent) indicated that their institutions increased reserves for non-performing assets after the receipt of CPP capital. Nearly half of the respondents (46 percent) noted that their institutions held the CPP capital as a non-leveraged increase to total capital. In addition, Treasury previously published summary balance sheet and income statement information from each institution's regulatory filings on the same page as a supplement to the survey responses.

f. Legacy Securities Public Private Investment Program

The Legacy Securities Public Private Investment Program ("S-PPIP") is designed to support market functioning and facilitate price discovery in the mortgage-backed securities markets, allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. Under the program, Treasury has partnered with fund managers and private investors who invest in legacy securities through a Public Private Investment Fund ("PPIF").[31]

In July, Treasury released the quarterly report with information regarding S-PPIP operations during the period from April 1, 2010, through June 30, 2010. S-PPIP activities during this the quarterly period ending on September 30, 2010 will be reviewed by the Oversight Board in the next quarterly report. The total market value of non-agency residential mortgage-backed securities ("RMBS") and CMBS held by the PPIFs was approximately $16 billion as of June 30, 2010, and approximately 85 percent of the portfolio holdings are non-agency RMBS and 15 percent are CMBS.

As of September 30, 2010, the PPIFs had drawn-down approximately $18.6 billion of total capital, which had been invested in eligible assets or cash equivalents pending investment under the S-PPIP program terms.

g. Community Development Capital Initiatives

The Community Development Capital Initiative ("CDCI") is a program in which Treasury invested lower-cost capital in Community Development Financial Institutions ("CDFIs") that operate in markets underserved by traditional financial institutions. CDFIs are banks, thrifts, bank holding companies, savings and loan holding companies, and credit unions that target more than 60 percent of their small business lending and other economic development

[31] Details on the program terms for the S-PPIP are available at: http://www.FinancialStability.gov/roadtostability/publicprivatefund.html and the previous quarterly reports of the Oversight Board.

activities to low- and moderate-income communities.[32] CDFIs participating in the CPP were eligible to exchange the CPP investment into the CDCI program. During the quarterly period, 84 financial institutions exchanged and/or received funding totaling approximately $570 million under the CDCI program. Of this amount, approximately $363.3 million from 28 banks was exchanged from investments under the CPP into the CDCI.

h. SBA 7(a) Securities Purchase Program

In March 2009, Treasury and the Small Business Administration ("SBA") announced several initiatives directed at enhancing credit for small businesses, including a Treasury program to purchase SBA guaranteed securities ("pooled certificates").[33] Treasury subsequently developed a program to purchase SBA-guaranteed securities from pool assemblers. By purchasing in the open market, Treasury injected liquidity - providing cash to pool assemblers - enabling those entities to purchase additional loans from loan originators. As of September 30, 2010, Treasury has conducted 31 transactions totaling approximately $357 million. The program ceased purchasing securities in conjunction with the expiration of purchase authority under the Act. Treasury will continue to manage existing positions.

i. American International Group, Inc.

On September 30, 2010, AIG announced that it had entered into an agreement-in-principle with Treasury, the Federal Reserve Bank of New York ("FRBNY"), and the trustees of the AIG Credit Facility Trust (the "Trust") designed to repay all its obligations to American taxpayers. The plan involves three key components:

a. Repaying and Terminating the FRBNY Credit Facility with AIG

AIG owes the FRBNY approximately $21 billion in senior secured debt under the FRBNY credit facility. Under the plan, AIG will repay this entire amount and terminate the FRBNY senior secured credit facility. Funding for this will come primarily from the proceeds of the initial public offering of the company's Asian life insurance business ("AIA") and the pending sale of its foreign life insurance company ("ALICO") to MetLife.

[32] More information is available at: http://www.FinancialStability.gov/roadtostability/comdev.html.

[33] Program details are available at: http://www.FinancialStability.gov/roadtostability/smallbusinesscommunityinitiative.html.

b. *Facilitating the Orderly Exit of the U.S. Government's Interests in Two Special Purpose Vehicles ("SPVs") That Hold AIA and ALICO*

The FRBNY holds preferred interests in two AIG-related SPVs totaling approximately $26 billion. Under the plan, AIG will use the remaining $22 billion of TARP funds available to it (under the Series F preferred stock facility provided in April 2009) to purchase an equal amount of the FRBNY's preferred interests in the SPVs, which will then be transferred to Treasury as consideration for the additional TARP funds. Over time, AIG will repay the Treasury for these preferred interests and the FRBNY for its remaining SPV preferred interests through proceeds from the sales of AIG Star Life Insurance and AIG Edison Life Insurance, the monetization of the remaining equity stake in AIA, the sale of MetLife equity securities that AIG will own after the close of the ALICO sale, and the monetization of certain other designated assets. The aggregate value of the assets underlying the preferred interests in the SPVs significantly exceeds the liquidation preference of the preferred interests. Treasury does not anticipate incurring any loss from its purchase of the SPV preferred interests.

c. *Retiring AIG's Remaining TARP Support and Series C Preferred Shares*

To date, Treasury has invested approximately $47.5 billion of TARP funds in AIG. Under the plan, Treasury is expected to receive approximately 1.1 billion shares of AIG common stock in exchange for its existing TARP investments in AIG, and an additional 563 million shares of common stock from the exchange of the Series C preferred shares held by the Trust. After the exchange is completed, it is expected that Treasury will sell its stake in AIG into the public markets over time.

j. Automotive Industry Financing Program ("AIFP")

The AIFP was created by Treasury in December 2008 to prevent a significant disruption of the U.S. automotive industry, which would have posed a systemic risk to financial market stability and the broader U.S. economy. The funding provided by Treasury under the program has helped successor companies to General Motors Corporation (now known as Motors Liquidation Company) and Chrysler Holding LLC (now known as CGI Holding LLC) become leaner and more efficient companies with substantially improved long-term viability prospects. Treasury also has provided financing under the AIFP to Chrysler Financial Services Inc. and GMAC Financial Services Inc. (now known as Ally Financial Inc. ("Ally Financial")), an important source of automobile financing. Chrysler Financial was provided a $1.5 billion loan in January 2009, which it repaid in full in July 2009.

As of September 30, 2010, Treasury holds common stock in General Motors Company ("New GM"), Chrysler Group LLC ("New Chrysler"), and Ally Financial. Treasury also holds preferred stock in New GM and Ally Financial and trust preferred securities in Ally Financial. Treasury will periodically evaluate both public and private options to exit the equity investments under the AIFP. The New GM loan was repaid in full during the quarter ending June 30, 2010. Treasury continues to hold debt in New Chrysler, a portion of which matures in December 2011 and the balance in June 2017.

i. Update on General Motors

During the quarterly period, General Motors filed a registration statement with the SEC for an initial public offering ("IPO") of its common stock. Treasury agreed to be named as a selling shareholder. Treasury will retain the right, at all times, to decide whether and at what level to participate in the offering.

As of September 30, 2010, Treasury's investments in New GM consisted of a 60.8 percent common equity position and $2.1 billion preferred stock.[34]

In addition, approximately $986 million of outstanding loans remained with Old GM (now known as "Motors Liquidation Company") for wind-down costs associated with its liquidation and bankruptcy proceedings.

ii. Update on Chrysler

During the quarterly period, Treasury's investments in New Chrysler remained unchanged. Those investments consist of 9.9 percent of the equity and $7.1 billion of loans (including undrawn commitments and the $500 million assumed from Chrysler Holding).

iii. Update on Ally Financial (Formerly GMAC)

Treasury has invested approximately $17 billion in Ally Financial. As of September 30, 2010, Treasury's investment in Ally Financial consisted of a 56.3 percent common equity position, $11.4 billion of mandatorily convertible preferred stock and $2.7 billion of trust preferred securities. There was no change in Treasury's holdings during the quarterly period.

During the quarterly period, Treasury received approximately $311 million in dividend income from Ally Financial.

[34] The current shareholders of New GM are: Treasury (60.8 percent), GM Voluntary Employee Benefit Association ("VEBA") (17.5 percent), the Canadian Government (11.7 percent), and unsecured bondholders of Motors Liquidation Company ("Old GM") (10 percent). As part of the restructuring, New GM has issued warrants to acquire shares of common stock to Old GM (for eventual distribution to its creditors following liquidation) and to VEBA.

k. Corporate Governance

i. Update on Executive Compensation[35]

a. The Final Report of the Special Master for TARP Executive Compensation

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 for Executive Compensation Kenneth R. Feinberg ("Final Report"). Patricia Geoghegan was appointed as Acting Special Master for TARP Executive Compensation. The Final Report summarizes the work of the Office of the Special Master for TARP Executive Compensation during Mr. Feinberg's tenure as Special Master and includes an overview of the compensation determinations issued for the 2009 and 2010 calendar years. The report also reviews, among other things, the processes (collection of data and analysis) and standards of review used for the determinations.[36]

b. Completion of the Look Back Review

Treasury was required to conduct a Look Back Review of bonuses, retention awards, and other compensation paid to each TARP recipient's Top 25 before the introduction of the additional requirements, to determine if any payments were inconsistent with the purpose of EESA or TARP, or otherwise inconsistent with the public interest. The Office of the Special Master carried out the Look Back Review and published its findings in July 2010. The Special Master did not determine that any reviewed payment was inconsistent with the law or the public interest. However, this outcome does 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. Therefore, the Special Master proposed that all TARP recipients adopt a prospective compensation policy (a "brake" policy) that would provide companies the authority to alter pending payments to executives in the event of a financial crisis.

---

[35] EESA set standards for executive compensation and corporate governance for recipients of financial assistance under the TARP. These executive compensation standards were then expanded under subsequent legislation and Treasury's Interim Final Rule on executive compensation published on June 15, 2009. This rule created the Office of the Special Master for TARP Executive Compensation, and Kenneth R. Feinberg was appointed as Special Master in June 2009.

[36] The report and exhibits, which include copies of all determination letters, can be found at: http://www.FinancialStability.gov/docs/Final%20Report%20of%20Kenneth%20Feinberg%20-%20FINAL.PDF and http://www.financialstability.gov/docs/Exhibits.pdf.

I. Administrative Activities of the Office of Financial Stability

The Oversight Board continued to review and monitor the progress made by OFS in ensuring that the necessary infrastructure is in place to design and implement all programs established under EESA. This infrastructure includes hiring staff and establishing the necessary internal controls and compliance and monitoring mechanisms for the programs Treasury has established under the TARP. The following outlines the status and progress that OFS has made in the areas of staffing, procurement, conflict of interest mitigation, internal controls, oversight, and reporting during the quarterly period.

i. Staffing

On September 30, 2010, Herbert M. Allison, Jr. departed as the Assistant Secretary for Financial Stability. Treasury Secretary Geithner named Timothy G. Massad, who previously served as Chief Counsel and Chief Reporting Officer for the Office of Financial Stability, as Acting Assistant Secretary for Financial Stability. As of September 30, 2010, OFS had 218 full-time employees (101 career civil servants, 114 term appointments, and 3 detailees) who support the TARP. These employees include 19 employees who report through the Department of the Treasury's Office of the General Counsel, but exclude approximately 45 other reimbursables from outside of OFS who continue to provide support to the OFS on an as-needed basis. Treasury's organizational plans, as of September 30, 2010, call for a total of 279 full-time employees, indicating that OFS was 77 percent staffed as of September 30, 2010. However, OFS is not envisioned as a permanent organization, so to the maximum extent possible and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs.

ii. Procurement

Treasury continued to engage private sector firms to assist with the significant volume of work associated with the TARP. As of September 30, 2010, Fannie Mae and Freddie Mac accounted for 65 per cent of the obligated dollars on non-personal services contracts and agreements while assisting in the administration and compliance of the HAMP. Asset managers serve as financial agents in managing the portfolio of assets associated with several TARP programs. The balance of the non-personnel private sector firms were engaged to assist with the significant volume of work associated with the TARP in the areas of accounting and internal controls, administrative support, facilities, legal advisory, financial advisory, and information technology.

As part of Treasury's commitment to transparency and accountability of taxpayer dollars, OFS has and continues to publish all contracts and financial agent agreements ("FAAs") on http://www.FinancialStability.gov/impact/procurement-contracts-agreements.html. The procurement section of the website provides information on procurement contracts and FAAs including dollar value, performance period, and a category description. This section of the website also describes the authority to enter into procurement contracts and FAAs, and OFS's commitments to small business and to a fair and open competitive process.

During the quarter ending September 30, 2010, Treasury awarded twenty-five new contracts to support the TARP, but for which no task orders were issued except as specified below. Treasury approved legal services contracts to support multiple TARP programs, thirteen contracts were awarded to Alston & Bird LLP, Cadwalader Wickersham & Taft LLP, Fox Hefter Swibel Levin & Carol LLP, Haynes and Boone LLP, Hughes Hubbard & Reed LLP, Love & Long, LLP, Orrick Herrington Sutcliffe, LLP, Paul, Weiss, Rifkind, Wharton & Garrison LLP, Perkins Coie LLP, Shulman, Rogers, Gandal, Pordy & Ecker PA, Seyfarth Shaw LLP, Sullivan Cove Reign Enterprises JV, and Venable LLP; for support to the SBA 7(a) Security Purchase Program, one legal services contract to Bingham McCutchen LLP; and for support to the Home Affordable Modification Program, one legal services contract to Schiff Hardin LLP. Six administrative support contracts were awarded as follows: West Publishing Corporation, Knowledge Mosaic Inc., CQ-Roll Call Inc., David Audrey Robinette, and CCH Inc, and to George Washington University (for contract training). Four program compliance support services contracts were awarded to benefit multiple TARP programs: Navigant Consulting, Inc., Regis and Associates PC, Ernst & Young LLP, and PriceWaterhouseCoopers LLP.

In addition to the new contracts, Treasury awarded four new task orders: RDA Corporation for data and document management consulting to support Program Operations, and both Debevoise & Plimpton LLP and Fox Hefter Swibel Levin & Carol LLP for restructuring legal services to support multiple programs, and Cadwalader, Wickersham & Taft LLP for legal services to support the Auto Industry Financing Program.

Treasury also entered into modifications and extensions relating to several existing contracts. Treasury exercised its option for a second year with SNL Financial LC. Treasury extended the period of performance for task orders against existing contracts with Ennis Knupp & Associates Inc., Ernst & Young LLP, Hughes Hubbard & Reed, The Mitre Corporation, Cadwalader Wickersham & Taft LLP, PriceWaterhouseCoopers LLP, and RDA Corporation. A within-scope modification was entered into with The Boston Consulting Group Inc. for services related to the valuation of GM, and modifications were made to contracts for Hughes Hubbard & Reed LLP and Microlink LLC to meet changing program requirements. Treasury amended five contracts to effect personnel changes: Anderson McCoy & Orta, Microlink LLC, PriceWaterhouseCoopers LLC, Perkins Coie LLP and RDA Corporation. A modification also was entered into to add additional labor categories to task orders against a contract with PricewaterhouseCoopers LLP. Modifications to Bingham McCutchen LLP, and Ennis Knupp & Associates were awarded to reflect a change to a Time and Materials contract type going forward. As part of routine annual year-end review, Treasury issued several administrative modifications to base contracts and task orders for the purpose of revising ordering procedures and/or payment office information.

iii. Conflicts of Interest Mitigation

OIR – Compliance continues to manage conflict of interest issues that arise with both new and existing arrangements with contractors and financial agents, pursuant to the Interim COI Regulation, as previously reported by the Oversight Board.[37]

iv. Governance and Internal Controls

OFS' commitment to its internal controls was a critical factor in receiving a clean audit opinion from the GAO for the fiscal year 2009. Internal controls at OFS support investment programs, financial reporting, and other key operational areas so OFS can reduce the risk to the organization. This includes performing risk assessments, internal controls testing and development of OFS policies and procedures to support the program and business support functions. The Internal Control Program Office, the Risk Office within the Office of Internal Review, and the Senior Assessment Team are responsible for leading this effort. During the quarterly period, OFS conducted several risk assessments of program and business support areas, developed new policies and procedures and updated existing ones as part of an annual policy and procedure review and certification. As part of OFS's commitment to transparency, all policies and procedures are made available to the oversight bodies for review.

v. Oversight

Treasury continued its active dialogue with the Oversight Board, as well as the other bodies with oversight responsibility over the TARP, including Congress, SIGTARP, GAO and the Congressional Oversight Panel. Assistant Secretary Allison met weekly with SIGTARP to discuss Treasury's current activities and to address any concerns of SIGTARP. During the quarterly period, Treasury provided the Oversight Board with an update on its progress in implementing several of the recommendations contained in the reports of the oversight bodies. In the cases where Treasury has declined to implement a recommendation or sought to reach the recommendation's objectives by other means that Treasury considered to be more practical, effective or supportive of achieving financial stability, Treasury has explained its reasons to the relevant oversight body and to Congress.

Treasury continued to track oversight recommendations and manages the implementation of recommendations related to TARP through the Joint Audit Management System ("JAMES"). The JAMES is a Treasury-wide tracking system that contains information on audit reports issued by the Treasury Office of Inspector General ("OIG"), the Treasury Inspector General for Tax Administration ("TIGTA"), the Government Accountability Office ("GAO") and SIGTARP. The JAMES details all findings and recommendations in each oversight report and tracks the status and completion of planned corrective actions required to satisfy those recommendations.

[37] On January 21, 2009, Treasury published an interim final regulation designed to address actual or potential conflicts of interest among contractors and financial agents performing services in conjunction with the TARP (the Interim COI Regulations). For further information, please visit: http://www.FinancialStability.gov/docs/COI-Rule.pdf.

With respect to such recommendations, as of September 30, 2010, Treasury has implemented 62 percent, is in the process of implementing 28 percent, and declined 7 percent, with the remainder not applicable to TARP programs.

vi. Reporting

Treasury makes all of its reports, which detail the objectives, structure, and terms of each TARP program and investment, available on its web site[38] and shares these reports with Congress. In addition, Treasury makes available information concerning the objectives and terms and results of programs established under the TARP through numerous press releases, testimonies, speeches, and briefings to Congressional staff. As part of the Open Government Plan of the Obama Administration, Treasury makes copies of the Transactions Reports and Dividends and Interest Reports available in two additional formats to the official PDF version: XLSX (Excel) and XML.

As of September 30, 2010, Treasury has filed –

- 216 transactions reports, in accordance with section 114 of the EESA, which include key details of the acquisition and, beginning March 31, 2009, the disposition of TARP investments;

- 23 monthly reports, in accordance with section 105(a) of the EESA, describing, among other things, financial data concerning administrative expenses, projected administrative expenses and a detailed financial statement with respect to TARP investments; and

- 8 tranche reports, in accordance with section 105(b) of the EESA, which outline the details of transactions that relate to each $50 billion incremental investment made under TARP, along with the pricing mechanism for each relevant transaction, a description of the challenges that remain in the financial system, and an estimate of the additional actions that may be necessary to address such challenges.

In addition to the reports referred to above that are required by EESA, during the quarterly period Treasury released, among others, the second Warrant Disposition Report – available at www.FinancialStability.gov/docs/TARP_WRRTDISP_80310.pdf, and the scores of other reports, surveys and contracts referred to herein.

[38] www.FinancialStability.gov/latest/reportsanddocs.html

Appendix A

Minutes of the Financial Stability Oversight Board Meetings
During the Quarterly Period

Minutes of the Financial Stability Oversight Board Meeting
July 28, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held telephonically at 2:30 p.m. (EDT) on Tuesday, July 28, 2010.

MEMBERS PARTICIPATING BY TELEPHONE:

Mr. Bernanke, Chairperson
Mr. Donovan
Mr. DeMarco

STAFF PARTICIPATING BY TELEPHONE:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PARTICIPATING BY TELEPHONE:

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Miller, Acting Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Ms. Liang, Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Chairperson Bernanke called the meeting to order at approximately 2:35 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on June 28, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the legislative changes to TARP authority following the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"); the Home Affordable Modification Program ("HAMP"); the Housing Finance Agency Innovation Funds for the Hardest Hit Housing Markets ("Hardest-Hit Funds"); the Public-Private Investment Program ("PPIP"); the Capital Purchase Program ("CPP"); and the Community Development Capital Initiative ("CDCI"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the dividends received under the CPP; proceeds received from public auctions held by Treasury to sell the warrants it had received under the TARP; aggregate information of allocated and disbursed amounts under TARP; information concerning actions taken by Treasury in response to certain recommendations by the Government Accountability Office ("GAO") and the Special Inspector General for the TARP; the Making Home Affordable Program Servicer Performance Report through June 2010; the joint Treasury-HUD monthly scorecard on the nation's housing market for July 2010; and the Legacy Securities Public-Private Investment Program update for the quarter ended June 30, 2010. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first briefed Members on the changes Treasury has implemented to the TARP as a result of the Dodd-Frank Act. Treasury officials noted that the Dodd-Frank Act includes provisions that: (i) cap total disbursements under TARP at $475 billion; (ii) prohibit Treasury from using TARP investments that are repaid by financial institutions to increase TARP spending; and (iii) prohibit Treasury from incurring obligations under TARP for any program or initiative that was not initiated prior to June 25, 2010. Treasury officials then reviewed with Members the changes made to the funding allocation for certain TARP programs to bring the aggregate amount of allocations under TARP in line with the new $475 billion cap on TARP authority.

Using prepared materials, Treasury officials then provided the Members with an update on the HAMP. As part of this discussion, Treasury officials reviewed with Members the data from the Making Home Affordable Program Servicer Performance Report through June 2010, including data regarding the number of permanent modifications, canceled trial modifications, and new trials started, and the expected effect of full transition to verified income trial modifications on the rate of new trials. Treasury officials reported that, after the June 2010 report was released, Fannie Mae, which administers the Making Home Affordable program, reported to Treasury an issue in its implementation of the delinquency statistic methodology used to report performance of permanent modifications. Treasury officials and Members discussed the nature and scope of the problem with Fannie Mae's delinquency reporting methodology, the potential impact of the issue on the delinquency statistics for HAMP modifications, and the steps being taken by Fannie Mae and Treasury to resolve the matter expeditiously.

Treasury officials then provided the Members with an update on the

Hardest Hit Funds, which are designed to help address the housing problems facing those eligible states that have been particularly hard hit by unemployment or house price declines. Officials reviewed the progress being made by those states whose programs were approved by Treasury under the first $1.5 billion Hardest Hit Fund in building the infrastructure for their programs and preparing their readiness assessments and compliance plans; and Treasury's progress in preparing for the closings expected under the second $600 million Hardest Hit Fund, which are scheduled for early August 2010. Treasury officials and Members also discussed the potential for future expansions of the Hardest Hit Funds program.

Using prepared materials, Treasury officials then provided the Members with an update on the legacy securities PPIP. Officials noted that, as of June 30, 2010, the PPIFs had completed initial and subsequent closings on approximately $7.4 billion of private sector equity capital, which was matched 100 percent by Treasury, representing $14.7 billion of total equity capital. Treasury also has provided $14.7 billion of debt capital to the PPIFs. As of June 30, 2010, PPIFs had drawn-down approximately $16.2 billion in capital, which has been invested in eligible legacy securities and cash equivalents pending investment in legacy securities. Treasury officials also reviewed with Members the returns achieved to date by the PPIFs, while noting that the funds are in their early stages.

Treasury officials then reviewed the recent steps taken by Treasury to sell the common stock it holds in Citigroup, Inc. ("Citigroup"). Treasury officials noted that, as a result of the first two pre-arranged written trading plans entered into with Morgan Stanley, which is acting as the sales agent for Treasury in connection with the disposition of the Citigroup common stock, Treasury completed the sale of 2.6 billion of Citigroup common stock (approximately one-third of Treasury's holdings) through June 30, 2010, resulting in gross proceeds of approximately $10.5 billion. Treasury also indicated that it had entered into a third pre-arranged written trading plan with Morgan Stanley to sell an additional 1.5 billion shares of Citigroup common stock subject to certain parameters. Treasury officials also provided an update on other recent transactions under the CPP, including Treasury's exchange of $46.4 million of preferred stock in First Merchants Corporation for an equivalent amount of trust preferred securities on June 30, 2010, and Treasury's exchange in July 2010 of $400 million of preferred stock in First BankCorp for an equivalent amount plus capitalized accrued and unpaid dividends of mandatorily convertible preferred stock.

Treasury then provided an update on its plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI. During this discussion, Treasury officials discussed the number of applications Treasury has received under the program, the characteristics of institutions applying under the CDCI, and the potential timeline for processing the applications Treasury has received under the program.

The meeting was adjourned at approximately 3:15 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
August 16, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:00 p.m. (EDT) on Monday, August 16, 2010, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro[1]
Mr. DeMarco

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Bloom, Senior Advisor, Department of the Treasury

Mr. Millstein, Senior Restructuring Officer, Office of Financial Stability, Department of the Treasury

Mr. Casarella, Deputy Chief Restructuring Officer, Office of Financial Stability, Department of the Treasury

Mr. Spurry, Financial Economist, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development ("HUD")

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission

Ms. Liang, Senior Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Ugoletti, Special Advisor to the Office of the Director, Federal Housing Finance Agency

Mr. Seiler, Manager for Policy Research, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 3:10 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on July 28, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

[1] Participated by Telephone

Using prepared materials, officials from the Treasury then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP") and existing initiatives that continue to be implemented under TARP. Discussion during the meeting focused on the Automotive Industry Financing Program ("AIFP"); the American International Group, Inc. ("AIG"); the Home Affordable Modification Program ("HAMP") and related initiatives; the Housing Finance Agency Innovation Funds for the Hardest Hit Housing Markets ("Hardest-Hit Funds"); the Capital Purchase Program ("CPP"); and the Community Development Capital Initiative ("CDCI"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the dividends received under the CPP; data on the proceeds received from public auctions held by Treasury to sell the warrants it had received under the TARP; aggregate information regarding the allocated and disbursed amounts under TARP; information concerning the actions taken by Treasury in response to certain recommendations by the Government Accountability Office ("GAO") and the Special Inspector General for the TARP; the Making Home Affordable Program Servicer Performance Report through July 2010; the joint Treasury-HUD monthly scorecard on the nation's housing market for July 2010; and the Legacy Securities Public-Private Investment Program update for the quarter ended June 30, 2010. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Using prepared materials, Treasury officials then briefed Members on the AIFP. Treasury officials first reviewed the financial performance of GM and Chrysler during the second quarter of 2010; the relative cash positions of each company; and the strategies implemented to promote future sales growth. As part of this discussion, Treasury officials also reviewed key aspects of the definitive agreement between GM and AmeriCredit Corp. ("AmeriCredit") announced on July 22, 2010, under which GM will acquire AmeriCredit in an all-cash transaction valued at approximately $3.5 billion. According to Treasury officials, AmeriCredit will form the core of GM's captive financing arm and enable GM to provide its customers with a broader range of financing options. Officials also discussed the expected departure of Edward Whitaker as the CEO of GM. Officials reported that Mr. Whitaker's duties as CEO would be assumed by Daniel Ackerson, a member of GM's board of directors, and reviewed Mr. Ackerson's qualifications.

Using prepared materials, Treasury officials then reported on the status of AIG's ongoing efforts to restructure the company and repay the assistance provided under the TARP or by the Federal Reserve. As part of this discussion, officials reviewed among other things the amounts of capital or capital commitments provided to AIG under TARP, the amount of advances provided to AIG under the Federal Reserve's Revolving Credit Facility, and the amount of preferred stock outstanding in the special purpose vehicles established to hold AIA Group, Limited ("AIA") and American Life Insurance Company ("ALICO"). Officials also reviewed and discussed the operating results and earnings announced by AIG during the second quarter of 2010 and the status of AIG's efforts to divest various of the company's subsidiaries or business units.

Using prepared materials, Treasury officials then provided the Members with an update on the HAMP. As part of this discussion, Treasury officials reviewed with Members the data from the Making Home Affordable Program Servicer Performance Report ("Servicer Report") through July 2010, including data regarding the number of permanent modifications, canceled trial modifications and new trials started. Treasury officials noted that, in June 2010, the number of active permanent modifications increased to 389,198, maintaining an average conversion rate of trial modifications to permanent modifications of more than 50,000 modifications per month over the past six months. Of the new canceled trials recorded in June, more than 60 percent had been in trial for a period of six months or longer. Treasury officials then described the process used to correct errors in the statistics used to track the delinquency performance of permanent modifications. Treasury issued a revised version of the July Servicer Report with corrected delinquency data. Also as part of this discussion, Treasury officials provided an update on the Second Lien Modification Program established under HAMP, including the steps taken by Treasury to increase servicer participation in the program. Mr. Donovan then reviewed the progress being made by HUD, in conjunction with Treasury, in implementing the FHA refinancing program for borrowers with negative equity positions.

Treasury officials then provided the Members with an update on the Hardest Hit Funds initiative, which is designed to help address the housing problems facing those eligible states that have been particularly hard hit by unemployment or house price declines. Officials reviewed the composition and development of the housing programs that are receiving, or have applied to receive, assistance under the first $1.5 billion Hardest Hit Fund and under the second $600 million Hardest Hit Fund. Treasury officials also discussed Treasury's plan to establish a third Hardest Hit Fund under this initiative. This additional fund would support programs sponsored by state Housing Finance Agencies ("HFAs") in eligible states that have experienced an unemployment rate at or above the national average over the past 12 months. Officials explained that, under this newest Hardest Hit Fund, Treasury will make up to $2 billion of additional assistance available for HFA-sponsored programs for homeowners struggling to make their mortgage payments due to unemployment, and that proposals must be submitted to Treasury by September 1, 2010. Treasury officials also noted that HUD soon will launch a complementary $1 billion Emergency Homeowners Loan Program (a non-TARP program) to provide assistance – for up to 24 months – to homeowners who are at risk of foreclosure and have experienced a substantial reduction in income due to involuntary unemployment, underemployment, or medical expenses.

Treasury officials then provided an update on recent transactions under the CPP, including Treasury's exchange, on July 26, 2010, of $181 million of preferred stock in Pacific Capital Bancorp

("Pacific Capital") for mandatorily convertible preferred stock ("MCP") of an equivalent amount plus accrued and unpaid dividends. Subject to the fulfillment by Pacific Capital of certain conditions, including the receipt of regulatory and shareholder approvals, the MCP may be converted to common stock. Completion of the exchange for MCP is subject to certain closing conditions, including the satisfactory completion of a capital plan.

Treasury officials then provided the Members with an update on Treasury's ongoing efforts to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI. During this discussion, Treasury officials noted that three institutions have been funded under the program for a total of approximately $70 million.

The meeting was adjourned at approximately 4:00 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
September 29, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Wednesday, September 29, 2010, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
Mr. Donovan
Ms. Schapiro[1]
Mr. DeMarco

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

Mr. Goldstein, Under Secretary of the Treasury for Domestic Finance, Department of the Treasury

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

Mr. Miller, Acting Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Ms. Celosse, Office of Financial Stability, Department of the Treasury

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Sharpe, Chief of the Capital Markets Section, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission[1]

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Mr. Ugoletti, Special Advisor to the Office of the Director, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 2:00 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on August 16, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded,

[1] Participated by telephone.

the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP") and existing initiatives that continue to be implemented under TARP. Discussion during the meeting focused on the Home Affordable Modification Program ("HAMP") and related initiatives; the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest-Hit Fund"); the Capital Purchase Program ("CPP"); the Community Development Capital Initiative ("CDCI"); and the actions taken by Treasury in response to certain recommendations by the Government Accountability Office ("GAO") and the Special Inspector General for the TARP ("SIGTARP"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Treasury officials first discussed the steps that Treasury has taken, or planned to take, to prepare for the October 3, 2010, expiration of the authority under TARP to enter into new commitments. Members and officials also expressed their appreciation for Mr. Allison's service as the Assistant Secretary for Financial Stability. Mr. Allison will be replaced by Timothy G. Massad, who will serve as Acting Assistant Secretary for Financial Stability.

Using prepared materials, Treasury officials then provided the Members with an update on the Hardest-Hit Fund ("HHF") initiative. As part of this discussion, officials reviewed the status of programs approved under the first and second Hardest-Hit funds and Treasury's progress in expanding the HHF initiative to support programs sponsored by Housing Finance Agencies ("HFAs") in eligible states that have experienced an unemployment rate at or above the national average over the past 12 months. Treasury officials noted that, as of September 20, Treasury had approved plans for HFA-sponsored programs in 18 states and jurisdictions to receive up to $2 billion in funding under the third HFF. Treasury officials also indicated that the Administration planned to announce an additional $3.5 billion funding for the HHF initiative to help more struggling homeowners.

Treasury officials then provided the Members with an update on the HAMP and related housing initiatives. Officials noted that, approximately 50,000, 37,000 and 33,000 trial modifications became permanent in June, July and August, respectively. Trial modification cancellations continued to rise in June as servicers complied with MHA guidance to make decisions on aged trials (trials existing for six months or longer). As part of this discussion, Treasury officials reported on Treasury's progress in implementing certain legislative changes to HAMP under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), including the publication of a loan level file for all HAMP activity and the establishment of a web-portal that allows borrowers to run a Net-Present Value analysis using input data regarding their own mortgages, and provides borrowers who are turned down for a HAMP modification with the input data used to evaluate their application. Treasury officials then provided an update for the Members on the Second Lien Modification Program, principal reduction alternatives, and the Federal Housing Administration's Short Refinance Program.

Treasury officials then provided an update on recent transactions under the CPP, including Treasury's progress in selling the common stock of Citigroup, Inc. ("Citigroup"), and Treasury's plans for selling additional common stock and securities of Citigroup in the future. Treasury officials also provided an update on recent sales of warrants received under the CPP, and exchanges conducted by Treasury to protect the interest of taxpayers.

Treasury officials then provided the Members with an update on Treasury's ongoing efforts to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI, including an update on the number of institutions receiving funding and the aggregate amount of funding provided under the CDCI.

Using prepared materials, Treasury officials then provided an update on Treasury's progress in implementing the recommendations made by GAO and SIGTARP regarding the TARP. In particular, Treasury reviewed the number of such recommendations that Treasury has implemented (62 percent), is in the process of implementing (28 percent), and the number of recommendations that Treasury did not plan on implementing because Treasury did not believe the recommendation would further the purposes of the TARP or advance the interests of taxpayers.

Members and officials then engaged in a roundtable discussion regarding the current state of the U.S. housing and financial markets and the effect of the programs established under the TARP in stabilizing the financial system, promoting the flow of credit to households and businesses, and promoting homeownership. As part of this discussion, staff from the Federal Reserve briefed Members concerning recent financial market developments and officials from the Federal Housing Finance Agency ("FHFA") briefed members on developments in the housing and housing finance markets. The data reviewed included corporate stock prices, credit default swap spreads for bank holding companies, corporate bond spreads, debt growth among household and nonfinancial businesses, growth of loans at depository institutions, and data related to credit demand and standards drawn from the Federal Reserve's Senior Loan Officer Opinion Survey consumer credit. Members also reviewed data related to mortgage rates and delinquencies, Federal Home Loan Bank advances, mortgage originations, as well as information on housing prices, sales, starts, and supply. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the Government Sponsored Enterprises.

Members and officials then engaged in a discussion regarding the

Board's quarterly report to Congress for the quarter ending September 30, 2010, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential contents of the report.

The meeting was adjourned at approximately 3:00 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary