THE DEPARTMENT OF THE TREASURY

Office of Financial Stability – Troubled Asset Relief Program

# Agency Financial Report

Fiscal Year 2011

AGA

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# MESSAGE FROM THE ASSISTANT SECRETARY FOR FINANCIAL STABILITY

November 10, 2011

I am pleased to present the Office of Financial Stability's (OFS) Agency Financial Report for fiscal year 2011. This report describes our financial and performance results for the third year of the Troubled Asset Relief Program (TARP). The report contains the financial statements for TARP and the Government Accountability Office (GAO) audit opinion on those financial statements, a separate opinion on OFS' internal controls over financial reporting, and results of GAO's tests of OFS' compliance with selected laws and regulations.

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

The TARP was a significant commitment of taxpayer money and Americans did not like the fact that public funds had to be committed for this purpose. However, by any reasonable objective standard, TARP worked. It helped stop the widespread financial panic we faced in the fall of 2008 and helped prevent what could have been a devastating collapse of our financial system. Moreover, it did so at a cost that is far less than what most people expected at the time the law was passed.

Several important achievements from inception through TARP's third year:

- OFS has collected over three-fourths of the total funds disbursed, through repayments, sales, dividends, interest, and other income of $316 billion, contrasted with the $413 billion disbursed.
- OFS' banking investments have resulted in a positive return for taxpayers, while also helping to keep institutions better capitalized to ensure the overall stability of our financial system. OFS has already collected a total of $258 billion through repayments, dividends, interest and other income relative to $245 billion invested in banking institutions.
- OFS commenced its exit from General Motors Company through a highly successful Initial Public Offering (IPO) for General Motors and exited its investment in Chrysler Group, as Chrysler Group was able to repay its loans six years before the 2017 scheduled maturity.
- OFS, working with other federal government entities, closed a major restructuring plan for American International Group, Inc. (AIG), marking a significant milestone in the company's turnaround and putting Treasury OFS in a better position to recover its investment in the company.
- While the housing market remains fragile, OFS initiatives to assist struggling homeowners have helped hundreds of thousands of families keep their homes and set new standard practices for mortgage service providers that have indirectly helped millions more.

OFS' authority to make new commitments expired on October 3, 2010. Going forward, our focus is to manage the remaining investments prudently while working to recover as much of the taxpayers' funds as possible. We will also continue our efforts to help distressed homeowners. And we will take these steps while maintaining comprehensive financial and performance accountability and transparency standards.

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

Sincerely,

Timothy G. Massad
Assistant Secretary
Office of Financial Stability

# EXECUTIVE SUMMARY

Treasury's Office of Financial Stability (OFS) presents to the reader the Fiscal Year 2011 Agency Financial Report for the Troubled Asset Relief Program (TARP), established by the Department of the Treasury pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). Three years after the establishment of the TARP, substantial progress continues to be made in stabilizing the financial system and OFS is unwinding the extraordinary assistance that was provided during the crisis.

Three years ago, the U.S. financial system was at risk of collapse and many major financial institutions were at risk of failure. Markets had ceased to function. Without immediate and forceful government action, our country faced the possibility of a second Great Depression, which would have had profound consequences for all Americans.

In this environment of fear and panic, TARP was created as a central part of a series of emergency measures. The goal of TARP, along with other federal government actions, was to stop the panic and restore stability to the U.S. financial system. TARP's initiatives were done faster, and at a much lower cost, than many anticipated.

As of October 3, 2010, OFS' authority to make new commitments under TARP expired. TARP, in conjunction with other federal government actions, helped to unfreeze the markets for credit and capital, bringing down the cost of borrowing for businesses, individuals, and state and local governments, restoring confidence in the financial system and restarting economic growth.

During fiscal year 2011, OFS focused principally on (i) exiting remaining investments in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests that maximizes the return for taxpayers, and (ii) continuing to help homeowners avoid preventable foreclosures.

In fiscal year 2011, OFS' progress included the following:

- The series of programs that OFS launched to help stabilize the nation's banking institutions are now producing a profit to taxpayers. A total of $245 billion was invested in banking institutions pursuant to several TARP initiatives. Since its inception and through September 30, 2011, OFS has collected approximately $258 billion through repayments, sales, dividends, interest, and other income -- approximately $13 billion more than disbursements -- under these initiatives including collections for the Asset Guarantee Program for which nothing was disbursed by OFS.

- OFS reduced its stake in General Motors Company by 50 percent through General Motors' highly successful Initial Public Offering with OFS receiving $13.5 billion from the sale of a portion of its General Motors common stock holdings. OFS has exited its investment in Chrysler Group, as Chrysler Group repaid its loans six years earlier than the loan's maturity date. To date, OFS has collected more than $40 billion (including repayments, sales, dividends, interest and other income) of the $80 billion invested in companies related to the auto industry.

- OFS, working with other federal entities, closed a major restructuring plan for American International Group, Inc. (AIG), marking a significant milestone in the company's turnaround and putting OFS in a better position to recover its investment in AIG. In May 2011, Treasury completed the sale of 200 million shares (132.0 million shares were OFS' shares) of AIG common stock, reducing Treasury's percentage ownership of AIG's outstanding shares from approximately 92 percent to 77 percent; and leaving OFS owning 960 million shares or approximately 50.8 percent of AIG's common stock equity on a fully diluted basis.

As a result of improved financial conditions of TARP participants, earlier than expected asset repayments, lower utilization of the program and careful stewardship, the estimated cost of TARP is significantly below original projections. In the August 2009 Midsession Review of the President's 2010 Budget, the lifetime cost of TARP, based on budget scoring conventions, was projected to be $341 billion (assuming the full $700 billion of

TARP authority was utilized). In the 2011 President's Budget (released in February 2010), the lifetime cost of TARP had decreased to $116.8 billion (assuming $546 billion of the $700 billion TARP authority was utilized). In the 2012 President's Budget (released in February 2011), the lifetime cost of TARP had decreased to $48.5 billion (assuming $474.8 billion of the TARP authority was utilized). The most recent estimates as of September 30, 2011, reflect a lifetime cost included in the budget of $70.2 billion, based on utilizing $470 billion of the TARP authority.[1]

The estimated lifetime cost of TARP reflects several factors, including the cost of the initiatives to help homeowners stay in their homes, for which $45.6 billion has been committed, of which $2.4 billion has been disbursed. OFS' housing program disbursements were never intended to be recovered and OFS does not expect them to result in any repayments. The estimated lifetime cost also reflects costs related to investments in the auto companies and AIG. These costs fluctuate in large part due to market prices of common stock, and declines in market prices largely account for the increase in the estimated lifetime cost of TARP from the estimates in the 2012 President's Budget. These costs are offset in part by income on TARP investments in banks and other programs. Note that the lifetime cost of TARP, based on budget scoring conventions, differs from the cost included in the OFS financial statements. Estimates of lifetime costs assume that all planned expenditures are made. By contrast, the TARP financial statement costs are based on transactions through September 30, 2011.

The reported cost of TARP activities from inception, on October 3, 2008, through September 30, 2011, based on the OFS financial statements, was $28.0 billion. Unlike the federal budget cost estimate, this reflects only transactions through September 30, 2011. Thus, it does not include the committed but undisbursed funds for housing programs as well as other programs all of which are included in the expected lifetime cost for budget purposes. The $28.0 billion cost consists of $9.5 billion of reported TARP net cost in the OFS financial statements for fiscal year 2011; $23.1 billion of reported TARP net income for fiscal year 2010 and the $41.6 billion of reported TARP net cost for the period from inception through September 30, 2009. The change of $9.5 billion since fiscal year 2010 is primarily due to declines in the value of OFS's investments in GM, Ally Financial, and AIG, and continued funding of the Treasury Housing Programs Under TARP.

Since its inception, TARP has disbursed $413.4 billion in direct loans, equity investments and for the Treasury Housing Programs Under TARP, collected $276.9 billion from repayments and sales, and reported $20.4 billion in dividends, interest and fees, $9.1 billion in warrant sales, and $9.7 billion in net proceeds from the sale and repurchase of assets in excess of costs. As of September 30, 2011, TARP had $122.4 billion in gross outstanding direct loans and equity investments, which are valued at $80.1 billion. In addition, from inception through September 30, 2011, TARP incurred costs related to Treasury housing programs of $2.8 billion and administrative costs of $0.8 billion.

OFS continues to provide detailed information about TARP to ensure the highest level of transparency. OFS published a Two-Year Retrospective Report on the Troubled Asset Relief Program on October 5, 2010, and a corresponding Three-Year Anniversary Report on October 3, 2011. These reports include detailed information on TARP as well as the federal government's additional emergency measures to address the 2008 financial crisis. OFS also publishes a monthly report on the program, a monthly report on its housing initiatives and a variety of other reports. Please refer to these documents at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

[1] The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) amended EESA Section 115 authority to cap total purchase and guarantee authority at a cumulative $475 billion.

# PART 1:

# Management's Discussion and Analysis

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Background, Mission, and OFS Organization Structure

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

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

The causes of the crisis will be studied for years, and this report is not meant to provide a comprehensive analysis of why the crisis occurred. But some reasons are clear. Over the two decades preceding the crisis, the financial system had grown rapidly in an environment of economic growth and stability. Risks grew in the system without adequate transparency. Lax regulations and loopholes in supervision let firms become highly leveraged and take on too much risk. Ample credit around the world fueled an unsustainable housing boom in the first half of the last decade. When the housing market inevitably turned down, starting in 2006, the pace of mortgage defaults accelerated at an unprecedented rate. By mid 2007, rising mortgage defaults were undermining the performance of many investments held by major financial institutions.

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

By September 2008, for the first time in 80 years, the U.S. financial system was at risk of collapse. Using authority granted in July 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008. A growing sense of panic was producing the classic signs of a generalized run on the banks. People's trust and confidence in the stability of major institutions, and the capacity of the federal government to contain the damage, were vanishing.

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

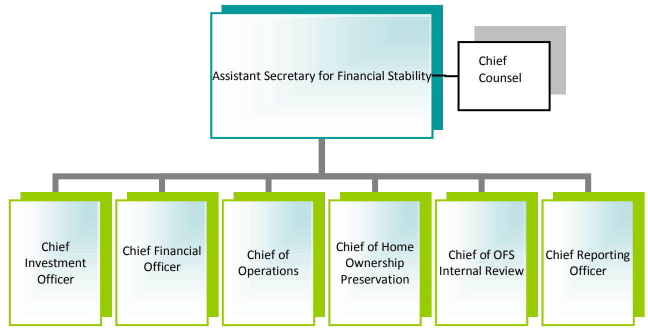
The Department of the Treasury, the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), and other federal government bodies undertook an array of emergency actions to prevent a collapse and the dangers posed to consumers, businesses, and the broader economy. However, the severe conditions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

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

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

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

The OFS organization chart follows:




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

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

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

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

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

The Office of the Chief Reporting Officer is responsible for periodic reports to the Congress as required by EESA.

The Office of the Chief Counsel reports functionally to the Office of General Counsel at the Department of the Treasury and provides legal advice to the Assistant Secretary. The Office is involved in the structuring of OFS programs and activities to ensure compliance with EESA and with other laws and regulations. The Office of the Chief Counsel is also responsible for coordinating OFS' work with the external oversight entities including the Government Accountability Office (GAO), the Special Inspector General for TARP (SIGTARP), the Financial Stability Oversight Board and the Congressional Oversight Panel (COP) through the end of its existence on April 3, 2011.

OFS is not envisioned as a permanent organization, so to the maximum extent possible when economically efficient and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs. Fannie Mae and Freddie Mac accounted for more than half of the fiscal year 2011 administrative cost ($173 million of $315 million) to assist in the administration and compliance oversight, respectively, of the Making Home Affordable Program. Additionally, asset managers were hired to serve as financial agents in assisting with managing the assets associated with several TARP programs. Private sector firms were also engaged to assist with the significant volume of work associated with the TARP in the areas of custodial services, accounting and internal controls, modeling, administrative support, facilities, legal advisory, financial advisory, and information technology.

# Overview of TARP for Fiscal Year 2011

## OFS Operational Goals

EESA provided the Secretary of the Treasury with the authorities and facilities to help restore liquidity and stability to the U.S. financial system. EESA also provided specific authority to take certain actions to prevent avoidable foreclosures.

In light of this statutory direction, OFS established the following operational goals for the TARP and developed a number of programs to help stabilize the U.S. financial system and the housing market:

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

Details on programs developed in support of these Operational Goals can be found later in this Management's Discussion and Analysis under Operational Goals.

## Fiscal Year 2011 Financial Summary and Cumulative Net Income

EESA provided authority for the TARP to purchase or guarantee up to $700 billion in troubled assets.[2] EESA spending authority would have terminated December 30, 2009; however, as authorized under Section 120(b) of EESA, the Secretary of the Treasury certified the extension of TARP authority until October 3, 2010, with the submission of a written certification to Congress.

The Dodd-Frank Act[3] amended EESA by capping total purchase and guarantee authority at a cumulative $475 billion and limiting any new obligations only to programs or initiatives that were initiated prior to June 25, 2010. OFS reduced the TARP program allocations to conform to these limitations.

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

[3] Pub. L. 111-203.

Based on operations for the year ended September 30, 2011, OFS reports the following key results:

- Since its inception, TARP has disbursed $413.4 billion in direct loans, equity investments and for the Treasury Housing Programs Under TARP.
- In fiscal year 2011, OFS disbursed $23.8 billion for loans and equity investments as well as $1.9 billion in payments for Treasury Housing Programs Under TARP, and reported net cost of operations of $9.5 billion.
- During fiscal year 2011, OFS received $72.8 billion from repayments of loans and repurchases and sales of investments.
- As of September 30, 2011, OFS reported $80.8 billion for the value of loans, equity investments, and the asset guarantee program.

## Results of TARP Operations (Fiscal Year 2011 and Fiscal Year 2010)

OFS' fiscal year 2011 net cost of operations of $9.5 billion includes the reported net cost related to loans, equity investments, and other credit programs. For the fiscal year ended September 30, 2011, OFS reported net subsidy income for five programs – the Capital Purchase Program (CPP), the Targeted Investment Program (TIP), the Community Development Capital Initiative (CDCI), the Term Asset-Backed Securities Loan Facility (TALF), and the Public-Private Investment Program (PPIP). These programs collectively reported net subsidy income of $4.1 billion. Also, for the fiscal year ended September 30, 2011, OFS experienced net subsidy cost for four programs – the Asset Guarantee Program (AGP), the American International Group, Inc. Investment Program, the Automotive Industry Financing Program (AIFP), and the Federal Housing Agency Refinance Program totaling $11.3 billion. Fiscal year 2011 expenses for the Treasury Housing Programs Under TARP of $1.9 billion and administrative expenses of $0.3 billion bring the total reported fiscal year net cost of operations to $9.5 billion, as shown in Table 1. For the fiscal year ended September 30, 2010, the net income from operations was $23.1 billion as reflected in Table 1. These net income and net cost amounts reported in the financial statements reflect only transactions through September 30, 2011 and September 30, 2010, respectively, and therefore are different than lifetime cost estimates made for budgetary purposes.

**Table 1: Net Income (Cost) of TARP Operations**
(Dollars in billions)[1]

| TARP Program | For the Year Ended September 30, 2011 | For the Year Ended September 30, 2010 | From TARP's Inception through September 30, 2011[2] |
|---|---|---|---|
| **Bank Support Programs** | | | |
| Capital Purchase Program | $ 1.8 | $ ( 3.9) | $ 13.0 |
| Targeted Investment Program | 0.2 | 1.9 | 4.0 |
| Asset Guarantee Program | --- | 1.5 | 3.7 |
| Community Development Capital Initiative[3] | 0.1 | (0.3) | ( 0.2) |
| **Credit Market Programs** | | | |
| Public-Private Investment Program | 1.8 | 0.7 | 2.5 |
| Term Asset-Backed Securities Loan Facility[3] | 0.1 | --- | 0.4 |
| SBA 7(a) Securities Purchase Program[3] | --- | --- | --- |
| **Other Programs** | | | |
| Automotive Industry Financing Program | (9.7) | 16.6 | (23.6) |

| Table 1: Net Income (Cost) of TARP Operations (Dollars in billions)[1] | | | |
|---|---|---|---|
| TARP Program | For the Year Ended September 30, 2011 | For the Year Ended September 30, 2010 | From TARP's Inception through September 30, 2011[2] |
| American International Group Investment Program | (1.6) | 7.7 | (24.3) |
| FHA-Refinance Program | --- | N/A | --- |
| **Total Net Subsidy Income (Cost)** | **(7.3)** | **24.2** | **(24.5)** |
| **Additional TARP (Costs)** | | | |
| Treasury Housing Programs Under TARP (excluding FHA-Refinance Program) | (1.9) | (0.8) | (2.7) |
| Administrative Costs | (0.3) | (0.3) | (0.8) |
| **Total Net Income (Cost) of TARP Operations** | **$ (9.5)** | **$ 23.1** | **$ (28.0)** |

[1] Information presented in Table 1 is presented in billions of dollars to ensure consistency with other tables in this Management's Discussion and Analysis; similar information is presented in the financial statements in millions of dollars.
[2] The Inception through September 30, 2011 column includes dollar amounts related to the $41.6 billion net cost of operations for the period from inception through September 30, 2009.
[3] The Term Asset-Backed Securities Loan Facility, the Community Development Capital Initiative, and the SBA 7(a) Securities Purchase Program are reported for financial statement purposes under the Consumer and Business Lending Initiative.

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

## TARP Program Summary

Table 2 provides a financial summary for TARP programs since TARP inception on October 3, 2008, through September 30, 2011. For each program, the table provides utilized TARP authority (which includes purchases made, legal commitments to make future purchases, and offsets for guarantees made), the amount actually disbursed, repayments to OFS from program participants or from sales of the investments, write-offs and losses, net outstanding balance as of September 30, 2011, and cash inflows on the investments in the form of dividends, interest or other fees. As of fiscal year end 2011, $57 billion of the $470 billion in purchase and guarantee authority remained unused.[4]

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

**Table 2: TARP Summary[1]**
**From TARP Inception through September 30, 2011**
**(Dollars in billions)**

| | Purchase Price or Guarantee Amounts | Total $ Disbursed | Investment Repay-ments | Write-offs and Losses[2] | Out-standing Balance[3] | Received from Invest-ments |
|---|---|---|---|---|---|---|
| **Bank Support Programs** | | | | | | |
| Capital Purchase Program[4] | $ 204.9 | $ 204.9 | $ (185.0)[5] | $ (2.6) | $ 17.3 | $ 25.7 |
| Targeted Investment Program | 40.0 | 40.0 | (40.0) | - | - | 4.4 |
| Asset Guarantee Program | 5.0 | - | - | - | - | 3.0 |
| Community Development Capital Initiative[6] | 0.6 | 0.6 | - | - | 0.6 | - |
| **Credit Market Programs** | | | | | | |
| Public Private Investment Program | 21.9 | 17.6 | (1.7) | - | 15.9 | 0.7 |
| Term Asset-Backed Securities Loan Facility[6] | 4.3 | 0.1 | - | - | 0.1 | - |
| SBA 7(a) Securities Purchase Program[6] | 0.3 | 0.3 | (0.2) | - | 0.1 | - |
| **Other Programs** | | | | | | |
| Automotive Industry Financing Program | 79.7 | 79.7 | (35.0) | (7.4) | 37.3 | 5.0 |
| American International Group Investment Program | 67.8 | 67.8 | (15.0) | (1.9) | 51.1 | 0.4 |
| **Sub-total for Investment Programs** | 424.5 | 411.0 | (276.9) | (11.9) | 122.4 | 39.2 |
| Treasury Housing Programs Under TARP | 45.6[7] | 2.4 | N/A | N/A | N/A | N/A |
| **Total for TARP Program** | **$ 470.1** | **$ 413.4** | **$ (276.9)** | **$ (11.9)** | **$ 122.4** | **$ 39.2** |

[1] This table shows the TARP activity for the period from inception through September 30, 2011, on a cash basis. Received from investments includes dividends and interest income reported in the Statement of Net Cost, and Proceeds from sale and repurchases of assets in excess of costs.
[2] Losses represent proceeds less than cost on sales of assets which are reflected in the financial statements within "net proceeds from sales and repurchases of assets in excess of (less than) cost".
[3] Total disbursements less repayments, writeoffs and losses do not equal the total outstanding balance primarily because the disbursements for the Treasury Housing Programs Under TARP generally do not require (and OFS does not expect) repayments, and because of certain capitalized income relating to the AIG Investment Program.
[4] OFS received $31.9 billion in proceeds from sales of Citigroup common stock, of which $25 billion is included at cost in investment repayments, and $6.9 billion of net proceeds in excess of cost is included in Received from Investments.
[5] Includes $2.2 billion of SBLF refinancing outside of TARP and CDCI exchanges from CPP of $363 million.
[6] The Term Asset-Backed Securities Loan Facility, the Community Development Capital Initiative, and the SBA 7(a) Securities Purchase Program are reported for financial statement purposes under the Consumer and Business Lending Initiative.
[7] Individual obligation amounts are $29.9 billion for the Making Home Affordable Program, $7.6 billion for the Hardest Hit Fund, and $8.1 billion committed for the FHA-Refinance Program.

Most of the TARP funds have been used to make investments in preferred stock or to make loans. OFS has generally received dividends on the preferred stock and interest payments on the loans from the institutions participating in TARP programs. These payments represent a return on OFS' TARP investments. From inception through September 30, 2011, OFS received a total of $20.4 billion in dividends, interest and fees. Table 3 shows the breakdown of receipts for the periods ended September 30, 2011 and 2010 for all TARP programs combined as well as totals for the period from inception through September 30, 2011.

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

| | For the Year Ended September 30, 2011 | For the Year Ended September 30, 2010 | From TARP's inception through September 30, 2011[2] |
|---|---|---|---|
| **Dividends, Interest, Fees and Warrant Repurchases** | | | |
| Dividends and Fees | $ 2.8 | $ 5.9 | $ 18.3 |
| Interest | 0.9 | 1.0 | 2.1 |
| Sales/Repurchases of Warrants and Warrant Preferred Stock and Additional Notes | 1.5 | 5.2 | 9.6 |
| Proceeds from Sales of Citigroup Common Stock in Excess of Cost | 3.9 | 3.0 | 6.9 |
| Other Proceeds in Excess of Cost | 2.3 | --- | 2.3 |
| **Subtotal** | **11.4** | **15.1** | **39.2** |
| | | | |
| **Investment/Loan Repayments** | | | |
| Sales/Repurchases/Repayments on Investments[3] | 66.5 | 122.0 | 259.2 |
| Loan Principal Repaid | 6.3 | 9.3 | 17.7 |
| **Subtotal** | **72.8** | **131.3** | **276.9** |
| **GRAND TOTAL** | **$ 84.2** | **$ 146.4** | **$ 316.1** |

[1] This table shows TARP activity on a cash basis.
[2] The total reported for the Inception through September 30, 2011 column includes the $85.5 billion in receipts and repayments related to the period from inception through September 30, 2009.
[3] Includes $2.2 billion of SBLF refinancing outside of TARP and CDCI exchanges from CPP of $363 million.

OFS also received warrants in connection with most of its investments, which provides an opportunity for taxpayers to realize an upside on investments. Since the program's inception, OFS has received $9.1 billion in gross proceeds from the disposition of warrants associated with 93 CPP investments and both TIP investments, consisting of (i) $3.7 billion from issuer repurchases at agreed upon values and (ii) $5.4 billion from auctions. TARP's Warrant Disposition Report is posted on the OFS website at the following link: http://www.financialstability.gov/latest/reportsanddocs.html.

## Summary of TARP Direct Loans and Equity Investments

Table 4 provides information on the estimated values of the TARP direct loan and equity investments by program, as of the end of fiscal years 2011 and 2010. (Treasury Housing Programs Under TARP are excluded from the chart because no repayments are required). The Outstanding Balance column represents the amounts disbursed by OFS relating to the loans and equity investments that were outstanding as of September 30, 2011 and 2010. The Estimated Value of the Investment column represents the present value of net cash inflows that OFS estimates it will receive from the loans and equity investments. For equity securities, this amount represents fair value. The total difference of $42.3 billion (2011) and $36.8 billion (2010) between the two columns is considered the "subsidy cost allowance" under the Federal Credit Reform Act methods OFS follows for budget and accounting purposes (see Note 6 in the financial statements for further discussion).[5]

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

| Program | Outstanding Balance as of September 30, 2011 [1] | Estimated Value of Investment as of September 30, 2011 | Outstanding Balance as of September 30, 2010 [1] | Estimated Value of Investment as of September 30, 2010 |
|---|---|---|---|---|
| **Bank Support Programs** | | | | |
| Capital Purchase Program | $ 17.3 | $ 12.4 | $ 49.8 | $ 48.2 |
| Community Development Capital Initiative[2] | 0.6 | 0.4 | 0.6 | 0.4 |
| **Credit Market Programs** | | | | |
| Public-Private Investment Program | 15.9 | 18.4 | 13.7 | 14.4 |
| Term Asset-Backed Securities Loan Facility[2] | 0.1 | 0.6 | 0.1 | 0.4 |
| SBA 7(a) Securities Purchase Program[2] | 0.1 | 0.1 | 0.2 | 0.2 |
| **Other Programs** | | | | |
| Automotive Industry Financing Program | 37.3 | 17.8 | 67.2 | 52.7 |
| American International Group Investment Program | 51.1 | 30.4 | 47.6 | 26.1 |
| **Total** | **$ 122.4** | **$ 80.1** | **$ 179.2** | **$ 142.4** |

[1] Before subsidy cost allowance.
[2] The Term Asset-Backed Securities Loan Facility, the Community Development Capital Initiative, and the SBA 7(a) Securities Purchase Program are reported for financial statement purposes under the Consumer and Business Lending Initiative.

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

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

## Comparison of Estimated Lifetime TARP Costs Over Time

Market conditions and the performance of specific financial institutions will be critical determinants of the TARP's lifetime cost. The changes in the OFS estimates since TARP's inception through September 30, 2011, provide a good illustration of this impact. Table 5 provides information on how OFS' estimated lifetime cost of TARP has changed over time. These costs fluctuate in large part due to changes in the market prices of common stock for AIG and GM and the estimated value of the Ally stock. This table assumes that all expected investments (e.g. PPIP) and disbursements for Treasury Housing Programs Under TARP are completed, and adhere to government budgeting guidance. This table will not tie to the financial statements since it includes investments and other disbursements expected to be made in the future. Table 5 is consistent with the estimated lifetime cost disclosures on the TARP web site at: www.financialstability.gov. The cost amounts in Table 5 are based on assumptions regarding future events, which are inherently uncertain.

**Table 5: Estimated Lifetime TARP Costs (Income)[1]**
**(Dollars in billions)**

| Program | Estimated Lifetime Cost (Income) on March 31, 2010 | Estimated Lifetime Cost (Income) on September 30, 2010 | Estimated Lifetime Cost (Income) on March 31, 2011 | Estimated Lifetime Cost (Income) on September 30, 2011 |
|---|---|---|---|---|
| Bank Support Programs | | | | |
| Capital Purchase Program | $ ( 9.8) | $ (11.2) | $ (13.6) | $ (13.0) |
| Targeted Investment Program | ( 3.8) | ( 3.8) | ( 4.0) | ( 4.0) |
| Asset Guarantee Program[2] | ( 3.1) | ( 3.7) | ( 3.8) | ( 3.7) |
| Community Development Capital Initiative[3] | 0.4 | 0.3 | 0.2 | 0.2 |
| Credit Market Programs | | | | |
| Public Private Investment Program | 0.5 | ( 0.7) | 0.4 | ( 2.4) |
| | | | | |
| Term Asset-Backed Securities Loan Facility[3] | ( 0.4) | ( 0.4) | ( 0.3) | ( 0.4) |
| SBA 7(a) Securities Purchase Program[3] | 0.0 | 0.0 | 0.0 | ( 0.0) |
| Other Consumer Business Lending Initiative | 3.0 | N/A | N/A | N/A |
| Other Programs | | | | |
| Automotive Industry Financing Program | 24.6 | 14.7 | 13.9 | 23.6 |
| American International Group Investment Program | 45.2 | 36.9 | 10.9 | 24.3 |
| Subtotal | 56.6 | 32.1 | 3.7 | 24.5 |
| Treasury Housing Programs Under TARP[4] | 48.8 | 45.6 | 45.6 | 45.6 |
| **Total** | **$ 105.4** | **$ 77.7** | **$ 49.3** | **$ 70.2** |

[1] Estimated program costs (+) or savings (in parentheses) over the life of the program, including interest on re-estimates and excluding administrative costs.
[2] Prior to the termination of the guarantee agreement, Treasury guaranteed up to $5 billion of potential losses on a $301 billion portfolio of loans.
[3] The Term Asset-Backed Securities Loan Facility, the Community Development Capital Initiative and the SBA 7(a) Securities Purchase Program are reported for financial statement purposes under the Consumer and Business Lending Initiative.
[4] For fiscal year 2011, includes FHA-Refinance Program which is accounted for under credit reform.

# Key Trends/Factors Affecting TARP Future Activities and Ultimate Cost

This section provides additional TARP analytic information and enhanced sensitivity analysis focusing on the remaining TARP dollars/continued taxpayer exposure and what is likely to affect the expected future return. Four TARP programs --CPP, PPIP, AIFP, and the AIG Investment Program -- have $10 billion or more still outstanding and remain at risk of taxpayer loss. In addition, Treasury's Housing Programs Under TARP have about $43 billion committed but not yet disbursed. Going forward, the recoveries or costs from CPP, PPIP, AIFP, and AIG Investment Program and the expenditures for Treasury Housing Programs Under TARP will most significantly affect the lifetime cost of the TARP.

## CPP and Banking Industry Information

OFS had CPP investments remaining in 401 financial institutions with a gross outstanding balance of $17.3 billion as of September 30, 2011. As noted earlier in this report, the largest financial institutions in the CPP have repaid their investments to OFS.

Table 6 below shows the outstanding investment face amount for the 10 largest remaining CPP investments held as of September 30, 2011.

**Table 6: 10 Largest Remaining CPP Investments**
(Dollars in billions)

| Institution | Outstanding Investment |
|---|---|
| Regions Financial Corporation | $ 3.500 |
| Zions Bancorporation | 1.400 |
| Synovus Financial Corp. | 0.968 |
| Popular, Inc. | 0.935 |
| First Bancorp. | 0.424 |
| M&T Bank Corporation | 0.382 |
| Sterling Financial Corporation | 0.303 |
| Citizens Republic Bancorp, Inc. | 0.300 |
| First Banks, Inc. | 0.295 |
| New York Private Bank & Trust Corporation | 0.267 |
| **Total** | **$ 8.774** |

OFS' actual recoveries on the outstanding CPP investments will depend on a number of factors, including the asset quality, loss reserve ratios and capital positions of financial institutions participating in CPP.

Throughout the life of the program, 181 CPP recipients have not declared and paid one or more dividends to OFS. Of these recipients, 74 have missed at least six payments, which gives OFS the right to place members on the institutions' boards of directors. During fiscal year 2011, OFS exercised its rights to elect 10 members in total to boards of directors for 6 CPP institutions. Board members elected by OFS cannot be government employees and all have the same fiduciary duties and obligations to the shareholders of the financial institutions as any other board members. Additional information on the appointment of directors to CPP institutions is available at: http://www.treasury.gov/initiatives/financial-stability/programs/investment-programs.

Since the initiation of the CPP, 13 institutions in which OFS had invested $2.9 billion have entered bankruptcy or been placed in receivership by their regulators. This includes eight CPP recipients ($190.3 million in funding) during fiscal year 2011; and five CPP recipients ($2.7 billion in funding) during fiscal year 2010. During fiscal year 2010 OFS wrote-off $2.3 billion relating to CIT Group and another small institution, and made no CPP investment write-offs in fiscal year 2011. As OFS does not anticipate any recovery from the other 11 investments outstanding relating to institutions that entered bankruptcy or receivership, the value of these investments is reflected at zero as of September 30, 2011.

## Public-Private Investment Program

As of September 30, 2011, OFS had gross outstanding equity investments in and loans to Public Private Investment Funds (PPIFs) amounting to $5.5 billion and $10.4 billion, respectively, for a total of $15.9 billion. In addition, as of September 30, 2011, OFS had legal commitments to disburse up to $4.3 billion in additional funds to the PPIFs. The estimated value of OFS's investments and loans in the PPIFs as of September 30, 2011, was approximately $18.4 billion. PPIFs have the ability to invest in eligible assets over a three-year investment period. They then have up to five additional years, which may be extended for up to two more years, to manage these investments and return the profits to OFS and the other PPIF investors. In addition, OFS also received warrants from the PPIFs, which gives OFS the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The PPIFs are now more than halfway through their three-year investment periods, which end in the fourth quarter of fiscal year 2012.

## Automotive Industry Financing Program

As of September 30, 2011, OFS held $37.3 billion in AIFP investments, with an estimated value of $17.8 billion. As of September 30, 2011, OFS has received more than $40 billion from repayments, sales, dividends, interest, and other income. The competitiveness of U.S. manufacturers, both domestically and internationally will affect the value of OFS' investment. In addition, the macroeconomic conditions (unemployment, Gross Domestic Product growth, etc.) will affect the overall trends in auto sales and thus OFS' recoveries.

The outlook for the American auto industry has improved significantly, thanks in part to the emergency assistance provided by the federal government. Detroit's Big Three have all reported profits and gains in market share for the first time since 1995.

General Motors Company (New GM), reported second quarter net income of $2.5 billion, its sixth consecutive profitable quarter. Since emerging from bankruptcy, the company has added shifts at six of its plants to address growing demand. New Chrysler has also significantly rebounded after its bankruptcy filing. The company has lowered its structural costs, become more efficient, adopted new technologies, rejuvenated its product line, and rebuilt its brand value.

## AIG Investment Program

Following the government's emergency assistance to AIG, the company is now experiencing a turnaround. AIG has completed a successful restructuring, stabilized its operations, and as a result, OFS is in a considerably stronger position to exit OFS' investment in AIG than was thought possible during the height of the 2008 financial crisis.

As of September 30, 2011, OFS held $51.1 billion in the AIG Investment Program, with an estimated value of $30.4 billion. As of September 30, 2011, OFS had received $15.4 billion from repayments and sales, dividends and other income. OFS' investment in AIG was originally made in the form of preferred stock, all of which was converted to common stock or preferred interests in AIG Special Purpose Vehicles in the restructuring that took place in January 2011.

## Treasury Housing Programs Under TARP

OFS has committed $45.6 billion to fund Treasury Housing Programs Under TARP. From inception through September 30, 2011, $2.4 billion has been disbursed under these programs. Based only on the permanent modifications in place as of September 30, 2011, OFS estimates that $7.6 billion in incentive fees will ultimately be disbursed in association with all Making Home Affordable (MHA) modifications made as of September 30, 2011, if all active modifications were to remain current and receive incentives for 5 years. The program is continuing to enter into new modifications. Separately, $7.6 billion has been allocated for the Hardest Hit Fund and $8.1 billion for the FHA Refinance Program.

## Sensitivity Analysis

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

Sensitivity analysis is one way to get some feel for the degree of uncertainty around the OFS estimates. In the analysis reported here, OFS focuses on the largest components of the TARP, the assets held under CPP, PPIP, AIFP and the AIG Investment Program.

### *CPP Analysis*

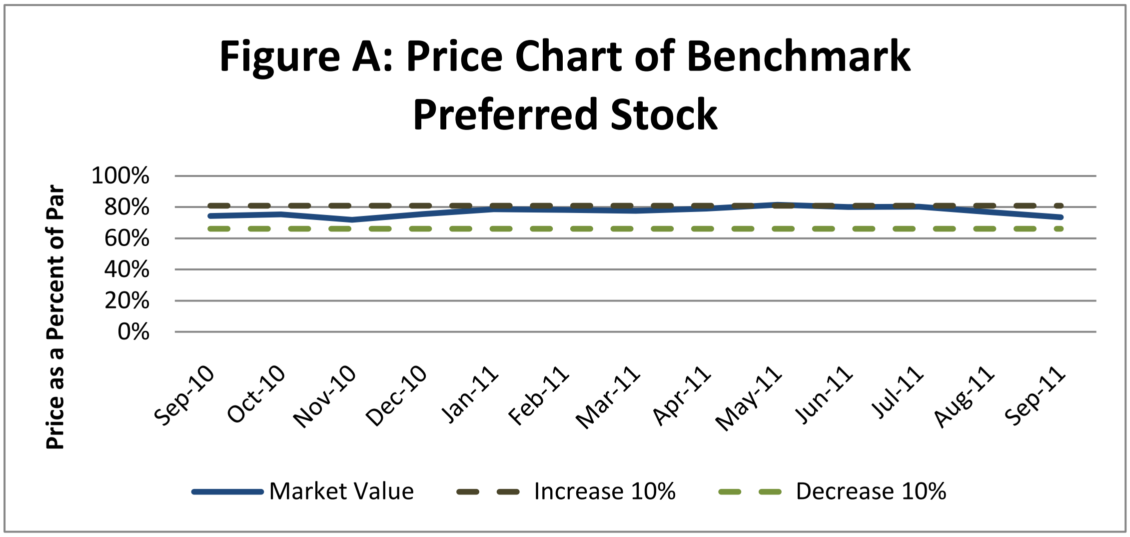
For CPP, the most important inputs to the valuation are the market prices of publicly-traded preferred stock used to calibrate the model-derived pricing of the preferred stock held in the TARP. The valuation procedure entails observing the market price of publicly-traded preferred stock and calibrating the model (in particular the risk premium) to match those prices. The calibrated model is then used to price the non-publicly traded preferred stock held by the TARP. The benchmark preferred stock consists of a portfolio of claims issued by some of the same institutions with TARP preferred stock investments. It is generally the larger institutions that have issued preferred stock. The TARP preferred stock for smaller institutions may not be exactly comparable, but the bulk of TARP investments, as measured on a dollar basis, are in the larger institutions. This calibration influences the asset-to-liability ratio of the banks and consequently the default and prepayment estimates predicted by the model.[6] As a sensitivity analysis, OFS increased and decreased the value of the benchmark preferred stock in the CPP by 10 percent. Table 7 shows the impact on the value of OFS' outstanding investment in CPP as a result of a 10 percent increase and a 10 percent decrease in the value of the calibration securities.

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

| | September 30, 2011 Reported Value for CPP | Effect of 10% Increase | Effect of 10% Decrease |
|---|---|---|---|
| CPP | $12.44 | $12.99 | $11.19 |
| % change from current | N/A | 4.4% | (10.1)% |

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

To put this sensitivity analysis in perspective, it is useful to consider the range over which actual securities have moved over the past year. Figure A shows the monthly average price of the benchmark preferred as a percentage of par. (The CPP value as of September 30, 2011, represents approximately 74.6 percent of par, excluding the warrants held by OFS). The dashed lines indicate the upper and lower bound price used for the sensitivity analysis.




### *PPIP Analysis*

To estimate the value of OFS' outstanding investments under the PPIP, OFS first estimates the cash flows of the portfolio held by the various funds. OFS uses a stochastic process to generate 300 potential cash flow outcomes, based on the characteristics of the loans underlying the securities and their behavior under simulated macro economic variables, such as unemployment, mortgage interest rates, short-term rates and home price appreciation. The cash flows are then applied to the waterfall established for the funds to estimate the cash flows to OFS. The aggregate of these cash flows (each scenario is equally weighted) is discounted to estimate the value of the program. Table 8 shows the change in the value of the OFS' outstanding PPIP investment using the scenario which produces the minimum amount of cash flows to OFS and the maximum amount of cash flows to OFS.

| Table 8: Impact on PPIP Valuation (Dollars in Billions) | | | |
|---|---|---|---|
| | September 30, 2011 Reported Value for PPIP | Maximum Cash Flows | Minimum Cash Flows |
| PPIP | $ 18.38 | $19.59 | $18.28 |
| % change from current | N/A | 4.6% | (2.4)% |

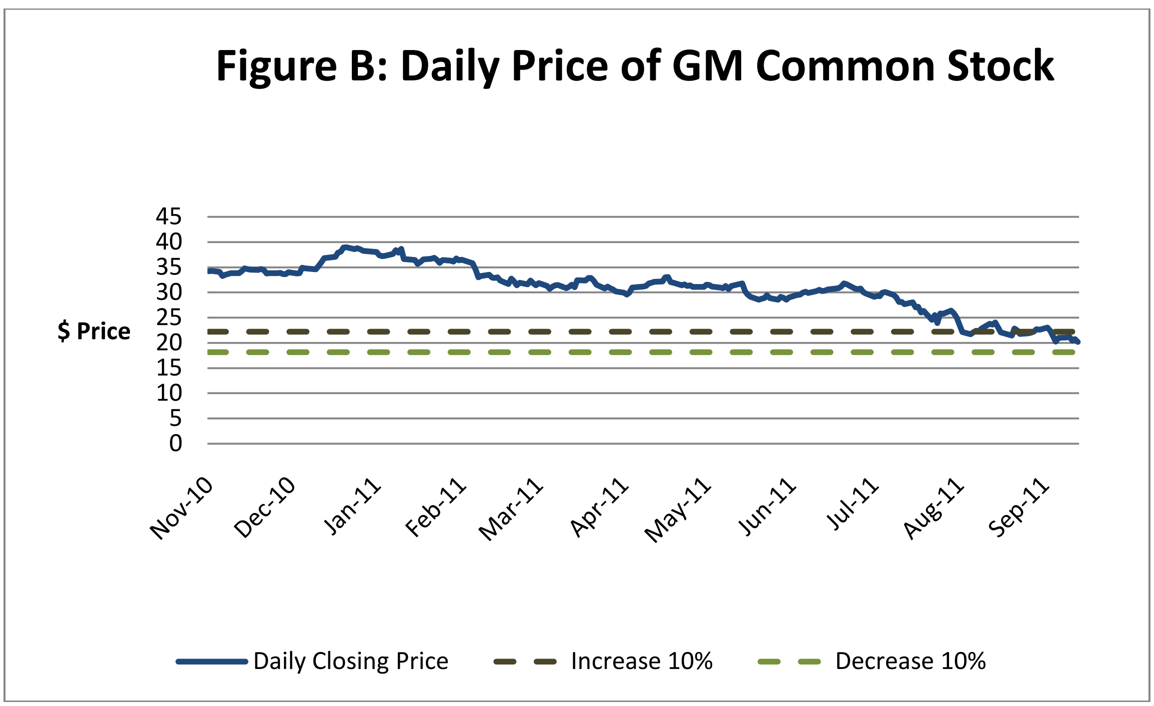
### *AIFP Analysis*

The most important inputs to the valuation of OFS' outstanding investments under the AIFP are the market price of New GM common stock and the change in the estimated value of Ally Financial common stock, which is driven by certain pricing metrics of comparable public financial institutions. Table 9 shows the change in estimated value of OFS outstanding AIFP investments based on a 10 percent increase and 10 percent decrease in the trading price of the New GM common stock and separately a 10 percent increase and 10 percent decrease in the estimated value of the Ally Financial common stock. Figure B shows that the New GM securities have recently been trading within the range used in the analysis as well as outside of this range, illustrating the uncertainty around the cost estimates.

**Table 9: Impact on AIFP Valuation (Dollars in Billions)**

| | September 30, 2011 Reported Value for AIFP | Effect of 10% Increase | Effect of 10% Decrease |
|---|---|---|---|
| Impact of GM on AIFP | $17.84 | $18.85 | $16.83 |
| % change from current | N/A | 5.7% | (5.7)% |
| Impact of Ally (formerly GMAC) on AIFP | $17.84 | $18.61 | $17.06 |
| % change from current | N/A | 4.3% | (4.3)% |

Figure B shows the daily closing price of the New GM common stock since the initial public offering in November 2010. The closing price for September 30, 2011 was $20.18. The dashed lines represent the high and low price used in the sensitivity analysis.



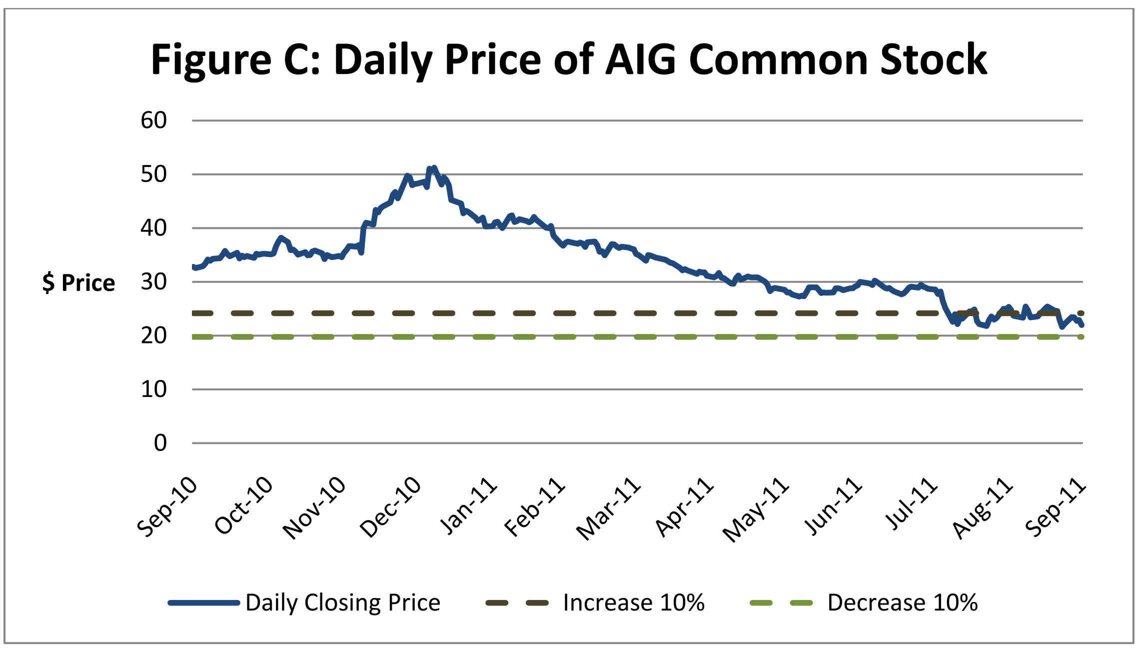
### *AIG Investment Program Analysis*

The most important input to the valuation of OFS' outstanding investments under the AIG Investment Program is the market price of AIG common stock. As a sensitivity analysis, OFS increased and decreased the value of the AIG common stock by 10 percent. Table 10 shows the impact on the value of OFS' outstanding investment in AIG as a result of a 10 percent increase and a 10 percent decrease in the value of the AIG common stock.

**Table 10: Impact on AIG Investment Program Valuation (Dollars in Billions)**

| | September 30, 2011 Reported Value for AIG Investment | Effect of 10% Increase | Effect of 10% Decrease |
|---|---|---|---|
| AIG Investment Program | $30.37 | $32.48 | $28.26 |
| % change from current | N/A | 6.9% | (6.9)% |

Figure C shows the daily closing price of the AIG common stock (closing price on September 30, 2011, was $21.95 per share) with the dashed lines representing the prices used in the sensitivity analysis. Figure C shows that the securities have been trading within the range used in the analysis as well as outside of this range. This helps to illustrate the uncertainty around the cost estimates.



# Systems, Controls, and Legal Compliance

## MANAGEMENT ASSURANCE STATEMENT

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

As a result of our reviews, management concludes that the management control objectives described below, taken as a whole, were achieved as of September 30, 2011. Specifically, this assurance is provided relative to Sections 2 (internal controls) and 4 (systems controls) of FMFIA. OFS further assures that the financial management systems relied upon by OFS are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA).

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

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

In addition, OFS management conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting. Based on the results of this evaluation, OFS provides unqualified assurance that internal control over financial reporting is appropriately designed and operating effectively as of September 30, 2011, with no related material weaknesses noted.

Sincerely,

Tim Massad

Timothy G. Massad
Assistant Secretary for Financial Stability

## Internal Control Program

OFS management remains committed to maintaining effective internal controls in safeguarding taxpayer dollars while providing financial stability through the TARP. OFS continues to have a high performing internal control program in compliance with the Federal Managers' Financial Integrity Act (FMFIA). OFS' Internal Control Program Office (ICPO) works closely with program managers and support personnel to maintain robust internal controls across business functions. ICPO also coordinates with OFS' Office of Financial Agents (OFA) to ensure that third party service providers whose work has a potential financial reporting impact on OFS have well designed and effective internal control environments supporting TARP. During fiscal year 2011, OFS made significant progress in continuing to mature its internal control environment as demonstrated below:

- Business processes supporting existing programs, including internal control activities, matured through the use of increasingly well-defined roles and responsibilities and policies and procedures. OFS management regularly monitors activities to confirm that control procedures are performed consistently and as designed.

- OFS made significant progress in addressing findings and areas for improvement in the internal control environment identified through OFS' self assessment processes (e.g., OMB Circular A-123 internal controls over financial reporting assessment, annual assurance statement process) and through work performed by the oversight bodies (i.e., GAO, SIGTARP, and COP).

- OFS made investments in information technology (IT) in fiscal year 2011 to drive efficiencies through the increased automation of the operational and accounting environment.

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

ICPO operates under the direction of the CFO and is guided by the SAT. ICPO monitors the implementation of the internal control framework and is responsible for assessing the achievement of management control objectives by:

- Integrating management controls into OFS business processes through:
    - Maintaining internal control documentation,
    - Reviewing internal control responsibilities with business owners before major program execution events, and
    - Real-time monitoring of control effectiveness during and after significant program execution events;

- Conducting "lessons learned" sessions to identify and remediate areas requiring improvement;

- Performing periodic sample-based testing of key controls across mature business processes; and,

- Monitoring feedback from oversight bodies.

In addition, the internal control environment supporting TARP undergoes continuous improvement to remain effective and is subject to significant third party oversight by the GAO and the SIGTARP.

The Assistant Secretary for Financial Stability reports annually to the Under Secretary for Domestic Finance on the adequacy of the various internal controls throughout the OFS, to include financial management systems compliance. This assurance statement covers OFS' compliance with the FMFIA, the Federal Financial Management Improvement Act (FFMIA), and OMB Circular A-123 Management's Responsibility for Internal Control. In order to support the Assistant Secretary's letter of assurance, the respective OFS functional areas prepare individual statements of assurance. These individual statements of assurance provide evidence supporting the achievement of OFS' internal control objectives and disclose any noted internal control weaknesses.

## Information Technology Systems

In fiscal year 2011, OFS continued to utilize and improve the Core Investment Transaction Flow (CITF), TARP's system of record and accounting translation engine. OFS added standardized management reports to CITF to improve its usefulness to management decision-making and added functionality to capture intradepartmental activity to facilitate year-end financial reporting activity.

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

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

### Compliance with the Improper Payments Elimination and Recovery Act (IPERA)

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

OFS carried out its fiscal year 2011 IPERA review per Treasury-wide guidance and did not assess any programs or activities as susceptible to significant erroneous payments. OFS did not identify any payments to incorrect payees or ineligible recipients. However, management did identify a small number of Making Home Affordable (MHA) investor cost share payments that were made in error due to unclear guidelines related to escrow payments and data integrity issues from servicers related to income. The overall impact of these improper payments was immaterial, and OFS management is actively implementing corrective actions at the servicer level to remedy this issue.

In coordination with OFS, Freddie Mac, one of Treasury's financial agents, first performed a comprehensive analysis of potential Monthly Investor Cost Share incentive overpayments and underpayments in August and September 2010. Subsequent to that analysis, Freddie Mac provided servicers with additional guidance for correctly calculating borrower income and capturing the correct escrow data. As a result, the error rates have dropped significantly in fiscal year 2011. OFS and Freddie Mac expect this error rate to continue to decrease as servicers address additional issues. OFS will continue to monitor this issue closely.

## Areas for Improvement

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

- As programs continue to mature and continue winding down, there is a continued need for OFS to maintain policies and procedures, which includes updating or retiring documents as appropriate.

- OFS relies on financial agents to provide many of the business processes and controls supporting its programs. The Treasury Housing programs, in particular, have grown in scale and complexity over the last year. OFS continues to assess the adequacy of internal controls provided by third parties as they mature their program capabilities. However, OFS will need to heighten its oversight practices to monitor controls as these programs further mature.

- The large number and complexity of TARP programs and related transactions pose challenges in the maintenance of the supporting internal control documentation and policies and procedures. OFS needs to enhance its ability to monitor and ensure consistency across critical documents detailing the controls in place to mitigate the risks identified.

- Over the past year, OFS developed information technology capabilities to increase efficiency and automate manual processes. Continuing this automation will enhance OFS' ability to reduce risks associated with human error. In addition, OFS management will continue to strengthen IT-related controls towards a more mature IT environment supporting core business processes.

## Limitations of the Financial Statements

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

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

# Operational Goals

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

The following discussion of OFS goals and the TARP programs focuses largely on the significant events that occurred during fiscal year 2011. A more comprehensive discussion of each program, including its development and prior years' performance can be found in the TARP Two-Year Retrospective and The TARP Three Year Anniversary Report, which are available at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

The first and most significant goal of TARP is to restore stability to the financial system. Despite recent volatility in the stock market and shocks in the global economy, the U.S. financial system today is more stable than it was during the midst of the 2008 crisis.

Financial markets and the economy continue to recover. Credit remains available for consumers and businesses. Financial institutions hold more capital relative to risk than they did before the crisis hit. Most of the government's emergency responses to the crisis are being wound down and 76 percent of TARP investments have been recovered through repayments, sales, dividends, interest and other income.

### Bank Support Programs (CPP, TIP, AGP, CDCI)

### Capital Purchase Program

OFS launched the Capital Purchase Program (CPP), the largest and most significant program under EESA, on October 14, 2008. Through the CPP, OFS provided capital infusions directly to banks and thrifts deemed viable by their regulators to bolster the capital position of institutions of all sizes and, in doing so, to build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending and continue to provide other services to consumers and businesses, even while absorbing write-downs and charge-offs on loans that were not performing.

CPP investments were made available to qualifying financial institutions (QFIs) of all sizes and types across the country, including banks, savings and loan associations, bank holding companies and savings and loan holding companies. QFIs interested in participating in the program had to submit an application to their primary federal banking regulator.

In the period following announcement of the CPP, OFS provided $205 billion in capital to 707 institutions in 48 states, including more than 450 small and community banks and 22 certified community development financial institutions (CDFIs) (see Table 11 below). The largest investment was $25 billion and the smallest was $301,000. As Table 11 illustrates, smaller financial institutions make up the vast majority of participants in the CPP. Of the 707 applications approved and funded by OFS through the CPP by the time it closed to new institutions on December 31, 2009, 473 or 67 percent were institutions with less than $1 billion in assets.

Table 11:CPP Initial Investment Profile
(Dollars in billions)

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

OFS received preferred stock or debt securities in exchange for these investments. Most financial institutions participating in the CPP pay OFS a dividend rate of five percent per year, which will increase to nine percent a year after the first five years. From inception of the program through September 30, 2011, OFS has received approximately $185 billion in CPP repayments, along with approximately $11.2 billion in CPP dividends and interest and $6.9 billion in net proceeds received from the sale of Citigroup common stock in excess of cost.

As part of a June 2009 Exchange Agreement between OFS and Citigroup, OFS exchanged the $25 billion in preferred stock it received in connection with Citigroup's participation in CPP for approximately 7.7 billion shares of common stock at a price of $3.25 per share. In December 2010, OFS completed the sale of all remaining 2.4 million shares of common stock in Citigroup. Proceeds were $10.5 billion, at a price per share of $4.35. OFS had previously sold 5.3 billion shares at an average price of $4.04 under four trading plans during the period April to December, 2010. The average selling price for all 7.7 billion shares was $4.14 per share compared to a cost of $3.25 per share. In January 2011, OFS completed a public auction of warrants to purchase Citigroup common stock. Proceeds from the warrants associated with the CPP, at an exercise price of $17.85, totaled $54.6 million.[7]

OFS also received warrants to purchase common shares or other securities from the financial institutions at the time of the CPP investment. The purpose of the additional securities is to provide opportunities for taxpayers to reap additional returns on the investments made by OFS as CPP participants recover. From inception of the program through September 30, 2011, OFS has received nearly $7.6 billion in proceeds from the sale/repurchase of CPP warrants.

The CPP has already generated a positive return to taxpayers; however, the ultimate return will depend on several factors, including market conditions and performance of individual companies.

For additional information, please see the CPP Quarterly Report and the Annual Use of Capital Survey which can be found at:

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

### *Refinancing Through the Small Business Lending Fund*

As of September 30, 2011, 137 CPP institutions have refinanced their CPP investments using the SBLF totaling more than $2 billion. The refinancing of CPP institutions into the SBLF decreased projected costs to OFS by fully repaying the total OFS investment in 137 institutions. These refinancing transactions moved the risk associated with these institutions' repayments from OFS to SBLF. Enacted into law as part of the Small Business Jobs Act of 2010, the SBLF was established as a $30 billion fund administered by Treasury that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. SBLF is not a TARP program and does not use TARP funds.

## Targeted Investment Program

OFS established the Targeted Investment Program (TIP) in December 2008. Through TIP, OFS sought to prevent a loss of confidence in critical financial institutions, which could result in significant financial market disruptions, threaten the financial strength of similarly situated financial institutions, impair broader financial markets, and undermine the overall economy. TIP was considered "exceptional assistance" for purposes of executive compensation requirements.

OFS invested $20 billion in preferred stock in each of two institutions --Bank of America (BofA) and Citigroup -- under TIP, in addition to

[7] As of September 30, 2011, OFS had exited from all TARP investments (including CPP, TIP and AGP) in Citigroup with proceeds greater than cost in the amount of $12.3 billion on the $45 billion invested in the institution. In addition to CPP proceeds reported above, proceeds from the warrants associated with TIP and AGP, with an exercise price of $10.61, totaled $257.6 million.

those funds that these financial institutions received under the CPP. In December 2009, both participating institutions repaid their TIP investments in full, with dividends. Total dividends received from Targeted Investment Program investments were about $3 billion during the life of the program. OFS also received warrants from each bank which provided the taxpayer with additional gain on the investments when OFS sold the BofA warrant in fiscal year 2010 for $1.2 billion and the Citigroup warrant in fiscal year 2011 for $190.4 million. TIP is closed and resulted in a positive return for taxpayers.

## Asset Guarantee Program

Under the AGP, OFS acted to support the value of certain assets held by qualifying financial institutions, by agreeing to absorb a portion of the losses on those assets. The program was conducted jointly by Treasury, the Federal Reserve Bank of New York and the FDIC. Like TIP, it was designed for financial institutions whose failure could harm the financial system and reduce the potential for "spillover" to the broader financial system and economy. The AGP was used to assist BofA and Citigroup in conjunction with the TIP investments in those institutions. The arrangement with BofA was terminated before it was formally finalized, with BofA paying OFS a termination fee. Under the terms of the guarantee agreement with Citigroup, OFS, the FDIC, and the FRBNY received a premium for the guarantee of $7 billion in Citigroup preferred stock and warrants. Additional information on the two institutions under AGP can be found in the OFS' FY 2010 Agency Financial Report available at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Documents/2010%20OFS%20AFR%20Nov%2015.pdf.

In connection with the termination of the Citigroup asset agreement in December 2009, Citigroup cancelled $1.8 billion in preferred stock previously issued to OFS. The FDIC and OFS agreed that, subject to certain conditions, the FDIC would transfer to OFS $800 million of their Citigroup trust preferred stock holding plus dividends thereon contingent on Citigroup repaying its previously-issued FDIC debt under the FDIC's Temporary Liquidity Guarantee Program which expires on December 31, 2012. OFS sold the trust preferred securities in October 2010 and the AGP warrants in January 2011, leaving only the $800 million of trust preferred stock receivable from the FDIC valued at $739 million at September 30, 2011.

The AGP is now closed and resulted in a positive return for taxpayers. No OFS payments were made under the program.

## Community Development Capital Initiative

The CDFIs focus on providing financial services to communities underserved by traditional banks and financial services, such as low- and moderate- income, minority, and other underserved communities. OFS launched the Community Development Capital Initiative to help viable certified CDFIs and the communities they serve cope with effects of the financial crisis. Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent, compared to the 5 percent rate generally offered under CPP. CDFI banks and thrifts applied to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP.

OFS completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is $570 million for 84 institutions, which remained outstanding as of September 30, 2011. Of this amount, $363.3 million from 28 banks was exchanged from investments under the CPP into the CDCI.

## Credit Market Programs (PPIP, TALF, SBA 7(a))

## Public-Private Investment Program

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

The PPIP was designed to purchase troubled legacy securities (i.e., non-agency RMBS and CMBS) by providing financing on attractive terms as well as a matching equity investment made by OFS. By drawing new private capital into the market for legacy RMBS and CMBS, PPIP was designed to help restart the market for these securities, thereby facilitating the removal of these assets from financial institutions' balance sheets and allowing for more credit to become available for consumers and small businesses.

OFS matches equity dollar-for-dollar and lends up to the amount of equity raised by the PPIFs established by private sector fund managers for the purpose of purchasing eligible RMBS and CMBS from eligible financial institutions under EESA. During fiscal year 2011, OFS disbursed $1.1 billion as equity investment and $2.3 billion as loans to PPIFs. As of September 30, 2011, OFS had equity investments in PPIFs outstanding of $5.5 billion and loans outstanding of $10.4 billion for a total of $15.9 billion. As of September 30, 2011, the estimated value of these investments and loans was approximately $18.4 billion.

PPIFs have the ability to invest in eligible assets over a three-year investment period. They then have up to five additional years, which may be extended for up to two more years, to manage these investments and return the proceeds to OFS and the other PPIF investors. PPIP fund managers retain control of asset selection, purchasing, trading, and disposition of investments. The profits generated by a PPIF, net of expenses, will be distributed to the investors, including OFS, in proportion to their equity capital investments. OFS also receives warrants from the PPIFs, which gives OFS the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The program structure allows for risk to be spread between the private investors and OFS and provides taxpayers with the opportunity for positive returns.

For more information on these holdings and the performance of the PPIFs, readers can refer to the most recent PPIP Quarterly Report available at: http://www.treasury.gov/initiatives/financial-stability/programs/Credit%20Market%20Programs/ppip/Documents/PPIP%20Report%2009-2011.pdf

## Term Asset-Backed Securities Loan Facility

TALF was a joint Federal Reserve-OFS program that was designed to restart the asset-backed securities (ABS) market that provide credit to consumers and small businesses, which had ground to a virtual standstill during the early months of the financial crisis.

Pursuant to its Federal Reserve Act Section 13(3) authority, the Federal Reserve Board authorized the Federal Reserve Bank of New York (FRBNY) to extend up to $200 billion in non-recourse loans to borrowers to enable the purchase of newly issued asset-backed (including newly issued CMBS and legacy CMBS) AAA-rated securities including those backed by consumer loans, student loans, small business loans, and commercial real estate loans. In return, the borrowers pledged the eligible collateral with a risk premium ("haircut") as security for the loans. Should a borrower default upon its TALF loan or voluntarily surrender the collateral, it would be seized and sold to TALF LLC, a special purpose vehicle created by FRBNY to purchase and hold seized or surrendered collateral. Through September 30, 2011, TALF LLC has not purchased any collateral from the FRBNY.

OFS originally committed to provide $20 billion in the form of a subordinated loan commitment to TALF LLC. This commitment was later reduced to $4.3 billion after the program closed to new lending in June 2010, which represented 10 percent of the outstanding TALF loans at the time. TALF LLC is able to use the funds to purchase the underlying collateral associated with the FRBNY TALF loans in the event a

borrower surrendered the collateral or defaulted upon its loan.
From inception through September 30, 2011, OFS has loaned $100 million of the $4.3 billion commitment. The maturity date on the OFS loan to the TALF LLC is March 2019 with loans made by the FRBNY through TALF maturing at the latest by March 2015. As of September 30, 2011, the TALF program has experienced no losses and all outstanding TALF loans are well collateralized. OFS and FRBNY continue to see it as highly likely that the accumulated excess interest spread will cover any loan losses that may occur without recourse to the dedicated TARP funds. Therefore, OFS does not expect any cost to the taxpayers from this program.

### Small Business Administration 7(a) Securities Purchase Program

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

To help ensure that credit flows to entrepreneurs and small business owners, OFS developed the SBA 7(a) Securities Purchase Program to purchase SBA-guaranteed securities from pool assemblers. Purchasing securities from participating "pool assemblers" enabled them to purchase additional small business loans from loan originators. Since OFS began purchasing SBA 7(a) securities, the SBA 7(a) market has stabilized, as exhibited by new pool issuance volumes returning to pre-crisis levels.

Under this program, OFS invested in total in 31 SBA 7(a) securities with a value of approximately $368 million during fiscal year 2010. Those securities were comprised of 1,001 loans from 17 different industries, including retail, food services, manufacturing, scientific and technical services, healthcare, educational services, and others. OFS has now sold a total of 16 securities for approximately $213.2 million. OFS continues to hold 15 SBA 7(a) securities with a gross outstanding balance as of September 30, 2011, of approximately $127.6 million.

## Other Programs

### Automotive Industry Financing Program

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

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

Today, both companies have rebounded significantly. New GM's second quarter 2011 profit was its sixth consecutive profitable quarter. Since emerging from bankruptcy, New GM has added shifts at six of its plants to address growing demand. A similar story is playing out at New Chrysler as the company has lowered its structural costs, become more efficient, adopted new technologies, rejuvenated its product line, and rebuilt its brand value. Today, its market share continues to recover.

In total, OFS provided approximately $80 billion in loans and equity investments to GM, GMAC (now known as Ally Financial), Chrysler, and Chrysler Financial. Please see Footnote 6 of financial statements for further information on the AIFP subsidy cost.

### *General Motors*

OFS provided $50 billion under TARP to Old GM, beginning with a $13.4 billion loan in December 2008 to Old GM to fund working capital. Under the loan agreement, Old GM was required to submit a viable restructuring plan. The first plan Old GM submitted failed to establish a credible path to viability, and the deadline was extended to June 2009 for Old GM to develop an amended plan. OFS loaned an additional $6 billion to fund Old GM as it worked to submit a viable restructuring plan. To achieve an orderly restructuring, Old GM filed for bankruptcy on June 1, 2009. OFS provided $30.1 billion under a debtor-in-possession financing agreement to assist Old GM during the restructuring. A newly formed entity, New GM purchased most of the assets of Old GM under a sale pursuant to Section 363 of the bankruptcy code (363 Sale). When the sale to New GM was completed on July 10, 2009, OFS converted most of its loans to 60.8 percent of the common equity in the New GM and $2.1 billion in preferred stock. At that time, OFS held $6.7 billion in outstanding loans which were repaid in full during fiscal year 2010. Approximately $986 million remained with Old GM (now known as Motors Liquidation Company) for wind-down costs associated with its liquidation.

Following the July 2009 restructuring and also as of September 30, 2010, New GM had the following ownership: OFS (60.8 percent), GM Voluntary Employee Benefit Association (VEBA) (17.5 percent), the Canadian Government (11.7 percent), and Old GM's unsecured bondholders (10 percent). As part of the restructuring, New GM issued warrants to acquire additional shares of common stock to VEBA and Old GM (for distribution to the creditors of Old GM following confirmation of a plan of liquidation by the bankruptcy court).

Several milestones were reached regarding OFS' investment in New GM during fiscal year 2011.

- In October 2010, OFS accepted an offer from New GM to repurchase $2.1 billion of the TARP preferred stock, conditioned on the closing of the proposed initial public offering of New GM's common stock. Under the agreement, New GM would purchase the preferred stock at a price per share of $25.50, which was equal to 102 percent of the liquidation preference. In December 2010, as announced in October 2010, New GM completed the repurchase of all New GM preferred stock held by OFS for total proceeds of $2.14 billion.
- In November 2010, New GM completed its initial public offering (IPO) with net proceeds to OFS of $13.5 billion. The price per share was $32.7525, which represents the public sale price of $33 less underwriting discounts and fees, with the sale resulting in net proceeds less than cost of $4.4 billion. The IPO reduced OFS' ownership of New GM's outstanding common stock by nearly half from 60.8 percent to 32 percent.
- In March 2011, the Plan of Liquidation for Old GM became effective and OFS' $986 million loan to Old GM was converted to an administrative claim. OFS retained the right to recover additional proceeds; however, any additional recovery is dependent on actual liquidation proceeds and pending litigation. During fiscal year 2011, OFS received payments totaling $111 million from Motors Liquidation Company.

### *Chrysler*

In January 2009, OFS loaned $4 billion to Old Chrysler. Under the loan agreement, Old Chrysler was required to implement a viable restructuring plan. In March 2009, the Administration determined that the business plan submitted by Old Chrysler failed to demonstrate viability and concluded that Old Chrysler was not viable as a stand-alone company. In fiscal year 2010, Old Chrysler repaid $1.9 billion while $500 million was assumed by New Chrysler (see below). OFS wrote off the remaining $1.6 billion of this loan.

The Administration subsequently laid out a framework for Old Chrysler to achieve viability by partnering with the international car company Fiat. As part of the planned restructuring, in April 2009, Old Chrysler filed for bankruptcy protection. In May 2009, OFS provided $1.9 billion to Old Chrysler under a debtor-in-possession (DIP) financing agreement for assistance during its bankruptcy proceeding. The DIP loan was extinguished by the bankruptcy court in April 2010, including collateral security attached to the loan, and transferred to a liquidation trust. OFS retained the right to recover the proceeds from the liquidation of the specified collateral and received $40.2 million from the liquidation trust in fiscal year 2010 and $7.8 million in fiscal year 2011.

In June 2009, a newly formed entity, Chrysler Group LLC, (New Chrysler) purchased most of the assets of Old Chrysler under a 363 sale. OFS provided a $6.6 billion loan commitment to New Chrysler (as of September 30, 2010, $2.1 billion remained undrawn), and received a 9.9 percent equity ownership in New Chrysler. The agreement included the ability of Fiat to meet specific performance related milestones which would increase the ownership percentage of Fiat and lower the ownership percentage of OFS. In January, April and May 2011, Fiat met those performance milestones, lowering the OFS ownership percentage to 6.6 percent (6.0 percent on a fully diluted basis).

- In May 2011, New Chrysler repaid $5.1 billion in TARP loans and terminated its ability to draw a remaining $2.1 billion TARP loan commitment. Of the repayment, $500 million was to partially repay the January 2009 loan of $4 billion. New Chrysler's repayment came six years before the scheduled maturity of those loans in 2017.

- In July 2011, OFS received $560 million in proceeds from the sale of its remaining stake in New Chrysler to Fiat. With the closing of this transaction, OFS has fully exited its investment in New Chrysler. Fiat paid $500 million to OFS for its 98,461 shares or 6 percent fully diluted equity interest in New Chrysler. Fiat also paid $60 million to OFS for its rights under an agreement with the UAW retirement trust pertaining to the trust's shares in New Chrysler.

From inception through September 30, 2011, OFS has received more than $11.1 billion of the $12.4 billion disbursed to Chrysler related entities (primarily Old Chrysler and New Chrysler) through principal repayments, sale of stock, interest, and other collections. While OFS still holds an interest in a liquidation trust, no significant future recoveries are expected. Accordingly, OFS is unlikely to fully recover the difference of $1.3 billion.

### *Ally Financial (formerly GMAC)*

In December 2008, OFS made an initial investment of $5 billion in GMAC. OFS also lent $884 million of TARP funds to Old GM (one of GMAC's owners) for the purchase of additional ownership interests in a rights offering by GMAC. In May 2009, federal banking regulators required GMAC to raise additional capital by November 2009 in connection with the Supervisory Capital Assistance Program (SCAP)/stress test. Also in May 2009, OFS exercised its option to exchange the loan with Old GM for 35.4 percent of common membership interests in GMAC. OFS also purchased $7.5 billion of convertible preferred shares from GMAC in May 2009, which enabled GMAC to partially meet the Supervisory Capital Assessment Program (SCAP) requirements. In December 2009, OFS made additional investments of $3.8 billion in GMAC to enable GMAC to satisfy the SCAP requirements and exchanged certain preferred shares for common stock. OFS provided the $3.8 billion in new capital in the form of $2.54 billion of Trust Preferred Securities (TruPS), which are senior to all other capital securities of the company, and $1.25 billion of Mandatory Convertible Preferred Stock.

In May 2010, GMAC changed its corporate name to Ally Financial, Inc. In December 2010, OFS converted additional preferred stock in Ally Financial with a liquidation preference of $5.5 billion into common stock – a move designed to accelerate OFS' ability to exit its investment in the company. The conversion increased OFS' common equity stake in Ally Financial from 56 percent to 74 percent of total common shares outstanding. In connection with this conversion, OFS converted its preferred stock at 1.0 times the book value of tangible common equity balance as of September 30, 2010, subject to certain adjustments. Ally Financial also agreed to assist OFS in the sale or sales of its holdings of TruPS on terms acceptable to OFS and Ally Financial as soon as practical subject to certain conditions.

In March 2011, OFS priced a secondary offering at par for all of its Ally Financial trust preferred securities. Aggregate proceeds from the offering (together with a distribution fee) totaled approximately $2.7 billion. With the proceeds from this sale, OFS has received approximately $5.1 billion from Ally Financial from inception of the program through September 30, 2011, including $2.4 billion in dividends and interest. As of September 30, 2011, OFS holds $5.9 billion of convertible preferred stock and 74 percent of the outstanding shares of common stock in Ally Financial as discussed in footnote 6 to the OFS Financial Statements.

## American International Group, Inc. (AIG) Investment Program

In September 2008, AIG was the largest provider of conventional insurance in the world, with approximately 75 million individual and corporate customers in over 130 countries. AIG's assets exceeded $1 trillion and insured 180,000 businesses and other entities employing over 100 million people in the U.S. It was a large issuer of commercial paper and the second largest holder of U.S. municipal bonds.

Then, the financial crisis hit in October of 2008. AIG's parent holding company engaged in financial activities that were well beyond the business of life insurance and property and casualty insurance. Its financial products unit was a significant participant in some of the newest, riskiest, and most complex transactions of the U.S. financial system. In the chaotic environment of September 2008, the Federal Reserve and Treasury concluded that AIG's failure could be catastrophic. Among other things, if AIG had failed, the crisis would have almost certainly spread to the entire insurance industry, and its failure could have directly affected the savings of millions of Americans. Therefore, the federal government took action to protect the U.S. financial system.

During September, October, and November 2008, the Federal Reserve and OFS took a series of steps to prevent AIG's disorderly failure and mitigate systemic risks. The initial assistance to AIG was provided by the FRBNY before the passage of EESA and the creation of TARP. After EESA was enacted, the OFS and the Federal Reserve continued to work together to address the challenges posed by AIG.

In November 2008, OFS invested $40 billion in senior preferred stock of AIG and it also received warrants to purchase common shares in the firm. The funds were used immediately to reduce the loans provided to AIG by the FRBNY. The preferred stock was subsequently exchanged in April 2009, for face value plus accrued dividends, into $41.6 billion of a different series of preferred stock. Complete details on the AIG investment are available in at the TARP Three Year Anniversary Report and the TARP Two-Year Retrospective Report which are both available at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

AIG is now experiencing a turnaround. The company has completed a successful restructuring. Having stabilized its operations, AIG is now in a stronger position to repay the OFS' investments. As a result, during fiscal year 2011, substantial progress has been made in reducing OFS' exposure to AIG.

- In January 2011, Treasury, FRBNY, the trustees of the AIG Credit Facility Trust (the Trust)[8] and AIG completed the Restructuring previously announced on September 30, 2010. This series of integrated transactions and certain corporate actions was designed to accelerate the repayment of U.S. taxpayer funds and to promote AIG's transition from a majority government owned and supported entity to a financially sound and independent entity. As part of the AIG restructuring

[8] The independent trust established to manage the Department of Treasury's beneficial interest in Series C preferred AIG shares.

on January 14, 2011, AIG drew $20.3 billion from the capital facility made available by OFS, for a total of $27.8 billion drawn. In the Restructuring, AIG repaid FRBNY a total of $47 billion. AIG no longer has any outstanding obligations to the FBRNY (although the FRBNY has loans to two special purpose vehicles which acquired assets from AIG). Following the Restructuring, OFS' total investment in AIG was $68 billion, and as of January 31, 2011, Treasury's investment consisted of approximately 1.655 billion shares of AIG common stock (1.092 billion shares owned by OFS and 562.9 million shares owned by the Department, which were received on the termination of the Trust), representing ownership of 92 percent of the company (77 percent held by OFS and 15 percent held by the Treasury outside of OFS) as well as $20.3 billion of Treasury OFS' preferred equity interests in two AIG owned Special Purpose Vehicles (SPVs). The SPVs are wholly owned by AIG and consolidated on the AIG financial statements. The OFS owned 100 percent of the preferred share interest in the two SPVs. Generally, the SPVs pay the Preferred Interest holder (i.e., OFS) a return of 5 percent per annum.

- Assets of the SPV's included AIG equity interests in AIA, MetLife, AIG Star Life Insurance, AIG Edison Life Insurance, Nan Shan Life Insurance, ILFC (Aircraft Leasing entity) and Maiden Lane II and III. AIG is to repay the SPV preferred interest owned by OFS from monetization of the non-cash assets of the SPVs.

- In February 2011, AIG sold its subsidiaries, AIG Star Life Insurance Co., Ltd. and AIG Edison Life Insurance Company and repaid $2.1 billion to OFS, which reduced the total outstanding amount of Treasury- OFS' preferred equity interest in the SPVs from $20.3 billion to $18.2 billion.

- In March 2011, AIG repaid OFS $6.9 billion, which further reduced the total outstanding amount of OFS' preferred equity interests in the SPVs from $18.2 billion to $11.3 billion.

- In May 2011, Treasury completed the sale of 200 million shares of AIG common stock at $29.00 per share for $5.8 billion, with $3.8 billion in proceeds to OFS, resulting in proceeds less than cost of about $1.9 billion.[9]

- In August 2011, AIG repaid OFS $2.2 billion, including $0.2 billion in preferred interest returns recognized as dividends, which further reduced OFS' preferred equity interest in the SPVs from $11.3 billion to $9.3 billion. This repayment was funded through proceeds from the sale of AIG's Nan Shan Life Insurance subsidiary.

As of September 30, 2011, OFS' remaining gross outstanding TARP AIG related investments amounted to $51.1 billion, which consists of 960 million shares of AIG common stock[10] (with a cost basis of $43.53 per share and a market value of $21.1 billion or $21.95 per share), and approximately $9.3 billion of preferred equity interests. As of September 30, 2011, the aggregate value of the holdings of the SPV greatly exceeds OFS' preferred interests. Therefore, OFS does not currently anticipate incurring any loss from its SPV preferred interests. Additional discussion of the AIG investment including subsidy cost can be found in footnote 6 of the OFS Financial Statements.

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[9] The sale consisted of 131,981,246 TARP shares and 68,018,754 non-TARP shares based upon the Treasury's pro-rata holding of those shares. The non-TARP shares are those received from the trust established by the FRBNY for the benefit of the U.S. government. Proceeds for non-TARP common stock totaled $1.97 billion and are not reported in OFS receipts.

[10] OFS' 960 million shares of AIG common stock represent 50.8 percent of AIG's total shares outstanding as of September 30, 2011. Treasury, outside of TARP, owns an additional 495 million shares of AIG common stock which represent an additional 26.1 percent of AIG's total shares on a fully diluted basis.

## Operational Goal Two: Prevent Avoidable Foreclosures and Preserve Homeownership

OFS established several programs under TARP to combat the historic housing crisis and important new reforms are being introduced in part because of TARP's housing programs. While the housing market remains depressed, TARP's initiatives to assist struggling homeowners have helped provide more affordable permanent monthly mortgage payments to over 850,000 homeowners and provided an additional 18,000 homeowners (95 percent of these homeowners helped through non-GSE programs) with alternative solutions to foreclosure. In addition, TARP's housing programs have set new standard practices for mortgage providers that have indirectly helped millions more.

Examples include:

- Establishing a single point of contact for homeowners seeking assistance. This critical reform is helping to prevent homeowners from receiving conflicting information about their options, while providing them access to a single, knowledgeable case manager who can guide them through the modification process.
- Limiting the practice of "dual tracking" – where service providers begin the foreclosure process while simultaneously evaluating homeowners for a modification.
- Requiring servicers to provide qualified unemployed homeowners with a forbearance period during which their monthly payments are temporarily reduced while they look for a new job.
- Assessing servicers to ensure that they are complying with OFS' housing program guidelines and are meeting their obligations to homeowners fairly.

By introducing these and other new concepts, OFS' housing programs are serving as a national laboratory for helping the private and non-profit sectors address a foreclosure challenge on this scale.

Using authority granted under EESA, OFS established housing programs under TARP that fall into three initiatives: the MHA program, (which includes the HAMP), the Hardest Hit Fund (HHF) and OFS' support for the FHA Refinance Program. Together these programs make up a comprehensive housing program, whose goal is to lower mortgage payments for at-risk borrowers, support loan modifications aimed at providing sustainable, affordable mortgage payments for borrowers, prevent avoidable foreclosures and provide incentives to investor/owners of loans, loan servicers, and homeowners to participate in the program. To protect taxpayers, the MHA and HHF housing initiatives generally have pay-for-success incentives: funds are spent only when transactions are completed and thereafter only as long as those contracts remain in place. Therefore, funds will be disbursed over many years.

Rather than try and stop every foreclosure, OFS' housing programs have focused on assisting families with home loans that would be sustainable over the long term if modified. For borrowers whose mortgages could not be saved, OFS's programs have helped them to make a more graceful and orderly transition to a more sustainable living situation.

The total cost of the TARP housing programs, excluding administrative costs, cannot exceed—and may be less than—$45.6 billion, which is the amount committed to that purpose.

### *Home Affordable Modification Program (HAMP)*

HAMP is a first lien mortgage modification program that provides incentives to mortgage servicers, investors, and homeowners to reduce eligible homeowners' monthly payments to affordable levels based on the homeowner's current income. Under this program, OFS pays the incentives for the modification of loans not held by government sponsored enterprises (GSEs) while the GSEs bear the cost of modifications of loans held by the GSEs. HAMP is the largest program within MHA and includes several additional components to complement first lien modifications.

HAMP provides eligible homeowners the opportunity to reduce their monthly first lien mortgage payments to 31 percent of their gross (pre-tax) income.
To qualify for HAMP, a borrower must:

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

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

### *Additional Components of Making Home Affordable*

- The FHA-HAMP Program provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans.
- The Second Lien Modification Program (2MP) 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.
- The Treasury/FHA Second Lien Program (2LP) provides incentives to servicers for extinguishment of second liens for borrowers who refinance their first lien mortgages under the FHA-Refinance Program.
- The Rural Development (RD)-HAMP Program provides incentives for modified United States Department of Agriculture (USDA) guaranteed mortgages.

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

In February 2010, the Obama Administration announced the HFA Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF), which allow state HFAs in the nation's hardest hit housing markets and high unemployment markets to design innovative, locally targeted foreclosure prevention programs. State HFAs design the state programs, tailoring the housing assistance to their local needs. Further information on the funded programs is available at: http://www.FinancialStability.gov/roadtostability/hardesthitfund.html.

### *Support for the FHA-Refinance Program*

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

Among other requirements:

- The homeowner must be current on the existing first lien mortgage;
- The homeowner must occupy the home as a primary residence and have a qualifying credit score;
- The mortgage investor must reduce the amount owed on the original loan by at least ten percent;

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

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

OFS has entered into a letter of credit (L/C) to fund the FHA- Refinance Program. Pursuant to this L/C, a reserve account has been pre-funded with $50 million in funds for OFS' share of any future loss claim payments. OFS will be reimbursed for all unused amounts from this account. As of September 30, 2011, no disbursements for loss claim payments under the FHA- Refinance Program have been made.

## MHA Results

The incentives offered under MHA are helping homeowners and assisting in stabilizing the housing market. Through September 30, 2011, 112 active servicers have signed up for MHA. Between loans covered by these servicers and loans owned or guaranteed by the GSEs, more than 85 percent of first-lien residential mortgage loans in the country are now held by servicers participating in the program. Through September 30, 2011, OFS has made commitments to fund up to $29.9 billion in MHA payments.

After 31 months, more than 1.7 million homeowners participating in the OFS and GSE HAMP programs have entered into trial modifications that reduced their mortgage payments to more affordable levels. Of these homeowners, the OFS HAMP program has helped almost 800,000 participants. Over 850,000 homeowners participating in the HAMP programs have had their mortgage terms modified permanently, with over 400,000 of those participants from the OFS HAMP program. Homeowners participating in both the GSE and OFS HAMP programs collectively have experienced a 37 percent median reduction in their mortgage payments—more than $525 per month. MHA has also spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

OFS now publishes quarterly assessments of servicer performance, which contain data on compliance with program guidelines as well as program results metrics. Going forward, OFS hopes these assessments will set the standard for transparency about mortgage servicer efforts to assist homeowners and encourage servicers to correct identified instances of noncompliance. For the second quarter of calendar year 2011, two servicers had been determined to need substantial improvement. These servicers were also in need of substantial improvement in the first quarter, and their servicer incentives have been withheld since June 1, 2011.

MHA performance highlights for fiscal year 2011 can be found at: http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx.

## Hardest Hit Fund Results

The Hardest Hit Fund provides funding to 18 states and the District of Columbia (DC) to provide assistance to struggling homeowners through locally-tailored programs administered by each respective HFA. $7.6 billion has been allocated of the $45.6 billion committed for the housing programs. From inception of the program through September 30, 2011, a total of $655 million has been drawn down from OFS by the 18 states and DC. Each state has its own timeline for implementation of their programs and draws down funds as they are needed.

## Housing Scorecard

The U.S. Department of Housing and Urban Development (HUD) and OFS also release a Monthly Housing Scorecard on the nation's housing market. Each month the scorecard presents key housing market indicators and highlights the impact of the Administration's housing recovery efforts, including assistance to homeowners through the FHA and the HAMP. The Housing Scorecard is available at: www.hud.gov/scorecard.

## Operational Goal Three: Protect Taxpayers' Interests

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

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

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

OFS' asset management approach protects taxpayer investments and promotes stability through evaluating systemic and individual risk from standardized reporting, proactive monitoring and ensuring adherence to EESA and compliance with contractual agreements. By avoiding involvement in day to day company management decisions and exercising its rights as a common shareholder only on core governance issues, OFS seeks to bolster market confidence to increase private capital investment.

OFS seeks to exit investments as soon as practicable to remove OFS as a shareholder, eliminate or reduce OFS exposure, return TARP funds to reduce the federal debt, and encourage private capital formation to replace federal government investment. The desire to achieve such objectives must be balanced against a variety of other objectives, including maximizing taxpayer returns, avoiding further financial market and/or economic disruption, and the potentially negative impact to the issuer's health and/or capital raising plans from OFS' disposition. An issuer typically needs the approval of its primary federal regulator in order to repay OFS and therefore regulatory approvals also affect how quickly an institution can repay.

In managing the TARP investments, OFS takes a disciplined portfolio approach with a review down to the individual investment level. OFS aims to monitor risk and performance at both the overall portfolio level and the individual investment level. Given the nature and size of the portfolio, risk and performance are linked to the overall U.S. financial system and the economy. In conducting the portfolio management activities, OFS employs a mix of dedicated professionals and external asset managers. These external asset managers provide market specific information such as market prices and valuations as well as detailed credit analysis using public information on a periodic basis.

### Risk Assessment

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

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

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

## Compliance

OFS also takes steps to ensure that TARP recipients comply with their TARP-related statutory and contractual obligations. Statutory obligations include executive compensation restrictions. Contractual obligations vary by investment type. For most of OFS' preferred stock investments, TARP recipients must comply with restrictions on payment of dividends and on repurchases of junior securities, so that funds are not distributed to junior security holders prior to repayment of the federal government. Recipients of exceptional assistance (currently AIG, GM, and Ally) must comply with additional restrictions on executive compensation, lobbying, corporate expenses and internal controls and must provide quarterly compliance reports.

All servicers voluntarily participating in MHA have contractually agreed to follow the MHA program guidelines, which require the servicer to offer a MHA modification to all eligible borrowers and to have systems that can process all MHA-eligible loans. Servicers are subject to periodic, on-site compliance reviews performed by OFS' compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac, to ensure that servicers satisfy their obligations under MHA requirements in order to provide a well-controlled program that assists as many eligible homeowners as possible to retain their homes while taking reasonable steps to prevent waste, fraud and abuse. OFS works closely with MHA-C to design and refine the compliance program and conducts quality assessments of the activities performed by MHA-C. In fiscal year 2011, OFS began publishing quarterly assessments of the ten largest servicers.

## Warrant Sales Results

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

Since the program's inception, OFS has received more than $9.1 billion in gross proceeds from the disposition of warrants associated with 93 CPP investments and both TIP investments, consisting of (i) $3.7 billion from issuer repurchases at agreed upon fair market values and (ii) $5.4 billion from auctions. For the 93 fully repaid CPP investments representing $180.1 billion in capital, OFS has received an absolute return (i.e., not annualized) of 4.8 percent from dividends and an added 4.2 percentage return from the sale of the warrants for a total absolute return of 9.0 percent. For the $40 billion TIP investments in Bank of America and Citigroup, OFS received an absolute return of 6.4 percent from dividends and an added 3.8 percent return from the sale of the warrants for a total absolute return of 10.2 percent.[11] These returns are not predictive of the eventual returns on the entire CPP portfolios. For the complete Warrant

[11] Since some of the OFS' warrant repurchases were made in OFS' first year, OFS has consistently reported absolute returns for all warrant sales, rather than annualizing for some sales and not others.

Disposition Report, please visit: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/other/Pages/default.aspx

## Operational Goal Four: Promote Transparency

To protect taxpayers and help ensure that every dollar is directed toward promoting financial stability, OFS established comprehensive accountability and transparency measures. OFS publishes hundreds of reports and other information about TARP so that the public knows how the money was spent, who received it and on what terms. This includes all contracts governing any investment or expenditure of TARP funds and countless reports over nearly three years of the TARP's existence. All of these reports and information are posted on the OFS website, www.FinancialStability.gov, including:

- Lists of all the institutions participating in TARP programs, and all of the investments OFS has made;
- All investment contracts defining the terms of those investments within five to ten business days of a transaction's closing;
- All contracts with OFS service providers involved with TARP programs;
- A Daily TARP Update Report;
- A TARP Tracker;
- A report of each transaction within two business days of completing the transaction;
- Monthly reports of dividend and interest received;
- Monthly reports to Congress, which present updates on OFS investments and programs in a clear, concise manner;
- Monthly reports detailing the progress of modifications under the Making Home Affordable program;
- A monthly lending survey, and an annual use of capital survey, which contains detailed information on the lending and other activities of banks that have received TARP funds; and
- Quarterly assessments of the ten largest mortgage servicers.

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

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

In a continued commitment to enhanced reporting and transparency, in January 2011, the Obama Administration released the MHA Data File which includes characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data. The MHA Data File offers mortgage loan-level data and is intended to allow for better understanding of the impact of the program.

OFS applied the recommendations of an independent non-profit, non-partisan policy institute in preparing the MHA Data File to ensure the privacy of participating homeowners. The release of the data file fulfills a requirement within the Dodd-Frank Act to make available loan-level data about the program. OFS will update the file monthly and will expand reporting to include newer initiatives that are part of Making Home Affordable. Researchers interested in using the MHA Data File can access the file and user guide at: http://www.Treasury.gov/initiatives/financialstability/results/Pages/mha_publicfile.aspx.

### A. Audited Financial Statements

OFS prepares separate financial statements for TARP on an annual basis. This is the third OFS Agency Financial Report (AFR), and includes the audited financial statements for the fiscal years ended September 30, 2011 and September 30, 2010. Additional reports for prior periods are available at: www.FinancialStability.gov.

In its first two years of operation, TARP's financial statements received unqualified ("clean") audit opinions from its auditors, the GAO. OFS also received a Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants for both fiscal year 2010 and the period ending September 30, 2009.

### B. TARP Retrospective Reports

In October 2011, OFS published the TARP Three-Year Anniversary Report. This serves as an update to OFS' comprehensive TARP Two-Year Retrospective report issued in October 2010. These reports include information on TARP programs and the effects of TARP and additional emergency measures taken by the federal government to stabilize the financial system following the 2008 crisis. Readers are invited to refer to these documents at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

### C. Oversight by Four Separate Agencies

Congress also established four avenues of oversight for TARP:

- The Financial Stability Oversight Board, established by EESA Section104;
- Specific responsibilities for the GAO as set out in EESA Section 116;
- The Special Inspector General for TARP, established by EESA Section 121; and
- The Congressional Oversight Panel (COP), established by EESA Section125. COP concluded its operations in accordance with EESA on April 3, 2011.

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

### D. Congressional Hearings and Testimony

OFS officials have testified in numerous Congressional hearings since TARP was created. Copies of the written testimony are available at: www.FinancialStability.gov/latest/pressreleases.html.

PART 2:

# Financial Section

# MESSAGE FROM THE CHIEF FINANCIAL OFFICER (CF0)

The Office of Financial Stability's (OFS) Agency Financial Report for fiscal year 2011 provides readers information on financial results relating to the Troubled Asset Relief Program (TARP) as required by the Emergency Economic Stabilization Act (EESA) of 2008 and other laws. It is a critical part of our efforts to ensure the highest level of transparency and accountability to the American people.

For fiscal year 2011, the Government Accountability Office (GAO) provided OFS unqualified – "clean" -- audit opinions on the fair presentation of our financial statements and the effectiveness of our internal control over financial reporting. In addition, the auditors determined that we had no material weaknesses. However, GAO continued to report one significant deficiency in internal control over our accounting and financial reporting processes.

I would like to acknowledge senior management's commitment to good governance as well as the discipline, transparency, and care exhibited by OFS employees in creating and executing our organization's policies and procedures. We were honored to have received the Certificate of Excellence in Accountability Reporting (CEAR) award from the Association of Government Accountants for both fiscal year 2010 and the period ending September 30, 2009.

For fiscal year 2011, net cost of operations was $9.5 billion, resulting in a cumulative net cost of operations of $28.0 billion since inception. The fiscal year 2011 net cost of operations primarily results from a decline in the value of Ally Financial, reductions in the share prices of common stock holdings in General Motors and American International Group, Inc. (AIG) and continued costs of the Treasury Housing Programs Under TARP. The cumulative net cost of operations primarily consists of net subsidy cost on direct loans and/or equity investments in AIG and automobile companies partially offset by net subsidy income related to TARP's bank support and credit market programs. During the past year, OFS focused on further strengthening its rigorous internal control processes around obligations, transaction processing, disbursements, collections, and financial reporting. While our processes continue to mature, the audit opinions evidence successes surrounding internal controls over financial reporting implementation across the organization. In fiscal year 2011, OFS enhanced its subsidiary ledger for tracking TARP equity investments and loans and the supporting accounting data. This strengthened system of record provides automated controls over reporting financial information with appropriate system controls.

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

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

Sincerely,

Lorenzo Rasetti

Lorenzo Rasetti
Chief Financial Officer

# GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

To the Assistant Secretary for Financial Stability

In accordance with the Emergency Economic Stabilization Act of 2008 (EESA),[1] we are required to audit the financial statements of the Troubled Asset Relief Program (TARP), which is implemented by the Office of Financial Stability (OFS).[2] In our audit of OFS's financial statements for TARP for fiscal years 2011 and 2010, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011; and
- no reportable noncompliance in fiscal year 2011 with provisions of laws and regulations we tested.

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

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

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

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

of these requirements. We have issued numerous other reports on TARP in connection with this 60-day reporting responsibility which can be found on GAO's website at http://www.gao.gov.

## Opinion on Financial Statements

OFS's financial statements for TARP, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, OFS's assets, liabilities, and net position as of September 30, 2011 and 2010, and its net cost of operations, changes in net position, and budgetary resources for fiscal years 2011 and 2010.

As discussed in notes 2 and 6 to OFS's financial statements for TARP, the valuation of TARP direct loans, equity investments, and the asset guarantee program is based on estimates using economic and financial credit subsidy models. The estimates use entity-specific as well as relevant market data as the basis for assumptions about future performance, and incorporate an adjustment for market risk to reflect the variability around any unexpected losses. In valuing the direct loans, equity investments, and the asset guarantee program, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated subsidy allowance and related subsidy cost or income reported in the financial statements.[4] However, there are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. The estimates have an added uncertainty resulting from the unique nature of certain TARP assets. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantee program as of September 30, 2011 and 2010, that totaled \$80.8 billion and \$145.5 billion, respectively, and the amounts that OFS will ultimately realize from these assets, and such differences may be material. These differences will also affect TARP's ultimate cost.

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

Further, TARP's ultimate cost will change as OFS continues to incur costs relating its Treasury Housing Programs.[5]

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

## Opinion on Internal Control

Although certain internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

During fiscal year 2011, OFS addressed several of the internal control issues related to the significant deficiency[6] we reported for fiscal year 2010 concerning its accounting and financial reporting processes.

[5]The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, title XIII, § 1302, 124 Stat. 1376, 2133 (July 21,2010), (1) limited Treasury's authority to purchase or guarantee troubled assets to a maximum of $475 billion; (2) changed this limit to a cap on all purchases and guarantees made without regard to subsequent sale, repayment, or cancellation of assets or guarantees; and (3) prohibited Treasury, under EESA, from incurring any obligations for a program or initiative unless the program or initiative had already been initiated prior to June 25, 2010.

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

However, the remaining control issues along with additional control deficiencies in this area that we identified in fiscal year 2011 collectively represent a continuing significant deficiency in OFS's internal control over its accounting and financial reporting processes. Specifically, while OFS improved its review and approval process for preparing its financial statements, notes, and MD&A for TARP for fiscal year 2011, we continued to identify incorrect amounts and inconsistent disclosures in OFS's draft financial statements, notes, and MD&A that were significant, but not material, and that were not detected by OFS. For fiscal year 2011, we also continued to identify instances where other OFS accounting and financial reporting procedures were not complete or effectively implemented.

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

The significant deficiency identified in fiscal year 2011, although not considered to be a material weakness, is important enough to merit the attention of those charged with governance of OFS. We will be reporting additional details concerning this significant deficiency separately to OFS management, along with some recommendations for corrective actions and an assessment of the status of OFS's actions to implement our previous recommendations.[7] During our fiscal year 2011 audit, we also identified another deficiency in OFS's system of internal control that we consider not to be a material weakness or significant deficiency, and we will also report details on this matter along with a recommendation for corrective action. We have communicated these deficiencies to

[7] GAO, *Management Report: Improvements Are Needed in Internal Control Over Financial Reporting for the Troubled Asset Relief Program*, GAO-11-434R (Washington, D.C.: Apr. 18, 2011).

management and will follow up in our fiscal year 2012 audit on OFS's progress in implementing our recommendations.

## Compliance with Laws and Regulations

Our tests of OFS's compliance with selected provisions of laws and regulations for fiscal year 2011 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## Consistency of Other Information

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

## Objectives, Scope, and Methodology

OFS management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness; and (3) complying with applicable laws and regulations. OFS management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2011, based on the criteria established under FMFIA. OFS management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) OFS's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) OFS management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and (2) performing limited procedures with respect to certain other information accompanying the financial statements.

In order to fulfill these responsibilities, we

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

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

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

We did not test compliance with all laws and regulations applicable to OFS. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for fiscal year 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

## Agency Comments

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

Gary T. Engel

Gary T. Engel
Director
Financial Management and Assurance

November 4, 2011

# Appendix I: Management's Report on Internal Control Over Financial Reporting

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

## Management's Report on Internal Control over Financial Reporting

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

OFS management is responsible for establishing and maintaining effective internal control over financial reporting. OFS management evaluated the effectiveness of OFS' internal control over financial reporting as of September 30, 2011, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2011, OFS' internal control over financial reporting was effective.

Office of Financial Stability

Tim M

Timothy G. Massad
Assistant Secretary for Financial Stability

Lorenzo Rasetti

Lorenzo Rasetti
Chief Financial Officer

November 4, 2011

# Appendix II: OFS Response to Auditor's Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 8, 2011

Mr. Gary T. Engel
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Engel:

We have reviewed the Independent Auditor's Report concerning your audit of the Office of Financial Stability's (OFS) fiscal year 2011 financial statements. OFS is proud to receive an unqualified opinion on its financial statements and an unqualified opinion on management's assertion that our internal controls were operating effectively.

Your audit report did identify one significant deficiency in internal controls surrounding accounting and financial reporting processes although the report notes improvements in this area relative to fiscal year 2010. We concur with this finding and are committed to pursuing remediation until the deficiency is corrected.

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

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

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

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# FINANCIAL STATEMENTS

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

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

The Balance Sheet summarizes the OFS assets, liabilities and net position as of September 30, 2011 and 2010. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The Statement of Net Cost shows the net cost of operations for the years ended September 30, 2011 and 2010.

The Statement of Changes in Net Position presents the OFS ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations as of September 30, 2011 and 2010. It summarizes the changes in net position. The ending balances of both components of net position are also reported on the Balance Sheet.

The Statement of Budgetary Resources provides information about funding and availability of budgetary resources and the status of those resources for the years ended September 30, 2011 and 2010.

Office of Financial Stability (Troubled Asset Relief Program)

# BALANCE SHEET

As of September 30, 2011 and 2010

| Dollars in Millions | | 2011 | | 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Intragovernmental Assets:** | | | | |
| Fund Balance with Treasury (Note 3) | $ | 83,342 | $ | 98,664 |
| Asset Guarantee Program (Note 6) | | 739 | | 815 |
| **Total Intragovernmental Assets** | | 84,081 | | 99,479 |
| **Cash on Deposit for Housing Program (Note 4)** | | 50 | | - |
| **Accounts Receivable** | | - | | 4 |
| **Troubled Asset Relief Program:** | | | | |
| Direct Loans and Equity Investments, Net (Note 6) | | 80,104 | | 142,452 |
| Asset Guarantee Program (Note 6) | | - | | 2,240 |
| **Total Assets** | **$** | **164,235** | **$** | **244,175** |
| **LIABILITIES** | | | | |
| **Intragovernmental Liabilities:** | | | | |
| Accounts Payable and Other Liabilities | $ | 2 | $ | 5 |
| Due to the General Fund (Note 7) | | 4,591 | | 25,112 |
| Principal Payable to the Bureau of the Public Debt (Note 8) | | 129,497 | | 140,404 |
| **Total Intragovernmental Liabilities** | $ | 134,090 | $ | 165,521 |
| **Accounts Payable and Other Liabilities** | | 93 | | 134 |
| **Liability for Treasury Housing Programs Under TARP (Notes 5 and 6)** | | 344 | | 283 |
| **Total Liabilities** | **$** | **134,527** | **$** | **165,938** |
| **Commitments and Contingencies (Note 9)** | | - | | - |
| **NET POSITION** | | | | |
| Unexpended Appropriations | $ | 57,544 | $ | 79,783 |
| Cumulative Results of Operations | | (27,836) | | (1,546) |
| **Total Net Position** | $ | 29,708 | $ | 78,237 |
| **Total Liabilities and Net Position** | **$** | **164,235** | **$** | **244,175** |

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

Office of Financial Stability (Troubled Asset Relief Program)

# STATEMENT OF NET COST

For the Years Ended September 30, 2011 and 2010

| Dollars in Millions | 2011 | 2010 |
|---|---|---|
| **STRATEGIC GOAL: TO ENSURE THE OVERALL STABILITY AND LIQUIDITY OF THE FINANCIAL SYSTEM, PREVENT AVOIDABLE FORECLOSURES AND PRESERVE HOMEOWNERSHIP** | | |
| **Gross Cost (Income):** | | |
| **Subsidy Cost (Income) (Note 6)** | | |
| Direct Loan and Equity Investment Programs | $ 7,208 | $ (22,698) |
| Other Credit Programs | 31 | (1,505) |
| **Total Program Subsidy Cost (Income)** | **7,239** | **(24,203)** |
| **Interest Expense on Borrowings from the Bureau of the Public Debt (Note 10)** | 3,827 | 5,913 |
| **Treasury Housing Programs Under TARP (Note 5)** | 1,943 | 825 |
| **Administrative Cost** | 315 | 296 |
| **Total Gross Cost (Income)** | **13,324** | **(17,169)** |
| **Earned Revenue:** | | |
| Dividend and Interest Income - Programs (Note 6) | (3,476) | (7,242) |
| Interest Income on Financing Account (Note 10) | (781) | (1,173) |
| Subsidy Allowance Amortization (Note 10) | 430 | 2,502 |
| **Total Earned Revenue** | **(3,827)** | **(5,913)** |
| **Total Net Cost of (Income from) Operations** | **$ 9,497** | **$ (23,082)** |

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

Office of Financial Stability (Troubled Asset Relief Program)

# STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2011 and 2010

| Dollars in Millions | 2011 Unexpended Appropriations | 2011 Cumulative Results of Operations | 2010 Unexpended Appropriations | 2010 Cumulative Results of Operations |
|---|---|---|---|---|
| **Beginning Balances** | **$ 79,783** | **$ (1,546)** | **$ 84,229** | **$ (1)** |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received | 2,278 | - | 5,151 | - |
| Appropriations Used | (24,517) | 24,517 | (9,597) | 9,597 |
| **Other Financing Sources** | - | (41,310) | - | (34,224) |
| **Total Financing Sources** | (22,239) | (16,793) | (4,446) | (24,627) |
| **Net (Cost of) Income from Operations** | - | (9,497) | - | 23,082 |
| **Net Change** | (22,239) | (26,290) | (4,446) | (1,545) |
| **Ending Balances** | **$ 57,544** | **$ (27,836)** | **$ 79,783** | **$ (1,546)** |

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

Office of Financial Stability (Troubled Asset Relief Program)

# STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2011 and 2010

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Dollars in Millions | Budgetary Accounts | Nonbudgetary Financing Accounts | Budgetary Accounts | Nonbudgetary Financing Accounts |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated Balances Brought Forward | $ 11,075 | $ 10,548 | $ 28,156 | $ 8,945 |
| Recoveries of Prior Year Unpaid Obligations | 3,057 | 4,664 | 1,173 | 39,364 |
| Budget Authority: | | | | |
| Appropriations | 2,278 | - | 5,151 | - |
| Borrowing Authority | - | 77,914 | - | 69,440 |
| Spending Authority from Offsetting Collections | | | | |
| Earned: Collected | - | 107,307 | - | 156,112 |
| Change in Unfilled Orders Without Advance | - | (23,320) | - | (5,111) |
| Total Budget Authority | 16,410 | 177,113 | 34,480 | 268,750 |
| Permanently Not Available | - | (90,568) | - | (107,976) |
| **TOTAL BUDGETARY RESOURCES (Note 11)** | **$ 16,410** | **$ 86,545** | **$ 34,480** | **$ 160,774** |
| **STATUS OF BUDGETARY RESOURCES** | | | | |
| Obligations Incurred - Direct | $ 2,244 | $ 65,402 | $ 23,405 | $ 150,226 |
| Unobligated Balance: | | | | |
| Apportioned and Available | 36 | 511 | 142 | 7,692 |
| Not Available | 14,130 | 20,632 | 10,933 | 2,856 |
| **TOTAL STATUS OF BUDGETARY RESOURCES** | **$ 16,410** | **$ 86,545** | **$ 34,480** | **$ 160,774** |
| **CHANGE IN OBLIGATED BALANCES** | | | | |
| Obligated Balance Brought Forward: | | | | |
| Unpaid Obligations | $ 69,128 | $ 41,918 | $ 56,151 | $ 79,202 |
| Uncollected Customer Payments from Federal Sources | - | (23,816) | - | (28,927) |
| Obligated Balance, Net, Brought Forward | 69,128 | 18,102 | 56,151 | 50,275 |
| Obligations Incurred | 2,244 | 65,402 | 23,405 | 150,226 |
| Gross Outlays | (24,501) | (89,498) | (9,255) | (148,146) |
| Recoveries of Prior Year Unpaid Obligations | (3,057) | (4,664) | (1,173) | (39,364) |
| Change in Uncollected Customer Payments from Federal Sources | - | 23,320 | - | 5,111 |
| Obligated Balance, Net, End of Period: | | | | |
| Unpaid Obligations | 43,814 | 13,158 | 69,128 | 41,918 |
| Uncollected Customer Payments from Federal Sources | - | (496) | - | (23,816) |
| Obligated Balance, Net, End of Period | **$ 43,814** | **$ 12,662** | **$ 69,128** | **$ 18,102** |
| **NET OUTLAYS** | | | | |
| Gross Outlays | $ 24,501 | $ 89,498 | $ 9,255 | $ 148,146 |
| Offsetting Collections | - | (107,307) | - | (156,112) |
| Distributed Offsetting Receipts | (61,832) | | (118,860) | |
| **NET OUTLAYS** | **$ (37,331)** | **$ (17,809)** | **$ (109,605)** | **$ (7,966)** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. REPORTING ENTITY

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

The EESA established certain criteria under which the TARP would operate, including provisions that impact the budgeting, accounting, and reporting of troubled assets acquired under the Act. Section 101(a) of the EESA provided the authority for the Secretary to purchase troubled assets, and Section 101(a)(3) of the EESA established the Office of Financial Stability (OFS) to implement the TARP. Section 102 of the EESA required the Secretary to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. Section 115 of the EESA limited the authority of the Secretary to purchase troubled assets up to $700.0 billion outstanding at any one time, calculated at the aggregate purchase prices of all troubled assets held. Amendments to Section 115 of EESA during the period ended September 30, 2009, reduced that authority by $1.3 billion, from $700 billion to $698.7 billion. Section 120 of the EESA established that the authorities under Sections 101(a), excluding Section 101(a)(3), and Section 102 of the EESA would terminate December 31, 2009, unless extended upon submission of a written certification to Congress by the Secretary of the Treasury. On December 9, 2009, the Secretary extended the program authorities through October 3, 2010. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act amended Section 115 of EESA, limiting the TARP's authority to a total of $475 billion cumulative obligations (i.e. purchases and guarantees) and prohibiting any new obligations for programs or initiatives that had not been publicly announced prior to June 25, 2010. Of the maximum $475 billion authority under EESA, as amended, OFS had utilized (including purchases made, legal commitments to make purchases and offsets for guarantees made) $470.1 billion as of September 30, 2011 and $474.8 billion as of September 30, 2010.

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

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

Consequently, their assets, liabilities, and results of operations were not consolidated in these OFS financial statements, but the value of OFS' investments in such entities was recorded in OFS' financial statements.

In addition, the OFS has made loans and investments in certain Special Purpose Vehicles (SPV)[12]. SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control to carry out government powers and missions, as criteria in the determination about whether an entity should be classified as a federal entity. The OFS has concluded that none of the SPVs meet the conclusive or indicative criteria to be classified as a federal entity. As a result, the assets, liabilities and results of operations of the SPVs are not included in these OFS financial statements. The OFS has recorded the loans and investments in private entities and investments in SPVs in accordance with Credit Reform Accounting, as discussed below. Additional disclosures regarding certain SPV investments are included in Note 6, see Term Asset-Backed Securities Loan Facility (TALF), AIG Investment Program and the PPIP.

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

[12] The OFS invested in SPVs under the TALF, the Automotive Industry Financing Program and the Public-Private Investment Program. Additionally, in fiscal year 2011, part of the investment in AIG was exchanged for preferred interests in SPVs.

# NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Basis of Accounting and Presentation

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

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

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

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

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

The OFS recognizes dividend income associated with equity investments when declared by the entity in which the OFS has invested and when received in relation to any repurchases, exchanges and restructurings. The OFS recognizes interest income when earned on performing loans; interest income is not accrued on non-performing loans. The OFS reflects changes, referred to as reestimates, in the value of direct loans, equity investments, and other credit programs in the subsidy cost on the Statement of Net Cost annually. The OFS has received common stock warrants, additional preferred stock (referred to as warrant preferred stock) or additional notes as additional consideration for providing direct loans and equity investments made and the Asset Guarantee Program. The OFS accounts for the warrants and warrant preferred stock received under Section 113 of EESA as fees under SFFAS No. 2, and, as such, the proceeds received when the warrants, warrant preferred stock or additional notes are sold are credited to the subsidy allowance rather than to income.

## Use of Estimates

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

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

## Credit Reform Accounting

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

As discussed previously, the OFS accounts for the cost of direct loans, equity investments and other credit programs in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting and SFFAS No. 2 for financial reporting.

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

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

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows: (1) Borrowing for program funds under

Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements; (2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and (3) establishment of the Troubled Assets Insurance Financing Fund (TAIFF) for the Asset Guarantee Program under Section 102(d).

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

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

## Fund Balance with Treasury

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

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

## Troubled Asset Relief Program Direct Loans and Equity Investments, Net

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

## Asset Guarantee Program

During fiscal year 2010, the OFS and the Federal Deposit Insurance Corporation (FDIC) entered into a termination agreement with the Asset Guarantee Program's sole participant, Citigroup. As a result, the Asset Guarantee Program line item (non-intragovernmental asset) at September 30, 2010, represented the net present value of the estimated cash inflows from Citigroup trust preferred securities and additional warrants that OFS held after the guarantee was terminated. These securities and warrants were sold by the OFS in fiscal year 2011. The intragovernmental Asset Guarantee Program line item is the estimated value of certain Citigroup trust preferred securities currently held by the FDIC for the benefit of OFS. Under the termination agreement, the FDIC has agreed to transfer these securities to the OFS, less any losses on FDIC's guarantee of Citigroup debt, by December 31, 2012. See Note 6.

## General Property and Equipment

Equipment with a cost of $50,000 or more per unit and a useful life of two years or more is capitalized at full cost and depreciated using the straight-line method over the equipment's useful life. Other equipment not meeting the capitalization criteria is expensed when purchased. Software developed for internal use is capitalized and amortized over the estimated useful life of the software if the cost per project is greater than $250,000. However, OFS may expense such software if management concludes that total period costs would not be materially distorted and the cost of capitalization is not economically prudent. Based upon these criteria, the OFS reports no capitalized property, equipment or software on its Balance Sheet as of September 30, 2011 and 2010.

## Accounts Payable and Other Liabilities

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

## Principal Payable to the Bureau of the Public Debt

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

## Due to the General Fund

Due to the General Fund represents the amount of accrued downward reestimates and, for fiscal year 2010, one downward modification not yet funded, related to direct loans, equity investments and other credit programs as of September 30, 2011 and 2010. See Notes 6 and 7.

## Liabilities for the Treasury Housing Programs Under TARP

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

At the end of fiscal year 2010, the OFS entered into a loss-sharing agreement with the FHA to support a program in which FHA would guarantee refinancing for borrowers whose homes are worth less than the remaining amounts owed under their mortgage loans. The liability for OFS' share of losses was determined under credit reform accounting and is included in the Liability for Treasury Housing Programs under TARP on the Balance Sheet. See Notes 4, 5 and 6 for additional disclosures regarding the FHA-Refinance Program.

## Unexpended Appropriations

Unexpended Appropriations represents the OFS undelivered orders and unobligated balances in budgetary appropriated funds as of September 30, 2011 and 2010.

## Cumulative Results of Operations

Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, represents the net results of the OFS operations not funded by appropriations or some other source, such as borrowing authority, from inception through fiscal year end. At September 30, 2011 and 2010, OFS had $27.9 billion and $1.5 billion, respectively, of unfunded upward reestimates that resulted in OFS reporting negative Cumulative Results of Operations. The fiscal year 2010 upward reestimates were funded in fiscal year 2011. The fiscal year 2011 unfunded reestimates will be funded in fiscal year 2012. Cumulative Results of Operations in 2011 also included $50 million reported as Cash on Deposit for Housing Program on the Balance Sheet, see Note 4.

## Other Financing Sources

The Other Financing Sources line in the Statement of Changes in Net Position for each year consists primarily of downward reestimates. Each program's reestimates, upward and downward, are recorded separately, not netted together.

## Leave

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

## Employee Health and Life Insurance and Workers' Compensation Benefits

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

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

## Employee Pension Benefits

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

## Related Parties

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

# NOTE 3. FUND BALANCES WITH TREASURY

Fund Balances with Treasury, by fund type and status, are presented in the following table.

| (Dollars in Millions) | As of September 30, 2011 | 2010 |
|---|---|---|
| **Fund Balances:** | | |
| General Funds | $ 43,542 | $ 45,438 |
| Program Funds | 14,438 | 34,766 |
| Financing Funds | 25,362 | 18,460 |
| **Total Fund Balances** | $ 83,342 | $ 98,664 |
| **Status of Fund Balances:** | | |
| Unobligated Balances | | |
| Available | 547 | 7,834 |
| Unavailable | 34,762 | 13,790 |
| Obligated Balances Not Yet Disbursed | 48,033 | 77,040 |
| **Total Status of Fund Balances** | $ 83,342 | $ 98,664 |

Collections relating to the AGP are deposited in the Troubled Assets Insurance Financing Fund (which is within OFS Financing Funds balance) as required by the EESA Section 102(d). The TAIFF balance was reduced for AGP-related downward reestimates and repayments of AGP-related debt due to the Bureau of the Public Debt (see Note 6).

# NOTE 4. CASH ON DEPOSIT FOR HOUSING PROGRAM

As of September 30, 2011, the OFS had $50 million on deposit with a commercial bank to facilitate its payments of claims under the FHA-Refinance Program as OFS' agent. Under terms of its agreement, the OFS is required to maintain a minimum amount of funds on deposit, depending upon the size of the program and potential claims. Unused funds will be returned to the OFS upon the termination of the program and agreement.

# NOTE 5. THE TREASURY HOUSING PROGRAMS UNDER TARP

Fiscal year 2011 saw a continued advancement of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation. These programs fall into three initiatives:

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

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

Fiscal year 2010 also saw the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for FHA guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their first lien mortgages under the FHA-Refinance Program. The RD-HAMP provides HAMP incentives for mortgages guaranteed by the U. S. Department of Agriculture.

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

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

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

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) which is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. HUD will pay a portion of the amount refinanced to the investor and OFS will pay incentives to encourage the extinguishment of second liens associated with the refinanced mortgages. OFS established a letter of credit that obligated the OFS portion of any claims associated with the FHA-guaranteed mortgages. The OMB determined that for budgetary purposes, the FHA-Refinance Program cost is calculated under the FCRA, and accordingly OFS determined that it was appropriate to follow SFFAS No. 2 for financial reporting. Therefore, the liability is calculated at the net present value of estimated future cash flows. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012, and OFS will honor its share of claims against the letter of credit through 2020. As of September 30, 2011, 334 loans had been refinanced and no claim payments have been made under this program. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. However, in fiscal year 2011, OFS paid $2.0 million to maintain the letter of credit; in fiscal year 2010, OFS paid $3.0 million to establish the letter of credit. OFS was required to deposit $50.0 million with a commercial bank as its agent to administer payment of claims under the program. See Notes 4 and 6.

The table below recaps housing program commitments as of September 30, 2011, and payments and accruals as of September 30, 2011 and 2010. As noted above, the UP is structured so that there is no financial impact on the OFS.

**Treasury Housing Programs Under TARP**

(Dollars in Millions)

| | Commitments as of September 30, 2011 | Fiscal Year Payments through September 30, 2011 | Fiscal Year Payments through September 30, 2010 | Accruals as of September 30, 2011 | Accruals as of September 30, 2010 |
|---|---|---|---|---|---|
| **MHA** | $ 29,884 | | | | |
| **HAMP (1st Lien)** | - | $ 1,035 | $ 473 | $ 236 | $ 175 |
| HPDP | - | 126 | 9 | 95 | 108 |
| PRA** | - | - | - | - | - |
| UP* | N/A | N/A | N/A | N/A | N/A |
| HAFA | - | 67 | 2 | 7 | - |
| **FHA HAMP** | - | 4 | - | 1 | - |
| **2MP** | - | 50 | - | 4 | - |
| **2LP**** | - | - | - | - | - |
| **RD - HAMP**** | - | - | - | - | - |
| **HFA Hardest Hit Fund** | 7,600 | 599 | 56 | - | - |
| **FHA - Refinance***** | 8,117 | 2 | 3 | 1 | - |
| **Totals** | **$ 45,601** | **$ 1,883** | **$ 543** | **$ 344** | **$ 283** |

** No financial impact.*

***No financial activity to date.*

****Payments do not include $50 million to establish reserve, shown on Balance Sheet as Cash on Deposit for Housing Program. Also see Note 6.*

# NOTE 6. TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS, NET AND OTHER CREDIT PROGRAMS

The OFS administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The OFS made direct loans and equity investments under TARP. The OFS also entered into other credit programs, which consist of an asset guarantee program and a loss-sharing program under the TARP. The table below recaps OFS programs by title and type:

| Program | Program Type |
|---|---|
| **Direct Loans and Equity Investments** | |
| Capital Purchase Program | Equity Investment/Subordinated Debentures |
| American International Group, Inc. Investment Program | Equity Investment |
| Targeted Investment Program | Equity Investment |
| Automotive Industry Financing Program | Equity Investment and Direct Loan |
| Consumer and Business Lending Initiative: | |
| Term Asset-Backed Securities Loan Facility | Subordinated Debentures |
| SBA 7(a) Security Purchase Program | Direct Loan |
| Community Development Capital Initiative | Equity Investment/Subordinated Debentures |
| Public-Private Investment Program | Equity Investment and Direct Loan |
| **Other Credit Programs** | |
| Asset Guarantee Program | Asset Guarantee |
| FHA-Refinance Program | Loss-sharing Program with FHA |

## Valuation Methodology

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

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

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

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

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

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

| (Dollars in Millions) | As of September 30, 2011 | | | |
|---|---|---|---|---|
| | Quoted Prices for Identical Assets | Significant Observable Inputs | Significant Unobservable Inputs | Total |
| **Program** | | | | |
| Capital Purchase Program | $ 202 | $ - | $ 12,240 | $ 12,442 |
| American International Group Inc. Investment Program | 21,076 | 9,294 | - | 30,370 |
| Targeted Investment Program | - | - | - | - |
| Automotive Industry Financing Program | 10,091 | - | 7,747 | 17,838 |
| Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) Securities and CDCI | - | 126 | 951 | 1,077 |
| Public-Private Investment Program | - | - | 18,377 | 18,377 |
| Asset Guarantee Program | - | 739 | - | 739 |
| **Total TARP Programs** | $ 31,369 | $ 10,159 | $ 39,315 | $ 80,843 |

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

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

### Financial Institution Equity Investments[13]

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

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of US banks over the period 1990-2010. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment

[13] This consists of equity investments made under CPP, TIP and CDCI.

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

### American International Group, Inc. (AIG) Investment Program

As of September 30, 2011, the OFS held 960 million shares of AIG common stock. Investments in AIG common stock were valued at the quoted market price as of September 30, 2011. The OFS also held interests in certain AIG SPVs. To estimate the value of the assets underlying the preferred interests in the SPVs, OFS sums the value of the common equity shares held by the SPVs, any cash held in escrow from previous asset sales, and the weighted average value of the remaining assets under different scenarios. Because the resulting value greatly exceeds the liquidation preference of the investments in the SPVs, the SPVs were valued at the liquidation preference.

For fiscal year 2010, the method used to measure AIG preferred shares was broadly analogous to the approach used to measure financial institution preferred shares. However, the size of OFS' holding of preferred shares relative to AIG's total balance sheet made the valuation extremely sensitive to assumptions about the recovery ratio for preferred shares should AIG default. Also, no market prices for comparable preferred shares existed. Therefore, OFS based the AIG investment valuation on the observed market values of publicly traded junior subordinated debt, adjusted for OFS' position in the capital structure. Additionally, an external asset manager provided estimated fair value amounts, premised on public information, which were considered by the OFS in its measurements.

### Auto Industry Financing Program (AIFP) Investments and Loans

As of September 30, 2011, the OFS held 500 million shares of common stock in General Motors Company (New GM) that were valued by multiplying the publicly traded share price by the number of shares held.

As of September 30, 2010, OFS held a 60.8% stake in the common stock of New GM. As New GM common stock was not publicly traded as of September 30, 2010, and because the unsecured bond holders in General Motors Corporation (Old GM) received 10 percent of the common equity ownership and warrants in New GM, the expected recovery rate implied by the trading prices of the Old GM bonds provided the implied value of the New GM equity. OFS used this implied equity value to account for its common stock ownership in New GM as of September 30, 2010. As of September 30, 2010, investments in GM preferred shares were valued in a manner broadly analogous to the methodology used for financial institution equity investments.

As of September 30, 2010, OFS held a 9.9% stake in the common stock of Chrysler. As Chrysler common stock was not publicly traded as of September 30, 2010, OFS created a pro forma balance sheet for post-bankruptcy Chrysler and used the estimated book value to account for its common stock ownership in Chrysler.

As of September 30, 2010, OFS valued direct loans to GM and Chrysler using an analytical model that estimates the net present value of the expected principal, interest, and other scheduled payments taking into account potential defaults. In the event of an institution's default, these models include estimates of recoveries, incorporating the effects of any collateral provided by the contract. The probability of default and losses given default are estimated by using historical data when available, or publicly available proxy data, including credit rating agencies historical performance data. The models also incorporate an adjustment for market risk to reflect the additional return on capital that would be required by a market participant.

As of September 30, 2011 and 2010, for investments in Ally Financial's (Ally, formerly known as GMAC, Inc.) common equity and mandatorily convertible preferred stock, which is valued on an "if-converted" basis, the OFS used certain valuation multiples such as price-to-earnings, price-to-tangible book value, and asset manager valuations to estimate the value of the shares. The multiples were based on those of comparable publicly-traded entities. As of September 30, 2010, OFS estimated the value of Ally's trust preferred equity instruments based on comparable publicly traded securities adjusted for factors specific to Ally, such as credit rating. The adjustment for market risk is incorporated in the data points the OFS uses to determine the measurement for Ally as all points rely on market data.

### Investments in Special Purpose Vehicles

In addition to the preferred interests in AIG SPVs discussed previously in this section, the OFS made certain investments in other financial instruments issued by SPVs. Generally, the OFS estimates the cash flows of these SPVs and then applies those cash flows to the waterfall governing the priority of payments out of the SPV.

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

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

### SBA 7(a) Securities

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

### Asset Guarantee Program (AGP)

During fiscal year 2010, an agreement was entered into to terminate the guarantee of OFS to pay for any defaults on certain loans and securities held by Citibank. After the termination, the OFS still held some of the trust preferred securities (initially received as the guarantee fee) and warrants issued by Citigroup and the potential to receive $800 million (liquidation preference) of additional Citigroup trust preferred securities from the FDIC (see further discussion of the Asset Guarantee Program later in this note). As of September 30, 2011 and 2010, the instruments within the AGP were valued in a manner broadly analogous to the methodology used for financial institution equity investments.

## Direct Loan and Equity Investment Programs

The following table recaps gross direct loan or equity investment, subsidy allowance, and net direct loan or equity investment by TARP program. Detailed tables providing the net composition, subsidy cost for new disbursements, modifications and reestimates, along with a reconciliation of subsidy cost allowances as of and for the years ended September 30, 2011 and 2010, are provided at the end of this Note for Direct Loans and Equity Investments, detailed by program, and for the other credit programs separately.

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

| (Dollars in Millions) | As of September 30, 2011 | | |
|---|---|---|---|
| | Gross Direct Loan or Equity Invesment | Subsidy Allowance | Net Direct Loan or Equity Invesment |
| **Program** | | | |
| Capital Purchase Program | $ 17,299 | $ (4,857) | $ 12,442 |
| American International Group Inc. Investment Program | 51,087 | (20,717) | 30,370 |
| Targeted Investment Program | - | - | - |
| Automotive Industry Financing Program | 37,278 | (19,440) | 17,838 |
| Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) Securities and CDCI | 798 | 279 | 1,077 |
| Public-Private Investment Program | 15,943 | 2,434 | 18,377 |
| **Total Direct Loan and Equity Investment Programs** | $122,405 | ($42,301) | $80,104 |

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

## Capital Purchase Program

In October 2008, the OFS began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the OFS purchased senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0% through year five, increasing to 9.0% in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others and payable when and if declared by the institution's board of directors. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7% for the first 5 years and 13.8% for the remaining years. QFIs, subject to regulator approval, may repay the OFS' investment at any time.

In addition to the senior preferred stock, the OFS received warrants, as required by section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. The warrants have an aggregate exercise price equal to 15.0% of the total senior preferred stock investment. Prior to December 31, 2009, in the event a public QFI completed one or more qualified equity offerings with aggregate gross proceeds of not less than 100.0% of the senior perpetual preferred stock investment, the number of shares subject to the warrants was reduced by 50.0%. As of December 31, 2009, a total of 38 QFIs reduced the number of shares available under the warrants as a result of this provision. The warrants have a 10 year term. Subsequent to December 31, 2009, the OFS may exercise any warrants held in whole or in part at any time.

The OFS received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0% (13.8% interest rate for subordinate debentures) and a liquidation preference equal to 5.0% of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in the OFS holding additional senior preferred stock (subordinated debentures) (collectively referred to as "warrant preferred stock") of non-public QFIs. The OFS did not receive warrants from financial institutions considered Community Development Financial Institutions (CDFIs). A total of 7 and 35 institutions considered CDFIs were in the CPP portfolio as of September 30, 2011 and 2010, respectively.

The Secretary may liquidate the warrants associated with repurchased senior preferred stock at the market price.

A QFI, upon the repurchase of its senior preferred stock, also has the contractual right to repurchase the common stock warrants at the market price.

The task of managing the investments in CPP banks may require that the OFS enter into certain agreements to exchange and/or convert existing investments in order to achieve the best possible return for taxpayers.

In fiscal year 2009, the OFS entered into an exchange agreement with Citigroup under which the OFS exchanged $25.0 billion of its investment in senior preferred stock for 7.7 billion common shares of Citigroup stock, at $3.25 per share. In April 2010, the OFS began a process of selling the Citigroup common stock. As of September 30, 2010, the OFS had sold approximately 4.0 billion shares for total proceeds of $16.1 billion resulting in proceeds from sales in excess of cost of $3.0 billion. The OFS continued to hold approximately 3.7 billion shares of Citigroup common stock with an estimated fair value of $14.3 billion, based on the September 30, 2010, closing price of $3.91 per share.

During fiscal year 2011, OFS received proceeds of $15.8 billion from the sale of Citigroup common stock, resulting in proceeds from sales in excess of cost of $3.9 billion. By December 2010, the OFS had sold all of its remaining Citigroup common stock. Total gross proceeds from Citigroup stock sales between April and December 2010, were $31.9 billion. Also in January 2011, OFS sold its Citigroup warrants held under CPP, for a total of $54.6 million.

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

During fiscal year 2011, certain financial institutions participating in CPP became eligible to exchange their OFS-held stock investments to preferred stock in the Small Business Lending Fund (SBLF), a separate Department of the Treasury program not a part of the TARP. Because this refinance was not considered in the formulation estimate for the CPP program, a modification was recorded in May 2011, resulting in a subsidy cost reduction of $1.0 billion.

During fiscal year 2010, certain financial institutions participating in CPP which are in good standing became eligible to refinance their OFS-held stock investments to preferred stock under the Community Development Capital Initiative (CDCI) of the Consumer and Business Lending Initiative Program (CBLI). This was not considered in the formulation estimate for the CPP program. As a result, OFS recorded a modification subsidy cost reduction of $31.9 million in the CPP program for this option during fiscal year 2010.

In fiscal year 2011, OFS made no write off of CPP investments. In fiscal year 2010, as a result of the culmination of Chapter 11 bankruptcy proceedings, the OFS wrote off its $2.3 billion investment in CIT Group and will not recover any amounts associated with it. In addition, during fiscal year 2011, eight institutions, in which OFS had invested $190.3 million, were closed by their regulators. During fiscal year 2010, four financial institutions, in which OFS had invested $396.3 million, either filed for bankruptcy or were closed by their regulators. The OFS does not anticipate recovery on these investments and therefore the value of these shares are reflected at zero as of September 30, 2011 and 2010. The ultimate amount received, if any, from the investments in institutions that filed for bankruptcy and institutions closed by regulators will depend primarily on the outcome of the bankruptcy proceedings and of each institution's receivership.

The following tables provide key data points related to the CPP for the fiscal years ending September 30, 2011 and 2010:

| CPP Participating Institutions | At September 30, 2011 | 2010 |
|---|---|---|
| Cumulative Number of Institutions Participating | 707 | 707 |
| Cumulative Institutions Paid in Full, Merged or Investments Sold | (139) | (80) |
| Institutions Transferred to CDCI | (28) | (28) |
| Institutions Refinanced to SBLF | (137) | - |
| Institutions Written Off | (2) | (2) |
| Number of Institutions with Outstanding OFS Investments | 401 | 597 |
| Institutions in Bankruptcy or Receivership | (11) | (3) |
| **Number of CPP Institutions Valued at Year-End** | **390** | **594** |
| Cumulative Number of Institutions that Have Missed One or More Dividend Payments | 181 | 132 |

| CPP Investments (Dollars in Millions) | Fiscal Year 2011 | Fiscal Year 2010 |
|---|---|---|
| Outstanding Beginning Balance, Investment in CPP Institutions, Gross | $ 49,779 | $ 133,901 |
| Purchase Price, Current Year Investments | - | 277 |
| Repayments and Sales of Investments | (30,188) | (81,467) |
| Writeoffs | - | (2,334) |
| Losses from Sales and Repurchases of Assets in Excess of Cost | (85) | (242) |
| Transfers to CDCI | - | (356) |
| Refinanced to SBLF | (2,207) | - |
| Outstanding Balance, Investment in CPP Institutions, Gross | **$ 17,299** | **$ 49,779** |
| Interest and Dividend Collections | $ 1,283 | $ 3,131 |
| Net Proceeds from Sales and Repurchases of Assets in Excess of Cost | $ 4,540 | $ 6,676 |

## American International Group, Inc. (AIG) Investment Program

The OFS provided assistance to systemically significant financial institutions on a case by case basis in order to help provide stability to institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to help prevent broader disruption to financial markets. OFS invested in one institution (AIG) under the program.

In November 2008, the OFS invested $40.0 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0%, compounded quarterly. The OFS also received a warrant for the purchase of approximately 53.8

million shares (adjusted to 2.7 million shares after a 20:1 reverse stock split) of AIG common stock. On April 17, 2009, AIG and the OFS restructured their November 2008 agreement. Under the restructuring, the OFS exchanged $40.0 billion of cumulative Series D preferred stock for $41.6 billion of non-cumulative 10.0% Series E preferred stock. Additionally, the OFS agreed to make available a $29.8 billion capital facility from which AIG could draw funds if needed to assist in its restructuring.

The OFS investment related to the capital facility consisted of Series F non-cumulative perpetual preferred stock with no initial liquidation preference, and a warrant for the purchase of 3,000 shares (adjusted to 150 shares after a 20:1 reverse stock split of AIG common stock). This liquidation preference increased with any draw down by AIG on the facility. The dividend rate applicable to these shares was 10.0%, payable quarterly, if declared, on the outstanding liquidation preference. As of September 30, 2010, AIG had drawn $7.5 billion from the facility. Under this capital facility, consistent with SFFAS No. 2, neither a subsidy cost nor an asset was recognized on the undrawn portion of $22.3 billion at September 30, 2010. In fiscal year 2011, AIG drew $20.3 billion from the capital facility, for a total of $27.8 billion drawn.

On September 30, 2010, the Treasury, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring, which occurred January 14, 2011, converted OFS' $27.8 billion investment in Series F preferred stock into $20.3 billion of interests in AIG SPVs and 167.6 million shares of AIG common stock. The remaining $2.0 billion of undrawn Series F capital facility shares were exchanged for 20,000 shares of Series G Cumulative Mandatory Convertible Preferred Stock equity capital facility under which AIG had the right to draw up to $2 billion. OFS' initial $40 billion investment previously exchanged for $41.6 billion of Series E preferred stock was converted into 924.6 million shares of AIG common stock.[14] On May 27, 2011, pursuant to agreement between the OFS and AIG, and as a result of AIG's primary public offering of its common stock, the Series G equity capital facility was cancelled. In May 2011, the OFS sold 132.0 million shares of its AIG common stock for $3.8 billion. These proceeds were less than OFS' cost by $1.9 billion.

In fiscal year 2011, OFS received $11.5 billion in distributions from the AIG SPVs, reduced its outstanding balance relating to the AIG SPVs by $11.2 billion and received dividends of $246 million. OFS also capitalized dividend income of $204 million. Additionally, OFS received fees of $165.0 million from AIG. The OFS received no payments from AIG in fiscal year 2010.

At September 30, 2011, the OFS owned 960 million shares of AIG common stock, approximately 50.8% of AIG's common stock equity on a fully diluted basis.[15] Market value of the common stock shares was $21.1 billion. OFS also owned preferred units in an AIG SPV with an outstanding balance of $9.3 billion.

According to the terms of the preferred stock, if AIG missed four dividend payments, the OFS could appoint to the AIG board of directors, the greater of two members or 20.0% of the total number of directors of the Company. On April 1, 2010, the OFS appointed two directors to the Company's board as a result of non-payments of dividends. The additional two directors increased the total number of AIG directors to twelve. The two additional OFS-appointed directors remained on the board as of September 30, 2011.

## Targeted Investment Program

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. The OFS considered institutions

[14] Additionally, the AIG Credit Facility Trust between the Federal Reserve Bank of New York and AIG was terminated and the Department of the Treasury separately, not the OFS, received 562.9 million shares of AIG common stock from it as part of the restructuring transaction. At the completion of the restructuring per the agreement, the Department of the Treasury, including OFS, held 92.1% of AIG's common stock on a fully diluted basis. See the Agency Financial Report for the Department of the Treasury for its separate presentation and valuation of its shares of AIG common stock.

[15] The Department of the Treasury, not OFS, owned 494.9 million shares of AIG common stock, approximately 26.1% of AIG's common stock equity, fully diluted, at September 30, 2011.

as candidates for the TIP on a case-by-case basis, based on a number of factors including the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

Under TIP, the OFS invested $20 billion in Citigroup in December, 2008 and $20 billion in Bank of America in January, 2009. In December 2009, both institutions repaid the amounts invested along with dividends through the date of repayment. In fiscal year 2010, OFS received a total of $1.1 billion in dividends on the Bank of America and Citigroup investments and proceeds of $1.2 billion from the sale of Bank of America warrants. In fiscal year 2011, OFS sold its warrant from Citigroup under TIP for $190.4 million and closed the program.

## Automotive Industry Financing Program

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

### General Motors Company (New GM) and General Motors Corporation (Old GM)

In the period ended September 30, 2009, the OFS provided $49.5 billion to General Motors Corporation (Old GM) through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while Old GM was in bankruptcy. The OFS assigned its rights in these various loans (with the exception of $986.0 million which remained in Old GM for wind down purposes and $7.1 billion that would be assumed) and previously received common stock warrants to a newly created entity, General Motors Company (New GM). New GM used the assigned loans and warrants to credit bid for substantially all of the assets of Old GM in a sale pursuant to Section 363 of the Bankruptcy Code. During fiscal year 2009, upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the OFS received $2.1 billion in 9.0% cumulative perpetual preferred stock and 60.8% of the common equity in New GM. In addition, New GM assumed $7.1 billion of the DIP loan, simultaneously paying $360.6 million (return of warranty program funds), resulting in a net balance of $6.7 billion. The assets received by the OFS as a result of the assignment and Section 363 sale were considered recoveries of the original loans for subsidy cost estimation purposes.

During fiscal year 2010, the OFS received the remaining $6.7 billion as full repayment of the DIP loan assumed. In addition as of September 30, 2010, the OFS had received $188.8 million in dividends and $343.1 million in interest on New GM preferred stock and the loan prior to repayment, respectively. At September 30, 2010, the OFS held 60.8% of the common stock of New GM and $2.1 billion in preferred stock.

During fiscal year 2011, pursuant to a letter agreement, New GM repurchased its preferred stock for 102% of its liquidation amount, $2.1 billion. As part of an initial public offering by New GM in fiscal year 2011, the OFS sold 412.3 million shares of its common stock for $13.5 billion, at a price of $32.75 per share (net of fees). The sale resulted in net proceeds less than cost of $4.4 billion. At September 30, 2011, the OFS held 500 million shares of the common stock of New GM, which represents approximately 32.0% of the common stock of New GM outstanding. Market value of the shares as of September 30, 2011 was $10.1 billion.

On March 31, 2011, the Plan of Liquidation for Old GM became effective and OFS' $986 million loan was converted to an administrative claim. OFS retains the right to recover additional proceeds but recoveries are dependent on actual liquidation proceeds and pending litigation. OFS recovered $110.9 million in fiscal year 2011 on the administrative claim. OFS does not expect to recover any significant additional proceeds from this claim.

### GMAC LLC Rights Offering

In December 2008, the OFS agreed, in principal, to lend up to $1.0 billion to Old GM for participation in a rights offering by GMAC LLC (now known as Ally Financial, Inc.) in support of GMAC LLC's reorganization as a bank holding company. The loan was secured by the GMAC LLC common interest acquired in the rights offering. The loan was funded for $884.0 million. In May 2009, the

OFS exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36% of the voting interest at the time, in GMAC LLC in full satisfaction of the loan. As of September 30, 2011 and 2010, the OFS continued to hold the ownership interests obtained in this transaction (see further discussion of OFS' GMAC holdings under Ally Financial Inc. in this note.).

### Chrysler Group LLC (New Chrysler) and Chrysler Holding LLC (Old Chrysler)

In the period ended September 30, 2009, the OFS invested $5.9 billion in Chrysler Holding LLC (Old Chrysler), consisting of $4.0 billion for general and working capital purposes (the general purpose loan) and $1.9 billion for debtor in possession (DIP) financing while Old Chrysler was in bankruptcy. Upon entering bankruptcy, a portion of Old Chrysler was sold to a newly created entity, Chrysler Group LLC (New Chrysler). Under the terms of the bankruptcy agreement, $500 million of the general purpose loan was assumed by New Chrysler. In fiscal year 2010, the OFS received $1.9 billion on the general purpose loan and wrote off the remaining $1.6 billion. Recovery of the $1.9 billion DIP loan was subject to the liquidation of collateral remaining with Old Chrysler. In fiscal year 2010, as part of a liquidation plan, OFS' DIP loan to Old Chrysler was extinguished, and OFS retained a right to receive proceeds from a liquidation trust. OFS received $7.8 million and $40.2 million from the liquidation trust during fiscal years 2011 and 2010, respectively.

Under the terms of the bankruptcy agreement, the OFS committed to make a $7.1 billion loan to New Chrysler, consisting of up to $6.6 billion of new funding and $500 million of assumed debt from the general purpose loan with Old Chrysler. The loan was secured by a first priority lien on the assets of New Chrysler. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. Tranche B provided an additional $2.0 billion loan funded at closing. Tranche C included the $500 million assumed from the general purpose loan and provided $2.6 billion funded at closing. Interest on both Tranches was payable in kind through December 2009 and added to the principal balance of the respective Tranche. Interest was paid quarterly beginning March 31, 2010. Additional in kind interest was accrued at $17.0 million a quarter and added to the Tranche C loan balance subject to interest at the appropriate rate. In fiscal year 2010, the OFS recognized $344.4 million of paid-in-kind interest capitalized to these loans and received $381.8 million of interest.

The OFS also obtained other consideration including a 9.9% equity interest in New Chrysler and additional notes with principal balances of $284 million and $100 million. Fiat SpA (the Italian automaker), the Canadian government and the United Auto Workers (UAW) retiree healthcare trust were the other shareholders in New Chrysler.

In May 2011, New Chrysler repaid both Tranche B and C principal balances of $5.1 billion, the additional notes totaling $384 million and all interest due. New Chrysler's ability to draw the remaining $2.1 billion loan commitment was terminated. In July 2011, Fiat SpA paid the OFS $560 million for its remaining equity interest in New Chrysler and for OFS' rights under an agreement with the UAW retiree healthcare trust pertaining to the trust's shares in New Chrysler.

As a result of the fiscal year 2011 transactions, OFS has no remaining interest in New Chrysler as of September 30, 2011. Total net proceeds received relating to these 2011 transactions were $896 million less than OFS' cost. OFS continues to hold a right to receive proceeds from a bankruptcy liquidation trust but no significant cash flows are expected.

### Auto Supplier Support Program

In fiscal year 2009, the OFS provided approximately $413.1 million of funding to this program, which was not affected by the bankruptcy of Old Chrysler and Old GM, as both companies were allowed to continue paying suppliers while in bankruptcy. The $413.1 million was repaid in fiscal year 2010, along with $9.0 million in interest and $101.1 million in fees and other income, and the program was closed.

### Ally Financial Inc. (formerly known as GMAC Inc.)

The OFS invested a total of $16.3 billion in GMAC Inc. between December 2008 and December 2009, to help support its ability to originate new loans to GM and Chrysler dealers and consumers and to help address GMAC's capital needs. In May, 2010, GMAC changed its corporate name to Ally Financial, Inc (Ally). As a result of original investments, exchanges, conversions and warrant exercises, at September 30, 2010, the OFS held 450,121 shares of Ally common stock (representing 56.3% of the company's outstanding common stock including ownership interests from the GMAC LLC Rights Offering previously discussed), 2.7 million shares of 8% cumulative Trust Preferred Securities (TRuPS) with a $1,000 per share liquidation preference and 228.8 million shares of Ally's Series F-2 Mandatorily Convertible Preferred Securities. The Series F-2, with a $50 per share liquidation preference and a stated dividend rate of 9%, is convertible into Ally common stock at Ally's option, subject to the approval of the Federal Reserve and consent by the OFS or pursuant to an order by the Federal Reserve compelling such conversion. The Series F-2 security is also convertible at the option of the OFS upon certain specified corporate events. Absent an optional conversion, any Series F-2 remaining will automatically convert to common stock after 7 years from the issuance date. The applicable conversion rate is the greater of the (i) initial conversion rate (0.00432) or (ii) adjusted conversion rate (i.e., the liquidation amount per share of the Series F-2 divided by the weighted average price at which the shares of common equity securities were sold or the price implied by the conversion of securities into common equity securities, subject to antidilution provisions).

In December 2010, 110 million shares of the Series F-2 preferred were converted into 531,850 shares of Ally common stock, resulting in the OFS holdings of Series F-2 preferred decreasing to 118.8 million shares, and OFS holdings in common stock of Ally increasing to 981,971 shares, representing 73.8% of Ally's outstanding common stock.

During fiscal year 2011, the agreement between Ally and OFS regarding its TRuPS was amended to facilitate OFS' sale of its TRuPS in the open market. Because this amendment to agreement terms was not considered in the formulation subsidy cost estimate for the AIFP program, the OFS recorded a modification resulting in a subsidy cost reduction of $174 million.

In March 2011, the OFS sold its TRuPS for $2.7 billion, resulting in proceeds in excess of cost of $127.0 million.

On March 31, 2011, the OFS announced that it had agreed to be named as a selling shareholder of common stock in Ally's registration statement filed with the Securities and Exchange Commission (SEC) for a proposed initial public offering. Since March 31, 2011, Ally has filed four amendments in response to SEC comments; there has been no public offering.

At September 30, 2011, the OFS held 981,971 shares of common stock (73.8% of Ally's outstanding common stock) and 118.8 million shares of the Series F-2 preferred securities. The Series F-2 are convertible into at least 513,000 shares of common stock, which, if combined with the common stock currently owned, would represent 81% ownership of Ally common stock by the OFS. In fiscal year 2011, the OFS received $838.6 million in dividends from Ally. In fiscal year 2010, the OFS received $1.2 billion in dividends.

## Consumer and Business Lending Initiative (CBLI)

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

### Term Asset-Backed Securities Loan Facility

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

Under the TALF, the Federal Reserve Bank of New York (FRBNY), as implementer of the TALF program, originated loans on a non-recourse basis to purchasers of certain AAA rated ABS secured by consumer and commercial loans and commercial mortgage backed securities (CMBS). Interest rates charged on the TALF loans depend on the weighted average maturity of the pledged collateral, the collateral type and whether the collateral pays fixed or variable interest. The program ceased issuing new loans on June 30, 2010. As of September 30, 2011, approximately $11.3 billion of loans due to the FRBNY remained outstanding compared to September 30, 2010, when approximately $29.7 billion of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY created the TALF, LLC, a special purpose vehicle that agreed to purchase from the FRBNY any collateral it has seized due to borrower default. The TALF, LLC would fund purchases from the accumulation of monthly fees paid by the FRBNY as compensation for the agreement. Only if the TALF, LLC had insufficient funds to purchase the collateral did the OFS commit to invest up to $20.0 billion in non-recourse subordinated notes issued by the TALF, LLC. In July 2010, the OFS' commitment was reduced to $4.3 billion. The OFS disbursed $100.0 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the fees are not sufficient to cover purchases. The subordinated notes bear interest at 1 Month LIBOR plus 3.0% and mature 10 years from the closing date, subject to extension. Any amounts needed in excess of the OFS commitment and the fees would be provided through a loan from the FRBNY. Upon wind-down of the TALF, LLC (collateral defaults, reaches final maturity or is sold), available cash will be disbursed first to FRBNY and then to the OFS principal balances, secondly to FRBNY and then to the OFS interest balances and finally any remaining cash 10% to the FRBNY and 90% to the OFS.

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

As of September 30, 2011 and 2010, no TALF loans were in default and consequently no collateral was purchased by the TALF, LLC.

### SBA 7(a) Security Purchase Program

In March 2010, the OFS began the purchase of securities backed by Small Business Administration 7(a) loans (7(a) Securities) as part of the Unlocking Credit for Small Business Initiative. Under this program OFS purchased 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. As of September 30, 2010, OFS had entered into trades to purchase $356.3 million of these securities (excluding purchased accrued interest), of which $240.7 million had been disbursed. Investments totaled $367.1 million (excluding purchased accrued interest) by December 2010 when OFS disbursements under the program were completed. In May 2011, OFS began selling its securities to bond market investors. During fiscal year 2011, the OFS received $10.7 million in interest and $235.8 million in principal payments on the securities including returns from sales to other investors. During fiscal year 2010, the OFS received $1.0 million in interest and $2.5 million in principal payments on these securities. As of September 30, 2011, OFS held $127.6 million of SBA 7(a) securities.

### Community Development Capital Initiative

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

For CDFI credit unions, the OFS purchased subordinated debt at rates equivalent to those offered to CDFIs and with similar terms. These institutions could apply for up to 3.5 percent of total assets - an amount approximately equivalent to the

5 percent of risk-weighted assets available to banks and thrifts.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their CPP preferred shares (subordinated debt) then held by OFS for CDCI preferred shares (subordinated debt). These exchanges were treated as disbursements from CDCI and repayments to CPP. As of September 30, 2010, the OFS had invested $570.1 million ($363.3 million as a result of exchanges from CPP) in 84 institutions under the CDCI. No additional disbursements were made in fiscal year 2011. No repayments were received in fiscal years 2011 or 2010. During fiscal year 2011, OFS received $10.5 million in dividends and interest from its CDCI investments.

### Public-Private Investment Program

The PPIP is part of the OFS' efforts to help restart the financial securities market and provide liquidity for legacy assets. Under this program, the OFS (as a limited partner) made equity investments in and loans to nine investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers between September and December, 2009. The equity investment was used to match private capital and equaled approximately 50.0% of the total equity invested. Each PPIF could elect to receive a loan commitment from the OFS equal to either 50% or 100% of partnership equity at differing costs; all chose 100%. The loans bear interest at 1 Month LIBOR, plus 1.0%, payable monthly. The maturity date of each loan is the earlier of 10 years or the termination of the PPIF. The loan can be prepaid without penalty. Each PPIF terminates in 8 years from its commencement. The governing documents of the funds allow for 2 one year extensions, subject to approval of the OFS. The loan agreements also require cash flows from purchased securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help protect the interests of secured parties. Security cash flows collected are disbursed 1) to pay administrative expenses; 2) to pay margin interest on permitted hedges; 3) to pay current period interest to OFS; 4) to maintain a required interest reserve account; 5) to pay principal on the OFS loan when the minimum Asset Coverage Ratio Test is not satisfied; 6) to pay other amounts on interest rate hedges if not paid under step 2 ; 7) for additional temporary investments or to prepay loans (both at the discretion of the PPIF); 8) for distributions to equity partners up to the lesser of 12 months' net interest collected or 8% of the funded capital commitments; 9) for loan prepayments to OFS and 10) for distribution to equity partners.

Each loan carries a financial covenant, the Asset Coverage Ratio Test. The Asset Coverage Ratio Test generally requires the PPIF to maintain an Asset Coverage Ratio equal to or greater than 150%. The Asset Coverage Ratio is a percentage obtained by dividing total assets of the PPIF by the principal amount of the loan and accrued and unpaid interest on the loan. Failure to comply with the test could require accelerated repayment of loan principal and prohibit the PPIF from borrowing additional funds under the loan agreement.

As a condition of its investment, the OFS also received a warrant from each of the PPIFs entitling the OFS to 2.5% of investment proceeds (excluding those from temporary investments) otherwise allocable to the non-OFS partners after the PPIFs return of 100% of the non-OFS partners' capital contributions. Distributions relating to the warrants would occur generally upon the final distribution of each partnership.

The PPIFs are allowed to purchase commercial and non-agency residential mortgage-backed securities (CMBS and RMBS, respectively) issued prior to January 1, 2009, that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets (eligible assets) and not other securities. The PPIFs may invest in the aforementioned securities for a period of 3 years using proceeds from capital contribution, loans and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States. As of September 30, 2011, the approximate split between RMBS and CMBS was 79% RMBS and 21% CMBS. As of September 30, 2010, the approximate split between RMBS and CMBS was 82% RMBS and 18% CMBS.

The PPIFs pay a management fee to the fund manager from the OFS' share of investment proceeds. During the Investment Period, the management fee is equal to 0.2% per annum of the OFS' capital commitment as of the last day of the applicable quarter. Thereafter, the management fee will be equal to 0.2% per annum of the lesser of (a) the OFS' capital commitment as of the last day of the applicable quarter or (b) the OFS Interest Value as of the last day of the quarter.

During fiscal year 2011, the OFS disbursed $1.1 billion as equity investments and $2.3 billion as loans to PPIFs. During fiscal year 2010, OFS disbursed $4.9 billion as equity investments and $9.2 billion as loans to PPIFs. At September 30, 2011, OFS had equity investments in PPIFs outstanding of $5.5 billion and loans outstanding of $10.4 billion for a total of $15.9 billion. At September 30, 2010, OFS had equity investments of $4.8 billion and loans outstanding of $8.9 billion for a total of $13.7 billion. In addition, as of September 30, 2011, OFS had legal commitments to disburse up to $4.3 billion for additional investments and loans to the eight remaining PPIFs.

During fiscal year 2011, the OFS received $122.7 million in interest on loans and $867.7 million in loan principal repayments from the PPIFs. Also, during fiscal year 2011, OFS received $735.0 million in equity distributions, of which $305.7 million was recognized as dividend income, $90.8 million of proceeds in excess of cost and $338.5 million as a reduction of the gross investment outstanding. During fiscal year 2010, the OFS received $56.0 million in interest on loans, $72.0 million in loan principal repayments and $151.8 million of income on the equity investments.

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

## Other Credit Programs

### Asset Guarantee Program

The Asset Guarantee Program provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets.

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

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

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0 % stated dividend rate and a warrant for the purchase of common stock; $4.0 billion and the warrant were issued to the OFS, and $3.0 billion was issued to the FDIC. The OFS received $14.9 million and $265.2 million during the years ended September 30, 2011 and 2010, respectively, in dividends on the preferred stock received as compensation for this arrangement. These dividends have been deposited into the TAIFF. The OFS had also invested in Citigroup through CPP and the TIP.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement Citigroup cancelled $1.8 billion of the preferred stock previously issued to OFS. In addition, the FDIC agreed to transfer to the OFS $800 million of their trust preferred stock holding plus dividends. The amount OFS will receive would be reduced by any losses FDIC incurs on its Citigroup guaranteed debt. The additional preferred shares from the FDIC are included in the subsidy calculation for AGP, based on the net present value of expected future cash inflows. Termination of the agreement was not considered in the formulation estimates of the guarantee and therefore a modification that resulted in a subsidy cost reduction of $1.4 billion was recorded in fiscal year 2010. On September 29, 2010, the OFS exchanged its existing Trust Preferred Securities for securities containing market terms to facilitate a sale. On September 30, 2010, the OFS agreed to sell its Trust Preferred Securities for $2.2 billion. The Trust Preferred Securities are valued at the sales price in the 2010 financial statements. The sale settled on October 5, 2010, and additional warrants were sold in January 2011 for $67.2 million, leaving only the $800.0 million of trust preferred stock related receivable from the FDIC valued at $739 million on the OFS Balance Sheet at September 30, 2011. This receivable was valued at $815 million as of September 30, 2010.

### FHA-Refinance Program

At the end of fiscal year 2010, the OFS entered into a loss-sharing agreement with the Federal Housing Administration (FHA) to support a program in which FHA guarantees refinancing of borrowers whose homes were worth less than the remaining amounts owed under their mortgage loans. No loans were refinanced in fiscal year 2010. In fiscal year 2011, the OFS established a $50.0 million account, held by a commercial bank, serving as its agent, from which any required reimbursements for losses will be paid. At September 30, 2011, 334 loans that FHA had guaranteed, with a total value of $73 million, had been refinanced under the program. OFS' maximum exposure related to FHA's guarantee totaled $5.7 million. After considering FHA's estimated default rates, this resulted in OFS incurring a $1.0 million liability. The liability has been calculated, using credit reform accounting, as the present value of the estimated future cash outflows for the OFS' share of losses incurred on any defaults of the disbursed loans. See Note 6 table, following and Note 5 above for further details.

## Subsidy Cost and Reestimates

The recorded subsidy cost of a direct loan, equity investment or other credit program is based upon the calculated net present value of expected future cash flows. The OFS' actions, as well as changes in legislation that change these estimated future cash flows change subsidy cost, and are recorded as modifications. The cost or reduction in cost of a modification is recognized when it occurs.

During fiscal year 2011, modifications occurred in the AIFP (see Ally Financial Inc.) and CPP, reducing subsidy cost by $1.2 billion. During fiscal year 2010, modifications occurred within AIFP, CPP and the AGP, increasing subsidy cost by $47.9 million.

The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods.

Financial statement reestimates for all programs were performed using actual financial transaction data through September 30, 2011 and 2010. For 2011, a mix of market and security specific data publicly available as of August 31 and September 30, 2011, was used for the CPP, AIG Investment, AIFP, SBA, CDCI and AGP programs. Security specific data through June 30, 2011, with market prices through August 31 and September 30, 2011, was used for the PPIP and TALF programs. For 2010, a mix of market and security specific data publicly available as of August 31 and September 30, 2010, was used for all programs except PPIP and TALF, which used security specific data through June 30 and market prices through August 31 and September 30, 2010.

The OFS assessed PPIP and TALF programs using security specific data available as of September 30, 2011 and 2010 and, in its determination, there were no significant changes to the portfolio characteristics or performance that would require a revision to the reestimates for the fiscal years.

Net downward reestimates for the fiscal years ended September 30, 2011 and 2010, totaled $11.6 billion and $30.2 billion, respectively. Descriptions of the reestimates, by OFS Program, are as follows:

### CPP

The downward reestimate for CPP of $816 million for the year ended September 30, 2011, is the net result of receipts significantly greater than cost on the sale of Citigroup common stock offset by a decline in the estimated market values of the remaining outstanding investments due to market conditions at September 30, 2011.

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

### AIG Investment Program

The $18.5 billion in downward reestimates for the year ended September 30, 2011 for the AIG Investment Program was due primarily to subsidy cost estimates recorded for $20.3 billion of new disbursements during the fiscal year. Under budget rules, the subsidy cost estimate for these new disbursements was determined based upon subsidy rates formulated in April 2009, the period in which OFS originally agreed to make the funding available to AIG. At that time, OFS calculated a subsidy rate of 98.98%, which resulted in an estimated subsidy cost of $20.1 billion associated with the $20.3 billion disbursed in fiscal year 2011. OFS calculated a $16.7 billion downward reestimate relating to these fiscal year 2011 disbursements that reflects improvements in AIG's financial condition since the original subsidy rate was formulated. The remainder of the downward reestimate was due to the restructuring of the AIG investment to common stock offset by AIG's financial condition at September 30, 2011. At year end, the subsidy allowance represented about 41% of the gross outstanding AIG Investment Program balance.

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

### TIP

The TIP program was closed in fiscal year 2011, with a final downward reestimate of $192 million, primarily due to a better than projected return on warrant sales. OFS received cumulative receipts of $4.0 billion on total investments of $40.0 billion.

The $1.9 billion in net downward reestimate in the TIP in fiscal year 2010 included $2.2 billion in downward reestimate due to the repurchase of the program's investments by the two institutions participating in the program. That downward reestimate amount was partially offset by a $277.4 million upward reestimate from a slight reduction in the estimated value of outstanding warrants.

### AIFP

The $9.9 billion in upward reestimates for the AIFP for the year ended September 30, 2011, was due to a decline of over $7.0 billion due to changes in the common stock price of New GM since its IPO and a decline in the estimated value of Ally investments due to market conditions.

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

### CBLI

The CBLI programs had a downward reestimate of $210 million for the year ended September 30, 2011. The TALF program showed improved market conditions, resulting in a $105 million downward reestimate. The SBA and CDCI programs reported improved investment performance, resulting in $6 million and $99 million downward reestimates, respectively.

The TALF and SBA 7(a) Securities Purchase programs within the CBLI had a total upward reestimate of $23.7 million for the year ended September 30, 2010. The TALF program had a $23.3 million upward reestimate mostly due to a projected reduction in the size of the portfolio and higher than projected repayments. The SBA program had an upward reestimate of less than $1 million due to an increase in projected interest rates and a reduction in market risk. The CDCI program had a $7.3 million upward reestimate for the period.

### PPIP

The $1.8 billion downward reestimates for the PPIP for the year ended September 30, 2011, was due primarily to a decline in market risk projections, program repayments, and changes in projected performance of the PPIP portfolio.

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

### AGP

The AGP Citigroup TRuPS held by the FDIC recorded an upward reestimate of $29.8 million for the year ended September 30, 2011, due to a decline in market conditions.

The AGP had a net $87.3 million downward reestimate for the year ended September 30, 2010. The reestimate amount excludes an estimated cost savings of $1.4 billion that resulted from the cancellation of the $5.0 billion guarantee because this transaction was reflected in the subsidy modifications during fiscal year 2010.

### Summary Tables

The following detailed tables provide the net composition, subsidy cost, modifications and reestimates, a reconciliation of the subsidy cost allowance and budget subsidy rates and subsidy by component for each TARP direct loan, equity investment or other credit programs for the years ended September 30, 2011 and 2010. There were no budget subsidy rates for fiscal year 2011, except for the FHA-Refinance Program, and all disbursements were from loans or investments obligated in prior years.

**Troubled Asset Relief Program Loans and Equity Investments**
(Dollars in Millions)

| | TOTAL | CPP | AIG | TIP | AIFP | CBLI | PPIP |
|---|---|---|---|---|---|---|---|
| **As of September 30, 2011** | | | | | | | |
| **Direct Loans and Equity Investment Programs:** | | | | | | | |
| Direct Loans and Equity Investments Outstanding, Gross | $ 122,405 | $ 17,299 | $ 51,087 | $ - | $ 37,278 | $ 798 | $ 15,943 |
| Subsidy Cost Allowance | (42,301) | (4,857) | (20,717) | - | (19,440) | 279 | 2,434 |
| Direct Loans and Equity Investments Outstanding, Net | $ 80,104 | $ 12,442 | $ 30,370 | $ - | $ 17,838 | $ 1,077 | $ 18,377 |
| New Loans or Investments Disbursed | $ 23,839 | $ - | $ 20,292 | $ - | $ - | $ 126 | $ 3,421 |
| Obligations for Loans and Investments not yet Disbursed | $ 8,479 | $ - | $ - | $ - | $ - | $ 4,200 | $ 4,279 |
| **Reconciliation of Subsidy Cost Allowance:** | | | | | | | |
| Balance, Beginning of Period | $ 36,745 | $ 1,546 | $ 21,405 | $ (1) | $ 14,529 | $ (58) | $ (676) |
| Subsidy Cost (Income) for Disbursements and Modifications | 18,887 | (1,010) | 20,085 | - | (174) | 1 | (15) |
| Interest and Dividend Revenue | 3,461 | 1,283 | 450 | - | 1,280 | 20 | 428 |
| Fee Income | 165 | - | 165 | - | - | - | - |
| Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost | (2,262) | 4,540 | (1,918) | 190 | (5,165) | - | 91 |
| Net Interest Income (Expense) on Borrowings from BPD and Financing Account Balance | (3,016) | (686) | (938) | 3 | (945) | (32) | (418) |
| Balance, End of Period, Before Reestimates | 53,980 | 5,673 | 39,249 | 192 | 9,525 | (69) | (590) |
| Subsidy Reestimates | (11,679) | (816) | (18,532) | (192) | 9,915 | (210) | (1,844) |
| Balance, End of Period | $ 42,301 | $ 4,857 | $ 20,717 | $ - | $ 19,440 | $ (279) | $ (2,434) |
| **Reconciliation of Subsidy Cost (Income):** | | | | | | | |
| Subsidy Cost (Income) for Disbursements | $ 20,071 | $ - | $ 20,085 | $ - | $ - | $ 1 | $ (15) |
| Subsidy Cost (Income) for Modifications | (1,184) | (1,010) | - | - | (174) | - | - |
| Subsidy Reestimates | (11,679) | (816) | (18,532) | (192) | 9,915 | (210) | (1,844) |
| Total Direct Loan and Equity Investment Programs Subsidy Cost (Income) | $ 7,208 | $ (1,826) | $ 1,553 | $ (192) | $ 9,741 | $ (209) | $ (1,859) |

**Note**: There are no budget execution rates for FY 2011; the OFS authority expired October 3, 2010 with no additional commitments made after September 30, 2010.

**Troubled Asset Relief Program Loans and Equity Investments**
(Dollars in Millions)

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

**Troubled Asset Relief Program Loans, Equity Investments and Asset Guarantee Program Budget Subsidy Rates:**
(Dollars in Millions)

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

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

**Troubled Asset Relief Program - Other Credit Programs**

| (Dollars in Millions) | Asset Guarantee Program As Of September 30, 2011 | Asset Guarantee Program As Of September 30, 2010 | FHA-Refinance Program As Of September 30, 2011 | FHA-Refinance Program As Of September 30, 2010 |
|---|---|---|---|---|
| **Asset Guarantee Program** | | | | |
| Intragovernmental Portion (See Note below) | $ 739 | $ 815 | | |
| Portion held by OFS, net | - | 2,240 | | |
| **Total Asset Guarantee Program** | **$ 739** | **$ 3,055** | | |
| **Guaranteed Loans Outstanding:** | | | | |
| Maximum OFS Exposure on FHA Guaranteed Loans Outstanding, Related to Loss Sharing Agreement | | | $ 6 | $ - |
| **Total Liability for Losses** | | | **$ (1)** | **$ -** |
| **Reconciliation of Asset Guarantee Program/Liability for Losses** | | | | |
| Balance, Beginning of Period | $ (3,055) | $ (1,765) | $ - | $ - |
| Subsidy Cost (Income) for Disbursements and Modifications | - | (1,418) | 1 | - |
| Dividend Revenue | 15 | 265 | - | - |
| Net Proceeds from Sales of Assets in Excess of Cost | 2,301 | - | - | - |
| Net Interest Expense on Borrowings from BPD and Financing Account Balance | (30) | (50) | - | - |
| Balance, End of Period, Before Reestimates | (769) | (2,968) | 1 | - |
| Subsidy Reestimates | 30 | (87) | - | - |
| Balance, End of Period | **$ (739)** | **$ (3,055)** | **$ 1** | **$ -** |
| **Reconciliation of Subsidy Cost (Income)** | | | | |
| Subsidy Cost for Guarantees/Losses | $ - | $ - | $ 1 | $ - |
| Subsidy Cost (Income) for Modifications | - | (1,418) | - | - |
| Subsidy Reestimates | 30 | (87) | - | - |
| **Total Subsidy Cost (Income)** | **$ 30** | **$ (1,505)** | **$ 1** | **$ -** |
| **Budget Subsidy Rate, Excluding Modifications and Reestimates:** | | | | |
| **As of September 30, 2011** | | | | |
| Interest Differential | | | 0.00% | |
| Defaults | | | 1.26% | |
| Fees and Other Collections | | | 0.00% | |
| Other | | | 0.00% | |
| Total Budget Subsidy Rate | N/A | N/A | 1.26% | N/A |
| **Subsidy Cost by Component:** | | | | |
| Interest Differential | | | $ - | |
| Defaults | | | 1 | |
| Fees and Other Collections | | | - | |
| Other | | | - | |
| Total Subsidy Cost, Excluding Modifications and Reestimates | N/A | N/A | $ 1 | N/A |

**Note:** At September 30, 2010, the net present value of the future cash flows for the Asset Guarantee Program consisted of (i) $800 million of Citigroup trust preferred securities, plus dividends thereon, that the FDIC agreed to transfer to OFS contingent on Citigroup repaying previously issued FDIC guaranteed debt and (ii) additional Citigroup trust preferred securities valued at $2,240 million, for a total of $3,055 million. At September 30, 2011, only the contingent payment from the FDIC remained outstanding. The other securities were sold during fiscal year 2011.

# NOTE 7. DUE TO THE GENERAL FUND

As of September 30, 2011, the OFS accrued $4.6 billion of downward reestimates payable to the General Fund. As of September 30, 2010, the OFS accrued $25.1 billion of downward reestimates and one downward modification payable to the General Fund (See Note 6). Due to the General Fund is a Non-Entity liability on the Balance Sheet.

# NOTE 8. PRINCIPAL PAYABLE TO THE BUREAU OF THE PUBLIC DEBT (BPD)

Equity investments, direct loans and other credit programs accounted for under credit reform accounting are funded by subsidy appropriations and borrowings from the BPD. The OFS also borrows funds to pay the Treasury General Fund for negative subsidy costs and downward reestimates in advance of receiving the expected cash flows that cause the negative subsidy or downward reestimate. The OFS makes periodic principal repayments to the BPD based on the analysis of its cash balances and future disbursement needs. All debt is intragovernmental and covered by budgetary resources. See additional details on borrowing authority in Note 11, Statement of Budgetary Resources.

Debt transactions for the fiscal years ended September 30, 2011 and 2010, were as follows:

| | As of September 30, | |
|---|---|---|
| (Dollars in Millions) | 2011 | 2010 |
| **Beginning Balance, Principal Payable to the BPD** | $ 140,404 | $ 143,335 |
| New Borrowings | 35,974 | 49,025 |
| Repayments | (46,881) | (51,956) |
| **Ending Balance, Principal Payable to the BPD** | $ 129,497 | $ 140,404 |

Borrowings from the BPD by the TARP program, outstanding as of September 30, 2011 and 2010, were as follows:

| | As of September 30, | |
|---|---|---|
| (Dollars in Millions) | 2011 | 2010 |
| Capital Purchase Program | $ 19,003 | $ 49,503 |
| American International Group, Inc. Investment Program | 52,285 | 23,061 |
| Targeted Investment Program | - | 710 |
| Automotive Industry Financing Program | 32,419 | 45,706 |
| Consumer & Business Lending Initiative | 1,165 | 1,073 |
| Public-Private Investment Program | 23,792 | 17,918 |
| Asset Guarantee Program | 833 | 2,433 |
| **Total Borrowings Outstanding** | $ 129,497 | $ 140,404 |

Borrowings are paid to the BPD as collections are available. As of September 30, 2011, borrowings carried remaining terms ranging from 3 to 30 years, with interest rates from 1.0% to 4.7%. As of September 30, 2010, borrowings carried terms ranging from 5 to 31 years. Interest rates on borrowings ranged from 2.2% to 4.7%.

# NOTE 9. COMMITMENTS AND CONTINGENCIES

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

# NOTE 10. STATEMENT OF NET COST

The Statement of Net Cost (SNC) presents the net cost of (income from) operations for the OFS under the strategic goal of ensuring the overall stability and liquidity of the financial system, preventing avoidable foreclosures and preserving homeownership. The OFS has determined that all initiatives and programs under the TARP fall within this strategic goal.

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

The OFS SNC for fiscal year 2011 includes $3.8 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and $781.5 million in intragovernmental revenues relating to interest income on financing account balances. The OFS SNC for fiscal year 2010 includes $5.9 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and $1.2 billion in intragovernmental revenues relating to interest income on financing account balances.

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

# NOTE 11. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) presents information about total budgetary resources available to the OFS and the status of those resources. For the year ended September 30, 2011, the OFS' total resources in budgetary accounts were $16.4 billion and resources in non-budgetary financing accounts, including borrowing authority and spending authority from collections of loan principal, liquidation of equity investments, interest, dividends and fees were $86.5 billion. For the year ended September 30, 2010, the OFS' total resources in budgetary accounts were $34.5 billion and resources in non-budgetary financing accounts were $160.8 billion.

## Permanent Indefinite Appropriations

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

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

## Borrowing Authority

The OFS is authorized to borrow from the BPD whenever funds needed to disburse direct loans and equity investments, and to enter into asset guarantee and loss-sharing arrangements, exceed subsidy costs and collections in the non-budgetary financing accounts. For the year ended September 30, 2011, the OFS had borrowing authority available of $8.4 billion. For the year ended September 30, 2010, the OFS had borrowing authority available of $10.2 billion.

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

## Apportionment Categories of Obligations Incurred: Direct versus Reimbursable Obligations

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

## Undelivered Orders

Undelivered orders as of September 30, 2011, were $43.4 billion in budgetary accounts and $13.2 billion in non-budgetary financing accounts. Undelivered orders as of September 30, 2010, were $68.7 billion in budgetary accounts and $41.9 billion in non-budgetary financing accounts.

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

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

The President's Budget for 2013, with the "Actual" column completed for fiscal year 2011, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2012. The Budget will be available from the Government Printing Office.

The 2012 Budget of the U. S. Government, with the "Actual" column completed for the period ended September 30, 2010, was published in February 2011, and reconciled to the SBR. The only differences between the two documents were due to:

- Rounding;
- Expired funds that are not shown in the Actual column of the budget; and
- A $32.1 million downward modification transferred to the general fund shown in the "Actual" column as an outlay at September 30, 2010, that was not recorded in the SBR until 2011.

# NOTE 12. RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF (INCOME FROM) OPERATIONS

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

The Reconciliation of Obligations Incurred to Net Cost of (Income from) Operations for the fiscal years ended September 30, 2011 and 2010 is as follows:

**RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF (INCOME FROM) OPERATIONS**

| Dollars in Millions | 2011 | 2010 |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| **Budgetary Resources Obligated** | | |
| Obligations Incurred | $ 67,646 | $ 173,631 |
| Spending Authority from Offsetting Collections and Recoveries | (91,708) | (191,538) |
| Offsetting Receipts | (61,832) | (118,860) |
| **Net Obligations** | (85,894) | (136,767) |
| Other Resources | 1 | 1 |
| **Total Resources Used to Finance Activities** | (85,893) | (136,766) |
| **Resources Used to Finance Items Not Part of Net Cost of (Income from) Operations:** | | |
| Net Obligations in Direct Loan, Equity Investment and Asset Guarantee Financing Funds | 23,249 | 40,139 |
| Change in Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided | 25,330 | (12,639) |
| Resources that Fund the Acquisition of Assets | (50) | - |
| Resources that Fund Prior Period Expenses and Net Downward Reestimates | 23,562 | 109,747 |
| **Total Resources Used to Finance Items Not Part of Net Cost of (Income from) Operations** | 72,091 | 137,247 |
| **Total Resources Used to Finance the Net Cost of (Income from) Operations** | (13,802) | 481 |
| **Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period:** | | |
| Accrued Upward (Downward) Reestimates at Year-End | 23,293 | (23,563) |
| Other | 6 | - |
| **Total Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period** | 23,299 | (23,563) |
| **Net Cost of (Income from) Operations** | **$ 9,497** | **$ (23,082)** |

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)

# REQUIRED SUPPLEMENTARY INFORMATION
# COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2011

(Unaudited)

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Combined | | TARP Programs | | TARP Administrative | |
| Dollars in Millions | Budgetary Accounts | Nonbudgetary Financing Accounts | Budgetary Accounts | Nonbudgetary Financing Accounts | Budgetary Accounts | Nonbudgetary Financing Accounts |
| **BUDGETARY RESOURCES** | | | | | | |
| Unobligated Balances Brought Forward | $ 11,075 | $ 10,548 | $ 10,949 | $ 10,548 | $ 126 | $ - |
| Recoveries of Prior Year Unpaid Obligations | 3,057 | 4,664 | 3,018 | 4,664 | 39 | - |
| Budget Authority: | | | | | | |
| Appropriations | 2,278 | - | 1,886 | - | 392 | - |
| Borrowing Authority | - | 77,914 | - | 77,914 | - | - |
| Spending Authority from Offsetting Collections | | | | | | |
| Earned: Collected | - | 107,307 | - | 107,307 | - | - |
| Change in Unfilled Orders Without Advance | - | (23,320) | - | (23,320) | - | - |
| Anticipated for Rest of Year w/o Advances | - | - | - | - | - | - |
| Total Budget Authority | 16,410 | 177,113 | 15,853 | 177,113 | 557 | - |
| Permanently Not Available | - | (90,568) | - | (90,568) | - | - |
| **TOTAL BUDGETARY RESOURCES (Note 10)** | **$ 16,410** | **$ 86,545** | **$ 15,853** | **$ 86,545** | **$ 557** | **$ -** |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | |
| Obligations Incurred - Direct | $ 2,244 | $ 65,402 | $ 1,886 | $ 65,402 | $ 358 | $ - |
| Unobligated Balance: | | | | | | |
| Apportioned and Available | 36 | 511 | - | 511 | 36 | - |
| Not Available | 14,130 | 20,632 | 13,967 | 20,632 | 163 | - |
| **TOTAL STATUS OF BUDGETARY RESOURCES** | **$ 16,410** | **$ 86,545** | **$ 15,853** | **$ 86,545** | **$ 557** | **$ -** |
| **CHANGE IN OBLIGATED BALANCES** | | | | | | |
| Obligated Balance Brought Forward: | | | | | | |
| Unpaid Obligations | $ 69,128 | $ 41,918 | $ 68,898 | $ 41,918 | $ 230 | $ - |
| Uncollected Customer Payments from Federal Sources | - | (23,816) | - | (23,816) | - | - |
| Obligated Balance, Net, Brought Forward | 69,128 | 18,102 | 68,898 | 18,102 | 230 | - |
| Obligations Incurred | 2,244 | 65,402 | 1,886 | 65,402 | 358 | - |
| Gross Outlays | (24,501) | (89,498) | (24,148) | (89,498) | (353) | - |
| Recoveries of Prior Year Unpaid Obligations | (3,057) | (4,664) | (3,018) | (4,664) | (39) | - |
| Change in Uncollected Customer Payments from Federal Sources | - | 23,320 | - | 23,320 | - | - |
| Obligated Balance, Net, End of Period: | | | | | | |
| Unpaid Obligations | 43,814 | 13,158 | 43,618 | 13,158 | 196 | - |
| Uncollected Customer Payments from Federal Sources | - | (496) | - | (496) | - | - |
| Obligated Balance, Net, End of Period | **$ 43,814** | **$ 12,662** | **$ 43,618** | **$ 12,662** | **$ 196** | **$ -** |
| **NET OUTLAYS** | | | | | | |
| Gross Outlays | $ 24,501 | $ 89,498 | $ 24,148 | $ 89,498 | $ 353 | $ - |
| Offsetting Collections | - | (107,307) | - | (107,307) | - | - |
| Distributed Offsetting Receipts | (61,832) | - | (61,832) | - | - | - |
| **NET OUTLAYS** | **$ (37,331)** | **$ (17,809)** | **$ (37,684)** | **$ (17,809)** | **$ 353** | **$ -** |

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)

# REQUIRED SUPPLEMENTARY INFORMATION
# COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010

(Unaudited)

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

PART 3:

# Appendices

# APPENDIX A: TARP GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Non-Agency Residential Mortgage-Backed Securities:** RMBS that are not guaranteed or issued by Freddie Mac, Fannie Mae, any other

GSE, Ginnie Mae, or a U.S. federal government agency.

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

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

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

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

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

**SBA:** U.S. Small Business Administration.

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

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

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

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

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

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

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

# APPENDIX B: ABBREVIATIONS and ACRONYMS

**ABS** Asset-Backed Securities

**AGP** Asset Guarantee Program

**AIFP** Automotive Industry Financing Program

**AIG** American International Group, Inc.

**BofA** Bank of America Corporation

**CBLI** Consumer and Business Lending Initiative

**CBO** Congressional Budget Office

**CDFI** Community Development Financial Institution

**CMBS** Commercial Mortgage-Backed Securities

**CP** Commercial Paper

**COP** Congressional Oversight Panel

**CPP** Capital Purchase Program

**CDCI** Community Development Capital Initiative

**EESA** Emergency Economic Stabilization Act of 2008

**FCRA** Federal Credit Reform Act of 1990

**FHA** Federal Housing Administration

**FRBNY** Federal Reserve Bank of New York

**GAO** Government Accountability Office

**GSE** Government-Sponsored Enterprise

**HAFA** Home Affordable Foreclosure Alternatives

**HHF** Hardest Hit Fund

**HAMP** Home Affordable Modification Program

**HPDP** Home Price Decline Protection

**IPO** Initial Public Offering

**LIBOR** London Interbank Offered Rate

**LTV** Loan-to-Value Ratio

**MBS** Mortgage-Backed Security

**MHA** Making Home Affordable Program

**NPV** Net Present Value

**OFS** Office of Financial Stability

**OMB** Office of Management and Budget

**PPIF** Public-Private Investment Fund

**PPIP** Public-Private Investment Program

**PRA** Principal Reduction Alternative

**QFI** Qualifying Financial Institution

**RMBS** Residential Mortgage-Backed Securities

**SIGTARP** Special Inspector General for the Troubled Asset Relief Program

**SPV** Special Purpose Vehicle

**TALF** Term Asset-Backed Securities Loan Facility

**TARP** Troubled Asset Relief Program

**TIP** Targeted Investment Program

# Office of Financial Stability Websites:

www.FinancialStability.gov

www.MAKINGHOMEAFFORDABLE.gov

# Documents Referenced in the AFR:

**Three-Year Anniversary Report**
http://www.treasury.gov/initiatives/financial-stability/Pages/default.aspx

**Agency Financial Reports, including 2011, 2010 and 2009:**
http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

**Housing Scorecard:**
http://portal.hud.gov/hudportal/documents/huddoc?id=Sept2011NatlScorecard.pdf

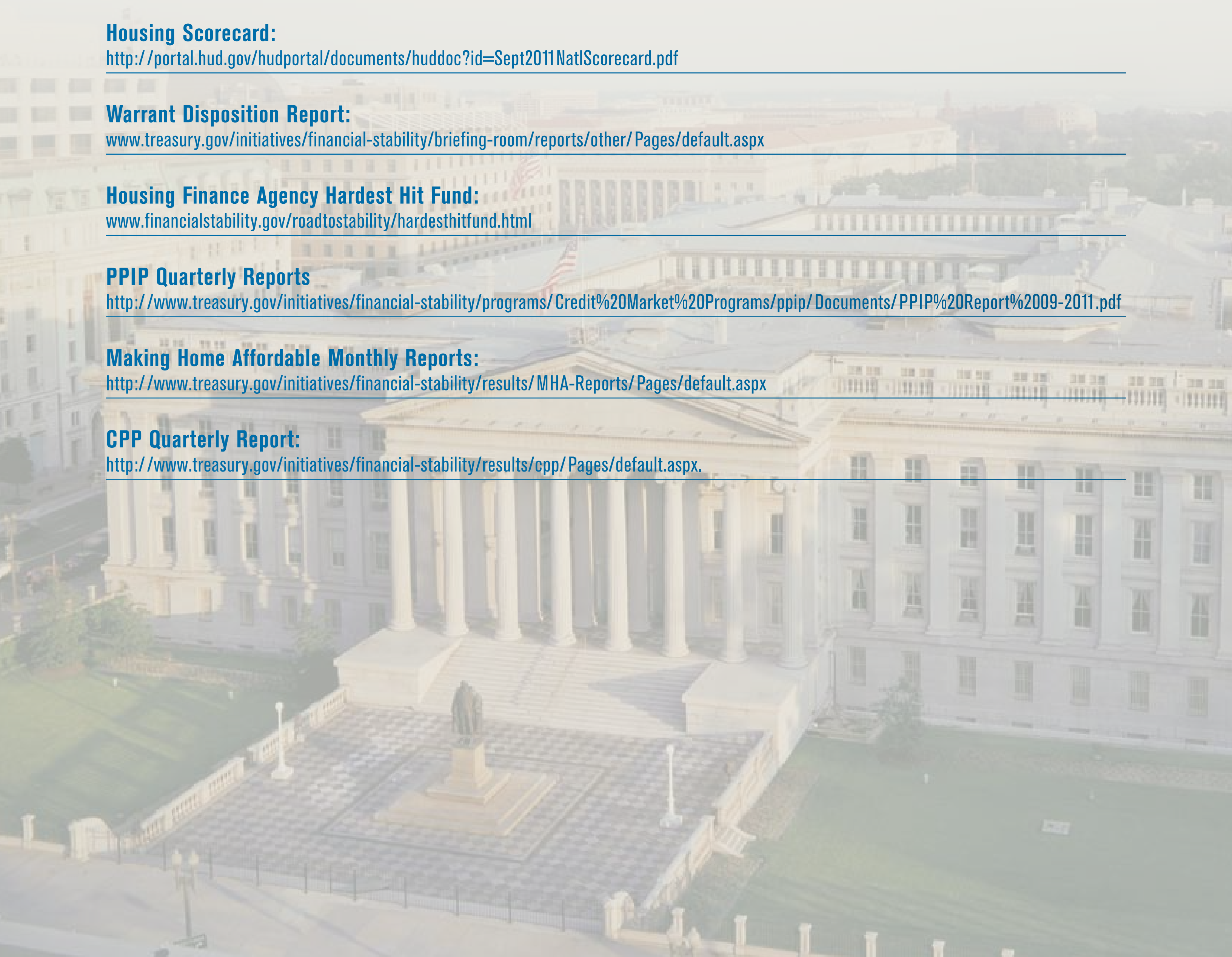
**Warrant Disposition Report:**
www.treasury.gov/initiatives/financial-stability/briefing-room/reports/other/Pages/default.aspx

**Housing Finance Agency Hardest Hit Fund:**
www.financialstability.gov/roadtostability/hardesthitfund.html

**PPIP Quarterly Reports**
http://www.treasury.gov/initiatives/financial-stability/programs/Credit%20Market%20Programs/ppip/Documents/PPIP%20Report%2009-2011.pdf

**Making Home Affordable Monthly Reports:**
http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx

**CPP Quarterly Report:**
http://www.treasury.gov/initiatives/financial-stability/results/cpp/Pages/default.aspx.



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