Office of Financial Stability

2014 President’s Budget

Table of Contents

Section 1 – Purpose

1A – Mission Statement

A central part of the response to the financial crisis was the implementation of the Troubled Asset Relief Program (TARP), which was established in the fall of 2008 under the Emergency Economic Stabilization Act (EESA). TARP succeeded in helping to stop widespread financial panic and helped prevent what could have been a devastating collapse of our financial system.

The government's authority to make new investments through the program expired on October 3, 2010 and TARP is now winding down its investments that restored liquidity and stability in the financial system. As of December 31, 2012, the U.S. Department of the Treasury (Treasury) has already recovered an amount equal to 93 percent of the funds disbursed. The government has recovered more funds for the taxpayers and at a faster rate than anyone could have predicted in 2008.

1.1 – Program Account Summary

Dollars in Thousands

	FY 2012	FY 2013	FY 2014	FY 2012 to FY 2014	
	Actual	Estimated	Estimated	$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Equity Program Account	19,411,815	440,468	0	(19,411,815)	-100.00%
Housing Account	10	0	0	(10)	-100.00%
TARP Account	7,858,238	42,880	0	(7,858,238)	-100.00%
TARP Administrative Account	282,298	306,158	200,690	(81,608)	-28.91%
TARP Negative Downward Reestimate Receipt Account	(5,975,970)	(12,995,377)	0	5,975,970	-100.00%
TARP Negative Subsidy Receipt Account	(87,123)	0	0	87,123	-100.00%
Total Obligations	**$21,489,268**	**($12,205,871)**	**$200,690**	**(21,288,578)**	**-99.07%**
Budget Authority					
Equity Program Account	19,411,815	440,468	0	(19,411,815)	-100.00%
Housing Account	10	0	0	(10)	-100.00%
TARP Account	7,858,238	42,880	0	(7,858,238)	-100.00%
TARP Administrative Account	323,000	306,158	200,690	(122,310)	-37.87%
TARP Negative Downward Reestimate Receipt Account	(5,975,970)	(12,995,377)	0	5,975,970	-100.00%
TARP Negative Subsidy Receipt Account	(87,123)	0	0	87,123	-100.00%
Total Budget Authority	**$21,529,970**	**($12,205,871)**	**$200,690**	**(21,329,280)**	**-99.07%**
Outlays					
Equity Program Account	19,468,046	440,468	0	(19,468,046)	-100.00%
Housing Account	3,073,854	13,145,656	7,770,356	4,696,502	152.79%
TARP Account	7,858,238	42,880	0	(7,858,238)	-100.00%
TARP Administrative Account	274,000	389,000	222,000	(52,000)	-18.98%
TARP Negative Downward Reestimate Receipt Account	(5,975,970)	(12,995,377)	0	5,975,970	-100.00%
TARP Negative Subsidy Receipt Account	(87,123)	0	0	87,123	-100.00%
Total Outlays	**$24,611,045**	**$1,022,627**	**$7,992,356**	**(16,618,689)**	**-67.53%**

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated	Change FY 2012 to FY 2014	% Change FY 2012 to FY 2014
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
TARP Guaranteed Loans					
Obligations	22,948	253,793	0	(22,948)	-100.00%
Collections	37,874	1,012,111	0	(37,874)	-100.00%
Financing Authority (net)	(13,000)	(760,244)	0	13,000	-100.00%
Financing Disbursements (net)	(14,926)	(758,318)	0	14,926	-100.00%
TARP Direct Loans					
Obligations	2,429,034	5,708,327	1,247,559	(1,181,475)	-48.64%
Collections	13,883,107	15,847,596	7,406,512	(6,476,595)	-46.65%
Financing Authority (net)	(11,510,667)	(10,096,001)	(6,158,953)	5,351,714	-46.49%
Financing Disbursements (net)	(10,563,977)	(10,139,268)	(6,158,953)	4,405,024	-41.70%
Equity Purchases					
Obligations	5,796,336	11,965,794	1,528,960	(4,267,376)	-73.62%
Collections	67,338,636	15,184,902	6,906,175	(60,432,461)	-89.74%
Financing Authority (net)	(45,244,732)	(5,045,484)	(5,377,215)	39,867,517	-88.12%
Financing Disbursements (net)	(61,315,017)	(3,219,108)	(5,377,215)	55,937,802	-91.23%
Housing					
Obligations	0	1,227	7,215	7,215	0.00%
Collections	9,515	129,692	25	(9,490)	-99.74%
Financing Authority (net)	0	0	0	0	0.00%
Financing Disbursements (net)	(9,515)	(128,466)	7,190	16,705	-175.56%

1.3 – Program Disbursement, Repayments, and Cost/Savings

Dollars in Billions (as of 12/31/12)

	Cumulative Obligated	Cumulative Disbursed	Cumulative Outstanding (Includes Realized Losses)	Total Cumulative Income	Total Cumulative Repayments	Total Estimated Lifetime Costs (as of 12/31/12)
Bank Support Programs	250	245	8	34	268	-23
Credit Market Programs	23	19	4	2	18	-3
AIG Investment Program (AIG)	68	68	0	1	55	15 *
Automotive Industry Financing Program	80	80	29	6	46	20
Treasury Housing Programs	46	6				38
Total	**$466**	**$418**	**$40**	**$43**	**$387**	**$48**
Additional AIG Common Shares Held by Treasury	0	0	0	18	18	-18 *
Total for Programs and Shares	**$466**	**$418**	**$40**	**$61**	**$405**	**$30**

**If all Treasury AIG Investments are combined, we currently estimate a net gain of $2.3 billion on those shares.*

1B – Vision, Priorities and Context

TARP was created by EESA in October 2008 as part of a broad-based federal response to the financial crisis. At that time, the American economy faced challenges on a scale not seen since the Great Depression. To address the crisis, EESA established the Office of Financial Stability (OFS) within the Office of Domestic Finance of the Treasury Department to implement the TARP which was designed to stabilize the economy, unfreeze credit markets, and help struggling homeowners prevent avoidable foreclosure.

The purposes of EESA were to—
(1) immediately provide authority and facilities that the Secretary of the Treasury could use to restore liquidity and stability to the financial system of the United States; and
(2) ensure that such authority and such facilities were used in a manner that —

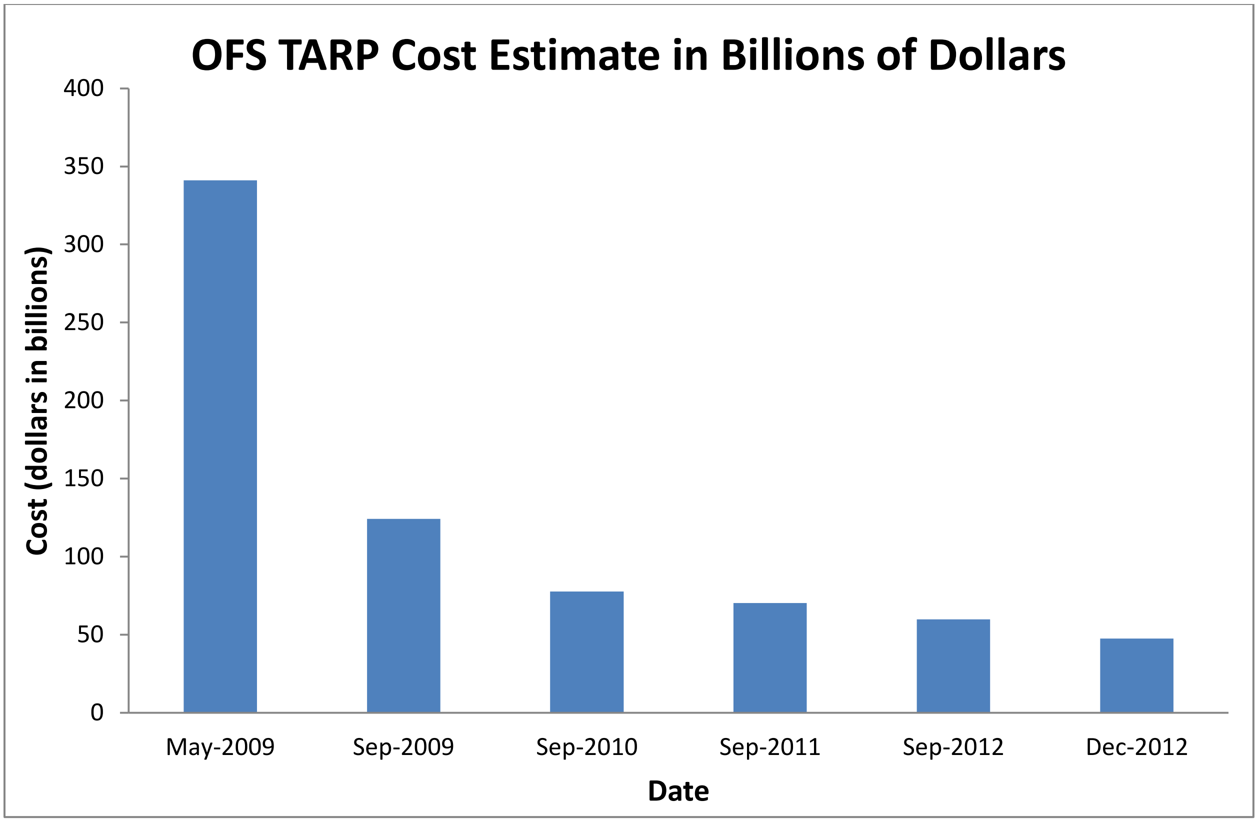
> (A) Protects home values, college funds, retirement accounts, and life savings;
> (B) Preserves homeownership and promotes jobs and economic growth;
> (C) Maximizes overall returns to the taxpayers of the United States; and,
> (D) Provides public accountability for the exercise of such authority.

EESA vested authority in the Secretary of the Treasury to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary."

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted on July 21, 2010, reduced the TARP authority to purchase troubled assets to $475 billion from an original $700 billion; required that repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the federal debt; and prohibited new obligations for any program or initiative that was not initiated prior to June 25, 2010.

Collectively, TARP and the government's other emergency measures were effective in preventing the collapse of our financial system, restoring confidence in the financial system, restarting economic growth, and restoring access to capital and credit. These programs were well designed and carefully managed by the former and current Administrations. As a result, the government was able to limit the broader economic and financial damage from the 2008 financial crisis. The conditions of security markets and large financial institutions have improved substantially since 2008. Borrowing costs for banks, nonfinancial businesses, and state and local governments have returned to normal levels. Frozen securities markets have reopened. Prices for legacy securities have improved. Banks are better capitalized than they were before the crisis, leverage has been reduced, and the riskiest parts of the financial system no longer exist. Furthermore, restructuring in the financial industry is well underway.

Further, as a result of improved financial conditions and careful stewardship of the program, the ultimate cost to taxpayers of TARP investments is estimated to be significantly lower than initially expected. In FY 2009, the program was projected to cost $341 billion, but it is now estimated to cost only $48.57 billion as of December 31, 2012 ($30 billion if Treasury's non-TARP AIG receipts are included).



During FY 2014, OFS's priorities will be to continue winding down TARP's investment programs subject to market conditions and implementing TARP's housing programs to prevent avoidable foreclosures while protecting taxpayers' interests. While Treasury cannot implement new TARP programs, in FY 2014, disbursements for the housing programs will continue to occur based upon existing commitments.

OFS Administrative Expenses

The authority for OFS administrative budget funds is provided in Section 118 of EESA. In FY 2013, OFS plans to obligate $306 million and use no more than 161 FTE, a decrease of $19 million and 46 FTE from the FY 2012 President's Budget. The decreases are primarily due to the wind down of TARP programs. In FY 2014, OFS plans to obligate $201 million and use 126 FTE, a decrease of $105 million and 35 FTE from the FY 2013 estimates, to fund the management of the TARP housing programs and disposition of OFS's remaining investments. The decrease in FTE and outside contracts reflects the continued wind down of TARP.

1C – Credit Reform

Section 123 of EESA requires the cost of TARP programs to be calculated using the methods required by the Federal Credit Reform Act of 1990 ("credit reform"). In addition to OFS's administrative account, Treasury has established seven credit program accounts to comply with the credit reform accounting requirements: TARP Equity Purchase Program Account, TARP Equity Purchase Financing Account, TARP Housing Programs Account, TARP Home Affordable Modification Program Financing Account, TARP Program Account, Troubled Assets

Insurance Financing Fund Guaranteed Loan Financing Account, and TARP Direct Loan Financing Account.

Credit Reform Account Descriptions
TARP Equity Purchase Program Account: The TARP Equity Purchase Program Account records the subsidy costs (cost to the government) associated with federal equity injections into qualifying financial institutions. Subsidy costs are calculated on a net present value basis.

TARP Equity Purchase Financing Account (EPFA): The TARP EPFA is a non-budgetary account that records all financial transactions to and from the government resulting from equity purchases. The EPFA primarily tracks each cohort year's purchase activity (dividend payments, the exercise of warrants, Treasury borrowings, interest paid to or received from Treasury, etc.) and is not included in the budget totals when calculating total government spending.

TARP Housing Programs Account: The TARP Housing Programs Account records the subsidy costs and cash outlays associated with Treasury's housing programs. The Making Home Affordable (MHA) and Hardest Hit Fund housing programs are recorded on a cash basis, and the Federal Housing Administration (FHA)-Refinance Program is subject to the Federal Credit Reform Act of 1990 whereby its subsidy cost is calculated on a net present value basis.

TARP Home Affordable Modification Program Financing Account: The TARP Home Affordable Modification Financing Account is a non-budgetary account that records all financial transactions to and from the government resulting from Treasury's FHA-Refinance Program. Like other financing accounts, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Program Account: The TARP Program Account records the subsidy costs associated with direct loans obligated and guaranteed loans committed to qualifying institutions. Subsidy costs are calculated on a net present value basis.

Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account (GLFA): The Troubled Assets Insurance Financing Fund GLFA is a non-budgetary account that records all financial transactions to and from the government resulting from guarantees committed. Like EPFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Direct Loan Financing Account (DLFA): The TARP DLFA is a non-budgetary account that records all financial transactions to and from the government resulting from direct loans. Like EPFA and GLFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

Office of Financial Stability Administrative Account: This account provides for the administrative costs of OFS.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Financial Stability	FTE	Amount
FY 2012 Actual	**172**	**$282,298**
FY 2013 Estimated	**161**	**$306,158**
Changes to Base:		
Adjustments to Estimate:	-	-
Maintaining Current Levels (MCLs):	-	$5,301
Pay-Raise	-	$192
Non-Pay	-	$5,109
Subtotal Changes to Base	-	$5,301
Total FY 2014 Base	**161**	**$311,459**
Program Changes:		
Program Decreases:	(35)	($110,769)
OFS Salaries and Benefits	(35)	($5,207)
Housing Program Support	-	($75,264)
Maintenance and Disposition of Assets	-	($14,445)
Organizational Support	-	($15,853)
Total FY 2014 Estimated	**126**	**$200,690**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$5,301,000 / +0 FTE

Pay-Raise +$192,000 / +0 FTE

The President's Budget proposes a 1 percent pay-raise for federal employees in 2014.

Non-Pay +$5,109,000 / +0 FTE

Funds are required for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Program Decreases .... -$110,769,000 / -35 FTE

OFS Salaries and Benefits -$5,207,000 / -35 FTE

Savings resulted from natural attrition and expiration of term appointments due to the wind down of various TARP programs.

Housing Program Support -$75,264,000 / +0 FTE

The MHA compliance and administrative functions will begin to ramp down in FY 2014 as the housing program eligibility period is scheduled to expire on December 31, 2013. The MHA Program Administrator's Servicer Integration Teams will complete their work and enhancements to the MHA system of record which should be complete in the first half of FY 2014. Transaction processing, operational support and system maintenance costs will continue thereafter.

Maintenance and Disposition of Assets -$14,445,000 / +0 FTE

The majority of Capital Purchase Program (CPP) investments are expected to be liquidated by the end of FY 2013 through repayments, restructurings, and sales through auctions. Subject to market conditions, OFS also expects to have disposed of substantial portions of its remaining Automotive Industry Financing Program (AIFP) holdings by the end of calendar year 2013 or beginning of calendar year 2014. During FY 2014, OFS expects to focus predominately on the ongoing implementation of housing programs and the management and recovery or disposition of the remaining investments in small CPP financial institutions, Community Development Capital Initiative (CDCI), Public-Private Investment Program (PPIP), and AIFP programs.

Organizational Support -$15,853,000 / +0 FTE
Administrative costs associated with managing Treasury's portfolio will decline over time as TARP winds down. However, many duties and responsibilities will remain and are not directly correlated to the volume of assets held by OFS.

2.2 – Operating Levels Table

Dollars in Thousands

Office of Financial Stability Object Classification	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated
11.1 - Full-time permanent	19,847	19,530	15,688
11.6 - Overtime	0	32	0
11.7 - Other Personnel Compensation	0	157	25
11.9 - Personnel Compensation (Total)	**19,847**	**19,719**	**15,713**
12.0 - Personnel benefits	5,455	5,456	4,505
13.0 - Benefits for former personnel	100	0	0
Total Personnel and Compensation Benefits	**$25,402**	**$25,175**	**$20,218**
21.0 - Travel and transportation of persons	662	863	416
23.2 - Rental payments to others	0	100	0
23.3 - Communication, utilities, and misc charges	11	0	0
25.1 - Advisory and assistance services	254,158	278,014	178,052
26.0 - Supplies and materials	2,059	1,996	1,994
31.0 - Equipment	5	10	10
43.0 - Interest and dividends	1	0	0
Total Non-Personnel	**256,896**	**280,983**	**180,472**
Total Budgetary Resources	**$282,298**	**$306,158**	**$200,690**
Budget Activities:			
EESAP - TARP Administrative Account	282,298	306,158	200,690
Total Budgetary Resources	**$282,298**	**$306,158**	**$200,690**
FTE	**174**	**163**	**128**

Table includes direct and reimbursable FTEs.

2B – Appropriations Language and Explanation of Changes

OFS does not receive any discretionary appropriation authority from Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals

OFS has no legislative proposals.

Section 3 – Budget and Performance Plan

3A – OFS Programs and Administration

EESA programs

Bank Support Programs

Capital Purchase Program (CPP): The CPP - OFS's largest program - was launched to stabilize and build confidence in the financial system by bolstering the capital position of viable institutions. Treasury created the CPP in October 2008 to help ensure that the nation's banking institutions have a sufficient capital cushion against potential future losses and to support lending to creditworthy borrowers. Treasury ultimately provided a total of $205 billion in capital to 707 institutions in 48 states, including more than 450 small and community banks and 22 Community Development Financial Institutions (CDFIs).

During FY 2012, OFS focused on winding down the CPP according to the exit strategy it announced on May 3, 2012. That strategy includes a combination of repayments in the case of banks which are expected to repay in the near future, selling Treasury's positions in banks through auctions, and restructuring some investments, typically in connection with a merger or other plan of the bank to infuse capital in a way that maximizes timely Treasury collections. As of December 31, 2012, the CPP has generated $26.48 billion in net proceeds for taxpayers with 212 institutions remaining in the program for a total of $7.4 billion in capital outstanding.

Targeted Investment Program (TIP): OFS established the 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. Treasury invested $20 billion each in Bank of America and Citigroup under the TIP. As of December 31, 2009, the TIP was closed as part of Treasury's effort to wind down TARP. Both Citigroup and Bank of America fully redeemed the Government's TIP investments of $40 billion plus $3 billion in dividends and $1.43 billion in warrants during 2010, which generated $4.43 billion in net proceeds for taxpayers.

Asset Guarantee Program (AGP): OFS established the AGP which was used in conjunction with the TIP to support the value of certain assets held by Bank of America and Citigroup by agreeing to absorb a portion of the losses on those assets. The AGP helped these institutions maintain the confidence of their depositors and other funding sources while continuing to meet the credit needs of households and businesses. The AGP closed in December 2009 without paying any claims and has generated $4.13 billion in net proceeds for taxpayers.

Community Development Capital Initiative (CDCI): To help mitigate the adverse impact that the financial crisis had on communities underserved by traditional banks, Treasury launched CDCI to provide capital to banks, thrifts, and credit unions that qualified as CDFIs in February 2010.

Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of two percent, compared to the five percent rate offered under the CPP.

The participants had to be certified by Treasury as targeting more than 60 percent of their small business lending and other economic development activities to underserved communities. CDFIs that were already participants in CPP and were in good standing were eligible to exchange those investments into this program. Treasury invested a total of $570 million in 84 CDFIs, of which 28 institutions converted $355.7 million in capital from CPP to CDCI. The total amount exchanged into CDCI, including converted warrants, was $363.3 million. As of December 31, 2012, six institutions have fully repaid their investment and one has been taken into receivership and the program has approximately $523 million in capital outstanding.

The Credit Market Programs

Public-Private Investment Program (PPIP): 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.

Treasury launched PPIP to support credit market functioning and facilitate price discovery in the markets for commercial and residential mortgage financing. Using TARP funds alongside equity capital raised from private investors, PPIP was designed to generate a significant purchasing power and demand for RMBS and CMBS. Treasury originally committed approximately $22.1 billion of equity and loans to the nine Public-Private Investment Funds (PPIFs). As of December 31, 2012, the PPIFs could no longer draw capital or make new investments. Five of the nine funds have now been effectively wound down and four funds remain in the program. Future debt, equity and interest payments from the outstanding PPIFs will provide an additional return for taxpayers. As of December 31, 2012, $3.6 billion remained outstanding in the program.

Term Asset-Backed Securities Loan Facility (TALF): TALF was a joint Federal Reserve-OFS program that was designed to restart the asset-backed securities (ABS) markets that provide credit to consumers and small businesses, which had ground to a virtual standstill during the early months of the financial crisis. TALF supported the issuance of nearly 3 million auto loans, more than 1 million student loans, nearly 900,000 small business loans, 150,000 other types of business loans, and millions of credit card loans.

Treasury originally committed to provide $20 billion in the form of subordinated debt to TALF, LLC to support a $200 billion loan portfolio. This commitment was reduced to $4.3 billion after the program closed to new lending in June 2010, which was an amount equal to 10 percent of the TALF loans that were then outstanding. In June 2012, the commitment was further reduced to $1.4 billion as the outstanding loan portfolio decreased. On January 15, 2013, the commitment was eliminated. On February 6, 2013, Treasury was fully repaid all disbursements and will continue to receive residual payments in the future. OFS does not expect any cost to taxpayers from the program.

Small Business Administration (SBA) 7(a) Securities Purchase Program: 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. Treasury invested in a total of 31 SBA 7(a) securities with a value of approximately $367 million (excluding purchased accrued interest) between March and September 2010. The SBA 7(a) market has now recovered with new SBA 7(a) loan volumes returning to pre-crisis levels.

In January 2012, Treasury sold its eight remaining SBA 7(a) securities in the portfolio, marking the successful wind down of the program. In total, Treasury collected $376 million through sales ($334 million), principal payments ($29 million), and interest payments ($13 million) over the life of the program, representing cash collections of approximately $9 million more than its original investment of $367 million.

American International Group, Inc. (AIG) Investment Program
During the financial crisis, the federal government provided assistance to prevent the collapse of AIG. This assistance came from the Federal Reserve Bank of New York (FRBNY) and Treasury. At the time, AIG was the largest provider of conventional insurance in the world. Millions of Americans depended on it for their life savings and it had a substantial presence in many critical financial markets, including municipal bonds. The consequences of AIG failing at that time and in those circumstances would have been catastrophic to American families, businesses, and the larger economy. Therefore, Treasury and the FRBNY took action to protect the U.S. financial system.

The government's overall support for AIG peaked at approximately $182 billion. That amount included $70 billion that Treasury committed through TARP, and $112 billion committed by the FRBNY. As a result of the combined efforts of AIG, Treasury, and the FRBNY, the government's support for AIG was substantially reduced during 2012 and taxpayers began to see a positive return on their overall investment in the company. As of December 31, 2012, the $182 billion committed to stabilize the company had been fully recovered – plus an additional positive return of $22.7 billion. Treasury continued to hold warrants to purchase approximately 2.7 million shares of AIG common stock. On March 1, 2013, AIG purchased the remaining warrants. Treasury has fully exited its investment in AIG.

Automotive Industry Financing Program (AIFP)
OFS established the AIFP on December 19, 2008, to help prevent a significant disruption to the American automotive industry, which would have posed a substantial disruption to financial market stability and would have had a negative effect on the economy. Under the AIFP, Treasury allocated $82 billion, of which almost $80 billion was disbursed and $2 billion was cancelled, in emergency loans and other investments to General Motors Corporation (GM), Chrysler LLC (Chrysler), and their financing affiliates.

Treasury provided approximately $50 billion of TARP funds to GM in 2008 and 2009. By the end of 2012, Treasury had sold more than two-thirds (612 million) of the 912 million shares of GM common stock it originally held. On December 19, 2012, Treasury announced that GM intended to purchase 200 million shares of GM common stock and that Treasury intended to fully exit its remaining GM investment within 12-15 months, subject to market conditions. GM purchased the common stock on December 21, 2012, at $27.50 per share (10 percent above the three-day average of the previous closing prices) resulting in proceeds received of $5.5 billion. In January 2013, Treasury began the process of selling its shares into the market under a pre-arranged written trading plan.

Treasury committed a total of $12.4 billion to Chrysler and Chrysler Financial under TARP. In July 2011, Treasury fully exited its investment in Chrysler, six years ahead of schedule. Of the $12.4 billion disbursed to Chrysler under TARP, Treasury recovered more than $11.1 billion for taxpayers through principal repayments, interest, and cancelled commitments. Treasury is unlikely to fully recover the difference of $1.3 billion owed by Old Chrysler.

As of December 31, 2012, Treasury's outstanding investment in Ally Financial (Ally), formerly General Motors Acceptance Corporation (GMAC), stood at $13.75 billion, having recovered about one-third of the original $17.2 billion investment. During 2012, Ally began two strategic initiatives: Chapter 11 proceeding for its mortgage subsidiary, Residential Capital, LLC (ResCap) and the sale of its international auto finance operations. These two initiatives are important elements of Treasury's strategy for exiting its remaining investments in Ally. Once they are completed, Treasury expects to begin monetizing its remaining investment in Ally, subject to market conditions.

Treasury Housing Programs Under TARP

OFS established two central programs under TARP – the Making Home Affordable (MHA) program and the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF) – to help prevent avoidable foreclosures and preserve homeownership. OFS has also provided support for the Federal Housing Administration's Short Refinance Program to assist borrowers who are current on their mortgage but owe more than their home is worth, in refinancing into an FHA-insured loan.

<u>Making Home Affordable Program (MHA)</u>: MHA includes sub programs that assist borrowers in modifying first and second mortgages, including benefits for unemployed homeowners, as well as modification alternatives. Through December 31, 2012, there were nearly 1.5 million homeowner assistance actions granted through MHA, consisting of first-and second-lien permanent modifications, Home Affordable Foreclosure Alternatives (HAFA) transactions, and Unemployment Program (UP) forbearance plans. During 2012 there were more than 430,000 actions taken under MHA to help families prevent a possible foreclosure. Funds are paid out over the length of the modifications, and as of December 31, 2012, Treasury disbursed $4.6 billion out of a possible $29.9 billion of incentive fees under MHA.

<u>Housing Finance Agency (HFA) Hardest-Hit Fund:</u> The HFA Hardest-Hit Fund was implemented in FY 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. Eighteen states and the District of Columbia have developed custom programs targeted to address the specific needs and economic conditions of their state. There was substantial growth in the program in 2012, both in the numbers served and the dollars spent. With recent program and operational changes made by HFAs working closely with Treasury, OFS expects the pace of assistance to continue to accelerate throughout 2013. As of December 31, 2012, Treasury disbursed $1.76 billion out of a possible $7.6 billion under the HFA Hardest-Hit Fund.

Federal Housing Administration (FHA)-Refinance Program: Treasury also continues to support the Federal Housing Administration Short Refinance Program. Under this program, eligible borrowers who are current on their mortgage or complete a trial payment plan but owe more than their home is worth, can refinance into an FHA-insured loan if the lender writes off at least 10 percent of the existing loan. As of December 31, 2012, 2,153 loans had been refinanced and no claim payments have been made under this program. On March 4, 2013, Treasury reduced the letter of credit facility from $8.1 billion to $1.0 billion. Due to limited take up, reduced defaults, and increased FHA program fees Treasury's cost estimate for this program decreased from $8.1 billion to approximately $200 million.

EESA Administration
The authority for the OFS administrative budget is provided in Section 118 of EESA. The administrative budget consists primarily of contracting and financial agent support costs associated with OFS's ongoing implementation and management of the TARP housing programs and the management and disposition of Treasury's remaining investments. In addition, continuing organizational support, including information technology, facilities, legal, compliance, accounting, and human resources, will be needed to manage these ongoing OFS initiatives. The owner of OFS's performance is the Assistant Secretary for Financial Stability.

3.1 – Programmatic Budget by Operational Goal

Treasury Operational Goals (dollars in thousands)	FY 2009/2010 Actual
Ensure the Overall Stability and Liquidity of the Financial System	$429.4B
Prevent Avoidable Foreclosures and Preserve Homeownership	$ 45.6B

Ensure the Overall Stability and Liquidity of the Financial System
The primary objective of EESA is to ensure the overall stability and liquidity of the financial system. To achieve that objective, OFS developed several programs under the TARP that were broadly available to financial institutions. Under the CPP, Treasury provided capital infusions directly to financial institutions deemed viable by their Federal regulators. This program is now closed to new investments, and of the $205 billion invested, more than $220.5 billion has been collected as of December 31, 2012. According to Treasury's December 2012 projections, the CPP program will result in a positive return for taxpayers of more than $15 billion. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or the "stress test" of the largest U.S. financial institutions. On November 9, 2009, the CAP closed with no investments having been made. All but one of the 19 banks participating in the SCAP was shown to be adequately capitalized or fulfilled their capital needs through the private market. Only one institution, GMAC (now Ally Financial), indicated a need for capital from Treasury, and GMAC accessed the AIFP to meet its capital need.

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

Similarly, the AIFP provided funding for GM and Chrysler, as well as their financing affiliates, in order to prevent a significant disruption of the automotive industry that would have posed a systemic risk to financial markets and negatively affected the economy. Treasury's assistance made it possible for GM and Chrysler to restructure and compete more effectively. As a result, since 2009 the auto industry has rebounded.

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

In addition to these initiatives, OFS implemented other programs designed to enhance liquidity and restore the flow of credit to consumers and small businesses. These included the TALF. TALF is widely credited for achieving its purpose of encouraging lending to consumers and businesses while operating under a conservative structure that protects taxpayer interests. The facility has ceased making new loans. Other credit market programs include the SBA 7(a) Securities Purchase Program. Treasury developed the SBA 7(a) Securities Purchase Program to purchase SBA guaranteed securities from pool assemblers. By purchasing these securities in the open market, Treasury injected liquidity - providing cash to pool assemblers - to the market enabling those entities to purchase additional loans from loan originators. Treasury purchased and settled 31 SBA 7(a) securities for a total of $368.1 million and sold its remaining SBA 7(a) securities in the portfolio, recovering $376 million through sales ($335 million) and principal and interest payments ($41 million) over the life of the program representing a gain of approximately $9 million to taxpayers on Treasury's original investment of $368 million.

Prevent Avoidable Foreclosures and Preserve Homeownership

To prevent avoidable foreclosures and preserve homeownership, Treasury used authority granted under EESA to establish two central programs under TARP – the Making Home Affordable (MHA) program and the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF) starting in February 2009. Additional government and monetary policies have helped keep home mortgage rates at historic lows and have allowed millions of Americans to refinance and stay in their homes. Launched in February 2009, MHA consists of several programs designed to help struggling homeowners prevent avoidable foreclosures. MHA's principal component is the Home Affordable Modification Program (HAMP). As the housing crisis evolved, Treasury launched several specialized programs to help homeowners find a solution that is right for their situation. The MHA program provides incentives to mortgage servicers, investors, and eligible homeowners to work together to reduce an eligible homeowner's monthly payments to levels that are affordable in light of the homeowner's current income. In FY 2012, the median reduction in payment for homeowners in permanent modifications was $541 per month. As of December 2012, nearly 2 million borrowers have started trial modifications. Of this number, more than 1.1 million borrowers have been granted permanent first lien modifications through HAMP.

Additional Treasury housing programs also aim to help stabilize home prices for homeowners in neighborhoods hardest hit by the recession. These programs [e.g., Second Lien Modification Program (2MP) and FHA Second Lien Program (FHA2LP)] have offered further assistance to struggling homeowners.

Treasury publicly reports on the performance of the Making Home Affordable Programs on a monthly basis. These reports can be found on http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx.

The second major housing program under TARP is the HHF, which provides funding to assist struggling homeowners in 18 states plus the District of Columbia. These areas have been the most adversely affected in the housing market downturn. HHF provides funds to participating HFAs to design and implement locally-tailored programs to leverage local resources and meet the needs of homeowners in their area. Most HHF programs target assistance toward unemployed homeowners and those with homes that are worth less than the value of their mortgages.

Treasury also began to publicly report compliance results for the largest 10 HAMP participating servicers in quarterly servicer assessments within its MHA Servicer Performance Reports in order to provide increased transparency and accountability for servicer performance under the requirements of the MHA programs. The servicer assessments can be found on http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Monthly-Housing-Scorecard.aspx

Performance Metrics and Indicators ***(includes GSE and non-GSE[1]***	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Actual**	**FY 2012 Actual**
Reduction in median payment for homeowners in permanent modifications (assist homeowners) program-to-date. *Includes Trial and Permanent for FY2009 only	$497*	$521	$526	$541
Number of modifications entered into (assist homeowners)				
• Trial	902,620	466,794	344,598	213,613
• Permanent	66,465	429,433	361,076	233,622
12-month re-default rate for Permanent Modifications (90+ days delinquency rate for loans seasoned 12 months)	NA	15.6%	15.4%	14.5%

[1]Items in *italics* are indicators.

Protect Taxpayer Interests

Government financial programs, including TARP, helped prevent the U.S. financial system from collapse, which would have resulted in a more severe contraction of U.S. employment and production. The terms on which Treasury provided assistance under TARP were designed to mitigate the market risks associated with any investment in the private sector. For the majority of TARP investments, Treasury received preferred shares in the financial institutions, which included a reasonable dividend rate with a step-up feature in the event the institution took longer to repay the government. Also, Treasury received warrants in the majority of the financial institutions that participated in TARP, which allowed the taxpayer to share in the institution's recovery. In FY 2011, 29 public CPP banks repurchased warrants from Treasury. Treasury received 2.4 percent of its aggregate CPP preferred investment as proceeds from warrant repurchases, with the median value among the banks equaling 3.4 percent. There were additional taxpayer protections built into the securities purchase agreements governing these transactions – including limitations on dividends and repurchases, anti-dilution protections and expense reimbursement.

There were also additional restrictions and limitations on TARP recipients that encouraged good corporate governance and practices. For example, recipients of TARP CPP funds have to adhere to corporate governance standards, limit executive pay, and provide additional reporting on lending activity.

Finally, OFS seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments (see chart below). Treasury also aims to divest assets in a manner that promotes financial stability and maximizes return to taxpayers. See charts below on uses of capital and cost.

Performance Metrics and Indicators[1]	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Actual**	**FY 2012 Actual**
Number of public CPP banks that repurchased warrants from Treasury during period (excludes warrants auctioned by Treasury)	21	37	29	44
Proceeds from warrant repurchases as percent of aggregate CPP preferred investment amount (plus median for the selected banks)	7.1%	4.1%	2.4%	1.91%

[1]Items in *italics* are indicators.

Promote Transparency

OFS is committed to transparency and accountability in all programs established under EESA. Towards that end, OFS established comprehensive accountability and transparency measures.

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

- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and information on the estimated cost of TARP;
- A monthly housing report containing detailed metrics on the housing programs;
- A quarterly report on PPIP that provides detailed information on the funds, their investments, and returns;
- A report on each transaction (such as an investment in or repayment by an institution) within two business days of completing the transaction;
- A quarterly report that details all dividend and interest payments;
- Periodic reports on the sale of warrants, which includes information on auctions as well as on how the sale price was determined in the case of any repurchase of warrants by a TARP recipient;
- Monthly lending and use of capital surveys that contain detailed information on the lending and other activities of banks that have received TARP funds; and
- A Two Year Retrospective, a Three-Year Retrospective, A Four-Year Retrospective, and Annual Citizens' Reports that describe the activities of OFS.

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

- The TARP Transactions Report which provides information on all investment activity for TARP programs.
- The Daily TARP Update which includes a daily snapshot of the latest financial data related to each TARP program.

Finally, OFS posts on its website every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program. OFS has submitted 100 percent of its statutorily-mandated reports on time since FY 2009.

OFS had a website satisfaction rate of 67 percent in fiscal years 2011 and 2012. OFS will continue to conduct user surveys and use its results to identify opportunities for implementing new layouts and functionality to improve the experience of visitors to its website. OFS also responds to Freedom of Information Act (FOIA) requests and took an average of 98 days to close a FOIA case in FY 2011. OFS did not meet its target of 64 days due to large backlogs in FY 2009 and FY 2010. However, OFS significantly reduced its backlog in 2012 and was able to bring response times down to 53 days in FY 2012. OFS is targeting an average of 35 days in FY 2013.

EESA provided for extensive oversight of TARP, including by the Congressional Oversight Panel, the Special Inspector General for TARP, the Financial Stability Oversight Board, and the Government Accountability Office. In addition, OFS officials testify before Congress on the progress of TARP programs, and OFS staff provides briefings to Congressional staff on programmatic developments. OFS drafted 98 percent of responses to Congressional inquiries within 10 days in FY 2011 and 99 percent in FY 2012 exceeding the performance target of 53 days. OFS intends to maintain this responsiveness level by continuing to streamline its correspondence process in FY 2013.

OFS has received clean audit opinions of TARP financials since FY 2009 and plans to continue to do so by striving for accuracy and transparency in its financial statements. OFS responded to 88 percent of SIGTARP and GAO oversight recommendations on time in FY 2011 and 100 percent in FY 2012. OFS aims to continue responding to 100 percent of their recommendations on time in FY 2013.

Performance Metrics and Indicators[1]	**FY 2010 Actual**	***FY 2011 Target***	**FY 2011 Actual**	***FY 2012 Target***	**FY 2012 Actual**	***FY 2013 Target***
<u>Percentage of statutorily-mandated reports submitted on time</u> *(ensure transparency within the government)*	100%	***100%***	100%	***100%***	*100%*	***100%***
<u>Percentage of customers satisfied with FinancialStability.gov (self selected respondents)</u> *(ensure transparency of operations to the public)*	63%	***65%***	67%	***67%***	*67%*	***69%***
<u>Timeliness of responses</u> *(ensure transparency within the government)* • Average days to close a FOIA case • Percentage of Congressional correspondence responses drafted within 10 days	95 days 97%	***64 days*** ***N/A***	98 days 98%	***50 days*** ***98%***	53 days 99%	***35 days*** ***98%***
<u>Clean audit opinion on TARP financial statements</u> *(ensure transparency within the government)*	Yes	***Yes***	Yes	***Yes***	Yes	***Yes***
<u>Percentage of SIGTARP and GAO oversight recommendations responded to on time</u> *(ensure transparency within the government)*	93%	***100%***	88%	***100%***	100%	***100%***

[1]Items underlined are measures. Targets are provided only for measures.

Section 4 – Supplemental Information

4A – Capital Investment Strategy

OFS uses Departmental Offices' (DO) systems and is part of DO's capital investment strategy.