

# Emergency Economic Stabilization Act Programs

FY 2013

President's Budget  
Submission

# Table of Contents

<b>Section 1 – Purpose</b> .....	<b>3</b>
1A – Mission Statement.....	3
<b>1.1 Program Account Summary</b> .....	<b>3</b>
1B – Mission, Priorities and Context.....	4
1C – Credit Reform.....	6
<b>Section 2 – Budget Adjustments and Appropriation Language</b> .....	<b>8</b>
2.1 – Budget Adjustments Table.....	8
2A – Budget Increases and Decreases Description.....	8
Table 2.3 Operating Levels by BOC.....	10
Table 2.3.1 – Operating Levels by Activity.....	10
2B – Appropriations Language and Explanation of Changes.....	10
2C – Legislative Proposals.....	10
<b>Section 3 – Budget and Performance Plan</b> .....	<b>11</b>
3A – EESA Programs and Administration .....	11
EESA Administration .....	14
Table 3.1 – Programmatic Budget by Operational Goal.....	14
Ensure the Overall Stability and Liquidity of the Financial System .....	14
Promote Transparency .....	18
<b>Section 4 – Supplemental Information</b> .....	<b>21</b>
4A – Capital Investment Strategy .....	21

## 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. The U.S. Department of the Treasury (Treasury) has already recovered more than three-fourths of the funds disbursed. The government is in a position to recover 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 2011 Actual	FY 2012 Estimate	FY 2013 Estimate	% Change FY 2012 to FY 2013
	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>Obligations:</b>				
Housing Account	\$0	\$0	\$0	0%
Equity Program Account	\$329,228	\$18,438,364	\$0	-100%
TARP Account	\$1,556,633	\$7,858,238	\$0	-100%
TARP Negative Receipt Account	(\$1,444,357)	(\$255,633)	(\$45,493)	-82%
TARP Negative Downward Reestimate Receipt Account	(\$60,355,010)	(\$5,206,638)	\$0	-100%
TARP Administrative Account	<u>\$355,741</u>	<u>\$325,426</u>	<u>\$282,874</u>	<u>-13%</u>
<b>Total Obligations</b>	<b>(\$59,557,765)</b>	<b>\$21,159,757</b>	<b>\$237,381</b>	<b>-99%</b>
<b>Budget Authority:</b>				
Housing Account	\$0	\$0	\$0	0%
Equity Program Account	\$329,228	\$18,438,364	\$0	-100%
TARP Account	\$1,566,633	\$7,858,238	\$0	-100%
TARP Negative Subsidy Receipt Account	(\$1,444,357)	(\$255,633)	(\$45,493)	-82%
TARP Negative Downward Reestimate Receipt Account	(\$60,355,010)	(\$5,206,638)	\$0	-100%
TARP Administrative Account	<u>\$355,741</u>	<u>\$325,426</u>	<u>\$282,874</u>	<u>-13%</u>
<b>Total Budgetary Authority</b>	<b>(\$59,547,765)</b>	<b>\$21,159,757</b>	<b>\$237,381</b>	<b>-99%</b>
<b>Outlays:</b>				
Housing Account	\$1,934,962	\$13,619,000	\$12,148,000	-11%
Equity Program Account	\$20,656,004	\$18,675,664	\$44,917	-100%
TARP Account	\$1,557,241	\$7,858,238	\$0	-100%
TARP Negative Subsidy Receipt Account	(\$1,444,357)	(\$255,633)	(\$45,493)	-82%
TARP Negative Downward Reestimate Receipt Account	(\$60,355,010)	(\$5,206,638)	\$0	-100%
TARP Administrative Account	<u>\$352,463</u>	<u>\$457,000</u>	<u>\$291,000</u>	<u>-36%</u>
<b>Total Outlays</b>	<b>(\$37,298,697)</b>	<b>\$35,147,631</b>	<b>\$12,438,424</b>	<b>-65%</b>

**Table 1.2 – Program Disbursement, Repayment, and Cost Savings**

Dollars in Billions

<i>As of November 30, 2011</i>	Cumulative Obligated	Cumulative Disbursed	Cumulative Outstanding (Includes Realized Losses)	Total Cumulative Income	Total Cumulative Repayments	Total Estimated Lifetime Costs As of 11/30/11
Bank Support Programs	\$250	\$245	\$18	\$33	\$225	(\$21)
Credit Market Programs	\$27	\$18	\$17	\$1	\$2	(\$3)
AIG Investment Program (AIG)	\$68	\$68	\$50	\$0	\$16	\$22 *
Automotive Industry Financing Program	\$80	\$80	\$37	\$5	\$35	\$24
Treasury Housing Programs	\$46	\$3	N/A	N/A	N/A	\$46
<b>Total for TARP Programs</b>	<b>\$470</b>	<b>\$414</b>	<b>\$121</b>	<b>\$40</b>	<b>\$278</b>	<b>\$68</b>
Additional AIG Common Shares Held by Treasury	N/A	N/A	N/A	N/A	N/A	(\$14) *
<b>Total for TARP Programs and Additional AIG Shares</b>	<b>\$470</b>	<b>\$414</b>	<b>\$121</b>	<b>\$40</b>	<b>\$278</b>	<b>\$54</b>

*\*If all Treasury AIG Investments are combined, we currently estimate a net loss of \$8.8 billion on those shares.*

### **1B – Mission, Priorities and Context**

EESA was enacted in October 2008 in response to one of the worst financial crises faced by the United States (U.S.) in our history, in which, for the first time in 80 years the U.S. financial system was at risk of collapse. 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 to repair and reform the financial system. 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.” OFS supports Treasury’s strategic goal to repair and reform the financial system and support recovery in the housing market. Supporting this strategic goal, OFS has 4 operational goals:

- Ensure the overall stability and liquidity of the financial system;
- Prevent avoidable foreclosures and preserve homeownership;
- Protect taxpayer interests; and
- Promote transparency.

The purposes of EESA were to—

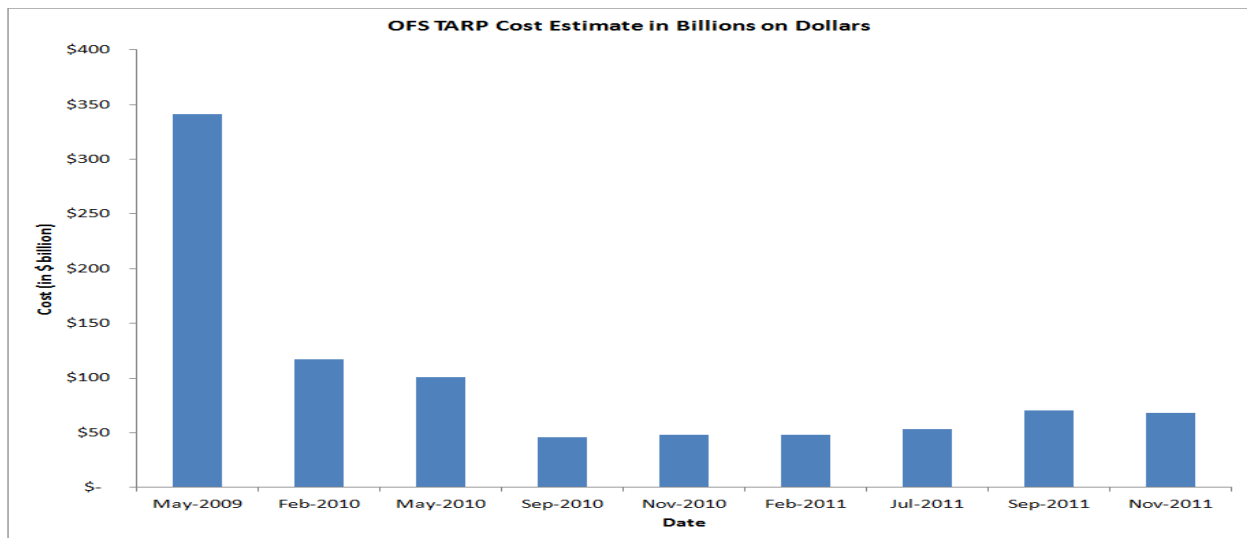
- (1) immediately provide authority and facilities that the Secretary of the Treasury could use to restore liquidity and stability to the financial system of the United States; and
- (2) ensure that such authority and such facilities were used in a manner that —
  - (A) protect home values, college funds, retirement accounts, and life savings;
  - (B) preserve homeownership and promote jobs and economic growth;
  - (C) maximize overall returns to the taxpayers of the United States; and
  - (D) provide public accountability for the exercise of such authority.

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 from \$700 billion to \$475 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 already initiated prior to June 25, 2010.

Over the past three years, emergency actions taken through TARP and other financial stability initiatives have helped prevent financial catastrophe by stabilizing the financial sector; unfreezing the markets for credit and capital; and bringing down the cost of borrowing for households and businesses. These actions have in turn helped to restore confidence in the financial system and restart economic growth. The conditions of most security markets and large financial institutions have improved substantially since the crisis in 2008. Borrowing costs for large banks, nonfinancial businesses, and state and local governments have returned to near normal levels. Frozen securities markets have reopened. Prices for legacy securities have improved. Large banks are better capitalized than they were before the crisis, and 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 the taxpayer 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 \$67.8 billion as of November 30, 2011 (see Table 1.2 above and the graph below).



During FY 2013, OFS' priorities will be to recover the remaining investments in the financial sector and auto industry in a manner that continues to promote financial stability while also maximizing the return for taxpayers. In addition, we will continue to implement existing programs to assist homeowners seeking to avoid foreclosure. While Treasury is now unable to implement new TARP programs, in FY 2013, disbursements for the Housing, Public-Private Investment Programs, and Term Asset Backed Securities Lending Facility (TALF) 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 2012, OFS plans to obligate \$325 million and use 207 FTE, a decrease of \$30 million and 2 FTE,

from FY 2011. The decreases are due to the winding down of TARP programs. In FY 2013, OFS plans to obligate \$282 million and use 165 FTE, a decrease of \$43 million and 42 FTE from the FY 2012 estimates. The FY 2013 estimate continues to fund implementation and management of the TARP housing programs and the management and disposition of OFS' remaining investments. The decrease in FTE and outside contracts continue to reflect 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' 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 (cost to the government) 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 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 (cost to the government) 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 for OFS.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Financial Stability	FTE	Amount
<b>FY 2012 Estimated</b>	<b>207</b>	<b>\$325,426</b>
<b>Total FY 2013 Base</b>	<b>207</b>	<b>\$325,426</b>
Program Changes:		
Program Decreases:	(42)	(\$42,552)
Contracts and Financial Agents: Housing Program Support	-	(\$16,656)
Contracts and Financial Agents: Maintenance and Disposition of Assets	-	(\$13,115)
Contracts and Financial Agents: Organizational Support	-	(\$7,507)
OFS Salaries and Benefits	(42)	(\$5,274)
<b>Total FY 2013 Guidance</b>	<b>165</b>	<b>\$282,874</b>
<b>Total FY 2013 Estimated</b>	<b>165</b>	<b>\$282,874</b>

### 2A – Budget Increases and Decreases Description

**Program Decreases** ..... **-\$42,552,000 / -42 FTE**

*OFS Salaries and Benefits* **-\$5,274,000 / -42 FTE**

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

*Contracts and Financial Agents: Housing Program Support* **-\$16,656,000 / +0 FTE**

The MHA compliance and administrative functions will begin to ramp down late in FY 2013. The MHA Program Administrator’s Servicer Integration Teams will complete their work and enhancements to the MHA system of record near the end of FY 2013. Transaction processing, operational support, and system maintenance costs will continue thereafter. The MHA Compliance functions will also begin ramping down late in FY 2013 with the likely elimination of the Servicer Assessments, leaving only compliance on paid incentives.

*Contracts and Financial Agents: Maintenance and Disposition of Assets* **-\$13,115,000 / +0 FTE**

CPP institutions will continue to exit the program through repayments as well as restructurings and sales by Treasury. During FY 2013, OFS expects to focus predominately on the remaining small and/or troubled CPP financial institutions. Subject to market conditions, OFS also expects to have disposed of substantial portions of its remaining AIFP and AIG holdings by the end of FY 2013.

*Contracts and Financial Agents: Organizational Support* **-\$7,507,000 / +0 FTE**

Administrative costs associated with managing OFS’ 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.



**Table 2.2 – Financing Accounts - Non-Budgetary Summary**

Dollars in thousands

	FY 2011	FY 2012	FY 2013	% Change
	Actual	Estimate	Estimate	FY 2012
	AMOUNT	AMOUNT	AMOUNT	to FY 2013
				AMOUNT
<b>TARP Guaranteed Loans:</b>				
Obligations	\$742,366	\$72,289	\$70,034	-3%
Collections	\$2,333,008	\$38,686	\$497,345	1186%
Financing Authority (net)	(\$1,600,000)	\$33,603	(\$427,311)	-1372%
Financing Disbursements (net)	(\$1,590,642)	\$33,603	(\$427,311)	-1372%
<b>TARP Direct Loans:</b>				
Obligations	\$8,747,822	\$5,652,378	\$1,611,599	-71%
Collections	\$25,734,797	\$16,542,630	\$10,285,993	-38%
Financing Authority (net)	(\$9,607,325)	(\$10,890,312)	(\$8,674,394)	-20%
Financing Disbursements (net)	(\$14,235,482)	(\$8,278,616)	(\$8,209,606)	-1%
<b>Equity Purchases:</b>				
Obligations	\$55,879,830	\$11,620,745	\$4,550,410	-61%
Collections	\$79,238,294	\$39,382,080	\$19,672,752	-50%
Financing Authority (net)	\$7,917,117	(\$27,474,974)	(\$15,046,800)	-45%
Financing Disbursements (net)	(\$2,013,759)	(\$26,728,250)	(\$14,926,796)	-44%
<b>Housing:</b>				
Obligations	\$0	\$4,000	\$104,000	2500%
Collections	\$930	\$2,769,000	\$2,466,000	-11%
Financing Authority (net)	\$0	\$0	\$0	0%
Financing Disbursements (net)	(\$930)	(\$2,765,000)	(\$2,362,000)	-15%
<b>TARP Financing Accounts Totals:</b>				
Obligations	\$65,370,018	\$17,349,412	\$6,336,043	-63%
Collections	\$107,307,029	\$58,732,396	\$32,922,090	-44%
Financing Authority (net)	(\$3,290,208)	(\$38,331,683)	(\$24,148,505)	-37%
Financing Disbursements (net)	(\$17,840,813)	(\$37,738,264)	(\$25,925,713)	-31%

## Table 2.3 Operating Levels by BOC

Dollars in thousands

	FY 2011 Actual	FY 2012 Estimate	FY 2013 Estimate
<b>FTE</b>	<b>209</b>	<b>207</b>	<b>165</b>
<b>Object Classification:</b>			
11/12 Salary & Benefits	\$30,430	\$31,186	\$25,913
21 Travel	\$567	\$1,172	\$909
22 Transportation	\$0	\$0	\$0
23 Rent, Communications, Utilities	\$84	\$100	\$100
24 Printing	\$0	\$0	\$0
25 Contracts and Other Misc. Services	\$323,985	\$290,455	\$253,910
26 Supplies	\$657	\$2,504	\$2,033
31 Equipment	\$17	\$10	\$10
43 Interest and Dividends	\$0	\$0	\$0
<b>Total Obligations:</b>	<b>\$355,741</b>	<b>\$325,426</b>	<b>\$282,874</b>

### Table 2.3.1 – Operating Levels by Activity

	FY 2011 Actual	FY 2012 Estimate	FY 2013 Estimate
<b>Direct Program Activity</b>	\$324,042	\$303,898	\$264,155
<b>Reimbursements:</b>			
Congressional Oversight Panel	\$5,200	\$0	\$0
GAO	\$5,600	\$3,511	\$3,511
Treasury and non-Treasury Agencies	\$20,899	\$18,018	\$15,209
<b>Total Obligations:</b>	<b>\$355,741</b>	<b>\$325,426</b>	<b>\$282,874</b>

## 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 – EESA Programs and Administration**

#### **EESA programs**

##### *Bank Support Programs*

Capital Purchase Program (CPP): Pursuant to EESA, the CPP - OFS' largest and most significant program - was launched to stabilize the financial system and build confidence in the financial system by bolstering the capital position of viable financial institutions. With the additional capital, CPP participants were better equipped to undertake new lending (or reduce lending by less than otherwise would have occurred) and absorb write downs and charge-offs on loans that were not performing. OFS 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). The CPP was designed to bolster the capital position of viable institutions of all sizes and, in doing so, to build confidence in these institutions and the financial system as a whole. As of November 30, 2011, there are 379 institutions remaining in the program for a total of \$17.06 billion in capital outstanding.

Targeted Investment Program (TIP): OFS established the TIP under the TARP 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. OFS 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 profits for taxpayers.

Asset Guarantee Program (AGP): Pursuant to section 102 of EESA, OFS established the AGP with the same objective as the TIP of preserving financial market stability. The AGP provided protection against the risk of significant losses in pools of assets held by Citigroup and Bank of America. 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 generated \$3.04 billion in revenue for taxpayers.

Community Development Capital Initiative (CDCI): In February 2010, OFS announced the CDCI to lower the cost of capital in Community Development Financial Institutions (CDFI) that lend to small businesses in the country's hardest-hit communities. Under the terms of the program, CDFI banks and thrifts, which must be certified by Treasury as targeting more than 60 percent of their small business lending and other economic development activities to underserved communities, are eligible to receive investments of capital with an initial dividend rate of 2 percent. CDFIs that were already participants in CPP and were in good standing were eligible to exchange those investments into this program. As of November 30, 2011, OFS has invested \$570 million in 84 CDFIs.

*The Credit Market Programs (CMP)*

Public-Private Investment Program (PPIP): OFS, in conjunction with the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC), announced the PPIP on March 23, 2009, as a part of the Financial Stability Plan. PPIP is part of OFS's efforts to help restart the credit markets by purchasing troubled legacy securities to ensure that credit is available to households and businesses. Under this program, OFS made equity and debt investments in newly-formed investment vehicles, Public Private Investment Funds (PPIF), established by private investment managers for the purpose of purchasing legacy securities. As of November 30, 2011, OFS has disbursed \$17.66 billion out of \$21.86 billion allocated to the PPIP.

Term Asset-Backed Securities Loan Facility (TALF): The TALF was created by the Federal Reserve Board (FRB) to restart the asset-backed securitization market by providing low cost funding to investors in certain classes of Asset Backed Securities (ABS). The TALF's objective was to stimulate investor demand for certain types of eligible ABS, specifically those backed by loans to consumers and small businesses, and ultimately to bring down the cost and increase the availability of new credit to consumers and businesses. OFS agreed to participate in the program and originally provided up to \$20 billion of TARP funds in liquidity and credit protection to the FRB for first-losses arising under TALF loans. On July 20, 2010, OFS' commitment was reduced to \$4.3 billion. Through November 30, 2011, OFS has experienced no losses under the program.

Small Business Administration (SBA) 7(a) Security Purchase Program: In March 2010, Treasury announced the SBA 7(a) Securities Purchase Program to help restore the confidence needed for financial institutions to increase lending to small business, and to ensure that credit flows again to entrepreneurs and small business owners. OFS purchased \$368.1 million of guaranteed securities backed by SBA 7(a) loans (7(a) Securities). As of November 30, 2011, OFS continues to hold 8 SBA 7(a) securities with a current face value of approximately \$59.1 million and sold 23 SBA 7(a) securities through three Bids Wanted in Competition for \$271.7 million, which represents total gains and income to OFS of \$7.5 million.

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

In the chaotic environment of September 2008, AIG - the largest provider of conventional insurance in the world, the largest issuer of commercial paper, and the second largest holder of U.S. municipal bonds - was on the brink of failure. In light of the impact such a failure could have had on global financial and insurance markets, the government provided financial assistance to AIG, initially in the form of loans by the Federal Reserve Bank of New York (FRBNY) and later under TARP. At its peak, the government committed approximately \$180 billion to AIG, with \$70 billion of that committed by OFS under TARP. As of today, the government has recovered a majority of the funds provided and is working diligently to recover the remaining assistance.

OFS purchased \$40 billion in cumulative preferred stock from AIG under the TARP, the proceeds of which were used to repay a Federal Reserve loan in part. In April 2009, OFS exchanged the \$40 billion in cumulative preferred stock for \$41.6 billion in non-cumulative preferred stock. OFS also created an additional equity capital facility, under which AIG could draw up to \$29.8 billion as needed in exchange for issuing additional preferred stock to OFS.

On September 30, 2010, the Treasury, FRBNY, and AIG announced plans for a restructuring of the federal government's investments in AIG. The components of the capital restructuring plan closed in January 2011 with OFS receiving 1.092 billion AIG common shares and AIG drawing an additional \$20.3 billion from OFS. Under the re-structuring, Treasury received an additional allotment of AIG common stock from the trust created by the FRBNY that is outside of the TARP AIG investments. In February 2011, AIG sold two subsidiaries and repaid \$2.1 billion, which reduced OFS' preferred equity interest in the AIG owned Special Purpose Vehicles (SPV) from \$20.3 billion to \$18.2 billion. In March 2011, AIG repaid OFS an additional \$6.9 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 Treasury. 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.

As of November 30, 2011, OFS' remaining gross outstanding TARP AIG related investments amounted to \$49.95 billion, which consists of 960 million shares of AIG common stock (with a cost basis of \$43.53 per share and a market value of \$22.38 billion or \$23.31 per share), and approximately \$8.15 billion of preferred equity interests. Treasury holds an additional 495 million AIG common shares.

#### *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 had a negative effect on the economy. Under the AIFP, OFS 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 to provide a path for these companies to go through orderly restructurings and achieve viability.

In November and December 2010, OFS received \$13.5 billion for the sale of over 400 million shares of GM, reducing OFS's ownership percentage of GM common stock from 60.8% to 32%. OFS also accepted an offer from GM to repurchase \$2.1 billion of preferred stock, a deal which was closed in December 2010. As of September 30, 2011, OFS held 500 million shares of common stock in General Motors Company (New GM). Chrysler has repaid all outstanding debt, and OFS has canceled the remaining \$2.1 billion undisbursed obligation. In addition, Fiat paid \$560 million to OFS for its remaining stake in Chrysler and rights under an agreement with the United Auto Workers retirement trust pertaining to the trust's shares in Chrysler. OFS is unlikely to recover the outstanding \$1.3 billion lent to "old" Chrysler which is in bankruptcy liquidation.

#### *Treasury Housing Programs Under TARP*

The Treasury Housing Programs under TARP 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.

Making Home Affordable Program (MHA): MHA includes sub programs that assist borrowers in refinancing first and second mortgages, including benefits for unemployed homeowners, as well as modification alternatives. In FY 2010, additional programs were introduced under MHA. These programs include: options for Federal Housing Administration (FHA) guaranteed loans and expanded second lien benefits. Funds are paid out over the length of the modifications, and as of November 30, 2011, OFS disbursed \$2.1 billion out of a possible \$29.9 billion of incentive fees under MHA.

Housing Finance Agency (HFA) Hardest-Hit Fund: 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. As of November 30 2011, OFS disbursed \$672 million out of a possible \$7.6 billion under the HFA Hardest-Hit Fund.

Federal Housing Administration (FHA)-Refinance Program: 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 mortgage loans (i.e. the borrower owes more than the home is worth) not currently insured by FHA into FHA-insured mortgages. As of November 30, 2011, 491 loans had been refinanced and no claim payments have been made under this program.

### **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' ongoing implementation and management of the TARP housing programs and the management and disposition of OFS' 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, Timothy Massad.

**Table 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 Capital Purchase Program (CPP), OFS had provided capital infusions directly to financial institutions and insurance companies deemed viable by their Federal regulators. This program is now closed, and of the \$205 billion invested, approximately \$211 billion has been collected as of November 30, 2011. Treasury projects that

the CPP program will result in a positive return for taxpayers of more than \$13 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 Automotive Industry Financing Program to meet its capital need.

In addition, OFS provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (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 Automotive Industry Financing Program (AIFP) provided funding for General Motors Corporation (GM) and Chrysler LLC (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. OFS' actions helped GM and Chrysler undertake massive and orderly restructurings through the bankruptcy courts that have resulted in leaner and stronger companies.

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

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 Term Asset-Backed Securities Loan Facility (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 Community Development Capital Initiative (CDCI) and the SBA 7(a) Securities Purchase Program. Treasury launched the CDCI to help viable certified Community Development Financial Institutions (CDFIs) and the communities they serve cope with the 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 offered under the CPP. Treasury completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is approximately \$570 million for 84 institutions. 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. OFS purchased and settled 31 SBA 7(a) securities for a total of \$368.1 million and, as of November 30, 2011, sold a total of 23 securities for approximately \$298.4 million. OFS continues to hold 8 SBA 7(a) securities with a gross outstanding balance of \$127.6 million.

### **Prevent Avoidable Foreclosures and Preserve Homeownership**

To prevent avoidable foreclosures and preserve homeownership, Treasury used authority granted under EESA to establish Treasury Housing Programs under TARP starting in February 2009. Other 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. The Making Home Affordable Program (MHA) 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 2011, the reduction in median payment for homeowners in permanent modifications was \$526 per month.

As of November 30 2011, 1,754,516 borrowers have started trial modifications. Of this number, 909,953 borrowers have been granted permanent modifications through Housing Affordable Modification Program (HAMP). In FY 2011, 344,598 borrowers entered into trial modifications, and 361,076 borrowers entered into permanent modifications. As of September 2011, the re-default rate for HAMP permanent modifications seasoned 12 months was 15.4%.

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

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

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/Pages/default.aspx>.



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

<sup>1</sup>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. In addition to helping re-establish financial stability, TARP was specifically designed to protect taxpayers from the unavoidable market risks associated with any investment in the private sector. For the majority of TARP investments, OFS 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, OFS 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% of its aggregate CPP preferred investment as proceeds from warrant repurchases, with the median value among the banks equaling 3.4%. 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). OFS 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.

<b>Performance Metrics and Indicators<sup>1</sup></b>	<b>FY 2009 Actual</b>	<b>FY 2010 Actual</b>	<b>FY 2011 Actual</b>
<i>Number of public CPP banks that repurchased warrants from Treasury during period (excludes warrants auctioned by Treasury) (track assistance of banks and return on capital)</i>	21	37	29
<i>Proceeds from warrant repurchases as percent of aggregate CPP preferred investment amount (plus median for the selected banks) (track assistance of banks and return on capital)</i>	7.1% (3.0%)	4.1% (3.5%)	2.4% (3.4%)

<sup>1</sup>Items in *italics* are indicators.

### **Promote Transparency**

OFS is committed to transparency and accountability in all of its programs and policies, including all programs established under EESA. To protect taxpayers and ensure that every dollar is directed toward promoting financial stability, 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](http://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, 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 Daily TARP Tracker provides an overall snapshot of the progress being made toward recovering taxpayer dollars through repayments, dividends, interest, and other income.
- The Daily TARP Update 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% of its statutorily-mandated reports on time since FY 2009 and plans to continue to do so in FY 2012 and FY 2013.

OFS had a website satisfaction rate of 67% in FY 2011, exceeding its target, and intends to increase this satisfaction rate to 69% in FY 2013. 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 did close its FY 2011 cases well below its target of 64 days and significantly reduced its backlog. As a result, OFS anticipates that its new response times will drop to 50 days in FY 2012 and 35 days in FY 2013.

EESA provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board, and the Government Accountability Office. In addition, OFS officials frequently testify before Congress on the progress of TARP programs, and OFS staff provides briefings to Congressional staff on programmatic developments. OFS drafted 98% of responses to Congressional inquiries within 10 days in FY 2011 and intends to maintain this responsiveness level by continuing to streamline its correspondence process in FY 2012 and 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 aims to respond to 100 percent of their recommendations on time in FY 2012 and FY 2013.

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

<sup>1</sup>Items underlined are measures. Targets are provided only for measures.

### 3.1.1 – EESAP – TARP Administrative Account Budget and Performance Plan

Dollars in Thousands

#### EESAP - TARP Administrative Account Budget Activity

<b>Resource Level</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Actual</b>	<b>FY 2011 Estimate</b>	<b>FY 2012 Estimate</b>	<b>FY 2013 Estimate</b>
Mandatory Resources	\$496,650	\$365,044	\$355,741	\$302,586	\$282,874
<b>Total Resources</b>	<b>\$496,650</b>	<b>\$365,044</b>	<b>\$355,741</b>	<b>\$302,586</b>	<b>\$282,874</b>
<b>Budget Activity Total</b>	<b>\$496,650</b>	<b>\$365,044</b>	<b>\$355,741</b>	<b>\$302,586</b>	<b>\$282,874</b>

[Detailed information about each performance measure, including definition, verification and validation](#) is available.

## **Section 4 – Supplemental Information**

### **4A – Capital Investment Strategy**

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