

Department of the Treasury
Office of Financial Stability

Congressional Budget
Justification and Annual
Performance Report and Plan

FY 2020

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Section I – Purpose

A – Mission Statement

A central part of the response to the 2008 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 of 2008 (EESA) (P.L. 110-343) within the Office of Domestic Finance at the U.S. Department of the Treasury (Treasury). TARP was created to restore the liquidity and stability of the financial system, and it is administered by the Office of Financial Stability (OFS).

Since late 2010, OFS has made significant progress in winding down TARP investment programs and in recovering OFS's outstanding investments. OFS continues to operate a housing program under TARP to help struggling families avoid foreclosure, but in 2016 began to wind-down the largest TARP housing program. As of November 30, 2018, OFS has recovered more than 96 percent of the \$440.6 billion in total program funds disbursed under TARP, as well as an additional \$17.6 billion from Treasury's equity in AIG. When all of Treasury's AIG investments are included, the amount recovered is greater than the funds disbursed by more than \$2.0 billion.

1.1 - Program Account Summary

Dollars in Thousands

	FY 2018 Actual	FY 2019 Estimated	FY 2020 Estimated	FY 2019 to FY 2020 Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Equity Program Account	\$0	\$1,073	\$0	(\$1,073)	-100.00%
Housing Account	\$11	\$0	\$0	\$0	0.00%
TARP Account	\$0	\$0	\$0	\$0	0.00%
TARP Administrative Account	\$75,057	\$61,796	\$53,469	(\$8,327)	-13.48%
TARP Negative Downward Reestimate Receipt Account	(\$14,586)	(\$26,982)	\$0	\$26,982	-100.00%
TARP Negative Subsidy Receipt Account	\$0	\$0	\$0	\$0	0.00%
Total Obligations	\$60,483	\$35,887	\$53,469	\$17,582	48.99%
Budget Authority					
Equity Program Account	\$0	\$1,073	\$0	(\$1,073)	-100.00%
Housing Account	\$11	\$0	\$0	\$0	0.00%
TARP Account	\$0	\$0	\$0	\$0	0.00%
TARP Administrative Account	\$78,465	\$61,796	\$53,469	(\$8,327)	-13.48%
TARP Negative Downward Reestimate Receipt Account	(\$14,586)	(\$26,982)	\$0	\$26,982	-100.00%
TARP Negative Subsidy Receipt Account	\$0	\$0	\$0	\$0	0.00%
Total Budget Authority	\$63,890	\$35,887	\$53,469	\$17,582	48.99%
Outlays					
Equity Program Account	\$0	\$1,073	\$0	(\$1,073)	-100.00%
Housing Account	\$2,225,616	\$1,723,863	\$1,117,202	(\$606,660)	-35.19%
TARP Account	\$0	\$0	\$0	\$0	0.00%
TARP Administrative Account	\$64,136	\$101,130	\$54,135	(\$46,996)	-46.47%
TARP Negative Downward Reestimate Receipt Account	(\$14,586)	(\$26,982)	\$0	\$26,982	-100.00%
TARP Negative Subsidy Receipt Account	\$0	\$0	\$0	\$0	0.00%
Total Outlays	\$2,275,166	\$1,799,084	\$1,171,337	(\$627,747)	-34.89%
FTE	32	24	20	-4	-16.67%

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2018 Actual	FY 2019 Estimated	FY 2020 Estimated	FY 2019 to FY 2020	
				Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
TARP Direct Loans					
Obligations	\$5,154	\$13,131	\$0	(\$13,131)	-100.00%
Collections	\$13,131	\$0	\$0	\$0	0.00%
Financing Authority (net)	\$0	\$0	\$0	\$0	0.00%
Financing Disbursements (net)	(\$7,977)	\$13,131	\$0	(\$13,131)	-100.00%
Equity Purchases					
Obligations	\$10,929	\$14,693	\$408	(\$14,285)	-97.22%
Collections	\$54,205	\$44,618	\$9,093	(\$35,525)	-79.62%
Financing Authority (net)	(\$27,700)	(\$42,166)	(\$8,653)	\$33,513	-79.48%
Financing Disbursements (net)	(\$43,276)	(\$29,925)	(\$8,685)	\$21,240	-70.98%
Housing					
Obligations	\$1,740	\$2,430	\$1,040	(\$1,390)	-57.22%
Collections	\$53	\$29	\$10	(\$19)	-63.94%
Financing Authority (net)	\$0	\$0	\$0	\$0	0.00%
Financing Disbursements (net)	\$1,687	\$2,401	\$1,029	(\$1,372)	-57.13%

1.2 – Program Disbursement, Repayments, and Cost/Savings

Dollars in Billions

	Cumulative Obligated (as of 11/30/2018)	Cumulative Disbursed (as of 11/30/2018)	Cumulative Outstanding (as of 11/30/2018)	Total Cumulative Income (as of 11/30/2017)	Total Cash Back (as of 11/30/2018)	Total Estimated Life Costs (as of 11/30/2018)
Bank Support Programs	250.5	245.1	0.1	35.7	275.5	(24.3)
Credit Market Programs	19.1	19.1	0.0	4.5	23.6	(3.3)
AIG Investment Program (AIG)	67.8	67.8	0.0	1.0	55.3	15.2
Automotive Industry Financing Program	79.7	79.7	0.0	7.4	70.5	12.1
Treasury Housing Programs	33.4	28.9			0.0	32.8
Total	450.5	440.6	0.1	48.6	425.0	32.5
Additional AIG Common Shares Held by Treasury	0.0	0.0	0.0	17.6	17.6	(17.6)
Total for Programs and Shares	450.5	440.6	0.1	66.2	442.6	14.9

*If all Treasury AIG Investments are combined, we currently estimate a net gain of nearly \$2.4 billion on those share

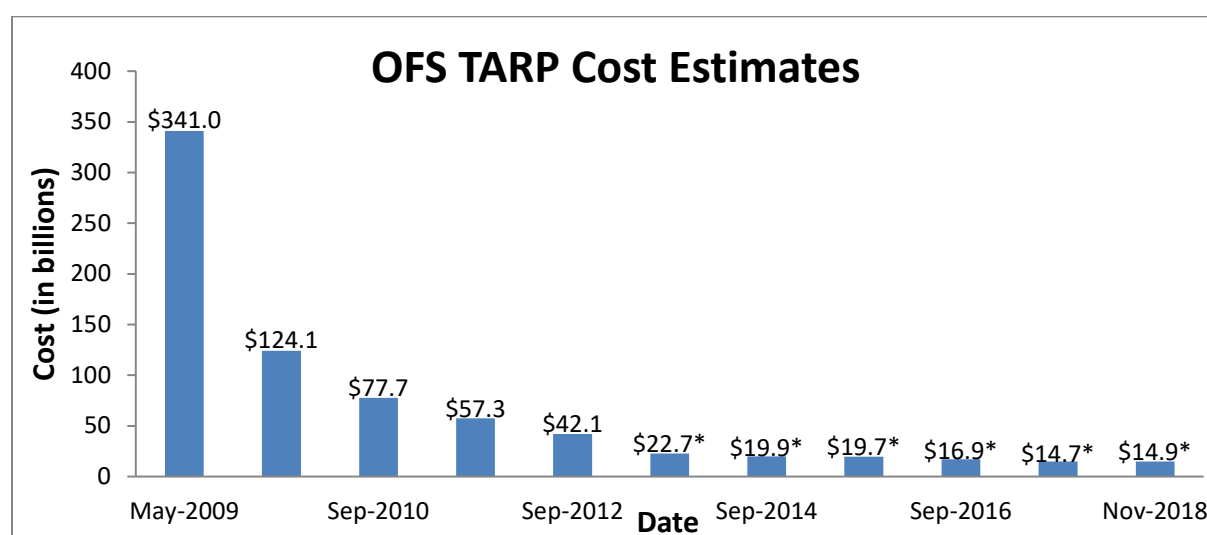
B – Vision, Priorities and Context

TARP was created by EESA in October 2008 as part of a broad-based federal response to the financial crisis. The purposes of EESA were —

- (1) to 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) to ensure that such authority and facilities were provided in a manner that would —
 - (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.

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.” This program supports the Department’s goal of financial stewardship.

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 Fiscal Year (FY) 2009, the program was projected to cost \$341 billion, but it is now estimated to cost only \$32.5 billion (of which -\$0.3 billion relates to investments and \$32.8 billion relates to housing programs that do not require repayments by recipients) as of November 30, 2018, lifetime costs are projected at \$14.9 billion with the inclusion of receipts from Treasury’s sale of additional AIG common stock.



*Includes \$17.6 billion in proceeds from additional Treasury AIG shares

During FY 2019 and FY 2020, OFS’s priority is to continue the responsible wind-down of all TARP programs.

OFS Administrative Expenses

The authority for OFS’s administrative funding is provided in section 118 of EESA. In FY 2019, OFS plans to obligate no more than \$62 million and use no more than 24 Full-Time Equivalent (FTE) employees. In FY 2020, OFS plans to obligate no more than \$54 million and 20 FTE employees, a reduction of over 13 percent and 16 percent respectively from the current FY 2019 estimates, to fund the management, maintenance and continued wind-down of the TARP housing programs and the disposition of OFS’s remaining investments.

C - Credit Reform Account Description

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 the OFS Administrative Account, the organization manages six accounts to comply with the credit reform accounting requirements: (1) the TARP Equity Purchase Program Account; (2) the TARP Equity Purchase Financing Account (EPFA); (3) the TARP Housing Programs Account; (4) the

TARP Housing Programs, Letter of Credit (LOC) Financing Account; (5) the TARP Program Account; and (6) the TARP Direct Loan Financing Account (DLFA).

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 under TARP. The Making Home Affordable (MHA) and Hardest Hit Fund (HHF) housing programs are recorded on a cash basis, and the Federal Housing Administration (FHA) Short-Refinance Program is subject to credit reform accounting requirements, whereby its subsidy cost is calculated on a net present value basis.

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

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

TARP 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, its primary purpose is the financial tracking of each cohort year's loan activity. It is not included in the budget totals.

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

1.4 – Budget Adjustments Table

Dollars in Thousands

Office of Financial Stability	FTE	Amount
FY 2019 Estimated	24	\$61,796
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$1,155
Non-Pay	-	\$1,155
Subtotal Changes to Base	0	\$1,155
Total FY 2020 Base	24	\$62,951
Program Changes:		
Program Decreases:	(4)	(\$9,482)
Housing Program Support	0	(\$4,032)
Maintenance and Disposition of Assets:	0	(\$230)
OFS Salaries and Benefits	(4)	(\$646)
Organizational Support	0	(\$4,574)
Total FY 2020 Estimated	20	\$53,469

D – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$1,155,000 / +0 FTE

Non-Pay +\$1,155,000 / +0 FTE

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

Program Decreases -\$9,482,000 / -4 FTE

Housing Program Support -\$4,032,000 / -0 FTE

Administrative and compliance functions will continue to wind-down during FY 2019 and over time as programs close and no new assistance actions are provided and commitments are paid.

Maintenance and Disposition of Assets -\$230,000 / -0 FTE

During FY 2019, OFS will continue the disposition of its position in the remaining Capital Purchase Program (CPP) and Community Development Capital Initiative institutions (CDCI). In FY 2020, OFS expects its portfolio to be composed of no more than a handful of institutions, primarily CDCI institutions.

OFS Salaries and Benefits -\$646,000 / -4 FTE

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

Organizational Support -\$4,574,000 / -0 FTE

Administrative costs associated with managing OFS'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. Many of these organizational support functions will be run in-house and relate to legislative and oversight-mandated reporting functions, as well as the management and maintenance of TARP's housing programs.

1.5 – Operating Levels Table

Dollars in Thousands

Office of Financial Stability Object Classification	FY 2018 Actual	FY 2019 Estimated	FY 2020 Estimated
11.1 - Full-time permanent	\$4,181	\$3,039	\$2,533
11.7 - Other Personnel Compensation	\$1,228	\$996	\$862
11.9 - Personnel Compensation (Total)	\$5,410	\$4,035	\$3,394
12.0 - Personnel benefits	\$72	\$30	\$25
Total Personnel and Compensation Benefits	\$5,482	\$4,066	\$3,419
21.0 - Travel and transportation of persons	\$25	\$36	\$30
23.0 - Rent, Communications and Utilities	\$3	\$4	\$4
25.1 - Advisory and assistance services	\$11,287	\$10,333	\$7,826
25.2 - Other services	\$45,961	\$36,864	\$33,615
25.3 - Other purchases of goods & serv frm Govt accounts	\$12,300	\$10,480	\$8,560
26.0 - Supplies and materials	\$0	\$6	\$6
31.0 - Equipment	\$0	\$8	\$8
Total Non-Personnel	\$69,575	\$57,731	\$50,050
Subtotal New Budgetary Resources	\$75,057	\$61,796	\$53,469
FTE	32	24	20

Table includes direct FTEs

Totals may not foot due to rounding

E – Appropriations Language and Explanation of Changes

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

F – Legislative Proposals

Treasury is seeking certain legislative changes related to OFS and TARP to reduce the frequency and necessity of several statutory reporting requirements that were established when TARP was created. Although these reporting requirements corresponded to the level of risk associated with a start-up entity in 2009, risk has dramatically decreased as programs have closed. OFS estimates that enacting the following legislative proposals would result in more than \$2 million in annual savings in contracting cost and Government Accountability Office (GAO) reimbursements and would reduce OFS's workload by four FTE employees per year. The remaining statutory requirements will continue to provide sufficient transparency during the wind-down of TARP.

Replace OFS's stand-alone financial audit performed by GAO: Since inception, OFS has been required to undertake a stand-alone financial audit requiring significant resources. As the majority of programs have closed, the need for a stand-alone audit has diminished. As such, a stand-alone financial audit could be replaced with an agreed-upon procedure (AUP) performed by GAO, or Treasury's Office of the Inspector General could audit OFS's financial operations under the Treasury-wide audit, similar to most other Treasury programs.

Sunset the Financial Stability Oversight Board (FinSOB): This interagency group meets monthly and reports quarterly. The group reviewed OFS's program formulation and monitored

program performance. The need for the board's oversight and reporting has diminished as no new OFS programs can be implemented, all major investments have been disposed of, and the housing programs are in wind-down.

Change the frequency of the Section 105(a) report ("Congressional Monthly"): This performance report remains generally static from month-to-month. With most programs having closed, less frequent (quarterly) reporting is warranted.

Eliminate the Administrative Activity Report ("Obligation Report"): This quarterly report provides data on administrative obligations by OFS office and is required under the annual Treasury appropriations bill. OFS has been prudent in the use of administrative funds and has been reducing obligations by approximately 20 percent per year over the last five years.

Section II - Annual Performance Plan and Report

A – Strategic Alignment

OFS's continued wind-down efforts align with Treasury's strategic goal of transforming government-wide financial stewardship.

Bank Support Programs

CPP: OFS created CPP, its largest program, in October 2008. OFS provided a total of \$204.9 billion in capital to 707 institutions in 48 states. During FY 2018, OFS continued to wind-down remaining CPP investments through repayments by those institutions that were able to do so and restructuring investments in limited cases. As of November 30, 2018, CPP has generated \$226.8 billion in recoveries for taxpayers with three institutions remaining in the program, for a total of \$23 million in investments outstanding.

CDCI: OFS created CDCI on February 3, 2010, to provide investments of capital to certified Community Development Financial Institutions (CDFI) banks, thrifts, and credit unions. OFS invested \$570 million in 84 CDFIs, of which 28 institutions converted \$363 million (including warrants) from CPP to CDCI. The initial dividend or interest rate was two percent. To encourage repayment, the dividend rate increased to nine percent after eight years, which occurred in August and September, 2018. As of November 30, 2018, CDCI has generated \$579 million in recoveries for taxpayers with eight institutions remaining in the program, for a total of \$29 million in investments outstanding.

Housing Programs

OFS established several TARP housing programs, assisting millions of homeowners and introducing reforms for the mortgage servicing industry to facilitate mortgage modifications.

MHA: In 2009, OFS launched MHA to help homeowners prevent avoidable foreclosures and strengthen the housing market. The cornerstone of MHA is the Home Affordable Modification Program (HAMP), which provides eligible homeowners the opportunity to reduce their monthly mortgage payments. In accordance with provisions of the Act, MHA terminated on December 31, 2016, except with respect to certain applications made before such date. MHA servicers were required to design policies and procedures to reasonably ensure that all MHA transactions were completed by December 1, 2017. As of November 30, 2018, OFS had disbursed \$19.8 billion out of a possible \$23.8 billion under MHA.

HHF: Established in 2010 to provide aid to homeowners in states hit hardest by the economic and housing market downturn. The \$7.6 billion initiative encompassed 18 states and the District of Columbia (D.C.). In December 2015, the Consolidated Appropriations Act, 2016 (the Act) granted Treasury authority to make an additional \$2.0 billion in commitments through the HHF. As of November 30, 2018, OFS had disbursed \$9.1 billion out of a possible \$9.6 billion under HHF.

FHA Short Refinance Program: OFS continues to support the FHA Short Refinance Program, which was intended to assist borrowers with negative equity. The program has seen limited participation. As such, OFS has incrementally reduced the LOC Facility supporting this program

from an initial \$8.0 billion to \$27 million in FY 2017, which matches OFS's maximum liability for loans covered by the program as of December 31, 2016, when the program ended for new refinances. As of November 30, 2018, the revised lifetime cost estimate for the program was \$15 million for outstanding refinanced loans.

Other Programs

Automotive Industry Financing Program (AIFP): OFS fully wound down AIFP during FY 2015, selling its remaining stake in Ally Financial. OFS disbursed \$79.7 billion in loans and equity investments to the automotive industry through the AIFP. As of November 30, 2018, OFS had collected \$70.5 billion through sales, repayments, dividends, interest, recoveries, and other income. Recoveries from the bankruptcy liquidation of Old Chrysler and Old GM remain possible.

All other TARP programs closed prior to FY 2016, including the Targeted Investment Program, Asset Guarantee Program, Public-Private Investment Program, Term Asset-Backed Securities Loan Facility, Small Business Administration 7(a) Securities Purchase Program, and American International Group, Inc. Investment Program.

B – Office of Financial Stability Performance

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Clean Audit Opinion on TARP Financial Statements (ensure transparency of operations to the public)	1	1	1	1	1	1	1	1
Percentage of Congressional Constituent Correspondence Responses Completed within 10 Business Days of Receipt	92	50	66.75	87.5	100	100	100	100
Percentage of Customers Satisfied with FinancialStability.gov (Self Selected Respondents) (ensure transparency of operations to the public)	69	66.5	73	69.25	69.25	75	75	75
Percentage of FOIA Assignments On-Time or Less Than 30-Days Overdue (ensure transparency within the government)	15.0	13.03	56.56	85	85	80	85	85
Percentage of SIGTARP and GAO Oversight Recommendations Responded to On-Time (ensure transparency of operations to the public)	100	100	100	100	100	100	100	100
Percentage of Statutorily-Mandated Reports Submitted On-Time (ensure transparency of operations to the public)	99	100	94.7	96.25	100	100	100	100

The authority for OFS's administrative funding 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 OFS's remaining investments. In addition, continuing organizational support, including information technology, facilities, legal, compliance, accounting, and human resources, will be needed to manage and wind-down these ongoing initiatives. OFS's senior management is responsible for performance on its operational goals.

C – Operational Goals

OFS's strategic goal is to transform government-wide financial stewardship and the request will support the underlying operational goals to help OFS achieve this strategic goal. These operational goals include:

1. Completing the wind-down of remaining TARP investment programs;
2. Continuing to help struggling homeowners avoid foreclosure;
3. Minimizing the cost of the TARP programs to the taxpayer; and
4. Operating with the highest standards of transparency, accountability, and integrity.

Completing the wind-down of remaining TARP investment programs

The first Operational Goal is to complete the wind-down of the remaining TARP investment programs, the CPP and CDCI. OFS continues to exit CPP and CDCI by either: (i) allowing banks that are able to repurchase in full in the near future to do so; or (ii) restructuring and selling OFS's investments in limited cases. The dividend rate step-ups for CDCI banks took effect in 2018, which increased the rate of bank repayments. OFS continues to work with CPP institutions to restructure certain investments that will allow them to exit TARP. As of November 30, 2018, OFS had \$23 million in outstanding CPP investments and \$29 million in outstanding CDCI investments.

Continuing to help struggling homeowners avoid foreclosure

OFS's second Operational Goal is to continue helping struggling homeowners avoid foreclosure. The Act, signed into law on December 18, 2015, provided that the MHA program would terminate on December 31, 2016, except with respect to certain loan modification applications made before such date. As set forth in program guidelines, MHA servicers were required to evaluate applications submitted before the deadline and offer trial modifications to eligible applicants. All MHA transactions, including first and second lien permanent modifications, short sales or deeds-in-lieu of foreclosure, and unemployment forbearance plans, were required to be completed per program guidelines by December 1, 2017. Under this program, as of November 30, 2018, more than 1.7 million homeowners have secured permanent mortgage modifications. In addition, the HHF Program provides funding to 18 states and D.C. to assist struggling homeowners. At this late stage of the HHF program, many of the states have closed or expect to close their largest programs.

Minimizing the cost of the TARP programs to the taxpayer

The third Operational Goal of OFS is to minimize the cost of the TARP programs to the taxpayer. OFS pursues this goal by carefully managing the timely exit of these investments to reduce taxpayers' exposure, returning TARP funds to reduce the federal debt, and continuing to replace government assistance with private capital in the financial system. OFS also takes steps

to confirm that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

Operating with the highest standards of transparency, accountability, and integrity

OFS's final Operational Goal is to continue to operate with the highest standards of transparency, accountability, and integrity. OFS posts a variety of reports online that provide taxpayers with regular and comprehensive information about how TARP funds are spent, who received them and on what terms, and how much has been recovered to date. OFS also publishes the annual audited Agency Financial Report and continues to maintain productive working relationships with the three oversight bodies charged with auditing and reviewing TARP activities.

Section III - Additional Information

A – Summary of Capital Investments

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

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>

This website also contains a digital copy of this document.