# Office of Financial Stability

## Program Summary

(Dollars in billions)

| *As of December 31, 2012* | Cumulative Obligated | Cumulative Disbursed | Cumulative Outstanding *(Includes Realized Losses)* | Total Cumulative Income | Total Cumulative Repayments | Total Estimated Lifetime Costs |
|---|---|---|---|---|---|---|
| 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 | N/A | N/A | N/A | $38 |
| **Total for TARP Programs** | **$466** | **$418** | **$40** | **$43** | **$387** | **$48** |
| Additional AIG Common Shares Held by Treasury | N/A | N/A | N/A | $18 | $18 | ($18)* |
| **Total for TARP Programs and Additional AIG Shares** | **$466** | **$418** | **$40** | **$61** | **$405** | **$30** |

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

### Summary and Explanation of Programs

The Emergency Economic Stabilization Act (ESSA) was enacted in October 2008 in response to one of the worst financial crises in United States history. To address the crisis, EESA established the Office of Financial Stability (OFS) within the Treasury Department to implement the Troubled Asset Relief Program (TARP). 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.

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 already initiated prior to June 25, 2010.

As a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayers of TARP investments has dropped from the FY 2009 estimate of $341 billion to $48.57 billion as of December 31, 2012 ($30 billion if Treasury's non-TARP AIG receipts are included).

In FY 2014, OFS plans to obligate $201 million for administrative expenses and use 126 FTE, a decrease of $105 million and 35 FTE from the FY 2013 estimates.

### Legislative Proposals

OFS has no legislative proposals for FY 2014.

## Description of Performance

### ***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 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).

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 to prevent a loss of confidence in critical financial institutions, which could 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. 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 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 Community Development Financial Institutions (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.

Treasury invested a total of $570 million in 84 CDFIs. As of December 31, 2012, six institutions have fully repaid their investment and one has been taken into receivership. The program has approximately $523 million in capital outstanding.

### ***Credit Market Programs***

### *Public-Private Investment Program (PPIP)*

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)*

The TALF was a joint Federal Reserve-Treasury 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.

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 twice to $4.3 billion in June 2010 and $1.4 billion in June 2012 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.

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

In March 2010, OFS announced the SBA 7(a) Securities Purchase Program to encourage financial institutions to increase small business lending and to ensure that credit flows to entrepreneurs and small business owners. 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. In January 2012, Treasury concluded winding down the program in total, collecting $376 million through sales, principal payments, interest payments 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. 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, the government 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 and 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, 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.

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, OFS 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, OFS 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.

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. As Ally completes a number of strategic initiatives that were previously announced, OFS expects to begin monetizing its remaining investment, 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.

### *Making Home Affordable Program (MHA)*

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. 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.

### *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. 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, OFS 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.