Office of Financial Stability

FY 2015
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) within the Office of Domestic Finance at the Department of the Treasury. With the nation in the midst of the worst financial crisis since the Great Depression, TARP was created to "restore the liquidity and stability of the financial system." It was an extraordinary response to an extraordinary crisis.

The government's authority to make new investments through the program expired on October 3, 2010, and OFS has made significant progress towards winding down TARP investment programs and continues to implement our programs to help struggling families avoid foreclosure, primarily through mortgage modifications. As of December 31, 2013, the U.S. Department of the Treasury (Treasury) has already recovered an amount equal to over 98 percent of the $422.2 billion in program funds disbursed under TARP, as well as an additional $17.5 billion from Treasury's equity in AIG. When all of Treasury's AIG investments are combined, the amount recovered is greater than 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 2013	FY 2014	FY 2015	FY 2014 to FY 2015	
	Actual	Estimated	Estimated	$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Equity Program Account	440,468	0	0	0	0.00%
TARP Account	42,880	82,446	0	(82,446)	-100.00%
TARP Administrative Account	294,201	219,888	183,640	(36,248)	-16.48%
TARP Negative Downward Reestimate Receipt Account	(13,068,667)	(8,230,712)	0	8,230,712	-100.00%
TARP Negative Subsidy Receipt Account	(149,042)	0	0	0	0.00%
Total Obligations	**($12,440,160)**	**($7,928,378)**	**$183,640**	**8,112,018**	**102.32%**
Budget Authority					
Equity Program Account	440,468	0	0	0	0.00%
TARP Account	42,880	82,446	0	(82,446)	-100.00%
TARP Administrative Account	305,249	219,888	183,640	(36,248)	-16.48%
TARP Negative Downward Reestimate Receipt Account	(13,068,667)	(8,230,712)	0	8,230,712	-100.00%
TARP Negative Subsidy Receipt Account	(149,042)	0	0	0	0.00%
Total Budget Authority	**($12,429,112)**	**($7,928,378)**	**$183,640**	**8,112,018**	**102.32%**
Outlays					
Equity Program Account	440,468	0	0	0	0.00%
Housing Account	3,943,445	5,174,042	6,174,002	999,960	19.33%
TARP Account	42,880	82,466	0	(82,466)	-100.00%
TARP Administrative Account	248,346	353,000	190,890	(162,110)	-45.92%
TARP Negative Downward Reestimate Receipt Account	(13,068,667)	(8,230,712)	0	8,230,712	-100.00%
TARP Negative Subsidy Receipt Account	(149,042)	0	0	0	0.00%
Total Outlays	**($8,542,570)**	**($2,621,204)**	**$6,364,892**	**8,986,096**	**342.82%**

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated	Change FY 2014 to FY 2015	% Change FY 2014 to FY 2015
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
TARP Guaranteed Loans					
Obligations	338,416	0	0	0	0.00%
Collections	1,096,734	0	0	0	0.00%
Financing Authority (net)	(758,318)	0	0	0	0.00%
Financing Disbursements (net)	(758,318)	0	0	0	0.00%
TARP Direct Loans					
Obligations	3,720,240	2,898,254	169,525	(2,728,729)	-94.15%
Collections	18,513,702	4,929,809	998,490	(3,931,319)	-79.75%
Financing Authority (net)	(13,899,533)	(2,034,769)	(828,966)	1,205,803	-59.26%
Financing Disbursements (net)	(14,797,777)	(2,031,555)	(828,966)	1,202,589	-59.20%
Equity Purchases					
Obligations	10,040,982	7,899,691	510,225	(7,389,466)	-93.54%
Collections	16,988,310	9,444,427	4,574,634	(4,869,793)	-51.56%
Financing Authority (net)	(8,484,018)	(1,318,751)	(4,064,409)	(2,745,658)	208.20%
Financing Disbursements (net)	(6,950,969)	(1,544,737)	(4,064,409)	(2,519,672)	163.11%
Housing					
Obligations	403	3,814	2,614	(1,200)	-31.46%
Collections	4,579	161	0	(161)	-100.00%
Financing Authority (net)	0	0	0	0	0.00%
Financing Disbursements (net)	(4,176)	3,654	2,614	(1,040)	-28.46%

1.3 – Program Disbursement, Repayments, and Cost/Savings

Dollars in Billions (As of

	Cumulativ Obligate	Cumulativ Disburse	Cumulativ Outstanding (Includes Losses	Total Incom	Total Repayment	Total Lifetime (as of 11/30/13)
Bank Support Programs	250	245	2	35	273	(24)
Credit Market Programs	20	19	0	4	24	(3)
AIG Investment Program (AIG)	68	68	0	1	55	15 *
Automotive Industry Financing Program	80	80	10	7	63	14
Treasury Housing Programs	38	10				38
Total	**$457**	**$422**	**$12**	**$47**	**$415**	**$39**
Additional AIG Common Shares Held by Treasury	0	0	0	18	18	(18) *
Total for Programs and	**$457**	**$422**	**$12**	**$65**	**$433**	**$21**

**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 U.S. financial system faced challenges on a scale not seen since the Great Depression. The banks and financial markets that American families and businesses rely on to meet their everyday financing needs were on the brink of failure. By October of 2008, every major financial institution was threatened and many of them tried to shore up their balance sheets by shedding risky assets and hoarding cash. People were rapidly losing trust and confidence in the stability of America's financial system and the capacity of the government to contain the damage. Without immediate and forceful action by the federal government, the U.S. economy faced the risk of falling into a second Great Depression.

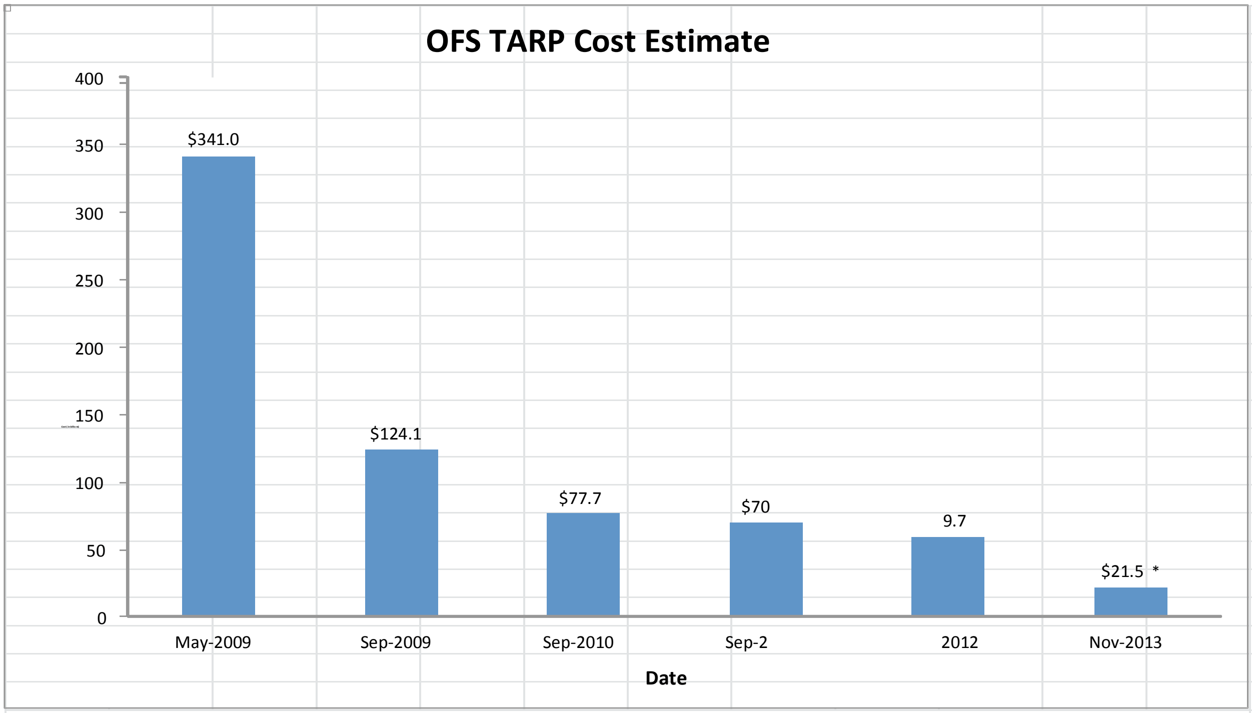
It was out of these extraordinary circumstances in the fall of 2008 that TARP was created as a central part of a series of emergency measures by the federal government. Five years later, it is generally agreed that as a result of the forceful and coordinated response by the federal government through TARP and many other emergency programs, we helped avert what could have been a devastating collapse of our financial system. Although we are still repairing the damage from the crisis and many families still face challenges on a daily basis, the financial system is much more stable and our economy is growing, albeit not as fast as we would like. Credit is more available than would otherwise be the case for families, businesses, and local governments, banks are better capitalized, and we are implementing reforms to address the underlying cause of the crisis.

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. Since OFS's authority to make new commitments under TARP expired, OFS has focused on carefully winding down TARP's investment programs, recovering the taxpayers' outstanding investments, and continuing to implement the various housing programs under TARP to help struggling homeowners avoid foreclosure.

As a result of improved financial conditions and careful stewardship of the program, the ultimate cost to taxpayers of TARP investments will 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 $39.0 billion as of November 30, 2013 ($21.5 billion if the additional Treasury's AIG receipts are included).



*Includes approximately $17.55 billion in proceeds from additional Treasury AIG shares

During FY 2015, 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 2015, disbursements for the housing programs will continue to occur based upon existing commitments.

OFS Administrative Expenses

The authority for OFS's administrative budget funds is provided in Section 118 of EESA. In FY 2014, OFS plans to obligate $220 million and use no more than 103 FTEs, an increase of approximately $19 million and a decrease of 23 FTEs from the FY 2014 President's Budget. The increase in obligations is primarily due to the two-year extension of the Making Home Affordable (MHA) program and the decrease in FTEs is primarily due to the wind down of TARP's investment programs. In FY 2015, OFS plans to obligate $184 million and use 86 FTEs, a decrease of $36 million and 17 FTEs from the current FY 2014 estimates, to fund the management of the TARP housing programs and the continuing disposition of OFS's remaining investments. The decrease in FTEs 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 the EPFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals. As of September 30, 2013, this account is closed as all TARP guarantee programs have been fully wound down.

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 2014 Estimated	**103**	**$219,888**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$3,581
Pay-Raise	-	$152
Non-Pay	-	$3,429
Subtotal Changes to Base	-	$3,581
Total FY 2015 Base	**103**	**$223,469**
Program Changes:		
Program Decreases:	(17)	($39,829)
Housing Program Support	-	($15,433)
Maintenance and Disposition of Assets	-	($5,855)
OFS Salaries and Benefits	(17)	($2,251)
Organizational Support	-	($16,290)
Total FY 2015 Estimated	**86**	**$183,640**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$3,581,000 / +0 FTE

Pay-Raise +$152,000 / +0 FTE

Funds are required for the proposed January 2015 pay-raise and the annualization of the 2014 pay-raise.

Non-Pay +$3,429,000 / +0 FTE

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

Program Decreases .... -$39,829,000 / -17 FTE

Housing Program Support -$15,433,000 / +0 FTE

The MHA compliance and administrative functions will continue through FY 2014 and FY 2015 due to the extension of the program. It is expected that there will be minimal changes to the program and further technology development efforts will no longer be required.

Maintenance and Disposition of Assets -$5,855,000 / +0 FTE

OFS fully disposed of its position in GM in December 2013. During FY 2014, OFS began the disposition of its position in Ally. In addition, OFS expects to have disposed of its investments in a majority of the remaining Capital Purchase Program (CPP) banks. In FY 2015, OFS expects its portfolio to be composed of a handful of CPP banks and the Community Development Capital Initiative (CDCI) banks.

OFS Salaries and Benefits -$2,251,000 / -17 FTE

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

Organizational Support -$16,290,000 / +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.

2.2 – Operating Levels Table

Dollars in Thousands

Office of Financial Stability Object Classification	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated
11.1 - Full-time permanent	15,280	11,899	10,233
11.7 - Other Personnel Compensation	138	0	0
11.9 - Personnel Compensation (Total)	**15,418**	**11,899**	**10,233**
12.0 - Personnel benefits	5,368	4,181	3,595
Total Personnel and Compensation Benefits	**$20,786**	**$16,080**	**$13,828**
21.0 - Travel and transportation of persons	307	298	240
23.0 - Rent, Communications and Utilities	22	0	0
25.1 - Advisory and assistance services	271,584	202,491	169,063
26.0 - Supplies and materials	1,495	1,009	499
31.0 – Equipment	8	10	10
Total Non-Personnel	**273,415**	**203,808**	**169,812**
Total Budgetary Resources	**$294,201**	**$219,888**	**$183,640**
Budget Activities:			
EESAP - TARP Administrative Account	294,201	219,888	183,640
Total Budgetary Resources	**$294,201**	**$219,888**	**$183,640**
FTE	**141**	**127**	**106**

*Table includes direct and reimbursable FTEs.

*Amounts may differ from those printed in the FY 2015 President's Budget Appendix due to rounding.

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 Program Descriptions

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 had 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 2013, OFS focused on winding down the CPP according to the exit strategy announced on May 3, 2012. That strategy includes a combination of waiting for those banks that are capable of repaying in the near future to repay at par, selling investments to private investors through auctions in cases where the bank is not expected to be able to repay in the near future, and, in a limited number of cases, restructuring investments. As of December 31, 2013, the CPP has generated $224.9 billion in proceeds for taxpayers with 86 institutions remaining in the program for a total of $2.1 billion in investments outstanding.

Targeted Investment Program (TIP): OFS established the TIP in December 2008. The program gave OFS the necessary flexibility to provide funding to financial institutions that were critical to the functioning of the U.S. financial system to prevent a loss of confidence in these critical institutions. This could have resulted in substantial disruption to financial markets, threatened the financial strength of similarly situated financial institutions, and undermined 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 $1.4 billion in warrants during 2010, which generated a net gain of $4.4 billion for taxpayers.

Asset Guarantee Program (AGP): Under the AGP, TARP funds were used to support two institutions – Bank of America and Citigroup. They were selected because of the large number of illiquid assets that both held at the time of the financial crisis and the severe impact that their failure would have had on the broader economy. 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 and, as of September 30, 2013, has fully wound down and received more than $4.1 billion in proceeds without disbursing any claim payments.

Community Development Capital Initiative (CDCI): OFS created the Community Development Capital Initiative (CDCI) on February 3, 2010, to help viable certified Community Development Financial Institutions (CDFIs) and the communities they serve cope with effects of the financial crisis. It was put in place to help keep day-to-day financing available to families and businesses in hard-hit communities that are underserved by traditional banks.

Under this program, CDFI banks, thrifts, and credit unions received investments in capital with an initial dividend or interest rate of two percent, compared to the five percent rate offered under the CPP. Since many CDFIs don't have the same access to capital markets as larger banks, the CDCI was designed with more generous repayment terms than the CPP. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increases to nine percent after eight years, compared to after five years under the CPP. CDFIs that participated in the CPP and were in good standing were allowed to exchange their CPP securities for securities under the more favorable terms of 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 million. As of December 31, 2013, 14 institutions have fully repaid their investment and one has been taken into receivership and the program has approximately $468 million in investments outstanding. Unlike the CPP, OFS did not take substantial actions during FY 2013 to wind-down the CDCI because of the unique circumstances facing participating institutions. OFS will continue to closely monitor the performance of the CDCI and make decisions regarding the wind down at a later date.

Credit Market Programs

Public-Private Investment Program (PPIP): On March 23, 2009, OFS launched the Legacy Securities Public-Private Investment Program (PPIP) to help restart the market for non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), thereby allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses.

The purpose of PPIP was to draw new private capital into the market for legacy RMBS and CMBS by providing financing on attractive terms as well as a matching equity investment from OFS. Using up to $22.4 billion of TARP funds alongside equity capital raised from private investors, PPIP was designed to generate significant purchasing power and demand for troubled RMBS and CMBS. This in turn would help to increase the amount of credit available to consumers and small businesses. As of December 31, 2013, all of the PPIFs have been effectively wound down and OFS has recovered all of its debt and equity investments plus an additional $3.8 billion.

Term Asset-Backed Securities Loan Facility (TALF): The Term Asset-Backed Securities Loan Facility (TALF) is a joint OFS - Federal Reserve Bank of New York (FRBNY) program that was designed to restart the asset-backed securitization markets (ABS) that 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.

OFS originally committed to provide credit protection of up to $20 billion in subordinated loans to TALF, LLC to support up to $200 billion of lending by the FRBNY. OFS's commitment was later reduced to $4.3 billion in June 2010 when the program closed to new lending. In June 2012, the Federal Reserve Board and OFS agreed that it was appropriate to further reduce the credit protection OFS provides the TALF, LLC to $1.4 billion from $4.3 billion as the underlying TALF loan portfolio decreased through scheduled and voluntary payments. On January 15, 2013, the commitment was reduced to $100 million (the amount of the original loan to the TALF LLC). During fiscal year 2013, OFS's original disbursed investment through the program was fully repaid with interest. As of December 31, 2013, accumulated income earned from investments in the TALF, LLC, totaled $587 million, all of which occurred during fiscal years 2013 and 2014.

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: On September 15, 2008, Lehman Brothers filed for bankruptcy. This triggered the start of a run on money market funds generally. The day after that, AIG—one of the largest and most complex financial firms in the world—was on the verge of failure. Confidence was already fragile in the financial system as a whole and firms were trying to shore up their balance sheets by selling risky assets, reducing exposure to other financial institutions, and hoarding cash. At the time, AIG was one of the most complex financial firms in the world providing credit for other financial products. When the financial crisis hit, AIG had hundreds of billions of dollars in commitments without the capital and liquid assets to back them up. Millions of people depended on AIG for their life savings and it had a huge presence in many critical financial markets, including municipal bonds. Therefore, with AIG facing potentially fatal liquidity problems and with the crisis threatening to intensify and spread more broadly throughout the economy, OFS and the Federal Reserve provided assistance to AIG. This assistance was provided because the consequences of a company of AIG's size and scope failing at that time, in those circumstances, would have had far reaching and catastrophic effects for the economy and for American families and businesses.

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. In FY 2013, OFS and the FRBNY completed the recovery of their investments in AIG. OFS and FRBNY have now recovered (through repayments or cancelations of commitments) that entire amount and an additional $22.7 billion. Treasury has fully exited its investment in AIG.

Automotive Industry Financing Program (AIFP)

The Automotive Industry Financing Program (AIFP) was launched in December 2008 to prevent the uncontrolled liquidations of General Motors (GM) and Chrysler, and as a result, the potential collapse of the U.S. auto industry. The potential for such a disruption at that time posed a significant risk to financial market stability and threatened the overall economy. It could have also had disastrous consequences for other auto manufacturers and the many suppliers and other businesses that depended on the automotive industry. This could have led to a loss of as many as one million American jobs. Recognizing that both GM and Chrysler were on the verge of collapse, the Government extended loans to both companies and their financing entities.

In 2009, OFS agreed to provide additional funds conditioned on each company and its stakeholders participating in a fundamental restructuring. Sacrifices were made by unions, dealers, creditors and other stakeholders, and the restructurings were achieved through bankruptcy court proceedings in record time. A total of $79.8 billion was invested in GM and Chrysler. As a result, General Motors Company (New GM) and Chrysler Group LLC (New Chrysler) are more competitive and viable companies, supporting American jobs and the economy. Operating results have improved, the industry added jobs, and TARP investments are being repaid.

In December 2012, OFS announced its intent to fully exit its investment in GM within the next 12-15 months. Concurrently with that announcement, GM purchased 200 million shares of GM common stock from OFS, for proceeds of $5.5 billion. OFS completed the disposition of all remaining shares as of December 2013.

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.

OFS invested $17.2 billion in Ally Financial (Ally) under TARP (includes $884 million invested through GM). As of December 31, 2013 OFS's outstanding investment in Ally stood at $9.0 billion. Ally made substantial progress in completing the two strategic initiatives Treasury previously said were critical to further recovery of the taxpayers' investment – the Chapter 11 proceeding of Ally's mortgage subsidiary, Residential Capital LLC ("ResCap"), to address Ally's legacy mortgage liabilities and the sale of its international auto finance operations. During fiscal year 2013, Ally, ResCap, and ResCap's major creditors reached a settlement agreement regarding certain claims against Ally. The bankruptcy court approved this agreement and ResCap's plan of reorganization in December 2013. Ally also sold or entered into agreements to sell all of its international auto finance operations for a total of $9.2 billion.

On August 19, 2013, Ally entered into private placement agreements with investors of Ally common stock for an aggregate price of $1.0 billion (later increased to $1.3 billion in November 2013). Concurrently, Ally also entered into agreements with OFS to repurchase all of the outstanding MCP stock and terminate the MCP's Share Adjustment Right (SAR), which provided OFS with the right to receive additional common stock of Ally under certain circumstances if certain events occurred prior to December 30, 2016. Ally repurchased all of its MCP stock from OFS for $5.2 billion in November 2013 and OFS received an additional $725 million for the elimination of the SAR. OFS sold approximately 410,000 common shares in a private placement for $3.0 billion in January 2014. OFS' remaining AIFP holdings consist of approximately 572,000 shares of Ally common. OFS is actively seeking to wind down the remaining investment in Ally.

Treasury Housing Programs Under TARP

OFS established several programs under TARP to address the historic housing crisis and help struggling homeowners avoid foreclosure wherever possible. These programs have helped millions of homeowners avoid foreclosure and introduced important new reforms for the mortgage servicing industry to help make mortgage modifications become more sustainable and affordable.

<u>Making Home Affordable Program (MHA)</u>: In early 2009, OFS launched the Making Home Affordable® Program (MHA) to help struggling homeowners avoid foreclosure and stabilize the housing market. MHA is only one part of the Administration's broader efforts to strengthen the housing market. Since its inception, MHA has helped homeowners avoid foreclosure by providing a variety of solutions to modify or refinance their mortgages, get temporary forbearance if they are unemployed, or transition out of homeownership through a short sale or a deed-in-lieu of foreclosure.

The cornerstone of MHA is the Home Affordable Modification Program (HAMP), which provides eligible homeowners the opportunity to reduce their monthly mortgage payments to more affordable levels. OFS also introduced additional programs under MHA to help homeowners who are unemployed, "underwater" on their loan (those who owe more on their home than it is currently worth), or are struggling with a second lien. It also includes options for homeowners who would like to transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. In early 2012, the Administration announced important enhancements to MHA that expanded the pool of eligible borrowers. Extending the reach of HAMP will assist a broader pool of struggling homeowners, offer support for tenants at risk of displacement due to foreclosure, and provide more robust relief to those who participate. On May 30, 2013, the Administration extended the application deadline for MHA programs to December 31, 2015. Extending the program for two years will benefit many additional families while maintaining clear standards and accountability for the mortgage industry. Taken together, these enhancements will help the housing market recover faster from an unprecedented crisis.

In addition to HAMP, MHA includes several additional programs to help homeowners refinance or address specific types of mortgages, in conjunction with the Federal Housing Administration (FHA), the United States Department of Agriculture (USDA), and the Department of Veterans Affairs (VA).

<u>Housing Finance Agency (HFA) Hardest-Hit Fund:</u> The Administration established the Hardest Hit Fund (HHF) in February 2010 to provide targeted aid to homeowners in states hit hardest by

the economic and housing market downturn. As part of the Administration's overall strategy for restoring stability to housing markets, HHF provides funding for state Housing Finance Agencies (HFAs) to develop locally-tailored foreclosure prevention solutions in areas that have been hardest hit by home price declines and high unemployment. From its initial announcement, this program evolved from a $1.5 billion initiative focused on HFAs in the five states with the steepest home price declines and the vast majority of underwater homeowners to a broader-based $7.6 billion initiative encompassing 18 states and the District of Columbia (DC).

HHF programs vary state to state, but may include such programs as mortgage payment assistance for unemployed or underemployed homeowners, principal reduction to help homeowners get into more affordable mortgages, funding to eliminate homeowners' second lien loans, and help for homeowners who are transitioning out of their homes and into more affordable living situations. As of December 31, 2013, Treasury disbursed $3.2 billion out of a possible $7.6 billion under the HFA Hardest-Hit Fund.

3B – 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.

3C – Operational Goals

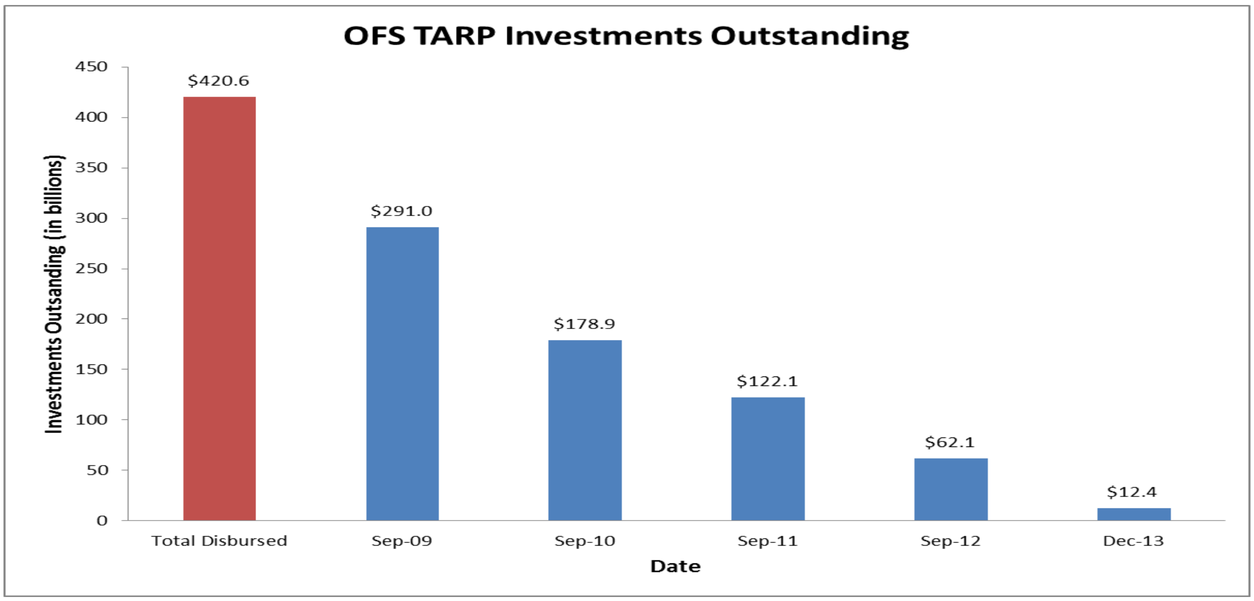
All of OFS's operational goals align with Treasury's strategic objective to wind down emergency financial crisis response programs.

<u>Complete the wind down of the investment programs</u>

The first operational goal for OFS is to complete the wind down of the TARP investment programs. OFS is continuing to implement the three-pronged exit strategy for the Capital Purchase Program (CPP) which was announced in May 2012. That strategy includes a combination of waiting for those banks that are capable of repaying in the near future to repay at par, selling banking investments to private investors through auctions in cases where the bank is not expected to be able to repay in the near future, and, in a limited number of cases, restructuring investments. Both the Targeted Investment Program (TIP) and the Asset Guarantee Program (AGP) are closed and have generated positive returns for the taxpayer.

As of December 31, 2013, OFS has substantially completed the wind down of the three TARP Credit Market programs at a net gain to the taxpayer. OFS has recovered all debt and equity investments made in the Public-Private Investment Program (PPIP). OFS's loan commitments through the Term Asset-Backed Securities Loan Facility (TALF) were fully repaid or extinguished during FY 2013 with a gain of $587 million. The Small Business Administration 7(a) Security Purchase Program (SBA 7(a)) was successfully closed during fiscal year 2012 with the processing of the fifth and final disposition of securities.

OFS continues to wind down the Automotive Industry Financing Program (AIFP) with the sale of 399 million shares of GM common stock during FY 2013 and the remaining 101 million shares of GM common stock in December 2013. These sales were conducted according to the plan announced in December 2012 to sell our remaining shares in GM within the next 12-15 months, subject to market conditions. Ally repurchased all of its MCP stock from OFS for $5.2 billion in November 2013. In addition, OFS received an additional $725 million for the elimination of the SAR. OFS is actively seeking to wind down the remaining investment in Ally, which represents approximately 63 percent of Ally's common stock after Ally's private placement completed in November 2013. OFS completed the recovery of all investments in the American International Group, Inc. (AIG) Investment Program in December of 2012 and sold remaining warrants in March 2013. OFS no longer holds any residual interest in AIG.



Continue helping families in need to avoid foreclosure

OFS's second operational goal is to continue helping struggling homeowners avoid foreclosure. The Making Home Affordable Program (MHA) is helping homeowners and assisting in stabilizing the housing market. On May 30, 2013, the Administration extended the application deadline for MHA programs through December 31, 2015, to provide struggling homeowners additional time to access sustainable mortgage relief, and to align the end date with other key assistance programs. The largest program within MHA is the Home Affordable Modification Program (HAMP). Under this program more than 1.3 million homeowners have had their mortgages modified permanently. HAMP has also set new standards and changed practices throughout the mortgage servicing industry in fundamental ways. Together, public and private efforts have helped nearly seven million Americans get mortgage assistance to prevent avoidable foreclosures. In addition, the Hardest Hit Fund provides funding to 18 states and the District of Columbia to provide assistance to struggling homeowners through locally tailored programs. All 19 programs are fully operational and have created extensive infrastructures to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating portals to aid homeowners in applying for assistance, and hiring underwriters and other staff to review and approve applications.

Performance Metrics and Indicators (includes GSE and non-GSE[1]	**FY 2010 Actual**	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**
Reduction in median payment for homeowners in permanent modifications (assist homeowners) program-to-date. *Includes Trial and Permanent for FY 2009 only	$521	$526	$541	$547
Number of modifications entered into (assist homeowners)				
• Trial	466,794	344,598	213,613	181,505
• Permanent	429,433	361,076	233,622	178,039
12-month re-default rate for Permanent Modifications (90+ days delinquency rate for loans seasoned 12 months)	15.6%	15.4%	14.5%	13.6%

[1]Items in *italics* are indicators.

Minimize cost to taxpayer

The third operational goal of OFS is to minimize the cost of the TARP programs to the taxpayer. OFS manages TARP investments to minimize costs to taxpayers 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 has taken a number of steps during fiscal years 2012 and 2013 to dispose of our outstanding investments in a manner that balances the need to exit these investments as quickly as practicable with maximizing returns for taxpayers. OFS also takes steps to ensure that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

Performance Metrics and Indicators[1]	**FY 2010 Actual**	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**
Number of public CPP banks that repurchased warrants from Treasury during period (excludes warrants auctioned by Treasury)	37	29	44	28
Proceeds from warrant repurchases as percent of aggregate CPP preferred investment amount (plus median for the selected banks)	4.1%	2.4%	1.91%	3.27%

[1]Items in *italics* are indicators.

Continue to operate with highest standards of transparency, accountability, and integrity

OFS's final goal is to continue to operate with highest standards of transparency, accountability, and integrity. OFS posts a variety of reports online that provide the taxpayer with regular and comprehensive information about how TARP funds are being spent, who has received them and on what terms, and how much has been collected to date. As part of this effort, in June 2013, we enhanced and expanded the existing TARP Tracker on our website to enable users to view the flow of funds for a specific time period or over the lifetime of a TARP program. OFS also publishes the audited annual report. In addition, OFS continues to maintain productive working relationships with three oversight bodies charged with auditing and reviewing the TARP activities.

Performance Metrics and Indicators[1]	**FY 2011 Actual**	***FY 2012 Target***	**FY 2012 Actual**	***FY 2013 Target***	**FY 2013 Actual**	***FY 2014 Target***
Percentage of statutorily-mandated reports submitted on time *(ensure transparency within the government)*	100%	***100%***	*100%*	***100%***	*100%*	***100%***
Percentage of customers satisfied with FinancialStability.gov (self-selected respondents) *(ensure transparency of operations to the public)*	67%	***67%***	*67%*	***69%***	*70%*	***70%***
Timeliness of responses *(ensure transparency within the government)*						
• Average days to close a FOIA case	98 days	***50 days***	53 days	***35 days***	21 days	***35 days***
• Percentage of Congressional correspondence responses drafted within 10 days	98%	***98%***	99%	***98%***	100%	***100%***
Clean audit opinion on TARP financial statements *(ensure transparency within the government)*	Yes	***Yes***	Yes	***Yes***	Yes	***Yes***
Percentage of SIGTARP and GAO oversight recommendations responded to on time *(ensure transparency within the government)*	88%	***100%***	100%	***100%***	80%	***100%***

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

Section 4 – Supplemental Information

4A – Summary of Capital Investments

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