Department of the Treasury
Office of Financial Stability

Congressional Budget Justification and Annual Performance Report and Plan

FY 2019

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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, 2017, OFS has recovered 97 percent of the $438.5 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 $4.0 billion.

1.1 - Program Account Summary

Dollars in Thousands

	FY 2017	FY 2018	FY 2019	FY 2018 to FY 2019	
	Actual	Estimated	Estimated	Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Equity Program Account	5,596	0	0	0	0.00%
Housing Account	0	11	0	(11)	-100.00%
TARP Account	9,656	0	0	0	0.00%
TARP Administrative Account	103,578	78,608	63,065	(15,543)	-19.77%
TARP Downward Reestimate Receipt Account	(90,377)	(14,586)	0	14,586	100.00%
Total Obligations	**$28,453**	**$64,033**	**$63,065**	**($968)**	**-1.51%**
Budget Authority					
Equity Program Account	5,596	0	0	0	0.00%
Housing Account	0	11	0	(11)	-100.00%
TARP Account	9,656	0	0	0	0.00%
TARP Administrative Account	122,457	78,608	63,065	(15,543)	-19.77%
TARP Downward Reestimate Receipt Account	(90,377)	(14,586)	0	14,586	100.00%
Total Budget Authority	**$47,332**	**$64,033**	**$63,065**	**($968)**	**-1.51%**
Outlays					
Equity Program Account	5,596	0	0	0	0.00%
Housing Account	4,130,820	2,431,993	1,573,463	(858,530)	-35.30%
TARP Account	9,656	0	0	0	0.00%
TARP Administrative Account	115,622	117,000	66,173	(50,827)	-43.44%
TARP Downward Reestimate Receipt Account	(90,377)	(14,586)	0	14,586	100.00%
Total Outlays	**$4,171,317**	**$2,534,407**	**$1,639,636**	**($894,771)**	**-35.30%**
FTE	52	34	24	-10	-29.41%

1.2 – Financing Account Summary

Dollars in Thousands

	FY 2017	FY 2018	FY 2019	FY 2018 to FY 2019	
	Actual	Estimated	Estimated	Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
TARP Direct Loans					
Obligations	2,188	5,154	0	(5,154)	-100.00%
Collections	14,984	0	0	0	0.00%
Financing Authority (net)	(9,656)	0	0	0	0.00%
Financing Disbursements (net)	(12,796)	5,154	0	(5,154)	-100.00%
Equity Purchases					
Obligations	95,647	11,962	522	(11,440)	-95.64%
Collections	420,863	84,368	3,117	(81,251)	-96.31%
Financing Authority (net)	(305,000)	(82,348)	(2,490)	79,857	-96.98%
Financing Disbursements (net)	(325,216)	(72,406)	(2,595)	69,811	-96.42%
Housing					
Obligations	3,278	3,003	1,184	(1,819)	-60.57%
Collections	192	55	22	(33)	-60.00%
Financing Authority (net)	0	0	0	0	0.00%
Financing Disbursements (net)	3,086	2,948	1,162	(1,786)	-60.58%

1.3 – Program Disbursement, Repayments, and Cost/Savings

Dollars in Billions

	Cumulative Obligated (as of 11/30/2017)	Cumulative Disbursed (as of 11/30/2017)	Cumulative Outstanding (as of 11/30/2017)	Total Cumulative Income (as of 11/30/2017)	Total Cash Back (as of 11/30/2017)	Total Estimated Life Costs (as of 11/30/2017)	
Bank Support Programs	250.5	245.1	0.1	35.7	275.5	(24.3)	
Credit Market Programs	19.1	19.1	0.0	4.6	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	12.2	
Treasury Housing Programs	37.4	26.8	NA	NA	0.0	32.5	
Total	**$454.5**	**$438.5**	**$0.1**	**$48.6**	**$425.0**	**$32.3**	
Additional AIG Common Shares Held by Treasury	0	0	0	17.6	17.6	(17.6)	*
Total for Programs and Shares	**$454.5**	**$438.5**	**$0.1**	**$66.2**	**$442.5**	**$14.7**	

*If all Treasury AIG Investments are combined, Treasury currently estimates a net gain of nearly $2.4 billion on those shares.

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;

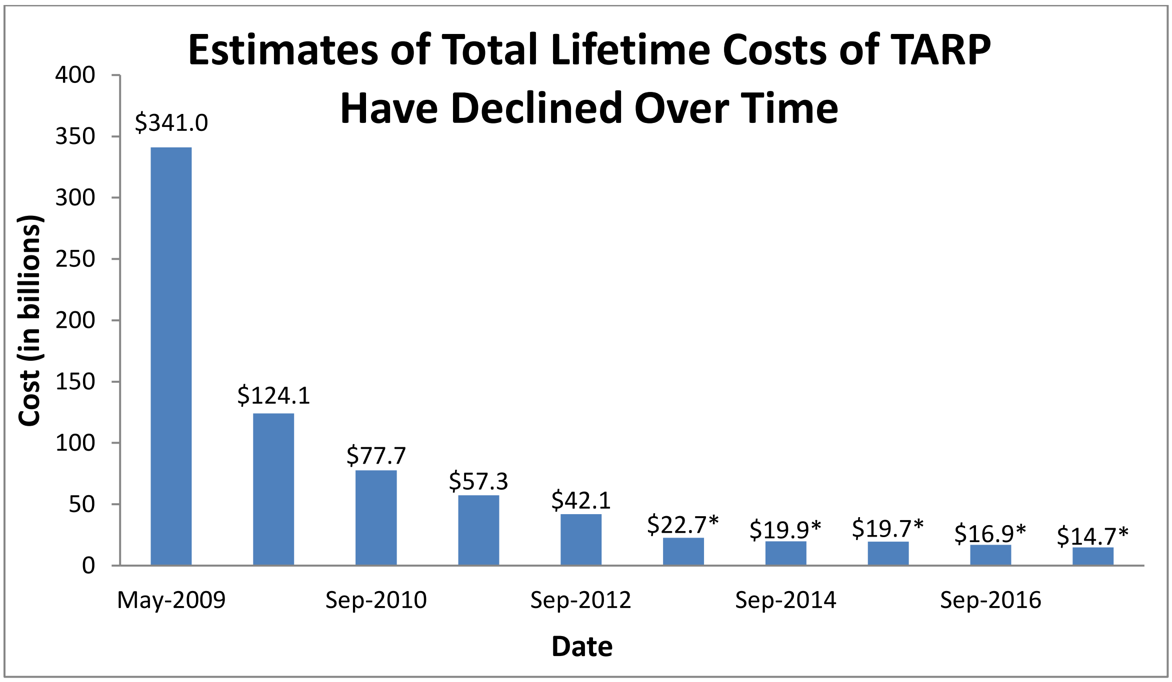
(B) preserve homeownership and promote jobs and economic growth;

(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 $32.3 billion (of which -$0.2 billion relates to investments and $32.5 billion relates to housing programs that do not require repayments by recipients) as of November 30, 2017. Lifetime costs are projected at $14.7 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 FY2018 and FY 2019, 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 2018, OFS plans to obligate no more than $79 million and use no more than 34 Full-Time Equivalent (FTE) employees. These levels are lower than previously estimated due to the faster than anticipated wind-down of TARP's investment programs and the continued wind-down of the Making Home Affordable (MHA) program. In FY 2019, OFS plans to obligate $63 million and use no more than 24 FTE employees, a decrease of approximately $16 million and 10 FTE employees from the current FY 2018 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 MHA and Hardest Hit Fund 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 2018 Estimated	**34**	**$78,608**
Maintaining Current Levels (MCLs):	-	1,464
Pay Annualization	-	6
Non-Pay	-	1,458
Total FY 2019 Base	**34**	**$80,072**
Program Changes:		
Program Decreases:	(10)	(17,007)
Housing Program Support	-	(10,449)
Maintenance and Disposition of Assets	-	(230)
OFS Salaries and Benefits	(10)	(1,590)
Organizational Support	-	(4,739)
Total FY 2019 Estimated	**24**	**$63,065**

D – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$1,464,000 / +0 FTE

Pay Annualization +$6,000 / +0 FTE

Funds are required for annualization of the January 2018 pay raise.

Non-Pay +$1,458,000 / +0 FTE

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

Program Decreases .... -$17,007,000 / -10 FTE

Housing Program Support -$10,449,000 / +0 FTE

Administrative and compliance functions will continue to wind down during FY 2018 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 2018, OFS will continue the disposition of its position in the remaining Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI) institutions. In FY 2019, OFS expects its portfolio to be composed mostly of CDCI institutions with a handful of CPP institutions.*OFS Salaries and Benefits -$1,590,000 / -10 FTE*

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

Organizational Support -$4,739,000/ +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 2017 Actual	FY 2018 Estimated	FY 2019 Estimated
11.1 - Full-time permanent	6,528	4,305	3,097
11.7 - Other Personnel Compensation	86	43	31
11.9 - Personnel Compensation (Total)	**6,614**	**4,348**	**3,128**
12.0 - Personnel benefits	1,986	1,360	996
Total Personnel and Compensation Benefits	**$8,600**	**$5,708**	**$4,124**
21.0 - Travel and transportation of persons	77	51	36
23.0 - Rent, Communications and Utilities	2	4	4
25.1 - Advisory and assistance services	12,394	11,835	8,897
25.2 - Other services from non-Federal sources	69,709	49,622	39,645
25.3 - Other goods and services from Federal sources	12,447	11,064	10,061
26.0 - Supplies and materials	346	316	290
31.0 - Equipment	3	8	8
Total Non-Personnel	**$94,978**	**$72,900**	**$58,941**
Subtotal New Budgetary Resources	**$103,578**	**$78,608**	**$63,065**
FTE	**52**	**34**	**24**

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 4 FTE employees per year. The remaining statutory requirements will continue to provide sufficient transparency during the wind-down of TARP.

<u>Replace OFS's stand-alone financial audit performed by GAO</u>: 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, 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, 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 5 years.

Section II - Annual Performance Plan and Report

A – Strategic Alignment
OFS's continued wind-down efforts align with Treasury's strategic goal of financial stewardship, specifically Objective 4.1 (financial data access and use), by winding down sun-setting programs responsibly while maximizing the financial benefit to taxpayers.

Bank Support Programs
Capital Purchase Program (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 2017, 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, 2017, CPP has generated $226.8 billion in recoveries for taxpayers with six institutions remaining in the program, for a total of $48 million in investments outstanding.

Community Development Capital Initiative (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 increases to nine percent after eight years. On August 1, 2016, Treasury – as part of its ongoing effort to wind down TARP – offered participating CDCI institutions an opportunity to repurchase their outstanding securities owned by Treasury at fair value ahead of the dividend rate step-ups set to take place in 2018. By the end of January 2017, OFS completed 27 full and partial repurchases at fair value under the early repurchase option, for a total of $268 million in repayments. As of November 30, 2017, CDCI has generated $540 million in recoveries for taxpayers with 21 institutions remaining in the program, for a total of $68 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.

Making Home Affordable Program (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, 2017, OFS had disbursed $18.2 billion out of a possible $27.8 billion under MHA.

Housing Finance Agency (HFA) Hardest Hit Fund (HHF): HHF was established in 2010 to provide targeted aid to homeowners in states hit hardest by the economic and housing market downturn by providing funding to state HFAs. The $7.6 billion initiative encompassed 18 states and the District of Columbia (D.C.). In December 2015, the Act granted Treasury authority to make an additional $2.0 billion in commitments through the HHF. As of November 30, 2017, OFS had disbursed $8.5 billion out of a possible $9.6 billion under the HFA Hardest Hit Fund.

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 intial $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, 2017, the revised lifetime cost estimate for the program was $17 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, 2017, 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 – Budget and Performance by Budget Activity
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.

Performance Metrics and Indicators[1]	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	FY 2018 Target	FY 2019 Target
Clean Audit Opinion on TARP Financial Statements (ensure transparency of operations to the public) (1.0 = Yes)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Percentage of Congressional Constituent Correspondence Responses Completed within 10 Business Days of Receipt[3]	100.0	92.0	50.0	66.8	100.0	87.5	100.0	N/A
Percentage of Statutorily-Mandated Reports Submitted On-Time (ensure transparency of operations to the public)	80.0	99.0	100.0	94.7	100.0	96.3	100.0	100.0
Percentage of Customers Satisfied with FinancialStability.gov (Self Selected Respondents) (ensure transparency of operations to the public)	70.0	69.0	66.5	73.0	75.0	69.3	75.0	75.0
Percentage of FOIA Assignments On-Time or Less Than 30-Days Overdue (ensure transparency within the government) [2]	N/A	15.0	13.0	56.6	33.0	85.0	33.0	66.0
Percentage of SIGTARP and GAO Oversight Recommendations Responded to On-Time (ensure transparency of operations to the public)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1]Items underlined are measures. Targets are provided only for measures.
[2]The 'Percentage of FOIA requests on-time or less than 30-days overdue' was introduced in FY 2014 to best reflect reporting data.
[3]The 'Percentage of Congressional Constituent Correspondence Responses Completed within 10 Business Days of Receipt' will be discontinued in FY 2019 due to low volume of actual correspondence received in FY 2016 and FY 2017.

C – Operational Goals

Complete the wind-down of TARP investment programs

The first operational goal for OFS is to complete the wind-down of TARP investment programs. Only two investment programs remain: CPP and CDCI. OFS is focused on recovering TARP funds in a manner that continues to promote the nation's financial stability while maximizing returns on behalf of taxpayers. For CPP institutions, participating financial institutions may repay the funds they received at any time, with the approval of their regulators. OFS continues to work with CPP institutions to restructure certain investments that will allow them to exit TARP. As of November 30, 2017, OFS had $48 million in outstanding CPP investments and $68 million in outstanding CDCI investments.

Manage the wind-down of TARP housing programs while continuing to help struggling homeowners avoid foreclosure

OFS's second operational goal is to manage the wind-down of the TARP housing programs while continuing to help struggling homeowners avoid foreclosure for those programs that remain open. MHA statutorily sunset in December 2016 and MHA servicers were required to design policies and procedures to reasonably ensure that all MHA transactions were completed by December 1, 2017. Under this program, as of November 30, 2017, more than 1.7 million homeowners have secured permanent mortgage modifications. In addition, HHF provides funding to 18 states and D.C. to assist struggling homeowners. In FY 2017, state HFAs continued to adapt their programs to best meet borrower needs in evolving economic and housing markets. In FY 2018, several HHF states will begin the initial phases of wind-down for their programs.

Minimize cost to taxpayers
The third operational goal of OFS is to minimize the cost of TARP 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 to dispose of outstanding investments in a manner that balances the need to exit these investments as quickly as practicable while maximizing taxpayer returns. 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.

Continue to operate with the highest standards of transparency, accountability, and integrity
OFS's final 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.