Emergency Economic Stabilization Act Programs

FY 2012

Congressional Justification

Overview

Mission Statement

The mission of the Office of Financial Stability (OFS) is to carry out the authorities granted to the Secretary of the Treasury to implement the Troubled Assets Relief Program (TARP). These authorities were vested to the Treasury Secretary by the Emergency Economic Stabilization Act of 2008 (EESA), which authorized the Secretary of the Treasury to establish the TARP to purchase, and to make and fund commitments to purchase, and guarantee troubled assets from any financial institution, on terms and conditions as are determined by the Secretary.

The purposes of the EESA are to—
(1) immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and
(2) ensure that such authority and such facilities are 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.

TARP ON-BUDGET ACCOUNTS
Dollars in Thousands

Total TARP
Program Summary by Budget Activity

	2010 Actual	2011 Estimated	2012 Estimated	2012 $ Change	2012 % Change
Obligations:					
Housing Account	$18,560,000	$0	$0	**$0**	**0%**
Equity Program Account	$4,457,016	$329,228	$0	**($329,228)**	**-100%**
TARP Account	$23,048	$1,556,633	$0	**($1,556,633)**	**-100%**
TARP Negative Receipt Account	($116,556,538)	($43,473,633)	$0	**$43,473,633**	**-100%**
TARP Administrative Account	$365,044	$393,449	$311,241	**($82,208)**	**-21%**
Total Obligations	**($93,151,431)**	**($41,194,323)**	**$311,241**	**$41,505,564**	**-101%**
Budget Authority:					
Housing Account	$18,560,000	$0	$0	**$0**	**0%**
Equity Program Account	$4,457,907	$329,228	$0	**($329,228)**	**-100%**
TARP Account	$23,048	$1,566,633	$0	**$0**	**0%**
TARP Negative Receipt Account	($116,556,538)	($43,473,633)	$0	**$0**	**0%**
TARP Administrative Account	$365,044	$393,449	$311,241	**($82,208)**	**-21%**
Total Budgetary Authority	**($93,150,540)**	**($41,184,323)**	**$311,241**	**($411,436)**	**1%**
Outlays:					
Housing Account	$543,000	$9,813,000	$13,230,000	**$3,417,000**	**35%**
Equity Program Account	$8,450,887	$4,634,144	$0	**($4,634,144)**	**-100%**
TARP Account	$22,380	$2,366,712	$0	**($2,366,712)**	**-100%**
TARP Negative Receipt Account	($116,904,810)	($43,343,632)	$0	**$0**	**0**
TARP Administrative Account	$238,998	$536,000	$327,683	**($208,317)**	**-39%**
Total Outlays	**($107,649,545)**	**($25,993,776)**	**$13,557,683**	**($3,792,174)**	**15%**

PROGRAM DISBURSEMENTS AND COST/SAVINGS
Dollars in Thousands

	FY 2009	FY 2010	Total Disbursements[1]	Cost/(Savings) BA Outlays[2]
Capital Purchase Program	$204,617,573	$277,153	$204,894,726	($12,424,572)
Public-Private Investment Program	$3,689,583	$18,716,901	$22,406,484	($212,771)
AIG Investment Program	$69,835,000	$0	$69,835,000	$8,038,208
Consumer and Business Lending Initiative	$4,300,000	$939,581	$5,239,581	($39,186)
Home Affordable Modification Program	$27,065,760	$18,560,021	$45,625,781	$45,625,781
Targeted Investment Program	$40,000,000	$0	$40,000,000	($3,805,048)
Automotive Industry Financing Program	$77,968,009	$3,790,000	$81,758,009	$14,800,582
Asset Guarantee Program[3]	$5,000,000	$0	$5,000,000	($3,707,147)
Total	**$432,475,926**	**$42,283,655**	**$474,759,581**	**$48,275,847**

[1]Amount applied to the Section 115 Purchase Cap (i.e., the portion of the $475 billion cap expected to be disbursed).
[2] Estimated lifetime program costs or savings (-) including interest effects, but excluding administrative costs.
[3] Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of loans.

FY 2012 Priorities

During FY 2012, the Office of Financial Stability will be primarily in the maintenance phase of the TARP; which includes managing assets, repayments, repurchases, warrant liquidation, dividend collection, corporate actions, collateral management, exchanges, etc. Under the terms of EESA, Treasury's authority to enter into new commitments to purchase troubled assets expired October 3, 2010. While Treasury is now unable to implement new TARP programs in FY 2012, disbursements for a limited number of programs will continue to occur based upon existing commitments.

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Section 1 – Purpose

1A – Description of Office Vision and Priorities

Section 101 of the Emergency Economic Stabilization Act of 2008 (EESA) authorized the Secretary of the Treasury to establish the Troubled Assets Relief Program (TARP) to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary." The EESA further authorized that the Secretary implement the programs under section 101 through an Office of Financial Stability (OFS). Section 102 also provided the Secretary authority to guarantee troubled assets.

In light of this statutory direction, OFS established the following as its operational goals:

1. Ensure the overall stability and liquidity of the financial system.
    a. Make capital available to viable institutions.
    b. Provide targeted assistance as needed.
    c. Increase liquidity and volume in securitization markets.
2. Prevent avoidable foreclosures and preserve homeownership.
3. Protect taxpayers' interests.
4. Promote transparency.

1B – Program History and Future Outlook

To administer the programs under TARP, the EESA established the OFS in October 2008, which is designed to be temporary in nature, but highly skilled and well equipped to handle the complexity of TARP initiatives. EESA was originally proposed as a means to buying mortgage loans, mortgage-backed securities and certain other assets from financial institutions. However, the authorities granted under EESA were broadened in the legislative process to cover any financial instrument whose purchase the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, determined necessary to promote financial market stability.

The OFS was established in response to the financial crisis faced by the nation in 2007 and 2008. At that time, the nation was in the midst of one of the worst financial crises in our history and for the first time in 80 years, the U.S. financial system was at risk of collapse. To address these problems, Treasury created programs under the TARP. These programs have provided much needed capital to the financial system, helped struggling homeowners stay in their homes, initiated the recovery of the markets for consumer and business lending and provided a mechanism for removing legacy toxic assets from the balance sheets of financial institutions.

Through January 31, 2010, the OFS disbursed $410 billion of the authorized $700 billion, most of it in the form of investments. The Dodd-Frank Wall Street Reform and Consumer

Protection Act (the Dodd-Frank Act) was enacted on July 21, 2010. The Dodd-Frank Act reduced the TARP authority to purchase troubled assets from $700 billion to $475 billion; requires that repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the Federal debt; and prohibits new obligations for any program or initiative that was not already initiated prior to June 25, 2010.

Over the past two years, emergency actions taken through TARP and other financial stability initiatives have helped prevent catastrophe by unfreezing the markets for credit and capital; bringing down the cost of borrowing for businesses, individuals, and state and local governments; restoring confidence in the financial system; and restarting economic growth. The conditions of most security markets and large financial institutions have improved substantially. Borrowing costs for large banks, nonfinancial businesses, and state and local governments have returned to near normal levels. Frozen securities markets have reopened. Prices for legacy securities have improved. Large banks are better capitalized than they were before the crisis and restructuring in the financial industry is well underway.

Further, as a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayer of TARP investments is estimated to be significantly lower than initially expected. The FY 2010 MSR budget total impact of the program on the deficit was projected to be $341 billion, but it is now expected to total only $48.3 billion (see Program Caps and Obligations table above) as of November 30, 2010. The authority for the administrative budget for OFS is provided in Section 118 of EESA. In FY 2011 OFS plans to obligate almost $394 million and use 251 FTE, an increase of $29 million and 41 FTE from the FY 2010 estimates. The increases are primarily due to the continued staffing of OFS' compliance and legal departments and a $35 million increase in funding of the Making Home Affordable (MHA) Program Administrator. The potential accelerated disposition of assets requires additional legal support and OFS is still fully staffing its compliance department to ensure that recipients of TARP funds comply with program requirements. These increases are offset by savings in other outside contracts as OFS matures as an organization that no longer has the authority to make new commitments. Further, the FY 2011 increase in outlays is primarily due to the payment of prior year obligations, most notably for FY 2010 services received from the MHA Program Administrator and Compliance Agent. In FY 2012 OFS plans to obligate almost $311 million and use 270 FTE, a decrease of $83 million and an increase of 19 FTE from the FY 2011 estimates. The increase in FTE reflects the assumption that the newly hired individuals will be on-board for a full fiscal year while the outside contracts continue to decrease primarily due to the reduction of the MHA Program Administrator's budget.

Troubled Asset Relief Programs

Capital Purchase Program

OFS launched the Capital Purchase Program (CPP), its largest program under EESA, on October 14, 2008 to stabilize the financial system by providing capital to viable banks through the purchase of preferred shares from qualifying financial institutions and subordinated debentures from Subchapter S corporations. The CPP was designed to bolster the capital position of viable institutions and, in doing so, build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending, even while absorbing write downs and charge-offs on loans that were not performing.

Of the initial $250 billion commitment to CPP, OFS invested $125 billion in eight of the country's largest financial institutions. The remaining $125 billion was made available to qualifying financial institutions (QFIs) of all sizes and types across the country, including banks, savings associations, bank holding companies and savings and loan holding companies. QFIs interested in participating in the program had to submit an application to their primary federal banking regulator. The minimum subscription amount available to a participating institution was 1 percent of risk-weighted assets. The maximum subscription amount was the lesser of $25 billion or 3 percent of risk-weighted assets.

OFS ultimately provided a total of $205 billion in capital to 707 institutions in 48 states, including more than 300 small and community banks, enabling them to absorb losses from bad assets while continuing to lend to consumers and businesses. The largest investment was $25 billion while the smallest was $301,000. To encourage continued participation by small and community banks, the application window for CPP was reopened during the period from May 13, 2009 to November 21, 2009, for banks with less than $500 million in assets.

OFS purchased senior preferred stock from most banks that participated in the CPP, receiving a dividend rate of 5 percent per year which will increase to 9 percent per year after the first five years. In the case of S-corporations, OFS acquired 30 year maturity subordinated debentures yielding 7.7 percent per year, which will increase to 13.8 percent after the first five years.

In addition to the senior preferred stock, OFS received warrants from public QFIs to purchase a number of shares of common stock, as required by EESA. These warrants include customary anti-dilution provisions. OFS may exercise any warrants held in whole or in part at any time.

OFS received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0 percent (13.8 percent interest rate for subordinate debentures) and a liquidation value equal to 5.0 percent of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in OFS holding additional senior preferred stock (subordinated debentures collectively referred to as "warrant preferred stock") of non-public QFIs.

The EESA Amendments also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, a QFI, upon the repurchase of its senior preferred stock, has the contractual right to repurchase the common stock warrants at the market price.

On December 31, 2009, the CPP was closed as part of Treasury's winding down of TARP. As of September 30, 2010, CPP participants (i.e. financial institutions) have redeemed almost $153 billion in principal repayments and paid over $20 billion in dividends, interest, warrants and fees.

American International Group, Inc. (AIG) Investment Program

OFS provided assistance to certain systemically significant financial institutions that were at substantial risk of failure on a case by case basis in order to provide stability to institutions that are critical to a functioning financial system and prevent broader disruption to financial markets. Starting in September 2008, the Federal Reserve and OFS took a series of actions related to AIG in order to prevent AIG's disorderly failure and mitigate systemic risks. These actions addressed the liquidity and capital needs of AIG, helping to stabilize the company. OFS provided this assistance by purchasing preferred shares in AIG and also received warrants to purchase common shares in the institution. The assistance provided to AIG was deemed "exceptional assistance" which means that the recipient is subject to greater restrictions under the rules relating to executive compensation.

The Federal Reserve Board, through the Federal Reserve Bank of New York (FRBNY), provided an $85 billion credit facility in the form of secured loans to AIG on September 16, 2008 to contain the financial panic at minimal cost to the American taxpayer. The FRBNY has also provided additional assistance to AIG by funding special purpose entities which purchased certain derivative contracts from AIG. In connection with its assistance to AIG, the FRBNY received convertible preferred stock representing approximately 79.77 percent of the fully diluted voting power of the AIG common stock. This preferred stock was deposited in a trust, which exists for the benefit of the U.S. taxpayers. The FRBNY has appointed three independent trustees who have the power to vote the stock and dispose of the stock with prior approval of FRBNY and after consultation with Treasury. The Department of the Treasury does not control the trust and cannot direct the trustees.

In November 2008, this assistance was restructured so that AIG had more equity and less debt. OFS purchased $40 billion in cumulative preferred stock from AIG under the TARP, the proceeds of which were used to repay the Federal Reserve loan in part. In April 2009, OFS exchanged the $40 billion in cumulative preferred stock for $41.6 billion in non-cumulative preferred stock and created an additional equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional preferred stock to OFS. As of September 30, 2010, AIG had drawn approximately $7.5 billion from the additional facility. The preferred stock pays a noncumulative quarterly dividend, if declared, of 10 percent per annum.

On September 30, 2010, the OFS, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring plan provided for, among other items, the conversion of outstanding Series E & F preferred stock to 1.092 billion shares of AIG common stock. Under the plan, the undrawn portion of Series F was made available to AIG for the repayment of certain amounts owed to the Federal Reserve Bank of New York and for general corporate liquidity. The plan was subject to a number of conditions which had to be met in order to close. OFS management believed that the restructuring plan, if completed as announced, would accelerate the timeline for the federal government's recovery of its investment in AIG and would put Treasury in a considerably stronger position to recoup Treasury's investment in the company. On December 8, 2010 the parties entered into a master transaction agreement that supersedes, but does not represent a significant departure from, the September 30, 2010 agreement in principle. On January 14, 2011 AIG drew down $20.3 billion from the Series F credit facility and AIG repaid the Federal Reserve Bank of New York a total of $47 billion, including the outstanding balance on the original $85 billion credit facility provided to AIG in September 2008 at the height of the financial crisis, fully repaying all AIG borrowings from the FRBNY. In exchange for the $20.3 billion OFS received interest in two Special Purpose Vehicles valued at significantly more than $20.3 billion. OFS converted the Series E and F preferred stock to 1.092 million shares of AIG common stock the Trust that had been established for the benefit of the taxpayers was terminated and the Department of the Treasury received 562.9 million shares of AIG common stock not discussed in this chapter. These actions provide the Treasury ownership of 92% of the common stock of AIG. AIG also issued $2 billion of Series G preferred stock that remains available for AIG to draw upon. Treasury will continue to evaluate its options for an exit of the investment in AIG as soon as practical while protecting taxpayers.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) under the TARP in December 2008. Through TIP, OFS sought to prevent a loss of confidence, which could have resulted in significant financial market disruptions, threatened the financial strength of similarly situated financial institutions, impaired broader financial markets, and undermined the overall economy, by providing additional or new funding to financial institutions.

OFS invested $20.0 billion in each of Bank of America and Citigroup under the TIP. Under each agreement, OFS purchased $20.0 billion of cumulative perpetual preferred stock and received a warrant for the purchase of common stock. The preferred stock purchased contained a stated annual dividend rate of 8 percent, payable quarterly if declared, and imposed greater reporting requirements and harsher restrictions on the companies than under the CPP terms. In June 2009, OFS and Citigroup agreed to exchange the cumulative perpetual preferred stock issued under the TIP for a new series of trust preferred securities. Both Bank of America and Citigroup repaid the amounts invested by OFS along with dividends through December 2009. The amounts remaining represent the value of the Citigroup warrants still held by the program.

As of December 31, 2009, the TIP was closed as part of Treasury's winding down of TARP. The Budget reflects that both Citigroup and Bank of America fully redeemed the Government's TIP investments of $40 billion during 2010. During FY 2010, and FY 2009, the OFS received approximately $1.2 and $1.9 billion in dividends under the TIP, respectively. In addition, the OFS received proceeds of approximately $1.2 billion from the auction of the Bank of America warrants.

Automotive Industry Financing Program

OFS established the Automotive Industry Financing Program (AIFP) on December 19, 2008, to help prevent a significant disruption to the American automotive industry, which would have posed a substantial disruption to financial market stability and had a negative effect on the economy. Under the AIFP, OFS made emergency loans to General Motors Corporation (GM) and Chrysler LLC (Chrysler) to provide a path for these companies to go through orderly restructurings and achieve viability.

OFS' investments in the auto companies were determined to be consistent with both the purpose and specific requirements of EESA.   OFS determined that the auto companies were and are interrelated with entities extending credit to consumers and dealers because of their financing subsidiaries and other operations, and that a disruption in the industry or an uncontrolled liquidation would have had serious effects on financial market stability, employment, and the economy as a whole. In addition, Congress provided the Secretary of the Treasury broad authority by defining "financial institutions" in EESA flexibly so as not to be limited to banks, savings institutions, insurance companies and similar entities. The auto companies, as well as their respective financing entities, qualified as "financial institutions" under EESA.

OFS initially provided loans of $13.4 billion to GM and $4 billion to Chrysler under the AIFP to give the companies time to negotiate with creditors and other stakeholders in order to prevent disorderly bankruptcies. This short-term funding was initially provided to GM and Chrysler on the condition that they develop plans to achieve long-term viability. In cooperation with the Administration, GM and Chrysler developed satisfactory viability plans and successfully conducted sales of their assets to new entities in bankruptcy proceedings. Chrysler completed its sale process in 42 days and GM in 40 days. Treasury provided additional assistance during these periods.

Under the terms of the loans, each company was required to prepare a restructuring plan that included specific actions aimed at assuring: (i) the repayment of the loan extended by TARP; (ii) the ability of the company to comply with applicable federal fuel efficiency and emissions requirements and commence the domestic manufacturing of advanced technology vehicles in accordance with federal law; (iii) achievement of a positive net present value; (iv) rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the company; and (v) a product mix and cost structure that is competitive in the U.S. marketplace. On March 31, 2009, the Administration determined that each company's initial restructuring plans failed to meet requirements for long term funding. Ultimately, Chrysler and GM worked to obtain more fundamental restructurings in plans resubmitted on April 30, 2009 and May 31, 2009, respectively.

To date, the OFS has provided approximately $82 billion in loans and equity investments to GM, Chrysler, and their respective financing entities. In August 2010, GM filed a registration statement with the U.S. Securities and Exchange Commission for a proposed IPO consisting of common stock to be sold by certain of its stockholders, including Treasury. In November and December 2010, Treasury received $13.5 billion for the sale of over 400 million shares of GM, reducing Treasury's ownership percentage of GM common stock from 60.8% to 33.3%. Treasury also accepted an offer from GM to repurchase $2.1 billion of preferred stock, a deal which was closed in December 2010.

Auto Supplier Support Program

Because of the credit crisis and the rapid decline in auto sales, many of the nation's auto parts suppliers were struggling to access credit and faced uncertainty about the prospects for their businesses. On March 19, 2009, OFS announced the Auto Supplier Support Program (ASSP) to help address this problem by providing up to $5 billion, which was later decreased to $413 million, to domestic auto manufacturers to purchase supplier receivables. This program was closed with OFS funding $413 million under the ASSP. The full $413 million was repaid in FY 2010 along with approximately $9 million in interest and $101 million in fees and other income.

Warranty Commitment Program

On March 30, 2009, OFS announced an Auto Warranty Program designed to give consumers considering new car purchases from domestic manufacturers the confidence that warranties on those cars would be honored regardless of the outcome of the restructuring process. The $640 million advanced to GM and Chrysler under the program has been repaid to OFS; Chrysler repaid the full amount with $3.1 million in interest while GM repaid only principal.

The AIFP is now closed.

Asset Guarantee Program

Pursuant to section 102 of EESA, OFS established the Asset Guarantee Program (AGP) with the same objective as the TIP of preserving financial market stability. The AGP was to provide protection against the risk of significant loss in a pool of assets held by a systemically significant financial institution that faces a risk of losing market confidence due in large part to its holdings of distressed or illiquid assets. By helping limit the institution's exposure to losses on illiquid or distressed assets, the AGP helped the institution maintain the confidence of its depositors and other funding sources and continue to meet the credit needs of households and businesses. The AGP involved participation with the Federal Reserve Bank of New York and the FDIC.

The AGP was applied with extreme discretion before being closed in December 2009. OFS used this program to assist Citigroup and began negotiations with Bank of America (BofA), which BofA subsequently terminated.

Citigroup

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; approximately $4.0 billion and the warrants were issued to the OFS, and approximately $3.0 billion was issued to the FDIC. The OFS has received approximately $298.8 million in dividends on the preferred stock received as compensation for this arrangement.

On December 22, 2009, the U.S. Government Parties and Citigroup terminated the guarantee agreement. Under the terms of the termination agreement the OFS cancelled approximately $1.8 billion of the previously issued preferred stock. The U.S. government parties did not pay any losses under the agreement, and kept $5.2 billion of $7.0 billion in trust preferred securities as well as warrants for common shares that were issued by Citigroup as consideration for the guarantee. On September 30, 2010, OFS agreed to sell the trust preferred securities for approximately $2.25 billion and on October 5, 2010, the transaction was consummated.

Bank of America

In January 2009, the U.S. government parties and Bank of America entered into a term sheet pursuant to which the U.S. government parties contemplated guaranteeing or lending against a pool of up to $118.0 billion of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America announced its intention to terminate negotiations with respect to the guarantee. All parties agreed that Bank of America received value for entering into the term sheet and that the U.S. government parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the term sheet through the termination date. Under the terms of the settlement, OFS received $276.0 million of the $425.0 million termination fee.

The AGP is closed for new guarantees.

The Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative was intended to help unlock the flow of credit to consumers and small businesses. Three programs were established to help accomplish this: The Term Assets-Backed Securities Loan Facility was created to help jump-start the market for securitized consumer, commercial and small business loans. The Community Development Capital Initiative was created to provide additional low cost capital to small banks to encourage more lending to small businesses. The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. Each program is discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created by the Federal Reserve Board (FRB) to provide low cost funding to investors in certain classes of Asset Backed Securities (ABS). The TALF's objective was to stimulate investor demand for certain types of eligible ABS, specifically those backed by loans to consumers and small businesses, and ultimately to bring down the cost and increase the availability of new credit to consumers and businesses. The OFS agreed to participate in the program by providing up to $20 billion of TARP funds in liquidity and credit protection to the FRB for losses arising under TALF loans. On July 20, 2010, OFS' commitment was reduced to $4.3 billion.

The program was terminated on June 30, 2010. As such, no additional loans will be granted by the FRBNY. At the time of termination, there were approximately $43 billion of loans outstanding. As of September 30, 2010 $29.7 billion of loans remain outstanding.

Community Development Capital Initiative

In February 2010, the OFS announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFI) that lend to small businesses in the country's hardest-hit communities. Under the terms of the program, CDFI banks and thrifts, which must be certified by Treasury as targeting more than 60 percent of their small business lending and other economic development activities to underserved communities, are eligible to receive investments of capital with an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years.

CDFI credit unions may apply for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts and with similar terms. These institutions may apply for up to 3.5 percent of total assets - an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts. In cases where an institution might not otherwise be approved by its regulator, it will be eligible to participate so long as it can raise sufficient private capital that - when matched with Treasury capital up to 5 percent of risk-weighted assets (RWA) - it can reach viability. The private capital must be junior to Treasury's investment and the CDFI must be in compliance with any other regulatory mandates.

CDFIs that participated in CPP and were in good standing were eligible to exchange those investments into this program. As of September 30, 2010, the OFS invested $570 million in 84 CDFI's ($363 million a result of exchanges from CPP).

SBA 7(a) Security Purchase Program

In March 2010, Treasury announced the SBA 7(a) Securities Purchase Program to help restore the confidence needed for financial institutions to increase lending to small business, and to ensure that credit flows again to entrepreneurs and small business owners. The OFS began the purchase of securities backed by the Small Business Administration 7(a) loans (7(a) Securities), which is SBA's most widely used loan program, as part of the Unlocking Credit for Small Business Initiative. Under this program OFS purchased 7(a) securities collateralized with 7(a) loans packaged on or after July 1, 2008. As of December 30, 2010, OFS had purchased and settled $368.1 million of these securities.

Public-Private Investment Program

OFS, in conjunction with the Federal Reserve and the FDIC, announced the Public-Private Investment Program (PPIP) on March 23, 2009, as a part of the Financial Stability Plan. The Public-Private Investment Program (PPIP) is part of the OFS's efforts to help restart the market by enabling financial institutions to make new loans available to households and businesses, and by providing liquidity for legacy securities.

Under this program, the OFS makes equity and debt investments in newly-formed investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers for the purpose of purchasing legacy securities. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. The program has facilitated price discovery in the markets for mortgage-backed securities, which has reduced uncertainty regarding the value of such securities among the banks and other financial institutions holding them and enabled these financial institutions to sell such assets and raise new private capital. The equity investments have been used to match private capital and will not equal more than 50.0 percent of the total equity invested. The debt investment can be, at the option of the investment manager, equal to 50.0 percent or 100.0 percent of the total equity (including private equity). As of June 30, 2010, all PPIFs have elected to receive debt equal to 100 percent of total equity. The debt investments bear interest at 1 Month Libor, plus 1.5 percent and mature at the termination of the PPIF, which is 10 years, subject to a 2 year extension. The loan agreement also requires cash flows into the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to ensure secured parties are paid before equity holders. As a condition of its investment, the OFS also received a warrant from the PPIFs providing it with the right to receive additional compensation upon satisfaction of certain requirements set out in the PPIF agreements.

The PPIFs are only allowed to purchase commercial mortgage-backed securities and non-agency residential mortgage-backed securities issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets and not other securities (eligible assets). The PPIFs may invest in the aforementioned securities for a period of 3 years using proceeds from capital contributions, debt investments and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States.

As of June 30, 2010, the OFS signed definitive limited partnership and loan agreements with 9 investment managers, committing to potentially disburse up to $30.4 billion. The program was closed to new closings as of July 30, 2010 with its commitment reduced to a maximum of $22.4 billion. As of September 30, 2010, approximately $4.9 billion has been disbursed by OFS in the form of equity and $9.2 billion in the form of debt.

Treasury Housing Programs Under TARP

Fiscal year 2010 has seen an expansion of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

1) Making Home Affordable Program (MHA);
2) Housing Finance Agency (HFA) Hardest-Hit Fund; and
3) Federal Housing Administration (FHA)-Refinance Program.

Under MHA, the initial programs rolled out in the period ended September 30, 2009 were the Home Affordable Modification Program (HAMP) including the Home Price Decline Protection Program (HPDP).

MHA includes HAMP, FHA-HAMP, Second Lien Program (2MP), Treasury/FHA Second Lien Program (FHA 2LP) (extinguishment of 2nd lien portion of the program), and Rural Development (RD-HAMP). The HAMP includes first lien modifications, the HPDP, the Principal Reduction Alternative Waterfall Program (PRA), the Unemployment Program (UP), and the Home Affordable Foreclosure Alternatives Program (HAFA). The HAMP first lien modification program provides incentive payments to servicers, borrowers, and investors who participate in the program, whereby the investor and OFS share the costs of modifying qualified first liens. The HPDP provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs have been introduced under HAMP to complement the first lien modification program and HPDP. The Principal Reduction Alternative Waterfall Program (PRA) offers mortgage relief to eligible homeowners whose homes are worth significantly less than the remaining amounts outstanding under their first-lien mortgage. The Unemployment Program (UP) offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. The UP will not have a financial impact on the OFS because no incentives are paid by OFS. Finally, the Home Affordable Foreclosure Alternatives Program (HAFA) is designed to assist eligible borrowers unable to retain their homes through a HAMP modification by simplifying and streamlining the short sale and deed in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

Fiscal year 2010 has also seen the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their FHA-insured first lien mortgages under the FHA-Refinance Program. The RD-HAMP Program provides HAMP incentives for USDA guaranteed mortgages.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. Servicers have until December 31, 2012 to enter into mortgage modifications with borrowers. As of September 30, 2010, the OFS had entered into agreements with 144 active servicers to provide approximately $29.9 billion for the MHA program. Nearly 500,000 borrowers, of which over 220,000 are non-GSE, have been awarded official modifications. One hundred forty-four active non-GSE servicers have received $483.9 million in OFS incentive payments under the program.

The Housing Finance Agency (HFA) Hardest-Hit Fund was implemented in 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States and districts that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C. Approved states develop and roll out their own programs targeting the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers. As of September 30, 2010, $7.6 billion has been allocated to the Hardest-Hit Fund and a total of $56.12 million has been disbursed to eligible entities of the participating HFAs.

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) and is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. In order to be eligible, the lender must write-down the principal balance of the original first lien by at least 10 percent and down to 97.75 percent of the current loan-to-value. Additionally, the cumulative loan-to-value (including any subordinate loans) cannot exceed 115 of the current market value of the home. OFS established an $8.1 billion Letter of Credit with Citigroup to fund the OFS portion of any claims associated with the FHA Refinance insured mortgages. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012 and OFS will honor its share of claims against the Letter of Credit through 2020. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. However, in fiscal year 2010, OFS paid $3 million in administrative fees to establish the Letter of Credit.

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"). Under credit reform, the net present value expected cost of a loan or loan guaranty is budgeted for at the time of obligation. Under EESA Section 101(a)(1), Treasury is authorized 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..." Under this authority, Treasury can enter into equity investments and other financial transactions in addition to loans and loan guarantees. Based on Section 123 of EESA, Treasury is budgeting for its equity investments under credit reform.

To comply with the credit reform requirements, Treasury has established seven credit program accounts: TARP Equity Purchase Program Account, TARP Equity Purchase Financing Account, TARP Home Affordable Modification Program Account, TARP Home Affordable Modification Financing Account, TARP Program Account, Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account, and TARP Direct Loan Financing Account.

Credit Reform Accounts 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

The TARP Equity Purchase Financing Account (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 Home Affordable Modification Program Account

The TARP Home Affordable Modification Program Account records the subsidy costs (cost to the government) and cash outlays associated with Treasury's housing programs. The MHA and Hardest Hit housing programs are recorded on a cash basis and the FHA-Refinance Program is subject to the Federal Credit Reform Act of 1990 whereby its subsidy cost is calculated on a net present value basis.

TARP Home Affordable Modification Program Financing Account

The TARP Home Affordable Modification Financing Account is a non-budgetary account that records all financial transactions to and from the government resulting from Treasury's FHA Short 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 Account records the subsidy costs (cost to the government) associated with direct loans obligated and guaranteed loans committed to qualifying institutions. Subsidy costs are calculated on a net present value basis.

Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account

The Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account (GLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from guarantees committed. Like EPFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

TARP Direct Loan Financing Account

The TARP Direct Loan Financing Account (DLFA) is a non-budgetary account that records all financial transactions to and from the government resulting from direct loans. Like EPFA and GLFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals.

Office of Financial Stability Administrative Account

This account provides for the administrative costs for the OFS.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

Office of Financial Stability	FTE	Amount
FY 2011 Estimate	251	$393,449
Changes to Base:		
Maintaining Current Levels (MCLs):		$4,179
Maintaining Current Levels		$4,179
FTE Adjustment	19	0
Efficiency Savings:		($86,388)
Procurement and Other Savings	-	($86,388)
Subtotal FY 2011 Changes to Base	19	($82,209)
Total FY 2012 Base	**270**	**$311,240**
Total FY 2012 Budget Estimated	**270**	**$311,240**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ....+$4,179,000 / +0 FTE

Non-Pay Inflation Adjustment +$4,179,000 / +0 FTE

Funds are required for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

FTE Adjustment…………………………………………………………..$0 / +19 FTE

FTE Adjustment -$0/+19FTE

The FTE adjustment is due to increased compliance and legal activities associated with all OFS programs.

Efficiencies Savings ....-$86,388,000 / +0 FTE

Procurement Savings -$86,388,000 / +0 FTE

Savings were identified primarily from reductions of contractual services associated with the development of the MHA Housing Program's system of record and compliance, asset managers, legal counsel, accounting and internal controls.

2.2 Operating Levels Table

(Dollars in Thousands)				
Office of Financial Stability Account	**2010 Obligations**	**2011 Estimated**	**2012 Estimated**	**Increase (+) Decrease (-)**
FTE	**210**	**251**	**270**	**19**
Object Classification:				
11/12 Salary & Benefits	$30,120	$37,594	$41,266	$3,672
21 Travel	$551	$831	$899	$68
22 Transportation	$0	$0	$0	$0
23 Rent, Communications, Utilities	$556	$566	$545	($21)
24 Printing	$0	$0	$0	$0
25 Contracts and Other Misc. Services	$333,468	$354,094	$268,170	($85,924)
26 Supplies	$348	$351	$360	$9
31 Equipment	$0	$13	$0	($13)
43 Interest and Dividends	$0	$0	$0	$0
Total	$365,043	$393,449	$311,240	($82,209)

2.2.1 Operating Levels Table by Treasury Reimbursements

(Dollars in Thousands)				
Office of Financial Stability Account	**2010**	**2011**	**2012**	**Increase (+)**
Direct Program Activity	$320,938	$363,648	$290,301	**($73,347)**
Reimbursements:				
Congressional Oversight Panel	$4,800	$5,200	$0	($5,200)
GAO	$7,305	$7,600	$6,000	($1,600)
Treasury and non-Treasury Agencies	$32,000	$17,001	$14,939	($2,062)
Total	$365,043	$393,449	$311,240	($82,209)

2.3 Financing Accounts - Non-Budgetary Summary

Financing Accounts – Non-Budgetary Financial Summary
Dollars in Thousands

	2010 Actual	2011 Estimate	2012 Estimate	2012 $ Increase (+) Decrease (-)	2012 % Increase (+) Decrease (-)
TARP Guaranteed Loans:					
Obligations	$2,057,622	$702,286	$2,384	($699,902)	-100%
Collections	$285,557	$2,250,401	$0	($2,250,401)	-100%
Financing Authority (net)	$1,658,403	($1,617,041)	$2,384	$1,619,425	0%
Financing Disbursements (net)	$1,772,064	($1,548,115)	$2,384	$1,550,499	-100%
TARP Direct Loans:					
Obligations	$34,306,025	$14,400,772	$5,716,585	($8,684,187)	-60%
Collections	$10,744,134	$20,959,739	$5,572,339	($15,387,400)	-73%
Financing Authority (net)	$23,296,562	$1,205,681	$144,247	($1,061,434)	-88%
Financing Disbursements (net)	$18,822,226	$1,205,681	$144,247	($1,061,434)	-88%
Equity Purchases:					
Obligations	$113,894,118	$48,780,101	$9,052,653	($39,727,448)	-81%
Collections	$145,082,240	$57,551,218	$28,186,127	($29,365,091)	-51%
Financing Authority (net)	($25,509,474)	$7,652,074	($21,241,531)	($28,893,605)	-378%
Financing Disbursements (net)	($28,528,088)	$15,566,547	($19,133,474)	($34,700,021)	-223%
Housing:					
Obligations	$0	$8,000	$166,000	$158,000	1975%
Collections	$0	$2,621,000	$4,103,000	$1,482,000	57%
Financing Authority (net)	$0	($2,613,000)	($3,948,000)	($1,335,000)	51%
Financing Disbursements (net)	$0	($2,613,000)	($3,948,000)	($1,335,000)	51%
TARP Financing Accounts Totals:					
Obligations	$150,257,765	$63,891,159	$14,937,622	($49,111,537)	-77%
Collections	$156,111,931	$83,382,358	$37,861,466	($47,002,892)	-56%
Financing Authority (net)	($554,509)	$4,627,714	($25,042,900)	($28,335,614)	-612%
Financing Disbursements (net)	($7,933,798)	$12,611,113	($22,934,843)	($34,210,956)	-271%

2.4 TARP Summary

Summary of TARP Activity
Dollars in Thousands

	Amount towards $475B purchase limit	Net impact on the deficit
Total Equity Transactions	$339,096,127	($6,145,183)
Total Direct Loans	$85,037,673	$12,502,396
Guaranteed Loans:	$5,000,000	($3,707,147)
Home Affordable Modification Program	$45,625,781	$45,625,781
Total Amount of TARP Activity	**$474,759,581**	**$48,275,847**

2B – Enacting Legislation

Public Law 110-343, Emergency Economic Stabilization Act of 2008, provides such sums as necessary, including administrative expenses, for the cost to purchase and insure certain types of troubled assets for the purposes of providing stability to and preventing disruption in the economy and financial system. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted on July 21, 2010, reduced the TARP authority to purchase troubled assets from $700 billion to $475 billion; required that repayments of amounts invested under TARP cannot be used to increase the purchase authority and are dedicated to reducing the Federal debt; and prohibited new obligations for any program or initiative that was not already initiated prior to June 25, 2010.

2C –Legislative Proposals

OFS has no legislative proposals.

Section 3 – Budget and Performance Plan

This table lists all FY 2010 resources by strategic goal, objective and outcome.

3.1 – Budget by Operational Goal

Treasury Operational Goals (dollars in thousands)	**FY 2009/2010 Estimated AMOUNT**	**FY 2011 Estimated AMOUNT**	**Percent Change AMOUNT**
Ensure the Overall Stability and Liquidity of the Financial System	$429.4B	$ 0	-100 %
Prevent Avoidable Foreclosures by Providing and Preserving Homeownership	$ 45.6B	$ 0	-100 %

Ensure the Overall Stability and Liquidity of the Financial System

The primary objective of the EESA is to ensure the overall stability and liquidity of the financial system. To achieve that objective, OFS developed several programs under the TARP that were broadly available to financial institutions. Under the Capital Purchase Program (CPP), OFS provided capital infusions directly to financial institutions and insurance companies deemed viable by their Federal regulators. This program is now closed, and of the $205 billion invested, approximately $153 billion was repaid as of September 30, 2010. Treasury projects that the CPP program will result in a positive return for taxpayers. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or "stress test" of the largest U.S. financial institutions. On November 9, 2009, the CAP closed with no investments having been made. 18 of the 19 banks participating in the SCAP were shown to be adequately capitalized or fulfilled their capital needs through the private market. Only one institution, GMAC (now Ally Financial), indicated a need for capital from Treasury, and GMAC accessed the Automotive Industry Financing Program to meet its capital need.

In addition, OFS provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the American International Group, Inc. (AIG) Program [originally known as the Systemically Significant Failing Institutions (SSFI) program]. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms.

Similarly, the Automotive Industry Financing Program (AIFP) provided funding for General Motors Corporation (GM) and Chrysler LLC (Chrysler), as well as their financing affiliates, in order to prevent a significant disruption of the automotive industry that would have posed a systemic risk to financial markets and negatively affected the real economy. OFS' actions helped GM and Chrysler undertake massive and orderly restructurings through the bankruptcy courts that have resulted in leaner and stronger companies.

The Legacy Securities Public Private Investment Program (PPIP), another key component of the Financial Stability Plan, was designed to purchase troubled legacy securities (i.e., non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS")) that were central to the problems facing the U.S. financial system, and thereby driving the U.S. toward economic recovery. The purpose of PPIP was to draw new private capital into the market for legacy RMBS and CMBS by providing financing at attractive terms, as well as a matching equity investment made by the Treasury Department. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. The profits generated by a PPIF, net of expenses, will be distributed to the investors, including Treasury, in proportion to their equity capital investments. Treasury also receives warrants from the PPIFs, which gives Treasury the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The program structure spreads risk between the private investors and Treasury, and provides taxpayers with the opportunity for substantial gain.

In addition to these initiatives, OFS implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses. The primary program through which the CBLI operated in 2009 was the Term Asset-Backed Securities Loan Facility (TALF). TALF was designed to provide borrowers with term loans of up to five years against AAA rated securities, which are forfeited in the event of default. TALF is widely credited for achieving its purpose of encouraging lending to consumers and businesses while operating under a conservative structure that protects taxpayer interests. The facility has ceased making new loans as noted above. By improving credit market functioning and adding liquidity to the system, TALF has provided critical support to the financial system. This has allowed lenders to meet the credit needs of consumers and small businesses, and has strengthened the overall economy. The CBLI also includes the Community Development Capital Initiative (CDCI) and the SBA 7(a) Securities Purchase Program. Treasury launched the CDCI to help viable certified Community Development Financial Institutions (CDFI) and the communities they serve cope with the effects of the financial crisis. Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent, compared to the 5 percent rate offered under the CPP. CDFI banks and thrifts applied to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under CPP. Treasury completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is approximately $570 million for 84 institutions. Of this amount, approximately $363.3 million from 28 banks was exchanged from investments under the CPP into the CDCI. Treasury developed the SBA 7(a) Securities Purchase Program to purchase SBA guaranteed securities from pool assemblers. By purchasing these securities in the open market, Treasury injected liquidity - providing cash to pool assemblers - to the market enabling those entities to purchase additional loans from loan originators. In this manner, Treasury acted as a patient provider of incremental liquidity to foster a fluid secondary market, which in turn benefits small business lending. As of December 30, 2010, OFS had purchased and settled $368.1 million of these securities.

Prevent Avoidable Foreclosures and Preserve Homeownership

To prevent avoidable foreclosures and preserve homeownership, Treasury used authority granted under EESA to establish Treasury Housing Programs starting in February 2009. Other government policies have helped keep home mortgage rates at historic lows and allowed millions of Americans to refinance and stay in their homes. But because of falling housing prices, many responsible homeowners are unable to refinance. Meanwhile, job losses and reductions in working hours and benefits are making it harder for Americans to pay their mortgages. The Home Affordable Modification Program (HAMP) provides incentives to mortgage servicers, investors, and eligible homeowners to work together to reduce an eligible homeowner's monthly payments to levels that are affordable in light of the homeowner's current income. As of December 31, 2010, 1,711,002 HAMP trial period plans have been extended to borrowers. And 1,466,448 borrowers have started trial mortgage modifications. Of this number, nearly 600,000 borrowers have been granted permanent mortgage modifications through HAMP. This plan also aims to help stabilize home prices for homeowners in neighborhoods hardest hit by the recession. To track the success of these programs OFS is tracking the following measures and indicators.

Performance metrics *(includes GSE and non-GSE modifications)*[1]	**FY 2009 Result**	**FY 2010 Result**
Reduction in median payment for homeowners in permanent modifications *Includes Trial and Permanent for FY2009 only	$497*	$521
Number of modifications entered into • Trial • Permanent	 902,620 66,465	 466,794 429,433
9-month re-default rate for Permanent Modifications (60+ days delinquency rate for loans seasoned 9 months)	NA	15.6%
Number of trial period plans extended to borrowers	1,164,507	439,529

[1]Items in *italics* are indicators.

Protect Taxpayer Interests

Government financial programs, including TARP, helped prevent the U.S. financial system from collapse, which could have resulted in a much more severe contraction in employment and production. The manner in which TARP was implemented is also designed to protect taxpayers and to compensate them for the market risk. For example, in exchange for capital injections, recipients of TARP funds have to adhere to corporate governance standards, limit executive pay, and provide additional reporting on lending activity. In addition, for the majority of TARP investments, OFS received preferred equity shares, which provides additional dividend income. The dividend rates generally increase over time to encourage repayment.

Further, EESA stipulated that the taxpayer should benefit as the institutions which received TARP funds recovered. Therefore, in connection with most investments, OFS receives warrants for additional securities in the institutions. This gives taxpayers the ability to share in the potential upside along with existing shareholders.

Finally, OFS seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments. To evaluate the success of these efforts OFS tracks the following measures and indicators.

Performance metrics[1]	**FY 2009 Result**	**FY 2010 Results**	**FY 2011 Target**	**FY2012 Target**
Number of public CPP banks that repurchased warrants from Treasury during period (excludes warrants auctioned by Treasury)	21	37	N/A	N/A
Proceeds from warrant repurchases as percent of aggregate CPP preferred investment amount (plus median for the selected banks)	7.1% (3.0%)	4.1% (3.5%)	N/A	N/A
<u>Clean audit opinion on TARP financials</u>	Yes	Yes	Yes	Yes
<u>Percentage of SIGTARP and GAO oversight recommendations responded to on time</u>	100%	93%	100%	100%

[1]Items in *italics* are indicators; those <u>underlined</u> are measures.

Promote Transparency

EESA requires transparency and accountability. Specifically, EESA requires OFS to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, the OFS has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. The OFS proactively provided to the public Dividends and Interest Reports reflecting dividends and interest paid to OFS from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the Capital Purchase Program. All of these reports are publicly available on *www.FinancialStability.gov.*

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board, and the Government Accountability Office. In addition, OFS officials frequently testify before Congress on the progress of TARP programs, and OFS staff provides briefings to Congressional staff on programmatic developments. OFS is tracking its performance using several measures related to this Transparency objective.

Performance metrics[1]	**FY 2010 Result**	**FY 2011 Target**	**FY 2012 Target**
On time reporting percentage	100 %	100%	100%
Website satisfaction	63%	65%	71%
Timeliness of responses • Average business days to close a FOIA case • Percentage of Congressional correspondence responses drafted within 48 hours	95 days 97%	80 days 93%	70 days 90%

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

Section 4 – Supporting Materials

4A – Human Capital Strategy Description

Human Capital Strategy is designed to position the Office of Financial Stability to meet the human capital management challenges necessary to support its mission. The key aspects of OFS's FY 2011 human capital strategy include using:

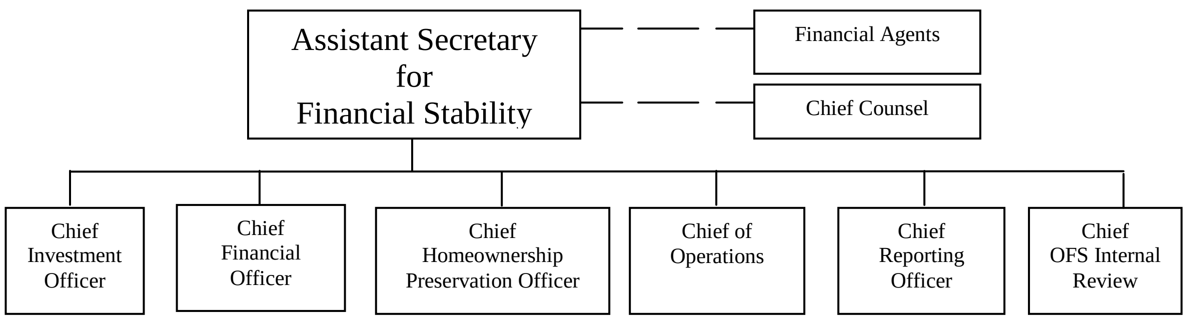
- Office of Personnel Management HR flexibilities and authorities to recruit new employees for short and long term assignments and to retain needed current employees
- Experts, consultants, or detailees for temporary or intermittent employment
- Training and development interventions to ensure existing staff is engaged and possesses the requisite skill set and want to continue with OFS
- Regularly scheduled strategic workforce assessments designed to refine the organization and identify and eliminate competency gaps of its workforce needed to achieve OFS's mission

The OFS organization required a rapid ramp up in staffing during its first year of operation in FY 2009 and utilized term employees and detailees where possible. Additionally, as diverse legal and financial asset management expertise, which was not available within the government, became essential to support some programs, it became necessary to contract with outside organizations to supplement Treasury's in-house counsel. This was required because it is not practicable or economical for OFS to employ the staff of full-time legal practitioners and support personnel with the necessary required technical expertise to advise on and address the complex legal issues that arise under programs authorized by the EESA.

The Treasury also issued an open notice soliciting financial institutions to provide asset management services needed for its portfolio of securities issued by Financial Institutions participating in programs under EESA. Those services included but were not limited to valuing of the assets issued by those Financial Institutions; analyzing the on-going financial condition, capital structure, and risks of those Financial Institutions; advising on the optimal disposition of Treasury's assets; and providing Treasury with analysis and recommendations on other business events connected with those Financial Institutions that could impact Treasury's ownership stake. These services required outside entities who were capable of gathering and analyzing market inputs, trends, and transactions that are relevant when determining the market value and market impact of Treasury's investments and decisions. Due to the potential impact of Treasury's investments in the Financial Institutions and the broader market, this is an additional area where the Government does not possess the depth and breadth, or the in-house personnel resources, to provide the type of analysis required to fully monitor the value and risks of such investments.

OFS is headed by an Assistant Secretary of the Treasury, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are six major entities: the Offices of the Chief Investment Officer, Chief Financial Officer, Chief Homeownership Preservation Officer, Chief of Operations, Chief Reporting Officer, and Chief for OFS Internal Review. The Chief Counsel's Office reports to the Office of the General Counsel in the Department of Treasury.

The OFS organization chart is shown below:



Description of OFS Structure

As of December 16, 2010, OFS had 218 full-time employees (97 career civil servants, 121 term appointments, and 1 detailee) who support the TARP. These employees include 15 employees who report through the Department of the Treasury's Office of General Counsel and 40 others outside of OFS who continue to provide support to the office on an as-needed basis. OFS continues to use the Direct Hire Authority and other appointments to expedite hiring of highly-qualified candidates, which has enabled OFS to reduce the number of temporary and contract staff and strengthen the continuity and institutional knowledge of the workforce.

OFS is made up of six entities:

The Chief Investment Office (CIO) is responsible for program development and the execution and management of all investments made pursuant to EESA. The CIO relies on contracted asset managers and a custodian to assist in the management of acquired or insured assets.

The Office of the Chief Financial Officer (CFO) manages the OFS budget, cash flow requirements and accounting support activities for all of OFS concentrating on accounting and reporting activities required by the Federal Credit Reform Act to include modeling of cash flows and all required re-estimates. The Office serves as liaison with

Government Accountability Office (GAO) staff for financial statement reporting and internal controls.
The Office of the Chief of Homeownership Preservation is responsible for identifying opportunities to help homeowners while also protecting taxpayers. The priorities of the Office are to: implement the Administration's loss mitigation program; develop and implement a robust outreach program targeted to at-risk homeowners; outline and implement strategies to regularly update the Administration, Congress, the public, and other key stakeholders, on results; and monitor, analyze and report on the results of the loan modification program.

The Office of the Chief of Operations (OCoO) is responsible for developing an office infrastructure and managing internal operations in OFS. The OCoO works with each OFS organizational entity to effectively manage facilities, information technology (IT), acquisition management oversight, document flows, physical security and privacy, and workforce planning.

The Office of Reporting is responsible for coordinating OFS' work with the external oversight entities including the GAO, Special Inspector General for TARP, Financial Stability Oversight Board and the Congressional Oversight Panel. The Office also prepares periodic, statutory reports to the Congress under EESA.

The Office of Internal Review (OIR) is responsible for management controls such as program compliance, policies and procedures designed to help program and financial managers achieve results, mitigate risk, and safeguard the integrity of TARP programs.

The Office of the Chief Counsel provides legal advice to the Assistant Secretary for Financial Stability.

OFS STAFF AS OF DECEMBER 16, 2010

Office	ES/SL/EF	15	14	13	12	11	09	07	06	Grand Total
A/S	1	1	1		1	1				5
CFO	2	10	11	3	1	1	2			30
CIO	3	8	11	3	1	4	2			32
COO	2	5	18	8	8	2	1		1	45
CRO		4	4	2	1	1	4			16
HPO	1	5	8		4	4	3	2		27
OCC		7	2	5	1					15
OFA		2	3	2	4					11
OIR	2	9	17	3	1	1	2	2		37
Grand Total	**11**	**51**	**75**	**26**	**22**	**14**	**14**	**4**	**1**	**218**

4B – Summary of IT Resources and Information Technology Strategy

The Office of Financial Stability uses Departmental Offices systems, and is part of DO's information technology strategy. As an organization embedded in Domestic Finance, OFS has leveraged technologies and services provided by the Treasury Department Office of the Chief Information Officer (OCIO) as much as possible. In its second year of operation, OFS continued to utilize OCIO-provided infrastructure/applications (e.g., LAN, WAN, telephones) and contractor personnel to develop and support the current infrastructure and applications. In addition, OFS focused on seven core activities:

- Developed a governance structure (program and project management)
- Developed fundamental transaction records and ledgers to better support the Middle Office and Chief Financial Officer's Office
- Built a robust data warehouse to support end user questions, reporting and analysis
- Enhanced unstructured document management capabilities
- Managed a variety of IT operational issues supported by either OFS or OCIO
- Implemented a portfolio analytics platform
- Built out a shared portal for collaborative work and information sharing

To successfully achieve these objectives, OFS has expanded its on-board IT staff to include a Chief Technology Officer and other key personnel. In addition external contractors/consultants have been sourced to provide short-term/specialized skills.

During FY 2011 and FY 2012, OFS will continue to refine its shared portal initiative to improve productivity across all business areas using collaboration, workflow and document management capabilities. In addition, OFS has evaluated additional hardware and software needed to ensure continued performance of all OFS IT functions. These new requirements will be implemented throughout FY 2012. All OFS support technologies are in concert with the Treasury Optimized Enterprise IT Infrastructure.