Emergency Economic Stabilization Act Programs

Program Summary by Budget Activity
(Dollars in Thousands)

	Purchase Cap[1]			BA Outlays[2]
	FY 2009	FY 2010	Total	Cohort 2009 and 2010
Capital Purchase Program	$204,617,573	$3,382,427	$208,000,000	- $3,680,719
Public-Private Investment Program	$6,666,667	$23,340,000	$30,006,667	+ $314,542
AIG Investment Program	$69,835,000	$0	$69,835,000	+ $48,147,456
Consumer and Business Lending Initiative	$20,000,000	$40,000,000	$60,000,000	+ $2,194,226
Home Affordable Modification Program[3]	$27,065,760	$21,690,240	$48,756,000	+ $48,756,000
Targeted Investment Program	$40,000,000	$0	$40,000,000	- $4,083,330
Automotive Industry Financing Program	$81,054,933	$3,790,000	$84,844,933	+ $28,208,444
Asset Guarantee Program[4]	$5,000,000	$0	$5,000,000	- $3,014,971
Total	**$454,239,933**	**$92,202,667**	**$546,442,599**	**+ $116,841,648**

[1] Amount applied to the Section 115 Purchase Cap (i.e., the portion of the original $700 billion cap expected to be used).
[2] Estimated program costs (+) or savings (-) over the life of the program, including interest on reestimates and excluding administrative costs.
[3] Includes $1.2 B reduction in TARP purchase authority from the Helping Families Save Their Homes Act of 2009.
[4] Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of loans.

Explanation of Budget Estimate

The Emergency Economic Stabilization Act of 2008 (EESA) established the Office of Financial Stability (OFS) within the Office of Domestic Finance of the Treasury Department to implement the Troubled Assets Relief Program (TARP). The OFS budget includes funding to carry out the authorities vested to the Secretary of Treasury to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary." The OFS carries out the mission and objectives of the EESA: ensuring the overall stability and liquidity of the financial system; preventing avoidable foreclosures and helping preserve homeownership; protecting taxpayer interests, and promoting transparency. As a result of improved financial conditions and careful stewardship of the program, the ultimate cost to the taxpayer of TARP investments is likely to be significantly lower than expected. In the FY 2010 budget total impact of the program on the deficit was expected to be $306 billion, but it is now expected to total only $117 billion (see Program Summary by Budget Activity table above). The authority for OFS administrative budget funds is provided in Section 118 of EESA. In FY 2011 OFS plans to obligate $298 million and use 271 FTE, a decrease of $58 million and an increase of 11 FTE from the FY 2010 estimates.

Purpose of Program

Since the passage of EESA in October 2008, the OFS has implemented a number of programs aimed to stabilize the financial system and restore the flow of credit to consumers and businesses. Today there is a broad agreement that because of TARP and other governmental actions, the United States averted a potentially catastrophic failure of the financial system, at a cost considerably less than what was originally projected. EESA programs continue to stabilize and rehabilitate still fragile markets and institutions, while repayments of the government's investments over the past year have already begun.

EESA programs include:

Capital Purchase Program

Pursuant to EESA, the Capital Purchase Program (CPP) - OFS' largest and most significant program under EESA - was launched to bolster the capital position of viable institutions and, in doing so, to 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.

OFS initially committed over a third of the total TARP funding, $250 billion, to the CPP, which it eventually lowered to $208 billion. Of the initial $250 billion commitment, 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.

As of December 31, 2009, the funding deadline for CPP ended. OFS provided a total of $205 billion in capital to707 institutions in 48 states, including more than 300 small and community banks, helping to enable them to absorb losses from bad assets while continuing to lend to consumers and businesses.

The Budget reflects that financial institutions redeemed $70.7 billion in principal repayments and $9.7 billion in dividends, interest, warrants and fees as of September 30, 2009. Furthermore, the Budget reflects that financial institutions will redeem an additional $59.7 billion in principal repayments and receive over $20.1 billion in dividends, interest, warrants and fees in 2010.

American International Group, Inc. (AIG) Investment Program

Since September 2008, the Federal Reserve and OFS have taken 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.

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 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, 2009, AIG had drawn approximately $3.2 billion from the facility.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) under the TARP in December 2008. The TIP gave the OFS the necessary flexibility to provide additional or new funding to financial institutions that were critical to the functioning of the financial system. Through TIP, OFS sought to prevent a loss of confidence in critical financial institutions, which could result in significant financial market disruptions, threaten the financial strength of similarly situated financial institutions, impair broader financial markets, and undermine the overall economy.

OFS invested $20 billion in each of Bank of America (BofA) and Citigroup under the TIP. These investments provide for annual dividends of 8 percent; and impose greater reporting requirements and harsher restrictions on the companies than under the CPP terms, including restricting dividends to $0.01 per share per quarter, restrictions on corporate expenses, and other measures. The Budget reflects that both Citigroup and Bank of America fully redeemed the Government's TIP investments in 2010. Furthermore, the Budget reflects that Citigroup and Bank of America paid $1.8 billion in dividends in 2009 and an estimated $791 million in additional dividend payments in 2010. Assistance under the TIP is also considered "exceptional assistance", which means that the recipient is also subject to greater restrictions under the executive compensation rules.

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 systemic risk to financial market stability and had a negative effect on the economy. OFS announced a plan to make emergency loans available from the TARP under the AIFP to General Motors Corporation (GM) and Chrysler LLC (Chrysler) to provide a path for these companies to go potentially through orderly restructurings and achieve viability.

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. 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.

To date, the OFS has provided approximately $85 billion in loans and equity investments to GM, Chrysler, and their respective financing entities.

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, like the TIP, is a targeted program aimed at maintaining the stability of systemically important financial institutions and, thereby, reducing the potential for problems at such an institution to "spillover" to the broader financial system and economy.

The AGP has been applied with extreme discretion and OFS does not anticipate wider use of this program. To date, OFS has used this program to assist Citigroup and began negotiations with Bank of America (BofA) under the AGP which BofA subsequently terminated.

On December 22, 2009, Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation and Citigroup terminated the agreement under which the U.S. government agreed to share losses on a pool of Citigroup assets. The U.S. government parties did not pay any losses under the agreement, and will keep $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 such guarantee. With this termination, the AGP is being terminated at a profit to the taxpayer.

The Consumer and Business Lending Initiative (CBLI)

OFS designed two initiatives to restore consumer and business lending, the Term Asset-Backed Securities Loan Facility (TALF) and the Unlocking Credit for Small Business Initiative.

TALF

The TALF's objective was to stimulate investor demand for certain types of eligible Asset Backed Securities (ABS), specifically those backed by loans to consumers and small businesses, and ultimately, bring down the cost and increase the availability of new credit to consumers and businesses. Under the TALF, the Federal Reserve extends up to $200 billion in three- and five-year non-recourse loans to investors that agree to purchase eligible consumer or small business ABS. OFS provides up to $20 billion of TARP monies in credit protection to the Federal Reserve for losses arising under TALF loans.

The TALF was initially designed for newly or recently originated AAA-rated ABS backed by student loans, auto loans, credit card loans, and loans guaranteed by the SBA. On March 19, 2009, OFS and the Federal Reserve expanded this to include newly or recently issued AAA-rated ABS backed by four additional types of consumer and business loans – mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floor plan loans.

The Federal Reserve had originally authorized using the TALF to make loans through December 31, 2009, however, this has been extended through March 31, 2010.

Unlocking Credit for Small Businesses Program

To help restore the confidence needed for financial institutions to increase lending to small businesses, Treasury announced a program to unlock credit for small businesses on March 16, 2009. Under the program, Treasury announced that it would make up to $15 billion in TARP funds available to purchase securities backed by the Small Business Administration (SBA)-guaranteed portions of loans made under the SBA's 7(a) loan program. The SBA's 7(a) program is the SBA's most basic and widely used loan program.

As of September 30, 2009, no funds had been disbursed under the program; however, activity on the secondary markets on which

SBA-backed securities trade improved significantly in the wake of the program's announcement, contributing to a significant increase in SBA loan volumes. In addition, as part of its commitment to take additional steps to improve the availability of credit to small businesses, Treasury is working with the Small Business Administration to develop and implement additional TARP efforts that will support small banks in increasing lending to small businesses in their communities.

Home Affordable Modification Program

To mitigate foreclosures and help ensure homeownership preservation, Treasury announced a comprehensive $75 billion program, the Home Affordable Modification Program (HAMP), in February 2009. OFS will provide up to $50 billion in funding through the TARP, while Fannie Mae and Freddie Mac agreed to provide up to $25 billion of additional funding. HAMP focuses on creating sustainably affordable mortgage payments for responsible home owners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of preventable foreclosures on neighborhoods, communities, the financial system and the economy.

HAMP is built around three core concepts. First, the program focuses on affordability. Second, the HAMP's pay-for-success structure aligns the interests of servicers, investors and borrowers in ways that encourage loan modifications that will be both affordable for borrowers over the long term and cost-effective for investors and taxpayers. Third, the HAMP establishes detailed guidelines for the industry to use in making loan modifications with the goal of encouraging the mortgage industry to adopt a sustainably affordable standard, both within and outside of the HAMP.

Public-Private Investment Fund

Treasury, 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 to help restart the market and provide liquidity for legacy assets, enabling financial institutions to make new loans available to households and businesses. The PPIP is designed to improve the condition of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities).

OFS initially announced that it would provide up to $100 billion for the PPIP. Because of improvements in the market, this amount was reduced to $30 billion. Under the PPIP, OFS provides equity and debt financing to newly-formed public-private investment funds (PPIFs) established by private fund managers with private investors for the purpose of purchasing legacy securities. These securities are commercial mortgage-backed securities and non-agency residential mortgage-backed securities. To qualify for purchase by a Legacy Securities PPIP (S-PPIP), these securities must have been issued prior to 2009 and have originally been rated AAA – or an equivalent rating by two or more nationally recognized statistical rating organizations – without ratings enhancement and must be secured directly by the actual mortgage loans, leases, or other assets.

As of November 30, 2009, nine PPIFs have signed agreements with OFS. Following signature of these agreements, each fund manager has up to six months to raise additional private capital to receive the full allocation of the $3.3 billion in matching equity and debt capital from OFS. Assuming that each of the nine fund managers raises enough private capital to receive the full allocation from OFS, the total purchasing power of the PPIFs will be $40 billion, including $10 billion in private capital and the $30 billion OFS commitment. As of September 30, 2009, no fund managers had made any investments and OFS had not disbursed any funds.

Program Evaluation

During FY 2011, OFS is proposing to fund a project to enhance the HAMP's existing standardized set of procedures that servicers must follow to modify loans in order to increase the conversion of offered to modified loans. This would be completed by facilitating and evaluating pilot programs, which some servicers have already implemented on their own book, that are structured differently from the standard loan modifications under HAMP. By assisting these servicers to develop and design statistically sound pilot programs, these successful programs can then be launched on a national scale.

Legislative Proposals

OFS does not have any legislative proposals.

Performance Measures

OFS has established the following Performance Measures:

1) Ensure the Overall Stability and Liquidity of the Financial System,
2) Prevent Avoidable Foreclosures and Preserve Homeownership,
3) Protect Taxpayer Interests, and
4) Promote Transparency