FINANCIAL STABILITY OVERSIGHT BOARD
QUARTERLY REPORT TO CONGRESS

For the quarter ending
December 31, 2015

Submitted pursuant to section 104(g) of the
Emergency Economic Stabilization Act of 2008

<u>Statutory Members</u>

Janet Yellen
Chair
Board of Governors of the Federal Reserve System

Jacob J. Lew
Secretary
Department of the Treasury

Mary Jo White
Chair
Securities and Exchange Commission

Julián Castro
Secretary
Department of Housing and
Urban Development

Mel Watt
Director
Federal Housing Finance Agency

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I. INTRODUCTION

This quarterly report of the Financial Stability Oversight Board ("Oversight Board"), issued pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"), covers the period from October 1, 2015 to December 31, 2015 (the "quarterly period").

The Oversight Board was established by section 104 of the EESA to help oversee the Troubled Asset Relief Program ("TARP") and other emergency authorities and facilities granted to the Secretary of the Treasury ("Secretary") under the EESA. The Oversight Board is composed of the Secretary, the Chairman of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the Director of the Federal Housing Finance Agency ("FHFA"), the Chairman of the Securities and Exchange Commission ("SEC"), and the Secretary of the Department of Housing and Urban Development ("HUD"). In accordance with the bylaws of the Oversight Board, each Member has designated an official of the same agency to serve as that Member's Representative on the Oversight Board ("Representative").[1]

Through Oversight Board meetings and other activities, the Oversight Board reviews and monitors the development, implementation, and effect of the policies and programs established under TARP to restore liquidity and stability to the U.S. financial system.

The Oversight Board met three times during the quarterly period, specifically on October 30, November 20, and December 18, 2015. As reflected in the minutes of the Oversight Board's meetings,[2] the Oversight Board regularly receives presentations and briefings from Treasury officials during these meetings to assist the Oversight Board in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

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[1] The respective Members named the following Representatives: Mr. David Wilcox, Division Director, Federal Reserve Board; Mr. Seth Carpenter, Acting Assistant Secretary for Financial Markets, Department of Treasury; Mr. Richard Green, Senior Advisor, Office of Housing, Department of Housing and Urban Development; Mr. Michael Liftik, Deputy Chief of Staff, Securities and Exchange Commission; and Ms. Megan Moore, Special Advisor, Federal Housing Finance Agency.

[2] Approved minutes of the Oversight Board's meetings are available at: http://www.treasury.gov/initiatives/financial-stability/about-tarp/finsob/Pages/minutes-reports.aspx.

II. THE EFFECTS AND COSTS OF EESA PROGRAMS

In past quarterly reports, the Oversight Board has indicated that financial-market shocks from the crisis have been lessened by Treasury's actions under EESA, that TARP and other government programs have contributed to preventing the adverse effects of the crisis from becoming significantly more severe, and that the accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during subsequent quarters.

In past quarterly reports the Oversight Board has indicated that actions taken by the Treasury under TARP, together with Treasury actions taken under the Housing and Economic Recovery Act and actions taken by the Federal Reserve, HUD, and FHFA have continued to support housing markets and provide assistance to mortgage borrowers. These accumulated and ongoing actions continue to be a stabilizing influence on housing markets and to reduce avoidable foreclosures.

TARP housing-sector programs remain open to new applications from eligible borrowers, have continued to provide thousands of new assistance actions each month, and will provide assistance to additional mortgage borrowers going forward. Over time it has become more difficult to evaluate the incremental contributions of new TARP borrower-assistance actions to overall housing market conditions relative to broader powerful contributing influences, such as the strength of economic recovery and developments with regard to credit standards. Accordingly, the Oversight Board evaluation of TARP housing-sector programs concentrates on the volume of new borrower assistance actions and the resilience over time of past mortgage modifications and similar TARP actions, rather than on their relationship to overall housing market conditions.

In December, 2015, Congress passed the Consolidated Appropriations Act, 2016 (the Act), which amended EESA as it relates to the Hardest Hit Fund (HHF). The Act gave the Secretary of the Treasury until December 31, 2017 to commit up to $2 billion in additional TARP funds to current HHF program participants. As of December 31, 2015, the Secretary had not exercised his authority. The Act also provided that the Making Home Affordable (MHA) Program will terminate on December 31, 2016, except with respect to certain loan modification applications made prior to that date.

Repayments and recoupments of financial sector investments, in contrast, have brought the remaining outstanding balances of these programs to only a small fraction of their peak levels. The Capital Purchase Program ("CPP") and the Community Development Capital Initiative ("CDCI") remain the only TARP financial-sector programs that still have outstanding balances. Accordingly, the Oversight Board evaluation of the effects of Treasury's financial-sector programs under TARP focuses on Treasury's administration of the financial-sector assets Treasury still owns, emphasizing the management of these assets toward exit strategies that protect taxpayers rather than the connection of these assets to overall conditions in financial markets. Such evaluations are integrated with broader discussion of program developments in section III.

a. Volume of TARP mortgage borrower assistance actions

Foreclosure mitigation efforts under TARP continued at significant rates during the quarter. During July, August and September 2015, new HAMP permanent modifications totaled nearly 9,600 per month, while total active permanent modifications increased from roughly 980,000--- at the end of June 2015 to more than 985,300 at the end of September 2015.[3] The Second Lien Modification Program ("2MP"), which is designed to encourage modifications or full extinguishments of second liens where the first lien mortgage has already been modified under HAMP, continued to expand. By the end of September 2015, nearly 84,000 2MP modifications were active, slightly below the 84, 400 that were active at the end of June 2015. More than 152,400 2MP modifications had been started, cumulatively, through September, and more than 43,500 of these involved full extinguishment of the second lien. As of the end of September there were more than 190,300 active permanent HAMP Tier 1 and Tier 2 first-lien modifications with principal reduction. Also through September, completed transactions under the Home Affordable Foreclosure Alternatives ("HAFA") program, which provides incentives for borrowers to undertake short sales or deeds-in-lieu-of-foreclosure as lower-cost alternatives to foreclosure, had reached about 341,000 short sales and more than 48,900 deed-in-lieu transactions.

b. Performance of past TARP mortgage borrower assistance actions

Data reported by Treasury during the quarter indicated that, through the end of September, some 31.7 percent of all HAMP Tier 1 and Tier 2 permanent modifications had re-defaulted, that is, were disqualified for missing three or more payments.[4] Delinquency data across standardized intervals, a more conventional metric for assessing payment performance, continued to provide some positive indications. Data reported during the quarter indicated that 13.3 percent of HAMP Tier 1 modifications made permanent in the third quarter of 2014 had become delinquent by 60 days or more within 12 months of receiving a modification (figure 1).[5] Similarly, among loan modifications made

[3] The term "HAMP Tier 1 and Tier 2 modifications" is used to highlight distinctions between these modifications as a group, on the one hand, and FHA- HAMP modifications on the other.

[4] Comparing cumulative re-defaults to the cumulative number of permanent modifications provides a single rough indication of portfolio-wide re-default frequency. The cost of this simplicity is that the single re-default metric does not take account of analytically useful distinctions within the portfolio of permanent modifications, for example, the different periods of time that have passed since the modifications were put into place. A more detailed analysis of delinquency patterns in HAMP permanent modifications is available in the most recent MHA Performance Report, available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx. Summary data on MHA programs are also being reported on a monthly basis in Treasury's Monthly Report to Congress (also known as the "105(a) report".)

[5] This passage and the following paragraphs highlight data for HAMP Tier 1 modifications to provide continuity with prior Quarterly Reports. As noted below, delinquency rates for HAMP Tier 2 modifications have been materially and systematically higher than those for HAMP Tier 1, and have

permanent in the second quarter of 2014, some 13.1 percent had become delinquent by 60 or more days within the same 12-month interval. At that level, the 12-month re-default rate for the third quarter of 2014 cohort remained close to the highest reported since the second quarter of 2012, although that rate is well below the comparable-interval delinquency rates seen prior to 2012.[6]

been published only recently in the MHA Performance Reports.

[6] In the past, the Oversight Board has found comparisons of HAMP versus non-HAMP delinquency experience at a selected group of institutions regulated by the Office of the Comptroller of the Currency ("OCC") to be useful as reference information for assessing the performance and sustainability of HAMP modifications. Over time it has become clear that differences in methodology between data reported by the OCC and the official MHA data have become more consequential and rendered these comparisons less informative. In particular, the OCC data (like some commercially-available mortgage data) include as "HAMP modifications" those modifications done under the FHA-HAMP program (only a small portion of which involve any TARP funds), while MHA data are restricted to HAMP Tier 1 and (more recently) Tier 2 modifications. The Oversight Board believes that FHA-HAMP modifications, which providing important relief for struggling FHA borrowers, can reasonably be expected to have higher typical delinquency rates than HAMP Tier 1 and Tier 2 modifications. In addition, delinquency rates for HAMP Tier 2 modifications--published only since mid-2015--have been systematically higher than those for HAMP Tier 1 modifications. Moreover, HAMP Tier 1 volumes in recent quarters have been well below 2010-2011 levels, and have continued to decline gradually, while FHA-HAMP volumes were small until early 2013 and have been larger than those of HAMP Tier 1 modifications since that time. Taking account of these level and mix effects, the judgment of the Oversight Board is that the likelihood of serious delinquency for HAMP Tier 1 modifications in recent quarters remains significantly below that for non-HAMP modifications, likely influenced by differences in documentation standards, magnitudes of payment reduction and requirements for a trial period. The issue of comparison with OCC data was analyzed in greater detail in the Oversight Board's Report to Congress for the Third Quarter of 2015.

Figure 1

HAMP Tier 1 Permanent Modifications

Delinquency: Months After Conversion to Permanent Modification								
Modification Effective in:	12		24		36		48	
	#	60+ Days	#	60+ Days	#	60+ Days	#	60+ Days
2009Q3	4,609	25.90%	5,044	36.90%	5,144	44.10%	5,050	50.30%
2009Q4	51,282	20.40%	55,404	31.60%	56,220	39.70%	55,982	44.90%
2010Q1	160,843	20.30%	167,635	31.80%	165,911	39.70%	165,678	44.60%
2010Q2	173,272	19.50%	178,578	31.00%	174,793	39.20%	174,116	43.70%
2010Q3	104,087	18.20%	106,103	29.50%	104,376	37.10%	104,979	41.20%
2010Q4	65,072	18.40%	66,374	29.60%	65,880	36.30%	65,900	40.40%
2011Q1	79,466	17.00%	80,693	27.60%	80,831	33.80%	80,362	37.90%
2011Q2	92,500	16.20%	91,352	27.30%	91,407	33.20%	90,889	37.10%
2011Q3	86,788	15.60%	85,014	25.80%	86,746	31.00%	84,879	35.40%
2011Q4	67,670	14.70%	67,547	23.40%	67,640	28.50%	*24,134*	*32.70%*
2012Q1	50,713	14.10%	50,607	22.50%	50,140	27.90%		
2012Q2	45,145	13.60%	44,866	22.10%	44,784	27.00%		
2012Q3	49,609	13.00%	50,399	20.90%	49,659	25.50%		
2012Q4	42,355	12.30%	42,747	19.90%	*13,765*	*24.50%*		
2013Q1	41,959	12.60%	42,109	19.90%				
2013Q2	33,658	11.80%	34,071	19.10%				
2013Q3	34,753	12.10%	34,676	18.70%				
2013Q4	29,860	12.30%	*10,188*	*19.30%*				
2014Q1	26,388	13.10%						
2014Q2	20,436	13.10%						
2014Q3	18,362	13.30%						
2014Q4	*5,557*	*13.70%*						
All	**1,284,384**	**16.50%**	**1,213,407**	**27.00%**	**1,057,296**	**34.80%**	**851,969**	**41.00%**

Notes:

- Performance of HAMP Tier 1 Permanent Modifications as of September 2015, showing selected details for the full set of quarterly cohorts that lay behind more summarized cohort information contained in the Quarterly MHA Program Performance Reports. See notes in MHA Performance Reports for further details.
- The number of modifications shown in the most recent quarter includes less than a full quarter of originations.

Delinquency rates reported by Treasury for HAMP Tier 1 permanent modifications over time horizons beyond one year continued to be at or near the lowest levels of any quarterly origination cohort at a comparable point in time. For HAMP Tier 1 loan modifications made permanent in the third quarter of 2013, some 18.7 percent had become delinquent by 60 or more days 24 months after the modification. Similarly, 36 months after becoming permanent, HAMP Tier 1 loan modifications made during the third quarter of 2012 experienced a serious delinquency rate of 25.5 percent using the 60-day standard.

Comparative delinquency data on HAMP Tier 1 and HAMP Tier 2 modifications highlight the clear and persistent differences in the level of performance between these modification types. Data reported during the quarter indicated that 20.0 percent of HAMP Tier 2 modifications made permanent in the third quarter of 2014 had become delinquent by 60 days or more within 12 months of receiving a modification (figure 2). Serious delinquencies for HAMP Tier 2 have been systematically and materially higher than those for HAMP Tier 1.

Figure 2

HAMP Tier 2 Permanent Modifications

Delinquency: Months After Conversion to Permanent Modification		
Modification Effective in:	12	
	#	60+ Days
2009Q3	-	-
2009Q4	-	-
2010Q1	-	-
2010Q2	-	-
2010Q3	-	-
2010Q4	-	-
2011Q1	-	-
2011Q2	-	-
2011Q3	-	-
2011Q4	-	-
2012Q1	-	-
2012Q2	-	-
2012Q3	0	0.00%
2012Q4	1,188	23.60%
2013Q1	2,876	24.80%
2013Q2	5,051	21.80%
2013Q3	13,625	22.20%
2013Q4	12,598	22.10%
2014Q1	12,041	21.60%
2014Q2	11,321	19.90%
2014Q3	9,988	20.00%
2014Q4	*3,914*	*19.60%*
All	72,602	21.40%

c. Projected Cost of TARP Programs

Treasury provides updated cost assessments for TARP programs four times per year and prepares financial statements for TARP on an annual basis in the Agency Financial Report. The most recent lifetime cost estimates of TARP that were available during the reporting period were as of September 30, 2015 (figure 3). According to these estimates, the expected overall cost of TARP will be approximately $37.22 billion. Using the same assumptions, Treasury also estimated that the combined overall cost of TARP and other Treasury interests in AIG will be approximately $ 19.66 billion.

The ultimate cost of TARP remains uncertain and will depend on how financial markets and the economy perform in the future. The individual TARP program costs have also been updated as of December 31, 2015, and are provided in Section III.

Figure 3

Treasury Estimates of the Impact of TARP Programs and Other Treasury Investment in AIG on the Federal Budget

Programs as of September 30, 2015 (dollar amounts in billions)

	Obligation/ Commitment	*Disbursed as of September 30*	*Outstanding Investment Balance as of September 30*	*Estimated Lifetime Cost as of June 30* [1]
Bank Support Programs:				
Capital Purchase Program (CPP):				
Citigroup	$ 25.00	$ 25.00	$ -	$ (6.89)
Other banks with assets $10 billion or greater	$ 165.33	$ 165.33	$ 0.12	$ (10.22)
Banks with assets less than $10 billion[2]	$ 14.57	$ 14.57	$ 0.14	$ 0.84
Total	$ 204.89	$ 204.89	$ 0.27	$ (16.27)
Targeted Investment Program (TIP)	$ 40.00	$ 40.00	$ -	$ (4.00)
Asset Guarantee Program (AGP)[3]	$ 5.00	$ 0.00	$ -	$ (4.00)
Community Development Capital Initiative (CDCI)	$ 0.57	$ 0.57	$ 0.45	$ 0.09
Credit Market Programs:				
Public-Private Investment Program (PPIP):				
Equity	$ 6.25	$ 6.25	$ -	$ (3.06)
Debt	$ 12.38	$ 12.38	$ -	$ 0.33
Total	$ 18.63	$ 18.63	$ -	$ (2.73)
Term Asset Backed Securities Lending Facility (TALF)	$ 0.10	$ 0.10	$ -	$ (0.61)
Purchase SBA 7(a) Securities (SBA)	$ 0.37	$ 0.37	$ -	$ (0.00)
Other Programs:				
American International Group (AIG):				
Preferred Stock	$ 20.29	$ 20.29	$ -	$ -
Common Stock	$ 47.54	$ 47.54	$ -	$ 15.18
Total	$ 67.84	$ 67.84	$ -	$ 15.18
Automotive Industry Financing Program (AIFP)	$ 79.69	$ 79.69	$ -	$ 12.26
Sub-total for Investment Programs[4]	**$ 417.08**	**$ 411.72**	**$ 0.71**	**$ (0.08)**
Making Home Affordable	$ 29.78	$ 12.24	n/a	$ 29.78
Hardest Hit Fund	$ 7.60	$ 5.73	n/a	$ 7.60
FHA-Refinance[5]	$ 0.13	$ 0.02	n/a	$ 0.03
Sub-total for Housing Programs	**$ 37.51**	**$ 17.99**	**n/a**	**$ 37.41**
Total for TARP Programs	**$ 454.59**	**$ 429.71**	**$ 0.71**	**$ 37.33**
Additional AIG Common Shares Held by Treasury[6]	n/a	n/a	n/a	$ (17.55)
Total for TARP Programs and Additional AIG Shares	**$ 454.59**	**$ 429.71**	**$ 0.71**	**$ 19.78**

Notes:

[1] Lifetime cost information is as of September 30, 2015. Estimated lifetime cost figures shown above are currently updated quarterly in conjunction with the Office of Management and Budget. Figures include interest on reestimates. Costs for the Making Home Affordable program were updated in April to reflect some terminations. [2] The law creating the Small Business Lending Fund ("SBLF") provided that banks could refinance securities issued under the CPP and CDCI programs with securities issued under the SBLF. A total of 137 CPP banks refinanced under the SBLF resulting in repayments of $2.21 billion in CPP investments.

[3] Estimated lifetime costs for AGP includes $276 million for the termination fee Bank of America paid Treasury-OFS for the value received from the announcement of the negotiations on the guarantee and share losses on a pool of assets.

[4] In March 2015, Treasury extended the letter of credit facility to provide coverage for loans refinanced throughout the eligibility period, which has been extended to December 2016, but reduced the amount from $1 billion to $100 million. Treasury believes this lower amount will be sufficient to accommodate any increased usage that could result through the close of the program. The figures in this line include administrative expenses associated with the letter of credit facility.

[5] Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds ("TARP shares") and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG ("non-TARP shares"). Treasury managed the TARP shares and non-TARP shares together, and disposed of them pro-rata in proportion to its holdings. Only the TARP shares are included under "Other Programs—AIG" and the lifetime cost estimate shows a loss based on Treasury's cost basis in the TARP shares alone. However, a gain is shown for the non-TARP shares on the line entitled "Additional AIG Common Shares Held by Treasury" because Treasury's cost basis in such shares was deemed to be zero. When the TARP shares and non-TARP shares are considered together, Treasury's cost on a cash basis was $28.73 per share. TARP estimates include financing costs (borrowing) from the time of initial investment through the close of the program.

III. DISCUSSION OF THE ACTIONS TAKEN BY TREASURY UNDER THE EESA DURING THE QUARTERLY PERIOD

This section provides a detailed update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under EESA during the quarterly period, from October 1 to December 31, 2015, subject to review and oversight of the Oversight Board.

a. Capital and Guarantee Programs for Financial Institutions

i. Update on the Capital Purchase Program ("CPP")

As of December 31, 2015, 17 institutions remained in the CPP program with total outstanding CPP obligations of $258.18 million. As of that date, Treasury had received approximately $207.62 billion in gross proceeds from repayments and auction sales under the CPP, exceeding the $204.89 billion in total funds initially disbursed.[7] These repayments and auction sales, along with dividends, interest, warrant sales, and fee income from participating bank organizations brought the total cash received from the CPP to $ 226.65 billion.

During the quarterly period, Treasury restructured and subsequently sold its investments in two institutions for total proceeds of $7.11 million. Treasury had initially invested a combined $9.76 million in these institutions. Treasury also received proceeds of approximately $0.23 million from one CPP warrant that was sold.

No institutions participating in the CPP program had their subsidiary banks placed in receivership during the quarterly period. A total of 32 CPP recipients have been placed in receivership or bankruptcy since the inception of the program (figure 4), of which 12 have exited the respective process.

[7] This amount received includes all proceeds received as of December 31, 2015, 2015 from CPP participants, including sales of common and preferred shares; institutions that refinanced to the SBLF; and exchanges out of the CPP into the CDCI.

Figure 4
CPP Investments in Bankruptcy or with Banking Subsidiary In Receivership (cumulative since 2008)

CPP Institutions Entered into Bankruptcy/Receivership - Realized Loss/Write-Off		
Institution Name	**Bankruptcy/ Receivership Date**	**Realized Loss/ Write-Off Amount**
CIT Group Inc.*	11/1/2009	$ 2,330,000,000.00
UCBH Holdings, Inc.	11/6/2009	$ 298,737,000.00
Pacific Coast National Bancorp*	11/13/2009	$ 4,120,000.00
Midwest Banc Holdings, Inc.*	5/14/2010	$ 84,784,000.00
Sonoma Valley Bancorp	8/20/2010	$ 8,653,000.00
Pierce County Bancorp	11/5/2010	$ 6,800,000.00
Tifton Banking Company*	11/12/2010	$ 3,800,000.00
Legacy Bancorp, Inc.	3/11/2011	$ 5,498,000.00
Superior Bancorp Inc.	4/15/2011	$ 69,000,000.00
FPB Bancorp Inc.	7/15/2011	$ 5,800,000.00
One Georgia Bank*	7/15/2011	$ 5,500,000.00
Integra Bank Corporation	7/29/2011	$ 83,586,000.00
Citizens Bancorp	9/23/2011	$ 10,400,000.00
CB Holding Corp.	10/14/2011	$ 4,114,000.00
Tennessee Commerce Bancorp, Inc.	1/27/2012	$ 30,000,000.00
Blue River Bancshares, Inc.	2/10/2012	$ 5,000,000.00
Fort Lee Federal Savings Bank*	4/20/2012	$ 1,300,000.00
Gregg Bancshares, Inc.	7/13/2012	$ 825,000.00
GulfSouth Private Bank*	10/19/2012	$ 7,500,000.00
Investors Financial Corporation of Pettis County, Inc.	10/19/2012	$ 4,000,000.00
First Place Financial Corporation*	10/29/2012	$ 72,927,000.00
Princeton National Bancorp	11/2/2012	$ 25,083,000.00
Premier Bank Holding Company*	8/14/2012	$ 9,500,000.00
Gold Canyon Bank*	4/5/2013	$ 1,607,000.00
Indiana Bank Corp.	4/9/2013	$ 1,312,000.00
Rogers Bancshares, Inc.	7/5/2013	$ 25,000,000.00
Anchor Bancorp Wisconsin, Inc.*	8/12/2013	$ 104,000,000.00
TCB Holding Company	12/13/2013	$ 11,730,000.00
Syringa Bancorp	1/31/2014	$ 8,000,000.00
Idaho Bancorp*	4/24/2014	$ 6,900,000.00
Rising Sun Bancorp	10/17/2014	$ 5,983,000.00
Western Community Bancshares, Inc.	11/7/2014	$ 7,290,000.00
*Institution has exited the bankruptcy/receivership process		

ii. Update on the Community Development Capital Initiative ("CDCI")

As of December 31, 2015, there were 59 institutions remaining in the CDCI. Curing the quarterly period, three financial institutions fully repaid their CDCI investments of $1.21 million. In addition, two financial institutions partially repaid their CDCI investment for $0.33 million leaving $0.67 million outstanding. During the quarterly period, Treasury collected 2.21 million in dividend and interest payments from CDCI institutions. Two CDCI institutions missed a dividend payment during the quarterly period. As of December 31, 2015, cumulative dividends and interest income received from CDCI investments was approximately $54.60 million. Since the program started in 2010, just one CDCI institution has been closed (Premier Bancorp, Inc., Wilmette, IL, with the FDIC having been named receiver).

Due to the longer investment horizon for CDCI investments, Treasury has taken no action to wind down the CDCI. Any disposition decisions regarding the CDCI will be made in the future.

b. Housing Stabilization and Foreclosure Mitigation

In December, 2015, Congress passed the Consolidated Appropriations Act, 2016 (the Act), which amended EESA as it relates to the Hardest Hit Fund (HHF). The Act gave the Secretary of the Treasury until December 31, 2017 to commit up to $2 billion in additional TARP funds to current HHF program participants. As of December 31, 2015, the Secretary had not exercised his authority. The Act also provided that the Making Home Affordable ("MHA") Program will terminate on December 31, 2016, except with respect to certain loan modification applications made prior to that date.

During the quarterly period, a quarterly MHA Program Performance Report was released covering program activity during the period July 2015 through September 2015, including a quarterly MHA Servicer Assessment for the same period.[8] A Performance Summary for HHF was also released covering the third quarter of 2015.[9] In addition, housing scorecards on the health of the nation's housing market produced by HUD were released for each month of the quarter.[10]

i. MHA

MHA programs provide assistance actions through first and second lien permanent modifications under HAMP, Treasury FHA HAMP, RD-HAMP, 2MP, and other assistance provided through HAFA transactions and UP forbearance plans (figure 5). For some programs, assistance includes that provided by the Government Sponsored Enterprises ("GSEs").

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[8] The MHA Program Performance Report includes data on the characteristics of permanent modifications, servicer activity, re-default rates, homeowner experience, HAMP activity by state and metropolitan area, modifications by investor type, and compliance reviews. The quarterly Servicer Assessments summarize performance on metrics in three categories of program implementation: identifying and contacting homeowners, homeowner evaluation and assistance, and program management and reporting. The reports are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx.

[9] HHF Performance Summaries are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/HHF.aspx

[10] The Housing Scorecard incorporates key housing market indicators and highlights the impact of housing recovery efforts. The scorecard is available at: http://www.HUD.gov/scorecard

Figure 5

MHA Program Activity

	As of September 30, 2015	**Q3 2015**
MHA First Lien Permanent	1,912,460	50,838
HAMP Tier 1	1,409,972	13,231
HAMP Tier 2	132,071	15,517
GSE Standard Modifications	269,739	9,240
Treasury FHA and RD HAMP	100,678	12,850
2MP Modifications Started	152,442	2,865
HAFA Transactions Completed	389,959	16,096
UP Forbearance Plans Started	44,642	636
Cumulative Activity	2,499,503	70,435

Notes:

- First lien permanent modifications include GSE Standard Modifications since October 2011 under the GSEs' Servicer Alignment Initiative.
- As part of HUD's program, FHA-HAMP, TARP funds are used to pay borrower and servicer incentives on a portion of these loans that qualify for Treasury FHA-HAMP. In addition to any standards imposed by FHA, to be eligible for incentives paid through TARP , the MHA Handbook for Non-GSE Servicers ("Handbook") requires that: (1) the servicer of the loan must have signed a Servicer Participation Agreement and related documents; (2) the loan must have been originated on or before January 1, 2009; (3) the written request for assistance must have been received on or before December 31, 2016; and (4) the permanent modification must be effective on or before December 1, 2017. Further information (including references to applicable Mortgagee Letters) is available in Section 2.1 of Chapter VI of the Handbook, available at: https://www.hmpadmin.com/portal/programs/docs/hamp_servicer/mhahandbook_43.pdf
- The recent increase in Treasury FHA-HAMP volume is due to policy clarification issued by Treasury to align with policy changes made by FHA, including allowing homeowners with a debt-to-income level below 31 percent to qualify for FHA-HAMP. This effect is separate from the broader increase in overall FHA-HAMP modifications since early 2013.
- HAFA totals include GSE and non-GSE activity.

A total of $29.78 billion has been committed to MHA. As of December 31, 2015, Treasury had disbursed $13.21 billion in incentive payments for MHA, $0.97 billion of which was disbursed during the fourth quarter of 2015.[11] Based on all MHA activity in place as of December 31, 2015, Treasury estimated that $22.36 billion in incentive payments would ultimately be disbursed in association with all MHA assistance actions if all active modifications were to remain current and receive incentives for six years. This estimate does not include funds to support additional borrower assistance actions initiated under existing MHA programs from the end of the quarterly period through the remaining active life of MHA programs, which will terminate on December 31, 2016, except with respect to certain loan modification applications made prior to that date.

a. HAMP

Through September 2015, more than 1.5 million HAMP permanent modifications had been completed since the start of the program. As of September 30, 2015, homeowners that received HAMP permanent modifications saved approximately $481 per month (median savings), representing a reduction of more than one third from their before-modification mortgage payment. Since HAMP began, homeowners who received permanent modifications had saved an estimated $39 billion in monthly mortgage payments. During the period July to September 2015, more than 28,700 new permanent modifications were initiated, as reported in Treasury's Making Home Affordable Program Performance Report.[12] An additional 26,100 new HAMP trial period plans were begun during that same period.

b. HAMP Rate Step-ups

The HAMP Tier 1 modification was designed to provide relief to homeowners facing a financial hardship by providing a modification that would reduce their monthly mortgage payment to an affordable level. The interest rate is reduced in increments to achieve the target 31 percent debt-to-income ("DTI") with an interest rate floor of 2 percent. After five years, the interest rate may begin to increase 1 percent per year (or less) until the Primary Mortgage Market Survey (PMMS) rate at time of modification is reached (PMMS averaged 5.04 percent in 2009, 4.17 percent in 2014, and 3.83 percent through September 2015), at which time the interest rate will be fixed for the remaining loan term.

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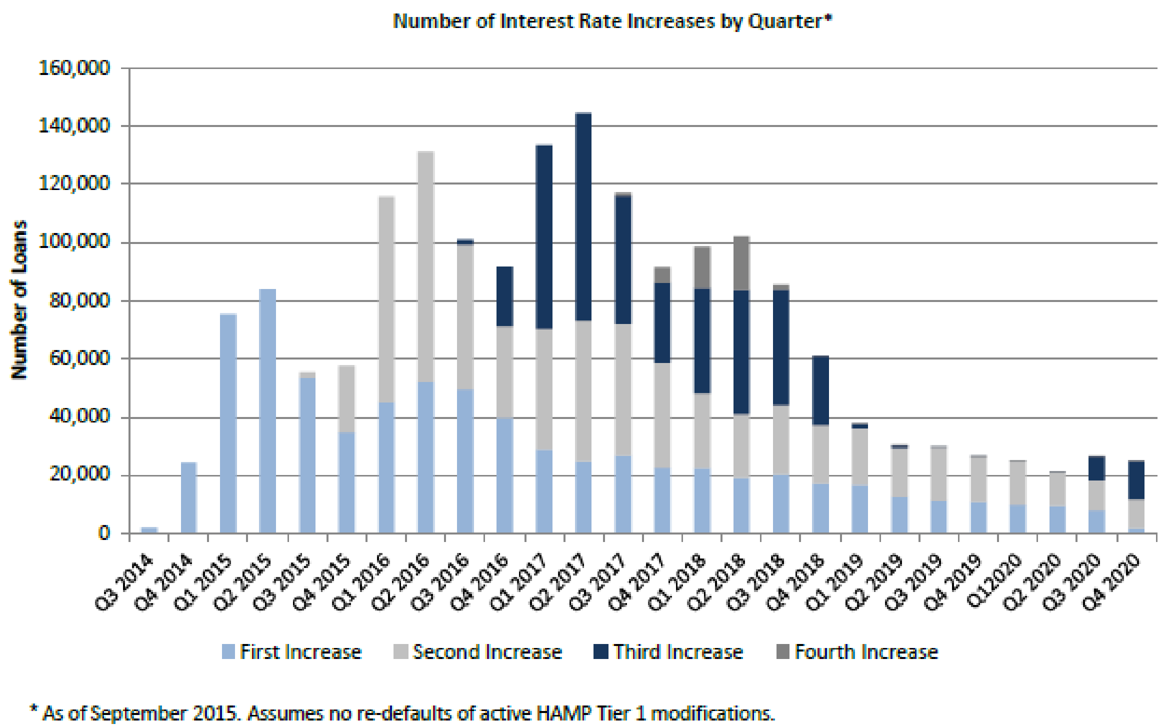
[11] Treasury's Transactions Reports (Housing), available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/TARP-Housing-Transaction-Reports.aspx, show the adjusted cap amounts for each servicer, and the total disbursements to each servicer with respect to non-GSE loans. Incentive payments for GSE loans are borne by the GSEs and not Treasury. The pace of quarterly incentive payment disbursements increased in the quarterly period due to the onset of sixth-year incentive payments.

[12] Treasury's Quarterly Making Home Affordable Program Performance Reports are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx

Some 80 percent of HAMP Tier 1 homeowners will experience an interest rate increase after five years. The majority of HAMP homeowners will experience two to three interest rate increases. Homeowners who received a modification in 2009-2011 are more likely to experience three to four increases than homeowners who received a modification in 2012-2013, most of whom will experience two increases (figure 6).

The first interest rate increase went into effect in the third quarter of 2014 for the earliest group of HAMP modifications. Treasury is monitoring these cohorts closely for signs or trends that re-defaults are increasing as borrowers experience interest rate step-ups. As of September 2015, fifteen vintages have experienced one interest rate step-up, and three vintages have experienced a second step-up. At this stage, there does not appear to be a notable performance impact for the modifications that have experienced step-ups.

Figure 6



c. HAMP PRA

As of September 30, 2015, more than 251,000 permanent HAMP modifications with principal reduction had been made, according to data reported during the quarterly period. Of all non-GSE loans eligible for principal reduction entering HAMP in the second quarter of 2015 (the most recent semi-annual tabulation available in the quarterly period), 66 percent of HAMP Tier 1 loans included a principal reduction feature and 62 percent of HAMP Tier 2 loans included a principal reduction feature.

ii. HHF

As of December 31, 2015, all 18 states and the District of Columbia were operating HHF programs throughout their respective jurisdictions, and collectively had drawn approximately $5.79 billion (76 percent) of the $7.60 billion allocated under the program. Each of these eligible jurisdictions draws down funds as they are needed (figure 7). The jurisdictions have until December 31, 2017,[13] to expend funds and must have no more than five percent of their allocation on hand before they can draw down additional funds.

As of September 30, 2015, there were 77 active programs across the 19 HHF jurisdictions. Approximately 64 percent of total program funds were targeted to help unemployed borrowers, primarily through programs that help homeowners pay their mortgage while looking for work, or for borrowers needing assistance reinstating a delinquent mortgage. Treasury continued its efforts to identify best practices, share lessons learned among programs and provide additional assistance and oversight to HFAs in need of improvement.

During the quarter, Treasury approved program changes for Alabama, Arizona, California, Kentucky, Michigan, Nevada, North Carolina, Oregon, Rhode Island and South Carolina. Program changes are outlined each month in the Monthly Report to Congress.[14]

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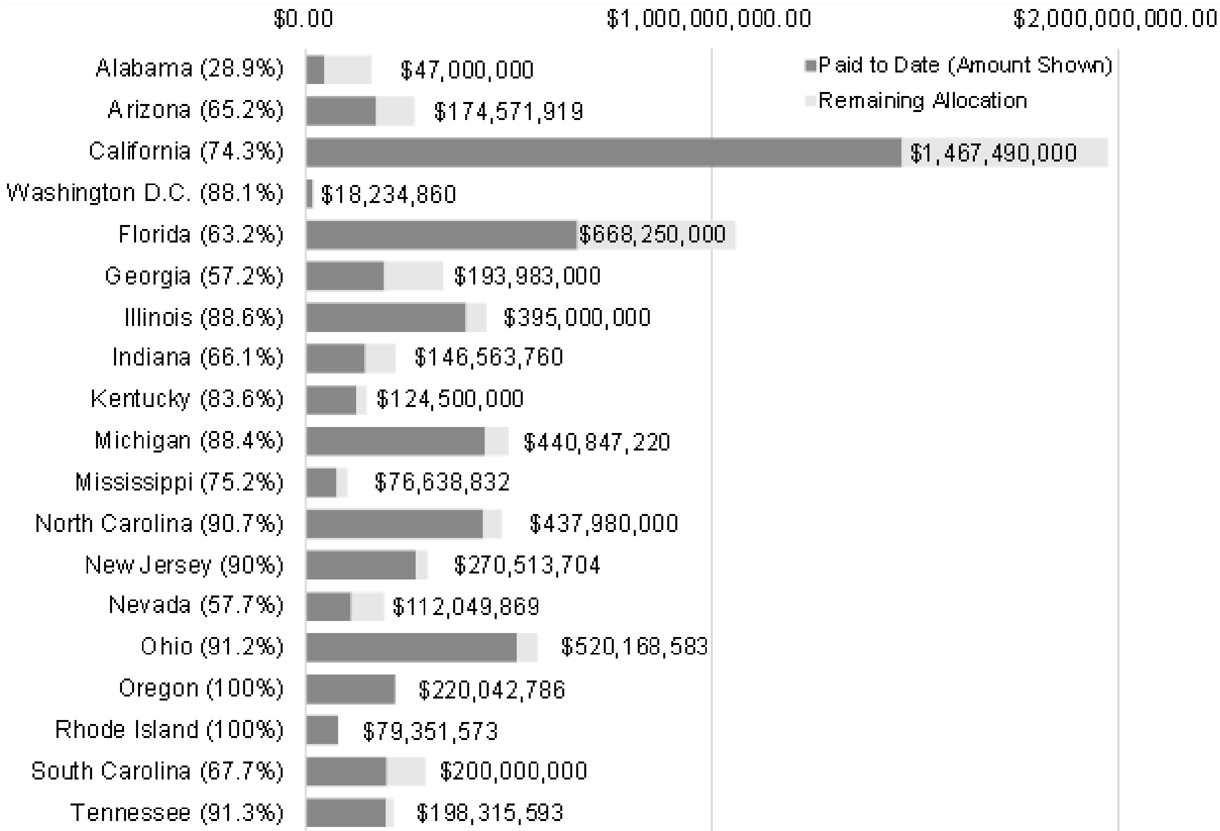
[13] As previously mentioned, the Consolidated Appropriations Act, 2016 provides the Secretary of the Treasury until December 31, 2017 to commit up to $2 billion in additional TARP funds to current HHF program participants.

[14] In addition, Illinois, New Jersey, Ohio, Oregon, Rhode Island, Tennessee, and Washington D.C. had previously closed their registration processes for new applicants under HHF-funded programs. Some states may choose to reopen previously-closed programs should they receive additional funding at such time as the Secretary exercises his authority to commit additional TARP funds provided under the Consolidated Appropriations Act, 2016.

Figure 7

Hardest Hit Fund as of December 31, 2015



APPENDIX A

Minutes of the Financial Stability Oversight Board Meetings
During the Quarterly Period

Minutes of the Financial Stability Oversight Board Meeting
October 30, 2015

A meeting of the Financial Stability Oversight Board ("Board") was held at 11:00 a.m. (EDT) on Friday, October 30, 2015, via conference call.

MEMBER REPRESENTATIVES PARTICIPATING:

Mr. Wilcox, Division Director, Federal Reserve Board (Chairperson)

Mr. Carpenter, Acting Assistant Secretary for Financial Markets, Department of Treasury

Mr. Green, Senior Advisor, Office of Policy Development and Research, Department of Housing and Urban Development

Mr. Liftik, Deputy Chief of Staff, Securities and Exchange Commission

Ms. Moore, Special Advisor, Federal Housing Finance Agency

STAFF PARTICIPATING:

Mr. Treacy, Executive Director

Mr. Gonzalez, General Counsel and Secretary

AGENCY OFFICIALS PARTICIPATING:

Mr. McArdle, Deputy Assistant Secretary, Office of Financial Stability, Department of the Treasury

Ms. Florman, Chief of Staff, Office of Financial Stability, Department of the Treasury

Mr. Montano, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Ms. Johnson-Kutch, Chief Homeownership Preservation Officer, Office of Financial Stability, Department of the Treasury

Mr. Roberts, Financial Analyst, Office of Financial Stability, Department of the Treasury

The meeting was called to order by Mr. Wilcox at approximately 11:00 a.m. (EDT). Mr. Wilcox welcomed Mr. Liftik as the new Representative from the Securities and Exchange Commission on the Oversight Board.

The Representatives then considered draft minutes for the meeting of the Board on September 21, 2015, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Community Development Capital Initiative ("CDCI");

and the Making Home Affordable ("MHA") and Hardest Hit Fund ("HHF") initiatives. Among the materials distributed in advance of the meeting was the latest monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. Throughout the meeting, Representatives raised and discussed various matters on behalf of the Members with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided Representatives with a report on recent developments in the TARP program. As of September 30, Treasury had disbursed a total of approximately $429.7 billion, including $411.7 billion under TARP investment programs and nearly $18.0 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $442.0 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was about $709 million, all associated with CPP and CDCI.

Treasury officials then provided the Representatives with an update on recent developments in the CPP. As of the meeting date, Treasury's remaining aggregate CPP investment was about $263 million in 18 institutions, of which approximately $125 million was its common stock holding in First BanCorp ("FBP"). Treasury officials reported that one institution exited the program during October through restructuring.

Treasury officials then briefly discussed the CDCI program, noting that one institution exited the program in October. As of the meeting date, 61 institutions remained in the program.

Treasury officials then provided an update on the TARP housing initiatives, including the MHA's Home Affordable Modification Program ("HAMP"). Using prepared materials, Treasury officials reported on the number of homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new HAMP permanent modifications and other borrower assistance actions. Officials noted that nearly 9,500 new permanent HAMP modifications were initiated in August 2015. As of August 2015, there were nearly 986,000 active permanent HAMP modifications. Officials also reported that through August, homeowners with HAMP modifications who had experienced their first interest rate step-up did not appear to experience a notable change in performance, including the small number who had already experienced their second step-up.

Treasury officials then discussed recent changes to, and funding disbursed by HHF programs in the 19 eligible jurisdictions. Officials briefly noted recent program changes in four states--Tennessee, California, Florida and South Carolina--to better assist at-risk borrowers. Since the inception of HHF, participating housing finance agencies have disbursed an estimated $4.5 billion in Hardest Hit Fund assistance, or some

67 percent of the total program allocations. Officials also noted that some 251,000 borrowers had been assisted since the beginning of the program.

Staff of the Oversight Board then discussed several administrative matters with the Representatives, including the content and timing of the next quarterly report.

The meeting was adjourned at approximately 11:40 a.m. (EDT).

[signed electronically]

Mr. Gonzalez, General Counsel and Secretary

Minutes of the Financial Stability Oversight Board Meeting November 20, 2015

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Friday, November 20, 2015, via conference call.

MEMBER REPRESENTATIVES PARTICIPATING:

Mr. Wilcox, Division Director, Federal Reserve Board (Chairperson)

Mr. Carpenter, Acting Assistant Secretary for Financial Markets, Department of Treasury

Mr. Liftik, Deputy Chief of Staff, Securities and Exchange Commission

Ms. Moore, Special Advisor, Federal Housing Finance Agency

STAFF PARTICIPATING:

Mr. Treacy, Executive Director

Mr. Gonzalez, General Counsel and Secretary

AGENCY OFFICIALS PARTICIPATING:

Mr. McArdle, Deputy Assistant Secretary, Office of Financial Stability, Department of the Treasury

Mr. Rasetti, Chief Financial Officer, Office of Financial Stability, Department of the Treasury

Ms. Florman, Chief of Staff, Office of Financial Stability, Department of the Treasury

Mr. Montano, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Mr. Roberts, Financial Analyst, Office of Financial Stability, Department of the Treasury

Ms. Nolan, Supervisory Financial Analyst, Federal Reserve Board

The meeting was called to order by Mr. Wilcox at approximately 2:00 p.m. (EDT).

The Representatives then considered draft minutes for the meeting of the Board on October 30, 2015, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Community Development Capital Initiative ("CDCI"); and the Making Home Affordable ("MHA") and Hardest Hit Fund ("HHF") initiatives. Among the materials distributed in advance of the meeting was the latest monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP.

Throughout the meeting, Representatives raised and discussed various matters on behalf of the Members with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided Representatives with a report on recent developments in the TARP program. As of October 30, Treasury had disbursed a total of approximately $430.6 billion, including $411.7 billion under TARP investment programs and nearly $18.3 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $442.0 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was about $710 million, all associated with CPP and CDCI.

Treasury officials then provided the Representatives with an update on recent developments in the CPP. As of the meeting date, Treasury's remaining aggregate CPP investment was about $263 million in 18 institutions, of which approximately $125 million was its common stock holding in First BanCorp ("FBP").

Treasury officials then briefly discussed the CDCI program, noting that Independent Employers Group Federal Credit Union and Bethex Federal Credit Union had recently repaid their CDCI investments and exited the program. As of the meeting date, 59 institutions remained in the program with a total investment of approximately $445 million.

Treasury officials then provided an update on the TARP housing initiatives, including the MHA's Home Affordable Modification Program ("HAMP"). Using prepared materials, Treasury officials reported on the number of homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new HAMP permanent modifications and other borrower assistance actions. Officials noted that nearly 9,500 new permanent HAMP modifications were initiated in September 2015. As of September 2015, there were nearly 985,000 active permanent HAMP modifications. Officials also reported that through September, homeowners with HAMP modifications who had experienced their first interest rate step-up did not appear to experience a notable change in performance, including the small number who had already experienced their second step-up.

Treasury officials then discussed recent changes to, and funding disbursed by, HHF programs in the 19 eligible jurisdictions. Officials briefly noted recent program changes in four states--Alabama, Kentucky, Michigan and Nevada--to better assist at-risk borrowers. Since the inception of HHF, participating housing finance agencies had disbursed an estimated $4.6 billion in Hardest Hit Fund assistance, or some 69 percent of the total program allocations. Officials also noted that some 254,000 borrowers had been assisted since the beginning of the program.

Using prepared materials, Treasury officials then briefed Representatives on the Office of Financial Stability's Agency Financial Report for Fiscal Year 2015, which describes the activities and financial results for the TARP through the fiscal year ended September 30, 2015. As part of this discussion, official also discussed Treasury's administrative aspects of the Office of Financial Stability covered in the Agency Financial Report, including staffing and related operational expenses.

Staff of the Oversight Board then discussed several administrative matters with the Representatives, including the content and timing of the next quarterly report.

The meeting was adjourned at approximately 2:20 p.m. (EDT).

[signed electronically]

Mr. Gonzalez, General Counsel and Secretary

Minutes of the Financial Stability Oversight Board Meeting
December 18, 2015

A meeting of the Financial Stability Oversight Board ("Board") was held at 10:00 a.m. (EDT) on Friday, December 18 2015, at the offices of the Department of Treasury ("Treasury").

MEMBER REPRESENTATIVES PARTICIPATING:

Mr. Wilcox, Division Director, Federal Reserve Board (Chairperson)

Mr. Green, Senior Advisor, Office of Policy Development and Research, Department of Housing and Urban Development

Mr. Liftik, Deputy Chief of Staff, Securities and Exchange Commission

Ms. Moore, Special Advisor, Federal Housing Finance Agency

STAFF PARTICIPATING:

Mr. Treacy, Executive Director

Mr. Gonzalez, General Counsel and Secretary

AGENCY OFFICIALS PARTICIPATING:

Mr. McArdle, Deputy Assistant Secretary, Office of Financial Stability, Department of the Treasury

Mr. Colbert, Senior Advisor, Office of Legislative Affairs, Department of the Treasury

Ms. Florman, Chief of Staff, Office of Financial Stability, Department of the Treasury

Mr. Montano, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Mr. Roberts, Financial Analyst, Office of Financial Stability, Department of the Treasury

Mr. Leventis, Principal Economist, Federal Housing Finance Agency

Ms. Nolan, Supervisory Financial Analyst, Federal Reserve Board

The meeting was called to order by Mr. Wilcox at approximately10:05 a.m. (EDT).

The Representatives then considered draft minutes for the meeting of the Board on November 20, 2015, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Community Development Capital Initiative ("CDCI"); and the Making Home Affordable ("MHA") and Hardest Hit Fund ("HHF") initiatives. Among the materials distributed in advance of the meeting was the latest monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP.

Throughout the meeting, Representatives raised and discussed various matters on behalf of the Members with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided Representatives with a report on recent developments in the TARP program. As of November 30, Treasury had disbursed a total of approximately $430.4 billion, including $411.7 billion under TARP investment programs and nearly $18.7 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $442.0 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was about $710 million, all associated with CPP and CDCI.

Treasury officials then provided the Representatives with an update on recent developments in the CPP. As of the meeting date, Treasury's remaining aggregate CPP investment was about $263 million in 18 institutions, of which approximately $125 million was its common stock holding in First BanCorp ("FBP").

Treasury officials then briefly discussed the CDCI program, noting that some 59 institutions remained in the program with a total investment of approximately $445 million. In addition, officials reported that Liberty County Teachers Federal Credit Union had made a partial repurchase.

Treasury officials then provided an update on the TARP housing initiatives, including the MHA's Home Affordable Modification Program ("HAMP"). Using prepared materials, Treasury officials reported on the number of homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new HAMP permanent modifications and other borrower assistance actions. Officials noted that nearly 7,800 new permanent HAMP modifications were initiated in October 2015. As of October 2015, there were nearly 984,000 active permanent HAMP modifications in place. Officials also reported that through October, homeowners with HAMP modifications who had experienced one or more interest rate step-ups did not appear to experience a notable change in performance.

Treasury officials then discussed recent changes to, and funding disbursed by, HHF programs in the 19 eligible jurisdictions. Officials briefly noted recent program changes in three states--Rhode Island, South Carolina, and Oregon--to better assist at-risk borrowers. Since the inception of HHF, participating housing finance agencies had disbursed an estimated $4.7 billion in Hardest Hit Fund assistance, or some

70 percent of the original program allocations. Officials also noted that some 257,000 borrowers had been assisted since the beginning of the program.

Officials from Treasury's Office of Legislative Affairs then provided an update on the TARP- HHF related provision in the Omnibus Bill (Consolidated Appropriations Act), just signed into law by President Obama. The amended provision enables Treasury to extend HHF program funding beyond 2017 with a maximum remaining amount of $2 billion, and puts a firm end to new homeowner assistance actions under MHA on December 31, 2016.

Officials from the Federal Housing Finance Agency ("FHFA") then briefed members on developments in the housing and housing finance markets. The information reviewed included data related to mortgage rates and Treasury yields, housing price indices and sales, and refinancing activities. During this discussion, FHFA officials also presented data related to delinquencies, foreclosure prevention actions undertaken by the two mortgage government-sponsored enterprises (GSEs), and re-default experience on GSE-modified mortgages.

Staff of the Oversight Board provided members with an update regarding the Oversight Board's quarterly to report Congress for the period ending September 30, 2015.

The meeting was adjourned at approximately 10:50 a.m. (EDT).

[signed electronically]

Mr. Gonzalez, General Counsel and Secretary