# FINANCIAL STABILITY OVERSIGHT BOARD QUARTERLY REPORT TO CONGRESS

**For the quarter ending**
**March 31, 2011**

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


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# I. INTRODUCTION

This report constitutes the tenth quarterly report of the Financial Stability Oversight Board ("Oversight Board") pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"). This report covers the period from January 1, 2011 to March 31, 2011 (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"). 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 the TARP to restore liquidity and stability to the U.S. financial system.

# II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on January 20, February 28, and March 28, 2011. The minutes of the Oversight Board's meetings[1] reflect that the Oversight Board received presentations and briefings from Treasury officials to assist the Oversight Board in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

## a. Update on Key Initiatives and Developments During the Quarterly Period

The following highlights some important developments occurring during the quarterly period with respect to the key initiatives established under TARP and the Financial Stability Plan, subject to review and oversight by the Oversight Board. Additional details concerning these developments and programs are included in Part IV below.

***The Capital and Guarantee Programs for Banking Organizations***

- The Capital Purchase Program ("CPP"). During the quarterly period, Treasury received approximately $441 million through repurchases and approximately $364 million in dividends and interest from banking organizations in the CPP. As of March 31, 2011, the amount of CPP repayments, dividends, and other income exceeds the original investment Treasury made through the program by nearly $1.17 billion.

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

- Update on Citigroup, Inc. (“Citigroup”). On January 24, 2011, Treasury completed a public auction of warrants to purchase Citigroup common stock for total gross proceeds of approximately $0.31 billion. As of March 31, 2011, Treasury had a realized profit of $12.4 billion over the $45 billion that Treasury invested in Citigroup under the CPP, the Targeted Investment Program (“TIP”) and the Asset Guarantee Program (“AGP”).

### *American International Group, Inc. (“AIG”)*

- On March 2, 2011, AIG repaid to Treasury approximately $6.6 billion of the $9.6 billion of proceeds AIG received March 8, 2011, from the closing of AIG’s previously announced sale of all equity securities of MetLife, Inc. (“MetLife”) that AIG had received in 2010 from the sale of American Life Insurance Company (“ALICO”) to MetLife. Treasury also received from AIG approximately $300 million previously held by AIG in anticipation of expenses related to the sale of ALICO, bringing the total amount repaid to Treasury to approximately $6.9 billion. The remaining proceeds of AIG’s sale of MetLife securities are held in an indemnity escrow to secure obligations that may be owed by MetLife, but will be released according to agreed-upon minimum holding periods over the next two years and used to pay down additional portions of Treasury’s preferred equity interests.

### *Automotive Industry Financing Program (“AIFP”)*

- Update on Ally Financial, Inc. (“Ally”). On March 7, 2011, Treasury received aggregate proceeds of approximately $2.7 billion from the sales of its holdings of Ally trust preferred shares (“TruPs”). As of March 31, 2011, Treasury continues to hold approximately $5.9 billion of Ally mandatory convertible preferred stock and 74 percent of the common stock outstanding of Ally. Treasury has agreed to be named as a selling shareholder of common stock of Ally in a registration statement filed with the SEC for a proposed public offering. Treasury will retain the right, at all times, to decide whether and at what level to participate in the offering.

### *Housing stabilization and foreclosure mitigation*

- Making Home Affordable (“MHA”) and Home Affordable Modification Program (“HAMP”). As of March 31, 2011, Treasury had disbursed approximately $1.14 billion of incentive payments and had a total maximum commitment for HAMP and its component programs of approximately $29.9 billion. Approximately 30,000, 28,000, and 26,000 HAMP trial period modification plans became permanent in December 2010, January 2011, and February 2011, respectively.

- Second Lien Modification Program (“2MP”). As of February 2011, approximately 17,000 homeowners in a first-lien HAMP modification had a permanent second lien modification in place.

- Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund" or "HHF"). As of March 31, 2011, the programs in 17 states and the District of Columbia have drawn approximately $166 million from the $7.6 billion Treasury has allocated under the program. Programs in 11 states (AL, AZ, CA, MI, NV, NC, OH, OR, RI, SC, and TN) have begun operating HHF programs statewide, and 8 others (FL, GA, IL, IN, KY, MS, NJ, and Washington D.C.) were operating pilots as of March 31, 2011.

### b. 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 ultimate cost of TARP remains subject to uncertainty, and will depend on how financial markets and the economy perform in the future. If financial and economic conditions deteriorate, for example, prospects for TARP investments will also deteriorate.

According to Treasury's latest re-estimate of the cost of TARP programs, released in January 2011, the expected overall cost of TARP will be approximately $48 billion, which reflects the completion of the AIG restructuring and when measured at the November 30, 2010 market price. In addition, using the same assumptions, Treasury estimates that the combined cost of TARP programs and other Treasury interests in AIG will be about $28 billion. The costs are expected primarily from losses related to TARP investments in auto companies and foreclosure mitigation efforts. See figure 1 below.

Figure 1

**Treasury Estimates of the Impact of TARP Programs and Other Treasury Investment in AIG on the Federal Budget (as of November 30, 2010) ($ billions)[2]**

| Programs As of March 31, 2011 (dollar amounts in billions) | Obligation/ Commitment | Disbursed as of Mar 31 | Outstanding Investment Balance | Estimated Lifetime Cost[1,2] |
|---|---|---|---|---|
| **Bank Support Programs:** | | | | |
| Capital Purchase Program (CPP): | | | | |
| Citigroup | $ 25.00 | $ 25.00 | $ 0.00 | $ (6.46) |
| Other banks with assets $10 billion or greater | 165.30 | 165.30 | 12.33 | (8.24) |
| Banks with assets less than $10 billion[3] | 14.59 | 14.59 | 10.89 | 2.28 |
| Total | $ 204.89 | $204.89 | $ 23.22 | $ (12.42) |
| Targeted Investment Program (TIP) | $ 40.00 | $ 40.00 | $ 0.00 | $ (3.81) |
| Asset Guarantee Program (AGP)[4] | $ 5.00 | $ 0.00 | $ 0.00 | $ (3.71) |
| Community Development Capital Initiative (CDCI) | $ 0.57 | $ 0.57 | $ 0.57 | $ 0.29 |
| **Credit Market Programs:** | | | | |
| Public-Private Investment Program (PPIP): | | | | |
| Equity | $ 7.51 | $ 5.42 | $ 5.26 | $ (0.31) |
| Debt | 14.90 | 10.62 | 9.94 | 0.10 |
| Total | $ 22.41 | $ 16.04 | $ 15.20 | $ (0.21) |
| Term Asset Backed Securities Lending Facility (TALF) | $ 4.30 | $ 0.10 | $ 0.10 | $ (0.33) |
| Purchase SBA 7(a) Securities (SBA) | $ 0.37 | $ 0.37 | $ 0.35 | $ 0.00 |
| **Other Programs:** | | | | |
| American International Group (AIG): | | | | |
| Preferred Stock | $ 69.84 | $ 20.29 | $ 11.30 | $ - |
| Common Stock | 0.00 | 47.54 | 47.54 | 8.04 |
| Total | $ 69.84 | $ 67.83 | $ 58.84 | $ 8.04 |
| Automotive Industry Financing Program (AIFP) | $ 81.75 | $ 79.69 | $ 44.20 | $ 14.80 |
| **Sub-total for Investment Programs** | **$ 429.12** | **$409.49** | **$142.48** | **$ 2.66** |
| **Treasury Housing Programs Under TARP** | $ 45.63 | $ 1.36 | $ 0.00 | $ 45.63 |
| **Total for TARP Programs** | **$ 474.75** | **$410.85** | **$142.48** | **$ 48.29** |
| Additional AIG Common Shares Held by Treasury[5] | n/a | n/a | n/a | $ (20.17) |
| **Total for TARP Programs and Additional AIG Shares** | **$ 474.75** | **$410.85** | **$142.48** | **$ 28.12** |

Notes to Figure 1

1. Lifetime cost information is as of November 30, 2010.

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[2] Treasury will make updates of this chart available at: www.FinancialStability.gov.

2. Estimated lifetime cost figures shown above are currently updated quarterly in conjunction with the Office of Management and Budget. Estimated lifetime cost of investments in publicly-traded securities is calculated by using the aggregate value of the investments at market prices as of November 30, 2010. The following common stock value information is provided for the convenience of the reader to show the increase or decrease in aggregate value of such investments in light of market prices as of March 31, 2011, and the corresponding effect on estimated cost assuming no other changes.

| Investment | 11/30/2010 Market Value | 3/31/2011 Market Value | Increase (Decrease) in Cost |
|---|---|---|---|
| | | In billions | |
| AIG Common Stock | $ 39.14 | $ 38.37 | $ 0.77 |
| GM Common Stock | $ 17.10 | $ 15.52 | $ 1.58 |
| Additional AIG Common Shares | $ 20.17 | $ 19.78 | $ 0.39 |

3. It is anticipated that some CPP banks will convert to the Small Business Lending Fund resulting in full repayment of their CPP investments. Effects are included in lifetime cost.

4. 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.

5. Represents additional 563 million shares of AIG common stock that were received from the trust created by the Federal Reserve Bank of New York for the benefit of the Treasury.

## III. EVALUATING THE EFFECTS OF EESA PROGRAMS

Utilizing the authority provided by EESA, Treasury has implemented a range of programs to stabilize the financial markets and financial institutions, support the flow of credit to consumers and businesses, and help at-risk homeowners remain in their homes and avoid foreclosure. These programs are described in detail in Part IV of this report and in the previous quarterly reports of the Oversight Board.[3]

Under section 104 of EESA, the Oversight Board is charged with reviewing Treasury's efforts under EESA and the effect of such actions in assisting American families in preserving home ownership, stabilizing financial markets, and protecting taxpayers.

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, and that TARP and other government programs have contributed to preventing the adverse effects of the crisis from becoming significantly more severe. The accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during subsequent quarters. More recently, there have been significant repayments of financial-sector investments received by Treasury, and TARP financial-sector programs have been winding down or have been closed. Accordingly, the Oversight Board evaluation of the effects

[3] Discussion of conditions and effects of TARP programs on financial markets, financial stability and markets for housing and home finance in past periods can be found in the Oversight Board's previous quarterly reports at: http://www.treasury.gov/initiatives/financial-stability/about/Oversight/FSOB/Pages/minutes-reports.aspx.

of Treasury's financial-sector programs under TARP places greater emphasis on Treasury's administration of the financial-sector assets it still owns and, in particular, the management of those assets over time toward exit strategies that protect taxpayers and safeguard the public interest in the stability of financial markets. These evaluations are being integrated with broader discussion of program developments in section IV.

TARP housing-sector programs, in contrast, remain open to new applications from eligible borrowers and some operate at an early phase in their respective program life-cycles. The housing-sector programs will provide assistance to additional mortgage borrowers and retain the potential to influence housing market conditions going forward. Accordingly, the Oversight Board will continue to evaluate the effects of TARP housing-sector programs from that perspective.

The Oversight Board believes that Treasury's accumulated actions under TARP, together with other federal programs, continued to provide support to the housing market and assistance to at-risk mortgage borrowers during the first quarter. These actions have helped to promote more stable conditions for housing finance and to reduce avoidable foreclosures.

### a. Brief review of financial market developments[4]

During the first quarter, conditions in financial markets continued on a path consistent with gradual economic recovery, aided by improvements in the economic outlook of households and businesses and by policy accommodation by the Federal Reserve, while also reflecting concerns about fiscal strains and banking-sector problems in the Euro-area periphery.

The S&P 500 stock price index increased about 5.5 percent in the first quarter of 2011; stock price indexes for financial firms also increased, although at a slower pace. Credit default swap spreads for large bank holding companies, generally considered to be a key indicator of investors' views about the health and prospect of these institutions, declined slightly over the quarter and remain well below the levels seen in late 2008 and early 2009, prior to the release of the results from the Supervisory Capital Assessment Program ("SCAP").

Data from the flow of funds accounts published by the Federal Reserve show that debt for households continued to decline through the end of the fourth quarter (the latest data available). Debt for nonfinancial businesses grew moderately during the period, owing mostly to robust expansion in corporate bond issuance. Total loans at depository institutions continued to contract in the fourth quarter of 2010, though at a much slower rate than in previous quarters. Charge-offs of problem loans have been a significant contributor to weakness in the level of business and household debt over the past year.

[4] Information and data on credit and financial market conditions can be found in the Federal Reserve's semiannual Monetary Policy Report, Senior Loan Officer Opinion Survey on Bank Lending Practices, Flow of Funds data releases, consumer credit aggregates and other periodic reports and analysis at: www.federalreserve.gov.

Results from the January Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve show that, on net, banks had modestly loosened lending standards and terms during the previous three months on credit cards and C&I loans, while standards and terms on commercial real estate ("CRE") loans remained unchanged; these standards and terms remain very tight after an extended period of increasing the rigor of these standards. Banks also reported an increase in the demand for core loans – that is, C&I, real estate, and consumer loans.

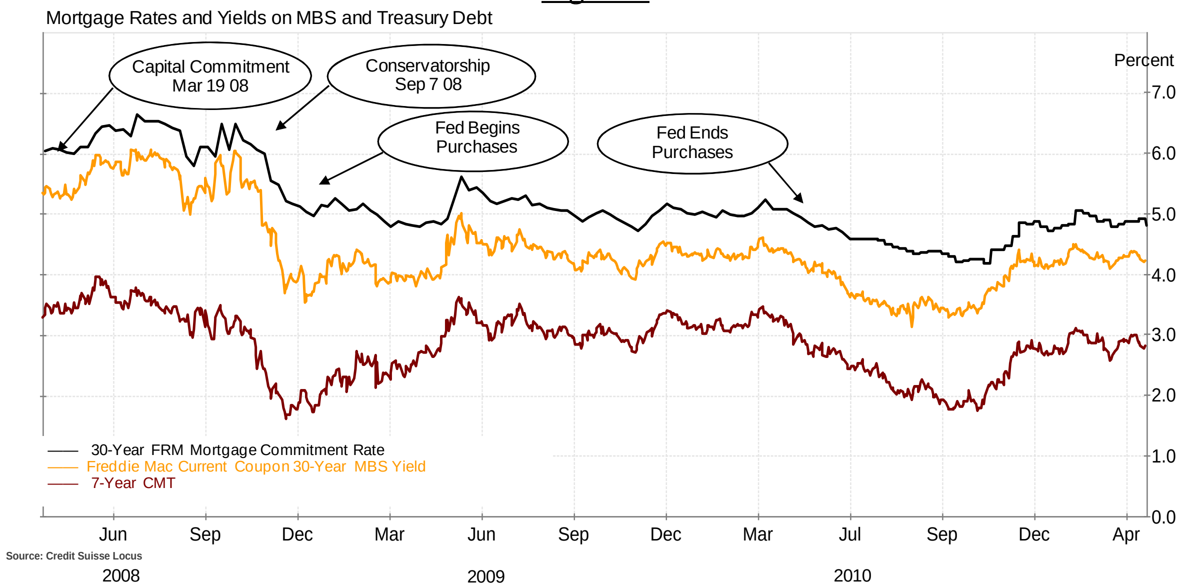
Securitization of household credit in the first quarter of 2011 continued at about the same pace seen in the previous quarter. Unlike auto or credit card ABS, however, spreads on CMBS remain substantially above pre-crisis levels. Issuance of new CMBS remains very low, but has increased slowly in recent months. Overall, commercial real estate markets continued to exhibit considerable stress. Gross bond issuance of both investment grade and speculative grade bonds for nonfinancial corporations was robust in the first quarter.

### b. Assessment of the effect of the actions taken by Treasury in stabilizing housing markets

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 continued to support housing markets and provide assistance to mortgage borrowers during the first quarter. These actions and earlier efforts over recent quarters have been a stabilizing influence on housing markets, but those markets generally have shown little improvement over the past two years because of still-high unemployment, coupled with the large volume of unsold inventory and unresolved mortgage delinquencies.

Long-term mortgage interest rates were little changed over the course of the first quarter, remaining generally a bit below 5 percent (figure 2). Spreads between these rates and yields on reference Treasury securities also showed little movement, remaining close to their average over the past two years and well below the crisis levels of late 2008 and early 2009.

Figure 2




Foreclosure mitigation efforts under TARP continued at significant rates. During December, January and February, new permanent modifications averaged 28,000 per month, slightly more than the previous three months. Total active permanent modifications increased through February to approximately 560,000, a 10 percent increase from three months earlier. The number of trial modifications aged more than six months fell to 32,000. Programs to modify second liens and to encourage foreclosure alternatives, which include short sales and deeds-in-lieu, are operational and starting to publish program results. In addition, the Hope Now Alliance reports that the number of non-TARP modifications continues to exceed the number established under HAMP, although the number of new proprietary modifications has tapered off recently and the terms and impact of these non-TARP modifications are not known.

Data reported during the quarter indicated that 11.8 percent of HAMP modifications made permanent in the second quarter of 2010 were delinquent by 60 days or more. This rate is somewhat higher than modifications from the previous two quarters, for which the delinquency rates at a comparable point in time were less than 10 percent. As of November 2010, among the 57,000 permanent modifications that had been in place for at least 12 months, about 20 percent were 60 days delinquent.

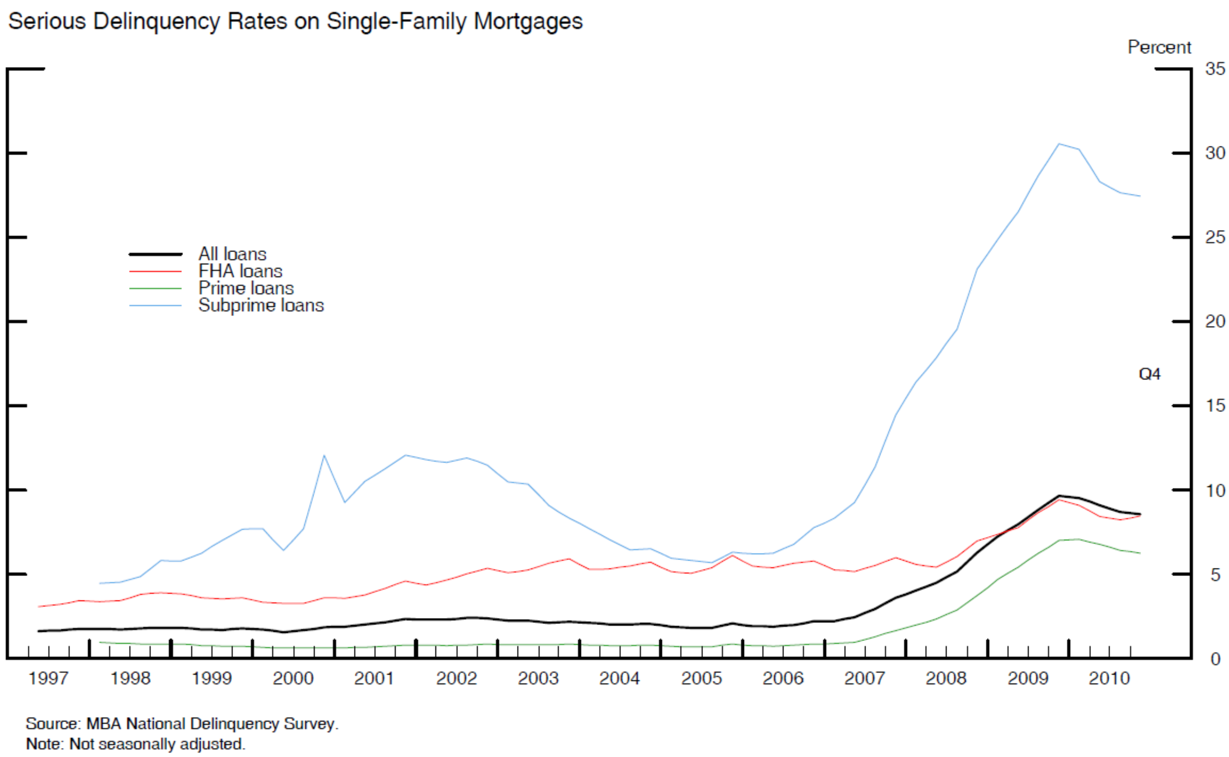
During December, January, and February the number of HAMP permanent modifications that re-defaulted (that is, were disqualified for non-payment) averaged slightly less than 11,000 per month. As of February 2011, roughly 12 percent of all HAMP permanent modifications concluded to date had re-defaulted.

Continued low interest rates helped maintain the volume of refinance loans late in 2010 and early this year. Refinance loans have helped lower borrowing costs for many borrowers. The non-TARP Home Affordable Refinance Program ("HARP") is designed to help borrowers whose loans were purchased or guaranteed by Fannie Mae or Freddie Mac and who are located in areas suffering from house price declines. Under HARP, borrowers often can refinance with loan-to-value ratios of up to 125 percent without obtaining additional mortgage insurance. The three months ending in February saw record volume of 145,000 new HARP loans. In March, FHFA announced that the program will be extended 12 months to mid-year 2012. FHA saw a decline in both the volume and national market share of refinance loans it generated during the quarterly period, measured either on the basis of endorsements or loan closings.

These efforts, as well as an increased pace of foreclosures during the first three quarters of last year, contributed to a fairly steady decline over the course of 2010 in the number of seriously delinquent loans (single-family mortgage loans 90 or more days past due or in process on foreclosure, figure 3). This decline continued during the fourth quarter of 2010 despite sharp reductions in foreclosure completions associated with recent issues in loan servicing.

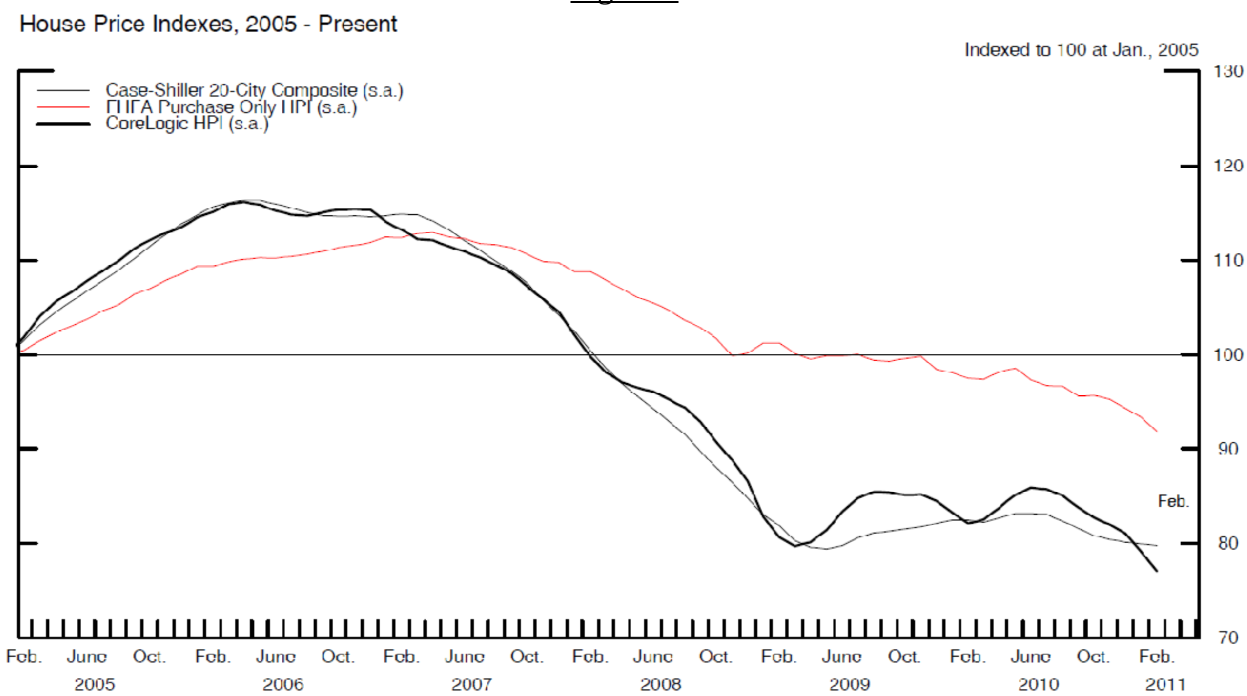
For FHA loans, the number of new 90-day delinquencies in the first quarter of 2011—measured as a percent of insurance in force at a seasonally-adjusted annual rate—rose to 7.54 percent, or about where it had been in the summer of 2010. The new-delinquency rate had fallen to 6.90 percent in the fourth quarter of 2010, the lowest rate seen in three years. Even the somewhat-higher rate in this quarter was still 3.3 percentage points lower than the peak rate of the third quarter of 2009, and 1.6 percentage points percent below where it was in the year-earlier period.

Figure 3




Seasonally adjusted house sale volume in the first quarter continued to rebound from the lows last summer following the end of the tax credit stimulus. As measured by the National Association of Realtors and the Census Bureau, combined existing and new single-family house sales during the quarter returned to a 5.4 million annual rate, about the same as pre-tax-credit rates. The persistent weakness in house sales in the face of large inventories of houses for sale and potential additions to those inventories from future foreclosures has continued to depress house prices. The seasonally adjusted price indexes of FHFA, Case-Shiller S&P, and Corelogic all declined in the three months ending February (figure 4).

Figure 4




## IV. 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 the EESA during the quarterly period, from January 1, 2011, to March 31, 2011, subject to review and oversight of the Oversight Board.

### a. Capital and Guarantee Programs for Banking Organizations

#### *i. Update on Repayments under the CPP*

As of March 31, 2011, Treasury had received approximately $178.74 billion in total repayments under the CPP, more than 87 percent of the funds that were initially invested. During the quarterly period, Treasury received $11.2 billion in repayments. In March, nine financial institutions repurchased CPP investments, delivering a total of $7.58 billion in repayments, including repayments from the following institutions:

(1) SunTrust Banks, Inc. (Atlanta, GA): Repurchased all remaining outstanding CPP preferred shares from Treasury's investment in that institution totaling $4.85 billion and paid accrued dividends totaling $10.1 million. (Total Proceeds: $4.86 billion)

(2) Fifth Third Bancorp (Cincinnati, OH): Repurchased all remaining outstanding CPP preferred shares from Treasury's investment in that institution totaling $3.4 billion and paid accrued dividends totaling $15.1 million. (Total Proceeds: $3.42 billion)

(3) KeyCorp (Cleveland, OH): Repurchased all remaining outstanding CPP preferred shares from Treasury's investment in that institution totaling $2.5 billion and paid accrued dividends totaling $15.6 million. (Total Proceeds: $2.52 billion)

(4) Financial Institutions, Inc. (Warsaw, NY): Repurchased all remaining outstanding CPP preferred shares from Treasury's investment in that institution totaling $25.0 million and paid accrued dividends totaling $156,313. (Total Proceeds: $25.2 million)

As of March 31, 2011, the amount of CPP repayments, dividends, and other income exceeded the total original investment Treasury made through the program by nearly $1.17 billion. The chart below shows the top twenty-five CPP remaining investments by institution as of March 31, 2011 (figure 5).

Figure 5

**Top 25 Remaining CPP Investments by Institution as of March 31, 2011**

| | Institution | City, State | Investment Amount ($ billions) | |
|---|---|---|---|---|
| 1 | Regions Financial Corp. | Birmingham, AL | $ | 3.50 |
| 2 | Marshall & Ilsley Corporation [a] | Milwaukee, WI | $ | 1.72 |
| 3 | Zions Bancorporation | Salt Lake City, UT | $ | 1.40 |
| 4 | Synovus Financial Corp. | Columbus, GA | $ | 0.97 |
| 5 | Popular, Inc. | San Juan, PR | $ | 0.94 |
| 6 | M&T Bank Corporation [b] | Buffalo, NY | $ | 0.75 |
| 7 | Associated Banc-Corp | Green Bay, WI | $ | 0.53 |
| 8 | First Bancorp [c] | San Juan, PR | $ | 0.42 |
| 9 | Wilmington Trust Corporation [b] | Wilmington, DE | $ | 0.33 |
| 10 | Sterling Financial Corporation [d] | Spokane, WA | $ | 0.30 |
| 11 | Citizens Republic Bancorp, Inc. | Flint, MI | $ | 0.30 |
| 12 | Whitney Holding Corporation [e] | New Orleans, LA | $ | 0.30 |
| 13 | First Banks, Inc. | Clayton, MO | $ | 0.30 |
| 14 | New York Private Bank & Trust Corp. | New York, NY | $ | 0.27 |
| 15 | Flagstar Bancorp, Inc. | Troy, MI | $ | 0.27 |
| 16 | Cathay General Bancorp | Los Angeles, CA | $ | 0.26 |
| 17 | PrivateBancorp, Inc. | Chicago, IL | $ | 0.24 |
| 18 | International Bancshares Corporation | Laredo, TX | $ | 0.22 |
| 19 | MB Financial Inc. | Chicago, Il | $ | 0.20 |
| 20 | Pacific Capital Bancorp [f] | Santa Barbara, CA | $ | 0.20 |
| 21 | First Midwest Bancorp, Inc. | Itasca, IL | $ | 0.19 |
| 22 | United Community Banks, Inc. | Blairsville, GA | $ | 0.18 |
| 23 | Dickinson Financial Corporation II | Kansas City, MO | $ | 0.15 |
| 24 | Western Alliance Bancorporation | Las Vegas, NV | $ | 0.14 |
| 25 | Central Pacific Financial Corp. [g] | Honolulu, HI | $ | 0.14 |
| | Total | | | $14.19 billion |

Notes to Figure 5

a/ In December 2010, BMO Financial Group, parent company of The Bank of Montreal ("BMO"), and Marshall & Ilsley Corporation ("M&I") announced a definitive agreement for M&I to merge into BMO in a stock-for-stock transaction. Subject to the receipt of requisite approvals, BMO has indicated it expects to repay all of M&I's TARP investment.

b/ In November 2010, M&T Bank Corporation ("M&T") and Wilmington Trust Corporation ("Wilmington") announced an agreement to merge. Completion of the merger, which is subject to terms and conditions, includes the repayment by M&T of Wilmington's TARP preferred stock obligations.

c/ In July 2010, Treasury exchanged its preferred stock in First BanCorp for mandatorily convertible preferred stock ("MCP") with capitalized interest. Subject to the fulfillment by First BanCorp of certain conditions, including those related to its capital plan, the MCP may be converted to common stock.

d/ In September 2010, Treasury exchanged its preferred stock in Sterling Financial for MCP, Sterling fulfilled the conversion conditions, including those related to its capital plan, so that Treasury's MCP was converted into 378,750,000 shares of common stock. Thus in August 2010 Treasury's MCP was converted into 378,750,000 (5,738,637 as of March 31, 2011) shares of common stock.

e/ In December 2010, Hancock Holding Company, parent company of Hancock Bank, and Whitney Holding Corporation announced a definitive agreement for Whitney to merge into Hancock in a stock-for-stock transaction. Subject to the receipt of requisite approvals, Hancock expects to repay all of Whitney's TARP investment.

f/ In August 2010, Treasury exchanged its preferred stock in Pacific Capital for MCP with capitalized dividends. Pacific Capital fulfilled the conversion conditions and Treasury's MCP was converted into 360,833,250 (3,608,333 as of March 31, 2011) shares of common stock.

g/ In February 2011 Treasury exchanged its preferred stock in Central Pacific with capitalized dividends for 5,620,117 shares of common stock, pursuant to an exchange agreement dated February 17, 2011.

### *ii. Update on Warrant Dispositions*

As of March 31, 2011, Treasury had disposed of warrants from 104 banking organizations and had received more than $8.81 billion in gross proceeds.[5] During the quarterly period, 12 banking organizations repurchased warrants from Treasury for proceeds of approximately $441 million. All public auctions to date have been conducted as modified "Dutch" auctions registered under the Securities Act of 1933, in a format where qualified bidders could submit one or more independent bids at different price-quantity combinations and the warrants would be sold at a uniform price that clears the market.

On January 25, Treasury completed a public auction of warrants to purchase Citigroup, Inc. ("Citigroup") common stock for total gross proceeds of approximately $310 million. Treasury received gross proceeds of $257 million from the warrants associated with the Targeted Investment Program ("TIP") and Asset Guarantee Program ("AGP"), which carried an exercise price of $10.61. Proceeds from the warrants associated with the CPP, at an exercise price of $17.85, totaled $54.6 million.

[5] Includes warrant dispositions through auction, repurchase, and repurchase of exercised warrant preferred shares from the CPP and TIP.

Treasury realized a gain of $12.4 billion on the $45 billion of TARP investments in Citigroup, and Treasury has now exited from all TARP investments in Citigroup. Treasury expects to receive up to an additional $800 million of Citigroup's Trust Preferred Securities ("TruPS") from the Federal Deposit Insurance Corporation ("FDIC"), subject to certain conditions, after the close of Citigroup's participation in the FDIC's Temporary Liquidity Guarantee Program in December 2012.

On February 1, Treasury completed a public auction of warrants to purchase the common stock of Boston Private Financial Holdings, Inc., for total gross proceeds of approximately $6.4 million, and on February 8, Treasury completed a public auction of warrants to purchase the common stock of Wintrust Financial Corporation for total gross proceeds of approximately $26 million.

In March, Fifth Third Bancorp repurchased 43.6 million warrants to purchase common stock of Fifth Third Bancorp for total proceeds of $280 million. Four other banks repurchased warrants and preferred shares from exercised warrants for proceeds of $85.85 million.

*iii. Update on CPP Dividends and Interest*

As of March 31, 2011, Treasury had received approximately $10.7 billion in total dividends and interest under the CPP program. During the quarterly period, Treasury received approximately $364 million in dividends and interest.

*a. Missed Payments*

During the quarterly period, 151 institutions did not make their scheduled dividend or interest payments on Treasury's CPP investments.[6] As of quarter-end, missed payments by portfolio institutions in the CPP were approximately $204 million,[7] which represents approximately 1.9 percent of the cumulative CPP dividends and interest received to date by Treasury. Under the CPP preferred-stock agreements, Treasury cannot demand payment of dividends under such circumstances, but instead has a contractual right to appoint up to two directors to the institution's board of directors if that institution has missed six payments. Treasury is using board observers (drawn from Treasury staff) to inform its decisions in that

[6] The following situations have also arisen with respect to the payment of dividends under the CPP: On February 15, 2001, MetroCorp Bancshares, Inc. paid a dividend to Treasury in the amount of $569,531.25 that corresponded to the total amount due from their November 15, 2011, missed payment. On February 18, 2011, Treasury completed the exchange of its $135 million of Preferred Stock (including accrued and unpaid dividends thereon) in Central Pacific Financial Corp. for not less than 5,620,117 shares of common stock, pursuant to an exchange agreement dated February 17, 2011. Germantown Capital Corporation made a late dividend payment on March 3, 2011.

[7] References to missed payments by portfolio institutions exclude institutions that have entered bankruptcy, or had a bank subsidiary placed in receivership or for which Treasury had disposed of its CPP investment (collectively referred to as non-portfolio institutions).

regard. As of March 31, 2011, thirty-two banks had missed six or more payments and thirty-nine institutions had agreed to have Treasury observers at their board of directors meetings, including several institutions that expected to miss their sixth dividend payment in the near future. Treasury has interviewed some potential candidates and expects to begin the corporate and regulatory procedures to nominate directors to certain of these institutions shortly.

*b. Exchanges and Dispositions*

In limited cases, and in keeping with the objectives of EESA to "restore liquidity and stability to the financial system of the United States" in a manner which "maximizes overall return to taxpayers," Treasury may agree to participate in a direct disposition of the CPP investment to new investors who are able to provide fresh equity investment, conduct a capital restructuring or otherwise strengthen the capital position of the bank, or Treasury may participate in exchanges of CPP preferred stock for other securities. Exchanges made on this basis may be at a rate less than par, and sales by Treasury to a new investor may be made at a discount. During the quarterly period, Treasury entered into the transactions described below:

(1) Treasury entered into an agreement on January 28, 2011, with North American Financial Holdings, Inc. for the sale of all preferred stock and warrants issued by Capital Bank Corporation to Treasury for an aggregate purchase price of $41 million. Since the conditions to closing of the sale were satisfied, the closing of the sale also occurred on January 28, 2011.

(2) On February 15, 2011, Treasury completed the sale of all preferred stock (including the Preferred Stock received upon the exercise of warrants) issued by Treaty Oak Bancorp ("Treaty Oak") to Treasury for (i) a cash payment of $500,000, (ii) the right to receive up to $150,000 in principal payments on a note payable by Carlile Bancshares, Inc. in favor of Treaty Oak, and (iii) a newly issued warrant to purchase 3 million shares of Treaty Oak common stock, pursuant to the terms of the agreement between Treasury and Treaty Oak entered into on February 15, 2011.

(3) On February 18, 2011, Treasury completed the exchange of its $135 million of preferred stock (including accrued and unpaid dividends thereon) in Central Pacific Financial Corp. for not less than 5.6 million shares of common stock, pursuant to an exchange agreement dated February 17, 2011.

(4) On March 9, 2011, Treasury completed the sale of all subordinated debentures (including the subordinated debentures received upon the exercise of warrants) issued by FBHC Holding Company ("FBHC") to Treasury for an aggregate purchase price of $650,000, pursuant to the terms of the agreement between Treasury and FBHC entered into on March 9, 2011.

(5) On March 11, 2011, Treasury entered into an agreement with First Community Bank Corporation of America ("FCBCA") for the sale of all preferred stock and warrants issued by FCBCA for an aggregate purchase

price of $7.20 million plus 72 percent of the remaining cash assets after giving effect to the payment of defined acquisition expenses, debts, liabilities, and distributions to other classes of security holders, which payments are not to exceed $3.58 million. Closing of the sale is subject to certain conditions including completion of the acquisition and merger of FCBCA by Community Bank of Manatee, a Florida chartered commercial bank.

(6) As a result of the acquisition of Fidelity Resources Company (the acquired company) by Veritex Holdings, Inc. (the acquirer), the preferred stock and exercised warrants issued by the acquired company on June 26, 2009, were exchanged for a like amount of securities of the acquirer, pursuant to the terms of an agreement among Treasury, the acquired company and the acquirer entered into on March 23, 2011.

(7) As a result of the acquisition of NC Bancorp, Inc. (the acquired company) by Metropolitan Bank Group, Inc. (the acquirer), Treasury exchanged $6.8 million of its preferred stock in NC Bancorp, Inc. and $71.5 million of its preferred stock in Metropolitan Bank Group, Inc. for $81.8 million of a new series of preferred stock in Metropolitan Bank Group, Inc., which is equivalent to the combined initial investment amount of $78.4 million plus $3.4 million of capitalized previously accrued and unpaid dividends, pursuant to the terms of an agreement among Treasury, the acquired company and the acquirer entered into on March 30, 2011. Exercised warrants were also exchanged at the time of the agreement.

### *c. Receiverships*

During the quarterly period, the banking subsidiary of Legacy Bancorp, Inc. was placed into receivership by the Division of Banking of the State of Wisconsin Department of Financial Institutions, and the FDIC was named receiver. Treasury had invested approximately $5.5 million in Legacy. It is unlikely that Treasury will receive any significant recovery on this investment. Since the CPP began, eight out of 707 institutions that received funding – representing $2.74 billion in funding out of a total of $205 billion – had entered or completed bankruptcy proceedings or had a banking subsidiary placed in receivership (Figure 6).

Figure 6

| Institution | Original Treasury Investment Amount |
|---|---|
| CIT Group, Inc. | $2.33 billion |
| UCBH Holdings, Inc. | $298.7 million |
| Midwest Banc Holding, Inc. | $84.78 million |
| Pacific Coast National Bancorp | $4.12 million |
| Sonoma Valley Bancorp | $8.65 million |
| Pierce County Bancorp | $6.8 million |
| Tifton Banking Company | $3.8 million |
| Legacy Bancorp, Inc. | $5.5 million |

**b. AIG**

On December 8, 2010, AIG entered into a Master Transaction Agreement with Treasury, the Federal Reserve Bank of New York ("FRBNY"), certain special purpose vehicles ("SPVs") controlled by AIG, and the trustees of the AIG Credit Facility Trust (the "Trust") regarding a series of integrated transactions (the "Recapitalization"), to accelerate the repayment of U.S. taxpayer funds and facilitate AIG's transition from a majority government owned and supported entity to a financially sound and independent entity. The Recapitalization was completed on January 14, 2011, at which time AIG repaid the Federal Reserve Bank of New York a total of $47 billion.

Following completion of the Recapitalization, Treasury: (a) held approximately 1.66 billion shares of AIG common stock, representing ownership of 92 percent of the company,[8] (b) held $20.3 billion of preferred interests in the SPVs, and (c) had a $2 billion commitment under the Series G equity capital facility.

Treasury expects to exit its investment in AIG over time, subject to market conditions, in order to recoup taxpayer funds. As part of the Recapitalization, AIG entered into a Registration Rights Agreement that grants Treasury certain rights to facilitate its sale of common shares. Such rights include participation in any public registered offering of common stock by AIG and, as of August 15, 2011, causing AIG to facilitate underwritten and at-the-market offerings of Treasury's common shares. On April 5, 2011, AIG filed an amendment to its registration statement on form S-3 with the Securities and Exchange Commission to include Treasury as a selling shareholder.

In February, the sale by AIG of its subsidiaries AIG Star Life Insurance Co., Ltd. and AIG Edison Life Insurance Company delivered $2.1 billion in proceeds to Treasury, and reduced the outstanding amount of Treasury's preferred equity interests in AIG from $20.3 billion to $18.2 billion.

On March 2, 2011, AIG sold its holdings of MetLife common stock, obtained as part of the consideration for the sale of ALICO to MetLife, for $6.3 billion. Additionally, AIG sold its

[8] Of the 1.66 billion shares, 562.9 million of the shares are held by Treasury outside of OFS.

equity units in MetLife for $3.3 billion. AIG used $6.6 billion of the offering proceeds, as well as $300 million that was previously set aside for expenses related to the sale ALICO to redeem a $6.9 billion portion of Treasury's preferred equity interests in AIG, which previously stood at $18.2 billion. These preferred equity interests now stand at $11.3 billion.

Most of the proceeds from the sale of the MetLife equity units were deposited in an indemnity escrow to secure obligations that may be owed to MetLife, as previously agreed under the terms of the acquisition of ALICO by MetLife. These proceeds will be released according to agreed-upon minimum holding periods over the next two years and used to pay down additional portions of Treasury's preferred equity interests.

**c. AIFP**

As of March 31, 2011, Treasury held common stock in GM, Chrysler Group LLC ("Chrysler"), and Ally Financial under the AIFP. Treasury also held preferred stock in Ally Financial. Treasury continues to periodically evaluate both public and private options to exit the equity investments under the AIFP. Treasury continued to hold debt in Chrysler, a portion of which matures in December 2011 and the remainder maturing in June 2017.

*i. Update on General Motors*

During the quarterly period, Treasury's investment in GM remained unchanged, consisting of 33 percent of the common shares of the firm.

On March 31, 2011, the Plan of Liquidation for Motors Liquidation Company ("Old GM") became effective and Treasury's $986 million loan to Old GM was converted to an administrative claim. Treasury retained the right to recover additional proceeds. However, any additional recovery will depend on actual liquidation proceeds and pending litigation.

*ii. Update on Chrysler*

During the quarterly period, Treasury's investments in Chrysler remained unchanged, consisting of 9.2 percent of the common shares and $7.14 billion of loans (including undrawn commitments). Treasury received approximately $127 million in interest income from Chrysler.[9]

*iii. Update on Ally Financial (Formerly GMAC)*

Treasury invested a total of approximately $17 billion in Ally Financial under TARP. As of March 31, 2011, Treasury's investment in Ally Financial consisted of a 74 percent of the

[9] In January and April 2011, Chrysler met the first two of three performance-related milestones and Fiat's ownership automatically increased from 20 percent to 30 percent. Treasury's ownership now stands at 8.6 percent. Additional information is available at: http://www.media.chrysler.com/newsrelease.do?id=10453&mid=2 and http://media.chrysler.com/newsrelease.do?id=10773&mid=2.

firm's common shares and $5.9 billion in aggregate liquidation preference of mandatorily convertible preferred stock.

On February 28, 2011, Treasury exercised its right to appoint a director to the Ally board of directors, naming John D. Durrett.

On March 2, 2011, Treasury priced a secondary offering at par for all of its Ally Financial TruPs. Aggregate proceeds to Treasury from the offering totaled approximately $2.7 billion. Additionally, in February, Treasury received its scheduled quarterly dividend payments from Ally Financial in the amounts of $133.6 million associated with the convertible preferred stock and $53.3 million associated with the trust preferred securities. Treasury has now received approximately $4.9 billion in return from Ally Financial to date, including the proceeds from the TruPs sale and $2.2 billion in dividends and interest to date.

On March 31, 2011, Ally Financial filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering of common shares in which Treasury would sell shares. Treasury noted that it will retain the right, at all times, to decide whether and at what level to participate in any offering.

### d. Housing Stabilization and Foreclosure Mitigation

Treasury has indicated that reducing foreclosures for responsible homeowners and further stabilizing the U.S. housing market are key areas to which committed TARP funds will be used going forward. While Treasury can no longer make new financial commitments under TARP, expenditures to implement existing housing programs will continue to be made incrementally over time.

#### *i. Making Home Affordable ("MHA") and the Home Affordable Modification Program ("HAMP")*

The purposes of the MHA programs are to offer responsible, but struggling, homeowners the opportunity to remain in their homes at more affordable payment levels, consistent with the mandate of EESA to promote financial stability while protecting taxpayers. As the mortgage crisis evolved, Treasury enhanced MHA and developed new programs designed to meet the changing landscape. While the Home Affordable Modification Program ("HAMP") was the primary program, MHA expanded to include a number of more specialized programs, as described below.

#### *ii. Housing programs' indicative reporting timetable*

As noted above, Treasury has implemented a range of additional housing-related programs, in addition to HAMP, intended to address particular aspects of the problems faced by struggling homeowners, such as the presence of second liens, or to offer particular forms of solutions, such as principal reduction. The chart below (figure 7) shows for each program an indicative reporting timetable with the approximate date of: (i) program announcement; (ii) effective date of guidance sent to servicers in the form of Supplemental Directives; (iii) provision of an infrastructure for servicers to begin reporting on program activity to Treasury's system of record ("IR2"); and (iv) Treasury having completed its review of the reported data and processes in order to provide validated data on the program activity.

As of the MHA Servicer Performance report published on April 1, 2011,[10] Treasury Federal Housing Administration-HAMP ("Treasury FHA-HAMP"), the Second Lien Modification Program ("2MP") and the Home Affordable Foreclosure Alternatives Program ("HAFA") had reached validated reporting. Treasury is reviewing preliminary reporting from servicers on the remaining programs, and expects to begin public reporting on these programs by mid-2011. Further discussion of each program follows below.

Figure 7

**Housing programs indicative reporting timetable**

| MHA Program | Program Description | Announcement | Program Effective | Servicer IR2 Reporting Capability | Public Reporting |
|---|---|---|---|---|---|
| HAMP | First-lien loan modifications | Feb-09 | Mar-09 | Jun-09 | Aug-09 |
| 2MP | Second-lien loan modifications for borrowers who received permanent HAMP modifications | Aug-09 | Jun-10 | Sep-10 | 2Q 2011 |
| HAFA | Incentives for short sales or deeds-in-lieu of foreclosure | Mar-10 | Apr-10 | Jun-10 | 2Q 2011 |
| Principal Reduction Alternative (PRA) | Principal reduction for HAMP-eligible borrowers with high loan-to-value ratios | Jun-10 | Oct-10 | Dec-10 | 2Q 2011 |
| Home Affordable Unemployment Program (UP) | Temporary principal forbearance for unemployed borrowers | May-10 | Aug-10 | Jan-11 | 2Q 2011 |
| Treasury FHA-HAMP | Principal reduction and modification of delinquent or at risk FHA loans | Mar-10 | Mar-10 | Sep-10 | Dec-10 |
| Treasury/FHA Second Lien Program (FHA2LP) [a/] | Restructure of second liens to allow refinance of current, negative equity mortgages into FHA loans | Mar-10 | Aug-10 | N/A | 2Q 2011 |

Notes to Figure 7

[a/] Take up under FHA Short-Refinance and FHA2LP is not expected to be seen for several months. Accordingly, during the second quarter Treasury is evaluating how best to approach the content and timing of public reporting on these programs to appropriately take account of this expectation.

[10] The MHA Servicer Performance Report published on April 1, 2011, includes program data through February 2011. The MHA Servicer Performance Report is available at: http://www.financialstability.gov.

*a. HAMP*

As of March 31, 2011, Treasury had disbursed approximately $1.14 billion of incentive payments for MHA modifications and had a total maximum commitment associated with these modifications of $6.2 billion. This assumes that all modifications are current for five years. Treasury budgeted approximately $29.9 billion[11] for MHA modifications through December 31, 2012. This budget is currently under review based on program performance and the constantly changing economic environment.

*b. Second Lien Modification Program ("2MP")*

Under 2MP, Treasury provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when the first lien mortgage for the same property has been permanently modified under HAMP.[12] Seventeen servicers (including the four largest mortgage servicers, who in aggregate service approximately 60 percent of outstanding second liens) have agreed to participate in 2MP. As of February 2011, approximately 17,000 homeowners in a first-lien HAMP modification had a permanent second lien modification in place. Take up in the program was initially delayed as the system the servicers rely upon to match the HAMP modified first lien with the corresponding eligible second lien was still being implemented.

*c. Home Affordable Foreclosure Alternatives Program ("HAFA")*

Under the HAFA Program, Treasury provides incentives for short sales and deeds-in-lieu of foreclosure for circumstances in which borrowers are unable or unwilling to complete the HAMP modification process. As of February 2011, approximately 10,000 homeowners had reached agreements with their servicer to exit their home under the HAFA Program and approximately 4,500 homeowners had completed a short sale or deed-in-lieu.

*d. Home Affordable Unemployment Program ("UP")*

The UP requires participating servicers to grant qualified unemployed borrowers a forbearance period during which their mortgage payments are temporarily reduced or suspended for a minimum of three months while they look for new jobs. At the end of this forbearance period, the homeowner is evaluated for HAMP and the forborne amount is capitalized. Treasury expects public reporting on UP to commence in the second quarter.

*e. Principal Reduction Alternative ("PRA")*

Under PRA, servicers are required to evaluate the benefit of principal reduction and are encouraged to offer principal reduction whenever the NPV result of a HAMP modification that

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[11] Treasury's Transactions Reports, which are available at: http://www.financialstability.gov, show the adjusted cap amounts for each servicer, and the total disbursements to each non-GSE servicer. Incentive payments to servicers of GSE loans are borne by the GSEs and not HAMP.

[12] See also the FHA 2LP described below.

includes PRA principal reduction is greater than the NPV result without considering principal reduction. As of March 31, 2011, nine of the largest ten servicers offered PRA principal reductions. While each servicer developed its own PRA policy, many offered principal reductions if it results in a higher NPV. Treasury expects public reporting on PRA to commence in the second quarter.

*f. Treasury Support for FHA Refinance ("FHA Short-Refinance") and FHA Second Lien Program ("FHA2LP")*

The FHA Short-Refinance program provides additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. The program is also designed to provide opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans. Treasury implemented the FHA Second Lien Program ("FHA2LP"), a voluntary program that provides incentives to second lien mortgage servicers and investors who agree to full or partial extinguishment of a second lien mortgage loan in conjunction with an FHA-Refinance refinancing that closes on or before December 31, 2012. Take up under these programs is not expected to be seen for several months. Accordingly, during the second quarter Treasury is evaluating how best to approach the content and timing of public reporting on FHA Short-Refinance and FHA2LP to appropriately take account of this expectation.

*g. Housing Scorecard and Servicer Performance Reports*

During the quarterly period, monthly MHA Servicer Performance Reports covering December 2010 and January and February 2011 were released in conjunction with monthly housing scorecards on the nation's housing market (the "Housing Scorecard").[13] The Housing Scorecard incorporates key housing market indicators and highlights the impact of housing recovery efforts, including assistance to homeowners through the FHA and HAMP, and incorporates the monthly MHA Servicer Performance Report. The servicer performance reports include data, among others, on: the characteristics of permanent modifications, servicer activity, re-default rates, waterfall of eligible borrowers, homeowner experience, HAMP activity by state and metropolitan area, modifications by investor type, and compliance reviews.

Beginning in January 2011, Treasury began publication of the MHA Data File, which includes characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data. The MHA Data File offers mortgage loan-level data and is intended to allow for better understanding of the impact of the program.[14]

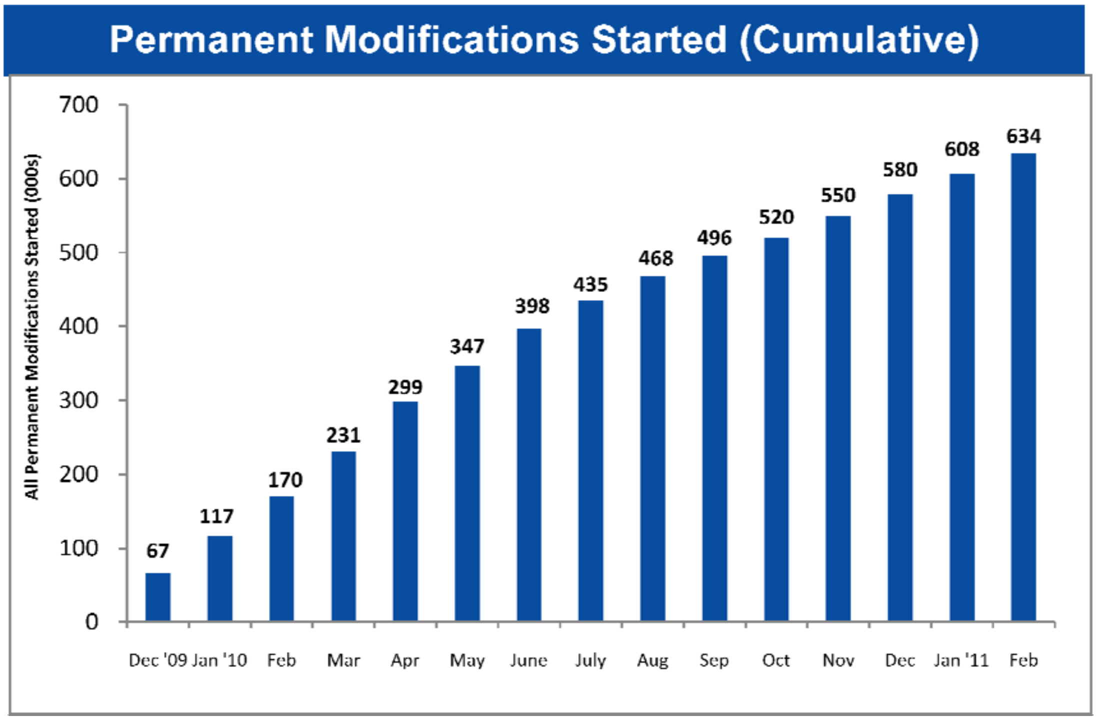
[13] The monthly Housing Scorecards are available at: www.HUD.gov/scorecard. The monthly Servicer Performance Reports are available at: http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx

[14] The MHA Data File and user guide are available at: http://www.treasury.gov/initiatives/financial-stability/results/Pages/mha_publicfile.aspx.

Approximately 30,000, 28,000, and 26,000 HAMP trial period plans became permanent in December, January, and February respectively (figure 8). As servicers continued to work through the backlog, the number of aged trial modifications (those initiated at least six months ago) was approximately 40,000 in December, 36,000 in January and 32,000 in February.

Figure 8

**HAMP Permanent Modifications Started (cumulative) through February 2011**




i. *Housing Finance Agency Innovation Funds for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF)*

The HFA Hardest Hit Fund allows state housing finance agencies ("HFAs") in the nation's hardest hit housing and unemployment markets to design innovative, locally targeted foreclosure prevention programs. HFAs designed the state programs themselves, tailoring the housing assistance to their local needs, provided the programs satisfy the requirements for funding under EESA. Treasury has committed $7.6 billion to support the HFA Hardest Hit Fund programs in eighteen states and the District of Columbia, as shown in the chart below (figure 9).[15]

Figure 9

**HHF commitment allocation by state ($ in millions)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Alabama** | $ | 162.52 | **Indiana** | $ | 221.69 | **North Carolina** | $ | 482.78 |
| **Arizona** | $ | 267.77 | **Kentucky** | $ | 148.90 | **Ohio** | $ | 570.40 |
| **California** | $ | 1,975.33 | **Michigan** | $ | 498.61 | **Oregon** | $ | 220.04 |
| **District of Columbia** | $ | 20.70 | **Mississippi** | $ | 101.89 | **Rhode Island** | $ | 79.35 |
| **Florida** | $ | 1,057.84 | **Nevada** | $ | 194.03 | **South Carolina** | $ | 295.43 |
| **Georgia** | $ | 339.26 | **New Jersey** | $ | 300.55 | **Tennessee** | $ | 217.32 |
| **Illinois** | $ | 445.60 | | | **TOTAL** | **7.60 billion** | | |

As of March 31, 2011, the programs in 17 states and the District of Columbia had drawn approximately $166 million from the $7.6 billion Treasury has allocated under the program. (Mississippi did not draw funds this quarter.) Programs in 11 states (AL, AZ, CA, MI, NV, NC, OH, OR, RI, SC, and TN) have begun operating HHF programs statewide, and 8 others (FL, GA, IL, IN, KY, MS, NJ, and Washington D.C.) were operating pilots as of March 31, 2011. All 19 eligible entities have begun selecting and training networks of housing counselors to assist with applications, the creation of homeowner portals, and the hiring of underwriters and other staff to review and approve applications. The five largest servicers (Ally Bank, Bank of America, J.P. Morgan Chase, Citibank, and Wells Fargo) have begun participating.

[15] Five of these states (Arizona, California, Florida, Michigan and Nevada) have had average home price declines greater than 20 percent since the housing market downturn, accounting for the majority of "underwater" mortgages in the country. The remaining fourteen states and jurisdictions (Alabama, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee and Washington, DC) have concentrated areas of economic distress due to unemployment or had an unemployment rate at or above the national average for the past year. Approximately two-thirds of all allocated funds are intended to assist unemployed borrowers pay or reinstate their mortgages. The remaining funds are intended for principal reduction, second lien removal, short sale assistance and other locally-tailored initiatives.

# APPENDIX A

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

# Minutes of the Financial Stability Oversight Board Meeting
# January 20, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:30 p.m. (EST) on Thursday, January 20, 2011, via teleconference.

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
Mr. Donovan
Ms. Schapiro
Mr. DeMarco

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

Mr. Massad, Acting Assistant Secretary for Financial Stability, Department of the Treasury

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

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Mr. Pendo, Director of Investments, Office of Financial Stability, Department of the Treasury

Mr. Casarella, Deputy Chief Restructuring Officer, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Acting Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Wilcox, Deputy Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 4:30 p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on December 20, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, 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 restructuring of the assistance provided to Ally Financial, Inc. ("Ally"); the American International

Group, Inc. (“AIG”); the Capital Purchase Program (“CPP”); the Making Home Affordable (“MHA”) program and related initiatives; and the Hardest Hit Fund Initiative (“HHF”). Also included in the materials prepared for the meeting were updates concerning the other programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials first provided the Members with an update on Ally. Treasury officials noted that, on December 30, 2010, Treasury had converted approximately $5.5 billion of its approximately $11.4 billion investment in Ally mandatorily convertible preferred stock into Ally common stock. The conversion increased Treasury’s common equity stake in Ally from 56 percent to 74 percent of total common shares outstanding. As part of this discussion, Treasury officials also reviewed the potential for future sale of its holdings of Ally trust preferred shares (“TruPs”) and certain protection Treasury received from Ally with respect to the remaining Ally mandatory convertible preferred stock held by Treasury.

Treasury officials then updated the Members on AIG. As part of this discussion, Treasury officials reviewed the recent closing of the comprehensive recapitalization plan of AIG (the “Recapitalization”) designed to restructure the assistance provided by the U.S. government to the company. At the closing of the Recapitalization, on January 14, 2011, AIG repaid in full the amount then outstanding under the revolving credit facility established by the Federal Reserve Bank of New York (“FRBNY”), including all accrued interest and fees, with cash proceeds from asset dispositions. The FRBNY also received the full amount, including all accrued dividends, of the preferred interests (the “SPV Preferred Interests”) in AIA Aurora LLC and ALICO Holdings LLC, which the FRBNY received as part of the March 2009 restructuring in exchange for an equivalent reduction of the amount of debt then outstanding on the revolving credit facility. AIG redeemed a portion of the FRBNY’s SPV Preferred Interests with cash proceeds from asset dispositions, and purchased the remaining SPV Preferred Interests, valued at approximately $20 billion, from the FRBNY through a draw on the Treasury’s Series F preferred stock commitment and transferred the SPV Preferred Interests purchased from the FRBNY to the Treasury as consideration for the draw on the available Series F funds. At the time of the closing, the collateral backing the remaining SPV Preferred Interests received by the Treasury had an estimated value of more than $25 billion. In addition, Treasury converted its Series E and Series F preferred stock in AIA, as well as the Series C preferred stock held by the Revolving Credit Facility Trust, into common stock of AIG. Officials noted that, as a result of the Recapitalization, Treasury owned approximately 1.65 billion shares of AIG common stock (approximately 92 percent of the common stock outstanding). Treasury officials also discussed the potential timing of a “re-IPO” of AIG and Treasury’s rights with respect to such an offering.

Treasury officials then provided an update on recent transactions under the CPP, including Treasury's recent sales of the warrants received under the CPP and exchanges of Treasury's CPP investments in certain institutions. Officials noted that, as of December 31, 2010, Treasury had received a total of approximately $167.93 billion in repayments from CPP recipients. As part of this discussion, Members and officials also discussed the twenty-five largest remaining CPP investments, the likely pace of future repayments, and the influence of such repayments on the ultimate return to taxpayers. Treasury also reviewed the status of Treasury's CPP investments in two participating institutions that recently undertook business combinations with other financial firms.

Using prepared materials, Treasury officials then provided an update on MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP"). Among the matters discussed were: the numbers of temporary and permanent modifications made under HAMP and the status of the Second Lien Modification Program, Unemployment Forbearance Program and the Home Affordable Foreclosure Alternatives ("HAFA") program. As part of this discussion, officials discussed recent program improvements to the HAFA short-sale and deed-in-lieu programs. Treasury officials then discussed Treasury's progress in implementing certain legislative changes to HAMP under the Dodd-Frank Wall Street Reform and Consumer Protection Act, including Treasury's progress in establishing a web-portal that allows borrowers to run a net-present value ("NPV") analysis, and provides borrowers who are turned down for a HAMP modification with the input data used to evaluate their application.

Using prepared materials, Treasury officials then provided the Members with an update on the HHF initiative. As part of this discussion, officials reviewed the status of the programs approved under each of the Hardest Hit Funds and Treasury's progress in expanding the HHF initiative to support programs sponsored by Housing Finance Agencies ("HFAs") in eligible states. Treasury officials noted that, as of December 31, 2010, programs in twelve states had drawn approximately $104 million in support of approved programs, and provided Members an update on the expected roll-out of programs in other states. Treasury officials also discussed the projected timeline for publicly reporting data on activity under the Second Lien Modification program, HAFA, the Principal Reduction Alternatives program, the Unemployment Forbearance program, the FHA Short-Refinance program, and the Hardest Hit Fund program.

Using prepared materials, Treasury officials then provided the Members with an update on the expected cost of TARP programs. Officials noted that, according to Treasury's re-estimate in December 2010, the expected overall cost of TARP would be approximately $48 billion. Treasury officials noted that this estimate gives effect to the completion of the AIG restructuring and was based on the November 30, 2010, market price of AIG common stock (less an adjustment for the estimated value of additional AIG warrants to be distributed to shareholders other than Treasury). Taking account of the AIG shares held for the benefit of Treasury or as a result of the Revolving

Credit Facility Trust, Treasury estimated that the combined cost of TARP programs and other Treasury interests in AIG would be about $28 billion. Treasury officials indicated that the costs are expected primarily to derive from losses related to TARP investments in auto companies and outlays made for foreclosure mitigation efforts.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending December 31, 2010, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential content of the report.

The meeting was adjourned at approximately 5:30 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary

# Minutes of the Financial Stability Oversight Board Meeting
# February 28, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EST) on Monday February 28, 2011, via teleconference.

MEMBERS PARTICIPATING:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro
Mr. DeMarco

STAFF PARTICIPATING:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PARTICIPATING:

Mr. Goldstein, Under Secretary of the Treasury for Domestic Finance, Department of the Treasury

Mr. Massad, Acting Assistant Secretary for Financial Stability, Department of the Treasury

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

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Mr. Pendo, Director of Investments, Office of Financial Stability, Department of the Treasury

Mr. Bartley, Investment Specialist, Office of Financial Stability, Department of the Treasury

Mr. Casarella, Deputy Chief Restructuring Officer, Office of Financial Stability, Department of the Treasury

Mr. Fu, Investment Specialist, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Acting Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 2:00 p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on January 20, 2011, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, 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 Automotive Industry Financing Program ("AIFP"); the American International Group, Inc. ("AIG"); the Capital Purchase Program ("CPP"); the Public Private Investment Program ("PPIP"); and the Making Home Affordable ("MHA") program and related initiatives. Also included in the materials prepared for the meeting were updates concerning the other programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials first updated the Members on the AIFP. As part of this discussion, Treasury officials provided an overview of the financial performance of General Motors, Inc. ("GM") and Ally Financial, Inc. ("Ally") during the fourth quarter of 2010 and the status of the U.S. Government investments in each company.

Treasury officials then updated the Members on AIG. As part of this discussion, officials reviewed certain staffing changes in the Office of Financial Stability ("OFS"). Officials also discussed the operating results and earnings announced by AIG for the fourth quarter of 2010, and the status of AIG's efforts to divest various of the company's subsidiaries or business units.

Treasury officials then provided an update on recent transactions under the CPP, including Treasury's recent sales of warrants received under the CPP and exchanges of Treasury's CPP investments in certain institutions. Officials noted that, as of February 22, 2010, approximately $30 billion of Treasury's total investment under the CPP remained outstanding. Treasury officials also provided an update on recent exchanges of Treasury's CPP investments in certain institutions. Members and officials also discussed the twenty-five largest remaining CPP investments, the likely pace of future CPP repayments, and the likely influence of such repayments on the ultimate return to taxpayers. As part of this discussion, Treasury also provided an overview of the status of applications filed by CPP institutions to convert Treasury's CPP investment into an investment from Treasury's Small Business Lending Fund ("SBLF"), a non-TARP program designed to promote small businesses.

Using prepared materials, Treasury officials then provided an update on the PPIP. Treasury officials noted that, as of December 31, 2010, the Public- Private Investment Funds ("PPIFs") in the program had drawn-down approximately $20.4 billion of the total capital available under the program. These investments represented approximately 69 percent of the $29.4 billion in total purchasing power available under the program. As part of this discussion, Treasury officials reviewed with Members the returns achieved to date by the PPIFs, while noting that the funds were still in the early stages of their investment period.

Using prepared materials, Treasury officials then provided an update on MHA and other related housing initiatives, including the Home Affordable Modification Program

("HAMP"). Among the matters discussed were: the numbers of temporary and permanent modifications made under HAMP and the status of the Second Lien Modification Program, Unemployment Forbearance Program and the Home Affordable Foreclosure Alternatives ("HAFA") program and certain proposed legislative changes to HAMP. As part of this discussion, officials discussed Treasury's progress in implementing certain legislative changes to HAMP under the Dodd-Frank Wall Street Reform and Consumer Protection Act, including the recent issuance and implementation of guidance to servicers under HAMP in the form of a Supplemental Directive and Treasury's, release of a public MHA Data File, which includes characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data.

Using prepared materials, Treasury officials then provided the Members with an update on the Hardest-Hit Fund ("HHF") initiative. As part of this discussion, officials reviewed the status of the programs approved under each funding of the HHF and Treasury's progress in expanding the HHF initiative to support programs sponsored by Housing Finance Agencies ("HFAs") in eligible states. Treasury officials noted that the five largest servicers had begun participating in the program on a pilot basis.

Using prepared materials, Treasury officials then provided the Members with an update on the expected final cost of TARP programs. As part of this discussion, officials reviewed and discussed Treasury's new Daily TARP Progress Report, which shows for each TARP program the amount of funds obligated, the amount actually disbursed, repayments and income received, and any losses. Treasury officials noted that the Daily TARP Progress Report did not show lifetime cost estimates for the TARP. Officials also noted that the Daily TARP Progress report was available to the public on Treasury's website and would be updated every business day.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending December 31, 2010, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential content of the report.

The meeting was adjourned at approximately 2:45 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary

# Minutes of the Financial Stability Oversight Board Meeting March 28, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:30 p.m. (EST) on Monday March 28, 2011, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro
Mr. DeMarco

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Gonzalez, General Counsel and Secretary

AGENCY OFFICIALS PRESENT:

Mr. Massad, Acting Assistant Secretary for Financial Stability, Department of the Treasury

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Mr. Pendo, Director of Investments, Office of Financial Stability, Department of the Treasury

Mr. Clair, Senior Advisor to the Acting Assistant Secretary for Financial Stability, Department of the Treasury

Ms. Golant, Attorney-Advisor, Office of Financial Stability, Department of the Treasury

Ms. Singleton, Advisor, Department of Housing and Urban Development

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 4:36 p.m. (EST).

Chairperson Bernanke then discussed his intention to fill the staff position of General Counsel following the resignation of Kieran J. Fallon. At the Chairperson's request and without objection, the following statement was entered into the record:

STATEMENT BY THE CHAIRPERSON TO APPOINT STAFF OF THE FINANCIAL STABILITY OVERSIGHT BOARD

*"I hereby appoint Jason A. Gonzalez to the staff position of General Counsel of the Financial Stability Oversight Board, as authorized by the Amended and Restated Bylaws of the Oversight Board."*

The Board then considered draft minutes for the meeting of the Board on February 28, 2011, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

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 Automotive Industry Financing Program ("AIFP"); the American International Group, Inc. ("AIG"); the Capital Purchase Program ("CPP"); and the Making Home Affordable ("MHA") program and related initiatives. Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("EESA"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided an update on the expected final cost of TARP programs. Treasury officials discussed with Members the results of Treasury's TARP Progress Report for March 9, 2011, which showed for each TARP program the amount of funds obligated, the amount actually disbursed, repayments and income received, and any losses. As part of this discussion, officials also discussed the contents and conclusions of the final Congressional Oversight Panel ("COP") report with respect to the cost of TARP to taxpayers. By statute, the COP will terminate on April 3, 2011.

Treasury officials then updated the Members on the AIFP. As part of this discussion, Treasury officials provided an update on Ally Financial, Inc. ("Ally"). Officials noted that on March 7, 2011, Treasury received aggregate proceeds of approximately $2.7 billion from the sales of its holdings of Ally trust preferred shares ("TruPs"). Treasury continued to hold approximately $5.9 billion of Ally mandatory convertible preferred stock and 74 percent of the common stock outstanding of Ally. Officials also noted that on March 22, 2011, General Motors Company ("GM") announced the sale of all of its holdings of Ally Fixed Rate Perpetual Preferred shares in a registered public offering for a total of approximately $1 billion.

Using prepared materials, Treasury officials then reported on the status of AIG's ongoing efforts to repay the assistance provided to the company by the U.S. government. Members and officials discussed, among other things, AIG's recent repayment to Treasury of approximately $6.6 billion, drawn from the $9.6 billion of proceeds AIG received from the March 8, 2011 closing of AIG's previously announced sale of its entire equity holdings of MetLife, Inc. ("MetLife"). AIG received the MetLife shares last year from the sale of American Life Insurance Company ("ALICO") to MetLife. Treasury also received from AIG approximately $300 million previously held by AIG in anticipation of expenses related to the sale of ALICO, bringing the total amount AIG has repaid to Treasury to approximately $6.9 billion. Officials explained that, per existing agreements with MetLife relating to the ALICO sale, the remaining $3 billion in proceeds AIG received were placed into escrow as substitute collateral for the MetLife common equity units sold. These proceeds will be released after fulfillment of agreed-upon minimum holding periods over the next two years, and then used to further redeem Treasury's preferred equity interests.

Treasury officials then provided an update on recent transactions under the CPP, including Treasury's recent sales of warrants received under the CPP and exchanges of Treasury's CPP investments in certain institutions. Officials noted that, as of February 28, 2011, Treasury had received more than $171 billion in cumulative repayments. As part of this discussion, officials also discussed Treasury's contractual right under the CPP to appoint up to two members to the board of directors of an institution upon the sixth missed quarterly dividend (or interest) payment.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP"). Among the matters discussed were: the numbers of temporary and permanent modifications made under HAMP and the status of the Second Lien Modification Program, Unemployment Forbearance Program and the Home Affordable Foreclosure Alternatives ("HAFA") program.

Using prepared materials, Treasury officials then provided the Members with an update on the Hardest-Hit Fund ("HHF") initiative. As part of this discussion, officials reviewed the status of the programs approved under each funding of the HHF. Treasury officials noted that pilot programs sponsored by Housing Finance Agencies ("HFAs") had begun operating in all eligible states.

Members and officials then engaged in a roundtable discussion regarding the current state of the housing markets and the effect of the programs established under TARP in providing support to the housing market and assistance to at-risk mortgage borrowers. As part of this discussion, officials from the Federal Housing Finance Agency ("FHFA") briefed members on developments in the housing and housing finance markets. The data reviewed included data related to mortgage rates and delinquencies, mortgage originations, foreclosures, housing prices and sales. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the Government Sponsored Enterprises.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending March 31, 2011, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential content of the report.

The meeting was adjourned at approximately 5:10 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
General Counsel and Secretary