FINANCIAL STABILITY OVERSIGHT BOARD QUARTERLY REPORT TO CONGRESS

For the quarter ending
March 31, 2010

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

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I. INTRODUCTION

This report constitutes the sixth 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, 2010, to March 31, 2010 (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 has continued to review and monitor 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.

The Oversight Board believes that the accumulated effects of Treasury's actions under TARP contributed significantly to continuing recovery in many financial markets during the quarterly period, although credit volumes continued to exhibit weakness both for nonfinancial businesses and households. For example, conditions in key markets for asset-backed securities ("ABS") have benefitted from the Term Asset-Backed Securities Loan Facility ("TALF"), although market utilization of TALF continued to be low during its final non-mortgage-backed ABS subscriptions as improved market conditions rendered TALF financing less attractive.

The Oversight Board also believes that the actions taken by Treasury under TARP, together with those taken by the Federal Reserve, HUD, and FHFA, continued to aid the housing market and mortgage borrowers during the quarter. Housing market conditions remained difficult. At quarter's end, more than 1.4 million modification offers had been extended under the Home Affordable Modification Program ("HAMP"), and more than 1.1 million trial modification periods had begun, providing interim payment relief to borrowers. The pace of conversion from trial to permanent modifications under HAMP accelerated, as the number of permanent modifications in effect more than tripled during the quarter to roughly 230,000. Treasury also brought forward during the quarter several new or enhanced initiatives under TARP to help address the needs of unemployed mortgage borrowers, borrowers whose mortgage balances exceed the current value of their home, and borrowers for whom HAMP participation has been slowed or prevented by the presence of junior liens. Over the longer term, it is too early to assess the extent to which borrowers with HAMP permanent modifications may themselves subsequently default.

This report is divided into four parts. Following this Introduction (Part I), Part II (Oversight Activities of the Financial Stability Oversight Board) highlights the key oversight activities and administrative actions taken by the Oversight Board during the quarterly period. Part III (Evaluating the Effects of EESA Programs) presents the Oversight Board's evaluation of the effects thus far of the policies and programs implemented by Treasury under TARP. Finally, Part IV (Discussion of the Actions Taken by Treasury under the EESA during the Quarterly Period) reviews recent developments concerning the programs, policies, and administrative actions taken, and financial commitments entered into, by Treasury under TARP during the quarterly period.

II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on January 23, February 18, and March 18, 2010. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board received presentations and briefings from Treasury officials to assist the Oversight Board in monitoring and reviewing actions taken, or proposed to be taken, by the Treasury Department under the TARP and the Administration's Financial Stability Plan.

a. Key Initiatives and Developments

The following highlights some of the key initiatives and actions taken under TARP and the Financial Stability Plan during the quarterly period, subject to review and oversight by the Oversight Board.

Housing stabilization and foreclosure mitigation

- Making Home Affordable and Home Affordable Modification Program. During the quarterly period, the Oversight Board continued to monitor Treasury's progress under HAMP in helping American homeowners who are delinquent or at risk of imminent default avoid preventable foreclosures. As of March 31, 2010, some 230,801borrowers had entered permanent modifications under the program, and an additional 108,212 borrowers had received final approval from their servicer for a permanent modification and now only have to provide a final signature.
  - On March 26, 2010, the Administration announced enhancements to HAMP that are designed to provide temporary mortgage assistance to some unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification,

[1] Approved minutes of the Oversight Board's meetings are made available on the internet at: http://www.FinancialStability.gov/about/oversight.html.

allow more borrowers to qualify for modification through HAMP, ensure that 60-day delinquent borrowers are screened for HAMP eligibility prior to the initiation of foreclosure action, and help borrowers move to more affordable housing when a modification under HAMP is not possible.

- Hardest-Hit Housing Funds. On February 19, 2010, Treasury announced a new initiative to help address the housing problems facing those states (California, Florida, Arizona, Michigan, and Nevada) that have suffered an average home price drop of more than 20 percent from their respective peak. The initiative will make available up to $1.5 billion of TARP funds to support pilot programs developed or sponsored by Housing Finance Agencies ("HFAs") in the eligible states to foster innovative solutions to housing problems, such as those caused by unemployment, loan-to-value ratios in excess of 100 percent, or second mortgages. Funds have been allocated among eligible states based on a formula that takes account of home price declines and unemployment in the relevant state.

  On March 29, 2010, the Administration announced the establishment of an additional HFA Hardest-Hit Fund that will target five additional states (North Carolina, Ohio, Oregon, Rhode Island, and South Carolina) with high shares of their population living in local areas of concentrated economic distress. The second HFA Hardest-Hit Fund will include up to $600 million in funding for innovative measures to help families stay in their homes or otherwise avoid foreclosure. As with the first fund, money will be made available for programs sponsored or developed by state HFAs in the targeted states.

Community Lending Initiatives

- On February 3, 2010, Treasury announced the Community Development Capital Initiative ("CDCI"), a program to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs"). CDFIs are financial institutions that meet certain eligibility requirements designed to ensure that they meet the credit and development needs of markets that may be underserved by other financial institutions.

Initiatives to Increase Small Business Lending, Restore the Flow of Credit to Consumers and Businesses, and Stabilize Financial Markets

- Legacy Securities Public-Private Investment Program ("S-PPIP"). S-PPIP is designed to support market functioning and facilitate price discovery in the markets for legacy securities and allow banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. In January and April 2010, Treasury issued the first two public quarterly reports on PPIP. As of March 31, 2010, the participating

S-PPIP fund managers had raised an aggregate of $6.3 billion in private capital for Public-Private Investment Funds and, with Treasury equity and debt financing, these PPIFs had $25.1 billion in total funds available to acquire legacy mortgage-backed and other asset-backed securities.

- Small Business Administration 7(a) Purchase Program. During the quarterly period, Treasury and the Small Business Administration ("SBA") initiated a pilot program under the Consumer and Business Lending Initiative to support the market for small business loans by purchasing securities backed by guaranteed portions of loans made under the SBA's 7(a) loan program. As of March 31, 2010, Treasury had purchased an aggregate of $21.37 million in securities under the program.

- Term Asset-Backed Securities Loan Facility. The TALF was designed to assist the financial markets in meeting the credit needs of consumers and businesses of all sizes by facilitating the issuance of securities backed by consumer, business, and commercial mortgage loans. During the quarterly period, six additional TALF subscriptions occurred (three ABS subscriptions and three subscriptions for commercial mortgage-backed securities ("CMBS"), through which an aggregate of approximately $6.14 billion and $3.3 billion in TALF loans were extended against ABS and CMBS collateral, respectively.

Wind-Down of Capital Purchase Program

- Capital Purchase Program ("CPP"). The CPP, which was established in the fall of 2008 to help stabilize the financial system, continues to wind down as additional financial institutions repay the capital received under the program.

  - As of March 31, 2010, Treasury had received $135.83 billion in total repayments under the CPP—approximately 65 percent of the total amount of capital invested. Notable repayments during the period include PNC Financial Services Group, Inc. ($7.6 billion), Comerica, Inc. ($2.25 billion), and Hartford Financial Services Group ($3.4 billion).

  - As of March 31, 2010, Treasury had disposed of warrants (including warrant preferred shares) from 47 banking organizations receiving a total of $5.63 billion in gross proceeds. During the quarterly period, three banking organizations repurchased warrants resulting in gross proceeds to Treasury of $5.19 million. Treasury also completed warrant auctions during the quarterly period, yielding $1.6 billion in gross proceeds in respect of the following four institutions: Bank of America ($1.57 billion in respect of warrants received pursuant to the CPP and the Targeted Investment

Program ("TIP")), Washington Federal, Inc. ($15.6 million), Signature Bank, Inc. ($11.3 million), and Texas Capital Bancshares, Inc. ($6.7 million).

Additional details concerning these developments and programs are included in Part IV below.

b. Coordination with Other Oversight Bodies

Throughout the quarterly period, staff of the Oversight Board and of the agencies represented by each Member of the Oversight Board continued to have regular discussions with representatives from the Office of the Special Inspector General for the TARP ("SIGTARP") and the Government Accountability Office ("GAO") to discuss recent and upcoming activities of the oversight bodies. These efforts continued to help facilitate coordinated oversight and minimize the potential for duplication. During the quarterly period, the Oversight Board monitored Treasury's responses to the recommendations made by the SIGTARP and GAO, including those regarding transparency, the establishment of internal controls, compliance and risk monitoring, staffing and Treasury's communication strategy.

c. Aggregate Level of Commitments, Disbursements and Repayments

As part of its oversight activities, the Oversight Board also monitored the aggregate level and distribution of commitments and disbursements under TARP, repayments of TARP funds, and the level of resources that remain available under TARP. EESA authorized a maximum of $700 billion for TARP. As of March 31, 2010, Treasury had entered into commitments to invest approximately $491.1 billion and had disbursed approximately $381.54 billion, some of which has been repaid. A large part of the total investments to date occurred under the CPP following the enactment of EESA in October 2008. The more recent commitments include amounts extended under the Financial Stability Plan. The chart in Figure 1 summarizes TARP commitments, disbursements, and repayments as of March 31, 2010.

Figure 1

TARP/Financial Stability Plan Budget Table
(Status as of 04/01/10)
Figures reflected are as of COB 3/31/10

All dollars in billions All figures are as of COB the prior business day and are subject to adjustment(s) after final reconciliation.	Planned Allocation	Face Value Obligations	Face Value Disbursed/ Outlays[1]
Capital Purchase Program (CPP)[2]	204.89	204.89	204.89
Targeted Investment Program (TIP)[3]	40.00	40.00	40.00
Asset Guarantee Program (Citigroup loss share agreement)[4]	5.00	0.00	0.00
Capital Assistance Program (CAP)[5]	0.00	0.00	0.00
Consumer & Business Lending Initiative (CBLI)[6]	60.00	20.02	0.12
Legacy Securities Public-Private Investment Program (S-PPIP)[7]	30.00	30.36	7.94
AIG Investment	69.84	69.84	47.54
Automotive Industry Financing Program (AIFP)	85.39	84.84	79.69
Home Affordable Modification Program (HAMP)[8]	50.00	41.15	1.35
PROGRAM TOTALS:	545.12	491.10	381.54
Remaining Available Funds:	154.88	208.90	318.46
Actual Redemptions / Repayments :	175.83	175.83	175.83
Loan Principal Repaid:	4.95	4.95	4.95
Remainder of $700 billion (total accessible):	335.66	389.68	499.24
Percentage of $700 billion (total accessible):	48%	56%	71%
Dividends and Other Income Received To Date:	13.77		
Interest Received To Date:	0.61		
Proceeds from the sale of Warrants and Preferred Stock: (received as a result of Exercised Warrants)	5.59		
Proceeds from Additional Notes:	0.02		

[1] Represents TARP cash that has left the Treasury.

[2] No additional funding transactions exist. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[3] No additional funding transactions exist and all $40B has been repaid. Treasury still holds warrants that will result in additional proceeds to the UST at the time of settlement. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[4] Termination of the Asset Guarantee Program (AGP) Master Agreement occured on 12/23/09. Treasury still holds trust preferred securities with warrants that will result in additional proceeds to the UST at the time of settlement.

[5] The Capital Assistance Program (CAP) closed on 11/09/09 with no investments having been made. Per the Federal Reserve, 18 of the 19 banks participating in the SCAP or "stress tests" were shown to have no additional need for capital or have now fulfilled their need in the private market.

[6] $60B has been earmarked for the Consumer and Business Lending Initiative, of which $20B has been allocated to TALF. Initial funding of $100M on 3/25/09. Up to $9.2B may be disbursed as credit protection for the $200B Federal Reserve TALF. $780.2M is currently planned for the Community Development Capital Initiative (CDCI). $30B is expected to be allocated to a Small Business Lending fund to be created through separate legislation.

[7] $3.3B in total commitments for a previous S-PPIP fund manager, TCW, have been reallocated to the remaining eight (8) S-PPIP fund managers. While the $356M disbursed to TCW prior to the execution of the TCW Winding-Up and Liquidation Agreement (effective 01/04/10) will not be re-disbursed, these funds will remain a part of the S-PPIP obligation bringing the total S-PPIP obligation to $30.356B.

[8] TARP funds allocated, obligated and disbursed for the Home Affordable Modification Program (HAMP) include $1.244B to offset costs of program changes for the "Helping Families Save Their Homes Act of 2009", Public Law No: 111-22, Section 202 (b). Also included is $15M for administrative expenditures relating to the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). On February 19, 2010, President Obama announced a $1.5B initiative to address the problems facing the hardest-hit housing markets, working with State Housing Finance Agencies to develop innovative programs that will address local needs.

III. EVALUATING THE EFFECTS OF EESA PROGRAMS

In light of severe stresses in the U.S. and global financial markets, Congress passed the EESA to "immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States." Utilizing this authority, Treasury has implemented or announced 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 more detail in Part IV of this report and in the previous quarterly reports of the Oversight Board. This section provides the Oversight Board's evaluation to date of the effects of Treasury's efforts under EESA, building on the assessments made in previous quarterly reports.

The Oversight Board believes that the accumulated effects of Treasury's actions under TARP contributed significantly to continuing recovery in many financial markets during the quarterly period,[2] amid positive signs for economic activity and sustained indications that conditions in short-term funding markets were returning to near pre-crisis levels. Credit volumes for nonfinancial businesses and households, however, continued to exhibit weakness, likely reflecting both cyclical factors and uncertainty about the pace and shape of recovery. These influences appear to be manifest in still-tight lending standards and evidence of subdued demand for credit among creditworthy borrowers. Risk spreads for large banking organizations remained well below their peaks during the financial crisis, although spreads increased modestly during the quarter as market participants reacted to emerging credit quality issues. Conditions in key markets for ABS have benefitted from TALF, although market utilization of TALF continued to be low during its final non-mortgage-backed ABS subscriptions as improved market conditions rendered TALF financing less attractive.

[2] The Oversight Board has indicated in previous quarterly reports that financial market shocks from the crisis were lessened by Treasury's actions under EESA, and TARP and other government programs contributed to preventing the adverse effects of the crisis from becoming significantly more severe. In particular, TARP capital investments in banking organizations, in conjunction with TALF and other government programs, contributed to the easing of liquidity pressures and increased market confidence in banking organizations. These factors have allowed many organizations to raise substantial amounts of common equity and to repay some or all of the capital investments made by Treasury in the organizations under TARP. While lending activity has exhibited significant weakness since the onset of the crisis, the actions of Treasury under TARP likely prevented a greater deterioration in the availability of credit to households, businesses, and communities. At the same time, emerging stability in home prices has built on the positive influences of TARP programs and other initiatives by Treasury, the Federal Reserve, HUD, and FHFA. Discussion of conditions and effects of TARP programs in past periods can be found in the Oversight Board's previous Quarterly Reports at http://www.financialstability.gov/about/oversight.html.

The Oversight Board believes that the actions taken by Treasury under TARP, together with those taken by the Federal Reserve, HUD, and FHFA, however, continued to aid the housing market and mortgage borrowers. Housing market conditions remained difficult as house price indexes provided mixed signals and serious delinquencies rose during the quarter. During the quarter, about 226,000 new trial modifications were initiated under HAMP. As of March 31, 2010, more than 1.4 million modification offers had been extended since the introduction of HAMP, and more than 1.1 million trial modification periods had begun to provide payment relief to homeowners. The pace of conversion from trial to permanent modifications under HAMP accelerated on a quarter-by-quarter basis, as the number of permanent modifications in effect reached roughly 230,000, or more than three times the number at the beginning of the quarter. Over the longer term, it is too early to assess the extent to which borrowers with HAMP permanent modifications may themselves subsequently default. Available data indicate that a significant percentage of borrowers obtaining loan modifications outside of HAMP subsequently have fallen delinquent or defaulted on their modified loan.

Consistent with Treasury's strategy for winding down and refocusing TARP, as announced in December 2009,[3] Treasury brought forward during the quarter several new or enhanced initiatives under TARP to help address the needs of responsible borrowers at risk of foreclosure. These initiatives include programs directed at unemployed borrowers, borrowers whose mortgage balances exceed the current value of their home, and borrowers for whom HAMP participation has been slowed or prevented by the presence of junior liens.

a. Assessment of the effect of the actions taken by Treasury in stabilizing financial markets

Conditions and sentiment in financial markets continued to recover in the first quarter of 2010, as data again pointed to a pickup in economic activity and government programs, including those funded by TARP, reduced uncertainty. However, some concerns persisted about the timing and the pace of the nascent economic recovery and about the outlook for commercial and residential real estate valuations. Amid this uncertain backdrop, lending by banks remained very weak in the first quarter.

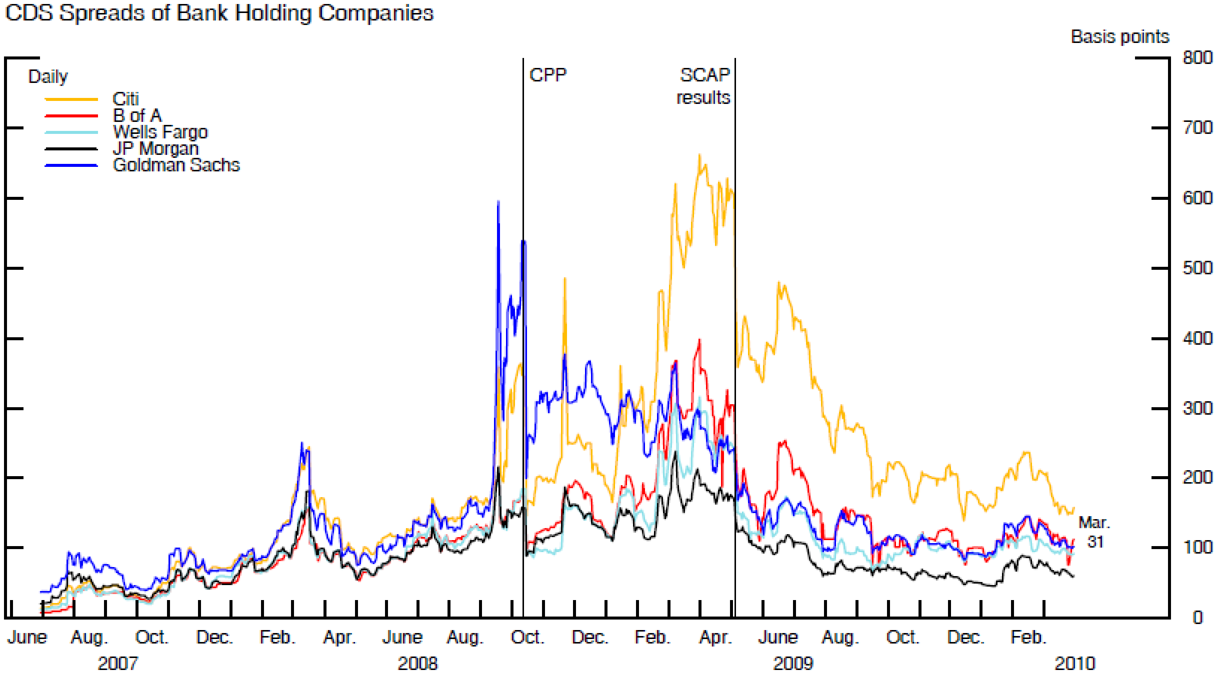
Market sentiment towards large banks deteriorated modestly in the early part of the first quarter of 2010 as indicated by widening credit default swap ("CDS") spreads, generally considered to be a key indicator of investors' views about the health and prospects of these institutions (figure 2). As the quarter progressed, the rise in CDS spreads suggests that announcements of fourth-quarter and full-year 2009 financial results appear to have raised concerns among market participants about asset quality, especially related to commercial real estate loans. CDS spreads declined markedly in the latter part of the quarter, however, consistent with the view that such concerns have

[3] Letter from Secretary Geithner to Congressional Leadership on the Administration's Exit Strategy for TARP, dated December 9, 2009 and available at http://www.financialstability.gov/latest/pr_12092009.html.

subsided. A similar pattern was evident in bank stock prices (figure 3). Meanwhile the aggregate use of the Federal Reserve liquidity facilities directed at depository institutions declined further during the quarter.

Figure 2

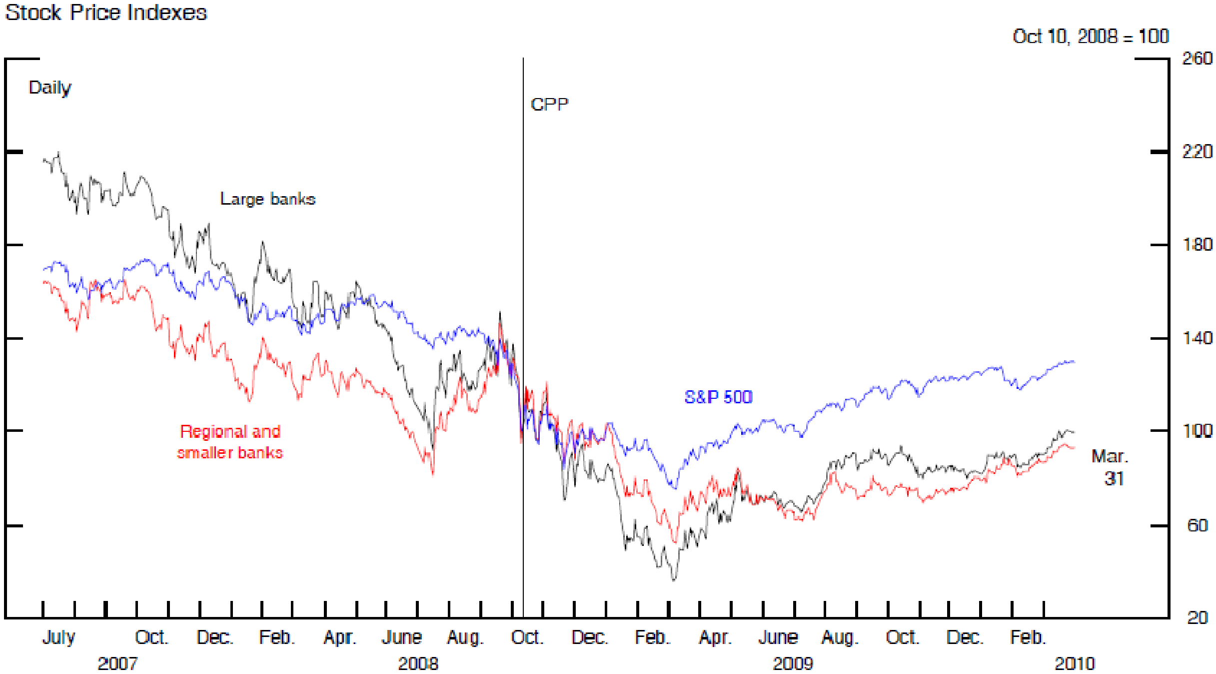
CDS Spreads of Bank Holding Companies



Source: Markit

Figure 3

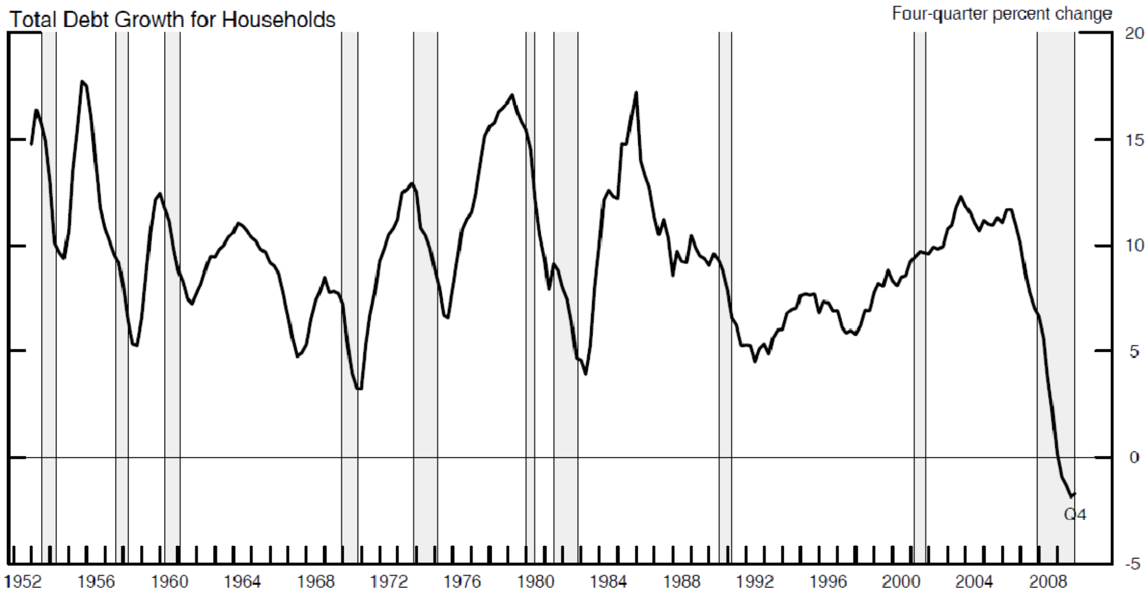
Stock Price Indexes



Note. Large bank ETF consists of 24 banks. Regional and smaller bank ETF consists of 51 banks.
Source. Keefe, Bruyette & Woods, Bloomberg, and Standard and Poor's.

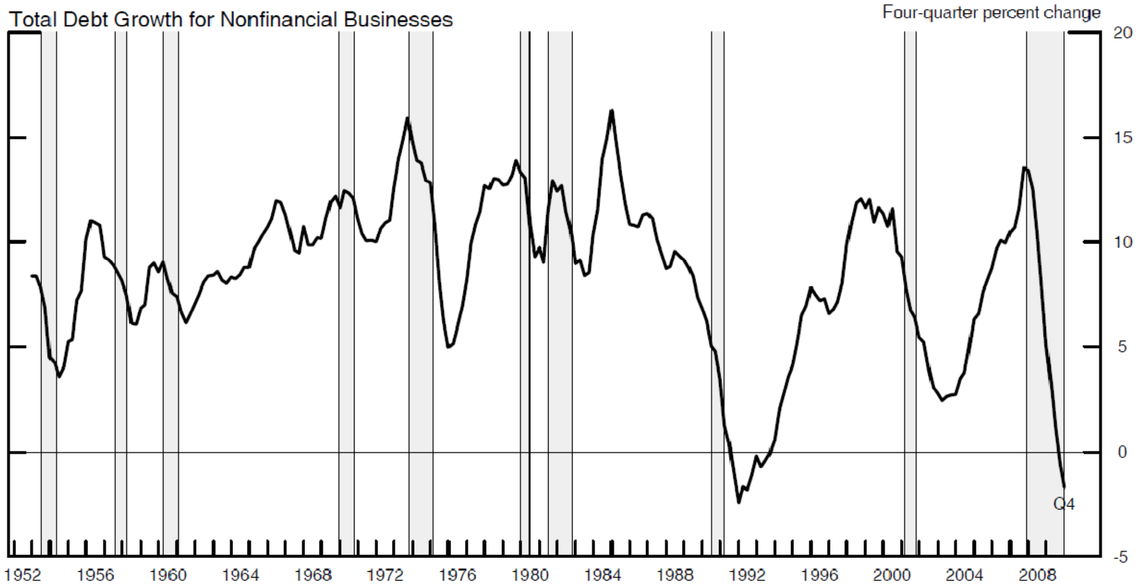
Debt growth for nonfinancial businesses and households, however, has continued to be weak in recent months. Data from the Flow of Funds Accounts published by the Federal Reserve Board show that, aggregating across banks and other sources of debt, growth in borrowing by households and nonfinancial businesses has tended to slow significantly in periods of economic weakness, and generally has not strengthened until well after the trough in economic activity (figures 4 and 5). However, data through the fourth quarter of 2009 (the latest data available for the Flow of Funds Accounts) indicate that year-over-year growth in borrowing by households and nonfinancial businesses has decelerated more sharply in the past two years than in previous recessions. It is worth noting that, within the commercial mortgage debt component of non-financial borrowing at depository institutions, nearly 50 percent of the fourth-quarter decline is attributable to charge-offs of problem loans.

Figure 4



Source: Federal Reserve Board, Flow of Funds Accounts.
Note: Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Figure 5



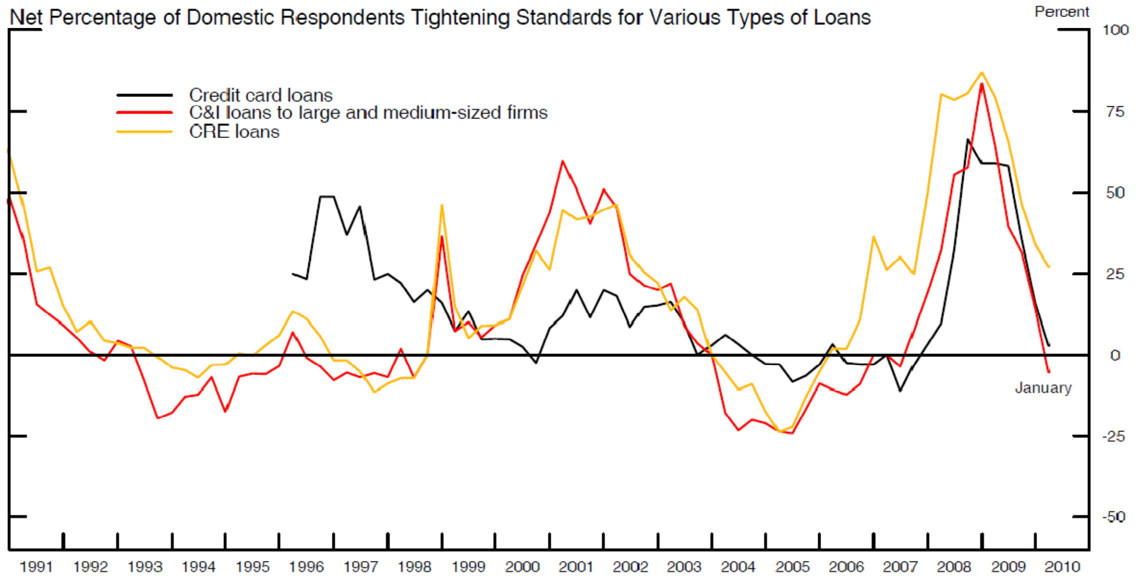
Source: Federal Reserve Board, Flow of Funds Accounts.
Note: Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Disentangling the sources of such changes in lending again present significant conceptual and practical challenges. Foremost among these challenges are the inherent difficulties in distinguishing the relative importance of reduced demand for credit due to weaker economic activity, reduced supply of credit because borrowers appear less creditworthy, or reduced supply of credit because lenders face pressures that restrain them from extending credit, such as possible concerns about capital adequacy.

Results from the January Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve provide a useful tool for distinguishing these factors. These results show that the net percentage of banks that tightened standards and terms on various types of loans has declined sharply in recent months (figure 6). In contrast, a majority of banks report that the demand for loans has continued to weaken. Banks also reported weaker demand for loans across the credit card, C&I and CRE loan categories (figure 7).[4]

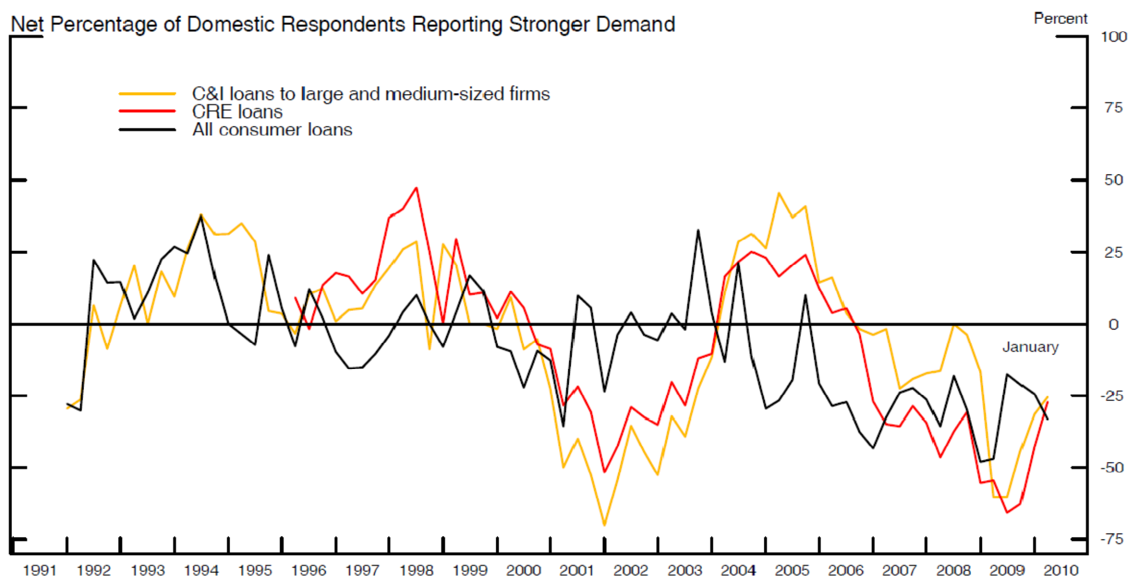
[4] The answers to survey questions about loans to small firms, not explicitly shown in figures 6 and 7, closely parallel the data about loans to large and medium-sized firms reported in those figures.

Figure 6



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey.

Figure 7

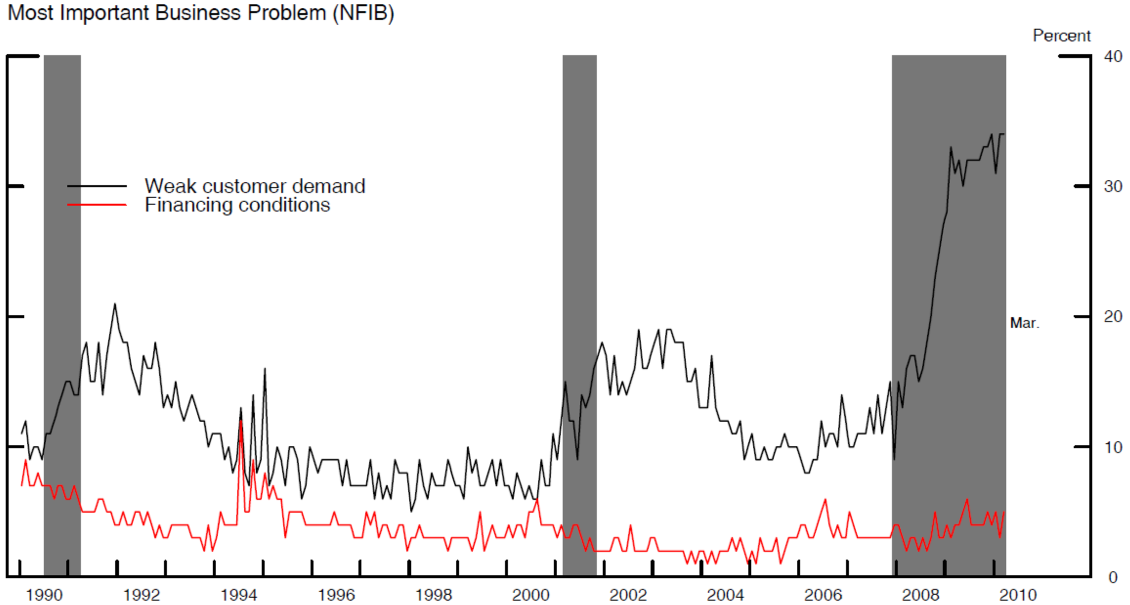


Source: Federal Reserve Board, Senior Loan Officer Opinion Survey.

Similar evidence is provided by the monthly survey of small businesses conducted by the National Federation of Independent Businesses.[5] A large fraction of businesses identified weak customer demand as their most important business problem, while a much smaller percentage indicated financing conditions were their most significant business problem (figure 8). These responses highlight the impact of weak demand on the recent weakness in borrowing. However, survey responses also indicate that among small businesses interested in obtaining credit, conditions remained tight.

Figure 8

Most Important Business Problem (NFIB)



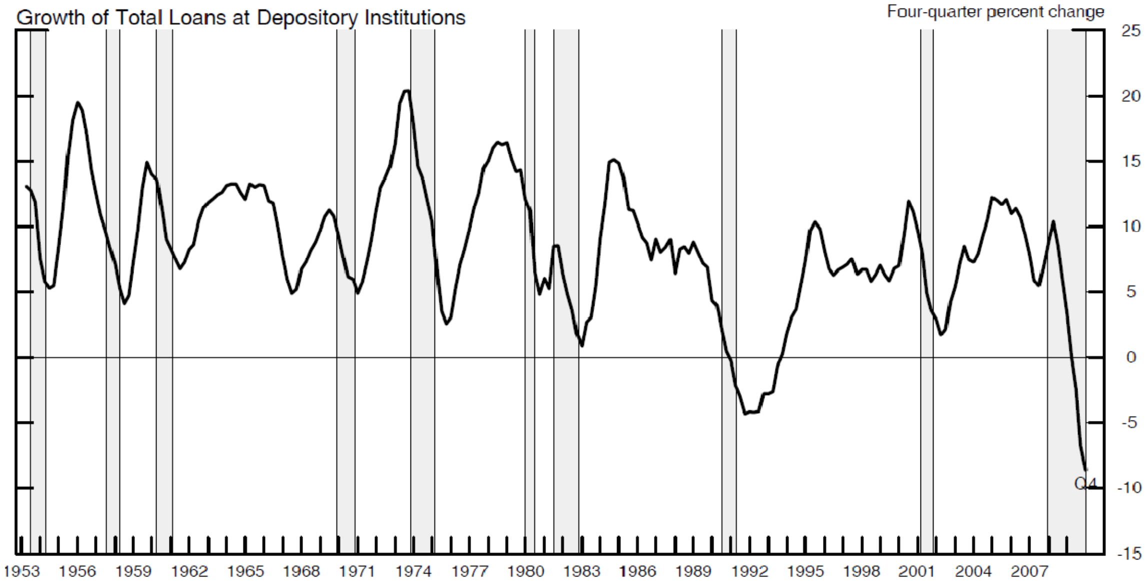
Source: National Federation of Independent Businesses.
Note: Percent of respondents reporting. Not seasonally adjusted. Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Consistent with these trends in supply and especially in demand for bank credit, Flow of Funds data show that growth in total loans at depository institutions has fallen off since the most recent business cycle peak in December 2007, and loans outstanding contracted in the fourth quarter of 2009 (figure 9). Data from the weekly survey of banks summarized in the Federal Reserve's H.8 Statistical Release provides evidence that bank

[5] See the National Federation of Independent Businesses ("NFIB") *Small Business Economic Trends*, published monthly by the Research Foundation of the NFIB and available online at http://www.nfib.com/research-foundation/.

credit to households and to nonfinancial businesses remained weak during the first quarter.[6]

Figure 9

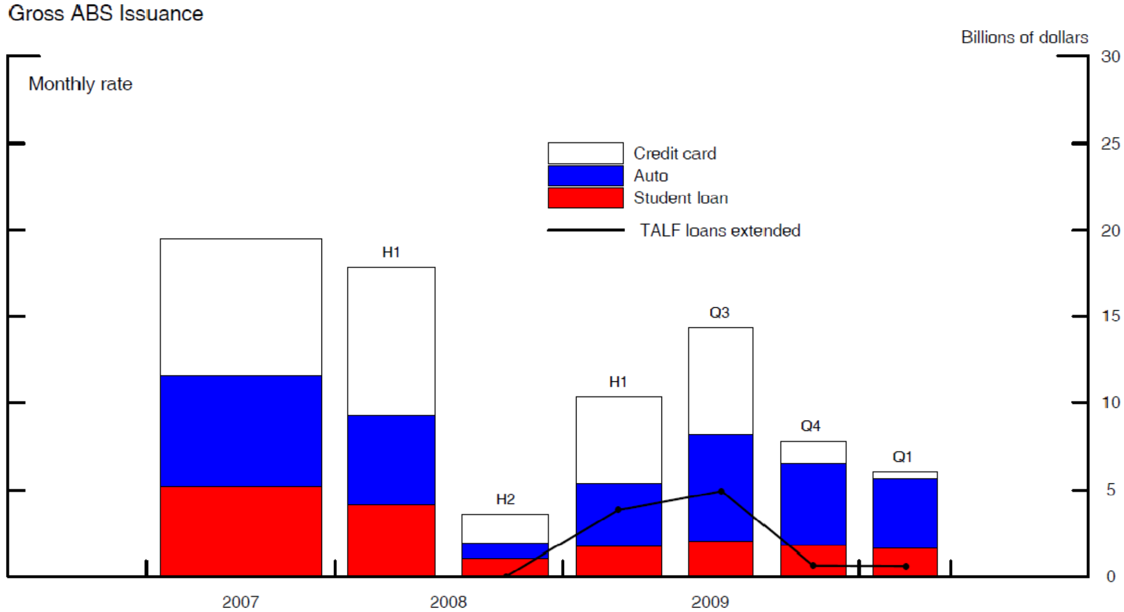


Source: Federal Reserve Board, Flow of Funds Accounts.
Note: Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Securitization of household credit was in line with the activity seen in the fourth quarter of 2009 (figure 10). The final non-CMBS TALF subscription took place in March, and secondary-market AAA spreads on auto-loans and credit-card ABS remained low, only a bit higher than before the crisis.

[6] One indicator sometimes cited in previous quarterly reports was aggregate change in lending by the largest CPP recipient banks as reported in the Treasury's Monthly Lending and Intermediation Snapshot. Interpretation of these data presented particular challenges because the series was short in duration and thus the data's properties over time, including seasonal variations, could not be analyzed. As these large banking organizations have repaid their CPP investments, they gradually ceased reporting the monthly information. As a result, the Office of Financial Stability ceased preparing this report after January 2010 data.

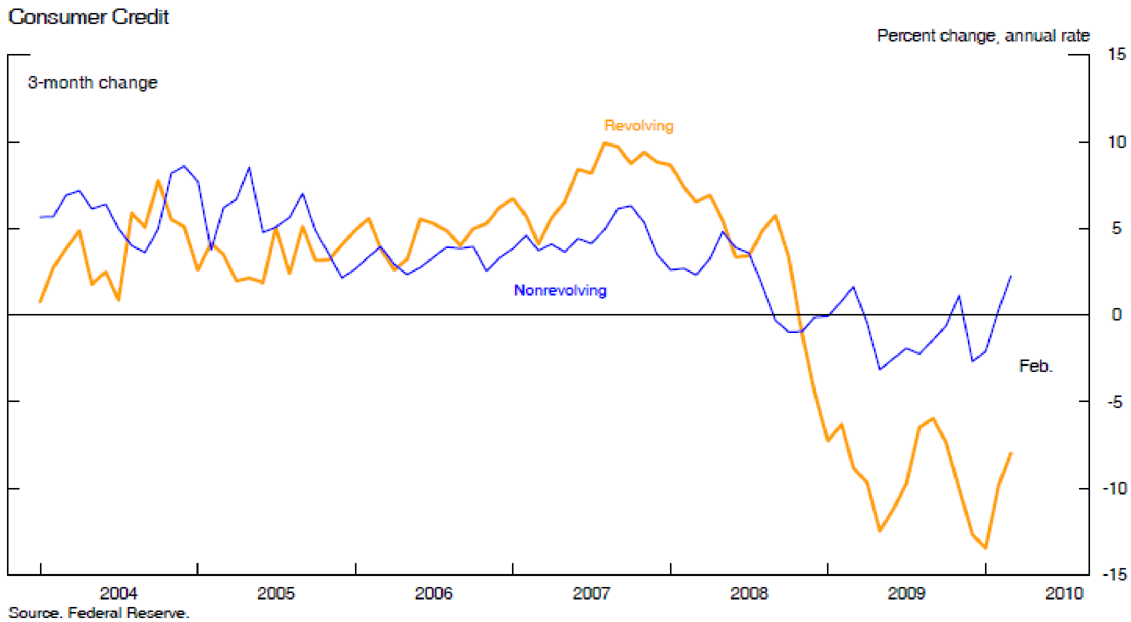
Figure 10



Note. Auto ABS include car loans and leases and financing for buyers of motorcycles.
Source. Inside MBS & ABS and Merrill Lynch.

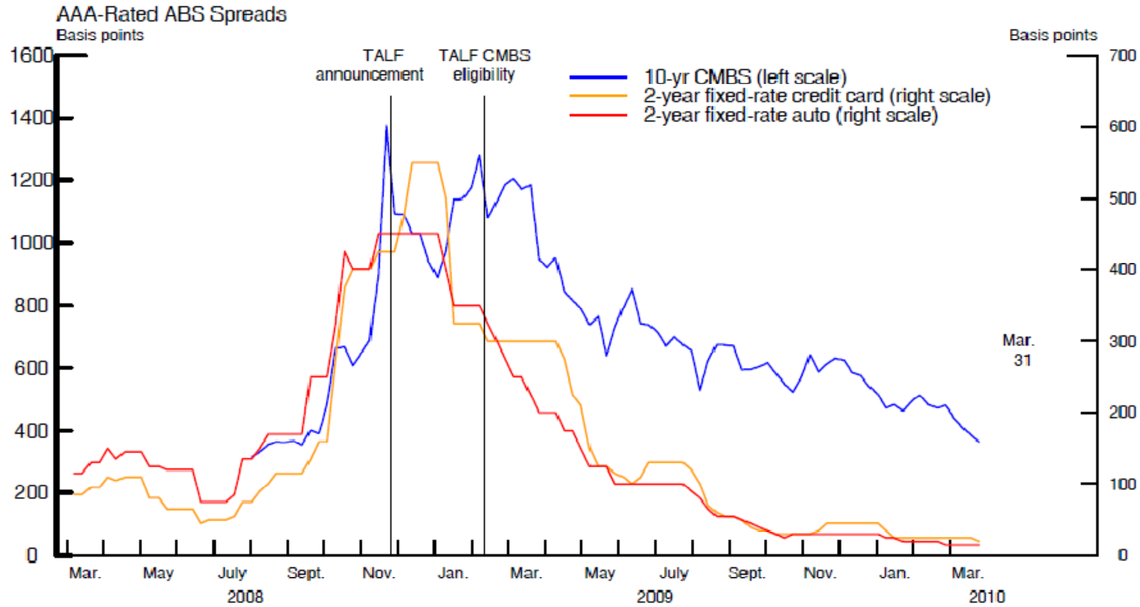
However, consumer credit continued to be weak in recent months, held down by a combination of sluggish consumer spending, high charge-off rates, and limited credit availability (figure 11). While conditions in the auto finance market have improved dramatically since last fall, conditions in the credit card market have remained tight. Call Report data show that unused commitments for credit cards at commercial banks fell again in the fourth quarter.

Figure 11



The TALF program has been an important factor in the CMBS market and spreads on 10-year AAA-rated CMBS have dropped dramatically since the announcement of the program (figure 12). Unlike auto or credit card ABS, however, spreads on CMBS remain substantially above pre-crisis levels, and issuance of new CMBS remains extremely low.

Figure 12



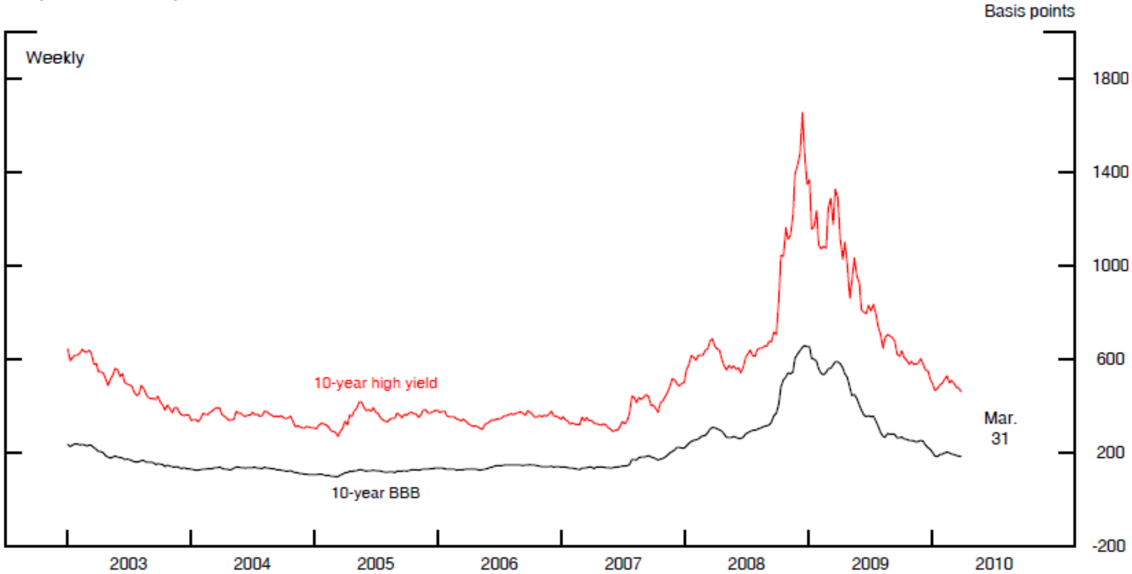
Source: ABS spreads are trader estimates provided by Citigroup, Merrill Lynch.

Overall, commercial real estate markets continued to exhibit considerable stress. Property prices declined, delinquency rates rose, and commercial mortgage debt outstanding declined at an annual rate of 8 percent during the fourth quarter. Many of the construction loans maturing in 2010 were originated in the elevated real estate markets of 2006 and 2007 and are on new properties that do not have a regular stream of rental payments. Potential refinance lenders may be less willing to provide the same financing amounts and terms for properties whose values have fallen and for which the amounts of incoming cash flow are subject to significant uncertainty.

In credit markets for corporate borrowers, corporate bond spreads have decreased in recent months to the lowest levels since early 2008 (figure 13). Gross bond issuance by nonfinancial corporations, both investment and speculative grade, remained strong in the fourth quarter (figure 14). With declining spreads, firms have reportedly continued to use the proceeds of some of the newly issued bonds to pay down shorter-term debt, notably bank loans, which helps to explain, in part, the decline in C&I loans. These developments indicate that nonfinancial businesses have taken advantage of some of the easing of financial strains and issued long-term debt to improve their financial positions.

Figure 13

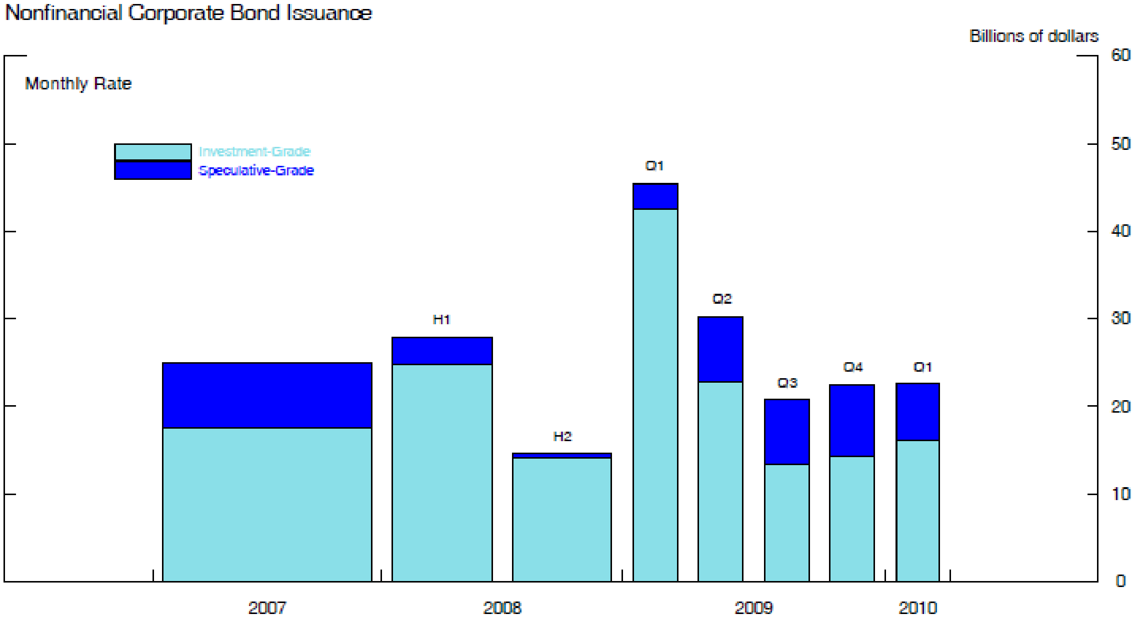
Corporate Bond Spreads



Note. Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

Figure 14

Nonfinancial Corporate Bond Issuance

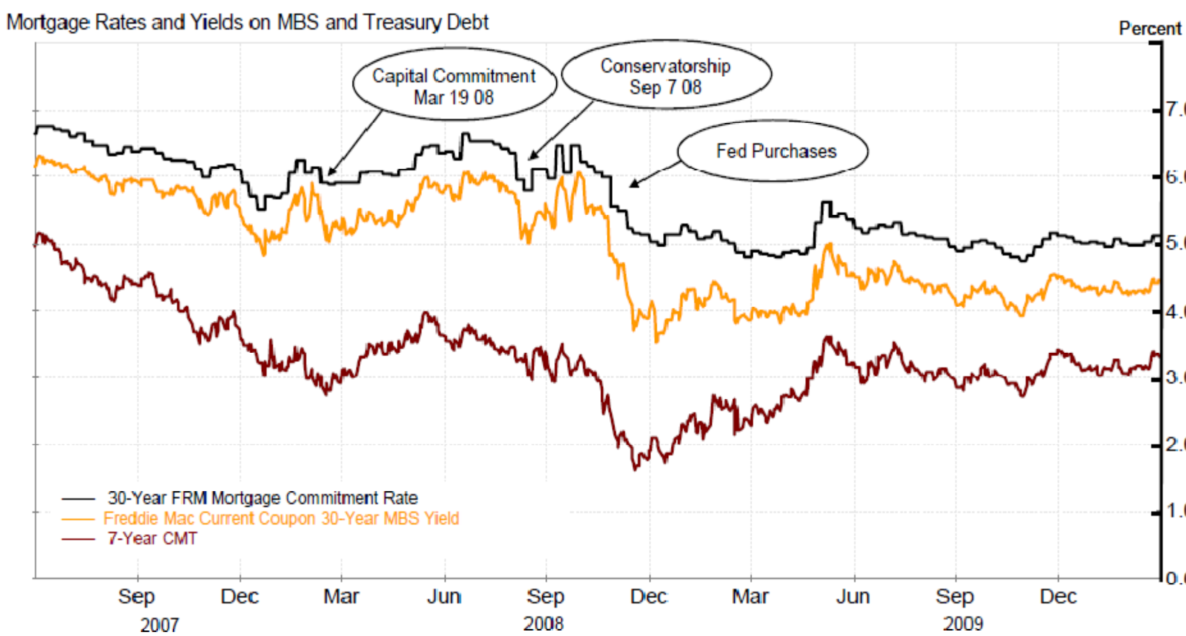


Source. Thomson Financial.

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

The Oversight Board believes that actions taken by the Treasury under TARP, together with those taken by the Federal Reserve, HUD, and FHFA, continued to aid the housing market and mortgage borrowers during the quarterly period. These actions helped to maintain generally stable conditions for housing finance and to reduce avoidable foreclosures, although some indicators suggest a partial reversal of recent strengthening in housing markets. During the quarter, the Federal Reserve completed its gradual withdrawal from the agency mortgage-backed securities ("MBS") market, having purchased over the past five quarters some $1.25 trillion. Combined with Treasury's purchases of $221 billion in agency MBS in 2009, the Federal Reserve program appears to have had a powerful effect in lowering mortgage interest rates, but as financial markets have steadied the need for and impact of this program have diminished. Consequently, the cessation of the program at quarter's end was not accompanied by a significant increase in spreads between mortgage rates and yields on reference Treasury securities, and mortgage rates remained low at close to five percent (figure 15).

Figure 15



Lower interest rates have created refinancing opportunities for borrowers who have remained current on their loans. For example, Fannie Mae and Freddie Mac report some 3.7 million loans were refinanced between April 2009 and February 2010. In some cases, however, declines in home values have hindered or prevented a routine refinancing. A non-TARP refinancing program under the aegis of Making Home Affordable, the Home Affordable Refinacing Program ("HARP"), is designed for borrowers with mortgages that have been purchased or guaranteed by Fannie Mae and

Freddie Mac and have current loan-to-value ratios between 80 and 105 percent. Volumes under HARP have accelerated in recent months. Through February, some 257,000 borrowers have reduced monthly payments by refinancing under the program, and the share of all refinance loans at those two institutions that were made under HARP has risen steadily since the program's inception last spring to nearly 14 percent in February.

For its part, FHA continues to provide substantial support to credit flows in the housing market. At $71 billion, new insurance endorsements at FHA in the most recent quarter returned to the levels previously seen in the second half of 2008 and first quarter of 2009. On a year-over-year basis, FHA home purchase volumes are up 35 percent while refinance volumes are down 31 percent. Overall, the total dollar volume of endorsements (excluding reverse mortgages, or "HECM") is off just two percent, on a year-over-year basis.

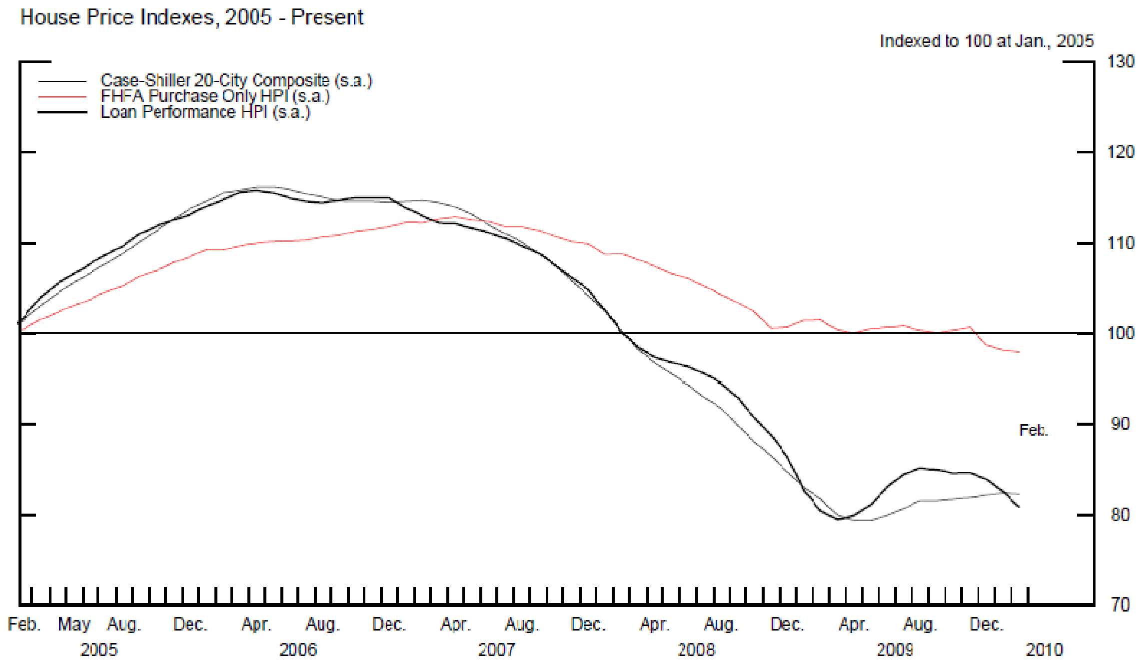
Foreclosure mitigation efforts under TARP expanded during the quarter. The volume of loans modified or in process of modification continued to rise, while plans for new program features were announced. Active permanent and trial modifications rose to more than one million. That total amounts to more than half of all borrowers that Treasury estimates to be eligible for the program and reflects a gain of 18 percent compared to the previous quarter. Permanent modifications rose to roughly 230,000, with an additional 108,000 permanent modifications approved but awaiting final customer signature. HAMP permanent modifications have resulted in median monthly savings of more than $500 per household.

Challenges associated with the presence of junior lien-holders and lack of borrower documentation remained among the most prevalent obstacles to conversion from trial to permanent modifications. During the quarter, Treasury announced an initiative aimed at increasing the ability of borrowers with junior liens to participate in HAMP, and instituted more rigorous documentation standards for borrowers seeking to obtain HAMP trial modifications.

Despite those efforts and continuing low mortgage interest rates, the scheduled end of house purchase tax credits (since extended and expanded) and bad winter weather likely contributed to a pause or even partial reversal of recent improvements in housing market conditions. The sum of new and existing house sales fell 23 percent from November 2009 to February 2010, as measured by data from the National Association of Realtors and the Census Bureau. Sales rebounded nine percent in March, however, as the next deadline on tax credits approached. House prices, as measured by FHFA and by First American Loan Performance followed in the same direction as sales through February, although less dramatically (figure 16). While the Case-Shiller index continued to rise, by construction it responds less quickly to new data.

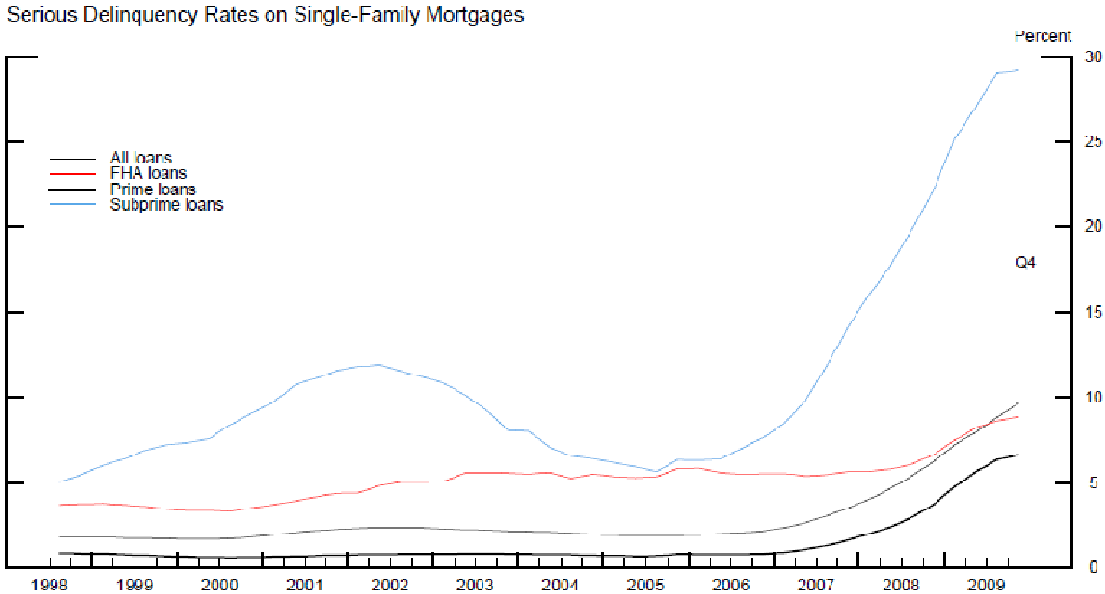
Figure 16

Household Finance



The magnitude of mortgage delinquencies have continued to grow. Seriously delinquent mortgage loans—those more than 90 days delinquent or in process of foreclosure—rose to 9.7 percent (on a non-seasonally adjusted basis) at year-end 2009 (figure 17). That amounted to a more than 50 percent increase for the year. Active trial modifications in HAMP are included in the serious delinquency totals, but are removed if the modifications become permanent. At the end of the year, active HAMP trials were equal to about half the increase in delinquent loans for the year. The relative importance of different types of delinquent loans has also changed. While rates of delinquency have risen sharply for all categories, the share of the total that are prime loans has steadily grown in recent quarters, as unemployment, rather than weak underwriting, has increasingly driven new defaults. During the quarter, Treasury announced an initiative under HAMP aimed at providing temporary assistance for unemployed homeowners while they search for re-employment.

Figure 17



Over the longer term, it is too early to assess the extent to which borrowers with HAMP permanent modifications may themselves subsequently default. As a point of comparison, a disappointingly large number of loans that were modified outside of HAMP have become delinquent again, following modification. For example, more than one-third of loans that received non-HAMP modifications under Fannie Mae and Freddie Mac programs during the first half of 2009 became 60 days or more delinquent after just six months.

The number of new 90-day delinquencies reported to HUD on the FHA-insured portfolio moderated in the most recent quarter, from the peak levels seen in the second half of 2009. On a seasonally-adjusted, annual rate, the high point of new reported delinquency episodes was in the third quarter of 2009 (about 561,000). Based on data for the first two months of 2010, the comparable rate for the first quarter should be below that of the previous peak. On a year-over-year basis, the growth of new delinquency episodes has slowed dramatically. From the beginning of 2008, and through the third quarter of 2009, year-over-year growth rates were in the 45 to 60 percent range on an annualized seasonally-adjusted basis. The comparison rate for the fourth quarter of 2009 was just 26 percent, and for the first quarter of 2010 was just 12 percent.

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

This section provides an update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under the EESA during the quarterly period, from January 1 to March 31, 2010, subject to the review and oversight of the Oversight Board.

a. Extension of TARP Authority and President's Budget for FY2011

In December 2009, the Secretary of the Treasury certified the extension of TARP authority until October 3, 2010, pursuant to section 120(b) of EESA, and laid out an exit strategy for the TARP. The Secretary identified two principal objectives for the extension of TARP–to preserve capacity to respond to unforeseen threats to financial stability and to address continuing challenges–and indicated that Treasury did not expect to use more than $550 billion of the $700 billion authorized by Congress. The Secretary also identified four elements for the TARP exit strategy. First, the continued termination and winding down of many of the government programs put in place in the fall of 2008. Second, potential new TARP commitments are expected to be limited to foreclosure mitigation and stabilization of the housing market, to initiatives to increase credit for small businesses, and to the TALF, which aids securitization markets for consumer, small business, and commercial mortgage loans. Third, remaining EESA funds will not be used unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability. And fourth, Treasury will continue to seek to protect taxpayers while managing TARP investments.

On February 1, 2010, the Administration released the Budget of the U.S. Government for the Fiscal Year 2011 (FY2011 Budget). As reflected in the FY2011 Budget for Treasury, Treasury projects the cost for TARP to be $117 billion, down substantially from the previous estimate of $341 billion.[7] The new projection is based on estimated total expenditures of not more than $550 billion. A March 2010 report of the Congressional Budget Office estimated the total cost of the TARP as $109 billion.[8] The Mid-Session Review of the Budget of the U.S. Government for the Fiscal Year 2010 had removed $250 billion previously placed in reserve for additional financial stabilization efforts, as confidence in the stability of financial markets and institutions have improved dramatically over the past year.

b. Housing Stabilization and Foreclosure Mitigation

In announcing the extension of the TARP, Treasury indicated that reducing foreclosures for responsible homeowners and further stabilizing the U.S. housing market

[7] Represents deficit impact and includes offsetting interest collections.

[8] See "Report on the Troubled Asset Relief Program – March 2010" available at: http://www.cbo.gov/ftpdocs/112xx/doc11227/03-17-TARP.pdf.

are key areas to which TARP funds will be committed going forward. During the quarterly period, Treasury announced the new Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets program and additions to HAMP as described below.

i. Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets (HFA Hardest-Hit Fund)

a. First HFA Hardest-Hit Fund

On February 19, 2010, the Administration announced funding under TARP for innovative measures to help families in the states that have been hardest hit by housing price declines. Specifically, $1.5 billion of investment authority under EESA will be available for programs developed by state HFAs designed to tailor housing assistance to local needs. California, Florida, Arizona, Michigan and Nevada, which are the states where house prices have fallen more than 20 percent from their peak, are eligible for this funding.

On March 5, 2010, Treasury announced the allocation of funds among the eligible states and published guidelines for HFA proposal submissions. Funds were allocated among eligible states according to a formula based on home price declines and unemployment. Set forth below is a summary of the methodology used by Treasury to allocate funds under the program (figure 18).[9]

Figure 18

	Housing Price Decline		Unemployment						
	Housing price decline from peak	Ratio relative to largest decline	December 2009 unemployment rate	Ratio relative to highest unemployment rate	Sum of ratios *(State's weight)*	Number of delinquent loans in Q4 2009	Weighted number of delinquent loans	Weighted share of delinquent loans in these states	Allocation ($mm)
Nevada	-49.9%	1.00	13.0%	0.89	1.9	62,622	118,382	6.9%	$102.8
California	-38.9%	0.78	12.4%	0.85	1.6	494,640	805,978	46.6%	$699.6
Florida	-37.4%	0.75	11.8%	0.81	1.6	309,022	481,558	27.9%	$418.0
Arizona	-36.8%	0.74	9.1%	0.62	1.4	105,853	144,073	8.3%	$125.1
Michigan	-24.1%	0.48	14.6%	1.00	1.5	120,030	178,000	10.3%	$154.5
Total									**$1,500.0**

[9] Further information on the first HFA Hardest Hit Fund, is available at http://www.MakingHomeAffordable.gov/pr_02192010.html and http://www.MakingHomeAffordable.gov/pr_03052010.html

b. Second HFA Hardest-Hit Fund

On March 29, 2010, the Administration announced the establishment of a second HFA Hardest-Hit Fund that will provide $600 million in funding for innovative measures to help families stay in their homes or otherwise avoid foreclosure in five states that have areas of concentrated economic distress. While the first HFA Hardest-Hit Fund targeted areas affected by home price declines greater than 20 percent, the second HFA Hardest-Hit Fund will target homeowners in counties with unemployment rates greater than 12 percent, on average over the months of 2009. States that were allocated funds under the first HFA Hardest-Hit Fund are not eligible for the second HFA Hardest-Hit Fund. The five states that will receive allocations based on these criteria are: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. As with the first fund, money will be made available for programs sponsored or developed by state HFAs in the targeted states. The $600 million in funds is equivalent on a per person basis to the $1.5 billion awarded in the first HFA Hardest-Hit Fund. Set forth below is a summary of the methodology used by Treasury to allocate funds among the five eligible states (figure 19).

Figure 19

	State Totals		Economic Distress	Allocation	
State	**State Population in 2009**	**Population Living in High Unemp Counties**	**% of State Pop Living in High Unemp Counties**	**% of Total Pop in High Unemp Counties for Top 5 States**	**Allocation Cap ($millions)**
Rhode Island	1,053,209	627,690	60%	7%	$43
South Carolina	4,561,242	2,022,492	44%	23%	$138
Orgeon	3,825,657	1,281,675	34%	15%	$88
North Carolina	9,380,884	2,332,246	25%	27%	$159
Ohio	11,542,645	2,514,678	22%	29%	$172
Total					**$600**

c. Objectives and Implementation of the HFA Hardest-Hit Funds

The objective of the HFA Hardest-Hit Funds is to allow HFAs to develop creative approaches to foreclosures that consider local conditions. To receive funding, programs must satisfy the requirements for funding under EESA. These requirements include that the recipient of funds must be an eligible financial institution (as defined in EESA) and that the funds must be used to pay for programs designed to prevent avoidable foreclosures and other permitted uses under EESA.

HFAs must submit program designs to Treasury so that Treasury can evaluate, among other things, the program's compliance with EESA requirements. Treasury has outlined some of the possible types of transactions that could meet EESA requirements. These include programs that provide: for assistance to unemployed borrowers to help them prevent avoidable foreclosures; for modifications of mortgage loans held by HFAs or other financial institutions or provide incentives for servicers/investors to modify loans; for mortgage modifications with principal forbearance by paying down all or a portion of an overleveraged loan and taking back a note from the borrower for that amount in order to facilitate additional modifications; for assistance with short sales and deeds-in-lieu of foreclosure to prevent avoidable foreclosures; incentives for financial institutions to write-down a portion of unpaid principal balance for homeowners with severe negative equity; or incentives to reduce or modify second liens. Other innovative ideas and transaction types (including innovations related to the existing "Making Home Affordable" programs) will be evaluated on a case-by-case basis for compliance with EESA.

Treasury will take several steps to promote accountability and transparency of the HFA Hardest-Hit Fund program: all funded program designs and effectiveness metrics will be posted online and program activity will be subject to oversight under EESA. Receipt of applications and initial determinations are expected to occur in the second quarter of 2010.

ii. Making Home Affordable and the Home Affordable Modification Program

a. Overview

HAMP is a component of the Treasury's Making Home Affordable ("MHA") program. HAMP is designed to help prevent avoidable foreclosures by reducing first-lien mortgage payments to no more than 31 percent of gross monthly income for homeowners who are experiencing a financial hardship.[10] To facilitate and promote modifications, HAMP offers "pay-for-success" incentives to servicers, lenders, investors, and borrowers on permanent modifications, as long as borrowers stay current on their payments.[11]

HAMP has an allocation of $75 billion, of which $50 billion comes from TARP. Servicers wishing to participate in HAMP must enter into a Servicer Participation Agreement with Fannie Mae, Treasury's financial agent, on or before October 3, 2010. Borrowers may be accepted into the program if they are offered a Home Affordable Modification Trial Period Plan by their servicer on or before December 31, 2012.

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[10] MHA also includes (i) a refinancing component (the Home Affordable Refinance Program, or "HARP") funded outside of TARP that allows homeowners who have loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance at lower interest rates, (ii) the Second Lien Modification Program ("2MP"), and (iii) the Home Affordable Foreclosure Alternatives ("HAFA") program.

[11] Eligible homeowners for modifications under HAMP must, among other things, live in an owner-occupied principal residence, have a mortgage balance less than $729,750, owe monthly mortgage payments that are not affordable (greater than 31 percent of their income) and demonstrate a financial hardship.

Payment affordability under HAMP is achieved primarily through interest rate reduction, term extensions, and principal forbearance. All loans permanently modified include an interest rate reduction (with the median decrease being four percentage points). In addition, 40 percent of mortgages permanently modified as of March 31, 2010, have included term extensions and 28 percent include principal forbearance. Under HAMP, the initial interest rate is set for five years.[12]

HAMP also includes additional incentive payments for modifications on properties located in areas where home prices have declined and additional incentives for foreclosure alternatives if modification is not a viable option. In addition, Treasury has provided streamlined guidelines and procedures for first-lien mortgage modification to standardize the process for borrowers.

b. Monthly Servicer Performance Reports

Treasury released three monthly Servicer Performance Reports for the quarterly period, covering January 2010, February 2010 and March 2010.[13] Each month Treasury has expanded the amount of data included in the monthly report, to maximize servicer accountability and program transparency.

For example, beginning in September 2009, modification performance by servicer was added to the monthly Servicer Performance Report to promote the accountability of participating servicers. This included a "trial modification tracker" to reflect each servicer's population of delinquent loans as well as what percentage of that pool has been offered a trial modification, started a trial modification and started a permanent modification. As of 2010, the reports include servicer-by-servicer comparisons of both trial modifications and permanent modifications as a percent of the servicer's pool of loans that are sixty or more days past due.

[12] If a below-market interest rate was used to bring the borrower's payments within the program's affordability standards, then at the end of five years the reduced interest rate will increase by one percentage point per year until it reaches the cap, which is the Freddie Mac survey rate at the time the trial period began. That rate is currently near historic lows. The capped rate is fixed for the life of the loan.

[13] Detailed information regarding the program, together with the Monthly Making Home Affordable Servicer Performance Reports, are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html. Treasury has two additional websites that provide information about HAMP specifically– www.hmpadmin.com and www.MakingHomeAffordable.gov. These websites contain comprehensive data, including lists of all participating servicers, copies of all contracts signed by servicers, the Supplemental Directives that establish additional requirements for HAMP, frequently asked questions, a white paper describing the Net Present Value ("NPV") test methodology and all of the borrower application documents.

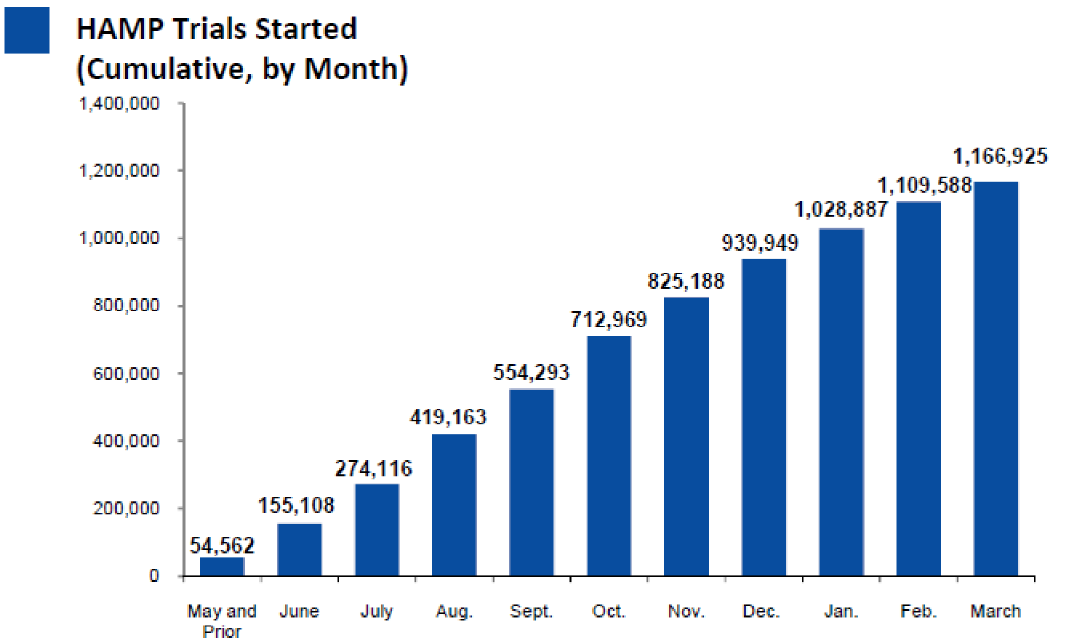
The report for March 2010 includes, for example: data on trial and permanent modifications by servicer, a list of participating servicers, data on trial and permanent modifications at the state and key metropolitan levels, a chart of the estimated population of borrowers eligible for HAMP, an overview of administration housing initiatives, characteristics of permanent modifications, average payment reduction, data on modifications by investor type, permanent modifications by waterfall steps, and predominant hardship reasons for permanent modifications.

c. HAMP Update

As of March 31, 2010, of the more than 1.1 million borrowers that have started a HAMP modification, approximately 230,801 borrowers have entered permanent modifications, and an additional 108,212 borrowers have received final approval for a permanent modification from their servicer (figures 20 and 21). In addition, as of that date, more than 1.4 million homeowners had received offers for trial modifications, representing approximately 60 percent of the total population of homeowners that Treasury estimates are currently eligible to participate in HAMP. Homeowners in permanent HAMP modifications are saving a median of 36 percent of their before-modification payment and a median of over $500 per month on mortgage payments. In aggregate, homeowners have saved over $3 billion through trial and permanent HAMP modifications.

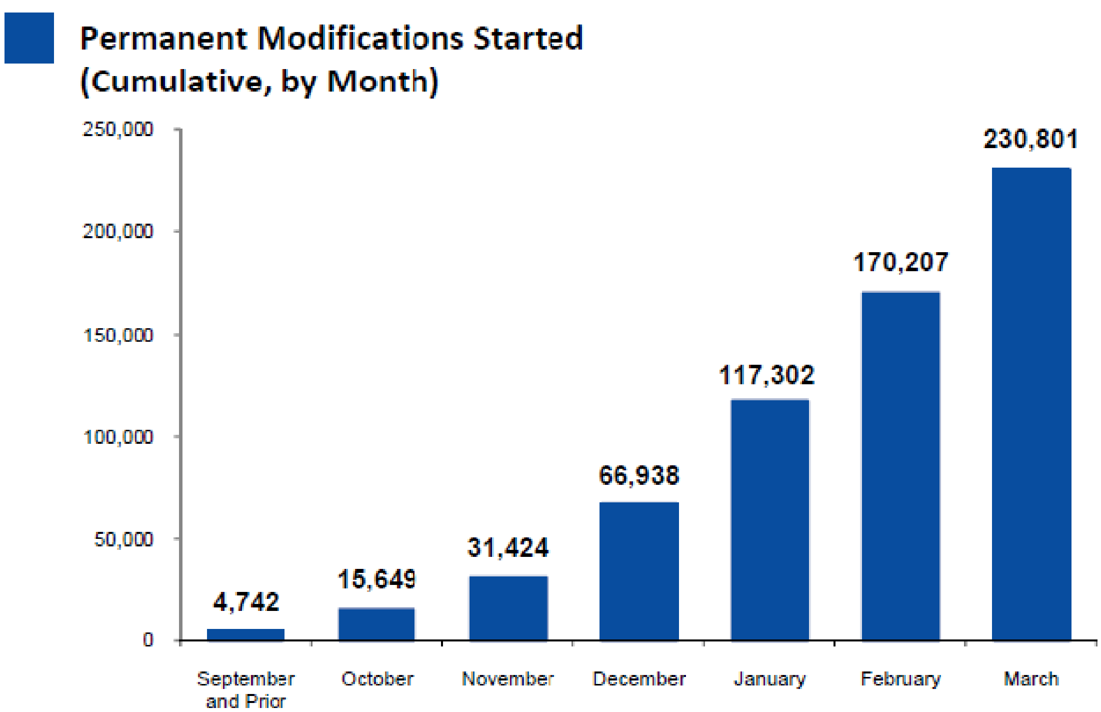
While homeowners receive benefits when the trial modification starts, Treasury pays incentives only once the permanent modification starts and over time as long as there is no redefault. As of March 31, 2010, Treasury has disbursed approximately $90.9 million of incentive payments and has total obligations in the amount of $39.9 billion.

Figure 20



Source: All trial modifications started by month first payment posted; based on numbers reported by servicers to the HAMP system of record.

Figure 21



Source: HAMP system of record.

With respect to the conversion of trial modifications to permanent modifications, the pace of underwriting and decision has continued to increase month over month. Following the conversion campaign conducted by Treasury in the last quarter of 2009 and the extended review period instituted through January 31, 2010 (for all trial modifications that were set to expire on or before that date, but were either missing required documents, or were pending servicer review), the number of permanent modifications increased by 45 percent from January to February and another 14 percent from February to March.

Treasury has continued to examine program parameters to improve operational efficiency and effectiveness. In order to expedite conversions of current trial modifications to permanent ones, in January 2010, Treasury released *SD 10-01 – Program Update and Resolution of Active Trial Modifications*, which required servicers to fully validate borrower financial information before offering a trial plan.[14] Beginning with trial plans offered after April 15, 2010 (with June 1 Trial Period Plan effective date), borrowers must be fully verified and determined to be eligible for a permanent modification, subject only to timely receipt of trial period payments. This should help reduce the number of trial modifications that are unable to be converted to permanent modifications.

Also during the quarterly period, four servicers entered the Second Lien Modification Program ("2MP")–Bank of America, Wells Fargo, JPMorgan Chase, and Citigroup. Together, these servicers hold more than half of second lien residential mortgage loans. Modifications of second liens have already begun in cases where these servicers hold a first lien modified under HAMP. A facility to match HAMP modified first liens with second liens held by different services is nearing completion and is expected to be available in the second quarter.

d. HAMP Enhancements for Unemployed Homeowners and Principal Write-Downs

On March 26, 2010, the Administration announced enhancements to HAMP that will provide temporary mortgage assistance to some unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for modification through HAMP, and help borrowers move to more affordable housing when modification is not possible. The changes will be implemented in the next few months.[15]

[14] A listing of all Supplemental Directives, and links to PDF versions of each Supplemental Directive, can be found at https://www.hmpadmin.com/portal/programs/directives.html.

[15] Further information, including the HAMP Improvements Fact Sheet, is available at http://www.financialstability.gov/latest/pr_03262010.html.

The enhancements are designed to address two principal areas: first, temporary assistance for unemployed homeowners; and second, requirements to consider alternative principal write-down approach and incentives. The program enhancements are expected to have the following features:

1. *Temporary Assistance for Unemployed Homeowners While They Search for Re-Employment*

Unemployed homeowners meeting certain eligibility criteria will have an opportunity to have their mortgage payments temporarily reduced through a forbearance arrangement for a minimum of 3 months, and up to six months for some borrowers, while they look for a new job. If a homeowner does not find a job before the temporary assistance period is over or if they find a job with a reduced income, they will be evaluated for a permanent HAMP modification or may be eligible for HAMP's alternatives to foreclosure program.

Payment during the forbearance period may not exceed 31 percent of monthly income and, at the investor's discretion, may be less while the homeowner is unemployed. The temporary assistance will end when the borrower becomes re-employed or the scheduled period expires. Borrowers who become re-employed during the scheduled assistance period and whose mortgage payment is greater than 31 percent of their new gross monthly income must be considered for HAMP. If the scheduled assistance period ends without re-employment, the homeowner may be considered for Home Affordable Foreclosure Alternatives ("HAFA"), including short sales and deed-in-lieu of foreclosure.

Servicers participating in HAMP will not be reimbursed by the TARP for any costs associated with this temporary assistance. Accordingly, there will be no cost to Treasury or taxpayers from the forbearance plans.

2. *Requirement to Consider Alternative Principal Write-down Approach and Increased Principal Write-down Incentives*

To expand the use of principal write-downs, participating servicers in HAMP will be required to consider an alternative modification approach that emphasizes principal relief when assessing a borrower's eligibility for a HAMP modification. This alternative modification approach will include incentive payments from Treasury for each dollar of principal write-down by servicers and investors. The principal reduction and the incentives will be earned by the borrower and lender based on a pay-for-success structure.

Participating servicers will be required to consider an alternative modification approach including more principal write-down for HAMP-eligible borrowers that owe more than 115 percent of the current value of their home. Servicers will be required to run the standard NPV calculation in accordance with HAMP guidelines and an alternative

NPV that includes incentives for principal write-down and then compare the results. While investors are not required to write down principal even if the alternative NPV exceeds the standard NPV, the combination of government incentives and the opportunity to demonstrate NPV improvement should encourage servicers to offer this relief.

Under this alternative approach, servicers will put principal forgiveness at the front of the waterfall by assessing the NPV of a modification that starts by forgiving the principal balance on any loan with a current loan-to-value ("LTV") ratio of more than 115 percent as needed to bring borrower payments to 31 percent of income. If a 31 percent monthly payment is not reached by forgiving principal to 115 percent LTV, the servicer will then use standard steps of lowering rate, extending term, and forbearing additional principal. Servicers will initially treat the write-down amount as forbearance and will forgive the forborne amount in three equal amounts over three years, as long as the homeowner remains current on payments under the modified loan.

For borrowers who have already received a permanent modification, or who are in a trial modification, under HAMP and are current on payments at the time the alternative modification approach is operational (later in 2010), servicers will be required to retroactively consider extinguishing an amount of principal balance in the same amount that would have been forgiven under the new alternative approach.

On March 26, 2010, Treasury released *SD 09-09 Revised – Home Affordable Foreclosure Alternatives – Short Sale and Deed-in-Lieu of Foreclosure Update*, which replaced former SD 09-09 and is effective as of April 5, 2010.[16] SD 09-09 Revised provides guidance to servicers for adoption and implementation of the Home Affordable Foreclosure Alternatives ("HAFA") program for first lien mortgage loans that are not owned or guaranteed by Fannie Mae or Freddie Mac. Several of the significant features in SD 10-09 Revised include:

- Increased incentives to provide more homeowners with foreclosure alternatives, with an increase of permitted payments to subordinate lien holders who agree to release borrowers from debt to facilitate greater use of foreclosure alternatives including short sales or deeds-in-lieu. The new payoff schedule allows servicers to increase the maximum payoff to subordinate lien holders to 6 percent of the outstanding loan balance and doubles from $1,000 to $2,000 the incentive reimbursement that is available from Treasury to investors for subordinate lien payoffs, subject to an overall cap of $6,000.

[16] A listing of all Supplemental Directives, and links to PDF versions of each Supplemental Directive, can be found at https://www.hmpadmin.com/portal/programs/directives.html

- Increased from $1,000 to $1,500 servicer incentive payments from Treasury to increase use of foreclosure alternatives and encourage additional outreach to homeowners unable to complete a modification.

- A doubling (to $3,000) of relocation assistance payments for borrowers who successfully complete a foreclosure alternative to help homeowners who use a short sale or deed-in-lieu to transition more quickly to housing they can afford.

On March 26, 2010, Treasury also released *SD 09-05 Revised – Updated to the Second Lien Modification Program (2MP)*, which replaced former SD 09-05.[17] SD 09-05 Revised provides guidance to servicers for adoption and implementation of 2MP for second liens. Among the features and guidance for 2MP described in SD 09-05 Revised is a partial extinguishment option. To further encourage principal write-downs, Treasury is also increasing the incentives that it provides for loans extinguished or partially extinguished in conjunction with the HAMP Second Lien Program. A servicer may elect to extinguish all or a portion of the second lien in exchange for a lump sum investor incentive payment in accordance with a formula based on the borrower's unpaid balance and combined-loan-to- value ratio (for first and second liens) and length of delinquency. Servicers will receive a one-time incentive fee for each fully extinguished second lien.

On March 26, 2010, Treasury also released *SD 10-03 – Home Affordable Modification Program – Modifications of Loans Insured by the Federal Housing Administration (FHA)*, which provides for the HAMP pay-for-performance compensation and pay-for-success compensation to be expanded to include borrowers and servicers of FHA loans.[18] (There are no investor incentives for mortgages associated with FHA loans.) FHA Servicers who are not currently HAMP participants, and are interested in participating in the program will receive these incentives for modification of FHA loans pursuant to FHA's and Treasury's guidelines after executing with Treasury's financial agent a HAMP servicer agreement specific to FHA modifications.

e. FHA Program Adjustments to Support Refinancings for Underwater Homeowners

On March 26, 2010, the Administration announced the FHA Program Adjustments to Support Refinancings for Underwater Homeowners. The program is expected to be available by the fall of 2010. The FHA Refinance Program will permit participating lenders to provide additional refinancing options to homeowners who owe more than their home is worth. The program will provide opportunities for qualifying mortgage loans to be restructured and refinanced into FHA loans as long as, among other

[17] Ibid.

[18] Ibid. See also the FHA Refinance Fact Sheet available at http://MakingHomeAffordable.gov/docs/FHA_Refinance_Fact_Sheet_032510%20FINAL2.pdf

things, the borrower is current on the first lien and the first lien lender reduces the amount owed on the original loan by at least 10 percent.

The new FHA loan will be required to have a balance less than the current value of the home, and total mortgage debt for the borrower after the refinancing, including both first and any other mortgages, cannot be greater than 115 percent of the current value of the home. TARP funds will be made available up to a total of $14 billion to provide incentives to support the write-downs of second liens on the property, to encourage participation by servicers, and to provide additional coverage for a share of potential losses on these loans. Detailed guidance for the Refinance Option is expected to follow.

f. Communication

While it is the responsibility of servicers participating in HAMP to reach out to borrowers and convey information about the program to the homeowners whose loans they service, Treasury has taken several steps to guide and supplement the communication efforts of servicers. On March 24, 2010, Treasury released *SD 10-02 – Home Affordable Modification Program – Borrower Outreach and Communication*, which amends policies and procedures related to borrower outreach and communication. These changes become effective June 1, 2010. Several of the significant features in SD 10-02 include:

- Prohibition of referrals to foreclosure until a borrower is evaluated and found ineligible for HAMP or reasonable contact efforts have failed. Written certifications are required that a borrower is not HAMP eligible before an attorney or trustee can conduct a foreclosure sale.

- A requirement that servicers stop foreclosure actions after a borrower enters into a trial plan based on verified income and consider borrowers in bankruptcy for HAMP.

Also during the quarterly period, Treasury continued working on a two-part public service announcement campaign for HAMP in partnership with HUD and NeighborWorks America®. This foreclosure prevention campaign directs struggling homeowners to the Homeowner’s HOPE Hotline and MakingHomeAffordable.gov so that they may receive free assistance from a HUD-approved housing counselor. The first phase of the campaign includes both television and radio advertising that have been sent to 12,000 stations across the country, as well as web banners and outdoor advertising. The second phase of the campaign is a new multi-media campaign set to launch in late spring 2010 that will feature English and Spanish television, radio, outdoor and web advertisements, as well as fliers and other print materials.

c. Legacy Securities Public-Private Investment Program

i. Program Updates

The Legacy Securities Public-Private Investment Program, or "S-PPIP," is designed to support market functioning and facilitate price discovery in the MBS markets, allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. Under the program, Treasury has partnered with fund managers and private investors who invest in legacy securities through a Public-Private Investment Fund ("PPIF").[19]

In January, Treasury released the initial "Program Update – Quarter ended December 31, 2009" with information regarding the first quarter of S-PPIP operations.[20] The S-PPIP report for the quarter ending March 31, 2010, was released on April 20, 2010.

Each of the nine PPIFs completed initial and subsequent closings. As of March 31, 2010, the PPIFs had closed on approximately $6.3 billion of private sector equity capital which was matched 100 percent by Treasury, representing $12.5 billion of total equity capital.[21] Treasury had also provided $12.5 billion of debt capital, representing an aggregate of $25.1 billion in total purchasing capacity.

During the quarter, two closed-end retail funds completed initial public offerings that invested in PPIFs, bringing the total number of retail funds that have invested in PPIFs to four. Western Asset Mortgage Defined Opportunity Fund Inc. allocated $68 million in capital commitments (approximately one-third of the fund) for investment in RLJ Western Asset Public/Private Master Fund, L.P. PPIF, and Nuveen Mortgage Opportunity Term Fund 2 allocated $33 million (approximately 25 percent of the fund) for investment in the Wellington PPIF.

At March 31, 2010, the PPIFs had drawn-down approximately $10.5 billion of total capital, which had been invested in eligible assets or cash equivalents pending investment under the S-PPIP program terms. The total market value of non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed

[19] Details on the program terms for the S-PPIP are available at: http://www.FinancialStability.gov/roadtostability/publicprivatefund.html and the previous quarterly reports of the Financial Stability Oversight Board.

[20] The full report can be found at: http://www.FinancialStability.gov/docs/External%20Report%20-%2010-03%20FINAL.pdf.

[21] The total includes commitments to the TCW PPIF, which was subsequently wound up and liquidated during the quarter.

securities ("CMBS") held by the PPIFs was approximately $10 billion, and approximately 88 percent of the portfolio holdings are non-agency RMBS and 12 percent are CMBS.

During the quarter, the fund managed by The TCW Group, Inc. was liquidated following the company's termination of the employment of individuals who were "Key Persons" as set forth in its Limited Partnership Agreement with Treasury. Total capital of $513 million had been funded, including $356.3 million from Treasury. Treasury's debt and equity capital investments were repaid in full, and Treasury realized a positive return of approximately $20.6 million on its equity investment of $156.3 million, including approximately $0.5 million related to its warrants. Private investors were offered the option to re-allocate their underfunded capital commitments and proceeds from the TCW PPIF liquidation to any of the eight other PPIFs. Commitments for $44.5 million in direct equity investments were reallocated from TCW PPIF investors to specific PPIF fund managers and the remaining $3.2 billion in commitments to the TCW PPIF were reallocated to the other eight PPIF fund managers.

ii. Oversight and Compliance

To protect taxpayers and promote transparency, Treasury applies disclosure requirements and conflict of interest provisions established by the Public-Private Improvement and Oversight Act of 2009 to PPIFs.[22] Due to the potential for actual or potential conflicts of interest, which are inherent in any market-based investment program, Treasury has worked closely with the SIGTARP and others, including the FRBNY, to develop a robust conflict of interest and compliance process.[23] In particular, Treasury and the FRBNY have implemented additional controls to address SIGTARP's concerns regarding the potential for PPIFs to take on additional leverage through TALF or other means. These controls serve to limit the amount of additional leverage a PPIF can take on. As of March 31, 2010, no PPIF has taken on additional leverage.

d. Capital and Guarantee Programs for Banking Organizations

Prior to January 1, 2010, the Asset Guarantee Program ("AGP"), Capital Assistance Program, and Targeted Investment Program ("TIP") were closed. Treasury invested $20 billion in each of Citigroup and Bank of America under the TIP. In December 2009, Bank of America redeemed the $20 billion of preferred stock, and Citigroup repurchased the $20 billion of trust preferred securities held by Treasury under the TIP, thereby ending the program. In the AGP, under which only Citigroup entered into a definitive final agreement, TARP funds were committed as a reserve to cover up to

[22] See section 402 of the Helping Families Save Their Homes Act of 2009 (12 U.S.C. § 5231a).

[23] Details on the guidance released with regard to the S-PPIP compliance regime and other terms and conditions applicable to the fund managers are available at: http://www.FinancialStability.gov/docs/FSOB/FINSOB-Qrtly-Rpt-063009.pdf.

$5 billion of possible losses on a designated pool of Citigroup's covered assets. In December 2009, Treasury, the Federal Deposit Insurance Corporation ("FDIC"), the Federal Reserve and Citigroup, as parties to the Master Agreement for the AGP , entered into a Termination Agreement, pursuant to which, among other things, Treasury's AGP commitment was terminated. The AGP is now closed.

i. Update on the CPP

The Capital Purchase Program was the first and largest program established by Treasury under EESA. The CPP addressed severely deteriorated conditions in credit markets and acted to stabilize the financial system by providing capital to a broad range of viable U.S. financial institutions. Approximately $205 billion was disbursed to 707 institutions, with final investments occurring in December 2009.

ii. Update on Repayments and Warrant Dispositions

As of March 31, 2010, Treasury had received $135.83 billion in total repayments under the CPP - approximately 65 percent of the total amount of capital invested. Notable repayments during the period include PNC Financial Services Group, Inc. ($7.6 billion), Comerica, Inc. ($2.25 billion), and Hartford Financial Services Group ($3.4 billion).

As of March 31, 2010, Treasury had disposed of warrants from 47 banking organizations and had received a total of $5.63 billion in gross proceeds (including the repurchase of warrant preferred shares). During the quarterly period, three banking organizations repurchased warrants for proceeds of $5.19 million. Treasury completed four warrant auctions during the quarterly period, yielding $1.6 billion in gross proceeds in respect of the following institutions: Bank of America ($1.57 billion in respect of warrants received pursuant to the CPP and the TIP), Washington Federal, Inc. ($15.6 million), Signature Bank, Inc. ($11.3 million), and Texas Capital Bancshares, Inc. ($6.7 million).

On January 20, 2010, Treasury released a TARP Warrant Disposition Report that describes the valuation process that Treasury has used for the warrant dispositions. The report can be found at http://www.FinancialStability.gov/latest/pr_01202010.html. 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.

iii. Update on Citigroup

On March 29, 2010, Treasury announced its intention to dispose of its approximately 7.7 billion shares of Citigroup, Inc. common stock in an orderly and measured fashion subject to market conditions. Treasury received these shares of common stock pursuant to the June 2009 Exchange Agreement between Treasury and Citigroup, which provided for the exchange into common shares of the preferred stock that Treasury purchased in connection with Citigroup's participation in the Capital Purchase Program. The dispositions will not affect Treasury's holdings of Citigroup trust preferred securities or warrants for its common stock. Treasury has engaged Morgan Stanley as its capital markets advisor in connection with its Citigroup position.

iv. Update on Dividends and Interest

As of March 31, 2010, Treasury had received more than $8.98 billion in total dividends and interest from its CPP investments. During the quarterly period, Treasury received approximately $684 million in dividends and interest under the CPP program.[24]

In February 2010, a quarterly payment month, 79 institutions did not make payments on Treasury's CPP investments, consisting of 56 cumulative dividends (approximately $41 million), 18 non-cumulative dividends (approximately $2 million), and 5 S-corporation interest payments (approximately $1 million). As of March 31, 2010, eleven banks have missed four quarterly payments and one bank has missed five.[25]

v. Update on Certain Institutions

On February 25, 2010, Treasury entered into an agreement with Midwest Banc Holdings, Inc. (Midwest), a bank holding company based in Illinois, to exchange Treasury's $84.78 million investment in preferred stock and warrants for a like amount, plus capitalized accrued dividends, of mandatory convertible preferred stock ("MCP") and warrants. The exchange was completed on March 8, 2010, following the receipt of regulatory and stockholder approvals. Midwest proposed a new capital plan which was approved by its stockholders and its primary federal banking regulator. Under the terms of the capital plan, Midwest would exchange its existing preferred stock and debt ($43 million of preferred stock, $15 million in subordinated debt and $63.6 million of senior debt) into common stock as well as raise $125 million in new equity. Treasury's MCP would not be converted into common stock unless the capital plan and conversion are completed or after seven years.

[24] Treasury's monthly Dividends and Interest Reports are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html

[25] References to missed payments exclude the four institutions discussed in the following Section IV (d)(v).

On December 10, 2009, the bankruptcy reorganization plan of CIT Group Inc. became effective and Treasury's preferred stock and warrant investment in the company were extinguished and replaced by Contingent Value Rights ("CVRs"). On February 8, 2010, the CVRs expired without value as the terms and conditions for distribution of common shares to holders of CVRs were not met. On February 11, 2010, Pacific Coast National Bancorp dismissed its bankruptcy proceedings with no recovery to any creditor or investor, including Treasury, and the investment was extinguished. As of March 31, 2010, UCBH Holdings, Inc. remains in bankruptcy proceedings.

vi. Update on Bank Lending Surveys

Each month, Treasury asks banks that participate in the CPP to provide information about their lending activities and publishes the results in two reports, referred to as the Monthly Lending and Intermediation Snapshot (the "Snapshot") and the Monthly Lending Report. These two reports are intended to help the public assess the lending and intermediation activities of participating banks. During the quarterly period, Treasury released three new Monthly Lending and Intermediation Snapshots and three Monthly Lending Reports covering the periods ending in November and December 2009, and January 2010. In addition, Treasury released the Quarterly CPP Report.

a. Monthly Lending and Intermediation Snapshots

Treasury's monthly Snapshot provides data on the lending and other intermediation activities for the largest financial institutions that received TARP investments under the CPP. Beginning with the December 2009 Snapshot (released in February 2010), institutions that repaid CPP funds no longer submitted data to Treasury. In subsequent Snapshots, the reporting group will continue to contract, reflecting additional payments. Treasury will not publish a summary analysis going forward, as aggregate month to month changes are no longer meaningful as the reporting group contracts. In March, Treasury released the following information on January lending, according to data submitted by the nine reporting institutions—

- The overall outstanding loan balance (of all respondents) rose two percent from December 2009 to January 2010 at the nine institutions that submitted January 2010 Monthly Lending and Intermediation Snapshots.

- Total originations of new loans at the nine surveyed institutions decreased 35 percent from December 2009 to January 2010. Total originations of loans by all respondents rose in one category (other consumer lending products) and fell in seven loan categories (mortgages, HELOCs, credit card loans, C&I renewals of existing accounts, C&I new commitments, CRE renewals of existing accounts, and CRE new commitments).

b. *CPP Monthly Lending Report*

Treasury's Monthly Lending Report provides data on consumer lending, commercial lending, and total lending for all CPP participants. The chart in Figure 22 summarizes total loan activity among CPP participants.[26]

Figure 22

Summary of CPP Monthly Lending Report Data
($ millions)

All CPP recipients (excluding Snapshot Filers)

Date	Number of Respondents	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	498	$285,063	$574,600	$859,603
3/31/2009	532	$283,966	$580,570	$864,548
4/30/2009	519	$267,023	$563,499	$830,517
5/31/2009	590	$268,226	$580,921	$849,165
6/30/2009	582	$258,721	$688,116	$946,838
7/31/2009	582	$272,252	$625,246	$897,498
8/31/2009	627	$274,327	$636,876	$911,204
9/30/2009	630	$270,695	$631,527	$902,223
10/31/2009	634	$267,676	$629,137	$896,814
11/30/2009	636	$266,222	$615,981	$882,204
12/31/2009	631	$290,788	$604,995	$895,783
1/31/2010	634	$289,761	$603,030	$892,791
1/31/2009 (Adjusted)	631	$288,091	$593,244	$881,335
2/28/2010	631	$282,321	$591,950	$874,271
2/28/2010 (Adjusted)	631	$282,321	$591,950	$874,271
Change (Jan Adjusted to Feb Adjusted)		*-2.00%*	*-0.22%*	*-0.80%*

Monthly Lending and Intermediation Snapshot Filers*

Date	Number of Respondents	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	21	$2,612,968	$1,806,091	$4,419,059
3/31/2009	21	$2,601,696	$1,778,446	$4,380,142
4/30/2009	22	$2,585,627	$1,766,037	$4,351,665
5/31/2009	22	$2,575,301	$1,765,699	$4,341,000
6/30/2009	22	$2,553,504	$1,741,814	$4,295,318
7/31/2009	22	$2,531,032	$1,719,149	$4,250,181
8/31/2009	22	$2,514,781	$1,691,557	$4,206,338
9/30/2009	22	$2,524,317	$1,635,894	$4,160,211
10/31/2009	22	$2,501,555	$1,623,215	$4,124,770
11/30/2009	22	$2,494,725	$1,622,206	$4,116,931
12/31/2009	12	$1,792,393	$1,028,509	$2,820,902
1/31/2009	9	$649,157	$414,881	$1,064,038
2/28/2010	9	$640,082	$420,618	$1,060,700
Change (January to February)		*-1.40%*	*1.38%*	*-0.31%*

All CPP Recipients

Date	Number of Respondents	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	519	$2,898,031	$2,380,691	$5,278,662
3/31/2009	553	$2,885,662	$2,359,016	$5,244,690
4/30/2009	541	$2,852,650	$2,329,536	$5,182,182
5/31/2009	612	$2,843,527	$2,346,620	$5,190,165
6/30/2009	604	$2,812,225	$2,429,930	$5,242,156
7/31/2009	604	$2,803,284	$2,344,395	$5,147,679
8/31/2009	649	$2,789,108	$2,328,433	$5,117,542
9/30/2009	652	$2,795,012	$2,267,421	$5,062,434
10/31/2009	656	$2,769,231	$2,252,352	$5,021,584
11/30/2009	658	$2,760,947	$2,238,187	$4,999,135
12/31/2009	640	$939,945	$1,019,876	$1,959,821
1/31/2010	643	$938,918	$1,017,911	$1,956,829
1/31/2010 (Adjusted)	640	$937,248	$1,008,125	$1,945,373
2/28/2010	640	$922,403	$1,012,568	$1,934,971
2/28/2010 (Adjusted)	640	$922,403	$1,012,568	$1,934,971
Change (Jan Adjusted to Feb Adjusted)		*-1.58%*	*0.44%*	*-0.53%*

****Citigroup, Comerica, Fifth Third, Hartford, KeyCorp, Marshall & Ilsley, PNC, Regions, and SunTrust***
Note: See attached "reporting groups" table

[26] Beginning with the December 2009 reports (released in February 2010), the ten largest institutions that repaid CPP funds in June 2009 no longer submitted data. Past periods are not adjusted. The decrease in balances from November 2009 to December 2009 is reflective of the decrease in the reporting group.

CPP Monthly Lending Report: Reporting Groups

Date	Data	Includes	Excludes*
2/28/2009	2/28/09 data received by 7/31/09	Institutions that were funded on or before 4/30/09	Institutions that repaid CPP funds on or before 4/30/09
3/31/2009	3/31/09 data received by 7/31/09	Institutions that were funded on or before 5/31/09	Institutions that repaid CPP funds on or before 4/30/09
4/30/2009	4/30/09 data received by 7/31/09	Institutions that were funded on or before 6/30/09	Institutions that repaid CPP funds on or before 5/31/09
5/31/2009	5/31/09 data received by 7/31/09	Institutions that were funded on or before 6/30/09	Institutions that repaid CPP funds on or before 6/30/09
6/30/2009	6/30/09 data received by 7/31/09	Institutions that were funded on or before 7/31/09	Institutions that repaid CPP funds on or before 7/31/09
7/31/2009	7/31/09 data received by 8/31/09	Institutions that were funded on or before 8/31/09	Institutions that repaid CPP funds on or before 8/31/09
8/31/2009	8/31/09 data received by 9/30/09	Institutions that were funded on or before 9/30/09	Institutions that repaid CPP funds on or before 9/30/09
9/30/2009	9/30/09 data received by 10/31/09	Institutions that were funded on or before 10/31/09	Institutions that repaid CPP funds on or before 10/31/09
10/31/2009	10/31/09 data received by 11/30/09	Institutions that were funded on or before 11/30/09	Institutions that repaid CPP funds on or before 11/30/09
11/30/2009	11/30/09 data received by 12/31/09	Institutions that were funded on or before 12/31/09	Institutions that repaid CPP funds on or before 12/31/09
12/31/2009	12/31/09 data received by 1/31/10	Institutions that were funded on or before 12/31/09	Institutions that repaid CPP funds on or before 1/31/10
1/31/2010	1/31/10 data received by 2/28/10	Institutions that were funded on or before 1/31/10	Institutions that repaid CPP funds on or before 2/28/10
1/31/2010 (Adjusted)	12/31/09 data received by 1/31/10	Institutions that reported both 12/31/09 data and 1/31/10 data (using consistent reporting methodology)	Institutions that did not report both 12/31/09 data and 1/31/10 data (using consistent reporting methodology)
2/28/2010	2/28/10 data received by 3/31/10	Institutions that were funded on or before 2/28/10	Institutions that repaid CPP funds on or before 3/31/10
2/28/2010 (Adjusted)	1/31/10 data received by 2/28/10	Institutions that reported both 1/31/10 data and 2/28/10 data (using consistent reporting methodology)	Institutions that did not report both 1/31/10 data and 2/28/10 data (using consistent reporting methodology)

** All reporting groups exclude institutions that did not submit a conforming CPP Monthly Lending Report by the reporting deadline.*

c. The Quarterly CPP Report

An interagency group consisting of representatives from Treasury, the Federal Reserve Board, and other Federal banking agencies functions periodically analyses the effect of TARP programs on banking organizations and their activities.

The Quarterly CPP Report analyzes the financial data submitted by depository institutions to their primary federal regulator in Call Reports and Thrift Financial Reports, as well as the Y-9C Reports submitted by large bank holding companies each quarter to the Federal Reserve. The report distinguishes between the 21 largest CPP participants as of June 2009; CPP participants that received funds in the fourth quarter of 2008; CPP participants that received funds in the first quarter of 2009; CPP participants that received funds in the second quarter of 2009; and the remaining institutions who also submitted reports, but were not participants in the CPP as of the end of June 30, 2009. During the quarterly period, Treasury released the Quarterly CPP Report (covering 3Q 2009), which can be found at http://www.financialstability.gov/docs/CPP/Quarterly%20CPP%20Report%20Q3%202009.pdf

d. Use of Capital Survey

Treasury is committed to determining the effectiveness of CPP capital by analyzing what actions institutions took, or were able to avoid taking, because of CPP funding. To this end, Treasury collects and analyzes information from a number of sources to gauge the effectiveness of the CPP, including an annual Use of Capital survey.

The purpose of the annual Use of Capital survey is to obtain insight into the lending, financial intermediation, and capital building activities of all CPP participants. The survey is designed to capture representative information of CPP fund usage without imposing excessive burdens on institutions, and will cover how each financial institution has employed the capital infusion of CPP funds from the date it initially received the funds until the end of 2009. Treasury will also publish summary balance sheet and income statement information from each institution's regulatory filings. Collection of the Use of Capital survey data began during the quarterly period, with responses due in the second quarter of 2010.

d. Community and Small Business Lending Initiatives

i. Community Development Capital Initiative

During the quarterly period, Treasury released program terms for the new CDCI Initiative, originally announced in October 2009, to invest lower-cost capital in CDFIs that operate in markets underserved by traditional financial institutions. CDFIs are banks, thrifts, bank holding companies, savings and loan holding companies and credit unions that target more than 60 percent of their small business lending and other economic development activities to low and moderate-income communities or populations.[27]

Investments under the CDCI are expected to begin in the second quarter of 2010, and key terms include:

- CDFIs will be eligible to receive capital investments of up to 5 percent of risk-weighted assets (3.5 percent of total assets for credit unions).

- CDFIs would pay dividends to Treasury at a rate of 2 percent per annum, compared to 5 percent under the CPP, increasing to 9 percent after eight years.

- The CDCI also includes a feature designed to attract private capital into those certified CDFIs that are in a weakened financial condition and not considered viable by the institution's primary federal regulator in the absence of additional capital. Specifically, if a qualifying CDFI's primary regulator determines, in connection with the institution's application to the CDCI, that the institution needs additional capital to be viable, the CDFI may participate in the program only if the CDFI obtains private capital prior to, or concurrently with, any investment by Treasury. In such circumstances, the amount that Treasury invests will be limited to the amount of private capital raised, and Treasury will not invest

[27] Program details are available at: http://www.FinancialStability.gov/roadtostability/comdev.html

unless the combined amount of capital received is sufficient for the CDFI to be viable on a pro-forma basis (as determined by the institution's primary federal regulator).

- CDFIs participating in the Capital Purchase Program are eligible to exchange the CPP investment into the CDCI program.
- Consistent with the EESA, CDFIs that participate in the program will not be required to issue warrants so long as they receive $100 million or less in total TARP funding.

ii. SBA 7(a) Securities Purchase Program

In March 2009, Treasury and the Small Business Administration announced several initiatives directed at enhancing credit for small businesses, including a Treasury program to purchase SBA guaranteed securities ("pooled certificates"). Treasury has developed a pilot program to purchase SBA guaranteed securities from one pool assembler, and as of March 31, 2010, had purchased an aggregate of approximately $21 million in securities under the pilot program.[28]

e. Term Asset-Backed Securities Loan Facility

The TALF was established by Treasury and the Federal Reserve in November 2008 under the Consumer and Business Lending Initiative to help accommodate the credit needs of consumers and businesses of all sizes by facilitating the issuance of asset-backed securities ("ABS") collateralized by certain consumer and business loans. As previously announced, on March 31, 2010, the Federal Reserve ceased extending loans under TALF, except for loan extended against newly-issued CMBS. Newly-issued CMBS may be financed through TALF through June 30, 2010.

Since the TALF was launched in March 2009, there has been $109 billion of TALF-eligible ABS new issuance in capital markets. Of that total ABS issuance, approximately 48 percent, or $52.3 billion has been financed using TALF loans. Since March 2009, issuance of ABS backed by consumer and business loans has averaged approximately $8.5 billion per month, compared to approximately $2 billion per month in the six months prior to the program's launch. Of the new-issue asset-backed securities, TALF has helped finance $8.9 billion auto loans, $8.0 billion student loans, more than $24.8 billion credit card loans, and $2.1 billion SBA loans. Additionally, $3.9 billion in loans to auto and equipment dealers to help finance their inventories have been extended through TALF. Most notably, in recent months a substantial fraction of ABS was purchased by investors that did not seek TALF financing, and ABS-issuers brought non-TALF-eligible deals to market supported by purely private financing. Consequently, the closure of the TALF (apart from loans backed by newly issued CMBS) is expected to have at most a modest impact on ABS markets.

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[28] Program details are available at: http://www.FinancialStability.gov/roadtostability/smallbusinesscommunityinitiative.html

During the quarterly period, six additional TALF subscriptions occurred. Of these, three were CMBS subscriptions and three were ABS subscriptions. At the January 20, February 17, and March 19, 2010, CMBS subscriptions, $1.3 billion, $1.1 billion and $0.9 billion, respectively, in TALF loans were extended against legacy CMBS.

Three ABS subscriptions occurred during the quarterly period. At the January 7, February 5, and March 4, 2010, ABS subscriptions, $1.1 billion, $974 million, and $4.1 billion, respectively, in TALF loans were extended. The January 2010 ABS subscription supported the primary issuance of one ABS deal worth about $1.5 billion, of which approximately $0.5 billion was financed through the TALF. Approximately $0.6 billion in loans were also extended against previously issued TALF-eligible ABS collateral. The February 2010 ABS TALF subscription supported the primary issuance of eight ABS deals worth a total of about $4.2 billion, of which $735 million was financed through the TALF. Approximately $239 million in loans was also extended against previously issued TALF-eligible ABS collateral. The March 2010 ABS TALF subscription supported the primary issuance of 6 new TALF-eligible deals worth about $7.2 billion, of which approximately $3.2 billion was financed through the TALF. Approximately $910 million in loans was also extended against previously issued TALF-eligible ABS collateral.

f. American International Group, Inc.

Beginning in September 2008, the Federal Reserve and Treasury have taken a series of actions related to American International Group, Inc. ("AIG") in order to address the liquidity and capital needs of AIG, thereby helping to stabilize the company and prevent a disorderly failure, which could have severely disrupted financial markets and contributed to a further worsening of economic conditions. As part of these actions, in November 2008, Treasury purchased $40 billion in Series D preferred stock from AIG, subsequently exchanged in April 2009, for face value plus accrued dividends, into $41.6 billion of Series E preferred stock. In April 2009, Treasury also created an equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional shares of Series F preferred stock to Treasury. The Series E and Series F preferred stock pay non-cumulative dividends of 10 percent per year. As of March 31, 2010, AIG had drawn $7.5 billion from Treasury's equity capital facility. AIG has not paid dividends on the preferred stock; as a result, Treasury has the right to appoint up to three directors to the board. On April 1, 2010, Treasury exercised these rights to appoint Donald H. Layton and Ronald A. Rittenmeyer to AIG's board of directors.[29]

On March 1, 2010, AIG announced the signing of a definitive agreement for the sale of AIA Group, Limited ("AIA"), to Prudential plc for approximately $35.5 billion, including approximately $25 billion in cash, $8.5 billion in face value of equity and

[29] Additional information concerning these individuals and appointments is available at: http://www.FinancialStability.gov/latest/tg_04012010.html.

equity-linked securities, and $2 billion in face value of preferred stock of Prudential, subject to closing adjustments. On March 8, 2010, AIG announced the signing of a definitive agreement for the sale of American Life Insurance Company (“ALICO”) to MetLife, Inc. for approximately $15.5 billion, including $6.8 billion in cash and the remainder in equity securities of MetLife subject to closing adjustments. AIG stated that the cash portion of the proceeds from each sale will be used to redeem the preferred interests held by the Federal Reserve Bank of New York (“FRBNY”) in the respective special purpose vehicle (“SPV”) established to hold AIA and ALICO. Excess cash proceeds and proceeds from AIG’s efforts to monetize the securities received in each transaction will be used to redeem any outstanding preferred interests in the respective SPV (if any) and then to repay outstanding amounts borrowed under the revolving credit facility with the FRBNY. AIG intends to monetize the securities received in the transactions over time, subject to market conditions, following the lapse of certain minimum holding periods set for the in the definitive agreements entered into with Prudential and MetLife.

g. Automotive Industry Financing Program

The AIFP was created by Treasury in December 2008, in order to avoid a significant disruption of the U.S. automotive industry due to the risk such a disruption could have posed to financial market stability and the broader U.S. economy. The funding provided by Treasury under the program has helped successor companies to General Motors (“GM”) and Chrysler Holding (“Chrysler”) become leaner and more efficient companies with substantially improved long-term viability prospects. Treasury also has provided financing under the AIFP to GMAC, which is an important source of automobile financing.

As of the close of the quarterly period, Treasury holds common stock in GM, Chrysler, and GMAC. Treasury also holds preferred stock (including trust preferred securities issued on December 30, 2009) in GM and GMAC. Treasury will periodically evaluate both public and private options to exit the equity investments under the AIFP. Additionally, the outstanding loans to GM and Chrysler must be repaid by certain dates. The GM loan was amended in January 2010 to require existing escrow amounts to be applied to repay the loan by June 30, 2010. A portion of the Chrysler loan matures in December 2011 and the balance in June 2017.

i. Update on General Motors

As of March 31, 2010, Treasury’s investment in New GM consisted of a 60.8 percent common equity position, $2.1 billion in preferred stock, and $4.7 billion in loans. The New GM loan matures in 2015 and was amended to require quarterly prepayments of $1 billion from existing escrow amounts and that such escrow funds be applied to repay the loan by June 30, 2010. During the quarterly period, New GM made a scheduled repayment of $1.0 billion and an additional repayment of approximately $35 million to Treasury, and as of March 31, 2010, $4.7 billion in loans remained outstanding.

Treasury's holdings in Old GM, currently in bankruptcy proceedings, consisted of approximately $1 billion in outstanding loans as of March 31, 2010, and there was no change during the quarterly period.

ii. Update on Chrysler

As of March 31, 2010, (i) Treasury's investment in New Chrysler LLC consisted of a 9.9 percent common equity position and $5.1 billion in outstanding loans (excluding capitalized interest), and (ii) Treasury's investment in CGI Holding LLC consisted of $3.5 billion in outstanding loans, subject to the terms of a forbearance agreement dated July 23, 2009. There was no change in Treasury's holdings during the quarterly period.

Treasury's holdings in Old Chrysler, currently in bankruptcy proceedings, consisted of $1.9 billion in outstanding loans provided as debtor-in-possession financing.

iii. Update on GMAC

As of March 31, 2010, Treasury's investment in GMAC consisted of a 56.3 percent common equity position, $11.4 billion of mandatorily convertible preferred stock and $2.7 billion of trust preferred securities. There was no change in Treasury's holdings during the quarterly period.

iv. Update on the Auto Supplier Support Program

During the quarterly period, GM Suppliers Receivable made repayments of $150 million under the Auto Supplier Support Program ("ASSP"), and as of March 31, 2010 had no loans outstanding under the program. During the quarterly period, Chrysler Receivables SPV LLC made repayments of $123 million under the ASSP, and as of March 31, 2010 had no loans outstanding under the program. The program will expire in April 2010.

h. Corporate Governance

i. Update on executive compensation

a. Rulings by the Special Master

In June 2009, Treasury published the Interim Final Rule on TARP Standards for Compensation and Corporate Governance (the "Rule"), which, in addition to implementing the compensation standards set forth in the American Reinvestment and Recovery Act ("ARRA"), established the Office of the Special Master for TARP Executive Compensation (the "Office of the Special Master").[30] The Special Master's

[30] All TARP recipients are subject to the provisions on executive compensation and corporate governance set forth in the Rule, which is available at http://www.FinancialStability.gov/docs/EC_IFR_FR_web60909.pdf.

duties include reviewing and approving compensation payments to the five most senior executive officers and the next 20 most highly compensated employees (the "Top 25"), as well as compensation structures for all executive officers and the next 75 most highly compensated employees ("Covered Employees 26–100"), at companies that have received exceptional TARP assistance. At the time the Rule was adopted there were seven recipients of exceptional TARP assistance: AIG, Bank of America, Chrysler, Chrysler Financial, Citigroup, GM and GMAC.

Prior to January 1, 2010, the Office of the Special Master had completed its review and determinations for:[31]

1. 2009 compensation packages for the Top 25 at the seven exceptional assistance recipients, including several supplemental determinations addressing compensation payments for newly hired senior executives.

2. 2009 compensation structures for Covered Employees 26–100 at four companies: AIG, Citigroup, GM, and GMAC. Bank of America was not subject to a Special Master determination in 2009 compensation structures for Covered Employees 26–100 because it repaid its exceptional assistance prior to the issuance of the determinations, and Chrysler and Chrysler Financial generally did not require approvals of compensation structures because total pay for their executives did not exceed the $500,000 "safe harbor" limitation in Treasury's compensation regulations.

During the quarterly period, the Office of the Special Master completed its review of, and issued supplemental determinations regarding:

1. The 2010 compensation package for a newly hired Executive Vice President and executive officer at AIG;

2. The treatment of the acquisition of AIG's ALICO subsidiary by MetLife under the Rule; and

3. The structure of compensation packages for certain of Chrysler's Top 25 executives for 2009.

In addition, on March 23, 2010, the Special Master issued 2010 rulings for the "Top 25" executives at the five remaining firms that continue to have obligations arising from exceptional assistance outstanding: AIG, Chrysler, Chrysler Financial, GM, and

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[31] Copies of the determination letters referred to above are available at http://www.FinancialStability.gov/about/executivecompensation.html.

GMAC.[32] Because Bank of America and Citigroup repaid their exceptional assistance in 2009, they are not subject to the Special Master's 2010 rulings. The following highlights notable features of the Special Master's 2010 determinations for the "Top 25":

1. The rulings decreased aggregate total cash compensation by 33 percent compared to the cash compensation these individual executives received in 2009; and

2. The rulings reduced total compensation for covered executives at AIG, GMAC, and Chrysler Financial by 15 percent compared to the pay these executives received in 2009.

b. "Lookback" provision

The Special Master also has responsibility for administering the "Lookback" provision (i.e., Section 111(f)) of EESA, which requires a review of bonuses, retention awards, and other compensation paid to the senior executive officers and 20 next most highly compensated employees of each recipient of TARP assistance before February 17, 2009. On March 23, 2010, the Office of the Special Master issued a letter and *Compensation Review Data Request Form Instructions* ("Instructions"), to the 419 TARP recipients that received Treasury's financial assistance prior to February 17, 2009. The Instructions directed the TARP recipients to complete a *Compensation Review Data Request Form* and *Certification.* The *Compensation Review Data Request Form* will provide detailed compensation payment information to the Special Master to aid in his determination of whether the payment of a bonus, retention award and other compensation was inconsistent with Section 111(f) of EESA or TARP or otherwise contrary to the public interest.

TARP recipients whose senior executive officers ("SEOs") and 20 next highly compensation employees ("covered employees") received an annual compensation of $500,000 or less are only required to submit a certification verifying the information. TARP recipients with one or more covered employees receiving annual compensation greater than $500,000 are required to submit to the Special Master the *Compensation Review Data Request Form* and a certification noting the number of employees subject to the submission. The required submissions and certifications are to be filed with the Special Master no later than April 22, 2010.

As of April 16, 2010, the Special Master's Office has received confirmations from 417 institutions (2 in receivership) of receipt of instructions and 19 TARP recipients have transmitted the *Compensation Review Data Request Form* along with the required certification.

[32] Ibid.

c. *Excessive or Luxury Expenditure Policy and Certifications*

All TARP recipients were required to adopt an excessive or luxury expenditure policy consistent with the requirements of the Interim Final Rule at 31 C.F.R. § 30 – TARP Standards for Compensation and Corporate Governance ("IFR"), provide the policy to Treasury, and post the policy on their internet website (if applicable), within 90 days following publication of the IFR or 90 days after the closing date of the agreement between the TARP recipient and Treasury, whichever is later. These policies are required to establish standards applicable to the TARP recipient and its employees for excessive or luxury expenditures in the areas of entertainment or other events, office and facility renovations, and aviation or other transportation services. The policies must include expenditures requiring prior management or Board approval and the procedures for seeking approval. The policies must be approved by the TARP recipient's Board of Directors. The Compliance Office within the Office of Internal Review ("OIR – Compliance") is responsible for tracking and monitoring the submission of the policies, determining that the necessary Board of Directors approval has been obtained and whether the policies are in compliance with the requirements of the IFR.

As of March 31, 2010, 668 TARP recipients or 100 percent have filed their Excessive or Luxury Expenditure Policies required under the IFR. No policies are deemed delinquent. Copies of the Excessive or Luxury Expenditure policies are available at each TARP recipient's website (if applicable). OIR-Compliance has reviewed all of Excessive or Luxury Expenditure Policies received to date for compliance with the IFR. Additionally, OIR-Compliance is preparing to notify the TARP recipients, where applicable, of enhancements necessary to bring the policies into compliance.

The IFR also requires that the Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO")[33] certify to actions to be taken by the Compensation Committee, Board of Directors and the company itself with regard to executive compensation. The PEO and PFO certifications are due to be filed with Treasury no later than 90 days after the TARP recipient's fiscal year end. The TARP recipient's Compensation Committee or Board of Directors, if applicable, must provide a certification and narrative description of the review of SEO compensation plans to ensure the plans does not encourage the SEOs to take unnecessary or excessive risk or contain other negative features. The Compensation Committee certification and narrative disclosure is required to be filed with Treasury no later than 120 days after the TARP recipient's fiscal year-end.

OIR – Compliance tracks and monitors the required certifications from recipients. During the quarterly period, OIR-Compliance identified 631 TARP recipients with the fiscal year end of December 31, 2009. As of April 16, 2010, OIR-Compliance has received approximately 475 PEO/PFO Certifications, which were due by March 31, 2010, and is preparing a follow-up correspondence directed to those TARP recipients

[33] Under the Rule, PEO and PFO are equivalent to CEO and CFO, respectively.

who have not filed timely. In addition, as of April 16, OIR-Compliance has received 199 Compensation Committee Certifications which are due by April 30, 2010.

ii. Treasury's voting rights

As a result of the unusual policies and programs that have been put in place to ameliorate the effects of the financial turmoil of the past two years, Treasury has acquired a legal or beneficial ownership of a substantial portion of the outstanding common equity of New Chrysler, New GM, GMAC and Citigroup. In each case, Treasury maintains the goal of keeping the period of government ownership as short as practicable and encouraging the return of private capital to replace the government's investment. The following are the fundamental principles that Treasury has established governing its actions as a shareholder—

- The U.S. government is a shareholder reluctantly and out of necessity. Treasury intends to dispose of its interests as soon as practicable, with the dual goals of achieving financial stability and protecting the interests of the taxpayers;

- Treasury does not intend to be involved in the day-to-day management of any company and its responsibility is to protect the taxpayers' investment; and

- Treasury will take a commercial approach to the exercise of its rights as a shareholder. Treasury will vote only on four core matters: board membership; amendments to the charter and by-laws; liquidations, mergers and other substantial transactions; and significant issuances of common shares.

i. Administrative Activities of the Office of Financial Stability

The Oversight Board has continued to review and monitor the progress made by OFS in ensuring that the necessary infrastructure is in place to design and implement all programs established under EESA. This infrastructure includes hiring staff and establishing the necessary internal controls and compliance and monitoring mechanisms for the programs Treasury has established under the TARP. The following outlines the status and progress that OFS has made in the areas of staffing, procurement, conflict of interest mitigation, internal controls, oversight, and reporting during the quarterly period.

i. Staffing

As of March 31, 2010, OFS had 216 full-time employees (107 career civil servants, 107 term appointments, and 2 detailees) who support the TARP. These employees include 20 employees who report through the Department of the Treasury's Office of the General Counsel, but exclude approximately 41 others outside of OFS who continue to provide support to the office on an as-needed basis. Treasury's organizational plans, as of March 15, 2010, call for a total of 291 full-time employees, indicating that OFS was 74 percent staffed as of March 31, 2010. However, OFS is not envisioned as a permanent organization, so to the maximum extent possible and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs.

ii. Procurement

Treasury continued to engage private sector firms to assist with the significant volume of work associated with the TARP. As of March 31, 2010, Fannie Mae and Freddie Mac accounted for almost 47 percent of the obligated dollars on non-personnel services contracts and agreements while assisting in the administration and compliance of the HAMP. Asset managers serve as financial agents in managing the portfolio of assets associated with several TARP programs. The balance of the non-personnel private sector firms were engaged to assist with the significant volume of work associated with the TARP in the areas of accounting and internal controls, administrative support, facilities, legal advisory, financial advisory, and information technology.

As part of Treasury's commitment to transparency and accountability of taxpayer dollars, OFS has and continues to publish all contracts and financial agent agreements ("FAAs") on http://www.FinancialStability.gov/impact/procurement-contracts-agreements.html. The procurement section of the website provides information on procurement contracts and FAAs including dollar value, performance period, and a category description. This section of the website also describes the authority to enter into procurement contracts and FAAs, and OFS's commitments to small business and to a fair and open competitive process.

During the quarterly period, Treasury awarded three new contracts to support the TARP and entered into one new FAA with Morgan Stanley & Co. Incorporated as capital markets advisor for the disposition of Citigroup common stock. Treasury awarded a contract to the QualX Corporation for Freedom of Information Act support services; a second contract to Hughes Hubbard & Reed LLP, for document production services; and a third contract to the Association of Government Accountants for an application for the Certificate of Excellence in Accountability Reporting Program. In addition to the new contracts, Treasury novated an existing contract with McKee Nelson to its new firm name of Bingham McCutchen LLP, and awarded them a new task order for continued legal services in connection with the SBA securities purchase initiative. Treasury awarded a task order under Treasury's Federally Funded Research and Development Center ("FFRDC") contract to the MITRE Corporation for an assessment of investments made by Fannie Mae in the information systems used to administer the Making Home Affordable programs. Treasury also awarded task orders under existing contracts with Cadwalader Wickersham & Taft LLP, for restructuring legal services; the Boston Consulting Group, for analysis of auto industry competitive dynamics and the GM restructuring and business plan; Price WaterhouseCoopers, for continued assistance with design and implementation of internal controls; and FI Consulting, for continued support with credit reform modeling and analysis. Treasury extended the contracts with

Sonnenschein Nath & Rosenthal LLP, Hughes Hubbard & Reed LLP, Squire Sanders & Dempsey LLP, Fox Hefter Swibel Levin & Carol LLP, Debevoise & Plimpton LLP, and Cadwalader Wickersham & Taft LLP, for legal services to support various TARP programs. Treasury also extended the contracts with Ennis Knupp & Associates, Inc, Lindholm & Associates Inc., and PricewaterhouseCoopers LLP.

iii. Conflicts of Interest Mitigation

OIR – Compliance is responsible for managing conflict issues that arise with new and existing contracts and financial agents. OIR – Compliance takes a standard approach to evaluating potential conflicts of interest and the feasibility of mitigation measures and then documents and tracks all formal decisions on conflict of interest inquiries. OIR – Compliance also obtains and reviews the required certifications from contractors and financial agents at the initial award time as well as periodically to ensure they have properly accounted for and addressed all actual and potential conflicts of interest.

As of March 31, 2010, Treasury has finished renegotiating the conflicts of interest provisions and approved the conflicts mitigation plans for all eight contracts and FAAs that required modifications in place before the Interim COI Regulations[34] became effective and thereafter remained active. OIR – Compliance works with the contractors or financial agents before entering into a contract or FAA to reasonably ensure conflicts of interest mitigation plans meet the requirements of Interim COI Regulation to identify, disclose, and appropriately mitigate conflicts. The contractors and financial agents must provide updated documentation related to conflicts of interest and self-report throughout the term of the contract or FAA. OIR – Compliance reviews these disclosures and mitigation plans to ensure compliance with the Interim COI Regulations. To augment the contractors self-reports, Contracting Officer Technical Representatives and members of the Office of Financial Agents report any discussions with their contractors or financial agents regarding conflicts of interest as part of their systematic monitoring of assigned contracts and FAAs, and promptly raise any perceived or potential conflicts of interest to the attention of OIR – Compliance for evaluation.

iv. Governance and Internal Controls

OFS continues to be committed to the development and implementation of an effective internal controls program so OFS can reduce the risk of the organization. Internal Controls at OFS support investment programs, financial reporting, and other key operational areas. OFS's Internal Control Program Office, Office of Internal Review, the Policies and Procedures Group, and the Senior Assessment Team are responsible for leading this effort. OFS's commitment to its internal controls was a critical factor in receiving a clean audit opinion from the GAO for the fiscal year 2009. This included risk

[34] On January 21, 2009, Treasury published an interim final regulation designed to address actual or potential conflicts of interest among contractors and financial agents performing services in conjunction with the TARP (the "Interim COI Regulations"), available at http://www.FinancialStability.gov/docs/COI-Rule.pdf.

assessments, internal controls testing and development of OFS policies and procedures to support the program functions.

v. Oversight

Treasury has an active dialogue with the Oversight Board, as well as the other bodies with oversight responsibility over the TARP, including Congress, SIGTARP, GAO, and the Congressional Oversight Panel. Assistant Secretary Allison meets weekly with SIGTARP to discuss Treasury's current activities and to address any concerns of SIGTARP. During the quarterly period, at meetings of the Oversight Board and at regularly scheduled calls with liaisons of the Oversight Board's members, Treasury provided the Oversight Board with updates on the progress Treasury has made in implementing several of the recommendations contained in the reports of the oversight bodies. In the cases where Treasury has declined to implement a recommendation or sought to reach the recommendation's objectives by other means that Treasury considered to be more practical, effective or supportive of achieving financial stability, Treasury has explained its reasons to the relevant oversight body and to Congress.

vi. Reporting

Treasury is committed to transparency in all TARP programs and improving its external communications about those programs. Treasury makes all of its reports, which detail the objectives, structure, and terms of each TARP program and investment, available on its web site (*www.FinancialStability.gov)* and shares these reports with Congress. In addition, Treasury continues to make available information concerning the objectives and terms and results of programs established under the TARP through numerous press releases, testimonies, speeches, and briefings to Congressional staff. As part of the Open Government Plan of the Obama Administration, Treasury makes copies of the Transactions and Dividends and Interest Reports available in two additional formats to the official PDF version: XLSX (excel) and XML.

As of March 31, 2010, Treasury has filed—

- 145 transactions reports, in accordance with section 114 of the EESA, which include key details of the acquisition and, beginning March 31, 2009, the disposition of TARP investments;

- 16 monthly reports, in accordance with section 105(a) of the EESA, describing, among other things, financial data concerning administrative expenses, projected administrative expenses and a detailed financial statement with respect to TARP investments; and

- 8 tranche reports, in accordance with section 105(b) of the EESA, which outline the details of transactions that relate to each $50 billion incremental investment made under TARP, along with the pricing mechanism for each relevant transaction, a description of the challenges that remain in the financial system, and an estimate of the additional actions that may be necessary to address such challenges.

APPENDIX A

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

Minutes of the Financial Stability Oversight Board Meeting
January 19, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 9:30 a.m. (EST) on Monday, January 19, 2010, at the offices of the Department of the Treasury ("Treasury").

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. Allison, Counselor to the Secretary and 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

Ms. Ochs, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Ms. Frisch, Program Analyst, Office of Financial Stability, Department of the Treasury

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

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 9:30 a.m. (EST).

The Board first considered draft minutes for the meeting of the Board on December 21, 2009, 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, officials from the Treasury then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on Treasury's plan to refocus the TARP on small banks, lending to small businesses, and housing-related initiatives; repayments under the Capital

Purchase Program ("CPP") and other programs; the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; recent actions under the Automotive Industry Financing Program ("AIFP"); and the Home Affordable Modification Program ("HAMP"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the Term Asset-Backed Securities Loan Facility ("TALF"); the most recent data gathered as part of Treasury's Monthly Lending and Intermediation Snapshots and Report; and information concerning the aggregate level and distribution of commitments and disbursements under TARP and the level of resources remaining available under TARP. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Secretary Geithner initially discussed with Members the extension of the authorities provided Treasury under Emergency Economic Stabilization Act ("EESA") through October 3, 2010; the exit strategy for TARP, which calls for the termination and winding down of many of the TARP programs established in the fall of 2008; and the refocusing of new TARP commitment on foreclosure mitigation and stabilization of the housing markets, initiatives to increase lending to small business, and measures to aid securitization markets for consumers, small businesses, and commercial mortgage loans.

Treasury officials then provided the Members with an update on the CPP and Targeted Investment Program ("TIP"). Treasury officials noted that the final investments under the CPP were made on December 31, 2009, and the program is now in a wind-down phase. Treasury officials then discussed the approximately $161 billion in repayments made, as of December 31, 2009, by banking organizations under the CPP and TIP, including the recently completed repayments by Citigroup, Inc., Bank of America Corporation, and Wells Fargo & Company. As part of this discussion, Treasury officials also discussed Citigroup's termination of the package of asset guarantees and liquidity assistance provided by Treasury, the Federal Deposit Insurance Corporation, and the Federal Reserve with respect to a designated pool of $301 billion in assets, and Treasury's plan for disposing of the remaining Citigroup securities received by Treasury as part of this package of assistance. Treasury officials also described the upcoming Warrant Disposition Report by Treasury, which will provide an overview of the warrants received by Treasury under CPP, as of December 31, 2009, and an explanation of Treasury's warrant disposition process and the results achieved on behalf of taxpayers.

Treasury officials then provided the Members with an update on the S-PPIP. As part of this discussion, Members and officials discussed the amount of equity capital and debt funding already provided to fund managers under the S-PPIP and the status of additional private capital raised by fund managers. Treasury officials also reviewed and discussed recent developments involving TCW Group, Inc. ("TCW"), a PPIF fund manager, including the key terms of the Winding-Up and Liquidation Agreement negotiated with TCW following the departure of certain individuals designated as "Key Persons" under the Limited Partnership Agreement for the TCW PPIF.

Members and officials then discussed recent developments involving GMAC LLC ("GMAC"), including the $3.8 billion of additional capital made available to GMAC under the AIFP as fulfillment of the capital buffer that GMAC required under the Supervisory Capital Assessment Program, and the restructuring of Treasury's investment in GMAC, which resulted in an increase of Treasury's ownership stake in GMAC from 35 percent to 56 percent. As part of this discussion, Members and officials discussed the key terms of the different classes of equity in GMAC held by Treasury and Treasury's right to nominate two additional directors to the GMAC Board of Directors as a result of the recent restructuring and investment.

Using prepared materials, Treasury officials then provided the Members with an update regarding the HAMP. As part of this discussion, Treasury officials noted that the number of permanent modifications under the program more than doubled between November 30, and December 31, 2009, and reviewed with the Members the reasons for this acceleration. Members and officials also reviewed the performance of modifications made under the program, and data collection and reporting under the program. Officials and Members also discussed the universe of borrowers potentially eligible for HAMP, the effect of unemployment on the program, and potential ways to better assist unemployed homeowners through HAMP. Treasury officials also provided Members with an update on the Second Lien Modification Program. During this discussion, officials from Treasury and the Department of Housing and Urban Development ("HUD") also provided an update on the work by HUD, in consultation with Treasury, to integrate the HOPE for Homeowners program into the HAMP framework and to implement additional changes to the HOPE for Homeowners program.

Treasury officials then provided the Members with an update on Treasury's continued efforts to assist small banks and community development financial institutions, and to help restore the flow of credit to small businesses. During this discussion, Mr. Donovan noted that HUD expected to announce a set of policy changes to strengthen the FHA's capital reserves, while enabling the agency to continue providing access to homeownership for underserved communities.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending December 31, 2009, which will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and contents of the report.

The meeting was adjourned at approximately 10:20 a.m. (EST).

[Signed Electronically]

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Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
February 22, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:00 p.m. (EST) on Monday, February 22, 2010, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

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

STAFF PRESENT:

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

AGENCY OFFICIALS PRESENT:

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

Mr. Miller, Acting 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. Shelby, Deputy Chief Financial Officer, Office of Financial Stability, Department of the Treasury

Ms. Ochs, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

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

Ms. Liang, Senior Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

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

Mr. Ugoletti, Special Advisor to the Office of the Director, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 3:05p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on January 19, 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, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Community Development Capital Initiative ("CDCI"); the proposed program to provide additional help in certain states that have been particularly affected by house price declines; the President's legislative proposal to create a Small Business Lending Fund ("SBLF"); recent repayments and dividends received under the Capital Purchase Program ("CPP"); the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; the Home Affordable Modification Program ("HAMP"); and the estimated program costs for TARP included in the President's Fiscal Year 2011 budget. Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the Term Asset-Backed Securities Loan Facility ("TALF"), and the most recent data gathered as part of Treasury's Monthly Lending and Intermediation Snapshots and Report. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first reviewed and discussed Treasury's plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") as part of the CDCI announced on February 3, 2010. Under the program, eligible CDFI banks and thrifts may apply to receive capital of up to 5 percent of their risk-weighted assets that would carry a dividend rate of 2 percent, increasing to 9 percent after eight years. The program also would be open to eligible CDFI credit unions. Investments in eligible credit unions would be made through subordinated debt instruments with comparable terms as those offered to CDFI banks and thrifts. Treasury officials noted that CDFIs participating in the CPP, in good standing, will be eligible to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program. Under the program, if a qualifying CDFI's primary regulator determines, in connection with the institution's application to the CDCI, that the institution needs additional capital to be viable, the CDFI may participate in the program if the CDFI obtains private capital prior to, or concurrently with, any investment by Treasury. In such circumstances, the amount that Treasury invests will be limited to the amount of private capital raised, and Treasury will not invest unless the combined amount of capital received is sufficient for the CDFI to be viable on a pro-forma basis (as determined by the institution's primary federal regulator).

Treasury officials then provided the Members with an update on the program being developed by Treasury, in conjunction with state Housing Finance Agencies ("HFAs"), to help address the problems facing states that have suffered an average home price drop of more than 20 percent from their respective peak. The initiative would make available up to $1.5 billion of TARP funds to support pilot programs designed to foster innovative solutions to housing problems, such as those caused by unemployment, loan-to-value ratios in excess of 100 percent, or second mortgages. As part of this discussion, Members and officials discussed the steps being taken to operationalize the program, including determining the method for allocating funds among eligible states and establishing rules governing the submission and review of proposals by HFAs, and to ensure compliance with all applicable EESA requirements. During this discussion, Mr. Donovan noted that the Department of Housing and Urban Development ("HUD") expected to announce improvements to the Neighborhood Stabilization Program to further assist communities suffering from foreclosures and abandoned properties.

Treasury officials then provided Members with an update on the President's legislative proposal to establish the SBLF. If enacted, banks with under $1 billion in total assets would be eligible to receive capital under the SBLF of up to 5 percent of their risk-weighted assets, and banks with total assets of between $1 billion and $10 billion would be eligible to receive capital of up to 3 percent of their risk-weighted assets, in the form of preferred stock. In order to promote small business lending by participating banks, officials noted that the dividend rate on the capital provided would adjust downward (from an initial rate of 5 percent) during the first two years if the bank's business lending increased above certain amounts compared to a baseline level. The rate would then be fixed for the next three years, increasing to 9 percent after five years to encourage repayment. Officials noted that most CPP participants with $10 billion or less in assets could refinance their CPP capital through the program. As part of this discussion, Members and officials also discussed the features of the program designed to encourage participation and potential oversight structures for the program.

Treasury officials then provided the Members with an update on repayments made under the CPP and other TARP programs. Treasury officials noted that approximately $169 billion in repayments had been made by banking organizations under the CPP and Targeted Investment Program, including the recent repayment by The PNC Financial Services Group Inc. of $7.6 billion on February 10, 2010. Members and officials also discussed the amount of dividends received by Treasury, the number of institutions that are not making dividend payments, and Treasury's plan for disposing certain securities.

Using prepared materials, Treasury officials then reviewed and discussed with the Members the aggregate level and distribution of commitments, disbursements, and administrative expenses under TARP. During this discussion, Treasury officials discussed the projected gain or loss on TARP programs as reflected in the President's FY 2011 budget. Treasury officials noted that, after giving effect to projected losses on investments and anticipated additional disbursements, the President's FY 2011 budget estimated the total cost of TARP to be approximately $116 billion, as compared to the $341 billion cost estimate at the time of the August 2009 Mid-Session Review. Treasury officials also reviewed the current and expected administrative expenses of the Office of Financial Stability.

Treasury officials then provided the Members with an update on the

S-PPIP. As part of this discussion, Members and officials discussed the amount of equity capital and debt funding already provided to fund managers under the S-PPIP, the status of additional private capital raises by fund managers, and the market value and composition of non-agency residential mortgage-backed securities and commercial mortgage-backed securities held by PPIFs as of December 31, 2009. Treasury officials also updated Members regarding the liquidation of the PPIF managed by TCW Group, Inc.

Using prepared materials, Treasury officials then provided the Members with an update regarding the HAMP. As part of this discussion, Treasury officials reviewed with Members recent data for HAMP and noted that the number of permanent modifications under the program increased significantly between December 31, 2009, and January 30, 2010. Members and officials also reviewed the universe of borrowers potentially eligible for HAMP modifications, the performance of modifications made under the program, the median mortgage payment reductions of participating homeowners, and potential ways to increase the pace of conversion of borrowers from trial to permanent modifications under the program. Treasury officials also provided Members with an update on the Second Lien Modification Program and the steps taken by Treasury to develop an operational framework for the program and encourage participation. During this discussion, officials from Treasury and the HUD also provided an update on the work by HUD, in consultation with Treasury, to integrate the HOPE for Homeowners program into the HAMP framework.

The meeting was adjourned at approximately 4:10 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
March 18, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:30 p.m. (EDT) on Thursday, March 18, 2010, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
Mr. Donovan
Ms. Schapiro[1]
Mr. DeMarco

STAFF PRESENT:

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

AGENCY OFFICIALS PRESENT:

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury[2]

Mr. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

Mr. Miller, Acting 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. Wheeler, Senior Advisor, Department of the Treasury

Ms. Ochs, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

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

Ms. Pence, Chief, Household and Real Estate Finance, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development[2]

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission[1]

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

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

The Board first considered draft minutes for the meeting of the Board on February 22, 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.

[1] Participated by telephone.
[2] Participated in a portion of the meeting.

Using prepared materials, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Consumer Business Lending Initiative ("CBLI"); Treasury's warrant auction process; the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; the Community Development Capital Initiative ("CDCI"); the investment in American International Group, Inc. ("AIG"); Treasury's proposed program to provide additional help in certain states that have been particularly affected by house price declines; the Home Affordable Modification Program ("HAMP"); and the Term Asset-Backed Securities Loan Facility ("TALF"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the recent repayments and dividends received under the Capital Purchase Program ("CPP"); aggregate information of allocated and disbursed amounts under TARP; the most recent data gathered as part of Treasury's monthly HAMP report; and the most recent data gathered as part of Treasury's Monthly Lending and Intermediation Snapshots and Report. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first provided the Members with an update on Treasury's pilot program to purchase under the CBLI securities backed by guaranteed portions of loans made under the 7(a) loan program established by the Small Business Administration ("SBA"). As part of this discussion, Members and officials discussed the steps taken by treasury to operationalize the pilot program, including the selection of a valuation agent for the program.

Treasury officials and Members then reviewed and discussed the recent public auctions held by Treasury to sell the warrants it had received from Bank of America Corp., Washington Federal, Inc., Texas Capital Bancshares, Inc., and Signature Bank. As part of this discussion, Members and officials discussed the demand for auctioned securities, the relatively narrow post-auction trading prices for the securities, and the aggregate gross proceeds received in the recent auctions (approximately $1.6 billion). Members and officials also reviewed the number of institutions that were not current on their CPP dividend payments, as well as other actions taken by Treasury with respect to its CPP investments in institutions currently experiencing financial trouble.

Treasury officials then provided the Members with an update on the S-PPIP. As part of this discussion, Members and officials discussed the amount of equity capital and debt funding provided to and invested by fund managers under the S-PPIP, the progress by fund managers in raising private capital, and returns to date on S-PPIP investments. Officials also noted that two additional retail-oriented funds that invest in PPIFs completed initial public offerings in February.

Treasury officials then provided Members with an update on Treasury's plan to provide lower-cost capital under TARP to qualified Community

Development Financial Institutions ("CDFIs") under the CDCI. As part of this discussion, Members and officials discussed the number of CDFIs participating in the CPP that have sought to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program, and the steps taken by Treasury, in conjunction with the National Credit Union Administration, to increase awareness and operationalize the program for eligible credit unions.

Using prepared materials, Treasury officials then provided the Members with an update on the investment in AIG, which included a review of the recent agreement by the company to sell American Life Insurance Company ("ALICO") and American International Assurance Company Ltd. ("AIA"), two insurance subsidiaries of AIG, for combined proceeds of more than $50 billion. Treasury officials noted that, upon closing, the cash proceeds of these sales will be used to repay a substantial majority of the preferred interests held by the Federal Reserve in the two special purpose vehicles ("SPVs") that AIG created to hold all of the outstanding common stock of ALICO and AIA. The remaining cash proceeds, as well as the proceeds received through the sale or disposition of the securities received as part of the consideration for the sales, will be used by AIG to pay down the company's revolving credit line with the Federal Reserve.

Treasury officials then provided the Members with an update on the program being developed by Treasury, in conjunction with state Housing Finance Agencies ("HFAs"), to help address the problems facing states that have suffered an average home price drop of more than 20 percent from their respective peak. As part of this discussion Members and officials discussed the methodology used by Treasury to allocate funds to each eligible state under the program. Officials noted that HFAs in these states must submit proposals to Treasury by April 16, 2010, describing how they propose to use the funding to develop and implement innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets, such as programs targeting unemployed borrowers, underwater borrowers and second-lien relief.

Using prepared materials, Treasury officials then provided the Members with an update regarding the HAMP. As part of this discussion, Treasury officials reviewed with Members recent data for HAMP, including data showing an increase in the number of permanent modifications under the program between January 30, 2010, and February 28, 2010. Members and officials reviewed the proportion of potentially eligible borrowers currently participating in HAMP (through either a temporary or permanent modification), the performance of borrowers under temporary and permanent modifications made under the program, and foreclosure alternatives available for those borrowers unable to complete a modification under the Home Affordable Foreclosure Alternatives Program ("HAFA"). Treasury officials also provided Members with an update on the Second Lien Modification Program and the steps taken by Treasury to develop an operational framework for the program and encourage participation. During this discussion, Mr. DeMarco provided an update on the actions taken by Fannie Mae and

Freddie Mac to assist borrowers in temporary HAMP modifications, but who do not provide the required documentation to obtain a permanent modification under the program. Members and officials also discussed potential enhancements to HAMP to further assist struggling borrowers affected by temporary unemployment or whose principal mortgage balance exceeds the market value of their home.

Using prepared materials, Treasury officials then provided the Members with an update on the TALF. As part of this discussion, Treasury officials noted that, since March 2009, there has been a total of $109 billion of TALF-eligible ABS new issuance in the capital market. The final ABS subscription took place on March 4, 2010. Members also discussed recent issuance and purchases of ABS completed without TALF funding.

Members and officials then engaged in a roundtable discussion regarding the current state of the U.S. housing and financial markets and the effect of the programs established under the TARP in stabilizing the financial system, promoting the flow of credit to households and businesses, and promoting homeownership. As part of this discussion, staff from the Federal Reserve briefed Members concerning developments in the financial markets and officials from the Federal Housing Finance Agency ("FHFA") briefed members on developments in the housing and housing finance markets. The data reviewed included corporate stock prices, credit default swap spreads for bank holding companies, corporate bond spreads and ratings, debt growth among household and nonfinancial businesses, growth of loans at depository institutions, credit conditions for small businesses, and data related to credit demand and standards drawn from the Federal Reserve's Senior Loan Officer Opinion Survey. Members also reviewed data related to mortgage rates and delinquencies, Federal Home Loan Bank advances, mortgage originations, as well information on housing prices, sales, starts, and supply. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the GSEs.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending March 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 contents of the report.

The meeting was adjourned at approximately 5:40 p.m. (EDT).

[Signed Electronically]

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Jason A. Gonzalez
Secretary