FINANCIAL STABILITY OVERSIGHT BOARD QUARTERLY REPORT TO CONGRESS

For the quarter ending
December 31, 2011

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

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I. INTRODUCTION

This quarterly report of the Financial Stability Oversight Board ("Oversight Board"), issued pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"), covers the period from October 1 to December 31, 2011 (the "quarterly period").

The Oversight Board was established by section 104 of the EESA to help oversee the Troubled Asset Relief Program ("TARP") and other emergency authorities and facilities granted to the Secretary of the Treasury ("Secretary") under the EESA. The Oversight Board is composed of the Secretary, the Chairman of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the Director of the Federal Housing Finance Agency ("FHFA"), the Chairman of the Securities and Exchange Commission ("SEC"), and the Secretary of the Department of Housing and Urban Development ("HUD"). Through Oversight Board meetings and other activities, the Oversight Board reviews and monitors the development, implementation, and effect of the policies and programs established under the TARP to restore liquidity and stability to the U.S. financial system.

II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on October 24, 2011; November 28, 2011; and December 22, 2011. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board received presentations and briefings from Treasury officials during the quarterly period to assist in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

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

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

The Capital and Guarantee Programs for Banking Organizations

- The Capital Purchase Program ("CPP"). As of December 31, 2011, Treasury had received approximately $211.4 billion in repayments, dividends, interest, warrant sales, gains from the sale of common stock, and fee income from the banking organizations who participated in the CPP. That amount exceeds the original $204.9 billion Treasury invested under the program. As of December 31, 2011, Treasury held investments in approximately 371 institutions. Many of these institutions are small, community banks or certified community development financial institutions ("CDFIs").

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

American International Group, Inc. ("AIG")

- As of December 31, 2011, the U.S. Government's remaining outstanding investment in AIG through Treasury, including common and preferred interests, consisted of 1.455 billion total shares of common stock (including approximately 960 million shares held under TARP) and $8.4 billion of preferred interests in AIA Aurora LLC. In addition, $16.6 billion, including accrued interest, was owed to the Federal Reserve Bank of New York ("FRBNY") from Maiden Lane II and III, two limited liability corporations established by the FRBNY and AIG to alleviate capital and liquidity pressures on AIG during the 2008 crisis.

Automotive Industry Financing Program ("AIFP")

- During the quarterly period, Treasury's investment in General Motors ("GM") and Ally Financial ("Ally") remained unchanged. Treasury continues to monitor the performance of these firms and evaluate options to exit its investment.

Housing Stabilization and Foreclosure Mitigation

- Making Home Affordable ("MHA") Program. As of November 30, 2011, a total of 909,953 permanent modifications had been started as part of the Home Affordable Modification Program ("HAMP").[2] Since the HAMP program began, homeowners in permanent modifications have saved an estimated $9.9 billion in monthly mortgage payments.

- Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund or HHF"). As of December 31, 2011, there were 55 active Housing Finance Agency ("HFA") programs across the 19 eligible jurisdictions (18 states and the District of Columbia). Since the HHF program began, these HFAs have drawn a total of approximately $722 million of the $7.6 billion Treasury has allocated under the HHF.

b. Projected Cost of TARP Programs

Treasury provides updated cost assessments for TARP programs four times per year and prepares financial statements for TARP on an annual basis in the Agency Financial Report. The ultimate cost of TARP remains subject to uncertainty and will depend on how financial markets and the economy perform in the future. If financial and economic conditions were to deteriorate for example, prospects for TARP investments will also deteriorate.

According to Treasury's estimates, the expected overall cost of TARP will be approximately $67.8 billion, using market prices as of November 30, 2011 (Figure 1). Using the

[2] December 2011 information was not yet available at the end of the quarterly period.

same assumptions, Treasury has estimated that the combined net cost of TARP and other Treasury interests in AIG will be about $54.3 billion.[3] The costs are expected primarily from the cost of TARP housing programs and losses related to TARP investments in auto companies and AIG.

Figure 1

Programs as of December 31, 2011 (dollar amounts in billions)	Obligation/ Commitment	Disbursed as of December 31	Outstanding Investment Balance as of December 31	Estimated Lifetime Cost as of November 30[1,2]
Bank Support Programs:				
Capital Purchase Program (CPP):				
Citigroup	$ 25.00	$ 25.00	$ 0.00	$ (6.46)
Other banks with assets $10 billion or greater	165.33	165.33	8.87	(11.03)
Banks with assets less than $10 billion[3]	14.57	14.57	7.91	4.01
Total	$ 204.89	$ 204.89	$ 16.78	$ (13.48)
Targeted Investment Program (TIP)	$ 40.00	$ 40.00	$ 0.00	$ (4.00)
Asset Guarantee Program (AGP)[4]	$ 5.00	$ 0.00	$ 0.00	$ (3.67)
Community Development Capital Initiative (CDCI)	$ 0.57	$ 0.57	$ 0.57	$ 0.15
Credit Market Programs:				
Public-Private Investment Program (PPIP):				
Equity	$ 7.51	$ 6.03	$ 5.88	$ (2.74)
Debt	14.35	11.63	10.45	0.27
Total	$ 21.86	$ 17.66	$ 16.32	$ (2.47)
Term Asset Backed Securities Lending Facility (TALF)	$ 4.30	$ 0.10	$ 0.10	$ (0.43)
Purchase SBA 7(a) Securities (SBA)	$ 0.37	$ 0.37	$ 0.07	$ (0.00)
Other Programs:				
American International Group (AIG):				
Preferred Stock	$ 20.29	$ 20.29	$ 8.15	$ -
Common Stock	47.54	47.54	41.80	22.35
Total	$ 67.84	$ 67.84	$ 49.95	$ 22.35
Automotive Industry Financing Program (AIFP)	$ 79.69	$ 79.69	$ 37.15	$ 23.77
Sub-total for Investment Programs	**$ 424.51**	**$ 410.76**	**$ 120.95**	**$ 22.22**
Treasury Housing Programs Under TARP	$ 45.60	$ 3.03	$ -	$ 45.60
Total for TARP Programs	**$ 470.12**	**$ 413.80**	**$ 120.95**	**$ 67.82**
Additional AIG Common Shares Held by Treasury[5]	n/a	n/a	n/a	(13.51)
Total for TARP Programs and Additional AIG Shares	**$ 470.12**	**$ 413.80**	**$ 120.95**	**$ 54.31**

[3] In December 2011, the Congressional Budget Office ("CBO") estimated the total lifetime subsidy cost of TARP to be $34 billion. The CBO's report titled (CBO: "Report on the Troubled Asset Relief Program—December 2011," can be found at: http://www.cbo.gov/ftpdocs/126xx/doc12611/12-16-TARP_report.pdf.

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

1/ Lifetime cost information is as of November 30, 2011.

2/ Estimated lifetime cost figures shown in Figure 1 are currently updated quarterly in conjunction with the Office of Management and Budget. The value of outstanding investments in publicly-traded securities is calculated by using the aggregate value of the investments at market prices as of December 31, 2011. The following common stock value information is provided for the convenience of the reader to show the increase or decrease in aggregate value of the outstanding shares of the investments in light of market prices as of December 31, 2011, and the corresponding effect on estimated cost assuming no other changes.

Outstanding Investment	11/30/2011 Market Value	12/31/2011 Market Value	Increase (Decrease) in Cost
		In billions	
AIG Common Stock	$ 22.38	$ 22.28	$ 0.10
GM Common Stock	$ 10.65	$ 10.14	$ 0.51
Additional AIG Common Shares	$ 11.53	$ 11.48	$ 0.05

Note: For the period ending November 30, 2011, the share price for AIG was $23.31 and for GM was $21.29. For the period ending December 31, 2011, the share price for AIG was $23.20 and for GM was $20.27.

3/ The law creating the Small Business Lending Fund ("SBLF") provided that banks could refinance securities issued under the CPP and CDCI programs with securities issued under SBLF. A total of 137 CPP recipients refinanced under the SBLF, resulting in repayment of $2.21 billion in CPP investments.

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

5/ Represents additional 563 million shares of AIG common stock that was received from the trust created by the Federal Reserve Bank of New York for the benefit of the Treasury, including $1.97 billion received from a sale of stock in May 2011.

III. EVALUATING THE EFFECTS OF EESA PROGRAMS

Utilizing the authority provided by EESA, Treasury has implemented a range of programs to stabilize the financial markets and financial institutions, support the flow of credit to consumers and businesses, and help at-risk homeowners remain in their homes and avoid foreclosure. These programs are described in detail in Part IV of this report and in the previous quarterly reports of the Oversight Board. Under section 104 of EESA, the Oversight Board is charged with reviewing Treasury's efforts under EESA and the effect of such actions in assisting American families in preserving home ownership, stabilizing financial markets, and protecting taxpayers.

In past quarterly reports, the Oversight Board has indicated that financial-market shocks from the crisis have been lessened by Treasury's actions under EESA, and that TARP and other government programs have contributed to preventing the adverse effects of the crisis from becoming significantly more severe. The accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during subsequent quarters. Treasury has received significant repayments of financial-sector investments, and TARP financial-sector programs have been winding down or have been closed. Accordingly, the Oversight Board evaluation of the effects of Treasury's financial-sector programs under TARP places greater emphasis on Treasury's administration of the financial-sector assets it still owns and, in particular, the management of those assets over time toward exit strategies that protect taxpayers and safeguard the public interest in the stability of financial markets. These evaluations have been integrated with a broader discussion of program developments in section IV.

TARP housing-sector programs, in contrast, remain open to new applications from eligible borrowers and some operate at a relatively early phase in their respective program lifecycles. The housing-sector programs will provide assistance to additional mortgage borrowers, including by means of new trial modifications under HAMP (first-lien and junior lien) through December 2012, subject to one or more extensions.[4] The TARP housing-sector programs thus retain the potential to influence housing market conditions going forward. Accordingly, the Oversight Board will continue to evaluate the effects of TARP housing-sector programs from that perspective. The Oversight Board believes that Treasury's accumulated actions under TARP, together with other federal programs, continued to provide support to the housing market and assistance to at-risk mortgage borrowers during the fourth quarter. These actions have helped to promote more stable conditions for housing finance and to reduce avoidable foreclosures.

[4] By the terms of MHA servicer participation agreements, a borrower may be accepted into the HAMP program if the borrower has made the first trial period payment on or before December 31, 2012 (the Initial Term), under a Trial Period Plan Notice delivered to a borrower. These agreements provide Treasury with the option to extend the initial term one or more times. Incentive payments for any HAMP borrower so accepted will continue to be paid out for five years following the effective date of the modification.

a. Brief review of financial market developments

Conditions in financial markets continued to be volatile during most of the fourth quarter, reflecting concerns about the European fiscal and banking problems. Market sentiment improved somewhat late in the quarter and conditions in many asset markets became more stable. Broad stock price indexes, both for the market as a whole and for financial institutions, increased notably, on net, over the quarter. Credit default swap spreads for large bank holding companies, generally considered to be a key indicator of investors' views about the health and prospect of these institutions, remained elevated, although their run-up early in the period was reversed in December.

Data from the flow of funds accounts published by the Federal Reserve show that debt for households continued to decline through the end of the third quarter (the latest data available). Debt for nonfinancial businesses grew moderately during the period, owing to robust expansion in corporate bond issuance and commercial and industrial ("C&I") loans. Despite the strength in C&I lending, total loans at depository institutions were about flat in the third quarter of 2011, reflecting a continued decline in mortgages outstanding. Charge-offs of problem loans have been a significant contributor to weakness in the level of business and household debt over the past year.

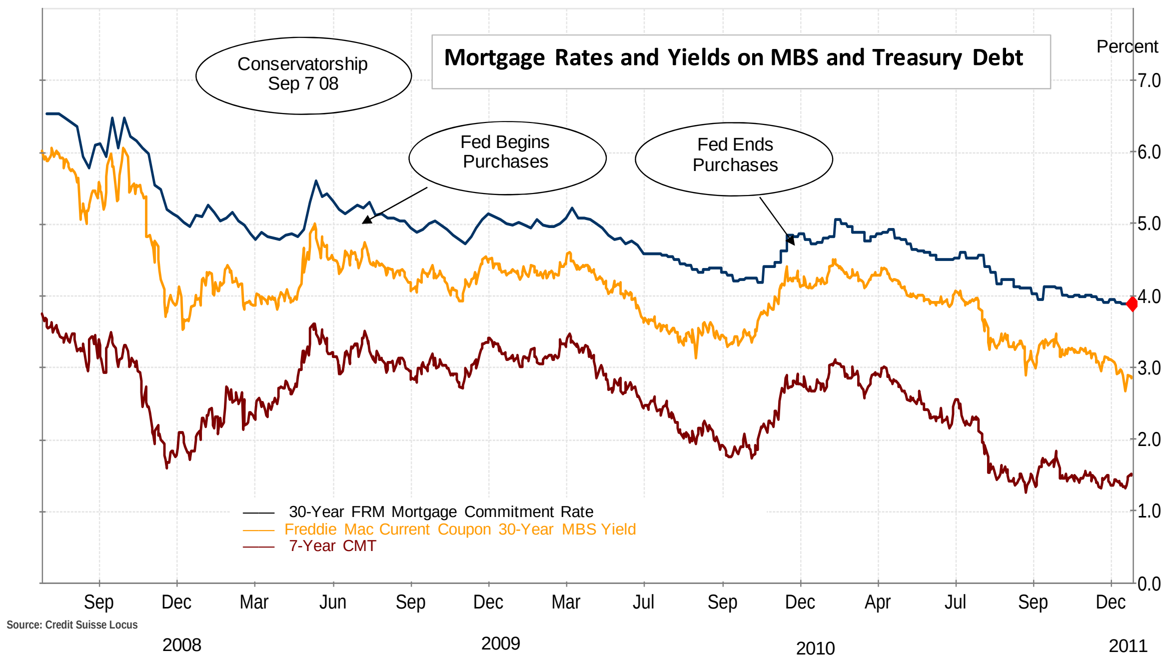
In the October Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve, domestic banks, on balance, reported little net change in lending standards or demand over the previous three months, although a small but positive net fraction of domestic banks reported having eased standards on C&I loans. Securitization of consumer credit in the fourth quarter of 2011 continued at about the same pace seen in the previous quarter. Unlike auto or credit card asset-backed securities ("ABS"), however, spreads on commercial mortgage-backed securities ("CMBS") remained substantially above pre-crisis levels, and issuance of new CMBS remained very low. Overall, commercial real estate markets continued to exhibit considerable stress. Gross issuance of investment grade bonds for nonfinancial corporations was again robust in the fourth quarter.

b. Effects of TARP on housing market conditions

Actions taken by the Treasury under TARP, together with Treasury actions taken under the Housing and Economic Recovery Act and actions taken by the Federal Reserve, HUD, and FHFA continued to support housing markets and provide assistance to mortgage borrowers during the fourth quarter. These actions and earlier efforts have been a stabilizing influence on housing markets, but that sector still faces significant difficulties because of stagnant wages and slow growth in employment, coupled with the large volume of unsold inventory and unresolved mortgage delinquencies. Credit conditions remained tight for potential mortgage borrowers with less-than-pristine credit, which also appeared to be dampening housing demand.

Long-term mortgage interest rates generally have been stable over the last three years, remaining near or below 5 percent (figure 2). By the end of the fourth quarter, rates on new 30-year fixed rate mortgages, as measured by Freddie Mac, fell below 4 percent, their lowest level in 50 years. Yields on ten-year Treasuries remained near 2 percent early in the quarter and remained well below that threshold for the remainder of the quarter. Spreads between mortgage rates and yields on reference Treasury securities narrowed slightly. Nonetheless, these spreads remained close to their average over the last two years and well below the crisis levels of late 2008 and early 2009.

Figure 2



Foreclosure mitigation efforts under TARP continued at significant rates during the quarter. During September, October and November, new permanent modifications averaged 31,000 per month which, when a discontinuity in data is taken into account, fell somewhat below the average of the previous six months.[5] Total active permanent modifications increased from 691,000 at the end of August to 751,000 at the end of November. The Second Lien Modification Program ("2MP"), which is designed to encourage modifications of second liens where the first lien mortgage has already been modified under HAMP, recorded noteworthy growth. By the end of November, some 44,000 2MP modifications were active, up from 36,500 at the end of August. Also through November, the Home Affordable Foreclosure Alternatives ("HAFA") program, which provides incentives for borrowers, investors and servicers to undertake short sales or deeds-in-lieu-of-foreclosure as lower-cost alternatives to foreclosure, had completed almost 24,000 short sales and almost 700 deed-in-lieu transactions. The number of HAMP modifications with principal reductions increased gradually, and as of the end of November there were 16,000 active trial modifications and 36,000 active permanent modifications with principal reduction. The Hope Now Alliance reported that the number of non-TARP modifications continued to exceed the number established under HAMP. Hope Now reported an average of

[5] Due to a technological enhancement to the HAMP system of record, the number of new HAMP permanent modifications for September 2011 (just more than 40,000) included a one-time boost from HAMP-Principal Reduction Alternative (PRA) permanent modifications that were previously reported as aged HAMP-PRA trial modifications.

53,000 non-HAMP modifications had been initiated during September, October, and November, which–in parallel to HAMP–represented a slight decline from the 54,000 per month of the foregoing three months. Unlike HAMP modifications, the terms and impact associated with these non-HAMP modifications are not generally reported.

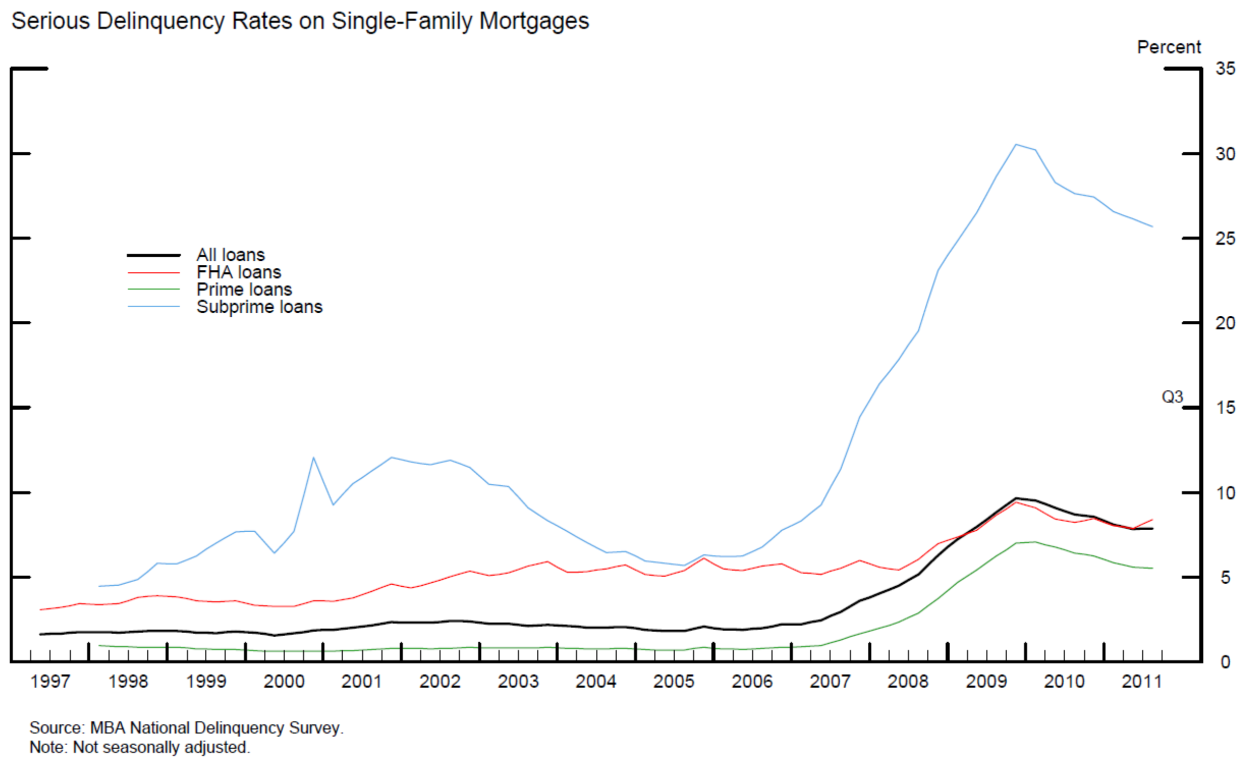
Data reported by Treasury indicated that, through the end of November, some 17.2 percent of all HAMP permanent modifications had re-defaulted, that is, had been cancelled for missing three or more payments.[6] Delinquency data across standardized intervals, a more conventional metric for assessing payment performance, continued to provide some positive indications. Data reported during the quarter indicated that 7.7 percent of HAMP modifications made permanent in the first quarter of 2011 had become delinquent by 60 days or more. Among loan modifications made permanent in the third quarter of 2010, 17.9 percent had become delinquent by 60 or more days within 12 months of the modification. Each represented the best performance for any quarterly origination cohort at a comparable point in time and continued an extended trend of declining delinquency rates at those intervals across cohorts. For loan modifications made permanent in the first quarter of 2010, 26.0 percent had become delinquent by 60 or more days within 18 months of the modification. This figure was roughly on par with the 25.0 percent delinquency rate reported for modifications made permanent in the previous quarter. These 18-month delinquency rates provide only a partial indication of performance for the broader portfolio of HAMP permanent modifications, because only about one-third of the total portfolio had been in place for 18 months or more as of the reporting date. In contrast, 31.4 percent of non-HAMP modifications made permanent in the second quarter of 2010 at a selected group of national banks and one thrift had become 60 or more days delinquent within 12 months of the modification.[7] The lower rate of delinquency for HAMP permanent modifications has likely been influenced by differences in documentation standards, magnitudes of payment reduction and requirements for a trial period.

[6] Comparing cumulative re-defaults to the cumulative number of permanent modifications provides a single rough indication of portfolio-wide re-default frequency at this early stage in the life of these modified loans. The cost of this simplicity is that the single re-default metric does not take account of analytically useful distinctions within the portfolio of permanent modifications, for example, the different periods of time that have passed since the modifications were put into place. For a more detailed analysis of delinquency patterns in HAMP permanent modifications, interested parties should consult the most recent monthly Servicer Performance Report, available at: http://www.treasury.gov/initiatives/financialstability/results/MHAReports/Pages/default.aspx.

[7] Data for non-HAMP modifications were drawn from the Office of the Comptroller of the Currency ("OCC") Mortgage Metrics Report for the third quarter of 2011 (Table 32), and pertain to non-HAMP modifications of mortgages serviced by a selected group of national banks and one federal savings association. For this same group of financial institutions, the OCC Mortgage Metrics Report indicated that 17.3 percent of HAMP permanent modifications finalized in the second quarter of 2010 had fallen 60 days delinquent within 12 months.

These efforts contributed to the slow but steady decline in the number of seriously delinquent mortgage loans (loans 90 or more days past due or in the process of foreclosure, figure 3) that began at the end of 2009. Rates of serious delinquency returned to the levels seen at the middle of 2008. Both reductions in newly delinquent loans and a high number of foreclosures during 2010 and 2011 have contributed to the decline in serious delinquency rates. Loans originated in 2009 and 2010 experienced much lower rates of early delinquency, compared to loans originated in the middle of the decade. New FHA 90-day delinquencies for the fourth quarter were 7.55 percent on an annualized basis, higher than the prior quarter but substantially below levels experienced from mid-2008 through mid-2010.

Figure 3



Despite continued low interest rates, the pace of mortgage refinancing slowed in 2011. Refinanced loans help lower borrowing costs for many borrowers. The non-TARP Home Affordable Refinance Program ("HARP") is designed to help borrowers whose loans were purchased or guaranteed by Fannie Mae or Freddie Mac and who are located in areas suffering from house price declines. HARP allows borrowers with high loan-to-value ratios to refinance their mortgages to take advantage of lower interest rates, if their loan-to-value ratios are no more than 125 percent. If the original loan had private mortgage insurance the insurer must agree to transfer that insurance to the new loan, and if the property has a junior lien(s) the other lenders must agree to re-subordination. The policy rationale for HARP is straightforward because Fannie Mae or Freddie Mac already held the credit risk on the original loan. HARP refinancing does not materially increase the GSEs' risk exposure, and can be expected to lower the risk of default by reducing the borrower's monthly payment. During September, October, and November of 2011, Fannie Mae and Freddie Mac refinanced about 34,000 mortgages per month on average through the HARP program. By comparison, the HARP program refinanced a record 57,000 borrowers in December 2010, which largely reflected the borrowing rate declines last summer and fall that were reversed as the year ended. FHFA along with Fannie Mae and Freddie Mac are actively working to remove frictions in the refinancing process to enable more borrowers to take advantage of record low mortgage rates. During the quarter, FHFA announced a number of changes to HARP designed to make the program more attractive to borrowers and lenders. These changes included extending the program until the end of 2013, removing the 125 percent loan-to-value ceiling, sharply reducing fees for many or most borrowers, largely waiving representations and warranties of lenders, and eliminating in most cases the need for a new appraisal.

Based on early estimates of market-origination volumes for this quarter by the Mortgage Bankers Association, FHA's market share positions held fairly constant from the previous quarter, at 33 percent for purchase loans and 6 percent for refinance loans, based on dollar volumes. FHA's overall share of new mortgage originations, however, fell from 15 to 12 percent as refinance loans became more important in the conventional market. Rising refinance volumes in this quarter were not enough to offset the decline in purchase volumes among FHA endorsements. Applications for FHA-to-FHA refinance loans experienced another sharp quarterly increase (up 42 percent), while applications for the larger conventional-to-FHA refinance group declined modestly (down 6 percent), and applications for purchase loans were off significantly compared with the previous quarter (down 17 percent). FHA insurance volumes were half the size of peak levels seen in mid- 2009 and more closely resemble volumes from the first half of 2008.

Seasonally adjusted house sale volume rose over the autumn months. As measured by the National Association of Realtors ("NAR") and the Census Bureau, combined existing and new single-family home sales took place at a 4.7 million annual rate in November, up from a 4.6 million rate in August (seasonally adjusted).[8] Sales were still below the 5.0 million annual rate (seasonally adjusted) that had prevailed in January 2011.

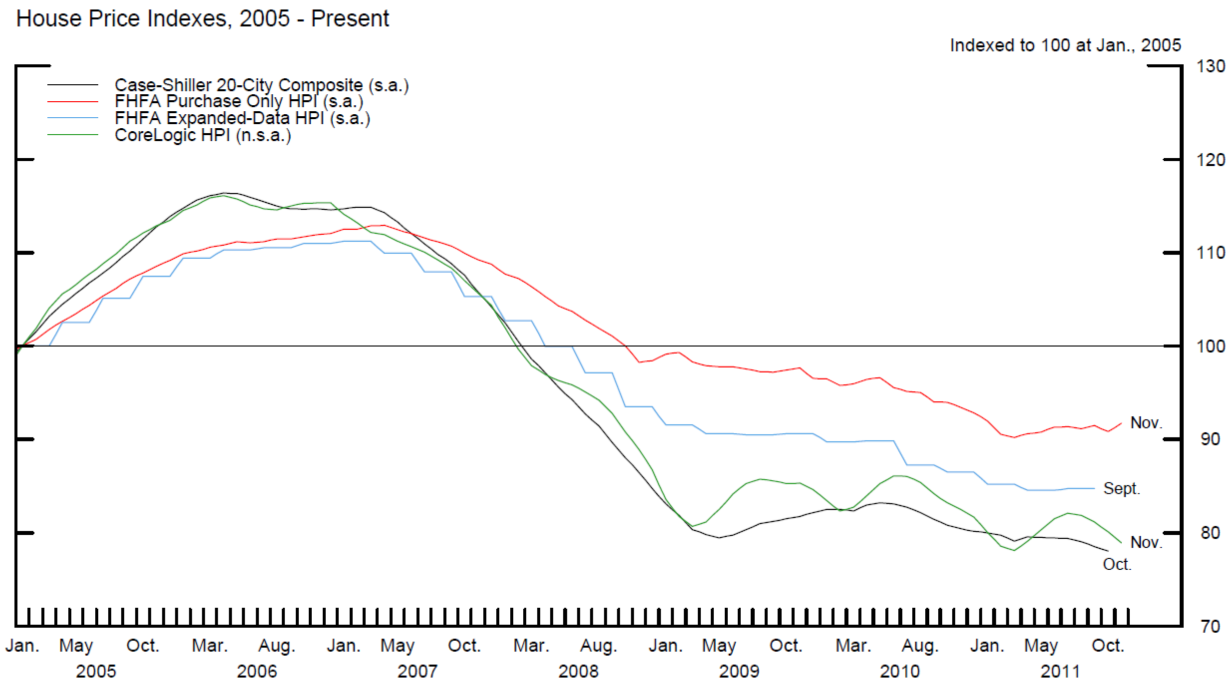
Large inventories of houses for sale and potential additions to those inventories from future foreclosures have continued to depress house prices. Although the flow of new foreclosures was much slower than in prior years of the crisis, in part due to issues with servicer documentation and practices, it is reasonable to expect that the slowdown will be reversed. As of the end of October, CoreLogic estimated that there were roughly 3 million properties for sale and

[8] In December, NAR "re-benchmarked" its Existing Home Sales series and revised its historical sales estimates back to 2007. The revised estimates, which are incorporated in the figures reported above, were significantly lower than previous estimates. On average, its revised estimates were roughly 15 percent lower than prior estimates. In describing the rationale for the historical revisions, NAR indicated that the prior numbers may have been too high because of double counting and changes in market structure that hindered the reliability of its prior extrapolation approach. Further information on the December 2011 re-benchmarking of existing home sales data is available on the NAR web site at: http://realtors.org/research/research/ehs_benchmarking

a further 1.6 million properties either had been turned over to lenders (that is, were "real estate owned" by lenders or REO), were in the foreclosure process, or were owned by borrowers who were seriously delinquent on their mortgage payments.

The house price indices from CoreLogic and the Case-Shiller/S&P 20-city index were down about 2 percent over the 3 month period of August, September, and October, while the FHFA purchase-only and extended-data indices were essentially unchanged over this period (figure 4).[9]

Figure 4



[9] This chart includes the FHFA's new Expanded Data Home Price Index, which uses a data sample that has been augmented with sales price information for homes with mortgages endorsed by the Federal Housing Administration ("FHA") and real property county recorder information licensed from a private vendor. Further information on the Expanded Data index can be found in the FHFA's second quarter 2011 house price index release (August 24, 2011) at http://www.fhfa.gov/webfiles/22558/2q2011HPI.pdf.

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

This section provides a detailed update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under the EESA during the quarterly period, from October 1 to December 31, 2011, subject to review and oversight of the Oversight Board.

This fourth quarter report provides updates on the complete set of active TARP programs, including the Community Development Capital Initiative ("CDCI"), the Term Asset-backed Securities Loan Facility ("TALF") and the Public-Private Investment Program ("PPIP"), as well as administrative activities of the Office of Financial Stability ("OFS"), and compliance with recommendations from TARP oversight bodies (Government Accountability Office ("GAO"), Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"), and, through early 2011, the Congressional Oversight Panel ("COP")). In the three previous Quarterly Reports for 2011, this section focused on the largest active TARP programs (CPP, AIFP, AIG, and housing stabilization and foreclosure mitigation programs), while addressing other TARP programs (including those which were winding down or closed) only if there were significant developments during that quarter. The Oversight Board believes this annual-cycle approach fulfills its Congressional mandate for oversight of TARP programs while avoiding unnecessary overlap and duplication.

a. Capital and Guarantee Programs for Banking Organizations

i. Update on the CPP

a. Repayments

As of December 31, 2011, Treasury had received approximately $185.5 billion in repayments under the CPP, equivalent to almost 91 percent of the total funds initially invested. These repayments coupled with the dividends, interest, warrant sales, gains from the sale of common stock, and fee income from participating bank organizations brings the total payments received from the CPP to $211.4 billion.

During the quarterly period, 20 financial institutions delivered a total of $517.6 million in repayments, including the following most significant transactions:

- **First Midwest Bancorp, Inc. ("Midwest") (Itasca, IL):** During the quarterly period, Treasury received total proceeds from Midwest of approximately $193.2 million. In November, Midwest repurchased all of its CPP preferred shares totaling more than $193.0 million and paid accrued dividends totaling $214,444.

- **S&T Bancorp ("S&T") (Indiana, PA):** During the quarterly period, Treasury received total proceeds from S&T of approximately $109.0 million.

In December, S&T repurchased all of its CPP preferred shares totaling $108.7 million and paid accrued dividends totaling $332,065.

- **State Bancorp, Inc. ("State") (Indiana, PA):** During the quarterly period, Treasury received total proceeds from State of approximately $37.0 million. In December, State repurchased all of its CPP preferred shares totaling $36.8 million and paid accrued dividends totaling $148,391.

As of December 31, 2011, the combined total amount of bank organization repayments, dividends, and other income received from banking-related programs (the CPP, Targeted Investment Program, Asset Guarantee Program, and Community Development Capital Initiative ("CDCI")) exceeded by over $13.6 billion Treasury's total original investment in these programs of $245.1 billion.

Figure 5 below shows the top 25 CPP remaining investments by institution as of December 31, 2011.

Figure 5

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

	Institution	City, State	Outstanding Investment ($millions)
1	Regions Financial Corp.	Birmingham, AL	$ 3,500.0
2	Zions Bancorporation	Salt Lake City, UT	$ 1,400.0
3	Synovus Financial Corp.	Columbus, GA	$ 967.9
4	Popular, Inc.	Hato Rey, PR	$ 935.0
5	First Bancorp[a]	San Juan, PR	$ 400.0
6	M&T Bank Corporation	Buffalo, NY	$ 381.5
7	Sterling Financial Corporation[b]	Spokane, WA	$ 303.0
8	Citizens Republic Bancorp, Inc.	Flint, MI	$ 300.0
9	First Banks, Inc.	Clayton, MO	$ 295.4
10	New York Private Bank & Trust Corp.	New York, NY	$ 267.3
11	Flagstar Bancorp, Inc.	Troy, MI	$ 266.7
12	Cathay General Bancorp	El Monte, CA	$ 258.0
13	PrivateBancorp, Inc.	Chicago, IL	$ 243.8
14	International Bancshares Corporation	Laredo, TX	$ 216.0
15	MB Financial Inc.	Chicago, IL	$ 196.0
16	Pacific Capital Bancorp[c]	Santa Barbara, CA	$ 180.6
17	United Community Banks, Inc.	Blairsville, GA	$ 180.0
18	Dickinson Financial Corporation II	Kansas City, MO	$ 146.1
19	Banner Corporation	Walla Walla, WA	$ 124.0
20	BBCN Bancorp, Inc.	Los Angeles, CA	$ 122.0
21	Anchor BanCorp Wisconsin, Inc.	Madison, WI	$ 110.0
22	Taylor Capital Group	Rosemont, IL	$ 104.8
23	Park National Corporation	Newark, OH	$ 100.0
24	Central Pacific Financial Corp.[d]	Honolulu, HI	$ 98.7
25	Hampton Roads Bankshares, Inc.[e]	Norfolk, VA	$ 80.3
	Total		**$11.2 billion**

a/ Treasury exchanged its preferred stock for mandatorily convertible preferred stock ("MCP") with capitalized dividends. First Bancorp fulfilled the conversion conditions and Treasury's MCP was converted into 32,941,797 shares of common stock.

b/ Treasury exchanged its preferred stock for MCP. Sterling fulfilled the conversion conditions, including those related to its capital plan, and Treasury's MCP was converted into 378,750,000 shares of common stock. Currently, 5,738,637 shares of common stock remain, following the reserve split.

c/ Treasury exchanged its preferred stock for MCP with capitalized dividends. Pacific Capital fulfilled the conversion conditions and Treasury's MCP was converted into 360,833,250 shares of common stock. Currently 3,608,332 shares of common stock remain, following the reverse split.

d/ Treasury exchanged its preferred stock for MCP with capitalized dividends. Central Pacific fulfilled the conversion conditions and Treasury's MCP was converted into 5,620,117 shares of common stock of which 2,850,000 has been sold.

e/ Treasury exchanged its preferred stock for MCP. Hampton fulfilled the conversion conditions and Treasury's MCP was converted into 52,225,550 shares of common stock. Currently 1,085,553 shares of common stock remain, following the reverse split.

b. Update on Warrant Dispositions

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 may submit one or more independent bids at different price-quantity combinations and the warrants are sold at a uniform price that clears the market.

As of December 31, 2011, Treasury had disposed of warrants from 265 banking organizations and had received approximately $9.1 billion in net proceeds.[10] During the quarterly period, 121 banking organizations repurchased warrants from Treasury for proceeds of approximately $100.8 million, including the following significant transactions:

- On November 30, 2011, Treasury completed a public auction of its warrant that entitled it to purchase approximately 4.0 million shares of Associated Banc-Corp common stock. Treasury's total gross proceeds under this transaction were approximately $3.6 million.

- On November 17, 2011, Treasury completed an auction to sell its warrant positions in 17 institutions for total gross proceeds of more than $12.7 million. This sale was made in private transactions following offerings to qualified institutional buyers, the respective issuer, and a limited number of accredited investors affiliated with the issuer.

- On October 19, 2011, Central Bancorp, Inc. ("Central") repurchased Treasury's warrant that entitled it to purchase 234,742 shares of Central common stock. Treasury's total gross proceeds under this transaction were approximately $2.5 million.

[10] Includes warrant dispositions through auction, repurchase, and repurchase of exercised warrant preferred shares from the CPP and TIP. Treasury received approximately $1.45 billion from the disposition of TIP warrants.

c. Update on CPP Dividends and Interest

As of December 31, 2011, cumulative dividends and interest income received from CPP investments was approximately $11.4 billion. During the quarterly period, Treasury received dividends and interest income from CPP investments of approximately $193.8 million.

d. Missed Payments

During the quarterly period, 155 institutions did not make their scheduled dividend or interest payments on Treasury's CPP investments. In this period, missed payments by portfolio institutions in the CPP were approximately $41.5 million, which represents approximately 21 percent of the CPP dividends and interest that institutions were scheduled to pay Treasury for that period. As of December 31, 2011, the cumulative missed payments by CPP portfolio institutions since the beginning of the program were approximately $271.7 million,[11] which represents approximately 2.3 percent of the total CPP dividends and interest that institutions were scheduled to pay Treasury.

Under the CPP preferred-stock agreements, Treasury cannot demand payment of dividends under such circumstances. Instead, under the terms of the CPP, Treasury has the contractual right to appoint up to two members to the board of directors of a CPP recipient if the institution has missed a sixth dividend or interest payment on the preferred stock issued to Treasury. As of the end of the quarter, Treasury had interviewed potential director candidates and had appointed 11 directors to a total of seven institutions.

Those institutions with weaker financial performance, including any institutions that has missed more than three dividend (or interest) payments, are selected for enhanced monitoring. If an institution misses five dividend (or interest) payments, Treasury may request permission to send qualified members of OFS staff to act as observers, prioritizing those requests, in part, based upon the size of Treasury's investment.

Treasury observers listen during meetings of the board of directors, limiting their participation to clarifying questions on the materials distributed, presentations made, actions proposed or taken, and addressing questions regarding the observer's role. The purpose of the observers is to gain a better understanding of the institution's condition and challenges and to observe how the board is addressing the situation. The information provided by the observers will supplement Treasury's ongoing monitoring of its investment in the institution.

As of December 31, 2011, 82 banks participating in the CPP had missed six or more payments. Forty-one CPP recipients had agreed to have Treasury observers at their board of directors meetings. These 41 institutions include those that have already missed six or more payments and several that expected to miss their sixth dividend payment in the near future.

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

e. *Exchanges and Dispositions*

As of December 31, 2011, in limited cases, and in keeping with the objectives of the EESA to "restore liquidity and stability to the financial system of the United States" in a manner which "maximizes overall return to taxpayers," Treasury had agreed to sell certain CPP investments to third-party investors to provide fresh equity investment, conduct a capital restructuring or otherwise strengthen the capital position of the bank. In other cases, Treasury had participated in certain exchanges of CPP preferred stock for other securities. Exchanges made on this basis may be at a rate less than par and sales by Treasury to a new investor may be made at a discount. During the quarterly period Treasury began working with Houlihan Lokey Capital, Inc. to explore additional options for the management and ultimate recovery of the remaining CPP investments.

Treasury entered into the following key exchanges and dispositions during the quarterly period:

- On October 7, 2011, following the completion of the conversion conditions set forth in the Certificate of Designations for MCP, all of Treasury's MCP in First BanCorp was converted into 32,941,797 shares of common stock. On July 20, 2010, Treasury had exchanged its $400 million of CPP preferred stock in First BanCorp for MCP pursuant to the terms of an exchange agreement between Treasury and First BanCorp entered into on July 7, 2010.

- On October 21, 2011, Treasury completed the exchange of its $51.5 million of CPP preferred stock in FNB United Corp. ("FNB United") for 108,555,303 shares of common stock, pursuant to the terms of an exchange agreement between Treasury and FNB United entered into on August 12, 2011.

- On October 21, 2011, Treasury completed the sale of all Santa Lucia Bancorp ("Santa Lucia") preferred stock and warrants held by Treasury to CCI One Acquisition Corporation ("CCI") for an aggregate purchase price of $2.8 million, pursuant to the terms of the agreement between Treasury and CCI entered into on October 20, 2011. Treasury's original investment in Santa Lucia was $4.0 million.

f. *Receiverships*

During the quarterly period one institution was placed into receivership. On October 14, 2011, Country Bank, Aledo, Illinois, the banking subsidiary of CB Holding Corp. ("CB"), was closed by the Illinois Department of Financial and Professional Regulation - Division of Banking, which appointed the Federal Deposit Insurance Corporation as receiver (Treasury's initial investment in CB was approximately $4.1 million).

As of December 31, 2011, 14 financial institutions with CPP investments totaling approximately $2.9 billion had entered or completed bankruptcy proceedings or had a banking subsidiary placed in receivership (figure 6).

Figure 6

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

Institution	**Original Treasury Investment Amount**
CIT Group, Inc.	$2.33 billion
UCBH Holdings, Inc.	$298.7 million
Midwest Banc Holding, Inc.	$84.7 million
Superior Bank	$69.0 million
Sonoma Valley Bancorp	$8.6 million
Pierce County Bancorp	$6.8 million
Legacy Bancorp Inc.	$5.4 million
Pacific Coast National Bancorp	$4.1 million
Tifton Banking Company	$3.8 million
FPB Bancorp	$5.8 million
One Georgia Bank	$5.5 million
Integra Bank Corporation	$83.5 million
Citizens Bancorp	$10.4 million
CB Holding Corp.	$4.1 million

g. Reporting

Treasury, beginning with the October 2011 Report to Congress under section 105(a) of EESA (105(a) report), initiated reporting of a detailed breakdown of remaining institutions with outstanding CPP investments using CPP Institution Density Maps and Regional Snapshots. In these reports, the locations of remaining institutions' headquarters are mapped both nationwide and regionally to provide a visual overview of outstanding investments. The regional maps are shown with a list of the Top 15 largest outstanding investments in that region, and a state by state snapshot is provided for further detail. The maps and regional snapshots provide monthly overviews of outstanding CPP investments as TARP continues to wind down its investments. A complete list of remaining CPP investments is contained in the appendix to each 105(a) report.

ii. Update on the CDCI

Under the CDCI, banks and thrifts received investments of capital with an initial dividend or interest rate of 2 percent per annum, compared to the 5 percent annual rate under the CPP. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years, compared to five years under the CPP. CDFIs that participated in the CPP and were in good standing could exchange securities issued under CPP for securities under the more favorable terms of this program.

Treasury completed funding under this program in September 2010. The total investment amount for the program was approximately $570 million for 84 institutions. Of this amount, approximately $363.3 million ($355.7 million from principal and $7.6 million from warrants) represented exchanges by 28 banks of investments under the CPP into the CDCI.

During the quarterly period, Treasury collected $3.15 million in dividends from CDCI banks. On October 28, 2011, Treasury completed the exchange of all Carver Bancorp, Inc. (Carver) preferred stock held by Treasury for 2,321,286 shares of Carver common stock, pursuant to the terms of the agreement between Treasury and Carver entered into on June 29, 2011. Accrued and previously unpaid dividends were paid on the date of the exchange.

b. Credit Market Programs

i. Update on the TALF

The TALF is a joint program with the Federal Reserve. This program was launched in March 2009 with the aim of helping to restart the ABS markets that provide credit to consumers and small businesses. These markets were severely impacted by the financial crisis.

TALF helped to increase credit availability and liquidity in the securitization markets while reducing interest rate spreads. TALF funds have also facilitated the first issuance of CMBS leading to additional commercial mortgage-backed deals funded without assistance from TALF. Treasury does not expect to incur any cost to the taxpayers from this program.

At the beginning of the TALF program, Treasury funded $100 million of its $4.3 billion subordinated loan commitment to TALF LLC, and no borrowers have defaulted on their TALF loans or surrendered their collateral. During the quarterly period, the balance of outstanding TALF loans declined by $2.3 billion to $9.0 billion, due to voluntary prepayments by borrowers and principal receipts.[12] The accumulated earnings from excess spread in TALF LLC, which serves as a first loss protection, totaled approximately $711 million.

ii. Update on the PPIP

The PPIP supports credit market functions by bringing private capital back into the market for legacy securities (*i.e.*, non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities). The goal is to help restart the market for these legacy securities and extend new credit to households and businesses.

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[12] Financial information on TALF LLC is reported weekly in tables 1, 2, 7, 8, and 9 of the Federal Reserve's H.4.1 statistical release, available at: http://www.federalreserve.gov/releases/h41/.

The Public-Private Investment Funds ("PPIFs") are entering their third year of investing and may continue deploying and reinvesting their capital in eligible legacy RMBS and CMBS throughout 2012. Thereafter, each PPIF has up to five additional years, which may be extended with Treasury's permission for an additional two years, to manage the portfolio and return proceeds to Treasury and private investors. On September 26, 2011, Invesco terminated the Investment Period for its PPIF. As such, the fund can no longer make new investments and is in the process of winding-up and exiting its remaining holdings.

As of December 31, 2011, PPIFs had collectively drawn approximately $23.2 billion of total capital (approximately $17.3 billion funded by Treasury), which was invested in Non-Agency RMBS, CMBS and cash equivalents pending investment (approximately 79 percent of PPIP's $29.4 billion in total original purchasing power). The total market value of Non-Agency RMBS and CMBS held by all PPIFs was approximately $20.5 billion as of December 31, 2011. Approximately 75 percent of the portfolio holdings were Non-Agency RMBS and 25 percent were CMBS.

PPIFs had generated net internal rates of return since inception ranging from -4.7 percent to 16.3 percent as of December 31, 2011. For its part, Treasury had received approximately $977 million in net cumulative equity distributions, approximately $211 million in cumulative interest payments and approximately $984 million in cumulative debt principal payments from the PPIFs through December 31, 2011.

iii. Update on the Small Business Administration (SBA) 7(a) Securities Purchase Program

On October 19, 2011, Treasury sold seven SBA 7(a) securities for approximately $58.0 million, including overall gains and income of approximately $1.3 million. Since June 2011, including this transaction, Treasury had sold a total of 23 SBA 7(a) securities through four Bids Wanted in Competition for $271.2 million, including total gains and income to Treasury of $7.6 million.[13]

c. AIG

During the quarterly period, Treasury's investment in AIG's common stock remained unchanged, consisting of 1.455 billion shares of common stock (of which 494.8 million shares are held by Treasury arising from actions outside of TARP). Treasury's preferred equity interests in AIG subsidies now stand at $8.2 billion as of December 31, 2011, down from $9.3 billion at the end of the September 2011. Treasury continues to monitor AIG's performance and evaluate options to exit its investment in AIG.

On November 1, 2011, Treasury received a repayment from AIG of $972 million. The payment was funded primarily through the scheduled release of escrowed proceeds from AIG's sale of its American Life Insurance Co. ("ALICO"), subsidiary to MetLife, Inc. The proceeds

[13] Following the quarterly period on January 24, 2012, Treasury sold the eight remaining securities in the portfolio for approximately $63.2 million in proceeds, concluding the program.

were used to pay back the U.S. taxpayers' investment in AIG through the redemption of an equal portion of Treasury's preferred equity interests in AIA Aurora LLC, a subsidiary of AIG.

d. Automotive Industry Financing Program (AIFP)

i. Update on GM

During the quarterly period, Treasury's investment in GM remained unchanged, consisting of 500.1 million common shares. Treasury continues to monitor GM's performance and evaluate options to exit its investment in GM.

ii. Update on Chrysler

As of July 21, 2011, Treasury fully exited its TARP investment in Chrysler Group. However, Treasury is unlikely to fully recover the remaining $1.3 billion owed by Old Chrysler.

iii. Update on Ally Financial (Formerly GMAC)

During the quarterly period, Treasury's investment in Ally Financial remained unchanged, consisting of 74 percent of the firm's common shares and $5.9 billion in aggregate liquidation preference of mandatorily convertible preferred stock. Treasury continues to monitor Ally Financial's performance and evaluate options to exit its investment.

e. Housing Stabilization and Foreclosure Mitigation

During the quarterly period, monthly MHA Servicer Performance Reports covering September, October, and November 2011 were released in conjunction with monthly housing scorecards on the nation's housing market (the "Housing Scorecard" produced by HUD). [14]

i. Making Home Affordable (MHA) Program

The primary purpose of the MHA Program is to help struggling homeowners stay in their homes and prevent avoidable foreclosure. As the mortgage crisis evolved, Treasury enhanced MHA and developed new programs designed to meet the changing landscape. While HAMP was the primary program, MHA expanded to include a number of more specialized programs, as described below.

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[14] The Servicer Performance Reports, available at: http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx, include data, among others, on the characteristics of permanent modifications, servicer activity, re-default rates, waterfall of eligible borrowers, homeowner experience, HAMP activity by state and metropolitan area, modifications by investor type, and compliance reviews. The Housing Scorecard, available at: http://www.HUD.gov/scorecard, incorporates key housing market indicators and highlights the impact of housing recovery efforts.

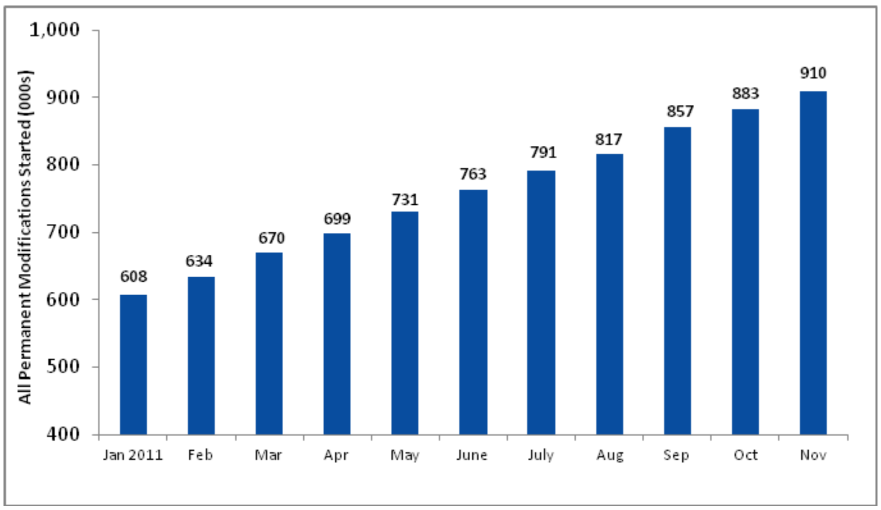
a. HAMP

As of December 31, 2011, Treasury had disbursed approximately $2.26 billion of incentive payments for MHA out of an estimated lifetime cost of $29.9 billion.[15]

As of November 30, 2011, there were a total of 909,953 permanent HAMP modifications. Specifically, approximately 40,000[16], 26,000, and 27,000 HAMP trial period plans became permanent in September, October, and November 2011, respectively[17] (Figure 7).

Figure 7

HAMP permanent modifications started (cumulative) through November 2011



Since the HAMP began, homeowners in permanent modifications have saved an estimated $9.9 billion in monthly mortgage payments. Homeowners in active first lien permanent modifications are saving a median of $530 per month – more than one-third of the median before-modification payment.

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

[16] Due to a technological enhancement to the HAMP system of record, this amount includes HAMP-Principal Reduction Alternative ("PRA") permanent modifications that were previously reported as aged HAMP-PRA trial modifications that servicers were unable to report.

[17] Servicers may enter new trial or permanent modifications into the HAMP system of record at anytime.

Eighty-three percent of eligible homeowners entering a HAMP trial modification since June 1, 2010 received a permanent modification, with an average trial period of 3.5 months.

b. The FHA-HAMP Program

FHA-HAMP is designed to provide incentives for borrowers and servicers to modify FHA-insured first lien mortgages to struggling borrowers under FHA-HAMP program conditions, in order to reduce payments to more affordable levels. As of November 30, 2011, some 7,350 trial modifications had been started under FHA-HAMP, with 4,659 permanent modifications.

c. Second Lien Modification Program ("2MP")

Under 2MP, Treasury provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when the first lien mortgage for the same property has been permanently modified under HAMP. As of the close of the quarterly period, there were 17 servicers participating in 2MP, including the four largest mortgage servicers who, in the aggregate, service approximately 55 percent of outstanding second liens.

As of November 30, 2011, approximately 44,000 homeowners in a first-lien HAMP modification had an active permanent second lien modification in place. Homeowners in 2MP save a median of $163 per month on their second mortgage, in addition to the savings realized from the modification on their first mortgage under HAMP. Over one-third of the borrowers benefiting from 2MP reside in California (35 percent), followed by Florida (9 percent) and New York (6 percent).

d. Home Affordable Foreclosure Alternatives ("HAFA") Program

Under the HAFA Program, Treasury provides incentives for short sales and deeds-in-lieu of foreclosure for circumstances in which borrowers are unable or unwilling to complete the HAMP modification process. As of November 30, 2011, approximately 39,000 homeowners had reached agreements with their servicer to exit their home under the HAFA Program and approximately 24,000 homeowners had completed a short sale or deed-in-lieu.

e. Home Affordable Unemployment Program ("UP")

The UP requires participating servicers to grant qualified unemployed borrowers a forbearance period during which their mortgage payments are temporarily reduced or suspended while they look for new jobs. At the end of this forbearance period, if the homeowner receives a HAMP modification, the forborne amount is capitalized. As of October 31, 2011, 16,633 UP forbearance plans were started. UP reporting is one month behind the other MHA data.

f. Principal Reduction Alternative ("PRA")

Under PRA, servicers of non-GSE loans are required to evaluate the benefit of principal reduction for mortgages with a loan-to-value ratio of 115 percent or greater when evaluating a homeowner for a HAMP first lien modification. While servicers are required to evaluate homeowners for PRA, they are not required to reduce principal as part of the modification.

Through November 30, 2011, approximately 38,000 PRA permanent modifications had been started.

The 36,454 active PRA permanent modifications had a median principal reduction amount of approximately $66,308, or nearly one-third of the before-modification principal balance. Program data indicates that homeowners in PRA were further underwater and more seriously delinquent at trial start than the overall population of HAMP participants. Eighty-nine percent of homeowners in PRA were at least 60 days delinquent at trial start (compared to 79 percent of the overall HAMP portfolio) with a before-modification loan-to-value ratio of 158 percent (compared to 120 percent for the overall HAMP portfolio).

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

The FHA Short-Refinance program provides additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. The program is also designed to provide opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans.

Treasury established a letter of credit to provide coverage for a portion of potential losses associated with these FHA-insured loans. Treasury also implemented FHA2LP, a voluntary program, under which incentives are paid to second lien mortgage servicers and investors that agree to full or partial extinguishment of second lien mortgage loans in conjunction with an FHA Short Refinance. Qualifying homeowners can refinance into FHA Short Refinance loans through December 31, 2012.

Take-up under FHA2LP is not expected to be seen for several months. Accordingly, Treasury is evaluating how best to approach the content and timing of public reporting on the program to appropriately take account of this expectation. FHA publishes the numbers for the FHA Short-Refinance.[18]

[18] Application and endorsement data for the FHA Short Refinancing Program are available in FHA's Monthly Outlook Report at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/ooe/olmenu

h. *Housing Finance Agency ("HFA") Innovation Funds for the HHF*

The HHF allows states' HFAs in the nation's hardest hit housing and unemployment markets to design innovative, locally targeted foreclosure prevention programs, provided the programs satisfy the requirements for funding under the EESA. Treasury has committed $7.6 billion to support the HHF programs in 18 states and the District of Columbia, as shown in the chart below (Figure 8).[19]

Figure 8

HHF Commitment Allocation by State ($ in millions)

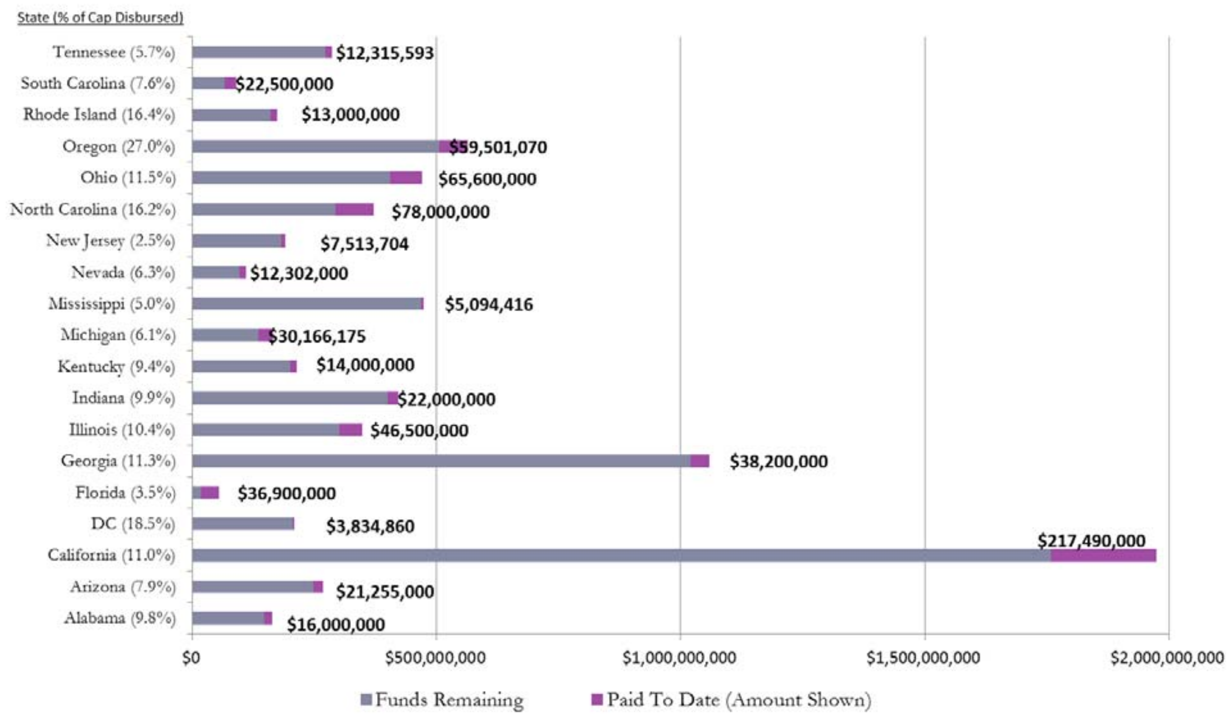
Alabama	$	162.52	**Indiana**	$	221.69	**North Carolina**	$	482.78
Arizona	$	267.77	**Kentucky**	$	148.90	**Ohio**	$	570.40
California	$	1,975.33	**Michigan**	$	498.61	**Oregon**	$	220.04
District of Columbia	$	20.70	**Mississippi**	$	101.89	**Rhode Island**	$	79.35
Florida	$	1,057.84	**Nevada**	$	194.03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

As of December 31, 2011, all 18 states and the District of Columbia were operating HHF programs statewide and collectively have drawn approximately $722 million of the $7.6 billion allocated under the program (figure 9). All 19 HFAs have created extensive infrastructures to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating homeowner portals to aid homeowners in applying for assistance, and hiring underwriters and other staff to review and approve applications. The five largest servicers (Ally Bank, Bank of America, J.P. Morgan Chase, Citibank, and Wells Fargo) are currently participating in all 18 states and D.C., primarily in mortgage payment assistance and reinstatement of assistance.

[19] The 18 states and the District of Columbia were selected because they were significantly impacted by unemployment and/or had average home price declines greater than 20 percent since the housing market downturn, accounting for the majority of "underwater" mortgages in the country. Approximately two-thirds of all allocated funds are currently intended to help unemployed homeowners pay or reinstate their mortgages. The remaining funds are intended for principal reduction, second lien removal, short sale assistance, and other locally-tailored initiatives.

Figure 9

HFA Draws to Date (Data as of 12/31/2011)



Although states take time to refine processes and build volume, Treasury reported that a number of states that have been up and running for longer periods are starting to show substantial growth in the number of borrowers assisted (e.g., Michigan, Ohio, North Carolina, Oregon, California, and Florida). Treasury recently approved changes to Illinois, New Jersey, and Rhode Island designed to increase homeowner participation, enhance assistance, and simplify the review process in their programs. Treasury is working to identify best practices, share lessons learned between states, and develop other ways to provide technical assistance to states with lower participation volumes. For example, Treasury held a summit on November 15, 2011, with HFAs, the largest servicers, the GSEs, FHFA, and HUD, and subsequently held several working group sessions following up on topics that were raised at that summit. The working groups focused on challenges in short sale programs as well as those to enable a modification. Treasury will continue to facilitate working group sessions in 2012 with the goal of identifying solutions for increasing uptake for these two program types.

i. HFA Reporting

The 19 HFAs are required by Treasury to report individually on the take-up and performance of their respective HHF-sponsored programs. Treasury provides direct links to each state's plan, their most recent quarterly report, and the state's HHF website through FinancialStability.gov. Due primarily to the fact that each state's program is locally-tailored, targeting different forms of mortgage relief and distinct groups of homeowners, with each having unique terms, conditions and incentives, Treasury does not publish a consolidated report.

ii. Servicer Performance Reports

In December 2011, MHA servicer assessments, which were compiled by Treasury, that summarize performance for the 10 largest MHA participating servicers from reviews conducted during the third quarter of 2011, were published. The reviews focused on three categories of program implementation: 1) identifying and contacting homeowners; 2) homeowner evaluation and assistance; and 3) program reporting, management, and governance.

The third-quarter assessment identified one servicer (J.P. Morgan Chase Bank) as needing substantial improvement, seven servicers (American Home Mortgage Servicing, Inc., Bank of America, NA, CitiMortgage, Inc., GMAC Mortgage LLC, Litton Loan Servicing, LP, Ocwen Loan Servicing LLC, and Wells Fargo Bank) as needing moderate improvement, and two servicers (OneWest Bank and Select Portfolio Servicing) as needing minor improvements.

While all servicers are required to address all instances of non-compliance, based on the third quarter 2011 assessments Treasury withheld financial incentives from the servicer identified as needing substantial improvement (J.P Morgan Chase Bank). Treasury will continue to withhold servicer incentives from Bank of America until it makes additional improvements. With the exception of Bank of America, Treasury will not be withholding servicer incentives for servicers requiring moderate improvement for this quarter. However, those servicers that fail to improve in those areas identified may be subject to servicer incentive withholding in the future.

f. Administrative Activities of the Office of Financial Stability

The Oversight Board monitors the progress made by OFS in ensuring that the necessary infrastructure is in place to design and implement all programs established under EESA. Establishing 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 discussion outlines status and progress in the areas of staffing, procurement, conflict of interest mitigation, internal controls, oversight, and reporting during the quarterly period.

i. Staffing

On December 20, 2011, OFS announced the creation the Office of the Chief Compliance Officer which will manage OFS' compliance work and fraud prevention strategies across all programs.

As of December 31, 2011, OFS had 185 full-time employees (86 career civil servants, and 99 term employees) who support TARP. As of October 1, 2011, OFS no longer had any detailees from other federal agencies. The total number of employees does not include the 24.75 reimbursable employees from outside OFS who continue to provide support to OFS on an as-needed basis. Treasury's organizational plans call for a total of 221 full-time employees, therefore, OFS was 81 percent staffed as of December 31, 2011.

ii. Procurement

Treasury continued to engage private sector firms to assist with the significant volume of work associated with TARP. As of December 31, 2011, Fannie Mae and Freddie Mac accounted for 55 percent of the obligated dollars on non-personal services contracts and agreements while assisting in the program administration and compliance management of the Making Home Affordable Program. Transaction structuring agents and asset managers serve as financial agents in managing the portfolio of assets associated with several TARP programs and the Bank of New York Mellon provides custody banking services related to the TARP program as a financial agent to the Treasury. The balance of the non-personnel private sector firms were engaged to assist with the significant volume of work associated with 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") online.[20] 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' commitments to small business and to a fair and open competitive process.

iii. Conflicts of Interest Mitigation

Compliance continues to manage conflict of interest issues that arise with both new and existing arrangements with contractors and financial agents, pursuant to the Interim Conflict of Interest (COI) Regulation, as previously reported by the Oversight Board. Since the last report, a final TARP COI rule became effective on November 2, 2011.

iv. Governance and Internal Controls

OFS' continued commitment to maintaining an effective internal control environment was a critical factor in receiving clean audit opinions from the GAO in each year since the inception of TARP. Internal control is an integral part of OFS' key operational and accounting business processes such as investments, housing programs, information technology, and financial reporting. OFS continued to assess and address the various risks facing the organization through performing risk assessments, developing policies and procedures, and regularly monitoring the effectiveness of internal controls through testing.

[20] The FAAs are available at: at: http://www.treasury.gov/initiatives/financial-stability/procurement/Pages/default.aspx.

The Internal Control Program Office, in coordination with the Risk Management Office within the Office of Internal Review, and the Senior Assessment Team are responsible for leading this effort. OFS management regularly monitors activities to confirm that control procedures are performed consistently and as designed. Business processes supporting existing programs, including internal control activities, matured in fiscal year 2011 through the use of increasingly well-defined policies and procedures as well as related online training that is available to all OFS staff. As part of OFS' commitment to transparency, current policies and procedures are also provided to the oversight bodies (GAO and SIGTARP) for review.

In November the GAO released its audit of fiscal year 2011 and 2010 financial statements for TARP. In GAO's opinion, these 2010 financial statements were fairly presented in all material respects. GAO also concluded that, although internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. GAO found no reportable noncompliance in fiscal year 2011 with the provisions of laws and regulations it tested.

v. Oversight

During the quarterly period, Treasury provided the Oversight Board with an update on its progress 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.

Treasury continued to track oversight recommendations and manages the implementation of recommendations related to TARP through the Joint Audit Management System ("JAMES"). The JAMES is a Treasury-wide tracking system that contains information on audit reports issued by the Treasury Office of Inspector General, the Treasury Inspector General for Tax Administration, GAO and SIGTARP. The JAMES details all findings and recommendations in each oversight report and tracks the status and completion of planned corrective actions required to satisfy those recommendations.

With respect to such recommendations, as of December 31, 2011, Treasury had implemented 82.7 percent, is in the process of implementing 7.3 percent, and declined 7.3 percent, with the remainder not applicable to TARP programs.

APPENDIX A

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

Minutes of the Financial Stability Oversight Board Meeting
October 24, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Monday, October 24, 2011, via teleconference.

MEMBERS PARTICIPATING:

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

STAFF PARTICIPATING:

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

AGENCY OFFICIALS PARTICIPATING:

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

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

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

Mr. Kingsley, Deputy Chief, Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

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

Mr. Ryan, Chief Risk Officer, Department of Housing and Urban Development

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

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 2:05 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on September 26, 2011, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Officials from the Department of the Treasury ("Treasury") then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Public-Private Investment Program ("PPIP"); the American International Group, Inc. ("AIG"); the Automotive Industry Financing Program ("AIFP"); the Making Home Affordable ("MHA") program and related initiatives; and the Hardest Hit Fund initiative ("HHF"). Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act

("EESA"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials discussed with Members Treasury's daily TARP update report as of October 1, 2011, which showed for each TARP program the amount of funds obligated, the amount actually disbursed, repayments and income received, and any gains or losses with regard to individual TARP investments. Treasury officials noted an increase in the overall cost of TARP primarily due to lower share prices for shares of AIG and General Motors, Inc. ("GM").

Using prepared materials, Treasury officials provided an update on the Small Business Lending Fund ("SBLF"), a non-TARP program that provides capital to smaller banking organizations to facilitate lending to small businesses. Officials noted that, as of September 30, 137 institutions had used approximately $2.2 billion in SBLF funds to repurchase their respective CPP obligations as contemplated by the law creating the SBLF.

Officials then discussed Treasury's progress in selling the portfolio of preferred shares and warrant positions Treasury received as consideration for investments made under the CPP. Officials noted that, as of September 30, Treasury still held investments in approximately 390 institutions, most of which are small, community banks, and some of which have been certified by Treasury as community development financial institutions. As part of this discussion, officials also noted that Treasury had recently converted its investment of $424.2 million of mandatory convertible preferred stock in First BanCorp to common stock following the institution's fulfillment of certain conditions, including those related to its capital plan.

Using prepared materials, Treasury officials provided the Members with an update on the PPIP. Under the program, Treasury has committed $22.1 billion in equity and debt to public-private investment funds ("PPIFs ") established by private sector fund managers for the purpose of purchasing certain legacy residential mortgage-backed securities and non-agency commercial mortgage-backed securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers. Fund managers and private investors also have committed $7.4 billion in equity to these funds. During this discussion, officials noted that Invesco Ltd. had voluntarily terminated its ability to draw funds from the PPIP.

Treasury officials then provided an update on Treasury's remaining AIFP investments, including investments in GM and Ally Financial, Inc. ("Ally"), and the alternatives available to exit from these investments. As of September 30, 2011, Treasury's current investment in GM consisted of approximately 500 million shares of common stock, representing a 32 percent stake in the company. Treasury's investment in Ally consisted of 74 percent of the firm's common shares and $5.9 billion in aggregate liquidation preference of mandatorily convertible preferred stock.

Using prepared materials, Treasury officials then provided the Members with an update on the U.S. government's investment in AIG. Officials noted the composition of the investment and the valuation of AIG shares, and discussed with Members the strategic options for winding down its investment in AIG.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP"). Officials reported that, as of August 2011, the number of new permanent modifications under HAMP was more than approximately 25,000, bringing the total number of permanent modifications started under the program to approximately 816,000. Treasury officials then provided an update on the Housing Finance Agency ("HFA") Innovation Funds for the HHF initiative. As part of this discussion, officials reviewed the steps taken by each of the 19 HFAs to meet and discuss their respective experiences with the program and Treasury's requirement that the HFAs report publicly information related to the take-up and performance of their respective HHF-sponsored programs. Officials also briefed members on recent changes to the Home Affordable Refinance Program ("HARP"), a non-TARP program offered by Fannie Mae and Freddie Mac.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending September 30, 2011, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing of the report.

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

[Signed Electronically]

Jason A. Gonzalez,
General Counsel and Secretary

Minutes of the Financial Stability Oversight Board Meeting
November 28, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Monday, November 28, 2011, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

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

STAFF PRESENT:

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

AGENCY OFFICIALS PRESENT:

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

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

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

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

Mr. Kingsley, Deputy Chief, Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

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

Mr. Ryan, Chief Risk Officer, Department of Housing and Urban Development

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 2:05 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on October 24, 2011, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Officials from the Department of the Treasury ("Treasury") then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the annual financial statements for the Office of Financial Stability ("OFS"); the Capital Purchase Program ("CPP"); the American

[1] Participated by telephone.

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

Using prepared materials, Treasury officials discussed with Members Treasury's daily TARP update report as of November 1, 2011, which showed for each TARP program the amount of funds obligated, the amount actually disbursed, repayments and income received, and any gains or losses with regard to individual TARP investments. As part of this discussion, Treasury officials discussed the OFS financial statements for TARP for fiscal year 2011 ("FY 2011"). Officials noted that the Government Accountability Office ("GAO") audited the FY 2011 financial statements prepared by OFS for TARP and found that the OFS maintained, in all material respects, effective internal control over financial reporting and found no material weaknesses in OFS internal controls as of September 30, 2011. Treasury officials also discussed the steps being taken by Treasury to address the one significant deficiency identified by GAO in OFS's internal controls surrounding accounting and financial reporting processes as well as the improvements made by OFS relative to FY 2010.

Officials then provided an update on Treasury's effort to wind down the CPP while maximizing overall returns to the taxpayers. Officials noted that Treasury intends to retain a financial advisor to help Treasury evaluate options for the continued management and ultimate recovery of the remaining investments. Officials then provided an overview of Treasury's largest CPP investments by geographic region and noted that Treasury has begun to provide more detailed information regarding the geographic distribution of its investments as part of Treasury's monthly 105(a) report. As part of this discussion, Treasury officials provided an update on the number of CPP recipients that refinanced TARP investments through the Small Business Lending Fund ("SBLF"), a non-TARP program that provides capital to smaller banking organizations to facilitate lending to small businesses. Officials also reported on Treasury's progress in identifying candidates to serve as directors for institutions that have missed at least six dividend or interest payments on CPP investments. As of October 31, Treasury still held investments in 375 institutions, most of which are small, community banks, and some of which have been certified by Treasury as community development financial institutions.

Treasury officials then provided Members with an update on the disposition of Treasury's SBA 7(a) securities portfolio as part of Treasury's ongoing efforts to wind-down TARP investments where possible. Officials reported that, as of October 31, 2011, Treasury had sold a total of 23 SBA 7(a) securities for approximately $271.7 million, representing overall income and gains of approximately $7.5 million. As of October 31, Treasury continued to hold eight SBA 7(a) securities under the program.

Using prepared materials, Treasury officials then provided an update on Treasury's remaining investments under the AIFP, including its investments in General Motors Corp. ("GM") and Ally Financial, Inc. ("Ally"), and potential approaches available to ultimately exit from these investments. As of October 31, 2011, Treasury's investment in GM consisted of approximately 500 million shares of common stock, representing a 32 percent ownership stake in the company. Treasury's investment in Ally consisted of 74 percent of the firm's common shares and $5.9 billion in aggregate liquidation preference of mandatorily convertible preferred stock.

Using prepared materials, Treasury officials then provided the Members with an update on the U.S. government's investment in AIG. Officials noted that, on November 1, 2011, Treasury received an additional repayment from AIG of approximately $972 million, which was funded through the scheduled release of escrow proceeds from AIG's previously announced sale of its American Life Insurance Co. to MetLife, Inc. Officials noted that the proceeds were used to further redeem Treasury's preferred equity interest in AIA Aurora LLC, a subsidiary of AIG.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP"). Members and officials expressed their appreciation to Ms. Caldwell for her years of distinguished service as Chief of the OFS Homeownership Preservation Office. Officials reported that Mr. Kingsley would be assuming that position. Officials also reported that during the month of September 2011 the number of new permanent modifications under HAMP were more than approximately 40,000, bringing the cumulative number of permanent modifications started under the program to approximately 850,000. Officials noted that the larger magnitude of the September increase was attributed, in part, to technical enhancements made to its internal system of records for HAMP and was not expected to be sustained in future reporting periods.

Treasury officials then provided an update on the Housing Finance Agency ("HFA") Innovation Funds under the HHF initiative. Treasury officials reported that, as of October 31, there were 55 programs in operation across the 19 HFAs involved in the HHF. Officials reported that the HFAs were working to refine their operational processes and improve participation in these programs. Officials also discussed the steps taken by Treasury to identify best practices observed among the HFAs, share lessons learned between participating states, and develop other ways to provide technical assistance to states to improve of the performance of their respective HHF-sponsored programs.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending September 30, 2011, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing of the report.

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

[Signed Electronically]

Jason A. Gonzalez
General Counsel and Secretary

Minutes of the Financial Stability Oversight Board Meeting December 22, 2011

A meeting of the Financial Stability Oversight Board ("Board") was held at 11:00 a.m. (EDT) on Thursday, December 22, 2011, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

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

STAFF PRESENT:

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

AGENCY OFFICIALS PRESENT:

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

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

Mr. Kingsley, Acting Chief, Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

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

Mr. Ryan, Chief Risk Officer, Department of Housing and Urban Development

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

Mr. Nelson, Deputy Director, Division of Monetary Affairs, Federal Reserve Board

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 11:05 a.m. (EDT).

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

Officials from the Department of the Treasury ("Treasury") then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the American International Group, Inc. ("AIG"); the Automotive Industry Financing Program ("AIFP"); the Making Home Affordable ("MHA") program and related initiatives; the Term Asset-Backed Securities Lending Facility ("TALF"); the Legacy Securities Public-Private Investment Program ("PPIP"); and the Small Business Administration ("SBA") 7(a) Securities Purchase Program. Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. During the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials discussed with Members Treasury's daily TARP update report as of December 1, 2011, which showed for each TARP program the amount of funds obligated, the amount actually disbursed, repayments and income received, and any gains or losses with regard to individual TARP investments.

Using prepared materials, Treasury officials then provided an update on Treasury's effort to wind down the CPP. Officials noted that, as of November 30, Treasury held investments in 375 institutions, most of which are small, community banks, and some of which have been certified by Treasury as community development financial institutions. Officials reported that Treasury has retained Houlihan Lokey, Inc. as a financial advisor to help Treasury evaluate options for the management and ultimate recovery of the remaining CPP investments. As part of this discussion, officials discussed the general composition of Treasury's CPP holdings and the number of CPP institutions that had missed dividend or interest payments.

Using prepared materials, Treasury officials provided the Members with an update on the PPIP. Under this program, Treasury has committed $22.1 billion in equity and debt to public-private investment funds ("PPIFs") established by private sector fund managers for the purpose of purchasing certain legacy residential mortgage-backed securities and non-agency commercial mortgage-backed securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers. For their part, PPIF managers and private investors also have committed $7.4 billion in equity to these funds. Among the matters discussed by Members and officials were the composition and performance of the individual PPIFs.

Using prepared materials, officials from the Treasury and the Federal Reserve provided the Members with an update on recent developments with respect to the TALF. The TALF was closed for new loan extensions for the purchase of newly-issued CMBS collateral on June 30, 2010, and for new loans against all other types of collateral on March 31, 2010. As of October 31, 2011, approximately $10.8 billion of TALF loans remained outstanding. Officials noted that, as of November 30, 2011, the amount of TALF loans outstanding had declined marginally, and the number of borrowers had declined from their levels in October 2011. Officials also noted that Treasury had earlier funded approximately $100 million of the $4.3 billion subordinated loan commitment that Treasury made as part of the initial establishment of the program.

Treasury officials then provided Members with an update on the disposition of Treasury's SBA 7(a) securities portfolio as part of Treasury's ongoing efforts to wind-down its TARP investments. Officials reported that, as of October 31, 2011, Treasury had sold a total of 23 SBA 7(a) securities for approximately $271.7 million, representing overall income and gains of approximately $7.5 million. As of October 31, Treasury continued to hold eight SBA 7(a) securities under the program.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP"). Officials also reported that during the month of October 2011 the cumulative number of permanent modifications started under the program rose to approximately 880,000. Officials also provided an update on Treasury's Principal Reduction Alternative ("PRA") initiative to address homeowners with a loan-to-value ratio exceeding 115 percent. Officials noted that Treasury had begun to provide additional details on the PRA as part of Treasury's MHA Performance Report. This information is now possible to present quarterly as a sufficient number of modifications have been made in the PRA program to present more detailed reporting.

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

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

The meeting was adjourned at approximately 12:00 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez,
General Counsel and Secretary