# FINANCIAL STABILITY OVERSIGHT BOARD
# QUARTERLY REPORT TO CONGRESS

**For the quarter ending**
**September 30, 2012**

**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 July 1 to September 30, 2012 (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 TARP to restore liquidity and stability to the U.S. financial system.

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 struggling homeowners remain in their homes and avoid foreclosure. Key developments under these programs are described in detail in Part III of this report and in the previous quarterly reports of the Oversight Board.

The Oversight Board met three times during the quarterly period, specifically on July 23, August 27, and September 24, 2012. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board regularly receives presentations and briefings from Treasury officials during these meetings to assist the Oversight Board in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

# II. THE EFFECTS AND COSTS OF EESA PROGRAMS

## a. Brief Review of Market Developments

During the third quarter of 2012, conditions in financial markets improved somewhat, though investors appear to remain concerned about the sovereign debt crisis in Europe. Broad stock price indexes and indexes of stock prices of banks and large financial institutions rose notably, on net, over the quarter. Credit default swap spreads for large bank holding companies, generally considered a key indicator of investors' views about the health and prospects of these institutions, declined.

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[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.

Data from the flow of funds accounts published by the Federal Reserve show that debt for households increased a bit in the second quarter of 2012 (the latest data available), as a rapid increase in consumer credit more than offset continuing declines in mortgages. Debt for nonfinancial businesses continued to grow moderately during the period, owing to robust expansions in corporate bonds and commercial and industrial ("C&I") loans. Total loans at depository institutions increased moderately, reflecting the strength in C&I lending.

In the October Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve, domestic banks, on balance, reported little change over the past three months in their standards for business lending and residential real estate lending, and a moderate easing of standards for consumer loans. In response to a set of special questions, most domestic banks indicated that their lending standards for approving an application for an FHA-insured purchase mortgage were about the same as before the financial crisis for a borrower with a credit score of 660, but that standards had tightened significantly for borrowers with lower FICO scores. In addition, banks continued to indicate that a material portion of refinance applications at their banks was attributable to HARP 2.0, and that they expect a significant portion of HARP 2.0 applications to be completed.

Securitization of consumer credit remained robust in the third quarter. Spreads on commercial mortgage-backed securities ("CMBS") narrowed a bit, but remained substantially above pre-crisis levels, and issuance of new CMBS strengthened somewhat. However, growth in commercial real estate markets remained slow and gradual. Gross issuance of investment grade bonds for nonfinancial corporations was again robust in the third quarter.

### b. Assessment of the Effect of the Actions taken by Treasury in Stabilizing the Housing Markets

Actions taken by the Treasury under TARP, together with Treasury actions taken under the Housing and Economic Recovery Act and actions taken by the Federal Reserve, HUD, and FHFA continued to support housing markets and provide assistance to mortgage borrowers during the third quarter. These actions and earlier efforts have been a stabilizing influence on housing markets, which showed notable improvement this quarter despite moderation in employment and wage growth, due in part to lower interest rates and minimal new supply. Credit conditions remained tight for potential mortgage borrowers with less-than-pristine credit, which also appeared to be dampening housing demand.

FHFA took several actions to support the housing market over the quarter. In September it announced that Fannie Mae and Freddie Mac were launching a new framework for representations and warranties for conventional loans sold or delivered on or after January 1, 2013. The objective of the new framework, developed at the direction of FHFA, is to clarify lenders' repurchase exposure and liability on future deliveries to lessen originator concerns over possible repurchases of new loans.[2] Earlier in the quarterly period, FHFA announced that Fannie Mae and Freddie Mac were issuing new, clear guidelines to their mortgage servicers to align and consolidate existing short sales programs into one standard short sale program. The streamlined program rules will enable lenders and servicers to quickly and easily qualify eligible borrowers for a short sale, including expanded authority to permit short sales for transferred military families.[3] FHFA also announced successful bids for 699 foreclosed or surrendered properties ("real estate owned," or "REO") in Florida owned by Fannie Mae, the first pilot bulk sale of Fannie Mae REO to investors.[4]

For its part, HUD announced that the first sale of the Distressed Asset Stabilization Program (DASP) took place in September, through which approximately 9,500 loans were awarded to 10 different successful bidders. The results from the September DASP sale were strong with a record participation among interested bidders. As part of a broader effort to address the growing "shadow inventory" and to shore up FHA's Mutual Mortgage Insurance (MMI) Fund, HUD announced in June that it would sell at least 40,000 distressed loans over the next year, generally in quarterly sales, in an effort to reduce total claims cost and increase recovery on losses to the MMI Fund. The FHA note sales program began as a pilot in 2010 and, prior to the September sale, had resulted in the purchase of more than 2,100 single family loans.[5] Under the program, FHA-insured notes are sold competitively at a market-determined price generally below the outstanding principal balance. Once the note is purchased, foreclosure is delayed for a minimum of six additional months as the borrower gets direct help from their servicer to help to find an affordable solution to avoid foreclosure. The investor purchases the loan at a discount and then takes additional steps to help the borrower avoid default, whether through modifying their loan terms or helping them through a short sale, in order to maximize the return on the sale.

Long-term mortgage interest rates generally have trended down slightly over the last three years, starting near 5 percent and remaining below 4 percent for all but one week of the year to date (figure 1). Declines in the third quarter were largely attributable to the Federal

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[2] Further information on FHFA's revised framework for representations and warranties is available at http://www.fhfa.gov/webfiles/24366/Reps_and_Warrants_Release_and_FAQs_091112.pdf

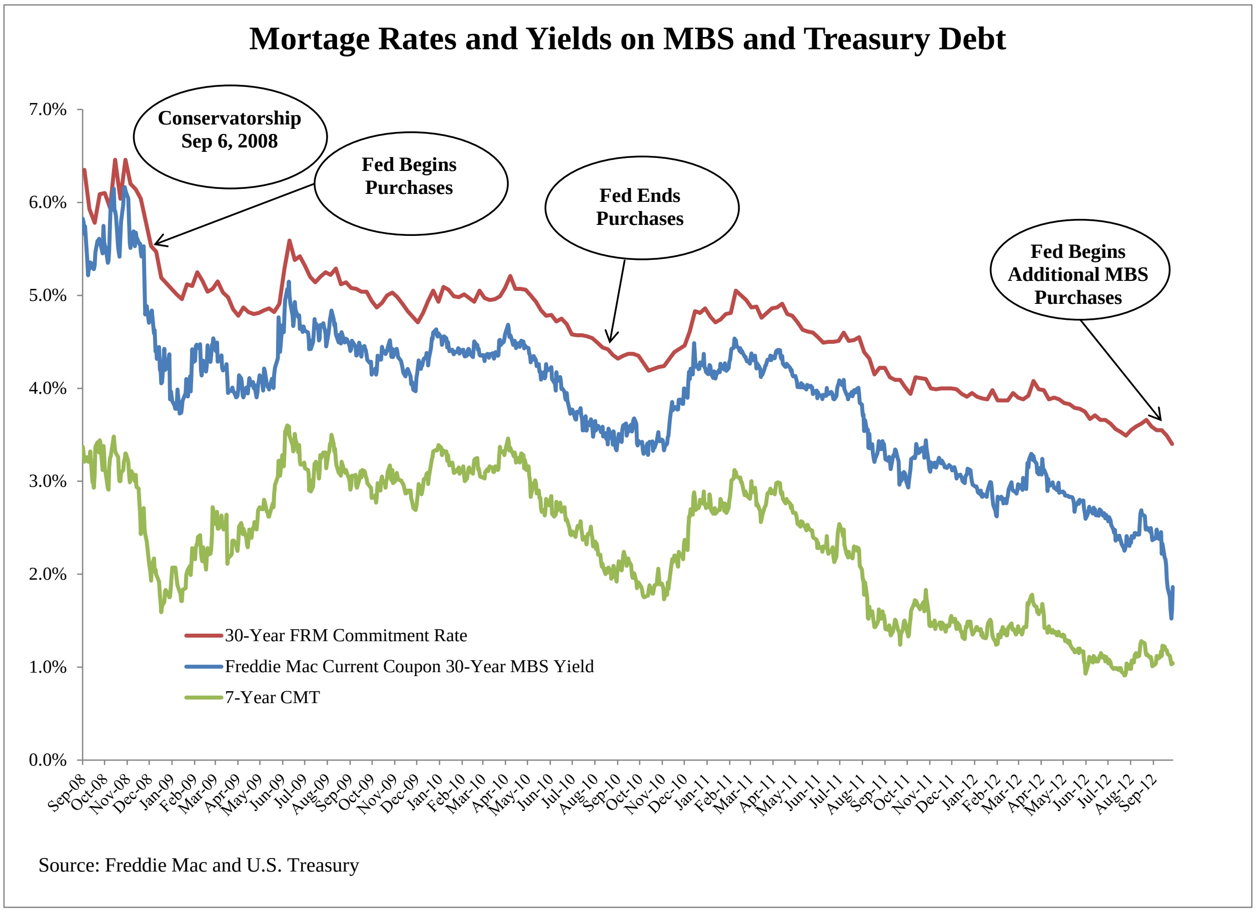
[3] Further information on FHFA's streamlined procedures for short sales is available at http://www.fhfa.gov/webfiles/24211/Shortsales82112Final.pdf

[4] Further information on Fannie Mae's first pilot sale of REO properties is available at http://www.fhfa.gov/webfiles/24273/REOInvestor91012.pdf

[5] A servicer can place a loan into the loan pool if the following criteria are met: the borrower is at least six months delinquent on their mortgage; the servicer has exhausted all steps in the FHA loss mitigation process; the servicer has initiated foreclosure proceedings; and the borrower is not in bankruptcy. Further information on DASP is available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/comp/asset/hsgloan

Reserve's resumption of sizable net purchases of mortgage securities. At the end of the third quarter, rates on new 30-year fixed rate mortgages, as measured by Freddie Mac, were at 3.59 percent, some 6 basis points above the record low achieved a few weeks earlier. Yields on benchmark Treasuries also declined. Spreads between mortgage rates and yields on reference Treasury remained close to their average over the last two years and well below the crisis levels of late 2008 and early 2009.

Figure 1




Foreclosure mitigation efforts under TARP continued at significant rates during the quarter. During June, July and August new permanent modifications averaged over 16,000 per month, continuing the slow downward trend in first lien HAMP modifications. Total active permanent modifications increased from 810,000 at the end of May to nearly 832,000 at the end of August. 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, continued to trend upward. By the end of August, some 67,000 2MP modifications were active, up from 62,000 at the end of May. Nearly 94,000 2MP modifications had been started, cumulatively, through August. Some 22,000 of these modifications involve full extinguishment of the second lien. Also through August, the Home Affordable Foreclosure Alternatives ("HAFA") program, which provides incentives for borrowers to undertake short sales or deeds-in-lieu-of-foreclosure as lower-cost alternatives to foreclosure, showed a substantial increase in volume, to nearly 70,000 short sales and roughly 1,800 deed-in-lieu transactions. The number of HAMP modifications with principal reductions increased and as of the end of August there were more than 19,000 active trial modifications and 87,000 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 57,000 non-HAMP modifications had been initiated per month during June, July and August which–in parallel to HAMP–represented an increase from the 44,000 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 June, some 21.1 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 16.1 percent of HAMP modifications made permanent in the third quarter of 2011 had become delinquent by 60 days or more within 12 months of receiving a modification. Among loan modifications made permanent in the second quarter of 2011, 16.8 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 fourth quarter of 2010, 23.9 percent had become delinquent by 60 or more days 18 months after the modification. This figure was slightly better than the 25.1 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 less than 60 percent of the total portfolio had been in place for 18 months or more as of the reporting date. In contrast, 30.9 percent of non-HAMP modifications made permanent in the second quarter of 2011 at a selected group of OCC-regulated institutions had become 60 or more days delinquent within 12 months of the modification.[7] The lower rate of delinquency for

[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 granular 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 second quarter of 2012 (Table 33), and pertain to non-HAMP modifications of mortgages serviced by a selected group of national banks and a federal savings association. For this same group of financial institutions, the OCC Mortgage Metrics Report indicated that 13.8 percent of HAMP permanent modifications finalized in the second quarter of 2011 had fallen 60 days delinquent within 12 months.

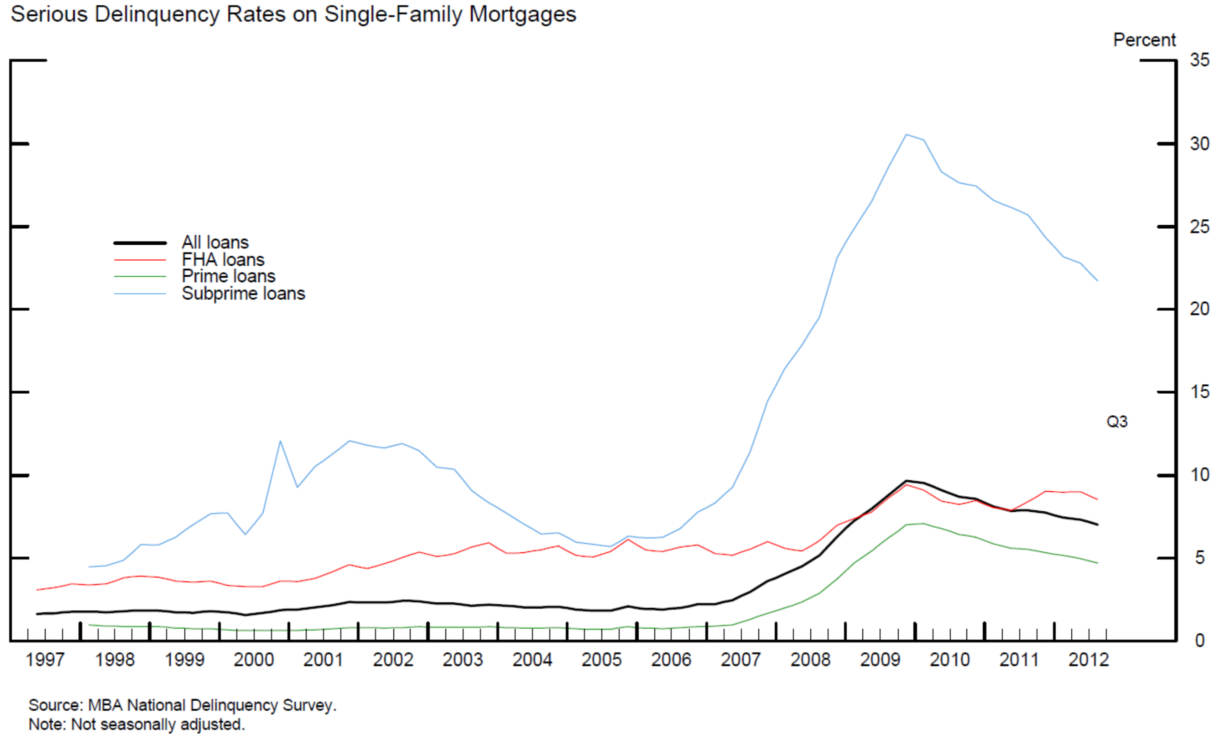
HAMP permanent modifications has likely been influenced by differences in documentation standards, magnitudes of payment reduction and requirements for a trial period.

In March 2012 the Administration issued a supplemental directive extending the termination date of HAMP by one year, to December 2013, and expanding eligibility of HAMP with the HAMP Tier 2 option, which allows borrowers who failed a HAMP modification or evaluation, and owners of some rental properties, to receive a HAMP modification. Volumes for HAMP Tier 2 remained unavailable during the quarterly period.

The third quarter saw a decrease in the rate of serious mortgage delinquency (loans 90 or more days past due or in the process of foreclosure, figure 2), continuing the trend that began in late 2009. Rates of serious delinquency remained at 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 third quarter were 6.2 percent on an annualized basis, down for the third straight quarter. The annualized rate is now firmly within the range seen in 2007, before the start of the housing crisis. As noted in last quarter’s report, the effects of this improvement on FHA claim payments will not be seen for some time due to long process delays in many states.

Figure 2



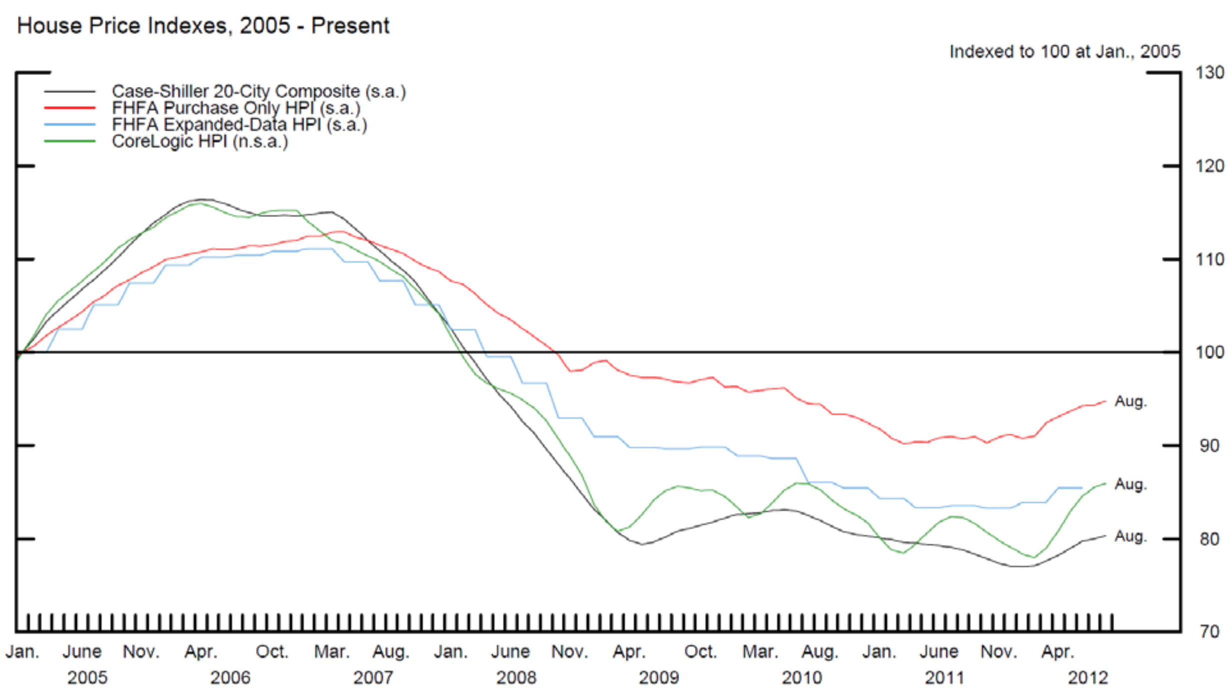

Record low interest rates generated a substantial refinancing wave that continued in the third quarter of 2012. Refinanced loans help lower borrowing costs for many borrowers. The non-TARP Home Affordable Refinance Program (HARP) is designed to help borrowers whose loans were purchased or guaranteed by Fannie Mae or Freddie Mac and who are located in areas suffering from house price declines. HARP originally allowed 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. FHFA and the Enterprises rolled out HARP 2.0 which servicers began to implement near the end of the quarter, which allowed borrowers to refinance even if their LTVs were above 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. HARP 2.0 seeks to streamline these processes. The policy rationale for HARP is straightforward because Fannie Mae or Freddie Mac already had the credit risk on the original loan. HARP refinancing generally lowers the risk of default by reducing the borrower's monthly payment. During June, July, and August of 2012 Fannie Mae and Freddie Mac refinanced about 65,000 mortgages per month on average through the HARP program. This represents a substantial increase in volume from the average of 41,000 loans per month in the previous three months, and broke the previous HARP program record of 57,000 borrowers in December 2010. By the end of July, the Enterprises had refinanced some 118,000 loans with LTVs above 125 percent. About 54,000 of these refinances were done in June, when servicers were first able to securitize new loans with LTVs in excess of 125 percent. Available data indicated that HARP 2.0 generated substantial volumes in the third quarter.

FHA single family endorsement volumes during the quarterly period increased for the third straight quarter. Purchase and refinance volumes were up by roughly equal percentages (5 percent and 6 percent, respectively), although on a count basis refinance activity growth was five times that of purchase loans (11.4 percent versus 2.3 percent). This difference is due primarily to streamline refinance activity for older loans now eligible for reduced monthly insurance premiums.

Seasonally adjusted house sale volume rose over the summer 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 5.1 million annual rate in September, up from a 4.7 million rate in June (seasonally adjusted). Sales were above the 5.0 million annual rate (seasonally adjusted) that had prevailed in January 2011.

The house price index from CoreLogic increased about 2 percent from June to August, while the FHFA purchase-only index and the Case-Shiller/S&P 20-city index rose less than 1 percent over this period (figure 3).

Figure 3




**c. Projected Cost of TARP Programs**

Treasury provides updated cost assessments for TARP programs four times per year and prepares financial statements for TARP on an annual basis in the Agency Financial Report. Treasury's most recent lifetime cost estimate of TARP was as of May 31, 2012. According to Treasury's latest estimates, the expected overall cost of TARP will be approximately $63 billion, using asset prices as of May 31, 2012 (figure 4). Using the same assumptions, Treasury also estimated that the combined net cost of TARP and other Treasury interests in AIG will be about $48 billion.

The ultimate cost of TARP remains subject to uncertainty and will depend on how financial markets and the economy perform in the future. If overall financial and economic conditions were to deteriorate, for example, prospects for outstanding TARP investments could also deteriorate. The individual TARP program costs have also been updated since the last quarterly Financial Stability Oversight Board report and are provided in this section.

Figure 4

| Programs as of September 30, 2012 (dollar amounts in billions) | Obligation/ Commitment | Disbursed as of September 30 | Outstanding Investment Balance as of September 30 | Estimated Lifetime Cost as of May 31[1, 2] |
|---|---|---|---|---|
| **Bank Support Programs:** | | | | |
| Capital Purchase Program (CPP): | | | | |
| Citigroup | $ 25.00 | $ 25.00 | $ 0.00 | $ (6.89) |
| Other banks with assets $10 billion or greater | 165.33 | 165.33 | 3.25 | $ (10.64) |
| Banks with assets less than $10 billion[3] | 14.57 | 14.57 | 5.42 | 2.96 |
| Total | $ 204.89 | $ 204.89 | $ 8.67 | $ (14.57) |
| Targeted Investment Program (TIP) | $ 40.00 | $ 40.00 | $ 0.00 | $ (4.00) |
| Asset Guarantee Program (AGP)[4] | $ 5.00 | $ 0.00 | $ 0.00 | $ (3.71) |
| Community Development Capital Initiative (CDCI) | $ 0.57 | $ 0.57 | $ 0.57 | $ 0.11 |
| **Credit Market Programs:** | | | | |
| Public-Private Investment Program (PPIP): | | | | |
| Equity | $ 7.51 | $ 6.25 | $ 3.12 | $ (2.90) |
| Debt | 14.18 | 12.38 | 5.69 | (0.28) |
| Total | $ 21.69 | $ 18.62 | $ 8.80 | $ (3.18) |
| Term Asset Backed Securities Lending Facility (TALF) | $ 1.40 | $ 0.10 | $ 0.10 | $ (0.49) |
| Purchase SBA 7(a) Securities (SBA) | $ 0.37 | $ 0.37 | $ 0.00 | $ (0.00) |
| **Other Programs:** | | | | |
| American International Group (AIG): | | | | |
| Preferred Stock | $ 20.29 | $ 20.29 | $ - | $ - |
| Common Stock | 47.54 | 47.54 | 6.73 | 18.68 |
| Total | $ 67.84 | $ 67.84 | $ 6.73 | $ 18.68 |
| Automotive Industry Financing Program (AIFP) | $ 79.69 | $ 79.69 | $ 37.24 | $ 25.05 |
| **Sub-total for Investment Programs** | **$ 421.44** | **$ 411.72** | **$ 62.11** | **$ 17.88** |
| **Treasury Housing Programs Under TARP** | $ 45.59 | $ 5.54 | $ - | $ 45.59 |
| **Total for TARP Programs** | **$ 467.03** | **$ 417.26** | **$ 62.11** | **$ 63.47** |
| Additional AIG Common Shares Held by Treasury[5] | n/a | n/a | n/a | (15.74) |
| **Total for TARP Programs and Additional AIG Shares** | **$ 467.03** | **$ 417.26** | **$ 62.11** | **$ 47.73** |

**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 May 31, 2012.

2/ Estimated lifetime cost figures shown above 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 May 31, 2012. The following common stock value information is provided for the convenience of the reader to show the increase or decrease in the aggregate value of the shares outstanding as of May 31, 2012, compared to the aggregate value of shares outstanding as of September 30, 2012. For AIG, the September 30, 2012 aggregate value includes the market value of the outstanding AIG shares on September 30 and the proceeds from the sale of the AIG common stock in August and September.

| Outstanding Investment | 05/31/2012 Market Value | | 09/30/2012 Market Value | | Increase (Decrease) in Cost | |
|---|---|---|---|---|---|---|
| | | | In billions | | | |
| AIG Common Stock | $ | 20.40 | $ | 22.52 | $ | (2.12) |
| GM Common Stock | $ | 11.10 | $ | 11.38 | $ | (0.28) |
| Additional AIG Common Shares | $ | 10.52 | $ | 11.61 | $ | (1.09) |

Note: For the period ending May 31, 2012, the share price for AIG was $29.18 and for GM was $22.20. For the period ending September 30, 2012, the share price for AIG was $32.79 and for GM was $22.75.

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 the SBLF. A total of 137 CPP banks refinanced under the SBLF resulting in repayments 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/ As discussed in note 9 to the Daily TARP Update, Treasury's investment in AIG common shares consists of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares). Treasury manages the TARP shares and non-TARP shares together, and disposes of them pro-rata in proportion to its holdings. Only the TARP shares are included under "Other Programs—AIG" and the lifetime cost estimate shows a loss based on Treasury's cost basis in the TARP shares alone. However, a gain is shown for the non-TARP shares in the line entitled "Additional AIG Common Shares Held by Treasury" because Treasury's cost basis in such shares is deemed to be zero. When the TARP shares and non-TARP shares are considered together, Treasury's cost on a cash basis is $28.73 per share. TARP estimates include financing costs (borrowing) from the time of initial investment through the reporting period.

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

This section provides a detailed update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under EESA during the quarterly period, from July 1 to September 30, 2012, subject to review and oversight of the Oversight Board.

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

As of September 30, 2012, the combined total amount of bank repayments, dividends, and other income received from banking-related programs (CPP, Targeted Investment Program ("TIP"), Asset Guarantee Program, and Community Development Capital Initiative ("CDCI")) had exceeded by $21.89 billion Treasury's total original investment in these programs of $245.10 billion.

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

##### *a. Repayments, Dispositions, and Auction Sales*

As of September 30, 2012, Treasury had received approximately $193.16 billion in repayments under the CPP, equivalent to 94 percent of the total funds initially invested. These repayments along with auction sales, dividends, interest, warrant sales, gains from the sale of common stock, and fee income from participating bank organizations bring the total amount received from the CPP to $219.5 billion.

During the quarterly period, 14 financial institutions delivered a total of $1.32 billion in repayments. In addition, Treasury sold part or all of its remaining investment in an additional 24 institutions for total gross proceeds of $559 million. Among them are the following significant transactions:

- On July 27, Treasury sold preferred stock and subordinated debt positions in 11 institutions through a modified Dutch auction (CBS Banc-Corp.; Commonwealth Bancshares, Inc.; Diamond Bancorp, Inc.; Exchange Bank; Fidelity Financial Corporation; First Western Financial, Inc.; Market Street Bancshares, Inc.; Marquette National Corporation; Premier Financial Bancorp., Inc.; Park Bancorporation; and Trinity Capital Corporation) for a total of approximately $233.5 million in net proceeds, which is in addition to the $64.14 million in dividend and interest Treasury received over the lifetime of the investment prior to the sale.[8] The total combined investment amount for these 11 institutions was $301.7 million.

[8] Additional information can be found in Treasury's press release: http://www.treasury.gov/press-center/press-releases/Pages/tg1656.aspx

- On August 17, Treasury completed the sale of sale of preferred stock in M&T Bank Corporation for proceeds of $381.5 million plus accrued dividends.

- On August 24, Treasury sold its preferred stock in four institutions through a modified Dutch auction (BNC Bancorp; First Community Corporation; First National Corporation; and Mackinac Financial Corporation) for a total of approximately $61.8 million in net proceeds, which is in addition to the $12.44 million in dividend and interest Treasury received over the lifetime of the investment prior to the sale.[9] The total combined investment amount for these four institutions was $67.51 million.

- On September 13, Treasury sold its preferred stock in four institutions through a private modified Dutch auction (Alpine Banks of Colorado; First Community Financial Partners, Inc.; F&M Financial Corporation (TN); and F & M Financial Corporation (NC)) for a total of approximately $100 million in aggregate net proceeds, which is in addition to the $23.47 million in dividend and interest Treasury received over the lifetime of the investment prior to the sale.[10] Treasury originally invested a combined total of $126.24 million in these four institutions.

- Also on September 13, Treasury sold its preferred stock in Yadkin Valley Financial Corporation through a public modified Dutch auction, for aggregate net proceeds of $43.5 million, which is in addition to the $8.82 million in dividend and interest Treasury received over the lifetime of the investment prior to the sale.[11] Treasury originally invested a total of $49.31 million in Yadkin Valley Financial Corporation.

- On September 26, Zions Bancorporation repaid of all its outstanding CPP preferred stock for a total of $700 million together with accrued and unpaid dividends thereon.[12] Treasury originally invested a total of $1.4 billion in Zions through the CPP. As a result of this repayment and a previous one in March 2012, taxpayers have now recovered that original $1.4 billion plus an additional $253 million in dividends over the life of Zions' participation in TARP. Moreover, Treasury continues to hold warrants to purchase common stock in Zions--the disposition of which will provide an additional positive return to taxpayers.

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[9] Additional information can be found in Treasury's press release: http://www.treasury.gov/press-center/press-releases/Pages/tg1691.aspx

[10] Additional information can be found in Treasury's press release: http://www.treasury.gov/press-center/press-releases/Pages/tg1707.aspx.

[11] Additional information can be found in Treasury's press release: http://www.treasury.gov/press-center/press-releases/Pages/tg1708.aspx

[12] Additional information can be found in Treasury's press release: http://www.treasury.gov/press-center/press-releases/Pages/tg1721.aspx

Cumulatively during the first nine months of 2012, Treasury auctioned its preferred stock in 40 CPP institutions, all of which were current on their dividend payments and were auctioned individually. These securities were offered through modified Dutch auctions and bids were submitted to Treasury's auction agents, using the same procedures that had previously been developed for auctioning the warrants received by Treasury through the CPP. As with these auctions, warrant auctions, or common stock offerings, winning bidders in the CPP preferred stock auctions receive no exemption from any statutes and regulations pertaining to ownership of preferred shares in banking organizations.

In certain instances, CPP institutions participated in the auction of their preferred shares after receiving indication from their regulators that there were no safety-and-soundness objections to their doing so. In some instances, CPP participants have made successful bids on their shares and have acquired their allotment of the auctioned shares at less than par value. Treasury believes that permitting those CPP institutions to participate in auctions for their securities, so long as their regulators do not object, benefits the taxpayer and can increase the amount Treasury ultimately recovers from the auction for several reasons. First, Treasury sets a minimum price in consultation with its underwriters/ placement agents and does not sell securities for below that minimum price. Therefore, bids are only successful if they are made at or above the minimum price. Second, the auctions are open and have had robust participation, thereby facilitating good price discovery. If a bank bids, it adds to the number of bidders and it is successful only if its bid is at or above the clearing price. Finally, Treasury limits the positions it is auctioning to those investments which it believes the bank cannot or will not redeem in the near future.

In June, Treasury notified approximately 200 institutions that it was considering bundling the institution's CPP securities into one or more investment pools for auction, and has provided the institutions the right to "opt out" of the pooling if the institution bids on or designates a bidder for its own securities and the bid meets a minimum price established by Treasury. Of those institutions that were notified, a majority have indicated an interest in attempting to opt out. In that event, the institution or designated bidder would not be entitled to purchase the securities at that price; instead, Treasury would conduct a separate auction or other process. Treasury provided interested institutions until at least October 9, 2012, to submit bids that meet these criteria.

Figure 5 shows the top 25 CPP remaining investments by institution.

Figure 5

**Top 25 Remaining CPP Investments by Institution as of September 30, 2012**

| | Institution | City, State | Outstanding Investment ($millions) | | Institution | City, State | Outstanding Investment ($millions) |
|---|---|---|---|---|---|---|---|
| 1 | Synovus Financial Corp. | Columbus, GA | $ 967.9 | 14 | Anchor BanCorp Wisconsin Inc. | Madison, WI | $ 110.0 |
| 2 | Popular, Inc. | Hato Rey, PR | $ 935.0 | 15 | Hampton Roads Bankshares, Inc.[c] | Norfolk, VA | $ 80.3 |
| 3 | First BanCorp[a] | San Juan, PR | $ 400.0 | 16 | Metropolitan Bank Group, Inc. | Chicago, IL | $ 78.4 |
| 4 | Citizens Republic Bancorp, Inc. | Flint, MI | $ 300.0 | 17 | Old Second Bancorp, Inc. | Aurora, IL | $ 73.0 |
| 5 | First Banks, Inc. | Clayton, MO | $ 295.4 | 18 | First Place Financial Corp. | Warren, OH | $ 72.9 |
| 6 | New York Private Bank & Trust Corp. | New York, NY | $ 267.3 | 19 | Independent Bank Corporation | Ionia, MI | $ 72.0 |
| 7 | Flagstar Bancorp, Inc. | Troy, MI | $ 266.7 | 20 | Virginia Commerce Bancorp | Arlington, VA | $ 71.0 |
| 8 | Cathay General Bancorp | El Monte, CA | $ 258.0 | 21 | Standard Bancshares, Inc. | Hickory Hills, IL | $ 60.0 |
| 9 | PrivateBancorp, Inc. | Chicago, IL | $ 243.8 | 22 | NewBridge Bancorp | Greensboro, NC | $ 52.4 |
| 10 | Pacific Capital Bancorp[b] | Santa Barbara, CA | $ 180.6 | 23 | FNB United Corp.[d] | Asheboro, NC | $ 51.5 |
| 11 | United Community Banks, Inc. | Blairsville, GA | $ 180.0 | 24 | U.S. Century Bank | Miami, FL | $ 50.2 |
| 12 | International Bancshares Corporation | Laredo, TX | $ 176.0 | 25 | BancTrust Financial Group, Inc. | Mobile, AL | $ 50.0 |
| 13 | Dickinson Financial Corporation II | Kansas City, MO | $ 146.1 | | **Total** | | **$5.44 billion** |

**Notes to Top 25 Remaining Capital Purchase Program Investments as of September 30, 2012**:

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 with capitalized dividends. Pacific Capital fulfilled the conversion conditions and Treasury's MCP was converted into 360,833,250 shares of common stock. Treasury currently holds 3,608,332 shares of Pacific Capital common stock following a reverse stock split.

c/ 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. Treasury currently holds 2,089,022 shares of Hampton common stock following a reverse stock split.

d/ Treasury exchanged its preferred stock for 108,555,303 shares of FNB United common stock. Treasury currently holds 1,085,553.03 shares of FNB common stock following a reverse stock split.

*b. Update on Warrant Dispositions*

During the quarterly period, 18 banking organizations repurchased warrants from Treasury for proceeds of approximately $35.6 million. In conjunction with the CPP auction sales that were held, Treasury also sold 15 warrant preferred shares for total net proceeds of $17.9 million during the quarterly period. On a cumulative basis, as of September 30, 2012, Treasury had disposed of warrants from 335 banking organizations and had received approximately $9.25 billion in net proceeds.[13]

*c. Update on CPP Dividends and Interest*

During the quarterly period, Treasury received dividends and interest income from CPP investments of approximately $94.76 million. As of September 30, 2012, cumulative dividends and interest income received from CPP investments was approximately $11.76 billion.

*d. Missed Payments by Portfolio Institutions*[14]

During the quarterly period, 149 institutions, or 51 percent of the remaining 290 CPP recipients 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 totaled approximately $42.82 million, which represents roughly 36 percent of the CPP dividends and interest that institutions were scheduled to pay Treasury for that period. As of September 30, 2012, the cumulative total of missed payments by CPP portfolio institutions since the beginning of the program was approximately $374.52 million,[15] which represents approximately 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. 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 six or more dividend or interest payments on the preferred stock issued to Treasury. As of the end of the quarter, Treasury had appointed 22 directors to a total of 13 institutions and had interviewed additional potential director candidates for possible further appointments.

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

[14] 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).

[15] 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).

Those institutions with weaker financial performance, including any institution 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 its Office of Financial Stability ("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, including whether to nominate directors when the right to do so becomes exercisable.

As of September 30, 2012, 120 banks participating in the CPP had missed six or more payments. Fifty-two CPP recipients had agreed to have Treasury observers at their board of directors meetings. These 52 institutions include those that had already missed six or more payments and several that expected to miss their sixth dividend payment in the near future.

*e. Exchanges and Restructurings*

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 may, in limited cases, agree to sell certain CPP investments to third-party investors who 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.

There were no exchanges during the quarterly period that resulted in new equity investments.

*f. Receiverships*

During the quarterly period one institution was placed into receivership:

- On July 13, 2012, Glasgow Savings Bank, Glasgow, MO, the banking subsidiary of Gregg Bancshares, Inc., was closed by the Missouri Division of Finance, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver.

As of September 30, 2012, 18 financial institutions with CPP investments totaling more than $2.96 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 | Date of Bankruptcy/Receivership | Original Treasury Investment Amount |
|---|---|---|
| CIT Group Inc. | 11/1/2009 | $2,330,000,000 |
| UCBH Holdings, Inc. | 11/6/2009 | $298,737,000 |
| Midwest Banc Holdings, Inc. | 5/14/2010 | $84,784,000 |
| Integra Bank Corporation | 7/29/2011 | $83,586,000 |
| Superior Bancorp Inc. | 4/15/2011 | $69,000,000 |
| Tennessee Commerce Bancorp, Inc. | 1/27/2012 | $30,000,000 |
| Citizens Bancorp | 9/23/2011 | $10,400,000 |
| Sonoma Valley Bancorp | 8/20/2010 | $8,653,000 |
| Pierce County Bancorp | 11/5/2010 | $6,800,000 |
| FPB Bancorp | 7/15/2011 | $5,800,000 |
| One Georgia Bank | 7/15/2011 | $5,500,000 |
| Legacy Bancorp, Inc. | 3/11/2011 | $5,498,000 |
| Blue River Bancshares, Inc. | 2/10/2012 | $5,000,000 |
| Pacific Coast National Bancorp | 11/13/2009 | $4,120,000 |
| CB Holding Corp. | 10/14/2011 | $4,114,000 |
| Tifton Banking Company | 11/12/2010 | $3,800,000 |
| Fort Lee Federal Savings Bank | 4/20/2012 | $1,300,000 |
| Gregg Bancshares, Inc. | 7/13/2012 | $825,000 |

### *ii. Update on the CDCI*

Under the CDCI, credit unions, 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 certified community development financial institutions ("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 the CPP for securities under the more favorable terms of this program.

During the quarterly period, Treasury received a repayment by one CDCI institution. On September 26, Atlantic City Federal Credit Union repurchased all outstanding CDCI subordinated debentures from Treasury for total proceeds of $2.5 million plus accrued and unpaid dividends.

During the quarterly period, Treasury also collected $2.79 million in dividends from CDCI banks. Five CDCI institutions missed dividend payments during the quarterly period. As of September 30, 2012, cumulative dividends and interest income received from CDCI investments was approximately $22 million.

There was one exchange of securities that occurred during the quarterly period that resulted from one CPP institution acquiring another institution that had been previously moved into the CDCI:

- As a result of the acquisition of Community Holding Company of Florida, Inc. (the acquired company) by Community Bancshares of Mississippi, Inc. (the acquirer), the preferred stock and exercised warrants issued by the acquired company on February 6, 2009 were exchanged for a like amount of securities of the acquirer, pursuant to the terms of an agreement among Treasury, the acquired company and the acquirer dated July 19, 2012.

## b. Credit Market Programs

### *i. Update on the Legacy Security Public-Private Investment Program ("PPIP")*

As of September 30, two of eight Public-Private Investment Funds ("PPIFs") had completed their investment periods while three other PPIFs completed their investment periods by October 2, 2012, shortly after the end of the quarterly period (figure 7). Some PPIFs have already wound down, while others are currently in the process of winding down. The investment periods for the remaining three PPIFs will close during the next quarterly period. PPIFs have had the ability to invest and re-invest in eligible assets over three-year investment periods, the last of which ends in December 2012. The PPIFs then have up to five additional years, which may be extended for up to two more years, to manage these investments and return the proceeds to Treasury and the other PPIF investors.

Figure 7

**Performance of PPIFs as of September 30, 2012**
(millions of dollars)

| Fund | Inception Date | Investment Period End Date (1) | Net Time Weighted Cumulative (2)(3) | Net Internal Rate of Return (2)(4) | Net Multiple of Paid in (2)(5) |
|---|---|---|---|---|---|
| **Investment Period Open** | | | | | |
| AG GECC PPIF Master Fund, L.P. | 11/12/09 | 10/30/12 | 105.7% | 23.3% | 1.57x |
| Marathon Legacy Securities Public-Private Investment Partnership, | 12/15/09 | 11/25/12 | 81.5% | 22.4% | 1.57x |
| Oaktree PPIP Fund, L.P. | 02/19/10 | 12/18/12 | 61.3% | 25.5% | 1.28x |
| **Investment Period Closed** | | | | | |
| AllianceBernstein Legacy Securities Master Fund, L.P. | 10/23/09 | 10/02/12 | 177.6% | 18.7% | 1.45x |
| Blackrock PPIF, L.P. | 10/16/09 | 10/02/12 | 89.3% | 22.7% | 1.70x |
| Invesco Legacy Securities Master Fund, L.P.(6) | 10/13/09 | 09/26/11 | 33.5% | 18.2% | 1.23x |
| RLJ Western Asset Public/Private Master Fund, L.P. | 11/23/09 | 07/15/12 | 92.2% | 23.9% | 1.67x |
| Wellington Management Legacy Securities PPIF Master Fund, LP | 10/19/09 | 10/01/12 | 63.5% | 17.8% | 1.41x |

(1) Expires on or before the third anniversary of the PPIF's Initial Closing.

(2) Net of management fees and expenses attributable to Treasury's equity.

(3) Time-weighted geometrically linked return calculated on a consistent basis across all PPIFs.

(4) Dollar-weighted rate of return calculated on a consistent basis across all PPIFs.

(5) Calculated as the sum of Net Cumulative Distributions received and Ending Capital balance of Treasury's equity position as a multiple of Paid in Capital.

(6) With respect to Invesco, returns were calculated through March 2012, as the PPIF completed the sale of its remaining holdings of Eligible Assets in March 2012, returning substantially all of its proceeds to Treasury and the private investors.

Treasury originally committed approximately $22.1 billion of equity and debt financing to nine PPIFs. After completing their fundraising, PPIFs closed on approximately $7.4 billion of private sector equity capital commitments, which were matched 100 percent by Treasury, representing $14.7 billion of equity capital commitments for a total of $29.4 billion in total original purchasing power for the program.

As of September 30, 2012, the PPIFs have drawn-down approximately $24.4 billion of the total original capital committed (82.9 percent of total original purchasing power), which has been invested in Eligible Assets and cash equivalents pending investment. Excluding PPIFs that have completed their Investment Period, the PPIFs have drawn-down approximately $8.6 billion of the total capital committed (74.6 percent of total purchasing power).[16]

As of September 30, 2012, Treasury had received approximately 60 percent of its original $18.6 billion invested in the PPIFs, including interest income, gains and repayments of debt and

[16] A PPIP program update for the Quarter Ended September 30, 2012 is available at http://www.treasury.gov/initiatives/financial-stability/reports/Documents/External%20Report%20-%2009-12%20vFinal.pdf

equity capital. During the quarterly period, two PPIFs began winding down.

In July 2012, the RLJ Western PPIF formally terminated its investment period and began the process of winding down the fund. As of September 30, 2012, Treasury had received more than 95 percent of the original $1.9 billion invested in RLJ Western, including interest income, gains and repayments of debt and equity capital. Treasury fully recovered the remaining capital after the end of the quarter, and generated a 23.9 percent net internal rate of return on Treasury's equity investment.

The Alliance Bernstein PPIF also began the process of winding down during the quarter. As of September 30, 2012, Alliance Bernstein had repaid 100 percent of Treasury's $3.2 billion in original equity and debt investments, and had generated an 18.7 percent net internal rate of return of Treasury's equity investment.

**c. AIG**

During the third quarter of 2012, Treasury and the Federal Reserve Bank of New York ("FRBNY") made substantial progress in winding down the investments related to AIG, such that Treasury and the Federal Reserve's combined $182 billion commitment is now fully recovered with a $15.1 billion positive return to date.[17].

The following transactions occurred during the quarterly period:

- On August 3, 2012, Treasury sold approximately 163.9 million shares of its AIG common stock at $30.50 per share for aggregate proceeds of approximately $5.0 billion. AIG purchased more than 98 million shares at the public offering price--representing approximately $3.0 billion of Treasury's proceeds from the sale. After underwriters exercised their over-allotment option to purchase additional shares of AIG common stock, Treasury's total proceeds from the offering were approximately $5.75 billion and approximately 188.5 million shares were sold in total.

- On September 10, Treasury sold approximately 553.8 million shares of AIG common stock at $32.50 per share in an underwritten public offering. The subsequent exercise of the over-allotment option by underwriters increased Treasury's total proceeds from the

[17]TARP's investment in AIG was originally in the form of preferred stock, some of which was converted to common stock in the recapitalization. Those common shares are referred to as "TARP shares". Additional AIG common shares owned by Treasury were received in connection with the recapitalization from the trust created by the FRBNY for the benefit of Treasury. Those shares--which are deemed to have no cost-- are referred to as "non-TARP" shares. OFS manages the disposition of both the TARP and non-TARP shares on a pro-rata basis. Treasury's 234 million shares of AIG common stock today consists of approximately 155 million TARP shares and 80 million Treasury non-TARP shares with a fair market value of $5.1 billion and $2.6 billion, respectively, as of September 30, 2012.

offering to approximately $20.7 billion and approximately 636.9 million shares were sold in total.

During the financial crisis, the government's support for AIG totaled $182 billion in commitments from the FRBNY and Treasury.[18] As of September 30, 2012, Treasury's outstanding investment in AIG has been reduced to approximately 234 million shares of AIG common stock. Treasury's percentage ownership of AIG's outstanding shares of common stock has now been reduced from 92.1 percent in January 2011 to 15.9 percent as of September 30, 2012.

During the previous quarterly period, Treasury and the FRBNY marked the retirement of the last remaining debts owed to the FRBNY from its intervention in AIG. The final repayment with interest of the loan by the FRBNY to Maiden Lane III occurred on June 14 and was noted in the previous FinSOB quarterly report. Going forward, Treasury will balance exiting its remaining AIG investment as soon as practicable with maximizing returns for the taxpayer. Future sales of Treasury's remaining AIG common stock holdings will provide an additional return to taxpayers on Treasury and the Federal Reserve's commitment.

### d. Automotive Industry Financing Program ("AIFP")

#### *i. General Motors*

During the quarterly period, the amount of Treasury's investment in General Motors ("GM") remained unchanged. As of September 30, 2012, Treasury's outstanding investment amount in GM stood at $23.49 billion.

As of September 30, 2012, Treasury held approximately 500 million common stock shares with a market value of $11.4 billion, representing 31.9 percent of the outstanding shares of common stock in the company. At the close of the quarterly period, Treasury had collected $24.0 billion of its total $51.0 billion investment[19].

#### *ii. Ally Financial*

During the quarterly period, Treasury's investment in Ally Financial ("Ally") remained unchanged at $13.75 billion. Treasury originally provided a total of $16.3 billion to Ally (formerly GMAC). Of that amount, Treasury has collected $5.7 billion, approximately one-third of its original investment, as of September 30, 2012. During the quarterly period, Treasury collected $133.6 million in dividend payments from Ally.

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[18] This represents the maximum commitment by the government; the peak amount drawn by AIG was approximately $125.8 billion.

[19] GM's $51.0 billion of assistance consisted of a $49.5 billion loan to Old GM, $884 million loan to Old GM to purchase GMAC rights, and $651 million in loans for supplier and warranty programs.

On August 15, 2012, Treasury exercised its right to appoint two additional directors to the Ally board of directors, naming Henry Miller and Gerald Greenwald. Mr. Miller has served as Chairman of Marblegate Asset Management, LLC since its formation in 2009 and has had extensive experience with restructurings over the course of his career. Mr. Greenwald is a founder of Greenbriar Equity Group, a private equity firm focused on the global transportation sector and was chairman and CEO of United Airlines from 1994 until 1999. The appointments, as well as the reelection of the current members of the board, were approved at a meeting of Ally's common stockholders.

As noted in the previous quarterly report, Residential Capital, LLC ("ResCap"), a residential mortgage non-bank affiliate of Ally, filed for bankruptcy on May 14, 2012. These proceedings continue to move forward as an independent examiner has been appointed and winning bidders were selected by ResCap to purchase its servicing platform and loan portfolio.

Treasury continues to monitor the performance of both GM and Ally and evaluate options to exit its investment.

**e. Housing Stabilization and Foreclosure Mitigation**

During the quarterly period, monthly Making Home Affordable ("MHA") Program Performance Reports were released covering June, July, and August of 2012, as was a quarterly MHA Servicer Assessment for the second quarter of 2012. These reports were released in conjunction with the monthly housing scorecard on the health of the nation's housing market produced by HUD.[20]

*i. MHA*

The primary purpose of MHA is to help struggling homeowners prevent avoidable foreclosure. As of the end of the quarterly period, nearly 1.3 million homeowner assistance actions had been granted through the program. While the Home Affordable Modification Program (HAMP) remains the cornerstone program, MHA also includes a number of other specialized programs to help homeowners facing different challenges.

[20] The MHA Program Performance Reports include data 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 reports are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx. The Housing Scorecard incorporates key housing market indicators and highlights the impact of housing recovery efforts. The scorecard is available at: http://www.HUD.gov/scorecard.

As of September 30, 2012, Treasury had disbursed approximately $4.0 billion of incentive payments for MHA out of an estimated lifetime cost of $29.9 billion.[21] Based only on the permanent modifications in place as of September 30, 2012, OFS estimates that $10.5 billion in incentive fees will ultimately be disbursed in association with all MHA modifications made as of September 30, 2012, if all active modifications were to remain current and receive incentives for five years.

*a. HAMP*

As of August 31, 2012, more than one million HAMP permanent modifications had been started. Specifically, approximately 16,000 new trial plans were started in June, 14,000 were started in July, and 15,000 were started during August. Approximately 17,000 homeowners each month started permanent modifications during June, July, and August 2012. As of August 31, 2012, homeowners in active HAMP permanent modifications typically saved approximately $539 per month--an approximately 38 percent reduction in the amount of their monthly payments compared to what they were paying before the modification. Since HAMP began, homeowners in permanent modifications have saved an estimated total of $15 billion in monthly mortgage payments.

Eighty-seven percent of eligible homeowners entering a HAMP trial modification since June 2010 have received a permanent modification, with an average trial period of 3.5 months. The vast majority of homeowners who have received a permanent HAMP modification have been able to sustain their payments over time.

*b. FHA-HAMP*

FHA-HAMP is designed to provide incentives for borrowers and servicers to modify FHA-insured first lien mortgages for struggling homeowners in order to reduce payments to more affordable levels. As of August 31, 2012, approximately 14,600 trial modifications and approximately 8,700 permanent modifications had been started under FHA-HAMP.

*c. 2MP*

Under the Second Lien Modification Program ("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 August 31, 2012, nearly 67,000 homeowners in a first-lien HAMP modification had an active permanent second-lien modification in place. In addition, approximately 22,000

[21] Treasury's Transactions Reports (Housing), available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/TARP-Housing-Transaction-Reports.aspx, show the adjusted cap amounts for each servicer, and the total disbursements to each servicer with respect to non-GSE loans. Incentive payments for GSE loans are borne by the GSEs and not Treasury.

second liens had been fully extinguished. Homeowners in 2MP typically save $159 per month on their second mortgage, in addition to the savings realized from the modification on their first mortgage under HAMP. More than 50 percent of the borrowers benefiting from 2MP reside in three states: California (36 percent), Florida (9 percent), and New York (6 percent).

*d. HAFA*

Under the Home Affordable Foreclosure Alternatives Program ("HAFA"), Treasury provides incentives for short sales and deeds-in-lieu of foreclosure for circumstances in which borrowers are unable or disinclined to complete the HAMP modification process. As of August 31, 2012, approximately 97,000 homeowners had reached agreements with their servicer to exit their home under the HAFA Program and approximately 71,400 homeowners had completed a short sale or deed-in-lieu of foreclosure.

*e. UP*

The Home Affordable Unemployment Program ("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 onto the unpaid principal balance. As of July 31, 2012, approximately 26,000 UP forbearance plans were started. UP reporting is one month behind the other MHA data because it relies on surveys of servicers rather than the usual MHA reporting mechanisms.

*f. PRA*

Under the Principal Reduction Alternative ("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 August 31, 2012, approximately 74,600 PRA permanent modifications had been started. The approximately 67,000 active PRA permanent modifications had a median principal reduction amount of $70,855, or nearly one-third of the before-modification principal balance.

Homeowners currently in HAMP permanent modifications with some form of principal reduction have been granted an estimated $7.2 billion in principal reduction. During the quarterly period, 77 percent of eligible non-GSE borrowers entering a HAMP trial or permanent modification received some form of principal reduction with their modification.

*ii. Hardest Hit Fund ("HHF")*

HHF allows participating Housing Finance Agencies ("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 of September 30, 2012, all 18 states and the District of Columbia were operating HHF programs statewide and collectively have drawn approximately $1.5 billion (nearly 20 percent) of the $7.6 billion allocated under the program. Each state draws down funds as they are needed (see Figure 8). States have until December 31, 2017 to expend funds and must have no more than 5 percent of their allocation on hand before they can draw down additional funds.

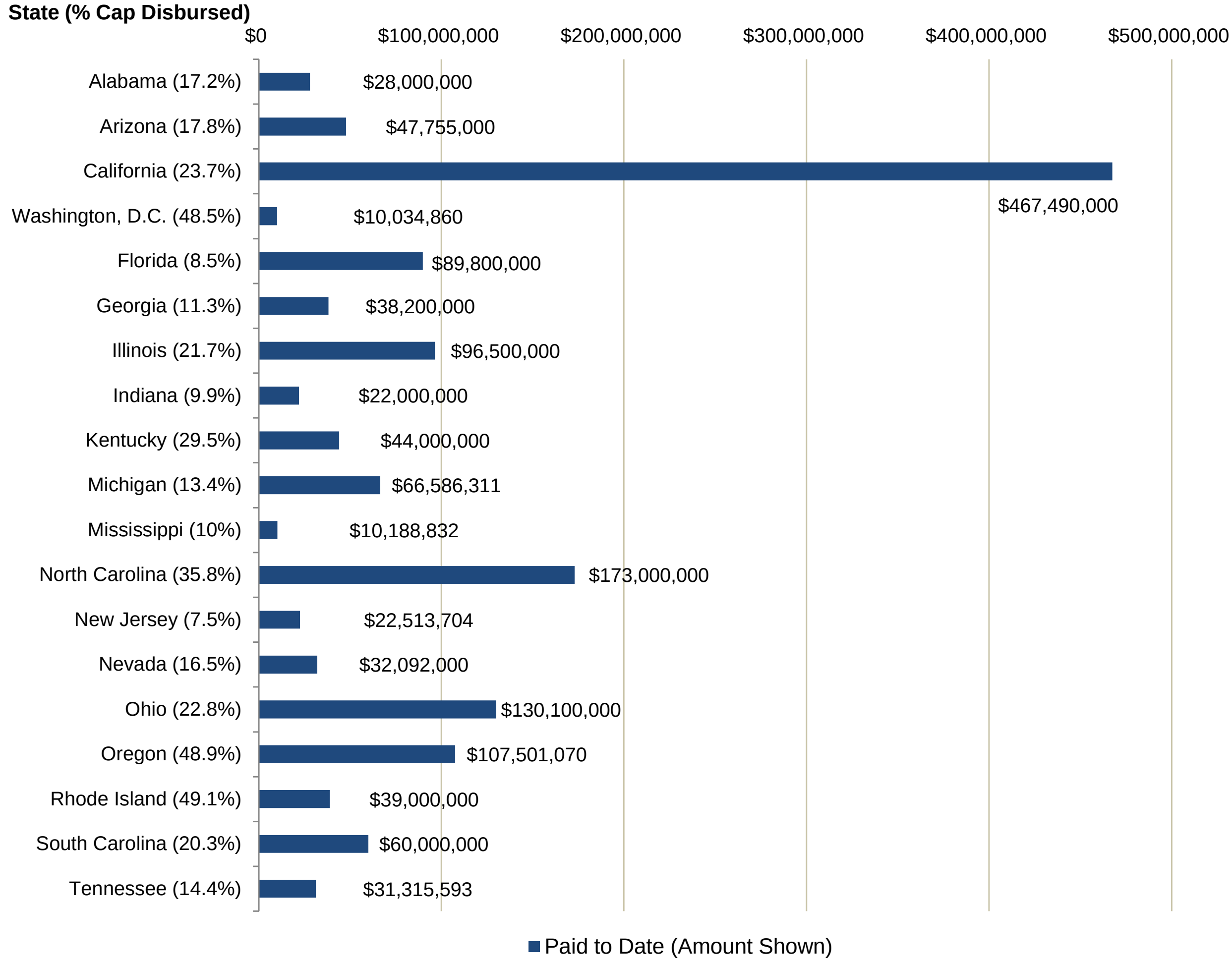
All 19 HFAs have created extensive infrastructures to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating homeowner portals to aid homeowners in applying for assistance, and hiring underwriters and other staff to review and approve applications. All major servicers are participating in HHF programs, primarily through mortgage payment assistance and mortgage loan reinstatement assistance. Additionally, the GSEs have recently issued guidance allowing their servicers to participate in principal curtailment programs under HHF. This new guidance has begun to benefit program take-up in some states.

Several HFAs made program changes to broaden their reach while increasing the level of assistance to borrowers. Illinois is rolling out the Hardest Hit Fund Home Preservation Program, which leverages Treasury funds to facilitate a loan refinance, recast, or permanent modification. This is done through an escrow arrearage, principal reduction, and/or reinstatement payment to bring mortgage payments to an affordable level. Additionally, Nevada allocated more funding to its principal reduction program in conjunction with a HARP refinance in response to strong demand from GSE borrowers.

On September 18, Treasury held its third national HHF summit. Approximately 90 representatives from 19 HFAs were in attendance, as were the nation's largest mortgage servicers, Fannie Mae, Freddie Mac, and representatives from other federal agencies.

Figure 8

**Hardest Hit Fund as of September 30, 2012**



# APPENDIX A

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

# Minutes of the Financial Stability Oversight Board Meeting
# July 23, 2012

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Monday, July 23, 2012, 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

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

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

Ms. Nisanci, Chief of Staff, Securities and Exchange Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Mr. Ashton, Deputy General Counsel, Federal Reserve Board

Ms. Thro, Assistant General Counsel, Federal Reserve Board

Chairperson Bernanke called the meeting to order at approximately 2:10 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on June 25, 2012, 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"); and the Making Home Affordable ("MHA") program and related initiatives. Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. Throughout the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Treasury officials first discussed the latest cost estimates for TARP. As part of this discussion, Treasury officials discussed with Members Treasury's daily TARP update report as of July 2, 2012, 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 through June 30, 2012.

Using prepared materials, Treasury officials then provided Members with an update on the CPP. Officials reviewed the current status of repayments and asset sales along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income Treasury has received from the banking organizations remaining in the program. Officials reported that Treasury commenced its fourth offering of certain CPP preferred stock and subordinated debt positions it holds, this time in 12 institutions (CBS Banc-Corp., Commonwealth Bancshares, Inc., Diamond Bancorp., Inc., Exchange Bank, Fidelity Financial Corp., First Community Financial, First Western Financial, Inc., Market Street Bancshares, Inc., Marquette National Corp., Premier Financial Bancorp., Inc., Park Bancorporation, and Trinity Capital Corp.). This is the first auction Treasury is conducting that includes securities of CPP institutions with no publicly traded common equity. The offerings are expected to price through a modified Dutch auction. As part of this discussion, officials also reviewed Treasury's plans for winding down the remaining CPP investments and maximizing overall returns to the taxpayer. Treasury's plans include additional asset sales to third parties through auctions of individual CPP investments, as well as potentially combining smaller individual CPP investments into investment pools for auction. In the context of pooled auctions, the topics discussed included: the possible timing of Treasury's pooled securities auctions; efforts to develop specific procedures to provide potential alternatives for those institutions whose securities are proposed to be included in an auction pool; and the regulatory implications for certain types of investors should they prevail in these offerings.

Using prepared materials, Treasury officials then provided an update on the AIFP. During this discussion, Members and officials discussed the voluntary petition for relief under Chapter 11 of the U.S. bankruptcy code filed on May 14 by Residential Capital LLC ("ResCap"), a non-bank subsidiary of Ally Financial, Inc. ("Ally"). Officials noted certain recent developments, including that the U.S. Bankruptcy Court had granted the request of Berkshire Hathaway, Inc., to appoint an independent examiner in the Rescap bankruptcy proceeding. Officials also noted Ally's progress in selling its international auto finance and insurance operations to potentially repay part of the $12.5 billion of current Treasury assistance under the AIFP. Officials then discussed recent developments involving General Motors ("GM"). Officials noted certain senior management changes that had recently occurred at GM's European operations.

Treasury officials then provided Members with an update on the U.S. government's investment in AIG. Treasury continues to hold approximately

61 percent of the common stock outstanding of AIG. Officials noted that Treasury is presently subject to a 90 day lock-up period during which Treasury is restricted from selling any of the outstanding common shares of AIG held by Treasury.

Treasury officials then provided an update on the Term Asset-Backed Securities Loan Facility ("TALF"). Officials noted that on June 28th, the Federal Reserve Board announced that it agreed with Treasury to reduce from $4.3 billion to $1.4 billion the credit protection Treasury is providing for TALF.

Using prepared materials, Treasury officials then provided the Members with an update on the PPIP. Officials noted the relative performance of the Public-Private Investment Funds ("PPIFs") established under the PPIP and the progress of certain PPIFs in completing their investment strategy.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Housing Finance Agency ("HFA") Hardest-Hit Fund ("HHF"). Treasury officials discussed recent transaction volumes under HAMP, the Second Lien Modification Program ("2MP"), and the Home Affordable Foreclosure Alternatives ("HAFA") program. Officials also discussed the reports concerning TARP housing programs recently submitted to Congress by oversight bodies. As part of this discussion, Treasury officials also discussed the HHF. Officials described the recent progress of certain HFA's in increasing participation under their respective HHF-sponsored programs and Treasury's efforts to provide oversight and assistance to HFAs.

Staff of the Oversight Board then provided Members with an update regarding the Oversight Board's quarterly report to Congress for the quarter ending June 30, 2012, that will be issued by pursuant to section 104(g) of the EESA. Staff discussed, among other things, the timing of the report.

The meeting was adjourned at approximately 2:55 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez,
General Counsel and Secretary

# Minutes of the Financial Stability Oversight Board Meeting
## August 27, 2012

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Monday, August 27, 2012, via teleconference.

MEMBERS PARTICIPATING:

Mr. Bernanke, Chairperson
Ms. Schapiro
Mr. DeMarco

STAFF PARTICIPATING:

Mr. Treacy, Executive Director

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

Mr. Silver, Senior Writer/ Editor, Office of Financial Stability, Department of the Treasury

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

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

Mr. Astrada, Senior Attorney, Federal Reserve Board

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

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

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

The Board first considered draft minutes for the meeting of the Board on July 23, 2012, 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 Automotive Industry Financing Program ("AIFP"); and the Making Home Affordable ("MHA") program and related initiatives. Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. Throughout the meeting, Members raised and discussed various matters with respect to the effects of the policies and programs established under TARP.

Treasury officials first discussed the latest cost estimates for TARP. As part of this discussion, Treasury officials discussed with Members Treasury's daily TARP update report as of August 1, 2012, 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 through July 31, 2012.

Using prepared materials, Treasury officials then provided Members with an update on the CPP. Officials reviewed the current status of repayments and asset sales along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income Treasury has received from the banking organizations remaining in the program. Officials reported that Treasury sold preferred stock and subordinated debt positions in twelve institutions through a modified Dutch auction commenced in July 2012, generating the taxpayer approximately $248.5 million in gross proceeds. In addition, Treasury launched offerings of its CPP investments in five additional institutions during August. These offerings priced through a modified Dutch auction. Treasury did not sell its positions in one institution because bids did not meet the Treasury's reserve price. The August auctions generated gross proceeds of $62.4 million. Treasury also sold shares it owned in Sterling Financial Corporation for net proceeds of $113.3 million and its preferred shares in M&T Bank Corporation for net proceeds of $381.5 million. As part of this discussion, officials also reviewed Treasury's plans for additional asset sales to third parties through auctions of individual CPP investments as well as investment pools of smaller individual CPP investments. Treasury has notified approximately 200 institutions that it is considering bundling the institution's CPP securities into one or more investment pools for auction, and has provided the institutions the right to "opt out" of the pooling if the institution bids on or designates a bidder for its own securities and the bid meets a minimum price established by Treasury. Of those institutions that were notified, a majority have indicated an interest in attempting to opt out. In that event, the institution or designated bidder would not be entitled to purchase the securities at that price; instead, Treasury would conduct a separate auction or other process. Treasury has provided interested institutions until October 9, 2012, to submit bids that meet these criteria. In addition, Treasury officials updated Members on the process of winding down Treasury's remaining CPP investments.

Using prepared materials, Treasury officials then provided the Members with an update on the PPIP. Officials noted the relative performance of the Public-Private Investment Funds ("PPIFs") established under the PPIP and the progress of certain PPIFs in completing their investment strategy. Officials reported that RLJ Western had terminated its Investment Period effective July 15, 2012, and therefore, had begun the wind-down of its fund.

Treasury officials then noted that, Treasury sold approximately 188.5 million shares in August for approximately $5.75 billion and is now subject to a 30-day lock-up period during which it is restricted from selling any of the outstanding common shares of AIG held by Treasury.

Using prepared materials, Treasury officials then provided an update on the AIFP. Officials noted that the Treasury appointed two directors to the board of directors of Ally Financial, Inc. ("Ally") on August 16, 2012, in connection with the reelection of the current members of the board. Officials also discussed recent developments in the bankruptcy proceeding of Ally's subsidiary, Residential Capital LLC. Officials also noted that Ally continues to make progress toward selling its international auto finance and insurance operations. Officials also discussed the status of Treasury's investment in General Motors.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Housing Finance Agency ("HFA") Hardest-Hit Fund ("HHF"). Treasury officials noted that they will be hosting an upcoming HHF summit with representatives from all 19 Housing Finance Agencies (HFAs), the nine largest servicers, the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Federal Housing Finance Agency. Officials also updated Members on the performance of HHF programs. Treasury officials then provided an update on changes to short sale programs to make standards consistent across Fannie Mae, Freddie Mac, and the TARP programs. Officials also discussed recent housing and other legislative proposals that could impact TARP housing initiatives.

Staff of the Oversight Board then provided Members with an update regarding the Oversight Board's quarterly report to Congress for the quarter ending June 30, 2012, that will be issued pursuant to section 104(g) of the EESA. Staff discussed, among other things, the timing of the report.

The meeting was adjourned at approximately 2:35 p.m. (EDT).

[signed electronically]

William F. Treacy,
Executive Director

# Minutes of the Financial Stability Oversight Board Meeting September 24, 2012

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Monday, September 24, 2012, 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

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

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

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

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Ms. Nisanci, Chief of Staff, Securities and Exchange Commission

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

The Board first considered draft minutes for the meeting of the Board on August 27, 2012, 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 Automotive Industry Financing Program ("AIFP"); the Term Asset-backed Securities Loan Facility ("TALF"); the Public-Private Investment Program ("PPIP"); and the Making Home Affordable ("MHA") program and related initiatives. Among the materials distributed in advance of the meeting was the monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP.

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

Treasury officials first discussed the latest cost estimates for TARP. As part of this discussion, Treasury officials discussed with Members Treasury's daily TARP update report as of September 21, 2012, 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. Officials noted that the report reflects Treasury's sale in August of approximately 188.5 million shares of AIG for approximately $5.75 billion, but not the subsequent September sales of AIG shares.

Using prepared materials, Treasury officials then provided Members with an update on the CPP. Officials reviewed the current status of repayments and asset sales along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income Treasury has received from the banking organizations remaining in the program. Officials discussed Treasury's ongoing efforts to wind-down and recover its remaining CPP investments. In particular, officials highlighted the relative performance of recent auctions Treasury has conducted of individual CPP investments as well as its progress in considering auctions of investment pools made up of smaller individual CPP investments.

Using prepared materials, Treasury officials then provided Members with an update on the U.S. government's investment in AIG. Officials noted that the sale of AIG common stock in September as part of an underwritten public offering resulted in proceeds to Treasury of approximately $20.7 billion and reduced Treasury's percentage of ownership in the AIG's common stock outstanding from approximately 53.4 to 15.9 percent. As a result of the sale, Treasury became subject to a 60 day lock-up period during which Treasury would be restricted from selling any of the outstanding common shares of AIG still held by Treasury.

Treasury officials then provided an update on the AIFP. Officials provided Members with the status of Treasury's investment in General Motors and discussed recent developments in the bankruptcy proceeding of Ally's non-bank affiliate, Residential Capital LLC.

Using prepared materials, Treasury officials then provided the Members with an update on the credit market programs established under TARP, including the TALF and PPIP. Officials first discussed the relative performance of the Public-Private Investment Funds ("PPIFs") established under the PPIP and the progress of certain PPIFs in completing their investment strategy. Officials noted the efforts of three PPIFs (RLJ Western, Alliance Bernstein, and Invesco) in completing a wind-down of their funds. As part of this discussion, officials discussed Treasury's remaining commitment under the TALF, noting that in June 2012 the Federal Reserve and Treasury agreed to further reduce the credit protection Treasury provides the TALF, LLC to $1.4 billion.

Using prepared materials, Treasury officials then provided an update on the MHA and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Housing Finance Agency ("HFA") Hardest-Hit Fund ("HHF"). Officials noted that MHA servicers had initiated approximately 14,000 new trial modifications and 17,000 new permanent modifications under HAMP during the month of July 2012. Treasury officials also discussed recent activity under the HAMP Second Lien Modification Program ("2MP") and Principal Reduction Alternative ("HAMP-PRA"). Officials noted that, based on Treasury survey data as reported by MHA servicers through August 31, 2012, approximately 77 percent of eligible second liens had received a modification under 2MP. Officials also noted that the terms of the $25 billion settlement of mortgage servicing deficiencies between the five largest mortgage servicers, the Federal government, and 49 state attorneys general, had resulted in an increase in the use of non-PRA principal-reduction modifications under HAMP. As part of this discussion, Treasury officials reviewed the results of Treasury's latest quarterly servicer assessment, which summarizes the performance of the nine largest MHA servicers based on reviews conducted during the second quarter of 2012. Treasury officials discussed the approach taken to identify servicers needing improvement and of measures taken to ensure that servicers address all instances of non-compliance identified by Treasury. Officials noted that two servicers were found to need only minor improvement on the areas reviewed for program performance, while seven servicers were found to need moderate improvement.

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 Fannie Mae and Freddie Mac.

Staff of the Oversight Board then provided Members with an update regarding the Oversight Board's quarterly report to Congress for the quarter ending September 30, 2012, that will be issued pursuant to section 104(g) of the EESA. Staff discussed, among other things, the timing of the report.

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

[signed electronically]

Jason A. Gonzalez,
General Counsel and Secretary