# FINANCIAL STABILITY OVERSIGHT BOARD
# QUARTERLY REPORT TO CONGRESS

**For the quarter ending**
**September 30, 2014**

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

**Statutory Members**

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Board of Governors of the Federal Reserve System

Jacob J. Lew
Secretary
Department of the Treasury

Mary Jo White
Chairman
Securities and Exchange Commission

Julián Castro
Secretary
Department of Housing and Urban Development

Mel Watt
Director
Federal Housing Finance Agency

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# I. INTRODUCTION

This quarterly report of the Financial Stability Oversight Board ("Oversight Board"), issued pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"), covers the period from July 1, 2014 to September 30, 2014 (the "quarterly period").

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

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

The Oversight Board met three times during the quarterly period, specifically on July 31, August 19, and September 22, 2014. As reflected in the minutes of the Oversight Board's meetings,[2] the Oversight Board regularly receives presentations and briefings from Treasury officials during these meetings to assist the Oversight Board in monitoring the actions taken by the Treasury Department under TARP and the Administration's Financial Stability Plan.

[1] The respective Members named the following Representatives: Mr. David Wilcox, Division Director, Federal Reserve Board; Mr. Matthew Rutherford, Acting Under Secretary for Domestic Finance, Department of Treasury; Mr. Ed Golding, Senior Advisor to the Secretary, Department of Housing and Urban Development; Ms. Erica Williams, Deputy Chief of Staff, Securities and Exchange Commission; and Mr. Mario Ugoletti, Special Advisor, Federal Housing Finance Agency.

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

## II. THE EFFECTS AND COSTS OF EESA PROGRAMS

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

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

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

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

### a. **Volume of TARP mortgage borrower assistance actions**

Foreclosure mitigation efforts under TARP continued at significant rates during the quarter. During April, May and June, new permanent modifications totaled about 15,000 per month, while total active permanent modifications increased from nearly 950,000 at the end of March to nearly 960,000 at the end of June.[3] The Second Lien Modification Program

[3] Beginning in mid-2014, Treasury's Making Home Affordable ("MHA") Program Performance

("2MP"), which is designed to encourage modifications of second liens where the first lien mortgage has already been modified under HAMP, continued to expand. By the end of June, some 83,400 2MP modifications were active, up from 82,700 at the end of March. More than 137,000 2MP modifications had been started, cumulatively, through June, and nearly 37,000 of these involved full extinguishment of the second lien. As of the end of June there were more than 165,000 active permanent HAMP first-lien modifications with principal reduction. Also through June, 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 274,000 short sales and more than 28,000 deed-in-lieu transactions.

The Hope Now Alliance reported that the number of non-HAMP modifications continued to exceed the number established under HAMP, although the number of non-HAMP modifications continued to decline significantly. Hope Now reported an average of roughly 27,300 non-HAMP modifications had been initiated per month during April, May and June, modestly below the average for the foregoing three months (30,500). Unlike HAMP modifications, the terms and impact associated with these non-HAMP modifications are not generally reported.

### b. Performance of past TARP mortgage borrower assistance actions

Data reported by Treasury during the quarter indicated that through the end of June some 28.7 percent of all HAMP permanent modifications had re-defaulted, that is, were disqualified for missing three or more payments.[4] Delinquency data across standardized intervals, a more conventional metric for assessing payment performance, continued to provide some positive indications.[5] Data reported during the quarter indicated that 11.8 percent of HAMP modifications made permanent in the second quarter of 2013 had become delinquent by

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Reports are being produced on a quarterly, rather than monthly, schedule. Beginning with this Quarterly Report of the Oversight Board, the discussion of TARP mortgage borrower assistance actions cites levels and changes for MHA program actions over calendar quarters, conforming to the presentation of data in the now-quarterly MHA Performance Reports.

[4] 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. A more detailed analysis of delinquency patterns in HAMP permanent modifications is available in the most recent MHA Performance Report, available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx. Summary data on MHA programs are also being reported on a monthly basis in Treasury's Monthly Report to Congress (also known as the "105(a) report".)

[5] The quarterly delinquency data reported in the MHA Performance Report, in this section, and in figure 1 exclude HAMP Tier 2 permanent modifications.

60 days or more within 12 months of receiving a modification (figure 1). By comparison, among loan modifications made permanent in the second quarter of 2012, some 13.6 percent had become delinquent by 60 or more days within the same 12-month interval. Each continued an overall trend of declining delinquency rates at those intervals across cohorts.

In contrast, 20.1 percent of non-HAMP modifications made permanent in the second quarter of 2013 at a selected group of institutions regulated by the Office of the Comptroller of the Currency ("OCC") had become 60 or more days delinquent within 12 months of the modification.[6] The lower rate of delinquency for HAMP permanent modifications was likely influenced by differences in documentation standards, magnitudes of payment reduction and requirements for a trial period.

[6] Data for non-HAMP modifications were drawn from the Office of the Comptroller of the Currency ("OCC") Mortgage Metrics Report for second quarter of 2014 (Table 34), 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 9.7 percent of HAMP permanent modifications finalized in the second quarter of 2013 had fallen 60 days delinquent within 12 months.

Figure 1

| Modification Became Permanent in: | Delinquency: Months After Conversion to Permanent Modification | | | | | |
|---|---|---|---|---|---|---|
| | 12 | | 24 | | 36 | |
| | # | 60+ Days | # | 60+ Days | # | 60+ Days |
| 2009Q3 | 4,655 | 25.8% | 5,086 | 36.7% | 5,182 | 43.9% |
| 2009Q4 | 51,512 | 20.4% | 55,632 | 31.5% | 56,438 | 39.6% |
| 2010Q1 | 161,290 | 20.3% | 168,102 | 31.8% | 166,348 | 39.7% |
| 2010Q2 | 173,677 | 19.5% | 178,988 | 31.0% | 175,175 | 39.2% |
| 2010Q3 | 104,346 | 18.2% | 106,368 | 29.4% | 104,629 | 37.1% |
| 2010Q4 | 65,123 | 18.4% | 66,398 | 29.6% | 65,902 | 36.4% |
| 2011Q1 | 79,735 | 17.0% | 80,996 | 27.5% | 81,144 | 33.8% |
| 2011Q2 | 92,710 | 16.2% | 91,570 | 27.3% | 91,635 | 33.1% |
| 2011Q3 | 86,916 | 15.6% | 85,126 | 25.8% | 31,108 | 31.5% |
| 2011Q4 | 67,779 | 14.7% | 67,651 | 23.4% | | |
| 2012Q1 | 50,885 | 14.1% | 50,766 | 22.5% | | |
| 2012Q2 | 45,257 | 13.6% | 44,986 | 22.0% | | |
| 2012Q3 | 49,722 | 13.0% | 17,185 | 20.8% | | |
| 2012Q4 | 42,433 | 12.3% | | | | |
| 2013Q1 | 42,046 | 12.6% | | | | |
| 2013Q2 | 33,716 | 11.8% | | | | |
| 2013Q3 | 11,118 | 12.2% | | | | |
| 2013Q4 | | | | | | |
| 2014Q1 | | | | | | |
| 2014Q2 | | | | | | |
| **All** | **1,162,920** | **16.9%** | **1,018,854** | **28.4%** | **777,561** | **37.2%** |

***Note:*** Performance of HAMP Tier 1 Permanent Modifications as of June, 2014, showing selected details for the full set of quarterly cohorts that lays behind more summarized cohort information contained in the regular MHA Program Performance Reports.[7]

Delinquency rates for HAMP permanent modifications over time horizons beyond one year continued to be at or near the lowest levels of any quarterly origination cohort at a comparable point in time. For loan modifications made permanent in the second quarter of 2012, 22.0 percent had become delinquent by 60 or more days 24 months after the modification. Similarly, 36 months after becoming permanent, loan modifications made during the second quarter of 2011 experienced a serious delinquency rate of 33.1 percent.

Under the terms of HAMP modifications, after five years at a rate as low as two percent, most homeowners in HAMP Tier 1 modifications will experience a gradual interest

[7] See notes in MHA Performance Reports for further details, available at http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx.

rate increase of up to one percent per year until their rate adjusts to the market rate at the time of their modification. For example, rate resets will begin in October 2014 for the approximately 30,000 homeowners who received modifications in 2009. As of December 2013, a little over 80 percent of borrowers will experience at least one future rate reset. For 92 percent of homeowners, this will result in a rate at or below five percent, well below the homeowner's interest rate before modification. The typical final rate increase after all resets will result in a cumulative monthly payment increase of approximately $200. Treasury continues to monitor the interest rate resets to ensure that if signs of homeowner distress arise, servicers are ready and able to help by providing loss mitigation options and alternatives to foreclosure.[8]

### c. Projected Cost of TARP Programs

Treasury provides updated cost assessments for TARP programs four times per year and prepares financial statements for TARP on an annual basis in the Agency Financial Report. The most recent lifetime cost estimates of TARP available during the reporting period were as of May 31, 2014 (figure 2). According to these estimates, the expected overall cost of TARP will be approximately $37.50 billion. Using the same assumptions, Treasury also estimated that the combined overall cost of TARP and other Treasury interests in AIG will be approximately $19.95 billion.

The ultimate cost of TARP remains subject to uncertainty and will depend on how financial markets and the economy perform in the future. The individual TARP program costs have been updated as of September 30, 2014, and are provided in Section III.

[8] See Mark McArdle, "HAMP Rate Reset; Just the Facts," Treasury Notes Blog, March 11, 2014, available at: http://www.treasury.gov/connect/blog/Pages/HAMP-Rate-Reset.aspx

## Figure 2

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

| **Programs as of September 30, 2014 (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] |
|---|---|---|---|---|
| **Bank Support Programs:** | | | | |
| Capital Purchase Program (CPP): | | | | |
| Citigroup | $ 25.00 | $ 25.00 | $ - | $ (6.89) |
| Other banks with assets $10 billion or greater | $ 165.33 | $ 165.33 | $ 0.23 | $ (10.28) |
| Banks with assets less than $10 billion[2] | $ 14.57 | $ 14.57 | $ 0.39 | $ 1.02 |
| Total | $ 204.89 | $ 204.89 | $ 0.62 | $ (16.15) |
| Targeted Investment Program (TIP) | $ 40.00 | $ 40.00 | $ - | $ (4.00) |
| Asset Guarantee Program (AGP)[3] | $ 5.00 | $ 0.00 | $ - | $ (4.00) |
| Community Development Capital Initiative (CDCI) | $ 0.57 | $ 0.57 | $ 0.47 | $ 0.11 |
| **Credit Market Programs:** | | | | |
| Public-Private Investment Program (PPIP): | | | | |
| Equity | $ 6.37 | $ 6.25 | $ - | $ (3.06) |
| Debt | $ 12.38 | $ 12.38 | $ - | $ 0.33 |
| Total | $ 18.75 | $ 18.63 | $ - | $ (2.73) |
| Term Asset Backed Securities Lending Facility (TALF) | $ 0.10 | $ 0.10 | $ - | $ (0.60) |
| Purchase SBA 7(a) Securities (SBA) | $ 0.37 | $ 0.37 | $ - | $ (0.00) |
| **Other Programs:** | | | | |
| American International Group (AIG): | | | | |
| Preferred Stock | $ 20.29 | $ 20.29 | $ - | $ - |
| Common Stock | $ 47.54 | $ 47.54 | $ - | $ 15.18 |
| Total | $ 67.84 | $ 67.84 | $ - | $ 15.18 |
| Automotive Industry Financing Program (AIFP) | $ 79.69 | $ 79.69 | $ 1.83 | $ 12.23 |
| **Sub-total for Investment Programs** | **$ 417.21** | **$ 411.72** | **$ 2.92** | **$ 0.03** |
| Making Home Affordable | $ 29.83 | $ 9.25 | n/a | $ 29.83 |
| Hardest Hit Fund | $ 7.60 | $ 4.47 | n/a | $ 7.60 |
| FHA-Refinance[4] | $ 1.03 | $ 0.06 | n/a | $ 0.04 |
| **Sub-total for Housing Programs** | **$ 38.45** | **$ 13.78** | **n/a** | **$ 37.47** |
| **Total for TARP Programs** | **$ 455.67** | **$ 425.50** | **$ 2.92** | **$ 37.50** |
| Additional AIG Common Shares Held by Treasury[5] | n/a | n/a | n/a | $ (17.55) |
| **Total for TARP Programs and Additional AIG Shares** | **$ 455.67** | **$ 425.50** | **$ 2.92** | **$ 19.95** |

Footnotes

[1] Lifetime cost information is as of May 31, 2014. Estimated lifetime cost figures are updated quarterly in conjunction with the Office of Management and Budget.

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

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

[4] In March 2013, Treasury extended the letter of credit facility to provide coverage for loans refinanced throughout the eligibility period, which had been extended to December 2014, but reduced the amount from $8 billion to $1 billion. Treasury believes this lower amount will be sufficient to accommodate any increased usage that could result through the close of the program. The figures in this line include administrative expenses associated with the letter of credit facility.

[5] As discussed in note 10 to the Daily TARP Update, Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds ("TARP shares") and shares received from the trust created by the Federal Reserve Bank of New York for the benefit of Treasury as a result of its loan to AIG ("non-TARP shares"). Treasury managed the TARP shares and non-TARP shares together, and disposed of them pro-rata in proportion to its holdings. Only the TARP shares are included under "Other Programs—AIG" and the lifetime cost estimate shows a loss based on Treasury's cost basis in the TARP shares alone. However, a gain is shown for the non-TARP shares on the line entitled "Additional AIG Common Shares Held by Treasury" because Treasury's cost basis in such shares was deemed to be zero. When the TARP shares and non-TARP shares are considered together, Treasury's cost on a cash basis was $28.73 per share. TARP estimates include financing costs (borrowing) from the time of initial investment through the close of the program. The Daily Tarp Update is available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/daily-tarp-reports.aspx.

## 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, 2014, subject to review and oversight of the Oversight Board.

### a. Capital and Guarantee Programs for Financial Institutions

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

As of September 30, 2014, 43 institutions remained in the CPP program with total outstanding CPP obligations of $0.62 billion. As of that date, Treasury had received approximately $206.27 billion in gross proceeds from repayments and auction sales under the CPP, equivalent to just over 100 percent of the $204.89 billion in total funds initially invested. These repayments and auction sales, along with dividends, interest, warrant sales, and fee income from participating bank organizations bring the total cash received from the CPP to $226.32 billion.

On September 9, Treasury announced that it would continue to wind down its investment in First BanCorp (FBP) by selling shares of common stock through a pre-defined written trading plan. As of that date, Treasury held approximately 19.7 million shares, or approximately 9.2 percent of FBP common stock. FBP continued to be Treasury's largest remaining CPP investment. More information is available in Treasury's Press Release (available at http://www.treasury.gov/press-center/press-releases/Pages/jl2626.aspx).

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

During the quarterly period, three financial institutions delivered a total of $954.66 million in full repayments. In addition, in June 2014, Treasury sold all of its remaining investments in six institutions through a CPP auction for aggregate gross proceeds of $64.4 million.[9] Treasury had originally invested a combined total of $62.67 million in these institutions. Treasury also sold its investment at par in one institution in connection with a merger and sold its investment at a discount in another in connection with a restructuring for total proceeds of $25.79 million.

##### *b. Update on Warrant Dispositions and Dividends and Interest*

During the quarterly period, Treasury received proceeds of approximately $8.57 million from CPP warrants that were repurchased, auctioned or otherwise sold. During the quarterly period, Treasury also received dividends and interest income from CPP investments of approximately $12.53 million.

[9] Proceeds from the auction were received by Treasury in July 2014, following the end of the second quarterly period.

### *c. Missed Payments by Portfolio Institutions*[10]

As of September 30, 2014, the cumulative total of non-current dividend or interest payments by CPP portfolio institutions was approximately $73.40 million, which represents less than one percent of the total CPP dividends and interest that institutions were scheduled to pay Treasury. [11]

Under the CPP securities purchase agreements, Treasury cannot demand payment of dividends. Instead, 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 securities issued to Treasury.

### *d. Bankruptcies and Receiverships*

No institutions participating in the CPP or CDCI programs went into bankruptcy or receivership during the quarterly period.

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[10] 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).

[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).

Figure 3

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

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

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

As of September 30, 2014, there were 68 institutions remaining in the CDCI. During the quarterly period, one financial institution delivered a total of $2.37 million through a partial repayment.

During the quarterly period, Treasury also collected $2.36 million in dividends and interest payments from CDCI institutions. One CDCI institution missed a dividend payment, and no CDCI institutions missed an interest payment during the quarterly period. As of September 30, 2014, cumulative dividends and interest income received from CDCI investments was approximately $43.23 million. Since the program started in 2010, just one CDCI institution has been closed (Premier Bancorp, Inc., Wilmette, IL, with the FDIC having been named receiver).

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

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

#### *i. Ally Financial*

On August 14, Treasury announced that it would continue to wind down its investment in Ally Financial ("Ally") by selling additional shares of common stock through a pre-defined written trading plan.

On September 12, Treasury announced that it had completed that first pre-defined written trading plan, and was commencing a second pre-defined written trading plan for Ally common stock the same day. Under the first plan, Treasury sold 8.89 million shares of Ally common stock and recovered approximately $218.7 million. More information is available in Treasury's Press Release, available at: http://www.treasury.gov/press-center/press-releases/Pages/jl2631.aspx.

As of September 30, 2014, Treasury had recovered approximately $18.1 billion of its investment in Ally, approximately $0.9 billion more than was originally invested in the company.[12] Treasury will continue to evaluate exit strategies for its remaining Ally investment consistent with its goals of maximizing taxpayer returns and exiting its investments as soon as practicable.

### c. Housing Stabilization and Foreclosure Mitigation

During the period, a quarterly Making Home Affordable ("MHA") Program Performance Report was released covering April 2014 through June 2014, including a quarterly MHA Servicer Assessment for the same period. In addition, a Performance Summary for HHF was released covering the second quarter of 2014. [13]

#### *i. MHA*

MHA programs provide assistance actions through first and second lien permanent modifications under HAMP, HAMP Tier 2, Treasury FHA-HAMP, and other assistance provided through HAFA transactions and UP forbearance plans (figure 4). For some programs assistance includes that provided by the Government Sponsored Enterprises ("GSEs").

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[12] This amount is calculated on a cash in and cash out basis, and includes disbursements and repayments related to the loan extended to GM for the GMAC Rights Offering ($884 million). It does not include any proceeds from the second written pre-defined trading plan, which will not be disclosed until the end of that plan.

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

Figure 4

| | As of June 30, 2014 | 2Q 2014 |
|---|---|---|
| MHA First Lien Permanent Modifications Started | 1,636,939 | 60,026 |
| *HAMP Tier 1 Permanent Modifications Started* | *1,325,986* | *21,771* |
| *HAMP Tier 2 Permanent Modifications Started* | *61,335* | *12,629* |
| *Treasury FHA Permanent Modifications Started* | *208,277* | *15,819* |
| *Other (Primarily GSE Standard Modifications Started* | *41,341* | 9,807 |
| Second Lien Modification Program - Modifications Started | 137,286 | 5,883 |
| Home Affordable Foreclosure Alternatives Program - Transactions Completed | 302,031 | 21,220 |
| Unemployment Program - Forbearance Plans Started | 40,655 | 1,121 |
| **Cumulative Activity** | **2,116,911** | **88,250** |

Notes:

- First lien permanent modifications include GSE Standard Modifications since October 2011 under the GSEs' Servicer Alignment Initiative.
- HAFA totals include GSE and non-GSE activity.

A total of $29.83 billion has been committed to MHA. As of June 30, 2014, Treasury had disbursed $8.53 billion in incentive payments for MHA, $0.72 billion of which was disbursed during the second quarter of 2014.[14] Based on all MHA activity in place as of September 30, 2014, Treasury estimated that $15.12 billion in incentive payments would ultimately be disbursed in association with all MHA assistance actions if all active modifications were to remain current and active (and thus that all incentives were paid) for the maximum five years.

*a. HAMP*

As of June 30, 2014, nearly 1.4 million homeowners had received a permanent first lien modification through HAMP since the start of the program. As of June 30, 2014, homeowners who received HAMP permanent modifications saved approximately $500 per month, representing a reduction of more than one third from their before-modification mortgage payment. Since HAMP began, homeowners in permanent modifications have saved an estimated total of $28.8 billion in monthly mortgage payments. During the quarterly period, more than 30,000 new HAMP trial plans were initiated.

[14] 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.

*b. HAMP PRA*

As of June 30, 2014, nearly 203,000 permanent HAMP modifications with principal reductions had been completed. Of all the non-GSE loans eligible for principal reduction entering HAMP in June 2014, 64 percent included a principal reduction feature.

*ii. HHF*

As of September 30, 2014, 18 states and the District of Columbia were operating HHF programs and collectively had drawn approximately $4.47 billion (59 percent) of the $7.60 billion allocated under the program. Each of these eligible jurisdictions draws down funds as they are needed (see figure 5). The programs have until December 31, 2017, to expend funds and must have no more than five percent of their allocation on hand before they can draw down additional funds.

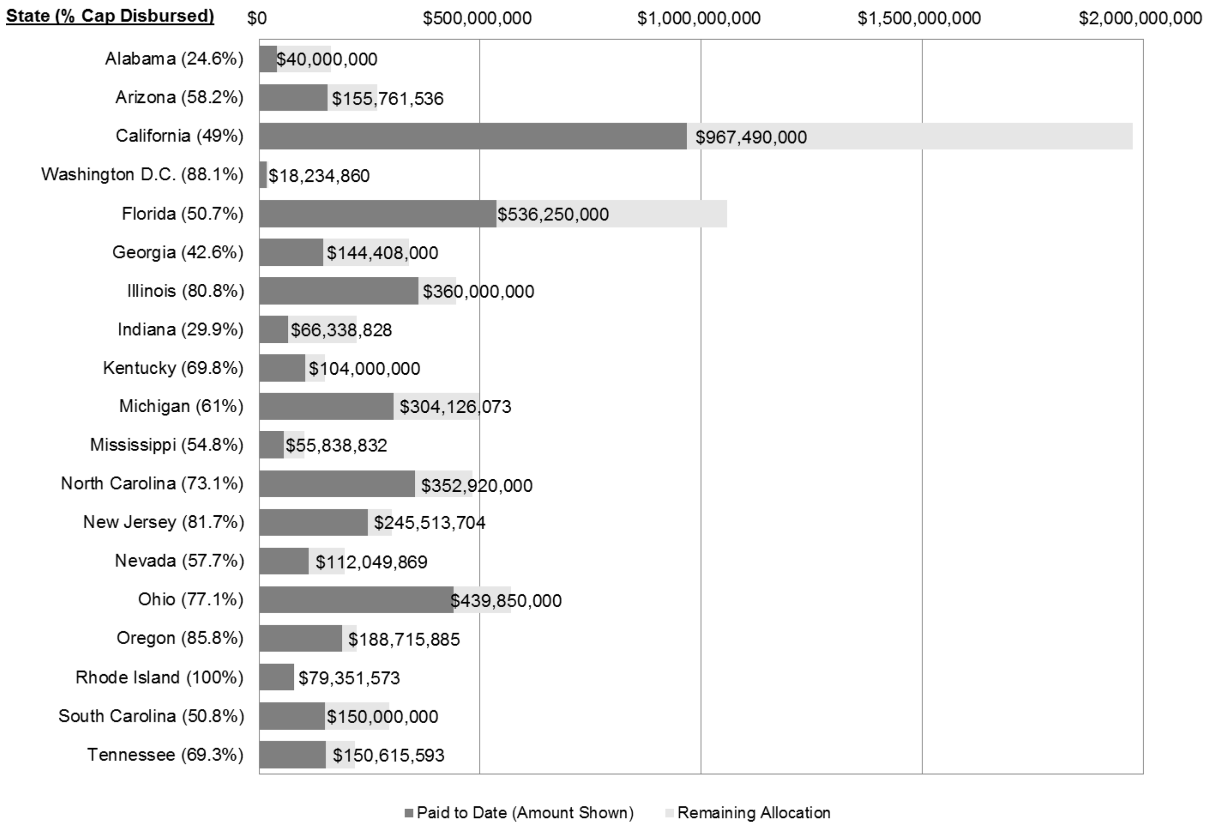
As of September 30, 2014, there were 73 active HHF-supported programs across the 19 HFAs. Approximately 66 percent of total program funds were targeted to help unemployed borrowers, primarily through programs that help homeowners pay for their mortgage while looking for work, and through reinstatement, where missed mortgage payments are paid for assisted homeowners. Treasury continued its efforts to identify best practices, share lessons learned among states, and provide additional assistance and oversight to HFAs in need of improvement.

During the quarter, Treasury approved program changes for Alabama, California, the District of Columbia, Florida, Indiana, and South Carolina. Tennessee ceased accepting new applications on July 31, 2014 due to projected full commitment of its program funds. Program changes are outlined each month in the Monthly Report to Congress. [15]

[15] In addition, Illinois, New Jersey, Ohio, Oregon, Rhode Island, and Washington D.C. previously closed their registration processes for new applicants.

Figure 5

**Hardest Hit Fund as of September 30, 2014**



# APPENDIX A

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

# Minutes of the Financial Stability Oversight Board Meeting
# July 31, 2014

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:00 p.m. (EDT) on Thursday, July 31, 2014, via conference call.

MEMBER REPRESENTATIVES PARTICIPATING:

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

Mr. Golding, Senior Advisor, Department of Housing and Urban Development

Ms. Williams, Deputy Chief of Staff, Securities and Exchange Commission

STAFF PARTICIPATING:

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

AGENCY OFFICIALS PARTICIPATING:

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

Ms. Florman, Senior Advisor, Office of Financial Stability, Department of the Treasury

Mr. Valverde, Senior Advisor, Office of Domestic Finance, Department of the Treasury

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

Ms. Uy, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Mr. Roberts, Special Assistant, Office of Financial Stability, Department of the Treasury

Mr. Nixon, Senior Housing Policy Advisor, Department of Housing and Urban Development

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Ms. Carter, Senior Supervisory Financial Analyst, Federal Reserve Board

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

The Representatives then considered draft minutes for the meeting of the Board on June 27, 2014, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

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

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

Using prepared materials, Treasury officials provided Representatives with an update on recent developments in the TARP programs. As of July 28, Treasury had disbursed a total of approximately $424.8 billion, including $411.7 billion under TARP investment programs and $13.1 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $439.8 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was $3.25 billion with approximately one-third related to bank programs (CPP and the Community Development Capital Initiative) and two-thirds related to Ally Financial, Inc. ("Ally").

Treasury officials then provided the Representatives with an update on the CPP, including the latest cumulative repayments and sales of CPP investments along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income. Officials noted that Popular, Inc. had repaid $946 million to Treasury on July 2, which fully retired Treasury's largest remaining CPP investment. Also in July, Popular repurchased all outstanding warrants held by Treasury for $3.0 million. As a result of these transactions, officials noted that remaining CPP investments were less than $700 million. Treasury officials then provided a brief update regarding CPP institutions in bankruptcy or whose depository institution was in receivership.

Treasury officials then provided the Representatives with an update on the AIFP. Treasury continued to hold approximately 16 percent of Ally's common stock. Officials noted that Ally had recently reported positive quarterly earnings.

Treasury officials then provided an update on the MHA program and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Hardest Hit Fund ("HHF"). Treasury officials reported on the homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new permanent modifications and other borrower assistance actions, as described in the most recent monthly MHA Performance Report. With regard to HHF, Treasury officials discussed the general status and funding drawn by HHF programs, noting that the Tennessee Housing Development Agency would effectively close its application process at the end of July, joining six other state housing agencies that had previously closed their application process because HHF allocated funds had been completely committed.

Staff of the Oversight Board then discussed administrative matters with the Representatives, including the timing of the Oversight Board's next quarterly report.

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

[signed electronically]

Mr. Gonzalez, General Counsel and Secretary

# Minutes of the Financial Stability Oversight Board Meeting
## August 19, 2014

A meeting of the Financial Stability Oversight Board ("Board") was held at 5:30 p.m. (EDT) on Tuesday, August 19, 2014, via conference call.

MEMBER REPRESENTATIVES PARTICIPATING:

Mr. Ugoletti, Special Advisor, Federal Housing Finance Agency (Interim Chair)

Ms. Miller, Under Secretary for Domestic Finance, Department of Treasury

Mr. Golding, Senior Advisor, Department of Housing and Urban Development

Ms. Williams, Deputy Chief of Staff, Securities and Exchange Commission

STAFF PARTICIPATING:

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

AGENCY OFFICIALS PARTICIPATING:

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

Ms. Florman, Senior Advisor, Office of Financial Stability, Department of the Treasury

Mr. Valverde, Senior Advisor, Office of Domestic Finance, Department of the Treasury

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

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

Mr. Roberts, Special Assistant, Office of Financial Stability, Department of the Treasury

Mr. Nixon, Senior Housing Policy Advisor, Department of Housing and Urban Development

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Mr. Collender, Principal Policy Analyst, Federal Housing Finance Agency

Ms. Carter, Senior Supervisory Financial Analyst, Federal Reserve Board

The meeting was called to order by Mr. Ugoletti at approximately 5:30 p.m. (EDT).

The Representatives then considered draft minutes for the meeting of the Board on July 31, 2014, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Automotive Industry Financing Program ("AIFP"); and the Making Home Affordable ("MHA") and Hardest Hit Fund ("HHF") initiatives. Among the materials distributed in advance of the meeting were the latest monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. Throughout the meeting, Representatives raised and discussed various matters on behalf of the Members with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided Representatives with an update on recent developments in the TARP programs. As of August 18, Treasury had disbursed a total of approximately $424.8 billion, including $411.7 billion under TARP investment programs and $13.1 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $439.8 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was $3.25 billion of which approximately one-third related to bank programs (CPP and the Community Development Capital Initiative) and two-thirds related to Ally Financial, Inc. ("Ally").

Treasury officials then provided the Representatives with an update on the CPP, including the latest cumulative repayments and sales of CPP investments along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income. Forty-four institutions remained in the CPP with an aggregate investment of less than $700 million. The largest remaining investment—associated with First Bancorp, Puerto Rico—accounted for roughly one third of the remaining CPP balance. Treasury officials then provided a brief update regarding CPP institutions in bankruptcy or whose depository institution was in receivership.

Treasury officials then provided the Representatives with an update on the AIFP. As announced earlier this week, Treasury planned to sell additional shares of Ally through its first pre-defined written trading plan. Treasury continued to hold approximately 16 percent of Ally's common stock.

Treasury officials then provided an update on the MHA program and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Hardest Hit Fund ("HHF"). Treasury officials reported on the homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new permanent modifications and other borrower assistance actions, as described in the most recent MHA Performance Report, now being produced quarterly. Officials also noted their planned launch in September of an online mobile application designed to facilitate borrowers' access to MHA program information on mobile devices. Treasury officials then discussed the general status of, and funding drawn, by HHF programs, noting that interest had been expressed by additional state housing finance agencies in using HHF funding for blight elimination including on the part of eligible jurisdictions in the South.

Staff of the Oversight Board then discussed administrative matters with the Representatives, including the timing of the Oversight Board's next quarterly report.

The meeting was adjourned at approximately 6:00 p.m. (EDT).

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Mr. Gonzalez, General Counsel and Secretary

# Minutes of the Financial Stability Oversight Board Meeting
# September 22, 2014

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:00 p.m. (EDT) on Tuesday, September 22, 2014, at the offices of the Department of Treasury ("Treasury").

MEMBER REPRESENTATIVES PARTICIPATING:

Mr. Ugoletti, Special Advisor, Federal Housing Finance Agency (Interim Chair)

Mr. Rutherford, Acting Under Secretary for Domestic Finance, Department of Treasury

Ms. Williams, Deputy Chief of Staff, Securities and Exchange Commission

STAFF PARTICIPATING:

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

AGENCY OFFICIALS PARTICIPATING:

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

Ms. Florman, Senior Advisor, Office of Financial Stability, Department of the Treasury

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

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

Mr. Roberts, Special Assistant, Office of Financial Stability, Department of the Treasury

Mr. Leventis, Principal Economist, Federal Housing Finance Agency

Ms. Carter, Senior Supervisory Financial Analyst, Federal Reserve Board

The meeting was called to order by Mr. Ugoletti at approximately 3:00 p.m. (EDT).

The Representatives then considered draft minutes for the meeting of the Board on August 19, 2014, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Representatives voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Representatives.

Treasury officials then provided an update on the programs established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Capital Purchase Program ("CPP"); the Automotive Industry Financing Program ("AIFP"); and the Making Home Affordable ("MHA") and Hardest Hit Fund ("HHF") initiatives. Among the materials distributed in advance of the meeting were the latest monthly report issued by Treasury under Section 105(a) of the Emergency Economic Stabilization Act ("105(a) report"), which contains information concerning the programs established by Treasury under TARP and aggregate information regarding the allocated and disbursed amounts under TARP. Throughout the meeting, Representatives raised and discussed various matters on behalf of the Members with respect to the effects of the policies and programs established under TARP.

Using prepared materials, Treasury officials provided Representatives with an update on recent developments in the TARP programs. As of September 18, Treasury had disbursed a total of approximately $425.2 billion, including $411.7 billion under TARP investment programs and $13.5 billion under TARP housing-related programs to assist at-risk homeowners. Total receipts on all TARP investment programs were $440.0 billion, including the proceeds of non-TARP common shares in American International Group ("AIG"). Treasury's remaining investment in TARP programs was $2.9 billion of which approximately one-third related to bank programs (CPP and the Community Development Capital Initiative) and two-thirds related to Ally Financial, Inc. ("Ally").

Treasury officials then provided the Representatives with an update on the CPP, including the latest cumulative repayments and sales of CPP investments along with dividends, interest, warrant sales, gains from the sale of common stock, and fee income. As announced on September 9, Treasury initiated its first pre-arranged written trading plan to sell a portion of its common-share holdings in First BanCorp ("FBP"). Treasury continued to own approximately 19.7 million common shares in FBP, the largest remaining CPP investment at $240 million. By comparison, the aggregate CPP investment in the other 42 remaining institutions was less than $400 million. Officials then noted that Treasury would continue to reduce remaining CPP investments through repayments, auctions, and restructurings.

Treasury officials then provided the Representatives with an update on the AIFP. On September 12, Treasury announced that it had completed its first pre-arranged trading plan for the sale of 8,890,000 shares of Ally Financial, Inc. ("Ally"), as announced in August, earlier than expected due to favorable market conditions, receiving proceeds of approximately $218.7 million. At the same time, Treasury announced it would initiate its second pre-arranged trading plan to sell additional shares. Treasury continued to own 66.2 million shares of common stock, or approximately 13.8 percent of Ally.

Treasury officials then provided an update on the MHA program and other related housing initiatives, including the Home Affordable Modification Program ("HAMP") and the Hardest Hit Fund ("HHF"). Treasury officials reported on the homeowner assistance actions that had been provided to at-risk borrowers since MHA's inception, including the continuing inflow of new permanent modifications—at an average pace of 10,000 to 11,000 per month—and other borrower assistance actions, as described in the most recent MHA Performance Report, now being produced quarterly. Officials then noted planned administrative clarifications to MHA designed to make MHA programs more efficient. Treasury officials then discussed the general status of, and funding drawn, by HHF programs, noting that funding to provide assistance under these programs continued to increase relative to one year ago. In August, four HFAs drew $161 million and since inception the 19 HFAs had drawn a total of $4.4 billion.

Representatives and officials then engaged in a roundtable discussion regarding the current state of the housing markets and the effect of the programs established under TARP in providing support to the housing market and assistance to at-risk mortgage borrowers. As part of this discussion, officials from the Federal Housing Finance Agency ("FHFA") briefed members on developments in the housing and housing finance markets. The information reviewed included data related to mortgage rates and Treasury yields, delinquencies and re-default rates of modified mortgages, refinancing activity, trends in house price indices, and sales of new and existing homes. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the Government Sponsored Enterprises.

Staff of the Oversight Board then informed the Representatives that the Report of the Oversight Board for the Second Quarter of 2014 had been unanimously approved and transmitted to the Congress, and discussed the timing of the next quarterly report.

The meeting was adjourned at approximately 3:30 p.m. (EDT).

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Mr. Gonzalez, General Counsel and
Secretary