THE DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

Office of Financial Stability – Troubled Asset Relief Program

Fiscal Year 2012

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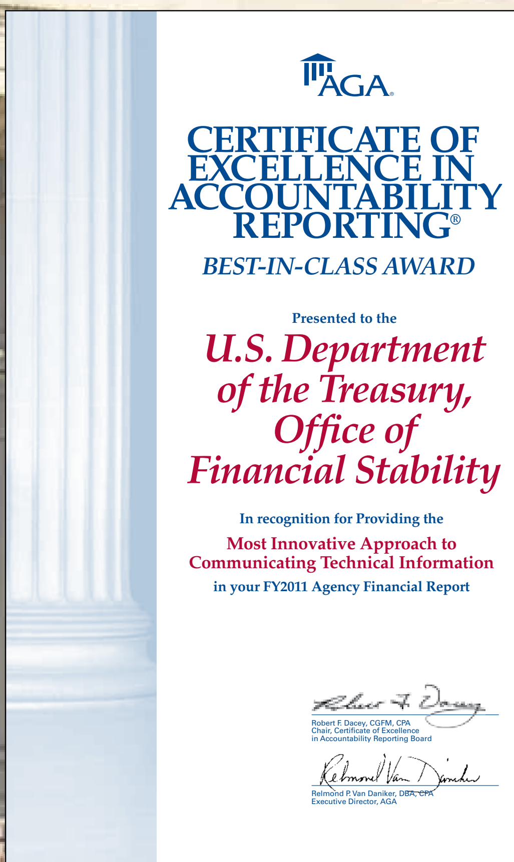

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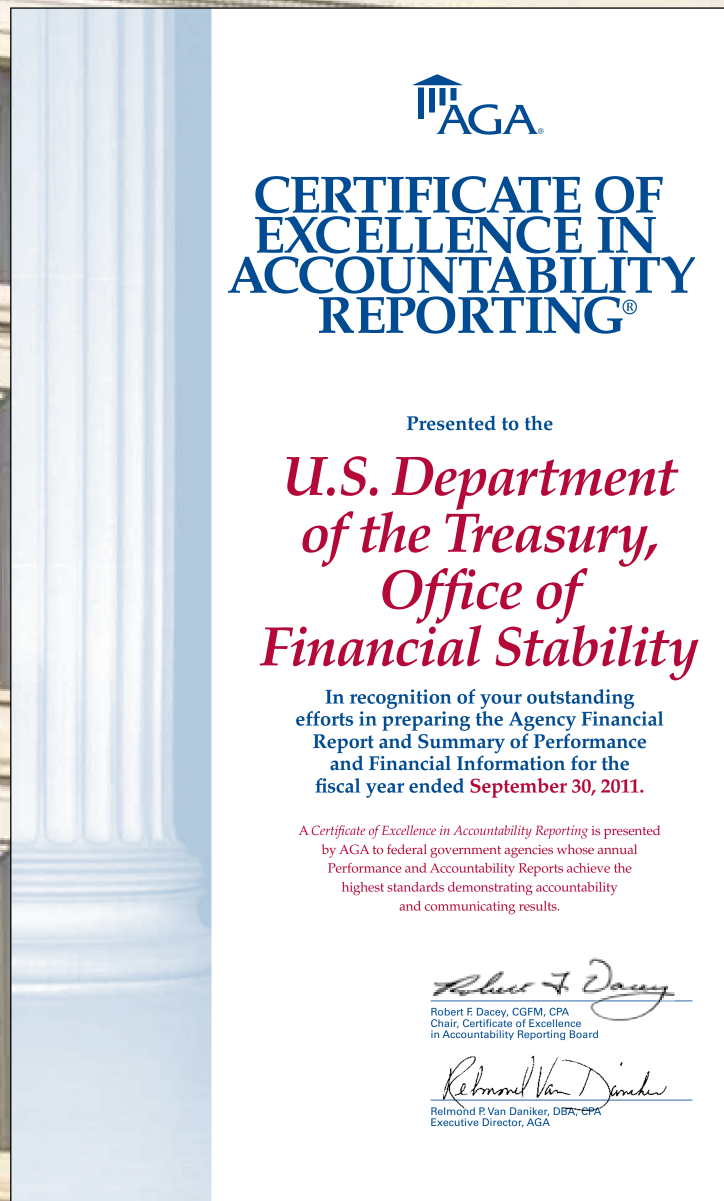

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MESSAGE FROM THE ASSISTANT SECRETARY FOR FINANCIAL STABILITY

November 9, 2012

I am pleased to present the Office of Financial Stability's (OFS) Agency Financial Report for Fiscal Year (FY) 2012, which describes our financial and performance results for the fourth year of the Troubled Asset Relief Program (TARP). The report contains the financial statements for TARP and the Government Accountability Office (GAO) audit opinion on those financial statements, a separate opinion on OFS' internal control over financial reporting, and results of GAO's tests of OFS' compliance with selected laws and regulations.

The Emergency Economic Stabilization Act of 2008 (EESA) established OFS within the Office of Domestic Finance of the Department of the Treasury to implement TARP, the purpose of which was to "restore the liquidity and stability of the financial system".

By any reasonable objective standards, TARP worked: it helped stop widespread financial panic, it helped prevent what could have been a devastating collapse of our financial system, and it did so at a cost that is far less than what most people expected at the time the law was passed.

Four years after TARP's establishment, OFS has made substantial progress in withdrawing the extraordinary assistance that had to be provided during the financial crisis. OFS has moved quickly to reduce the dependence of the financial system on emergency assistance, replacing public support with private capital.

As of September 30, 2012, OFS has collected 88.5 percent of the $417.6 billion in program funds disbursed under TARP. During fiscal year 2012, OFS has focused on winding down TARP overall and can report the following significant highlights:

- Working with the Federal Reserve Bank of New York (FRBNY), we made substantial progress winding down the investments in American International Group. Inc. (AIG). The peak amount of assistance offered to AIG by the FRBNY and Treasury was $182.3 billion, a part of which was later cancelled, and an amount in excess of the total disbursed has now been recovered through repayments, sales and other income. OFS disbursed a total of $67.8 billion to AIG and has collected $50.3 billion to date. Treasury still holds 15.9 percent of AIG's outstanding common stock of which OFS holds 10.5 percent. Further detail is provided in the Executive Summary.

- We continued winding down the bank support programs. On May 3, 2012, we announced our exit strategy for the remaining investments in the Capital Purchase Program (CPP). That exit strategy uses a combination of repayments, restructurings, and auction sales. During fiscal year 2012, we collected $8.9 billion in repayments, sales, and dividends on CPP investments. As of September 30, 2012, we had collected a total of $267.0 billion for all TARP bank support programs through repayments, sales, dividends, interest, and other income – compared to the $245.5 billion that was initially invested.

- We also reduced the overall amount that remains outstanding in OFS' credit market programs. On January 24, 2012, we completed the wind down of the SBA 7(a) Securities Purchase Program, collecting $9 million more than we disbursed. Progress was also made winding down the Term Asset Backed Securities Loan Facility (TALF), when Treasury and the Federal Reserve agreed in June 2012 to further reduce the credit protection Treasury provides the TALF LLC from $4.3 billion to $1.4 billion because the outstanding TALF loan balances declined. In addition, OFS collected a total of $8.9 billion in fiscal year 2012 through loan repayments, interest and equity distributions under the Public Private Investment Program (PPIP).

The financial and performance data included in this report are reliable and complete. For the fourth consecutive year, OFS has earned unqualified opinions on its financial statements and its internal control over financial reporting from the U.S. Government Accountability Office. In addition, OFS successfully resolved its one fiscal year 2011 significant deficiency relating to internal control surrounding financial reporting.

OFS' authority to make new commitments expired on October 3, 2010. Since that time, our focus has been managing the remaining TARP investments to protect taxpayers' interests while maintaining financial stability. We continue to achieve these measures while maintaining comprehensive financial and performance accountability and transparency standards. OFS also continues to implement the housing programs funded under TARP, which are designed to prevent avoidable foreclosures, primarily by helping homeowners achieve mortgage modifications. There will be a cost related to our assistance to helping people avoid foreclosure, which is money that was never expected to be returned, but these efforts have directly helped more than one million people avoid foreclosure and indirectly helped millions more by setting new standards throughout the mortgage servicing industry.

Sincerely,

Timothy G. Massad
Assistant Secretary
Office of Financial Stability

EXECUTIVE SUMMARY

Treasury's Office of Financial Stability (OFS) presents to the reader the Fiscal Year 2012 Agency Financial Report for the Troubled Asset Relief Program (TARP), established by the Department of the Treasury (Treasury) pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). Four years after TARP's establishment, substantial progress has been made in stabilizing the financial system and OFS has recovered most of the assistance that was provided during the crisis.

Four years ago, the U.S. financial system was at risk of collapse and many major financial institutions were at risk of failure. Markets had ceased to function. Without immediate and forceful government action, our country faced the possibility of a second Great Depression, which would have had profound consequences for all Americans.

In this environment of fear and panic, TARP was created as a central part of a series of emergency measures. The goal of TARP, along with other federal government actions, was to stop the panic and prevent a collapse of the U.S. financial system, and restore stability and liquidity to the system. TARP, in conjunction with other federal government actions, helped to prevent that collapse by helping stabilize the banking sector and unfreeze the markets for credit and capital, bringing down the cost of borrowing for businesses, individuals, and state and local governments, restoring confidence in the financial system and restarting economic growth. TARP's initiatives were done faster, and at a much lower cost, than many anticipated. For a more comprehensive overview on the impact of the combined actions of the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), please see "The Financial Crisis Response in Charts, http://www.treasury.gov/resource-center/data-chart-center/Documents/20120413_FinancialCrisisResponse.pdf.

As of October 3, 2010, OFS' authority to make new commitments under TARP expired.

Throughout fiscal year 2012, OFS focused principally on (i) exiting remaining investments in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests that maximizes the return for taxpayers, and (ii) continuing to help homeowners avoid preventable foreclosures.

OFS has taken several steps toward executing its strategy for winding down the TARP and exiting the remaining TARP programs.

- Treasury, including OFS, and the FRBNY made substantial progress in winding down the investments related to the AIG, such that the total amounts collected now exceed the combined disbursements since inception. The peak amount of assistance offered to AIG by the FRBNY and Treasury was $182.3 billion, a part of which was later cancelled, and an amount in excess of the total disbursed has now been recovered through repayments, sales and other income. Of these amounts, OFS disbursed a total of $67.8 billion to AIG and collected $50.3 billion to date. During fiscal year 2012, Treasury, including OFS, substantially reduced its common stock investment in AIG through several sales with $38.2 billion[1] in collections. As of September 30, 2012, Treasury held approximately 234 million shares of AIG common stock, with a fair value of

[1]Because the Treasury AIG common stock has consisted of both "TARP shares" and "non-TARP shares" as discussed herein, a portion of the proceeds received as well as the remaining common shares held are not included in the TARP financial statements. OFS manages the sale of both the TARP and non-TARP AIG common shares on a pro-rata basis. During fiscal year 2012, the collections from common stock sales consisted of $25.2 billion in respect of TARP shares (representing proceeds less than cost of $9.9 billion) and $13.0 billion in respect of Treasury's non-TARP shares (which were provided to Treasury at no cost).

approximately $7.7 billion, representing approximately 15.9 percent[2] of the company. OFS' preferred interests in an AIG SPV were also repaid in full, resulting in additional collections of $9.6 billion during fiscal year 2012.

- OFS has continued to wind down the bank support programs, and, through September 30, 2012, had collections of $267.0 billion in repayments, sales, dividends, interest, and fees – compared to the $245.5 billion that was initially invested. Of the 707 original Capital Purchase Program (CPP) institutions, OFS held outstanding investments in 290 banks as of September 30, 2012. All participants in the Targeted Investment Program (TIP) have fully repaid OFS and no claim payments were made under the Asset Guarantee Program.

- OFS also reduced the overall amount that remains outstanding in TARP's credit market programs. The SBA 7(a) Securities Purchase Program, one of the credit market programs created under TARP to help restart the flow of credit to small businesses, was closed on January 24, 2012. OFS invested $367 million (excluding purchased accrued interest) in the program and collected $376 million through sales, principal and interest payments, representing approximately $9 million more in collections than funds disbursed. OFS also made progress winding down the Term Asset Backed Securities Loan Facility (TALF), when Treasury and the Federal Reserve agreed to further reduce the credit protection OFS provides the TALF, LLC from $4.3 billion to $1.4 billion because of the continued decline in outstanding TALF loans. In addition, collections under the Public Private Investment Program (PPIP) totaled $8.9 billion during fiscal year 2012 through loan repayments, interest and equity distributions. The outstanding balance on the program was reduced to $9.8 billion at the end of the fiscal year.

The estimated cost of TARP is significantly below original projections. In the August 2009 Midsession Review of the President's 2010 Budget, the lifetime cost of TARP, based on budget scoring conventions, was projected to be $340.5 billion (assuming the full $700.0 billion of TARP authority was utilized). Estimated lifetime TARP cost have significantly decreased since August 2009 with the most recent September 30, 2012 lifetime cost estimated at $59.7 billion (see table 5 for lifetime cost estimates as of September 30, 2012, 2011, 2010, and 2009). During this four year period, TARP's purchase authority decreased from $700 billion to $467.0 billion.[3]

The accrual-based cost of TARP activities from inception, on October 3, 2008, through September 30, 2012, based on the OFS financial statements, was $20.3 billion. Note that the lifetime cost of TARP, based on budget scoring conventions, differs from the cost based on the OFS financial statements. Estimates of lifetime costs, based on budget scoring conventions, assume that all planned expenditures are made and, for certain programs, include additional assumptions about the impact of potential sale strategies. By contrast, the TARP financial statement costs are based on transactions through September 30, 2012. Thus, it does not include the committed but undisbursed funds for housing programs as well as other programs, all of which are included in the expected lifetime cost for budget purposes. The $20.3 billion cost consists of $7.7 billion of reported TARP net income in the OFS financial statements for fiscal year 2012; $9.5 billion of reported TARP net cost

[2]Treasury's shares consist of approximately 154 million TARP shares (10.5 percent of the total AIG common shares outstanding) and 80 million non-TARP shares (5.4 percent). The fair value of TARP and non-TARP shares as of September 30, 2012, was $5.1 billion and $2.6 billion, respectively.

[3]The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) amended EESA Section 115 authority to cap total purchase and guarantee authority at a cumulative $475.0 billion.

for fiscal year 2011; $23.1 billion of reported TARP net income for fiscal year 2010 and the $41.6 billion of reported TARP net cost for the period from inception through September 30, 2009. The change of $17.2 billion since fiscal year 2011 (i.e., $7.7 billion net income for fiscal year 2012 as compared to $9.5 billion net cost for fiscal year 2011) is primarily due to sales of AIG common stock at values higher than the market value at September 30, 2011 and improvements in the market values of AIG, AIFP and CPP preferred and common stock investments still held, net of an increase in the Housing program cost between fiscal years.

The estimated lifetime cost of TARP reflects several factors, including the cost of the initiatives to help homeowners stay in their homes, for which $45.6 billion has been committed and is assumed to be disbursed. Of this amount, $5.5 billion has been disbursed through September 30, 2012; because payments for modifications are made over time, significantly more will be disbursed assuming the modifications stay in effect. OFS' housing program disbursements were never intended to be recovered and OFS does not expect them to result in any repayments. The estimated lifetime cost also reflects primarily the costs related to investments in the auto companies. In addition, there are costs related to the TARP AIG investment (which excludes activity related to Treasury's non-TARP AIG shares). These costs, which fluctuate in large part due to changes in market prices of General Motors and AIG common stock, are offset in part by income on TARP investments in banks and other programs.

Since its inception, TARP has disbursed $417.6 billion in direct loans, equity investments, and support for the Treasury Housing Programs under TARP; collected $326.8 billion from repayments and sales; received $23.0 billion in dividends, interest and fees; collected $9.7 billion through warrant and additional note sales; and received $10.2 billion in net proceeds from the sale and repurchase of assets in excess of costs. As of September 30, 2012, TARP had $63.1 billion in gross outstanding direct loans and equity investments, which are valued at $40.2 billion (excluding the receivables for the Asset Guarantee Program that was valued at $1.0 billion as of September 30, 2012). In addition, from inception through September 30, 2012, TARP incurred costs related to Treasury housing programs of $5.7 billion and administrative costs of $1.1 billion.

OFS continues to provide detailed information about TARP to ensure the highest level of transparency. OFS published a Two-Year Retrospective Report on the Troubled Asset Relief Program on October 5, 2010, and a corresponding Three-Year Anniversary Report on October 3, 2011. OFS anticipates publishing a four year retrospective report on TARP in December 2012. These reports include detailed information on TARP as well as the federal government's additional emergency measures to address the 2008 financial crisis. OFS also publishes a monthly report to Congress on the program, a monthly report on its housing initiatives and a variety of other reports. Please refer to these documents at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx.

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PART 1:

Management's Discussion and Analysis

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Background, Mission, and OFS Organization Structure

In order to appreciate the concentrated efforts of the Administration to combat the financial crisis and TARP's contribution to these efforts, it is useful to examine the origins and causes of the crisis.

In September 2008, the nation was in the midst of one of the worst financial crises in our history. The financial institutions and markets that Americans rely upon to protect their savings, help finance their children's education, and help pay their bills, and that businesses rely upon to make payroll, build inventories, fund new investment, and create new jobs, were threatened, unlike at any time since the Great Depression. Across the country, people were rapidly losing confidence in our financial system and in the federal government's ability to safeguard their economic future.

The causes of the crisis will be studied for years, and this report is not meant to provide a comprehensive analysis of why the crisis occurred. But some reasons are clear. Over the two decades preceding the crisis, the financial system had grown rapidly in an environment of economic growth and stability. Risks grew in the system without adequate transparency. Lax regulations and loopholes in supervision let firms become highly leveraged and take on too much risk. Ample credit around the world fueled an unsustainable housing boom in the first half of the last decade. When the housing market inevitably turned down, starting in 2006, the pace of mortgage defaults accelerated at an unprecedented rate. By mid-2007, rising mortgage defaults were undermining the performance of many investments held by major financial institutions.

The crisis began in the summer of 2007 and gradually increased in intensity and momentum over the course of the following year. A series of major financial institutions, including Countrywide Financial, Bear Stearns, and IndyMac, were purchased under duress or failed; and Fannie Mae and Freddie Mac, the largest purchasers and guarantors of home loans in the mortgage market, came under severe stress.

By September 2008, for the first time in 80 years, the U.S. financial system was at risk of collapse. Using authority granted in July 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008. A growing sense of panic was producing the classic signs of a generalized run on the banks. People's trust and confidence in the stability of major institutions, and the capacity of the federal government to contain the damage, were vanishing.

The U.S. system of regulation and supervision had failed to constrain the excessive use of leverage and the level of risk in the financial system and the United States entered this crisis without adequate tools to manage it. The Executive Branch did not have existing options for managing failures of systemically important non-bank financial institutions.

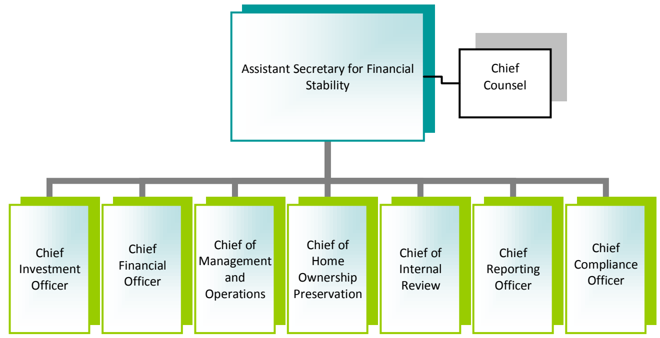
The Department of the Treasury (Treasury), the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), and other federal government bodies undertook an array of emergency actions to help prevent a collapse and the dangers posed to consumers, businesses, and the broader economy. However, the severe conditions our nation faced required additional resources and authorities. Therefore, the Bush Administration proposed the Emergency Economic Stabilization Act (EESA) in late September 2008, and with the support of Democrats and Republicans in Congress, EESA was enacted into law on October 3, 2008 and TARP was established.

EESA also established the Office of Financial Stability (OFS) within the Office of Domestic Finance of the Treasury to implement TARP. OFS' mission is to carry out the authorities given to the Secretary of the Treasury to implement TARP. Section 101 of EESA authorized the Secretary of the Treasury to establish TARP to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on terms and conditions as are determined by the Secretary". EESA defines the terms "troubled assets" and "financial institution" and provides other requirements that must be met for any such purchase. Section 102 of EESA also provides authority for a guarantee program for troubled assets. Section 109 of EESA provides authority to assist homeowners. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) signed into law in July 2010 reduced total TARP purchase authority from $700.0 billion to a cumulative $475.0 billion.

Final purchase authority to make new commitments under TARP expired on October 3, 2010. This means no new commitments can be made. OFS is continuing to implement commitments made prior to the October 3 deadline for the TARP programs which are disbursed over time. For those assets already purchased, OFS will continue to wind down TARP and manage the remaining TARP investments in order to recover as much of taxpayers' funds as possible.

OFS is headed by the Assistant Secretary for Financial Stability, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are seven major organizations: the Chief Investment Officer, the Chief Financial Officer, the Chief of Management and Operations, the Chief of Homeownership Preservation, the Chief of OFS Internal Review, the Chief Reporting Officer, and the Chief Compliance Officer. A Chief Counsel's Office reports to the Assistant Secretary and to the Office of the General Counsel in the Department of Treasury.

The OFS organization chart follows:



The Office of the Chief Investment Officer (CIO) is responsible for program development and the execution and management of all investments made by either purchasing or insuring "troubled assets" pursuant to EESA, other than TARP housing programs.

The Office of the Chief Financial Officer (CFO) has lead responsibility within OFS for budget formulation and execution, cash management, accounting, financial systems, financial reporting, program and internal metrics analytics, modeling cash flows, and internal controls.

The Office of the Chief of Management and Operations (CMO) is responsible for developing the operating infrastructure and managing internal operations in OFS.

The Office of the Chief of Homeownership Preservation (HPO) is responsible for identifying opportunities to help homeowners and overseeing homeownership programs while also protecting taxpayers.

The Office of Internal Review (OIR) is responsible for identifying the most significant risks that TARP faces, both internally and externally.

The Office of the Chief Reporting Officer (CRO) is responsible for periodic reports to the Congress as required by EESA.

The Office of the Chief Compliance Officer (CCO), created in December 2011, is responsible for establishing processes to help ensure that TARP recipients, participants, contractors, and agents conduct their TARP-related activities in accordance with applicable laws, regulations, program guidance, and contract requirements.

This office was previously part of the Office of Internal Review.

The Office of the Chief Counsel reports functionally to the Office of General Counsel at the Department of the Treasury and provides legal advice to the Assistant Secretary. The Office is involved in the structuring of OFS programs and activities to ensure compliance with EESA and with other laws and regulations. The Office of the Chief Counsel is also responsible for coordinating OFS' work with the external oversight entities including the Government Accountability Office (GAO), the Special Inspector General for TARP (SIGTARP), the Financial Stability Oversight Board and the Congressional Oversight Panel (COP) through the end of its existence on April 3, 2011.

OFS is not envisioned as a permanent organization, so to the maximum extent possible when economically efficient and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs. Fannie Mae and Freddie Mac accounted for 56.3 percent of the fiscal year 2012 administrative cost ($151 million of $268 million) to assist OFS in the administration and compliance oversight of the Making Home Affordable Program. Additionally, asset managers were hired to serve as financial agents in assisting with managing the assets associated with several TARP programs. Private sector firms were also engaged to assist with the significant volume of TARP work in the areas of custodial services, accounting and internal controls, modeling, administrative support, facilities, legal advisory, financial advisory, and information technology.

Overview of TARP for Fiscal Year 2012

OFS Strategic Goal and Operational Goals

EESA provided the Secretary of the Treasury with the authorities and facilities to help restore liquidity and stability to the U.S. financial system. EESA also provided specific authority to take certain actions to help prevent avoidable foreclosures. As such, OFS' strategic goal is to ensure the overall stability and liquidity of the financial system, prevent avoidable foreclosures and preserve homeownership.

In light of this strategic goal, OFS established the following operational goals for TARP and developed a number of programs to help stabilize the U.S. financial system and the housing market:

- Ensure the overall stability and liquidity of the financial system.
    - Make capital available to viable institutions.
    - Provide targeted assistance as needed.
    - Increase liquidity and volume in securitization markets.
- Prevent avoidable foreclosures and help preserve homeownership.
- Protect taxpayer interests.
- Promote transparency.

Details on programs developed in support of these Operational Goals can be found later in this Management's Discussion and Analysis under Operational Goals. As noted earlier, the focus of OFS is now to wind down the programs that were statutorily implemented with a mandate to stabilize the financial system and to continue to implement the programs for the housing market.

Fiscal Year 2012 Financial Summary and Cumulative Net Income

EESA provided TARP authority to purchase or guarantee up to $700.0 billion in troubled assets.[4] EESA spending authority would have terminated December 30, 2009; however, as authorized under Section 120(b) of EESA, the Secretary of the Treasury certified the extension of TARP authority until October 3, 2010, with

[4] The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, amended the act and reduced the maximum allowable amount of outstanding troubled assets under the act by $1.3 billion, from $700.0 billion to $698.7 billion.

the submission of a written certification to Congress.

The Dodd-Frank Act[5] amended EESA by capping total purchase and guarantee authority at a cumulative $475.0 billion and limiting any new obligations to programs or initiatives that were initiated prior to June 25, 2010. OFS reduced TARP program allocations to conform to these limitations.

Based on operations for the year ended September 30, 2012, OFS reports the following key results:

- Since its inception, TARP has disbursed $417.6 billion in direct loans, equity investments and support for the Treasury housing programs under TARP.
- In fiscal year 2012, OFS disbursed $1.0 billion for loans and equity investments as well as $3.1 billion in payments for Treasury housing programs under TARP, and reported net income from operations of $7.7 billion.
- During fiscal year 2012, OFS received $49.9 billion from repayments of loans and repurchases and sales of investments.
- As of September 30, 2012, OFS reported $40.2 billion (excluding a $1.0 billion receivable related to the Asset Guarantee Program) for the value of loans and equity investments outstanding.

Results of TARP Operations (Fiscal Year 2012 and Fiscal Year 2011)

OFS' fiscal year 2012 net income from operations of $7.7 billion includes the reported net income related to loans, equity investments, and other credit programs. For the fiscal year ended September 30, 2012, OFS reported net subsidy income for six programs – the Capital Purchase Program (CPP), the Community Development Capital Initiative (CDCI), the Term Asset-Backed Securities Loan Facility (TALF), the SBA 7(a) Securities Purchase Program, Asset Guarantee Program (AGP) and the American International Group, Inc (AIG) Investment Program. These programs collectively reported net subsidy income of $11.4 billion. Also, for the fiscal year ended September 30, 2012, OFS experienced net subsidy cost for three programs – the Public-Private Investment Program (PPIP), the Automotive Industry Financing Program (AIFP), and the Federal Housing Agency Refinance Program totaling $445 million. Fiscal year 2012 expenses for the Treasury housing programs under TARP of $3.0 billion and administrative expenses of $268 million bring the total reported fiscal year net income from operations to $7.7 billion, as shown in Table 1. For the fiscal year ended September 30, 2011, the net cost of operations was $9.5 billion as reflected in Table 1. These net income and net cost amounts reported in the financial statements reflect only transactions through September 30, 2012 and September 30, 2011, respectively, and therefore are different than lifetime cost estimates made for budgetary purposes.

[5]Pub. L. 111-203.

Table 1: Net Income (Cost) of TARP Operations
(Dollars in billions)[1]

TARP Program	For the Year Ended September 30, 2012	For the Year Ended September 30, 2011	From TARP's Inception through September 30, 2012[3]
Bank Support Programs			
Capital Purchase Program	$ 1.9	$ 1.8	$ 14.9
Targeted Investment Program	---	0.2	4.0
Asset Guarantee Program	0.2	---	3.9
Community Development Capital Initiative	---	0.1	(0.2)
Credit Market Programs			
Public-Private Investment Program	(0.2)	1.8	2.4
Term Asset-Backed Securities Loan Facility	0.1	0.1	0.5
SBA 7(a) Securities Purchase Program	---	---	---
Other Programs			
Automotive Industry Financing Program	(0.2)	(9.7)	(23.8)
American International Group Investment Program[2]	9.2	(1.6)	(15.2)
FHA-Refinance Program	---	---	---
Total Net Subsidy Income (Cost)	**11.0**	**(7.3)**	**(13.5)**
Additional TARP (Costs)			
Treasury Housing Programs Under TARP (excluding FHA-Refinance Program)	(3.0)	(1.9)	(5.7)
Administrative Costs	(0.3)	(0.3)	(1.1)
Total Net Income (Cost) of TARP Operations	**$ 7.7**	**$ (9.5)**	**$ (20.3)**

[1] Information in Table 1 is presented in billions of dollars to ensure consistency with other tables in this Management's Discussion and Analysis; similar information is presented in the financial statements in millions of dollars.
[2] The amounts for AIG reflect only the operations/activities of TARP and do not reflect proceeds received from the sale of shares of AIG common stock held by Treasury outside of TARP (non-TARP shares). For further details, see the discussion of the American International Group Investment Program, beginning on p. 28.
[3]Inception through September 30, 2012 column includes dollar amounts related to the ($18.5) billion net cost of operations for the period from inception through September 30, 2010.

Over time the cost of TARP programs will change. As described later in the MD&A, and in the OFS audited financial statements, these estimates are based in part on currently projected economic factors. These economic factors will likely change, either increasing or decreasing the lifetime cost of TARP.

TARP Program Summary

Table 2 provides a financial summary for TARP programs since TARP inception on October 3, 2008, through September 30, 2012. For each program, the table provides utilized TARP authority (which includes purchases made, legal commitments to make future purchases, and offsets for guarantees made), the amount actually disbursed, repayments to OFS from program participants or from sales of the investments, write-offs and losses, net outstanding balance as of September 30, 2012, and cash inflows on the investments in the form of dividends, interest or other fees. As of September 30, 2012, $49.4 billion of the $467.0 billion in purchase and guarantee authority remained unused.[6]

[6]OFS tracks costs in accordance with Federal budget procedures. First, OFS enters into legally binding "obligations" to invest or spend the funds for TARP programs. Then, funds are disbursed over time pursuant to the obligations. In any given case, it is possible that the full amount obligated will not be disbursed.

Table 2: TARP Summary[1]
From TARP Inception through September 30, 2012
(Dollars in billions)

	Purchase Price or Guarantee Amounts	Total $ Disbursed	Investment Sales and Repayments	Write-offs and Losses[3]	Out-standing Balance[4]	Received from Invest-ments
Bank Support Programs						
Capital Purchase Program[5]	$ 204.9	$ 204.9	$ (193.2)[6]	$ (3.0)	$ 8.7	$ 26.4
Targeted Investment Program	40.0	40.0	(40.0)	-	-	4.4
Asset Guarantee Program	5.0	-	-	-	-	3.0
Community Development Capital Initiative	0.6	0.6	-	-	0.6	-
Credit Market Programs						
Public Private Investment Program	21.6	18.6	(8.8)	-	9.8	2.4
Term Asset-Backed Securities Loan Facility	1.4	0.1	-	-	0.1	-
SBA 7(a) Securities Purchase Program	0.4	0.4	(0.4)	-	-	-
Other Programs						
Automotive Industry Financing Program	79.7	79.7	(35.1)	(7.4)	37.2	5.7
American International Group Investment Program[2]	67.8	67.8	(49.3)	(11.8)	6.7	1.0
Sub-total for Investment Programs	**421.4**	**412.1**	**(326.8)**	**(22.2)**	**63.1**	**42.9**
Treasury Housing Programs under TARP	45.6[7]	5.5	N/A	N/A	N/A	N/A
Total for TARP Program	**$ 467.0**	**$ 417.6**	**$ (326.8)**	**$ (22.2)**	**$ 63.1**	**$ 42.9**

[1]This table shows TARP activity for the period from inception through September 30, 2012, on a cash basis. Received from investments includes dividends and interest income reported in the Statement of Net Cost, and proceeds from sale and repurchases of assets in excess of costs.
[2]The amounts for AIG reflect only the operations of TARP and do not reflect proceeds received from the sale of shares of AIG common stock held by Treasury outside of TARP (non-TARP shares). For further details, see the discussion of the American International Group Investment Program, beginning on page 27.
[3] Losses represent proceeds less than cost on sales of assets which are reflected in the financial statements within "net proceeds from sales and repurchases of assets in excess of (less than) cost".
[4] Total disbursements less repayments, write-offs and losses do not equal the total outstanding balance because the disbursements for the Treasury housing programs under TARP generally do not require (and OFS does not expect) repayments.
[5]OFS received $31.9 billion in proceeds from sales of Citigroup common stock, of which $25.0 billion is included at cost in investment sales, and $6.9 billion of net proceeds in excess of cost is included in Received from Investments.
[6]Includes $2.2 billion of SBLF refinancing outside of TARP and CDCI exchanges from CPP of $363 million.
[7] Individual obligation amounts are $29.9 billion for the Making Home Affordable Program, $7.6 billion for the Hardest Hit Fund, and $8.1 billion committed for the FHA-Refinance Program.

Most TARP funds have been used to make investments in preferred stock or to make loans. OFS has generally received dividends on the preferred stock and interest payments on the loans from the institutions participating in TARP programs. These payments represent additional proceeds received on OFS' TARP investments. From inception through September 30, 2012, OFS received a total of $23.0 billion in dividends and interest.

OFS has conducted several sales of its positions in banking institutions as part of its exit strategy for winding down TARP. OFS plans to sell its investments in banks that are not expected to be able to repay Treasury in the foreseeable future. These sales are being conducted over time and in stages and include both common and preferred stock. During fiscal year 2012, OFS sold its positions in 40 banks for $1.3 billion in aggregate proceeds through individual public and private auctions resulting in proceeds less than cost of $180 million for those investments.

OFS also received warrants in connection with most of its investments, which provides an opportunity for taxpayers to realize additional proceeds on investments. Since the program's inception, OFS has received $9.3 billion in gross proceeds from the disposition of warrants associated with 169 CPP investments, both TIP investments, and AGP, consisting of (i) $3.9 billion from issuer repurchases at agreed upon values and (ii) $5.4 billion from auctions. TARP's Warrant Disposition Report is posted on the OFS website at the following link: http://www.financialstability.gov/latest/reportsanddocs.html.

Table 3 shows the breakdown of receipts for the periods ended September 30, 2012 and 2011 for all TARP programs combined as well as totals for the period from inception through September 30, 2012.

Table 3: TARP Receipts and Repayments on Investments/Loans [1]
(Dollars in billions)

	For the Year Ended September 30, 2012	For the Year Ended September 30, 2011	From TARP's inception through September 30, 2012[2]
Dividends, Interest, Warrant Repurchases and Additional Notes			
Dividends and Interest	$ 2.9	$ 3.7	$ 23.0
Sales/Repurchases of Warrants and Warrant Preferred Stock and Additional Notes	0.1	1.5	9.7
Proceeds in Excess of Cost	0.4	6.2	10.2
Subtotal	**3.4**	**11.4**	**42.9**
Investment/Loan Repayments			
Sales/Repurchases/Repayments on Investments[3]	43.9	66.5	303.1
Loan Principal Repaid	6.0	6.3	23.7
Subtotal	**49.9**	**72.8**	**326.8**
Grand Total	**$ 53.3**	**$ 84.2**	**$ 369.7**

[1] This table shows TARP activity on a cash basis.

[2] The total reported for Inception through September 30, 2012 column includes the $232.2 billion in receipts and repayments related to the period from inception through September 30, 2010.

[3] Includes $2.2 billion of SBLF refinancing outside of TARP and CDCI exchanges from CPP of $363 million.

Summary of TARP Direct Loans and Equity Investments

Table 4 provides information on the estimated values of TARP direct loan and equity investments by program, as of the end of fiscal years 2012 and 2011. (Treasury housing programs under TARP are excluded from the chart because no repayments are expected). The Outstanding Balance column represents the amounts disbursed by OFS relating to the loans and equity investments that were outstanding as of September 30, 2012 and 2011. The Estimated Value of the Investment column represents the present value of net cash inflows that OFS estimates it will receive from the loans and equity investments. These estimates include market risk assumptions. For equity securities, this amount represents fair value. The total difference of $22.9 billion (2012) and $42.3 billion (2011) between the two columns is considered the "subsidy cost allowance" under the Federal Credit Reform Act methods OFS follows for budget and accounting purposes (see Note 6 in the financial statements for further discussion).[7]

Table 4: Summary of TARP Direct Loans and Equity Investments
(Dollars in billions)

Program	Outstanding Balance as of September 30, 2012[1]	Estimated Value of Investment as of September 30, 2012	Outstanding Balance as of September 30, 2011[1]	Estimated Value of Investment as of September 30, 2011
Bank Support Programs				
Capital Purchase Program	$ 8.7	$ 5.7	$ 17.3	$12.4
Community Development Capital Initiative	0.6	0.4	0.6	0.4
Credit Market Programs				
Public Private Investment Program	9.8	10.8	15.9	18.4
Term Asset-Backed Securities Loan Facility	0.1	0.7	0.1	0.6
SBA 7(a) Securities Purchase Program	---	---	0.1	0.1
Other Programs				
Automotive Industry Financing Program	37.2	17.5	37.3	17.8
American International Group Investment Program	6.7	5.1	51.1	30.4
Total	**$ 63.1**	**$ 40.2**	**$ 122.4**	**$ 80.1**

[1] Before subsidy cost allowance.

[7] The subsidy cost in Table 1 and on the Statement of Net Cost, is composed of (1) the change in the subsidy cost allowance, net of write-offs, (2) net intra-governmental interest cost, (3) certain inflows from the direct loans and equity investments (e.g., dividends, interest, net proceeds from sales and repurchases of assets in excess of cost, and other realized fees), and (4) the change in the estimated discounted net cash flows related to the asset guarantee program and FHA-Refinance Program.

The ultimate cost of TARP will not be known for some time. The financial performance of the programs will depend on many factors such as future economic and financial conditions, and the business prospects of specific institutions. The cost estimates are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which OFS has an equity interest, estimates of expected defaults, and prepayments. If OFS receives repayments faster than expected and incurs lower than expected defaults, TARP's ultimate cost on these investments may be lower than estimated. Wherever possible, OFS uses market prices of tradable securities to estimate the fair value of TARP investments. Use of market prices was possible for TARP investments that trade in public markets or are closely related to tradable securities. For those TARP investments that do not have direct analogs in private markets, OFS uses internal market-based models to estimate the market value of these investments. All future cash flows are adjusted for market risk. Further details on asset valuation can be found in Note 6 of the Financial Statements.

Comparison of Estimated Lifetime TARP Costs Over Time

Market conditions and the performance of specific financial institutions are critical determinants of TARP's estimated lifetime cost. The changes in the OFS estimates since TARP's inception through September 30, 2012, provide a good illustration of this impact. Table 5 provides information on how OFS' estimated lifetime cost of TARP has changed over time. These costs fluctuate in large part due to changes in the market prices of common stock for AIG and General Motors (GM) and the estimated value of the Ally Financial (Ally) stock. This table assumes that all expected investments (e.g. PPIP) and disbursements for Treasury housing programs under TARP are completed, and adhere to general government budgeting guidance. This table will not tie to the financial statements since it includes investments and other disbursements expected to be made in the future. Table 5 is consistent with the estimated TARP lifetime cost disclosures on the OFS web site at: http://www.treasury.gov/initiatives/financial-stability/Pages/default.aspx.

The cost amounts in Table 5 are based on assumptions regarding future events, which are inherently uncertain.

Table 5: Estimated Lifetime TARP Costs (Income)[1]
(Dollars in billions)

Program	Estimated Lifetime Cost (Income) as of September 30			
	2009[5]	2010	2011	2012
Bank Support Programs				
Capital Purchase Program	$ (14.6)	$ (11.2)	$ (13.0)	$ (14.9)
Targeted Investment Program	(1.9)	(3.8)	(4.0)	(4.0)
Asset Guarantee Program[2]	(2.2)	(3.7)	(3.7)	(3.9)
Community Development Capital Initiative	0.4	0.3	0.2	0.2
Credit Market Programs				
Public Private Investment Program	1.4	(0.7)	(2.4)	(2.4)
Term Asset-Backed Securities Loan Facility	(0.3)	(0.4)	(0.4)	(0.5)
SBA 7(a) Securities Purchase Program	N/A	---	---	---
Other Programs				
Automotive Industry Financing Program	34.5	14.7	23.6	24.3
American International Group Investment Program[3]	56.8	36.9	24.3	15.3
Subtotal	74.1	32.1	24.6	14.1
Treasury Housing Programs under TARP[4]	50.0	45.6	45.6	45.6
Total	**$ 124.1**	**$ 77.7**	**$ 70.2**	**$ 59.7**

[1] Estimated program costs (+) or savings (in parentheses) over the life of the program, including interest on re-estimates and excluding administrative costs.
[2] Prior to the termination of the guarantee agreement, Treasury guaranteed up to $5.0 billion of potential losses on a $301.0 billion portfolio of loans.
[3] The amounts for AIG reflect only the operations of TARP and do not reflect proceeds received from the sale of shares of AIG common stock held by Treasury outside of TARP (non-TARP shares). For further details, see the discussion of the American International Group Investment Program, beginning on page 27.
[4] Includes FHA-Refinance Program, which is accounted for under credit reform.
[5] Estimated lifetime cost for 2009 includes funds for projected disbursements and anticipated obligations.

Key Trends/Factors Affecting TARP Future Activities and Ultimate Cost

This section provides additional TARP analytic information and enhanced sensitivity analysis focusing on the remaining TARP dollars/continued taxpayer exposure and what is likely to affect the expected future return. As of September 30, 2012, one TARP program – the AIFP – has more than $10 billion still outstanding and remains at the most risk of additional taxpayer loss. Going forward, the collections or costs from the AIFP and the expenditures for Treasury housing programs under TARP are expected to most significantly affect the lifetime cost of TARP.

Automotive Industry Financing Program

As of September 30, 2012, OFS' gross AIFP investments outstanding in GM and Ally Financial totaled $37.2 billion, with an estimated value of $17.5 billion. The future value of OFS' investment in GM will depend on the market price of GM common stock, which is affected by a variety of factors specific to the financial condition and results of operations of GM as well as factors pertaining to the industry and the overall economy, such as the competitiveness of U.S. manufacturers, both domestically and internationally, and macroeconomic conditions (unemployment, Gross Domestic Product growth, etc.) which affect the overall trends in auto sales. The future value of OFS' investment in Ally will depend on industry and macroeconomic factors as well as company-specific factors, including in particular the ability of the company to resolve the bankruptcy of its subsidiary, Residential Capital, LLC (ResCap), in a timely and cost-effective manner, and the proceeds realized from the sale of its international operations.

Treasury Housing Programs Under TARP

OFS committed $45.6 billion to fund Treasury housing programs under TARP. From inception through September 30, 2012, $5.5 billion has been disbursed under these programs. 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 Making Home Affordable (MHA) modifications made as of September 30, 2012, if all active modifications were to remain current and receive incentives for five years. The program is continuing to enter into new modifications, as the termination date was extended to December 31, 2013. Separately, $7.6 billion has been allocated for the Hardest Hit Fund and $8.1 billion for the FHA Refinance Program.

Sensitivity Analysis

The ultimate value of TARP investments will only be known in time. Realized values will vary from current estimates in part because economic and financial conditions will change. Many TARP investments do not have readily observable values and their values can only be estimated by OFS.

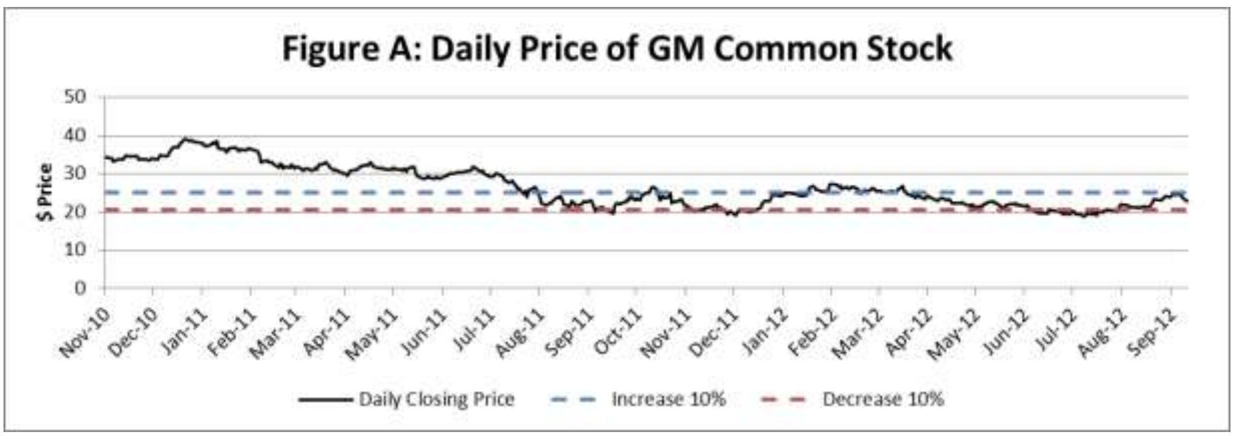
Sensitivity analysis is one way to get some feel for the degree of uncertainty around the OFS estimates. In the analysis reported here, OFS focuses on the AIFP as it is the only remaining program with investments in excess of $10.0 billion.

AIFP Analysis

The most important inputs to the valuation of OFS' outstanding investments under the AIFP are the market price of New GM common stock and the change in the estimated value of Ally Financial common stock, which is driven by certain pricing metrics of comparable public financial institutions. Table 6 shows the change in estimated value of OFS outstanding AIFP investments based on a 10 percent increase and 10 percent decrease in the trading price of the New GM common stock and separately a 10 percent increase and 10 percent decrease in the estimated value of the Ally Financial common stock. Figure A shows that the securities have recently been trading within the range used in the analysis as well as outside of this range, illustrating the uncertainty around the cost estimates.

Table 6: Impact on AIFP Valuation (Dollars in billions)	September 30, 2012 Reported Value for AIFP	Effect of 10% Increase	Effect of 10% Decrease
Impact of GM on AIFP	$17.55	$18.68	$16.41
% change from current	N/A	6.40%	(6.40)%
Impact of Ally (formerly GMAC) on AIFP	$17.55	$18.16	$16.93
% change from current	N/A	3.50%	(3.50)%

Figure A shows the daily closing price of the New GM common stock since the initial public offering in November 2010. The closing price for September 30, 2012 was $22.75. The dashed lines represent the high and low price used in the sensitivity analysis.



Systems, Controls, and Legal Compliance

MANAGEMENT ASSURANCE STATEMENT

The Office of Financial Stability's (OFS) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), 31 U.S.C. 3512(c),(d). OFS has evaluated its management controls, internal controls over financial reporting, and compliance with the federal financial systems standards. As part of the evaluation process, we considered the results of extensive documentation, assessment and testing of controls across OFS, as well as the results of independent audits. We conducted our reviews of internal controls in accordance with FMFIA and Office of Management and Budget (OMB) Circular A-123.

As a result of our reviews, management concludes that the management control objectives described below, taken as a whole, were achieved as of September 30, 2012. Specifically, this assurance is provided relative to Section 2 (internal controls) and 4 (systems controls) of FMFIA. OFS further assures that the financial management systems relied upon by OFS are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA).

OFS' internal controls are designed to meet the management objectives established by Treasury and listed below:

- (a) Programs achieve their intended results;
- (b) Resources are used consistent with overall mission;
- (c) Programs and resources are free from waste, fraud, and mismanagement;
- (d) Laws and regulations are followed;
- (e) Controls are sufficient to minimize any improper or erroneous payments;
- (f) Performance information is reliable;
- (g) System security is in substantial compliance with all relevant requirements;
- (h) Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
- (i) Financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and FFMIA.

In addition, OFS management conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting. Based on the results of this evaluation, OFS provides unqualified assurance that internal control over financial reporting is appropriately designed and operating effectively as of September 30, 2012, with no related material weaknesses noted.

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

Internal Control Program

OFS management remains committed to maintaining effective internal controls in safeguarding taxpayer dollars while providing financial stability through the TARP. OFS continues to have a high performing internal control program in compliance with the Federal Managers' Financial Integrity Act (FMFIA). The OFS Risk and Control Group (RCG) works closely with program managers and support personnel to maintain robust internal controls across business functions. RCG also coordinates with the OFS Office of Financial Agents (OFA) to ensure that third party service providers whose work has a potential financial reporting impact on OFS have well designed and effective internal control environments supporting the TARP. During fiscal year 2012, OFS continued to implement effectively its internal control environment as demonstrated below:

- Business processes supporting existing programs, including internal control activities, utilized increasingly well-defined policies and procedures and internal control documentation. OFS management regularly monitors activities to confirm that control procedures are performed consistently and as designed.

- OFS made significant progress in addressing findings and areas for improvement in the internal control environment identified through OFS' self-assessment processes (e.g., OMB Circular A-123 internal controls over financial reporting assessment, annual assurance statement process) and through work performed by the oversight bodies (i.e., GAO and SIGTARP).

- OFS continued to make improvements in information technology (IT) in fiscal year 2012 to drive efficiencies through the increased automation of the operational and accounting environments.

OFS has a Senior Assessment Team (SAT) to guide the organization's efforts to meet the statutory and regulatory requirements surrounding a sound system of internal control. The SAT is chaired by the Deputy Chief Financial Officer and includes representatives from all OFS functional areas. Furthermore, OFS has an internal control framework in place that is based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The SAT leverages this framework in communicating control objectives across the organization and to its third party service providers.

RCG operates under the direction of the Chief Financial Officer (CFO) and is guided by the SAT. RCG monitors the implementation of the internal control framework and is responsible for assessing the achievement of management control objectives by:

- Integrating management controls into OFS business processes by:
  - Maintaining internal control documentation,
  - Developing and designing internal control responsibilities with business owners before major program transactions, and
  - Enhancing the monitoring of control effectiveness during or after significant new program events;
- Conducting "lessons learned" sessions to identify and remediate areas requiring improvement;
- Performing periodic sample-based testing of key controls across mature business processes; and,
- Monitoring feedback from oversight bodies.

In addition, the internal control environment supporting TARP undergoes continuous improvement to remain effective and is subject to significant third party oversight by the GAO and the SIGTARP.

The Assistant Secretary for Financial Stability reports annually to the Under Secretary for

Domestic Finance on the adequacy of the various internal controls throughout OFS to include financial management systems compliance. This assurance statement covers OFS' compliance with the FMFIA, the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-123 (Management's Responsibility for Internal Control). In order to support the Assistant Secretary's letter of assurance, the respective OFS functional areas prepare individual statements of assurance. These individual statements of assurance provide evidence supporting the achievement of OFS' internal control objectives and disclose any noted internal control weaknesses.

Information Technology Systems

In fiscal year 2012, OFS continued to utilize and improve the Core Investment Transaction Flow (CITF), TARP's system of record and accounting translation engine. OFS added standardized management reports to CITF to improve its usefulness to management decision-making and added functionality to capture key data elements for use in preparing the financial statements and associated notes.

Other systems are supported by financial agents, which provide services to OFS. The financial agency agreements maintained by the Treasury Office of the Fiscal Assistant Secretary in support of OFS require financial agents to design and implement suitably robust security plans and internal control programs, to be reviewed and approved by OFS at least annually.

In addition, OFS utilizes financial systems maintained by Treasury Departmental Offices and various Treasury bureaus. These systems are in compliance with federal financial systems standards and undergo regular independent audits.

Compliance with the Improper Payments Elimination and Recovery Act (IPERA)

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. IPERA significantly increases agency payment recapture efforts by requiring reviews of all programs with annual payments of $1 million or more, if cost effective. IPERA requires agencies to report information on their significant improper payments and recapture audit programs to the President and Congress annually.

The elimination of improper payments is a major focus of OFS senior management. Managers are held accountable for developing and strengthening financial management controls to detect and prevent improper payments, and thereby better safeguard taxpayer dollars. OFS carried out its fiscal year 2012 IPERA review per Treasury-wide guidance and did not assess any programs or activities as susceptible to significant erroneous payments. However, management did identify the following matter:

- A number of Making Home Affordable (MHA) investor cost share payments were erroneously calculated due to data discrepancies between servicer files and the MHA system of record. Data that servicers upload to the MHA system of record is used to calculate these incentive payments. The overall impact of the data errors on incentive payments was immaterial, and OFS management required servicers to take action to correct these data discrepancies.

In fiscal year 2012, OFS concluded that a payment recapture audit was not cost effective as all programs were deemed to have a low risk of significant improper payments. For many programs, OFS already has procedures in place to review payments for completeness and accuracy prior to and after disbursement. Management leveraged OFS' extensive internal control testing results or other compliance activities to corroborate risk assessment results, as well as the Bureau of the Public Debt's testing results over administrative disbursements.

On April 12, 2012, OMB issued Memorandum 12-11 "Reducing Improper Payments through the 'Do Not Pay List,'" based on a Directive provided by the President in June 2010. The President directed agencies to "review current pre-payment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs before the release of any Federal funds." In order to achieve this mission, the President directed the creation of a single point of entry through which agencies would access relevant data before determining eligibility for Federal funding commonly referred to as the "Do Not Pay List." Prior to the release of this directive, OFS already had strong controls in place to help ensure payment eligibility. In fiscal year 2013 and beyond, OFS will, as appropriate, integrate the "Do Not Pay List" solution into its processes.

Areas for Improvement

Over the next year, OFS management will focus on maintaining its internal control environment in several key areas as follows:

- As programs continue to wind down, OFS will remain vigilant to maintain effective processes and controls. OFS management will take steps to sustain adequate segregation of duties and the right level of institutional knowledge among remaining staff as the size of the organization decreases.

- Third party service providers will continue to support critical services as programs continue to wind down. OFS will monitor these third parties closely to safeguard the operational efficiency of programs and processes.

- As OFS programs conclude and staff continues to decrease, OFS plans to streamline the number and depth of policies and procedures to make them more efficient and reduce the maintenance burden. OFS will manage this process through the Senior Assessment Team to ensure that any resulting risk is minimal and controlled.

- OFS has developed information technology capabilities to increase efficiency and automate manual processes. Continuing to leverage existing information technology assets will help reduce risks associated with human error. In addition, OFS management will continue to strengthen IT-related controls towards a more mature IT environment supporting core business processes.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of OFS' TARP programs, consistent with the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the OFS and the Department of the Treasury in accordance with section 116 of EESA and Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Operational Goals

The following discussion of OFS goals and TARP programs focuses largely on the significant events that occurred from inception through fiscal year 2012. A more comprehensive discussion of each program, including its development and prior years' performance, can be found in the TARP Two-Year Retrospective, the TARP Three Year Anniversary Report, and the TARP Four Year Retrospective (expected to be published in December 2012) which are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx

Operational Goal One: Ensure the Overall Stability and Liquidity of the Financial System

The first and most significant goal of TARP was to help restore stability to the financial system. Despite recent volatility in the stock market and shocks in the global economy, the U.S. financial system today is more stable than it was during the midst of the 2008 crisis.

Financial markets and the economy continue to recover. Credit remains available for consumers and businesses. Financial institutions hold more capital relative to risk than they did before the crisis hit. Most of the government's emergency responses to the crisis are being wound down in a way that protects the public's interest and 88.5 percent of TARP program investments have been collected through repayments, sales, dividends, interest and other income.

Bank Support Programs (CPP, TIP, AGP, CDCI)

Capital Purchase Program

OFS launched the Capital Purchase Program (CPP), the largest and most significant program under EESA, on October 14, 2008. Through the CPP, OFS provided capital infusions directly to banks and thrifts deemed viable by their regulators to bolster the capital position of institutions of all sizes and, in doing so, to build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending and continue to provide other services to consumers and businesses, even while absorbing write-downs and charge-offs on loans that were not performing.

In the period following the CPP announcement, OFS provided $204.9 billion in capital to 707 institutions of all sizes and types across the country, including more than 450 small and community banks and 22 community development financial institutions (CDFIs) (see Table 7 below). The largest investment was $25.0 billion and the smallest was $301,000. As Table 7 illustrates, smaller financial institutions make up the vast majority of participants in the CPP. Of the 707 applications approved and funded by OFS through the CPP by the time it closed to new institutions on December 31, 2009, 473 or 66.9 percent were institutions with less than $1.0 billion in assets.

Table 7: CPP Investment Profile

	CPP Participants		Total TARP Investment	
Asset Range	Number	Percent	Amount	Percent
<$1 billion	473	66.9%	$3.8	1.8%
$1 billion - $10 billion	177	25.0%	10.0	4.9%
>$10 billion	57	8.1%	191.1	93.3%
Total	707	100%	$204.9	100%

OFS received preferred stock or debt securities in exchange for these investments. Most financial institutions participating in the CPP pay OFS a dividend rate of five percent per year, which will increase to nine percent per year after the first five years starting in fiscal year 2014. From inception of the program through September 30, 2012, OFS has received approximately $193.2 billion in CPP repayments/sales, along with approximately $11.8 billion in CPP dividends and interest, and $14.6 billion of proceeds in excess of cost that includes $6.9 billion in net proceeds received from the sale of Citigroup common stock in excess of cost.

During fiscal year 2012, OFS has focused on winding down the CPP according to the exit strategy it announced on May 3, 2012. That strategy includes a combination of repayments in the case of banks which are expected to repay in the near future, selling OFS' positions in banks through auctions, and restructuring some investments, typically in connection with a merger or other plan of the bank to infuse capital, in a way that maximizes timely OFS collections and helps avoid bank failures. The extent to which OFS employs each of the individual options will depend on market conditions and other factors.

Repayments

Under the terms of the CPP, participating financial institutions may repay the funds they received at any time, so long as they have the approval of their regulators. OFS cannot demand repayment of CPP preferred stock, nor is OFS' approval required for financial institutions to repay.

During fiscal year 2012, 95 financial institutions fully repaid a total of $8.1 billion, including proceeds from auctions and sales. Repayments were received from several of the largest remaining banks in the program such as Regions Financial Corp ($3.5 billion), Zion's Bancorp ($1.4 billion), and M & T ($0.4 billion).

Auction (and Other) Sales

To expedite the wind down of the CPP, OFS will periodically sell preferred stock and subordinated debt in CPP participants through both public and private auctions. OFS generally employs a modified Dutch auction[8] process, which establishes a market price by allowing investors to submit bids at specified increments. Additional guidance for public auctions is available in prospectuses that are filed by the issuers of the preferred stock prior to the opening of each public auction. For private auctions, the procedures are described in full in the applicable bidder letter agreement.

OFS held its first Dutch auction of CPP preferred securities and debentures in March 2012, and has held five additional auctions since that date. OFS has sold its investments in 40 banks with an aggregate outstanding balance of $1.5 billion. These auctions resulted in combined proceeds of $1.3 billion or $180 million in proceeds less than cost.

Restructurings

Another component of OFS' exit strategy for the CPP is to restructure certain investments where a bank makes a proposal to do so. This is typically done in connection with a merger or the bank's plan to raise new capital. Treasury agrees to receive cash (sometimes at a discount to the original "par" value of the investment) or other securities, which can be more easily sold. Treasury will participate in these transactions in limited cases and only if the terms help maximize collections on behalf of taxpayers.

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[8]During this modified Dutch auction process, Treasury, with advice from its external asset managers and the auction agents, publicly discloses a minimum bid for each auction. Bidders are able to submit one or more independent bids at different price-quantity combinations at or above the set minimum price. The auction agent does not provide bidders with any information about the bids of other bidders or auction trends, or with advice regarding bidding strategies, in connection with the auction.

OFS also received warrants to purchase common shares or other securities from the financial institutions at the time of the CPP investment. The purpose of the additional securities is to provide opportunities for OFS to reap additional returns on the investments made by it as CPP participants recover. From inception of the program through September 30, 2012, OFS has received nearly $7.7 billion in proceeds from the sale/repurchase of CPP warrants.

For additional information, please see OFS' Monthly Report to Congress (also known as the 105a Report), which can be found at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Monthly-Report-to-Congress.aspx

Refinancing Through the Small Business Lending Fund

In fiscal year 2011, 137 CPP institutions refinanced their CPP investments totaling more than $2.2 billion using the Small Business Lending Fund (SBLF). These refinancing transactions moved the risk associated with these institutions' repayments from OFS to SBLF. SBLF is not a TARP program and does not use TARP funds. The SBLF ceased making new commitments at the close of fiscal year 2011. As a result, there were no SBLF refinances in fiscal year 2012.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) in December 2008. Through TIP, OFS sought to prevent a loss of confidence in critical financial institutions, which could result in significant financial market disruptions, threaten the financial strength of similarly situated financial institutions, impair broader financial markets, and undermine the overall economy. TIP was considered "exceptional assistance" for purposes of executive compensation requirements.

OFS invested $20.0 billion in preferred stock in each of two institutions – Bank of America (BofA) and Citigroup – under TIP, in addition to those funds that these financial institutions received under the CPP. In December 2009, both participating institutions repaid their TIP investments in full, with dividends. Total TIP dividends were about $3.0 billion during the life of the program. OFS also received warrants from each bank which provided the taxpayer with additional gain on the investments when OFS sold the BofA warrants in fiscal year 2010 for $1.2 billion and the Citigroup warrant in fiscal year 2011 for $190 million. TIP closed during fiscal year 2011 and resulted in a positive return for taxpayers.

Asset Guarantee Program

Under AGP, OFS acted to support the value of certain assets held by qualifying financial institutions, by agreeing to absorb a portion of the losses on those assets. The program was conducted jointly by Treasury, the FRBNY and the Federal Deposit Insurance Corporation (FDIC). Like TIP, it was designed for financial institutions whose failure could harm the financial system and reduce the potential for "spillover" to the broader financial system and economy. The AGP was used to assist BofA and Citigroup in conjunction with TIP investments in those institutions. The arrangement with BofA was terminated before it was formally finalized, with BofA paying OFS a termination fee. Under the terms of the guarantee agreement with Citigroup, OFS, the FDIC, and the FRBNY received a premium for the guarantee of $7.0 billion in Citigroup preferred stock and warrants. Additional information on the two institutions under AGP can be found in the OFS' fiscal year 2010 Agency Financial Report available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Annual-Agency-Financial-Reports.aspx.

Although the guarantee was originally expected to be in place for five to ten years, Citigroup requested that it be terminated in December 2009 in conjunction with its repayment of $20 billion it received from the TIP. The banking regulators approved its request in conjunction with Citibank's raising of more than $20 billion of private capital.

In connection with the termination, Treasury and the FDIC kept most of the premium paid by Citigroup. Specifically, the government retained a total of $5.2 billion of the $7.0 billion of preferred stock (which had since been converted to trust preferred securities). OFS' portion was $2.2 billion.

The FDIC and OFS agreed that, subject to certain conditions, the FDIC would transfer to OFS $800 million of their Citigroup trust preferred stock holding plus dividends thereon contingent on Citigroup repaying its previously-issued FDIC guaranteed debt under the FDIC's Temporary Liquidity Guarantee Program which expires on December 31, 2012. OFS sold its trust preferred securities in October 2010 and the AGP warrants in January 2011, leaving only the $800 million of trust preferred stock receivable from the FDIC valued at $967 million (including dividends thereon held by FDIC) at September 30, 2012. During fiscal year 2013, OFS expects to receive and liquidate the $800 million Citigroup trust preferred securities.

The AGP is now closed and resulted in a positive return for taxpayers. No OFS payments were made under the program.

Community Development Capital Initiative

The CDFIs focus on providing financial services to communities underserved by traditional banks, such as low- and moderate-income, minority, and other underserved communities. OFS launched the Community Development Capital Initiative to help viable certified CDFIs and the communities they serve cope with effects of the financial crisis. Under this program, CDFI banks and thrifts received investments of capital with an initial dividend or interest rate of two percent, compared to the five percent rate generally offered under CPP. CDFI banks and thrifts applied to receive capital up to five percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to nine percent after eight years, compared to five years under CPP.

OFS completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP is $570 million for 84 institutions. Of this amount, $363 million resulted from 28 banks exchanging their investments under the CPP into the CDCI. As of September 30, 2012, one institution representing $7 million went into receivership and OFS does not expect any collection on the associated preferred shares, and two institutions representing $3 million have fully repaid OFS. Due to the unique nature of these institutions and the difficulties faced by the communities they serve, OFS designed this program to encourage repayment over a longer period of time. So for the time being, OFS will continue to hold these investments and will evaluate its options for exiting them at a later date.

Credit Market Programs (PPIP, TALF, SBA 7(a))

Public-Private Investment Program

During the financial crisis, many institutions and investors were under extreme pressure to reduce indebtedness. This de-leveraging process pushed down the market prices for many financial assets, including troubled legacy securities (i.e., non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS)) below their fundamental value. Institutions and investors were trapped with these hard-to-value assets, marked at distressed prices on their balance sheets, which constrained liquidity and the availability of credit in these markets.

The OFS designed the PPIP to facilitate the purchase of troubled legacy securities (i.e., non-agency RMBS and CMBS) by providing financing on attractive terms as well as a matching equity investment made by private investors. By drawing new private capital into the market for legacy RMBS and CMBS, PPIP was designed to help restart the market for these securities, thereby facilitating the removal of these assets from financial institutions' balance sheets and allowing for more credit to become available for consumers and small businesses.

Under the program, Public-Private Investment Funds (PPIFs) were established by private sector fund managers for the purpose of purchasing eligible legacy securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers as defined under EESA. OFS matches equity dollar-for-dollar and lends up to the amount of equity raised by the PPIFs for the purpose of purchasing eligible RMBS and CMBS from eligible financial institutions under EESA.

PPIFs have the ability to invest in eligible assets over a three-year investment period ending in December 2012 for the remaining PPIFs. They 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 OFS and the other PPIF investors. PPIP fund managers retain control of asset selection, purchasing, trading, and disposition of investments. The profits generated by a PPIF, net of expenses, will be distributed to the investors, including OFS, in proportion to their equity capital investments. OFS also receives warrants from the PPIFs, which gives OFS the right to receive a percentage of the profits that would otherwise be distributed to the private partners that are in excess of their contributed capital. The program structure allows for risk to be spread between the private investors and OFS and provides taxpayers with the opportunity for positive returns.

PPIP Results

Treasury originally committed approximately $22.1 billion of equity and loans to the 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 OFS, representing $14.7 billion of equity capital commitments. In the aggregate, all nine PPIFs had $29.4 billion of total purchasing power. The following is a summary of the commitments and investments in individual PPIFs as of September 30, 2012.

Table 8: OFS Commitments and Investments in PPIFs (Dollars in billions)

PPIF	Purchase Price	Disbursements	Repayments	Amount Outstanding	Other Receipts[3]	Total Cash Back
Angelo, Gordon & Co., LP and GE Capital Real Estate	$ 3.6	$ 3.4	$ 1.1	$ 2.3	$ 0.6	$ 1.7
BlackRock, Inc	2.1	1.5	0.2	1.3	0.2	0.4
Invesco Ltd.[1]	2.0	1.7	1.7	-	0.2	1.9
Marathon Asset Management, LP	1.4	1.4	0.1	1.3	0.2	0.3
Oaktree Capital Management, LP	3.5	1.7	0.3	1.4	-	0.3
RLJ Western Asset Management, LP	1.9	1.9	1.4	0.5	0.4	1.8
The TCW Group, Inc[2]	0.4	0.4	0.4	-	-	0.4
Wellington Management Company, LLP	3.4	3.4	0.4	3.0	0.3	0.7
Alliance Bernstein[1]	3.3	3.2	3.2	0.00	0.5	3.7
Total	**$ 21.6**	**$ 18.6**	**$ 8.8**	**$ 9.8**	**$ 2.4**	**$ 11.2**

[1] Investment period has expired or been terminated.
[2] The fund has been closed.
[3] Other receipts includes interest, investment income and proceeds in excess of cost.

Wind Down Status for PPIFs

In March 2012, Invesco Legacy Securities Master Fund (Invesco Ltd) became the second PPIF to sell its remaining investments, repaying all of the $1.2 billion in debt and $581 million in equity capital invested by OFS in the fund. Cumulatively, OFS received $18 million in interest and $139 million of proceeds in excess of original equity capital, including $3 million in warrant proceeds from Invesco Ltd.

In July 2012, RLJ Western formally terminated its investment period. As of September 30, 2012, RLJ Western has repaid all of the $1.2 billion in debt and $144 million of the original $621 million in equity capital invested by OFS. Cumulatively, OFS received $37 million in interest and $340 million of proceeds in excess of original equity capital.

As of September 2012, Alliance Bernstein also substantially wound down the fund. As of September 30, 2012, Alliance Bernstein has repaid all of the $2.1 billion in debt and all of the $1.1 billion in equity capital invested by OFS in the fund. Cumulatively, OFS received $58 million in interest and $448 million in proceeds in excess of original equity capital.

OFS provides quarterly status reports on the program's performance. For more information on these holdings and the performance of the PPIFs, readers can refer to the most recent PPIP Quarterly Report available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Public-Private-Investment-Program-Quarterly-Report.aspx

Term Asset-Backed Securities Loan Facility

TALF was a joint Federal Reserve-OFS program that was designed to restart the asset-backed securities (ABS) market that provide credit to consumers and small businesses, which had ground to a virtual standstill during the early months of the financial crisis.

Pursuant to its Federal Reserve Act Section 13(3) authority, the Federal Reserve Board authorized the FRBNY to extend up to $200.0 billion in non-recourse loans to borrowers to enable the purchase of newly issued asset-backed (including newly issued CMBS and legacy CMBS) AAA-rated securities including those backed by consumer loans, student loans, small business loans, and commercial real estate loans. In return, the borrowers pledged the eligible collateral with a risk premium ("haircut") as security for the loans. Should a borrower default upon its TALF loan or voluntarily surrender the collateral, it would be seized and sold to TALF LLC, a special purpose vehicle created by FRBNY to purchase and hold seized or surrendered collateral. Through September 30, 2012, TALF LLC has not purchased any collateral from the FRBNY.

OFS originally committed to provide $20.0 billion in the form of a subordinated loan commitment to TALF LLC. This commitment was reduced to $4.3 billion after the program closed to new lending in June 2010, which represented 10 percent of the outstanding TALF loans at the time. In June 2012, the commitment was further reduced to $1.4 billion at a time when the outstanding loans were $3.5 billion. As of September 30, 2012, $1.5 billion of TALF loans due to the FRBNY remained outstanding and the TALF program has experienced no losses. OFS does not expect any program cost to the taxpayers from this program.

Small Business Administration 7(a) Securities Purchase Program

Small businesses play an important role in generating new jobs and growth in our economy. The SBA's 7(a) Loan Guarantee Program assists start-up and existing small businesses that face difficulty in obtaining loans through traditional lending channels.

To help ensure that credit flows to entrepreneurs and small business owners, OFS developed the SBA 7(a) Securities Purchase Program to purchase SBA-guaranteed securities from pool assemblers. Purchasing securities from participating pool assemblers enabled them to purchase additional small business loans from loan originators. OFS invested in a total of 31 SBA 7(a) securities with a value of approximately $367 million (excluding purchased accrued interest) between March and September 2010. Those securities were comprised of 1,001 loans from 17 different industries, including retail, food services, manufacturing, scientific and technical services, health care, educational services, and others. Through its purchases, OFS injected much needed liquidity into this market to help restart the flow of credit, enabling pool assemblers to purchase additional small business loans from loan originators. Since OFS began its purchases, the SBA 7(a) market has now recovered with new SBA 7(a) loan volumes returning to pre-crisis levels.

In January 2012, OFS sold its eight remaining SBA 7(a) securities in the portfolio, marking the successful wind down of the SBA 7(a) Securities Purchase Program. In total, OFS collected $376 million through sales ($334 million) and principal payments ($29 million) and interest payments ($13 million) over the life of the program, representing cash collections of approximately $9 million more than its original investment of $367 million.

Other Programs

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was launched in December 2008 to help prevent the disorderly liquidation of Chrysler and General Motors (GM) and thus a significant disruption of the U.S. auto industry. The potential for such a disruption at that time posed a significant risk to financial market stability and threatened the overall economy.

Recognizing both General Motors Corporation (Old GM) and Chrysler Holdings LLC (Old Chrysler) were on the verge of potentially disorderly liquidations, OFS extended temporary loans to GM and Chrysler in December 2008. OFS agreed to provide additional funds conditioned on each company and its stakeholders participating in a fundamental restructuring. Sacrifices were made by unions, dealers, creditors and other stakeholders, and the restructurings were achieved through bankruptcy court proceedings in a record time. As a result, General Motors Company (New GM) and Chrysler Group LLC (New Chrysler) are more competitive and viable companies, supporting American jobs and the economy. Operating results have improved, the industry has added jobs, and TARP investments have begun to be repaid.

In total, OFS disbursed $79.7 billion in loans and equity investments to GM, GMAC (now known as Ally Financial), Chrysler, and Chrysler Financial. Please see Note 6 of financial statements for further information on the AIFP subsidy cost.

General Motors

OFS provided $49.5 billion under TARP to Old GM. The initial assistance was a $13.4 billion loan in December 2008 to Old GM to fund working capital. Under the loan agreement, Old GM was required to submit a viable restructuring plan. The first plan Old GM submitted failed to establish a credible path to viability, and the deadline was extended to June 2009 for Old GM to develop an amended plan. OFS loaned an additional $6.0 billion to fund Old GM as it worked to submit a viable restructuring plan. To achieve an orderly restructuring, Old GM filed for bankruptcy on June 1, 2009. OFS provided $30.1 billion under a debtor-in-possession financing agreement to assist Old GM during the restructuring. A newly formed entity, New GM purchased most of the assets of Old GM under a sale pursuant to Section 363 of the bankruptcy code (363 Sale). When the sale to New GM was completed on July 10, 2009, OFS converted most of its loans into 60.8 percent of the common equity in New GM and $2.1 billion in preferred stock. At that time, OFS held $6.7 billion in outstanding loans which were repaid in full during fiscal year 2010. Approximately $986 million in loans to Old GM (now known as Motors Liquidation Company) for wind-down costs associated with its liquidation remained outstanding.

Following confirmation of the plan for liquidation by the bankruptcy court, New GM emerged from the managed bankruptcy process as a stronger, more viable, and more competitive company. In 2010, New GM posted its first annual profit in six years. Since then, it has continued to add jobs and post strong growth.

In November 2010, New GM completed its initial public offering (IPO), with gross proceeds to OFS of $13.6 billion, resulting in OFS reporting net proceeds less than cost of $4.3 billion. The IPO reduced OFS' ownership of New GM's outstanding common stock by nearly half. New GM then purchased all of OFS' preferred shares, further reducing the OFS's stake in the company.

In March 2011, the Plan of Liquidation for Old GM became effective and OFS' $986 million loan to Old GM was converted to an administrative claim. During fiscal year 2011, OFS received payments totaling $111 million from Motors Liquidation Company. During fiscal year 2012, OFS received payments of $26 million from Motors Liquidation Company. OFS retains the right to recover additional proceeds; however, any additional recovery is dependent on actual liquidation proceeds and pending litigation. OFS does not expect significant additional recoveries on this administrative claim.

As of September 30, 2012, OFS holds approximately 500 million common stock shares with a value of $11.4 billion, representing 31.9 percent of the outstanding shares of common stock in New GM as discussed in Note 6 to the OFS Financial Statements. As of that date, OFS has collected $24.0 billion of its total $51.0 billion investment[9].

Since New GM is a publically-traded company and its stock is highly liquid, OFS can exit its investment over time through sales of its remaining common shares on the open market, through underwritten offerings, block trades or dribble out programs, or a combination of the above. OFS will continue to evaluate its options based on market conditions.

Chrysler

OFS disbursed a total of $12.4 billion to Chrysler related entities including Old Chrysler and New Chrysler. During fiscal year 2011, OFS fully exited its loans and investment relating to Chrysler entities, six years ahead of the scheduled maturity of its loans. Of the $12.4 billion that was disbursed to Chrysler related entities under TARP, OFS collected more than $11.1 billion through principal repayments, sale of investments, and interest. While OFS retains a right to receive proceeds from a liquidation trust, no significant future cashflows are expected. The $12.4 billion disbursed to Chrysler related entities are made up primarily of the following transactions:

In January 2009, OFS loaned $4.0 billion to Old Chrysler and the company was required to implement a viable restructuring plan. In fiscal year 2010, Old Chrysler repaid $1.9 billion while a $500 million existing liability was assumed by New Chrysler. OFS wrote off the remaining $1.6 billion of this loan.

During fiscal year 2009 the Administration laid out a framework for Old Chrysler to achieve viability by partnering with the international car company Fiat and OFS provided $1.9 billion to Old Chrysler under a debtor-in-possession (DIP) financing agreement for assistance during Old Chrysler's bankruptcy proceeding. The DIP loan was extinguished by the bankruptcy court in April 2010, including collateral security attached to the loan, and transferred to a liquidation trust. OFS retained the right to recover the proceeds from the liquidation of the specified collateral and received $40 million from the liquidation trust in fiscal year 2010, $8 million in fiscal year 2011, and $9 million in fiscal year 2012.

In June 2009, a newly formed entity, Chrysler Group LLC, (New Chrysler) purchased most of

[9] GM $51.0 billion of assistance consists 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.

the assets of Old Chrysler under a 363 sale. OFS provided a $6.6 billion loan commitment to New Chrysler (of which $4.6 billion was disbursed), and received $384 million in additional notes and a 9.9 percent equity ownership in New Chrysler.

In May 2011, New Chrysler repaid $5.1 billion in TARP loans, $384 million relating to additional notes received, and interest thereon, and terminated its ability to draw a remaining $2.1 billion TARP loan commitment. New Chrysler's repayment came six years before the scheduled maturity of those loans in 2017. In July 2011, OFS received $560 million in proceeds from the sale of its remaining stake in New Chrysler to Fiat. With the closing of this transaction, OFS completed its exit from New Chrysler.

Ally Financial (formerly GMAC)

In December 2008, OFS made an initial investment of $5.0 billion in GMAC. OFS also lent $884 million of TARP funds to Old GM for the purchase of additional ownership interests in a rights offering by GMAC. In May 2009, federal banking regulators required GMAC to raise additional capital by November 2009 in connection with the Supervisory Capital Assistance Program (SCAP)/stress test. Concurrently, OFS exercised its option to exchange the loan with Old GM for 35.4 percent of common membership interests in GMAC. OFS also purchased $7.5 billion of convertible preferred shares from GMAC in May 2009, which enabled GMAC to partially meet the Supervisory Capital Assessment Program (SCAP) requirements. In December 2009, OFS made additional investments of $3.8 billion in GMAC to enable GMAC to satisfy the SCAP requirements and exchanged certain preferred shares for common stock. OFS provided the $3.8 billion in new capital in the form of $2.5 billion of trust preferred securities, which are senior to all other capital securities of the company, and $1.3 billion of mandatory convertible preferred stock.

In May 2010, GMAC changed its corporate name to Ally Financial, Inc. In December 2010, OFS converted preferred stock in Ally Financial with a liquidation preference of $5.5 billion into common stock. The conversion increased OFS' common equity stake in Ally Financial from 56 percent to 74 percent of total common shares outstanding.

In fiscal year 2011, Ally commenced work on an initial public offering which would have enabled OFS to begin exiting its common stock investment. However, Ally was forced to delay the IPO due to intensifying issues related to legacy liabilities of its subsidiary, ResCap, a residential mortgage company, as well as a general weakening in the IPO market.

In March 2011, OFS sold all of its Ally Financial trust preferred securities at par. Aggregate proceeds from the sale totaled $2.7 billion. With the proceeds from this sale, OFS has received $5.7 billion from Ally Financial from inception of the program through September 30, 2012, including $3.0 billion in dividends.

In May 2012, ResCap filed to enter into a Chapter 11 reorganization process. ResCap, about one-tenth the size of Ally based on assets, is a separate and distinct company from Ally that has its own board of directors and creditors. OFS does not hold any equity, debt, or other direct investment in ResCap. While it is unfortunate that a Chapter 11 filing became necessary for ResCap, OFS believes this action puts OFS in a stronger position to continue recovering OFS' investment in Ally Financial. Ally's automotive financing business has remained profitable and its retail banking operation has grown. Concurrently with the filing by ResCap, Ally began exploring strategic alternatives for its international business in a manner that Ally believes will maximize value for its shareholders.

As of September 30, 2012, OFS held 119 million convertible preferred stock shares with a liquidation preference of $5.9 billion and 74 percent of Ally Financial's outstanding common stock as discussed in Note 6 to the OFS Financial Statements.

OFS provided a total of $16.3 billion to GMAC from December 2008 through December 2009 to help support its ability to issue new loans to GM and Chrysler dealers and consumers and to address the company's capital needs. As of September 30, 2012, OFS has collected $5.7 billion, consisting of $3.0 billion in dividend receipts on the mandatory convertible preferred, warranty preferred, and trust preferred securities (TruPS), and $2.7 billion from the sale of TruPS, (including $127 million of proceeds in excess of cost).

American International Group, Inc. (AIG) Investment Program

The peak amount of assistance offered to AIG by the FRBNY and Treasury was $182.3 billion, a part of which ($22.1 billion) was later cancelled, and an amount in excess of the total disbursed has now been recovered through repayments, sales and other income. Through September 30, 2012, Treasury disbursed a total of $67.8 billion to AIG and has collected $65.3 billion (of this, OFS disbursed $67.8 billion and collected $50.3 billion). Treasury's collections include proceeds from sales of a total of 1.4 billion AIG common stock shares resulting in proceeds in excess of costs for non-TARP shares of $15.0 billion and proceeds less than cost of $11.8 billion for TARP shares.

In September 2008, AIG was the largest provider of conventional insurance in the world, with approximately 75 million individual and corporate customers in more than 130 countries. AIG's assets exceeded $1 trillion and insured 180,000 businesses and other entities employing more than 100 million people in the U.S. It was a large issuer of commercial paper and the second largest holder of U.S. municipal bonds.

Then, the financial crisis peaked in 2008. AIG's parent holding company engaged in financial activities that were well beyond the business of life insurance and property and casualty insurance. Its financial products unit was a significant participant in some of the newest, riskiest, and most complex transactions of the U.S. financial system. In the chaotic environment of September 2008, the Federal Reserve and Treasury concluded that AIG's failure could be catastrophic. Among other things, if AIG had failed, the crisis would have almost certainly spread to the entire insurance industry, and its failure could have directly affected the savings of millions of Americans. Therefore, Treasury and the FRBNY took action to protect the U.S. financial system.

During the fall of 2008, the Federal Reserve and OFS took a series of steps to prevent AIG's disorderly failure and mitigate systemic risks. The initial assistance to AIG was provided by the FRBNY before the passage of EESA and the creation of TARP. After EESA became law, OFS and the Federal Reserve continued to work together to address the challenges posed by AIG.

In November 2008, OFS invested $40.0 billion in senior preferred stock of AIG and it also received warrants to purchase common shares in the firm. The funds were used immediately to reduce the loans provided to AIG by the FRBNY. The preferred stock was subsequently exchanged in April 2009, for face value plus accrued dividends, into $41.6 billion of a different series of preferred stock. Complete details on the AIG investment are available in the TARP Three Year Anniversary Report and the TARP Two-Year Retrospective Report which are both available at: http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

In fiscal year 2011, Treasury, including OFS, FRBNY, the trustees of the AIG Credit Facility Trust (the Trust)[10] and AIG completed a restructuring of AIG and Treasury, including OFS, and the FRBNY began exiting their respective investments. The restructuring, which was announced on September 30, 2010 and completed in January

[10] The independent trust established to manage the Department of Treasury's beneficial interest in Series C preferred AIG shares.

2011, was a series of integrated transactions and corporate actions designed to accelerate the repayment of U.S. taxpayer funds and to promote AIG's transition from a majority government owned and supported entity to a financially sound and independent entity. As part of the restructuring, AIG drew $20.3 billion from the capital facility made available by OFS, for a total of $27.8 billion drawn and AIG repaid FRBNY a total of $47.0 billion, as a result of which AIG no longer had any outstanding obligations to the FRBNY (although the FRBNY still had loans to two special purpose vehicles which acquired assets from AIG). Following the restructuring, OFS' total investment in AIG was $67.8 billion, and as of January 31, 2011, Treasury's investment consisted of approximately 1.7 billion shares of AIG common stock (1.1 billion shares owned by OFS and 563 million shares owned by the Treasury, which were received on the termination of the Trust), representing ownership of 92 percent of the company (77 percent held by OFS and 15 percent held by the Treasury outside of OFS) as well as $20.3 billion of OFS' preferred interests in two AIG SPVs. The AIG SPVs are wholly owned by AIG and consolidated on the AIG financial statements. The OFS owned 100 percent of the preferred interests in the two AIG SPVs.

Exiting the Government's AIG Investment

During fiscal year 2012, AIG completed the repayment of OFS' preferred interests in the AIG SPVs. In March 2012, OFS received $8.6 billion in repayments of its preferred interest in the AIG AIA SPV. This allowed for OFS' preferred interests in AIG SPVs to be repaid in full.

During fiscal year 2012, the Treasury's, including OFS', common stock investment in AIG was also substantially reduced. Over the course of the year, OFS conducted four offerings that sold a total of 1.2 billion shares of AIG common stock (consisting of 806 million TARP shares and 415 million Treasury non-TARP shares) at prices that ranged from $29.00 per share to $32.50 per share. Total proceeds from these fiscal year 2012 sales of AIG common stock amounted to $38.2 billion, consisting of $25.2 billion in proceeds to OFS and additional proceeds to the Treasury for the non-TARP shares of $13.0 billion. The proceeds to OFS from such common stock sales were $9.9 billion less than the cost of the shares.

As of September 30, 2012, Treasury's remaining outstanding AIG investments consisted of 234 million shares of AIG common stock, consisting of 154 million TARP shares and 80 million non-TARP shares. Treasury's percentage ownership of AIG's outstanding shares of common stock was 15.9 percent at such date (of which the TARP shares are 10.5 percent and non-TARP shares are 5.4 percent). OFS' remaining TARP shares have a cost basis of $43.53 per share and have a fair market value of $5.1 billion, or $32.79 per share, as of September 30, 2012. The Treasury non-TARP shares, which were received from the trust, are not owned by OFS and, consequently, are not included in the OFS financial statements and were provided to Treasury at no cost. The figure of $28.73 per share is often referred to as Treasury's "break-even" price for AIG common stock sales in order for Treasury to recover the TARP AIG investment because that number averages the cost over the TARP and non-TARP shares. Additional discussion of the AIG investment including subsidy cost can be found in Note 6 to the OFS Financial Statements.

Operational Goal Two: Prevent Avoidable Foreclosures and Preserve Homeownership

OFS established several programs under TARP to address the historic housing crisis and important new reforms are being introduced in part because of TARP's housing programs. While the housing market remains fragile, there have been more than 1.2 million homeowner assistance actions taken through the Making Home Affordable (MHA) program (a joint TARP and government sponsored enterprise (GSE)[11] initiative) to assist

[11] GSEs involved in MHA include Fannie Mae and Freddie Mac.

struggling homeowners[12]. In addition, TARP's housing programs have also transformed the mortgage servicing industry. These programs have changed industry standards and practices and have helped to make mortgage modifications become more sustainable and affordable. Since March 2009, there have been more than 3 million private-sector mortgage modifications, in part because of the new standards that TARP's housing programs have established.

Using authority granted under EESA, OFS established two central housing programs under TARP. There is the MHA program, which includes the Home Affordable Modification Program (HAMP) and several additional programs to help homeowners refinance or address specific types of mortgages. There is also the Hardest Hit Fund (HHF) Program which commits $7.6 billion to the 18 hardest hit states, plus the District of Columbia, to develop locally-tailored programs to assist struggling homeowners in their communities. In addition, OFS provided support for the Federal Housing Administration's Short Refinance Program that assists borrowers who are current on their mortgage (or complete a trial payment plan) but owe more than their home is worth, to refinance into an FHA-insured loan.

To protect taxpayers, the MHA and HHF housing initiatives generally have pay-for-success incentives: funds are disbursed only when transactions are completed and thereafter only as long as those contracts remain in place. Therefore, funds will be disbursed over many years. The total cost of the Treasury housing programs under TARP, excluding administrative costs, cannot exceed—and may be less than—$45.6 billion[13], which is the amount committed to that purpose.

[12] 726,253 of these actions were TARP funded modifications.

[13] This amount includes $29.9 billion for MHA, $7.6 billion for HHF, and $8.1 billion for FHA-Refinance programs.

Making Home Affordable (MHA)

Launched in February 2009, MHA consists of several programs designed to help struggling homeowners prevent avoidable foreclosures. The cornerstone of MHA is the Home Affordable Modification Program (HAMP). HAMP is a first-lien mortgage modification program that provides incentives to mortgage servicers, investors, and homeowners to reduce eligible homeowners' monthly payments to affordable levels. Under this program, OFS pays the incentives for the modification of loans not held by GSEs while the GSEs bear the cost of modifications of loans held by the GSEs. HAMP is the largest program within MHA and includes several additional components to complement first lien modifications:

- The Principal Reduction Alternative (PRA), which was implemented in October 2010. PRA requires servicers of non-GSE loans to evaluate the benefit of principal reduction for mortgages with a loan-to-value (LTV) ratio greater than 115.0 percent when evaluating a homeowner for a HAMP first lien modification. While servicers are required to evaluate homeowners for PRA, they are not required to offer principal reduction and generally may only do so when permitted by the mortgage investor. PRA pays investors incentives for every dollar of principal forgiven, according to a sliding scale depending on the degree to which the homeowner's unmodified balance is greater than the market value of the home and the delinquency status of the homeowner at time of modification.

- 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 employment. At the end of this forbearance period, if the homeowner receives a HAMP modification, the forborne amount is capitalized onto the unpaid principal balance. This program does not require any payments from OFS.

- The Home Affordable Foreclosure Alternatives Program (HAFA), which helps homeowners exit their homes and transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. HAFA provides a defined process along with incentives for these transactions.

- The Home Price Decline Program provides incentives to investors to partially offset losses from home price declines.

Additional components of the MHA program include:

- The Second Lien Modification Program (2MP), which provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when a modification has been initiated on the first lien mortgage for the same property under HAMP.

- The FHA-HAMP Program, which provides similar servicer incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans.

- The Treasury/FHA Second Lien Program (2LP), which provides incentives to servicers for extinguishment of second liens for borrowers who refinance their first lien mortgages under the FHA-Refinance Program.

- The Rural Development (RD)-HAMP Program provides incentives for modified United States Department of Agriculture (USDA) guaranteed mortgages.

MHA Results

The incentives offered under MHA are helping homeowners and assisting in stabilizing the housing market. As of September 30, 2012, 96 servicers are actively participating in MHA. Between loans covered by these servicers and other loans owned or guaranteed by the GSEs, more than 85 percent of first-lien residential mortgage loans in the country are now held by servicers participating in the program. As of September 30, 2012, OFS has commitments to fund up to $29.9 billion in MHA payments and has disbursed $4.0 billion since inception.

More than 1.2 million[14] homeowners participating in the HAMP programs have had their mortgage terms modified permanently. This includes modifications on both non-GSE loans (for which the cost is paid by TARP) and GSE loans (for which the cost is paid by the GSEs). Homeowners participating in HAMP programs collectively have experienced a 38.0 percent median reduction in their mortgage payments—more than $539 per month. MHA has also encouraged the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

OFS publishes quarterly assessments of servicer performance, which contain data on compliance with program guidelines as well as program results metrics. Going forward, OFS hopes these assessments will set the standard for transparency about mortgage servicer efforts to assist homeowners and encourage servicers to correct identified instances of noncompliance.

MHA performance highlights for fiscal year 2012 can be found at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx.

[14] 726,253 of these actions were TARP funded modifications.

Enhancements to MHA

HAMP was originally intended to support financial stability and help struggling homeowners grappling with a verifiable financial hardship that put them at risk of foreclosure. It focuses on families who could sustain their mortgage over the long term if modified.

In an effort to continue to provide meaningful solutions to the housing crisis, OFS made several enhancements to MHA during fiscal year 2012. This included extending the application deadline from December 31, 2012 to December 31, 2013 and expanding eligibility to reach a broader pool of distressed borrowers. Effective June 1, 2012, MHA eligibility expanded to include:

- Homeowners who are applying for a modification on a home that is not their primary residence, but the property is currently rented or the homeowner intends to rent it.
- Homeowners who previously did not qualify for HAMP because their debt-to-income ratio was 31.0 percent or lower.
- Homeowners who previously received a HAMP permanent modification, but defaulted on their payments, therefore losing good standing.

To encourage investors to consider or expand the use of principal reduction, Treasury issued program guidance on February 16, 2012 tripling financial incentives under PRA for investors who agree to reduce principal for eligible underwater homeowners. The new program guidance applies to all permanent modifications of non-GSE loans under HAMP that include PRA and have a trial period plan effective date on or after March 1, 2012.

Additional information about the enhancements is available on the MHA website: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx.

Setting New Standards and Protecting Consumers

The impact that MHA has had goes far beyond the individual homeowners that are receiving direct assistance under the program. It has had a positive indirect effect on the mortgage market. In general, federal government efforts to date have contributed to the gradual decline in the number of seriously delinquent mortgage loans (loans 90 or more days past due or in the process of foreclosure). The latest available data shows continued declines in the rate of serious delinquency, continuing the trend that began at the end of 2009.[15]

MHA is also helping to make mortgage modifications more affordable overall. It has set standards that have been widely followed in the industry for making sure that mortgage modifications are affordable and sustainable, such as the debt-to-income test, and for determining whether modifications make sense for the holder of the mortgage, such as the HAMP net present value model. Additionally, MHA helped to establish several new reforms throughout the mortgage servicing industry aimed at protecting consumers. These include:

- Requiring the 20 largest participating mortgage servicers to establish a single point of contact for homeowners seeking assistance, to ensure that a single, knowledgeable case manager can guide them through the modification process;
- Requiring participating mortgage servicers to limit the practice of "dual tracking" – where mortgage servicers begin the foreclosure process while simultaneously evaluating homeowners for assistance; and
- Requiring participating mortgage servicers to provide qualified unemployed homeowners with a

[15] Source: The Mortgage Bankers Association 2012 National Delinquency Survey.

forbearance period of 12 months, subject to investor and regulator guidelines, during which their monthly payments are temporarily reduced while they look for a new job.

MHA's mortgage servicing standards served as the basis for a joint state-Federal settlement with the country's five largest mortgage loan servicers (Ally/GMAC, Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo). The settlement is intended to provide as much as $25.0 billion in relief to distressed borrowers and direct payments to States and the Federal government. The agreement settled certain alleged violations of state and federal law based on the mortgage loan servicing activities of the country's five largest mortgage loan servicers, including claims of document-related foreclosure abuses. Treasury, including OFS, participated in the negotiation of the settlement and shared knowledge gained through implementation of the Administration's foreclosure prevention programs, including MHA.

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

In February 2010, the Obama Administration announced the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF), which allows state HFAs in the nation's hardest hit housing markets and high unemployment markets to design innovative, locally targeted foreclosure prevention programs. State HFAs design the state programs, tailoring the housing assistance to their local needs. A total of $7.6 billion has been allocated for the HHF, out of the $45.6 billion committed for the housing programs under TARP. Further information on the funded programs is available at: http://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Pages/default.aspx.

HHF Results

The Hardest Hit Fund provides funding to 18 states and the District of Columbia (DC) to provide assistance to struggling homeowners through locally-tailored programs. 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 (19.7 percent) of the $7.6 billion allocated under the program. Each state draws down funds as they are needed. States have until December 31, 2017 to expend funds and must have no more than 5.0 percent of their allocation on hand before they can draw down additional funds.

All 19 HFAs are fully operational and have created extensive infrastructures to operate these programs, including selecting and training networks of housing counselors to assist with applications, creating homeowner portals to aid homeowners in applying for assistance, and hiring underwriters and other staff to review and approve applications. The five largest servicers (Bank of America, JPMorgan Chase, Wells Fargo, Citibank, and GMAC) are currently participating in programs in all 18 states and the District of Columbia, primarily through mortgage payment assistance and mortgage loan reinstatement assistance.

Although states needed time to build their operations and refine processes, a number of states that have been up and running for longer periods of time are starting to show substantial growth in the number of borrowers assisted (e.g. California, Florida, Illinois, Michigan, North Carolina, Ohio and South Carolina). Each state submits a quarterly report on the progress of its program. These reports include the states' performance on metrics set by OFS on various aspects of their programs. Direct links to each state's most recent performance report can be found at: http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx.

During fiscal year 2012, OFS approved 40 program changes submitted by individual HFAs. These approved program changes include:

- A Nevada principal reduction program that leverages refinances under the Home Affordable Refinance Program (HARP); and
- A California program that uses principal reduction in conjunction with a modification or recast.

OFS continues to hold conversations with HFAs, servicers, the GSEs, and other relevant stakeholders on ways to improve the delivery of foreclosure prevention assistance. Recent discussion topics included enhancing states' transition assistance programs, new ways to utilize funds for principal reduction, and identifying ways to direct borrowers exhausting unemployment mortgage assistance to other resources available through servicers. OFS is working to identify best practices, share lessons learned between states, and develop other ways to provide technical assistance to states with lower participation volumes.

Support for the FHA-Refinance Program

In March 2010, the Administration announced enhancements to an existing FHA program that will permit lenders to provide additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. This program, known as the FHA-Refinance program, is intended to provide more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans.

TARP funds have been made available up to $8.1 billion in the aggregate to provide additional coverage to lenders for a share of potential losses on these loans and to provide incentives to support the write-downs of second liens and encourage participation by servicers.

OFS has entered into a letter of credit (L/C) to fund the FHA-Refinance Program. Pursuant to this L/C, a reserve account has been pre-funded with $50 million in funds for OFS' share of any future loss claim payments. OFS will be reimbursed for all unused amounts from this account. As of September 30, 2012, there has not been substantial activity under the program and no disbursements for loss claim payments under the FHA-Refinance Program have been made.

Housing Scorecard

The U.S. Department of Housing and Urban Development (HUD) and OFS also release a Monthly Housing Scorecard on the nation's housing market. Each month the scorecard presents key housing market indicators and highlights the impact of the Administration's housing recovery efforts, including assistance to homeowners through the FHA and HAMP. The Housing Scorecard is available at: www.hud.gov/scorecard.

Operational Goal Three: Protect Taxpayers' Interests

OFS manages TARP investments to minimize costs to taxpayers and receives income on its holdings of preferred interests and other TARP investments in the form of interest, dividends and fees. OFS has taken a number of steps during fiscal year 2012 to dispose of OFS' outstanding investments in a manner that balances the need to exit these investments as quickly as practicable and maximize returns for taxpayers. OFS also takes steps to ensure that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

OFS is exiting investments as soon as practicable to reduce taxpayers' exposure, return TARP funds to reduce the federal debt, and continue to replace government assistance with private capital in the financial system. OFS's strategies for exit depend on the program and investment involved. In addition to repayments by participants, OFS has disposed of investments to third parties through public and private offerings and auctions.

In disposing TARP investments, OFS takes a disciplined portfolio approach – reviewing each investment level and closely monitoring risk and performance. In conducting the portfolio management activities, OFS employs a mix of dedicated professionals and external asset managers. These external asset managers provide market specific information such as market prices and valuations as well as detailed credit analysis using public information on a periodic basis. OFS has also worked with external parties as underwriters and placement agents for asset sales.

Risk Assessment

OFS has developed procedures to identify and mitigate investment risk. These procedures are designed to identify TARP recipients that face a heightened financial risk and determine appropriate responses to preserve OFS' investment, on behalf of taxpayers, while maintaining financial stability. Specifically, OFS' external asset managers review publicly available information to identify recipients for which pre-tax, pre-provision earnings and capital may be insufficient to offset future losses and maintain required capital. For certain institutions, OFS and its external asset managers engage in heightened monitoring and due diligence that reflects the severity and timing of the challenges.

Compliance

OFS also takes steps to ensure that TARP recipients comply with their TARP-related statutory and contractual obligations. Statutory obligations include executive compensation restrictions. Contractual obligations vary by investment type. For most of OFS' preferred stock investments, TARP recipients must comply with restrictions on payment of dividends and on repurchases of junior securities, so that funds are not distributed to junior security holders prior to repayment of the federal government. Recipients of exceptional assistance (currently AIG, GM, and Ally) must comply with additional restrictions on executive compensation, lobbying, corporate expenses and internal controls and must provide quarterly compliance reports.

Additionally, all mortgage servicers voluntarily participating in MHA have contractually agreed to follow the MHA program guidelines, which require the servicer to offer an MHA modification to all eligible borrowers and to have systems that can process all MHA-eligible loans. Servicers are subject to periodic, on-site compliance reviews performed by OFS' compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac, to ensure that servicers' obligations under MHA requirements are being met. In fiscal year 2011, OFS began publishing quarterly assessments of the ten largest servicers and continued publishing assessments throughout fiscal year 2012. These assessments have provided a vehicle to identify core servicing issues.

Operational Goal Four: Promote Transparency

To protect taxpayers and help ensure that every dollar is directed toward promoting financial stability, OFS established comprehensive accountability and transparency measures. OFS is committed to operating its investment and housing programs in full view of the public. This includes providing regular and comprehensive information about how TARP funds are being spent, who has received them and on what terms, and how much has been collected to date.

All of this information, along with numerous reports of different frequencies are posted on the Financial Stability section of the Treasury.gov website, which can be found at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx

These reports include:

- A Daily TARP Update, which features detailed financial data related to each TARP investment program including the status of disbursements and all collections by category;
- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and information on the estimated cost of TARP;
- A quarterly report on PPIP that provides detailed information on the funds, their investments, and returns. It is typically released within one month after the end of each quarter;
- A monthly report on dividend and interest payments;
- A report of each transaction (such as an investment or repayment) within two business days of each transaction; and
- A semi-annual report on warrant dispositions.

In addition, OFS posts to its website all investment contracts defining the terms of those investments within five to ten business days of a transaction's closing and all contracts with OFS service providers involved with TARP programs.

OFS is equally committed to operating its housing programs transparently and making information available and accessible to the public.

In conjunction with the Monthly Housing Scorecard, each month Treasury releases a Making Home Affordable Program Performance Report, which provides detailed metrics on the Making Home Affordable (MHA) Program. Once per quarter, the MHA report is expanded to include detailed assessments of the performance of servicers participating in the Making Home Affordable program.

Treasury provides information about servicer performance through two types of data:

- Compliance data, which reflects servicer compliance with specific MHA guidelines; and
- Program results data, which reflects how timely and effectively servicers assist eligible homeowners and report program activity.

OFS also publishes information about HAMP Activity by Metropolitan Statistical Area. These reports, released in conjunction with the monthly MHA Program Performance Report, include mortgage modification activity under HAMP by metropolitan area.

Additionally, OFS regularly publishes data files related to MHA and transaction reports that show activity related to MHA and HHF.

In order to improve transparency of the HAMP Net Present Value (NPV) model, which is a key component of the eligibility test for HAMP, OFS released the NPV white paper to the public. To ensure accuracy and reliability, Freddie Mac, acting as OFS' compliance agent, conducts periodic audits of servicers' implementation of the model and requires servicers to use models which meet OFS' NPV specifications or to revert back to OFS' NPV application. As required by the Dodd-Frank Act, OFS established a web portal that borrowers can access to run a NPV analysis on their own mortgages, and that borrowers who are turned down for a HAMP modification can use.

In a continued commitment to enhanced reporting and transparency, in January 2011, the Administration released the MHA Data File which includes characteristics of program participants to date, including financial information, mortgage loan information before and after entering HAMP, performance in a HAMP modification, and race/ethnicity data. The MHA Data File offers mortgage loan-level data and is intended to allow for better understanding of the impact of the program.

OFS applied the recommendations of an independent non-profit, non-partisan policy institute in preparing the MHA Data File to ensure the privacy of participating homeowners. The release of the data file fulfills a requirement within the Dodd-Frank Act to make available loan-level data about the program. OFS will update the file monthly and will expand reporting to include newer initiatives that are part of Making Home Affordable. Researchers interested in using the MHA Data File can access the file and user guide at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/mha_publicfile.aspx.

A. Audited Financial Statements

OFS prepares separate financial statements for TARP on an annual basis. This is the fourth OFS Agency Financial Report (AFR), and includes the audited financial statements for the fiscal years ended September 30, 2012 and September 30, 2011. Additional reports for prior periods are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Annual-Agency-Financial-Reports.aspx

In its first four years of operation, TARP's financial statements received unqualified audit opinions from its auditors, the GAO. OFS also received a Certificate of Excellence in Accountability Reporting (CEAR[16]) from the Association of Government Accountants for fiscal years 2011, 2010 and the period ending September 30, 2009.

B. TARP Retrospective Reports

In October 2011, OFS published the TARP Three-Year Anniversary Report. This serves as an update to OFS' comprehensive TARP Two-Year Retrospective report issued in October 2010. OFS anticipates publishing a fourth retrospective report in December 2012. These reports include information on TARP programs and the effects of TARP and additional emergency measures taken by the federal government to stabilize the financial system following the 2008 crisis. Readers are invited to refer to these documents at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx

C. Oversight by Four Separate Agencies

Congress also established four avenues of oversight for TARP:

- The Financial Stability Oversight Board, established by EESA Section104;
- Specific responsibilities for the GAO as set out in EESA Section 116;
- The Special Inspector General for TARP, established by EESA Section 121; and
- The Congressional Oversight Panel (COP), established by EESA Section125. COP concluded its operations in accordance with EESA on April 3, 2011.

OFS has productive working relationships with all of these bodies, and cooperates with each oversight agency's effort to produce periodic audits and reports that focus on the many aspects of TARP. Individually and collectively, the oversight bodies' audits and reports have made and continue to make important contributions to the development, strengthening, and transparency of TARP programs.

D. Congressional Hearings and Testimony

OFS officials have testified in numerous Congressional hearings since TARP was created. Copies of the written testimony are available at: http://www.treasury.gov/initiatives/financial-stability/news-room/Pages/default.aspx.

[16] The Certificate of Excellence recognizes outstanding accountability reporting and is the highest form of recognition in Federal government management reporting. AGA established the CEAR program in 1997 in conjunction with the Chief Financial Officers Council and the U.S. Office of Management and Budget to improve financial and program accountability by streamlining reporting and improving the effectiveness of such reports.

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PART 2:

Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER (CF0)

The Office of Financial Stability's (OFS) Agency Financial Report for fiscal year 2012 provides readers information on financial results relating to the Troubled Asset Relief Program (TARP) as required by the Emergency Economic Stabilization Act (EESA) of 2008 and other laws. It is a critical part of our efforts to ensure the highest level of transparency and accountability to the American people.

For fiscal year 2012, the Government Accountability Office (GAO) provided OFS unqualified audit opinions on the fair presentation of our financial statements and the effectiveness of our internal control over financial reporting. In addition, the auditors determined that we had no material weaknesses and successfully resolved our one fiscal year 2011 significant deficiency relating to internal control over our accounting and financial reporting processes.

I would like to acknowledge senior management's commitment to good governance as well as the discipline, transparency, and care exhibited by OFS employees in creating and executing our organization's policies and procedures. We were honored to have received the Certificate of Excellence in Accountability Reporting (CEAR) award from the Association of Government Accountants for each of the three periods from inception through the fiscal year 2011.

For fiscal year 2012, net income from operations was $7.7 billion, resulting in a cumulative net cost of operations of $20.3 billion since inception. Cumulative net cost of operations consists of (1) total net subsidy cost of $13.5 billion, and (2) housing costs and administrative costs of $5.7 billion and $1.1 billion, respectively. Total cumulative net subsidy cost consists of net subsidy income from the CPP, TIP, AGP, PPIP, SBA and TALF investments totaling $25.7 billion, primarily offset by net subsidy cost from investments in AIG of $15.2 billion, and automobile company investments of $23.8 billion. The fiscal year 2012 net income from operations primarily results from improvements related to American International Group, Inc. (AIG) since September 30, 2011, including an increase in the price per share of AIG common stock held as of September 30, 2012, and AIG common stock sold during fiscal year 2012, as compared to the price per share of AIG common stock held as of September 30, 2011.

During fiscal year 2012, OFS collected a total of $53.3 billion through repayments, sales, dividends, and other receipts. OFS' gross outstanding loan and investment balance as of September 30, 2012, was $63.1 billion comprising $37.2 billion in AIFP, $9.8 billion in PPIP, $8.7 billion in CPP, $6.7 billion in TARP AIG, and the remainder in CDCI and TALF. OFS is committed to exiting investments in a timely manner while maximizing collections on behalf of the taxpayer.

In fiscal year 2012, OFS continued to maintain rigorous internal control processes around transaction processing, disbursements, collections, and financial reporting. OFS further standardized and automated its subsidiary ledger reporting supporting the validation and reconciliation of financial data and continued enhancements to the Daily TARP Update report promoting transparency. In the upcoming fiscal year, OFS will seek to streamline and simplify internal control processes in order to accommodate attrition in light of decreasing investment balances. OFS will need to continue to rely on our operational partners to manage investments and assure that we reconcile all transactions and investments balances to protect taxpayer interests.

I feel fortunate to play a role in the continuing tradition of sound fiscal stewardship at OFS. This organization recognizes the importance of a robust control environment and will continue to uphold the highest standards of integrity as we carry out our fiduciary responsibilities to the American people.

Sincerely,

Lorenzo Rasetti
Chief Financial Officer

GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT

G A O
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

Independent Auditor's Report

To the Assistant Secretary for Financial Stability

In accordance with the Emergency Economic Stabilization Act of 2008 (EESA),[1] we are required to audit the financial statements of the Troubled Asset Relief Program (TARP), which is implemented by the Office of Financial Stability (OFS).[2] In our audit of OFS's fiscal years 2012 and 2011 financial statements for TARP, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012; and
- no reportable noncompliance in fiscal year 2012 with provisions of laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) required supplementary information and other information included with the financial statements; (3) our audit objectives, scope, and methodology; and (4) OFS's comments on a draft of this report. In addition to our responsibility to audit OFS's annual financial statements for TARP, we also are required under EESA to report at least every 60 days on the findings resulting from our oversight of the actions taken under TARP.[3] This report responds to both of these requirements. We have issued numerous other reports on TARP in connection with this 60-day reporting responsibility, which can be found on GAO's website at http://www.gao.gov.

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[1] Pub. L. No. 110-343, div. A, 122 Stat 3765 (Oct. 3, 2008), *codified in part, as amended, at* 12 U.S.C. §§ 5201-5261. Section 116(b) of EESA, 12 U.S.C. § 5226(b), requires that the Department of the Treasury (Treasury) annually prepare and submit to Congress and the public audited fiscal year financial statements for the Troubled Asset Relief Program (TARP) that are prepared in accordance with generally accepted accounting principles. Section 116(b) further requires that GAO audit TARP's financial statements annually in accordance with generally accepted auditing standards.

[2] Section 101 of EESA, 12 U.S.C. § 5211, established OFS within Treasury to implement TARP.

[3] Section 116 of EESA, 12 U.S.C. § 5226, requires the Comptroller General to report at least every 60 days on findings under section 116.

Opinion on Financial Statements

OFS's financial statements for TARP, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, OFS's assets, liabilities, and net position as of September 30, 2012 and 2011, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended.

As discussed in notes 2 and 6 to OFS's financial statements for TARP, the valuation of TARP direct loans, equity investments, and the asset guarantee program is based on estimates using economic and financial credit subsidy models. The estimates use entity-specific as well as relevant market data as the basis for assumptions about future performance, and incorporate an adjustment for market risk to reflect the variability around any unexpected losses. In valuing the direct loans, equity investments, and the asset guarantee program, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated subsidy allowance and related subsidy cost or income reported in the financial statements.[4] However, there are numerous factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. The estimates have an added uncertainty resulting from the unique nature of certain TARP assets. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantee program as of September 30, 2012 and 2011, which totaled $41.2 billion and $80.8 billion, respectively, and the amounts that OFS will ultimately realize from these assets, and such differences may be material. These differences will also affect TARP's ultimate cost. Further, TARP's ultimate cost will change as OFS continues to incur costs relating to its Treasury Housing Programs.[5]

As discussed in note 1 to the financial statements, while OFS's financial statements for TARP reflect activity of OFS in implementing TARP, including providing resources to various entities to help stabilize the financial markets, the statements do not include the assets, liabilities, or results of operations of these entities in which OFS has a significant equity interest. According to OFS officials, OFS's investments were not made to engage

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[4] The subsidy cost or income is composed of (1) the change in the subsidy cost allowance, net of write-offs; (2) net intragovernmental interest cost; (3) certain inflows from the direct loans and equity investments (e.g., dividends, interest, net proceeds from sales and repurchases of assets in excess of cost, and other realized fees); and (4) the change in the estimated discounted net cash flows related to other credit programs (asset guarantee program and Federal Housing Administration refinance program).

[5] The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, title XIII, § 1302, 124 Stat. 1376, 2133 (July 21, 2010), (1) limited Treasury's authority to purchase or guarantee troubled assets to a maximum of $475 billion; (2) changed this limit to a cap on all purchases and guarantees made without regard to subsequent sale, repayment, or cancellation of assets or guarantees; and (3) prohibited Treasury, under EESA, from incurring any obligations for a program or initiative unless the program or initiative had already been initiated prior to June 25, 2010.

in the business activities of the respective entities, and OFS has determined that none of these entities meet the criteria for a federal entity.

Opinion on Internal Control

OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

During fiscal year 2012, OFS sufficiently addressed the internal control issues related to the significant deficiency[6] we reported for fiscal year 2011 concerning its accounting and financial reporting processes such that we no longer consider this to be a significant deficiency as of September 30, 2012.

Compliance with Laws and Regulations

Our tests of OFS's compliance with selected provisions of laws and regulations for fiscal year 2012 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Required Supplementary Information

U.S. generally accepted accounting principles require that required supplementary information (RSI) be presented to supplement the financial statements.[7] This information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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[6] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

[7] RSI is comprised of "Management's Discussion and Analysis" and the "Combined Statement of Budgetary Resources" that are included with the financial statements.

Other Information

OFS's other information[8] contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. Our audit was conducted for the purpose of forming an opinion on OFS's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Objectives, Scope, and Methodology

OFS management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with the prescribed guidelines in U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness; and (5) complying with applicable laws and regulations. OFS management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2012, based on the criteria established under FMFIA. OFS management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and to provide our opinion about whether (1) OFS's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) OFS management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and (2) applying certain limited procedures to the RSI and other information included with the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in OFS's financial statements;
- assessed the accounting principles used and significant estimates made by OFS management;

[8] Other information is comprised of information included with the financial statements, other than RSI and the auditor's report.

- evaluated the overall presentation of OFS's financial statements;
- obtained an understanding of OFS and its operations, including its internal control over financial reporting;
- considered OFS's process for evaluating and reporting on internal control over financial reporting that OFS is required to perform by FMFIA and Section 116(c) of EESA;
- assessed the risk of (1) material misstatement in OFS's financial statements and (2) material weakness in its internal control over financial reporting;
- evaluated the design and operating effectiveness of OFS's internal control over financial reporting based on the assessed risk;
- tested relevant internal control over OFS's financial reporting;
- tested compliance with selected provisions of the following laws and regulations: EESA, as amended; the Antideficiency Act; the Federal Credit Reform Act of 1990; the Dodd-Frank Wall Street Reform and Consumer Protection Act; and the Purpose Statute;
- conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures;
- read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and
- performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to OFS. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for fiscal year 2012. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments

In commenting on a draft of this report, the Assistant Secretary for Financial Stability stated that OFS is proud to receive unqualified opinions on its financial statements and its internal control over financial reporting. He also stated that OFS is committed to maintaining the high standards and transparency reflected in these audit results. The complete text of OFS's comments is reprinted in its entirety in appendix II.

Gary T. Engel

Gary T. Engel
Director
Financial Management and Assurance

November 5, 2012

Appendix I: Management's Report on Internal Control Over Financial Reporting

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

Management's Report on Internal Control over Financial Reporting

The Office of Financial Stability's (OFS) internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

OFS management is responsible for establishing and maintaining effective internal control over financial reporting. OFS management evaluated the effectiveness of OFS' internal control over financial reporting as of September 30, 2012, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2012, OFS' internal control over financial reporting was effective.

Office of Financial Stability

Timothy G. Massad
Assistant Secretary for Financial Stability

Lorenzo Rasetti
Chief Financial Officer

November 5, 2012

Appendix II: OFS Response to Auditor's Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 7, 2012

Mr. Gary T. Engel
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Engel:

We have reviewed the Independent Auditor's Report concerning your audit of the Office of Financial Stability's (OFS) fiscal year 2012 financial statements. OFS is proud to receive unqualified opinions on our financial statements and our internal controls over financial reporting. We are also pleased that you agree that OFS resolved our one fiscal year 2011 significant deficiency relating to internal control surrounding accounting and financial reporting processes.

We appreciate the professionalism and commitment demonstrated by your staff throughout the audit process. The process was valuable for us and resulted in concrete improvements in our operations and financial management efforts.

OFS is committed to maintaining the high standards and transparency reflected in these audit results as we carry out our responsibilities for managing the Troubled Asset Relief Program.

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

FINANCIAL STATEMENTS

The Office of Financial Stability (OFS) prepares financial statements for the Troubled Asset Relief Program (TARP) as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it and as required by Section 116 of the Emergency Economic Stabilization Act of 2008 (EESA). Preparation of these statements is also an important part of the OFS' financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources. The OFS management is responsible for the accuracy and propriety of the information contained in the financial statements and the quality of internal controls. The statements are, in addition to other financial reports, used to monitor and control budgetary resources. The OFS prepares these financial statements from its books and records in conformity with the accounting principles generally accepted in the United States for federal entities and the formats prescribed by the Office of Management and Budget (OMB).

While these financial statements reflect activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include, as more fully discussed in Note 1, the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest.

The Balance Sheet summarizes the OFS assets, liabilities and net position as of September 30, 2012 and 2011. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The Statement of Net Cost presents the net cost of (income from) operations for the years ended September 30, 2012 and 2011.

The Statement of Changes in Net Position presents the change in OFS' net position for two components, Cumulative Results of Operations and Unexpended Appropriations, for the years ended September 30, 2012 and 2011. The ending balances of both components of net position are also reported on the Balance Sheet.

The Statement of Budgetary Resources provides information about funding and availability of budgetary resources and the status of those resources for the years ended September 30, 2012 and 2011.

Office of Financial Stability (Troubled Asset Relief Program)

BALANCE SHEET

As of September 30, 2012 and 2011

Dollars in Millions	2012	2011
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 75,495	$ 83,342
Asset Guarantee Program (Note 6)	967	739
Other	1	-
Total Intragovernmental Assets	76,463	84,081
Cash on Deposit for Housing Program (Note 4)	50	50
Troubled Asset Relief Program:		
Direct Loans and Equity Investments, Net (Note 6)	40,231	80,104
Total Assets	$ 116,744	$ 164,235
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable and Other Liabilities	$ 2	$ 2
Due to the General Fund (Note 7)	9,714	4,591
Principal Payable to the Bureau of the Public Debt (Note 8)	52,828	129,497
Total Intragovernmental Liabilities	62,544	134,090
Accounts Payable and Other Liabilities	87	93
Liabilities for Treasury Housing Programs Under TARP:		
FHA-Refinance Program (Notes 5 and 6)	7	1
Making Home Affordable Program and Hardest Hit Fund (Note 5)	241	343
Total Liabilities	$ 62,879	$ 134,527
Commitments and Contingencies (Note 9)	-	-
NET POSITION		
Unexpended Appropriations	$ 54,572	$ 57,544
Cumulative Results of Operations	(707)	(27,836)
Total Net Position	$ 53,865	$ 29,708
Total Liabilities and Net Position	$ 116,744	$ 164,235

The accompanying notes are an integral part of these financial statements.

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF NET COST

For the Years Ended September 30, 2012 and 2011

Dollars in Millions	2012	2011
STRATEGIC GOAL: TO ENSURE THE OVERALL STABILITY AND LIQUIDITY OF THE FINANCIAL SYSTEM, PREVENT AVOIDABLE FORECLOSURES AND PRESERVE HOMEOWNERSHIP		
Gross Cost of (Income from) Operations:		
Program Subsidy Cost (Income) (Note 6)		
Direct Loan and Equity Investment Programs	$ (10,778)	$ 7,208
Other Credit Programs	(201)	31
Total Program Subsidy Cost (Income)	(10,979)	7,239
Interest Expense on Borrowings from the Bureau of the Public Debt (Note 10)	2,252	3,827
Treasury Housing Programs Under TARP (Note 5)	2,963	1,943
Administrative Cost	268	315
Total Gross Cost of (Income from) Operations	(5,496)	13,324
Earned Revenue:		
Dividend and Interest Income - Programs (Note 6)	(2,733)	(3,476)
Interest Income on Financing Account (Note 10)	(605)	(781)
Subsidy Allowance Amortization (Note 10)	1,086	430
Total Earned Revenue	(2,252)	(3,827)
Total Net Cost of (Income from) Operations	$ (7,748)	$ 9,497

The accompanying notes are an integral part of these financial statements.

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2012 and 2011

Dollars in Millions	2012 Unexpended Appropriations	2012 Cumulative Results of Operations	2011 Unexpended Appropriations	2011 Cumulative Results of Operations
Beginning Balances	$ 57,544	$ (27,836)	$ 79,783	$ (1,546)
Budgetary Financing Sources				
Appropriations Received	27,593	-	2,278	-
Appropriations Used	(30,565)	30,565	(24,517)	24,517
Other Financing Sources	-	(11,184)	-	(41,310)
Total Financing Sources	(2,972)	19,381	(22,239)	(16,793)
Net (Cost of) Income from Operations	-	7,748	-	(9,497)
Net Change	(2,972)	27,129	(22,239)	(26,290)
Ending Balances	$ 54,572	$ (707)	$ 57,544	$ (27,836)

The accompanying notes are an integral part of these financial statements.

Office of Financial Stability (Troubled Asset Relief Program)

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2012 and 2011

Dollars in Millions	2012 Budgetary Accounts	2012 Nonbudgetary Financing Accounts	2011 Budgetary Accounts	2011 Nonbudgetary Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balances Brought Forward	$ 14,166	$ 21,143	$ 11,075	$ 10,548
Recoveries of Prior Year Unpaid Obligations	146	6,114	3,057	4,664
Borrowing Authority Withdrawn	-	(5,832)	-	(1,368)
Actual Repayments of Debt, Prior-Year Balances	-	(19,900)	-	(7,996)
Unobligated Balance from Prior Year Budget Authority, Net	14,312	1,525	14,132	5,848
Appropriations	27,593	-	2,278	-
Borrowing Authority	-	2,659	-	35,596
Spending Authority from Offsetting Collections	-	21,695	-	45,101
TOTAL BUDGETARY RESOURCES (Note 11)	$ 41,905	$ 25,879	$ 16,410	$ 86,545
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 27,555	$ 8,248	$ 2,244	$ 65,402
Unobligated Balance:				
Apportioned	41	3,946	36	511
Unapportioned	14,309	13,685	14,130	20,632
Total Unobligated Balance	14,350	17,631	14,166	21,143
TOTAL STATUS OF BUDGETARY RESOURCES	$ 41,905	$ 25,879	$ 16,410	$ 86,545
CHANGE IN OBLIGATED BALANCES				
Obligated Balance Brought Forward:				
Unpaid Obligations	$ 43,814	$ 13,158	$ 69,128	$ 41,918
Uncollected Customer Payments from Federal Sources	-	(496)	-	(23,816)
Obligated Balance, Net, Brought Forward	43,814	12,662	69,128	18,102
Obligations Incurred	27,555	8,248	2,244	65,402
Gross Outlays	(30,675)	(9,366)	(24,501)	(89,498)
Change in Uncollected Customer Payments from Federal Sources	-	147	-	23,320
Recoveries of Prior Year Unpaid Obligations	(146)	(6,114)	(3,057)	(4,664)
Obligated Balance, Net, End of Period:				
Unpaid Obligations, Gross, End of Period	40,548	5,926	43,814	13,158
Uncollected Customer Payments from Federal Sources	-	(349)	-	(496)
OBLIGATED BALANCE, NET, END OF PERIOD	$ 40,548	$ 5,577	$ 43,814	$ 12,662
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	$ 27,593	$ 24,354	$ 2,278	$ 80,697
Actual Offsetting Collections	-	(81,269)	-	(107,307)
Change in Uncollected Customer Payments from Federal Sources	-	147	-	23,320
BUDGET AUTHORITY, NET	$ 27,593	$ (56,768)	$ 2,278	$ (3,290)
Gross Outlays	$ 30,675	$ 9,366	$ 24,501	$ 89,498
Actual Offsetting Collections	-	(81,269)	-	(107,307)
Net Outlays	30,675	(71,903)	24,501	(17,809)
Distributed Offsetting Receipts	(6,063)	-	(61,832)	-
AGENCY OUTLAYS, NET	$ 24,612	$ (71,903)	$ (37,331)	$ (17,809)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. REPORTING ENTITY

The Troubled Asset Relief Program (TARP) was authorized by the Emergency Economic Stabilization Act of 2008 (EESA or "the Act"). The Act gave the Secretary of the Treasury (the Secretary) broad and flexible authority to establish the TARP to purchase and insure mortgages and other troubled assets, which permitted the Secretary to inject capital into banks and other commercial companies by taking equity positions in those entities to help stabilize the financial markets.

The EESA established certain criteria under which the TARP would operate, including provisions that impact the budgeting, accounting, and reporting of troubled assets acquired under the Act. Section 101(a) of the EESA provided the authority for the Secretary to purchase troubled assets, and Section 101(a)(3) of the EESA established the Office of Financial Stability (OFS) to implement the TARP. Section 102 of the EESA required the Secretary to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. Section 115 of the EESA limited the authority of the Secretary to purchase troubled assets up to $700.0 billion outstanding at any one time, calculated at the aggregate purchase prices of all troubled assets held. Amendments to Section 115 of the EESA during the period ended September 30, 2009, reduced that authority by $1.3 billion, from $700.0 billion to $698.7 billion. Section 120 of the EESA established that the authorities under Sections 101(a), excluding Section 101(a)(3), and Section 102 of the EESA would terminate December 31, 2009, unless extended upon submission of a written certification to Congress by the Secretary of the Treasury. On December 9, 2009, the Secretary extended the program authorities through October 3, 2010. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act amended Section 115 of the EESA, limiting the TARP's authority to a total of $475.0 billion cumulative obligations (i.e. purchases and guarantees) and prohibiting any new obligations for programs or initiatives that had not been publicly announced prior to June 25, 2010. Of the maximum $475.0 billion authority under the EESA, as amended, OFS had utilized (including purchases made, legal commitments to make purchases and offsets for guarantees made) $467.0 billion as of September 30, 2012 and $470.1 billion as of September 30, 2011.

The TARP developed the following programs: the Capital Purchase Program (CPP); the Targeted Investment Program (TIP); the Community Development Capital Initiative (CDCI); the Public-Private Investment Program (PPIP); the Term Asset-Backed Securities Loan Facility (TALF); the SBA 7(a) Securities Purchase Program (SBA 7(a)); the Automotive Industry Financing Program (AIFP); the American International Group, Inc. (AIG) Investment Program (formerly known as the Systemically Significant Failing Institutions Program); the Asset Guarantee Program (AGP); and the Treasury Housing Programs Under TARP (see Notes 5 and 6 for details regarding all of these programs).

While these financial statements reflect the activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest. Through the purchase of troubled assets, the OFS has entered into several different types of direct loan, equity investment, and other credit programs (which consist of the AGP and the Federal Housing Administration (FHA) Refinance Program) with private entities. These direct loans, equity investments, and other credit programs were entered into with the intent of helping to stabilize the financial markets and mitigating, as best as possible, any adverse impact on the economy. These direct loans, equity investments, and other credit programs were not entered into to engage in the business activities of the respective private entities. Based on this intent, the OFS concluded that such direct loans, equity investments, and other credit programs are considered "bail outs", under the provisions of paragraph 50 of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*. In addition, these entities are not included in the Federal budget and, therefore, do not meet the conclusive criteria in SFFAC No. 2. As such, the

OFS determined that none of these entities meet the criteria to be classified as a federal entity. Consequently, their assets, liabilities, and results of operations were not consolidated in these OFS financial statements, but the value of OFS' investments in such entities was recorded in OFS' financial statements.

In addition, the OFS has made loans and investments in certain Special Purpose Vehicles (SPV)[17]. SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control to carry out government powers and missions, as criteria in the determination about whether an entity should be classified as a federal entity. The OFS has concluded that none of the SPVs meet the conclusive or indicative criteria to be classified as a federal entity. As a result, the assets, liabilities and results of operations of the SPVs are not included in these OFS financial statements. Additional disclosures regarding certain SPV investments are included in Notes 2 and 6; see PPIP, TALF and AIG Investment Program.

The EESA established the OFS within the Office of Domestic Finance of the U. S. Department of the Treasury (Treasury). The OFS prepares stand-alone financial statements to satisfy EESA's requirement for the TARP to prepare annual financial statements. Additionally, as an office of the Treasury, its financial statements are consolidated into Treasury's Agency Financial Report.

[17] During 2012 and 2011, the OFS held investments in SPVs under the TALF, PPIP and AIG Investment Programs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying financial statements include the operations of the OFS and have been prepared from the accounting records of the OFS in conformity with accounting principles generally accepted in the United States for federal entities (Federal GAAP), and the OMB Circular A-136, *Financial Reporting Requirements*, as amended. Federal GAAP includes the standards issued by the Federal Accounting Standards Advisory Board (FASAB). The FASAB is recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards-setting body for the U.S. Government. As such, the FASAB is responsible for establishing Federal GAAP for Federal reporting entities.

The FASAB issued the Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* in July 2009. SFFAS No. 34 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with Federal GAAP.

In addition to the above, Section 123(a) of the EESA requires that the budgetary cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities, be determined in accordance with the Federal Credit Reform Act of 1990 (FCRA). Section 123(b) (1) of the EESA requires that the budgetary costs of troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. As a result of this requirement, the OFS considered market risk in its calculation and determination of the estimated net present value of its direct loans, equity investments and other credit programs for budgetary purposes. Similarly, market risk is considered in the valuations for financial reporting purposes (see Note 6 for further discussion).

Consistent with its accounting policy for equity investments in private entities, including SPV's, the OFS accounts for its equity investments at fair value. Since fair value is not defined in federal accounting standards, following the hierarchy of accounting principles established in SFFAS No. 34, the OFS conforms to fair value definitions contained in the private sector Financial Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. OFS defines fair value of its equity investments as the estimated amount of proceeds that would be received if the equity investments were sold to a market participant in an orderly transaction. Note 6 presents Direct Loan and Equity Investments and the Asset Guarantee Program receivable tabulated by the Level of Observation of the inputs used in the valuation process. Level 1 assets are measured using quoted market prices for identical assets. Level 2 assets are measured using observable market inputs other than direct market quotes. Level 3 assets are measured using unobservable inputs.

The OFS uses the present value accounting concepts embedded in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* as amended (SFFAS No. 2), to derive fair value measurements for its equity investments in Levels 2 and 3. The OFS concluded that some of the equity investments, such as preferred stock, were similar to direct loans since there was a stated rate and a redemption feature which, if elected, required repayment of the amount invested. Furthermore, consideration of market risk provided a basis to arrive at a fair value measurement. Therefore, the OFS concluded that SFFAS No. 2 (as more fully discussed below) should be followed for reporting and disclosure requirements of its equity investments.

Federal loans and loan guarantees are governed by FCRA for budgetary accounting and the associated FASAB accounting standard SFFAS No. 2 for financial reporting. The OFS applies the provisions of SFFAS No. 2 when accounting and reporting for direct loans and other credit programs. Direct loans disbursed and outstanding are recognized as assets at the net present value of their estimated future cash flows. Outstanding asset guarantees are recognized as liabilities or assets at the net present value of their estimated future cash flows.

Liabilities under the FHA-Refinance Program are recognized at the net present value of their estimated future cash flows when the FHA guarantees loans.

For direct loans and equity investments, the subsidy allowance account represents the difference between the face value of the outstanding direct loan and equity investment balance and the net present value of the expected future cash flows or fair value, and is reported as an adjustment to the face value of the direct loan or equity investment.

The OFS recognizes dividend income associated with equity investments when declared by the entity in which the OFS has invested and when received in relation to any repurchases, exchanges and restructurings. The OFS recognizes interest income when earned on performing loans; interest income is not accrued on non-performing loans. The OFS reflects changes, referred to as reestimates, in its determination of the value of direct loans, equity investments, and other credit programs in the subsidy cost on the Statement of Net Cost annually.

The OFS has received common stock warrants, additional preferred stock (referred to as warrant preferred stock) or additional notes as additional consideration for providing direct loans and equity investments and for supporting the Asset Guarantee Program. The OFS accounts for the common stock warrants and warrant preferred stock received under Section 113 of the EESA as fees under SFFAS No. 2, and, as such, the proceeds received in any sales are credited to the subsidy allowance rather than to income.

Use of Estimates

The OFS has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and cost to prepare these financial statements. Actual results could significantly differ from these estimates. Major financial statement lines that include estimates are TARP Direct Loans and Equity Investments, Net, the Asset Guarantee Program and the Liabilities for Treasury Housing Programs Under TARP on the Balance Sheet, and related Program Subsidy Cost (Income) on the Statement of Net Cost (see Note 6).

The most significant differences between actual results and estimates may occur in the valuation of direct loans, equity investments, and other credit programs. These estimates are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the OFS has an equity interest, estimates of expected default, and prepayment rates. Forecasts of future financial results have inherent uncertainty, and the OFS' TARP Direct Loans and Equity Investments, Net and Asset Guarantee Program line items, as of fiscal year ends, primarily reflect relatively illiquid assets with values that are sensitive to future economic conditions and other assumptions. Estimates are also prepared for the FHA-Refinance Program to determine the liability for losses.

Credit Reform Accounting

The FCRA provides for the use of program, financing, and general fund receipt accounts to separately account for activity related to direct loans, equity investments and other credit programs. These accounts are classified as either budgetary or non-budgetary in the Statement of Budgetary Resources. The budgetary accounts include the program and general fund receipt accounts, and the non-budgetary accounts consist of the credit reform financing accounts.

As discussed previously, the OFS accounts for the cost of direct loans, equity investments and other credit programs in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting, and fair value and SFFAS No. 2 for financial reporting.

Consistent with SFFAS No. 2 and FCRA, the OFS maintains program accounts which receive appropriations and obligate funds to cover the subsidy cost of direct loans, equity investments and other credit programs, and disburses the subsidy cost to the OFS financing accounts. The financing accounts are non-budgetary accounts that are used to record all of the cash flows resulting from the OFS direct loans, equity investments and other credit programs. Cash flows include disbursements, borrower repayments, repurchases, fees, recoveries, interest, dividends, proceeds from the sale of stock and warrants, borrowings from and repayments to Treasury, negative subsidy and the subsidy cost received from the program accounts, as well as subsidy reestimates and modifications.

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows: (1) borrowing for program funds under Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements; (2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and (3) establishment of the Troubled Assets Insurance Financing Fund (TAIFF) for the Asset Guarantee Program under Section 102(d).

The OFS uses general fund receipt accounts to record the receipt of amounts paid from the financing accounts when there is a negative subsidy or negative modification (a reduction in subsidy cost due to changes in program policy or terms that change estimated future cash flows) from the original estimate or a downward reestimate. Amounts in the general fund receipt accounts are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the general fund receipt account is not included in the OFS' reported Fund Balance with Treasury.

SFFAS No. 2 requires that the actual and expected costs of federal credit programs be fully recognized in financial reporting. The OFS calculated and recorded initial estimates of the future performance of direct loans, equity investments, and other credit programs. The data used for these estimates were reestimated annually, at fiscal year-end, to reflect adjustments for market risk, asset performance, and other key variables and economic factors. The reestimate data was then used to estimate and report the "Program Subsidy Cost (Income)" in the Statement of Net Cost. A detailed discussion of the OFS subsidy calculation and reestimate assumptions, process and results is provided in Note 6.

Fund Balance with Treasury

The Fund Balance with Treasury includes general, financing and other funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by the Treasury, and the OFS' records are reconciled with those of the Treasury on a regular basis.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent unanticipated collections in excess of the amounts apportioned which are unavailable. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. See Note 3.

Troubled Asset Relief Program Direct Loans and Equity Investments, Net

Troubled Asset Relief Program Direct Loans and Equity Investments, Net represents the estimated net outstanding amount of the OFS direct loans and equity investments. The direct loan and equity investment balances have been determined in accordance with the provisions of SFFAS No. 2 or at fair value (see Note 6). Write-offs of gross direct loan and equity investment balances (presented in Note 6 table) are recorded when a legal event occurs, such as a bankruptcy with no further chance of recovery or extinguishment of a debt instrument by agreement. Under SFFAS No. 2, write-offs do not affect the Statement of Net Cost because the written-off asset is fully reserved. Therefore, the write-off removes the asset balance and the associated subsidy allowance.

Asset Guarantee Program

During fiscal year 2010, the OFS and the Federal Deposit Insurance Corporation (FDIC) entered into a termination agreement with the Asset Guarantee Program's sole participant, Citigroup. As a result, in fiscal year 2011, the OFS sold securities and warrants held in the program. The Intragovernmental Asset line item, Asset Guarantee Program, remaining on the Balance Sheet is the estimated value of certain Citigroup trust preferred securities including dividends collected, currently held by the FDIC for the benefit of OFS. Under the termination agreement, the FDIC has agreed to transfer these securities to the OFS, less any losses on FDIC's guarantee of Citigroup debt, by December 31, 2012. See Note 6.

General Property and Equipment

Equipment with a cost of $50,000 or more per unit and a useful life of two years or more is capitalized at full cost and depreciated using the straight-line method over the equipment's useful life. Other equipment not meeting the capitalization criteria is expensed when purchased. Software developed for internal use is capitalized and amortized over the estimated useful life of the software if the cost per project is greater than $250,000. However, OFS may expense such software if management concludes that total period costs would not be materially distorted and the cost of capitalization is not economically prudent. Based upon these criteria, the OFS reports no capitalized property, equipment or software on its Balance Sheet as of September 30, 2012 and 2011.

Accounts Payable and Other Liabilities

Accounts Payable and Other Liabilities are amounts due to intragovernmental or public entities that are anticipated to be liquidated during the next operating cycle (within one year from the balance sheet date).

Due to the General Fund

Due to the General Fund represents the amount of accrued downward reestimates not yet funded, related to direct loans, equity investments and other credit programs as of September 30, 2012 and 2011. See Notes 6 and 7.

Principal Payable to the Bureau of the Public Debt

Principal Payable to the Bureau of the Public Debt (BPD) represents the net amount due for equity investments, direct loans and other credit programs funded by borrowings from the BPD as of the end of the fiscal year. Additionally, OFS borrows from the BPD for payment of intragovernmental interest and payment of negative subsidy cost to the general fund, as necessary. See Note 8.

Liabilities for the Treasury Housing Programs Under TARP

There are three initiatives in the Treasury Housing Programs: the Making Home Affordable Program, the Housing Finance Agency Hardest-Hit Fund and the FHA-Refinance Program. The OFS has determined that credit reform accounting is not applicable to the Treasury Housing Programs Under TARP except for the FHA-Refinance Program. Therefore, liabilities for the Making Home Affordable Program and Housing Finance Agency Hardest-Hit Fund are accounted for in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. In accordance with this standard, a liability is recognized for any unpaid amounts due and payable as of the reporting date. The liability estimate, as of September 30, 2012 and 2011, is based on information about loan modifications reported by participating servicers for the Making Home Affordable Program and participating states for the Housing Finance Agency Hardest-Hit Fund. See Note 5.

At the end of fiscal year 2010, the OFS entered into a loss-sharing agreement with the FHA to support a program in which FHA would guarantee refinancing for borrowers whose homes are worth less than the remaining amounts owed under their mortgage loans, i.e. "underwater". The liability for OFS' share of losses was determined under credit reform accounting and is shown as FHA-Refinance Program, one of the Liabilities for Treasury Housing Programs Under TARP, on the Balance Sheet. See Notes 4, 5 and 6.

Unexpended Appropriations

Unexpended Appropriations represents the OFS undelivered orders and unobligated balances in budgetary appropriated funds as of September 30, 2012 and 2011.

Cumulative Results of Operations

Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, represents the net results of the OFS operations not funded by appropriations or some other source, such as borrowing authority, from inception through fiscal year end. At September 30, 2012 and 2011, OFS had $755 million and $27.9

billion, respectively, of unfunded upward reestimates that resulted in OFS reporting negative Cumulative Results of Operations. The fiscal year 2012 unfunded upward reestimates will be funded in fiscal year 2013. The fiscal year 2011 unfunded upward reestimates were funded in fiscal year 2012. Cumulative Results of Operations in 2012 and 2011 also included $50 million reported as Cash on Deposit for Housing Program on the Balance Sheet, see Note 4.

Other Financing Sources

The Other Financing Sources line in the Statement of Changes in Net Position for each year consists primarily of downward reestimates. Each program's reestimates, upward and downward, are recorded separately, not netted together.

Leave

A liability for the OFS employees' annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken. The liability is included in the Balance Sheet amount for Accounts Payable and Other Liabilities.

Employee Health and Life Insurance and Workers' Compensation Benefits

The OFS employees may choose to participate in the contributory Federal Employees Health Benefit and the Federal Employees Group Life Insurance Programs. The OFS matches a portion of the employee contributions to each program. Matching contributions are recognized as current operating expenses.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. Future workers' compensation estimates are generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. Any FECA amounts relating to OFS employees are expensed as incurred.

Employee Pension Benefits

The OFS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and may contain early retirement or other special features. The OFS contributions to retirement plans and Social Security, as well as imputed costs for pension and other retirement benefit costs administered by the Office of Personnel Management, are recognized on the Statement of Net Cost as Administrative Costs. Federal employee benefits also include the Thrift Savings Plan (TSP). For FERS employees, a TSP account is automatically established and the OFS matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as Administrative Costs on the Statement of Net Cost.

Related Parties

The nature of related parties and descriptions of related party transactions are discussed within Notes 1 and 6.

Reclassifications

Reclassification of certain items of the 2011 financial statements has been made to conform to the 2012 presentation. For example, OMB Circular A-136 changed the format of the Statement of Budgetary Resources to align with the SF-133 *Report on Budget Execution and Budgetary Resources* for all federal reporting entities. Fiscal year 2011 balances on the SBR were reclassified to conform to the new format.

NOTE 3. FUND BALANCES WITH TREASURY

Fund Balances with Treasury, by fund type and status, are presented in the following table.

(Dollars in Millions)	As of September 30, 2012	2011
Fund Balances:		
General Funds	$ 40,517	$ 43,542
Program Funds	14,382	14,438
Financing Funds	20,596	25,362
Total Fund Balances	$ 75,495	$ 83,342
Status of Fund Balances:		
Unobligated Balances		
Available	$ 3,987	$ 547
Unavailable	27,994	34,762
Obligated Balances Not Yet Disbursed	43,514	48,033
Total Status of Fund Balances	$ 75,495	$ 83,342

Collections relating to the AGP are deposited in the Troubled Assets Insurance Financing Fund (which is within OFS Financing Funds balance) as required by the EESA Section 102(d). In fiscal years 2012 and 2011, the TAIFF balance was reduced for AGP-related downward reestimates, repayments of AGP-related debt and payments of interest on AGP-related debt due to the Bureau of the Public Debt.

NOTE 4. CASH ON DEPOSIT FOR HOUSING PROGRAM

As of September 30, 2012, and 2011, the OFS had $50 million on deposit with a commercial bank to facilitate its payments of claims under the FHA-Refinance Program as OFS' agent. Under terms of its agreement, the OFS is required to maintain a minimum amount of funds on deposit, depending upon the size of the program and potential claims. Unused funds will be returned to the OFS upon the termination of the program and agreement.

NOTE 5. TREASURY HOUSING PROGRAMS UNDER TARP

Fiscal year 2012 saw a continued advancement of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation. The programs fall into three initiatives:

1) Making Home Affordable Program (MHA);
2) Housing Finance Agency (HFA) Hardest-Hit Fund; and
3) FHA-Refinance Program.

MHA

In early 2009, Treasury launched the Making Home Affordable Program (MHA) to help struggling homeowners avoid foreclosure. Since its inception, MHA has helped homeowners avoid foreclosure by providing a variety of solutions to modify or refinance their mortgages, get temporary forbearance if they are unemployed, or transition out of homeownership via a short sale or deed-in-lieu of foreclosure. The cornerstone of MHA is the Home Affordable Modification Program (HAMP), which provides eligible homeowners the opportunity to reduce their monthly mortgage payments to more affordable levels. Treasury also launched programs under MHA to help homeowners who are unemployed, "underwater" on their loans (those who owe more on their home than it is currently worth), or struggling with second liens. It also includes options for homeowners who would like to transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. MHA includes several additional programs to help homeowners refinance or address specific types of mortgages, in conjunction with the Federal Housing Administration (FHA), the United States Department of Agriculture (USDA), and the Department of Veterans Affairs (VA).

Features of these initiatives follow:

Housing Program	Features
MHA	
Home Affordable Modification Program (HAMP)	
First Lien Modification Program	Provides for upfront, monthly and annual incentives to servicers, borrowers and investors who participate, whereby the investor and OFS share the costs of modifying qualified first liens, conditional on borrower performance.
Principal Reduction Alternative Program	Pays financial incentives to investors for principal reduction in conjunction with a first lien HAMP modification.
Home Price Depreciation Program (HPDP)	Provides financial incentives to investors to partially offset losses from home price declines.
Home Affordable Foreclosure Alternatives (HAFA)	Designed to assist eligible borrowers unable to retain their homes through a HAMP modification, by simplifying and streamlining the short sale and deed-in-lieu of foreclosure processes and providing financial incentives to servicers and investors as well as relocation assistance to borrowers who pursue short sales and deeds-in-lieu.
Unemployment Forebearance Program (UP)	Offers assistance to unemployed homeowners through temporary forebearance of a portion of their mortgage payments. This program does not require any payments from OFS.
FHA - HAMP	Provides mortgage modifications similar to HAMP, but for FHA-insured or guaranteed loans offered by the FHA, VA or USDA.
Second Lien Program (2MP)	Offers financial incentives to participating servicers who modify second liens in conjunction with a HAMP modification.
Treasury/FHA Second Lien Program (FHA 2LP)	Provides for reduction or elimination of second mortgages on homes whose servicers participate in the FHA Refinance Program.
Rural Development Program (RD - HAMP)	Provides for lower monthly payments on USDA guaranteed loans.
HHF	Provides targeted aid to families in the states hardest hit by the housing market downturn and unemployment.
FHA - Refinance Program	Joint initiative with HUD to encourage refinancing of existing underwater mortgage loans not currently insured by FHA into FHA insured mortgages.

In fiscal year 2012, the OFS made three changes to MHA programs, designed to provide relief to more homeowners and to accelerate the housing market recovery. First, the deadline for homeowners to apply for MHA programs was extended from December 31, 2012 to December 31, 2013. Secondly, HAMP program guidelines were expanded through the introduction of a second-level evaluation that expands the population of homeowners eligible for the programs by allowing for homes that are rental properties, a flexible debt-to-income ratio requirement, and by including previous HAMP participants who lost good standing. Finally, investor incentives for PRA were tripled on first liens and doubled on second liens.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors, and all payments are contingent on borrowers remaining in good standing. To be considered for MHA programs, borrowers must apply by December 31, 2013.

Fannie Mae, as the MHA Program Administrator, provides direct programmatic support as a third party agent on behalf of the OFS. Freddie Mac provides compliance oversight of servicers as a third party agent on behalf of the OFS, and the servicers work directly with the borrowers to modify and service the borrowers' loans. Fees paid to Fannie Mae and Freddie Mac are included in administrative costs reported on the Statement of Net Cost.

HHF

The Housing Finance Agency (HFA) Hardest-Hit Fund was implemented in fiscal year 2010, and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, as well as the District of Columbia. Approved states develop and roll out their own programs with timing and types of programs offered targeted to address the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers.

In fiscal year 2012, HFAs made substantial eligibility changes to existing programs (e.g. Florida, New Jersey) and significantly modified principal reduction programs (e.g. Arizona, California and Nevada) incorporating curtailments (i.e. unmatched principal reduction) that can be applied to all eligible loans including GSE loans that historically have not participated in principal reduction programs.

FHA-Refinance Program

The FHA-Refinance Program is a joint initiative with the Department of Housing and Urban Development (HUD) which is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. HUD will pay a portion of the amount refinanced to the investor and OFS will pay incentives to encourage the extinguishment of second liens associated with the refinanced mortgages. OFS established a letter of credit that obligated the OFS portion of any claims associated with the FHA-guaranteed mortgages. The OMB determined that for budgetary purposes, the FHA-Refinance Program cost is calculated under the FCRA, and accordingly OFS determined that it was appropriate to follow SFFAS No. 2 for financial reporting. Therefore, the liability is calculated at the net present value of estimated future cash flows. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2014, and OFS will honor its share of claims against the letter of credit through 2020. As of September 30, 2012, 1,774 loans had been refinanced. As of September 30, 2011, 334 loans had been refinanced.

OFS deposited $50 million with a commercial bank as its agent to administer payment of claims under the program; no claim payments have been made as of September 30, 2012. See Notes 4 and 6. OFS paid $2 million each year in fiscal years 2012 and 2011 to maintain the letter of credit.

The table below recaps housing program commitments as of September 30, 2012, and payments and accruals as of September 30, 2012 and 2011.

Treasury Housing Programs Under TARP

(Dollars in Millions)	Commitments as of September 30, 2012	Fiscal Year Payments through September 30, 2012	2011	Accruals as of September 30, 2012	2011
MHA	$ 29,871	$ 2,202	$ 1,282	$ 241	$ 343
HFA Hardest Hit Fund	7,600	861	599	-	-
FHA - Refinance*	8,117	2	2	-	-
Totals	**$ 45,588**	**$ 3,065**	**$ 1,883**	**$ 241**	**$ 343**

**Payments do not include $50 million to establish reserve, shown on Balance Sheet as Cash on Deposit for Housing Program, nor the subsidy cost to fund OFS' share of defaults, which establishes the liability for losses, see Note 6. Payments are for the FHA-Refinance Program administrative expense only.*

NOTE 6. TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS, NET AND OTHER CREDIT PROGRAMS

The OFS administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The OFS made direct loans and equity investments under TARP. The OFS also entered into other credit programs, which consist of an asset guarantee program and a loss-sharing program under the TARP. The table below recaps OFS programs by title and type:

Program	Program Type
Direct Loans and Equity Investments	
Capital Purchase Program	Equity Investment/Subordinated Debentures
Targeted Investment Program	Equity Investment
Community Development Capital Initiative	Equity Investment/Subordinated Debentures
Public-Private Investment Program	Equity Investment and Direct Loan
Term Asset-Backed Securities Loan Facility	Subordinated Debentures
SBA 7(a) Security Purchase Program	Direct Loan
Automotive Industry Financing Program	Equity Investment and Direct Loan
American International Group, Inc. Investment Program	Equity Investment
Other Credit Programs	
Asset Guarantee Program	Asset Guarantee
FHA-Refinance Program	Loss-sharing Program with FHA

Valuation Methodology

The OFS applies fair value and the provisions of SFFAS No. 2 to account for direct loans, equity investments and other credit programs. This standard requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash flow estimates for each transaction reflect the actual structure of the instruments. For each of these instruments, analytical cash flow models generate estimated cash flows to and from the OFS over the estimated term of the instrument. Further, each cash flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The models also incorporate an adjustment for market risk to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows (the "unexpected loss").

The adjustment for market risk requires the OFS to determine the return that would be required by market participants to enter into similar transactions or to purchase the assets held by OFS. Accordingly, the measurement of the assets attempts to represent the proceeds expected to be received if the assets were sold to a market participant in an orderly transaction. The methodology employed for determining market risk for equity investments generally involves a calibration to market prices of similar securities that results in measuring equity investments at fair value. The adjustment for market risk for loans is intended to capture the risk of unexpected losses, but not intended to represent fair value, i.e. the proceeds that would be expected to be received if the loans were sold to a market participant. The OFS uses market observable inputs, when available, in developing cash flows and incorporating the adjustment required for market risk. For purposes of this disclosure, the OFS has classified its programs' asset valuations as follows, based on the observability of inputs that are significant to the measurement of the asset:

- Quoted prices for Identical Assets (Level 1): The measurement of assets in this classification is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.

- Significant Observable Inputs (Level 2): The measurement of assets in this classification is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.

- Significant Unobservable Inputs (Level 3): The measurement of assets in this classification is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

The table below displays the assets held by the observability of inputs significant to the measurement of each value:

(Dollars in Millions)	As of September 30, 2012			
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Program				
Capital Purchase Program	$ 327	$ -	$ 5,407	$ 5,734
CDCI and TALF	9	-	1,095	1,104
Public-Private Investment Program	-	-	10,778	10,778
Automotive Industry Financing Program	11,376	-	6,170	17,546
American International Group Inc. Investment Program	5,067	-	2	5,069
Asset Guarantee Program	-	967	-	967
Total TARP Programs	$ 16,779	$ 967	$ 23,452	$ 41,198

(Dollars in Millions)	As of September 30, 2011			
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Program				
Capital Purchase Program	$ 202	$ -	$ 12,240	$ 12,442
CDCI, TALF and SBA 7(a)	-	126	951	1,077
Public-Private Investment Program	-	-	18,377	18,377
Automotive Industry Financing Program	10,091	-	7,747	17,838
American International Group Inc. Investment Program	21,076	9,294	-	30,370
Asset Guarantee Program	-	739	-	739
Total TARP Programs	$ 31,369	$ 10,159	$ 39,315	$ 80,843

The following provides a description of the methodology used to develop the cash flows and incorporate the market risk into the measurement of the OFS assets.

Financial Institution Equity Investments[18]

The estimated values of preferred equity investments are the net present values of the expected dividend payments and proceeds from repurchases and sales. The model assumes that the key decisions affecting whether or not institutions pay their preferred dividends are made by each institution based on the strength of their balance sheet. The model assumes a probabilistic evolution of each institution's asset-to-liability ratio (the asset-to-liability ratio is based on the estimated fair value of the institution's assets against its liabilities). Each institution's assets are subject to uncertain returns and institutions are assumed to manage

[18] This consists of equity investments made under CPP and CDCI.

their asset-to-liability ratio in such a way that it reverts over time to a target level. Historical volatility is used to scale the likely evolution of each institution's asset-to-liability ratio.

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of US banks over the period 1990-2011. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment is obtained through a calibration process to the market value of certain trading securities of financial institutions within TARP programs or other comparable financial institutions. The OFS estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price as of year end.

Public-Private Investment Program (PPIP)

For the PPIP investments and loans made in the Public Private Investment Fund (PPIF) SPVs, the OFS estimates cash flows to the PPIF by simulating the performance of the collateral supporting the residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by the PPIF (i.e. performance of the residential and commercial mortgages). Inputs used to simulate the cash flows, which consider market risks, include unemployment forecasts, home price appreciation/depreciation forecasts, the current term structure of interest rates and historical pool performance as well as estimates of the net income and value of commercial real estate supporting the CMBS. The simulated cash flows are then run through a financial model that defines distributions of the RMBS/CMBS to determine the estimated cash flows to the PPIF. Once determined, these cash flows are run through the waterfall of the PPIF to determine the expected cash flows to the OFS through both the equity investments and loans.

Term Asset-Backed Securities Loan Facility (TALF)

For the loan associated with the TALF, the OFS model derives the cash flows to the Federal Reserve Bank of New York (FRBNY) TALF LLC SPV, and ultimately the OFS, by simulating the performance of underlying collateral. Loss probabilities on the underlying collateral are calculated based on analysis of historical loan loss and charge-off experience by credit sector and subsector. Historical mean loss rates and volatilities are significantly stressed to reflect recent and projected performance. Simulated losses are run through cash flow models to project impairment to the TALF-eligible securities. Impaired securities are projected to be purchased by the SPV, which could require additional OFS funding. Simulation outcomes consisting of a range of loss scenarios are probability-weighted to generate the expected net present value of future cash flows.

SBA 7(a) Securities Purchase Program (SBA 7(a))

OFS held no SBA 7(a) securities as of September 30, 2012. As of September 30, 2011, the valuation of SBA 7(a) securities was based on the discounted estimated cash flows of the securities.

Automotive Industry Financing Program (AIFP)

As of September 30, 2012 and 2011 the OFS held 500 million shares of common stock in General Motors Company (New GM) that were valued by multiplying the publicly traded share price by the number of shares held.

As of September 30, 2012 and 2011, for investments in Ally Financial's (Ally, formerly known as GMAC, Inc.) common equity and mandatorily convertible preferred stock, which is valued on an "if-converted" basis, the OFS used certain valuation multiples such as price-to-earnings, price-to-tangible book value, and asset manager valuations to estimate the value of the shares. The multiples were based on those of comparable publicly-traded entities. The adjustment for market risk is incorporated in the data points used to determine the measurement for Ally, since all points rely on market data.

American International Group, Inc. (AIG) Investment Program

As of September 30, 2012, and 2011, the OFS held 154 million and 960 million shares, respectively, of AIG common stock. Investments in AIG common stock were valued at the quoted market price as of September 30, 2012 and 2011.

The OFS also held interests in certain AIG SPVs at September 30, 2011. To estimate the value of the assets underlying the preferred interests in the SPVs, OFS summed the value of the common equity shares held by the SPVs, any cash held in escrow from previous asset sales, and the weighted average value of the remaining assets under different scenarios. Because the resulting value greatly exceeded the liquidation preference of the investments in the SPVs, the SPVs were valued at the liquidation preference. These interests were liquidated during fiscal year 2012.

Asset Guarantee Program (AGP)

During fiscal year 2010, an agreement was entered into to terminate the guarantee of OFS to pay for any defaults on certain loans and securities held by Citibank. As of September 30, 2012 and 2011, the instruments within the AGP, consisting of Citigroup Trust Preferred Securities receivable from the FDIC with an $800 million liquidation preference value plus accrued dividends and interest, were valued in a manner broadly analogous to the previously described methodology used for financial institution equity investments.

Direct Loan and Equity Investment Programs

The following table recaps gross direct loans or equity investments, subsidy allowance, and net direct loans or equity investments by TARP program. Detailed tables providing the net composition, subsidy cost for new disbursements, modifications and reestimates, along with a reconciliation of subsidy cost allowances as of and for the years ended September 30, 2012 and 2011, are provided at the end of this Note for Direct Loans and Equity Investments, detailed by program, and for the other credit programs separately.

Descriptions and chronology of significant events by program are after the summary table.

(Dollars in Millions)	As of September 30, 2012		
	Gross Direct Loans and Equity Invesments	Subsidy Allowance	Net Direct Loans and Equity Invesments
Program			
Capital Purchase Program	$ 8,664	$ (2,930)	$ 5,734
TALF and CDCI	667	437	1,104
Public-Private Investment Program	9,763	1,015	10,778
Automotive Industry Financing Program	37,252	(19,706)	17,546
American International Group Inc. Investment Program	6,727	(1,658)	5,069
Total Direct Loan and Equity Investment Programs	$63,073	($22,842)	$40,231

(Dollars in Millions)	As of September 30, 2011		
	Gross Direct Loans and Equity Invesments	Subsidy Allowance	Net Direct Loans and Equity Invesments
Program			
Capital Purchase Program	$ 17,299	$ (4,857)	$ 12,442
TALF, CDCI and SBA 7(a)	798	279	1,077
Public-Private Investment Program	15,943	2,434	18,377
Automotive Industry Financing Program	37,278	(19,440)	17,838
American International Group Inc. Investment Program	51,087	(20,717)	30,370
Total Direct Loan and Equity Investment Programs	$122,405	($42,301)	$80,104

Capital Purchase Program

In October 2008, the OFS began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy.

The OFS invested a total of $204.9 billion in 707 institutions under the CPP program between October 2008 and December 2009.

Under this program, the OFS purchased senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0 percent through year five, increasing to 9.0 percent in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others; they are payable when and if declared by the institution's board of directors. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the

Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7 percent for the first 5 years and 13.8 percent for the remaining years. QFIs, subject to regulator approval, may repay the OFS' investment at any time.

In addition to the senior preferred stock, the OFS received warrants, with a ten-year term, as required by section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. Subsequent to December 31, 2009, the OFS may exercise any warrants held in whole or in part at any time. The OFS received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0 percent (13.8 percent interest rate for subordinate debentures) and a liquidation preference equal to 5.0 percent of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in the OFS holding additional senior preferred stock (subordinated debentures) (collectively referred to as "warrant preferred stock") of non-public QFIs.

In fiscal year 2009, OFS entered into an exchange agreement with the banking institution Citigroup, under which OFS exchanged its original $25.0 billion CPP investment in senior preferred stock for 7.7 billion common shares of Citigroup stock, at $3.25 per share. Between April 2010 and January 2011, OFS sold all of its stock and warrants. During fiscal year 2011, OFS received $15.8 billion from the sale of Citigroup common stock and warrants, resulting in proceeds from sales in excess of cost of $3.9 billion. Total gross proceeds from Citigroup sales between April 2010 and January 2011 were $31.9 billion.

In addition to the above transactions, the OFS entered into other transactions with various financial institutions including exchanging existing preferred shares for a like amount of non tax-deductible Trust Preferred Securities, exchanging preferred shares for shares of mandatorily convertible preferred securities and selling preferred shares to financial institutions that were acquiring the QFIs that had issued the preferred shares.

Generally the transactions are entered into with financial institutions in poor financial condition with a high likelihood of failure. As such, in accordance with SFFAS No. 2, these transactions are considered workouts and not modifications. The changes in cost associated with these transactions are captured in the year-end reestimates.

During fiscal year 2012, OFS elected to sell selected CPP investments to the public in auction sales. Because auction sales were not considered in the budget formulation estimate for the CPP program, OFS recorded a modification increasing the cost of the program by $973 million.

In fiscal year 2012, OFS sold 40 CPP investments in six separate auctions for total net proceeds of $1.3 billion. These auction sales resulted in net proceeds less than cost of $180 million. All other sales and redemptions in the program for the fiscal year resulted in net proceeds less than cost of $105 million.

During fiscal year 2011, certain financial institutions participating in CPP became eligible to exchange their OFS-held stock investments to preferred stock in the Small Business Lending Fund (SBLF), a separate Department of the Treasury program not a part of the TARP. Because this refinance was not considered in the formulation estimate for the CPP program, a modification was recorded in May 2011, resulting in a subsidy cost reduction of $1.0 billion.

OFS made no write-offs of CPP investments in fiscal years 2012 or 2011. During fiscal year 2012, five institutions, in which OFS had invested $41 million, were either closed by their regulators or declared bankruptcy. During fiscal year 2011, eight institutions, in which OFS had invested $190 million, were closed by their regulators. The OFS does not anticipate recovery on these investments and therefore the values of these investments are reflected at zero as of September 30, 2012 and 2011. The ultimate amount received, if any, from the investments in institutions that filed for bankruptcy and institutions closed by regulators will depend primarily on the outcome of the bankruptcy proceedings and of each institution's receivership.

The following tables provide key data points related to the CPP for the fiscal years ending September 30, 2012 and 2011:

CPP Participating Institutions	As of September 30, 2012	2011
Cumulative Number of Institutions Participating	707	707
Cumulative Institutions Paid in Full, Merged or Investments Sold	(234)	(139)
Institutions Transferred to CDCI	(28)	(28)
Institutions Refinanced to SBLF	(137)	(137)
Institutions Written Off After Bankruptcy or Receivership	(2)	(2)
Number of Institutions with Outstanding OFS Investments	306	401
Institutions in Bankruptcy or Receivership	(16)	(11)
Number of CPP Institutions Valued at Year-End	290	390
Of the Institutions Valued, Number that Have Missed One or More Dividend Payments	158	165

CPP Investments (Dollars in Millions)	Fiscal Year 2012	Fiscal Year 2011
Outstanding Beginning Balance, Investment in CPP Institutions, Gross	$ 17,299	$ 49,779
Repayments and Sales of Investments	(8,223)	(30,188)
Losses from Sales and Repurchases of Assets in Excess of Cost	(412)	(85)
Refinanced to SBLF	-	(2,207)
Outstanding Ending Balance, Investment in CPP Institutions, Gross	$ 8,664	$ 17,299
Interest and Dividend Collections	$ 572	$ 1,283
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less Than) Cost	$ (285)	$ 4,540

Targeted Investment Program

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy.

Under TIP, the OFS invested $20.0 billion in Citigroup in December, 2008 and $20.0 billion in Bank of America in January, 2009. In December 2009, both institutions repaid the amounts invested along with dividends through the date of repayment. In fiscal year 2011, OFS sold its warrant from Citigroup under TIP for $190 million and closed the program.

Community Development Capital Initiative

In February 2010, the OFS announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFIs). Under the terms of the program, the OFS purchased senior preferred stock (or subordinated debt) from eligible CDFIs. The senior preferred stock had an initial dividend rate of 2 percent. CDFIs could apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increases to 9 percent after eight years.

For CDFI credit unions, the OFS purchased subordinated debt at rates equivalent to those offered to CDFIs and with similar terms. These institutions could apply for up to 3.5 percent of total assets - an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their CPP preferred shares (subordinated debt) then held by OFS for CDCI preferred shares (subordinated debt). These exchanges were treated as disbursements from CDCI and repayments to CPP. OFS invested a total of $570 million ($363 million as a result of exchanges from CPP) in 84 institutions under the CDCI. During fiscal year 2012, one CDCI institution, in which the OFS invested $7 million, was closed by its regulator. The OFS does not anticipate recovery on this investment and therefore the value of the shares is reflected at zero as of September 30, 2012.

In fiscal year 2012, OFS received $3 million in repayments and $11 million in dividends and interest from its CDCI investments. In fiscal year 2011, OFS received no repayments and $11 million in dividends and interest; no CDCI institutions were closed.

Public-Private Investment Program

The PPIP is part of the OFS' efforts to help restart the financial securities market and provide liquidity for legacy securities. Under this program, the OFS (as a limited partner) made equity investments in and loans to nine investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers between September and December 2009. The OFS equity investments were used to match private capital and equal 49.9 percent of the total equity invested. Each PPIF elected to receive a loan commitment equal to 100 percent of partnership equity. The loans bear interest at one month LIBOR, plus one percent, payable monthly. The maturity date of each loan is the earlier of 10 years or the termination of the PPIF. The loan can be prepaid without penalty. Each PPIF terminates eight years from its commencement, if not previously terminated or extended with two 1-year extensions, subject to approval of the OFS. The loan agreements also require cash flows from purchased securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help protect the interests of secured parties. Security cash flows collected are disbursed: 1) to pay administrative expenses; 2) to pay margin interest on permitted hedges; 3) to pay current period interest to OFS; 4) to maintain a required interest reserve account; 5) to pay principal on the OFS loan when the minimum Asset Coverage Ratio Test is not satisfied; 6) to pay other amounts on interest rate hedges if not paid under step 2 ; 7) for additional temporary investments or to prepay loans (both at the discretion of the PPIF); 8) for distributions to equity partners up to the lesser of 12 months' net interest collected or 8 percent of the funded capital commitments; 9) for loan prepayments to OFS; and 10) for distribution to equity partners.

Each loan carries a financial covenant, the Asset Coverage Ratio Test. The Asset Coverage Ratio Test generally requires the PPIF to maintain an Asset Coverage Ratio equal to or greater than 150 percent. The Asset Coverage Ratio is a percentage obtained by dividing total assets of the PPIF by the principal amount of the loan and accrued and unpaid interest on the loan. Failure to comply with the test could require accelerated repayment of loan principal and prohibit the PPIF from borrowing additional funds under the loan agreement.

As a condition of its investment, the OFS also received a warrant from each of the PPIFs entitling the OFS to 2.5 percent of investment proceeds (excluding those from temporary investments) otherwise allocable to the non-OFS partners after the PPIFs return of 100 percent of the non-OFS partners' capital contributions. Distributions relating to the warrants generally occur upon the final distribution of each partnership.

The PPIFs are allowed to purchase commercial and non-agency residential mortgage-backed securities (CMBS and RMBS, respectively) issued prior to January 1, 2009, that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets (eligible assets) and not other securities. The PPIFs may invest in the aforementioned securities for a period of 3 years using proceeds from capital contribution, loans and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The three-year investment periods for the remaining PPIFs end by December 2012. The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States. As of September 30, 2012, the PPIFs' portfolios were comprised of approximately 74 percent RMBS and 26 percent CMBS. As of September 30, 2011, they held approximately 79 percent RMBS and 21 percent CMBS.

The PPIFs pay a management fee to the fund manager from the OFS' share of investment proceeds. During the Investment Period, the management fee is equal to 0.2 percent per annum of the OFS' capital commitment as of the last day of the applicable quarter. Thereafter, the management fee is 0.2 percent per annum of the lesser of (a) the OFS' capital commitment as of the last day of the applicable quarter or (b) the OFS Interest Value as of the last day of the quarter.

During fiscal year 2012, OFS disbursed $245 million as equity investments and $803 million as loans to PPIFs. During fiscal year 2011, OFS disbursed $1.1 billion as equity investments and $2.3 billion as loans to PPIFs.

During fiscal year 2012, the OFS received $124 million in interest on loans and $5.6 billion in loan principal repayments from the PPIFs and received $3.2 billion in equity distributions, of which $1.3 billion was recognized as investment income, $223 million as proceeds in excess of cost and $1.7 billion as a reduction of the gross investment outstanding. One PPIF partnership fully repaid its investors, including OFS, in 2012. Another terminated its investment period and repaid all equity capital by September 30, 2012; it is expected to distribute additional funds and cease operations by December 2012.

During fiscal year 2011, the OFS received $123 million in interest on loans and $868 million in loan principal repayments from the PPIFs and received $735 million in equity distributions, of which $306 million was recognized as dividend income, $91 million of proceeds in excess of cost and $338 million as a reduction of the gross investment outstanding.

As of September 30, 2012, OFS had equity investments in six PPIFs outstanding of $4.1 billion and loans outstanding of $5.7 billion for a total of $9.8 billion. These investments and loans were valued at $10.8 billion.

As of September 30, 2011, OFS had equity investments in eight PPIFs outstanding of $5.5 billion and loans outstanding of $10.4 billion for a total of $15.9 billion, valued at $18.4 billion. As of September 30, 2012, and 2011, OFS had legal commitments to disburse up to $3.1 billion and $4.3 billion, respectively, for additional investments and loans to remaining PPIFs.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created by the Federal Reserve Board (FRB) to provide low cost funding to investors in certain classes of Asset-Backed Securities (ABS). The OFS agreed to participate in the program by providing liquidity and credit protection to the FRB.

Under the TALF, the Federal Reserve Bank of New York (FRBNY), as implementer of the TALF program, originated loans on a non-recourse basis to purchasers of certain AAA rated ABS secured by consumer and commercial loans and commercial mortgage backed securities (CMBS). The FRBNY ceased issuing new loans on June 30, 2010.

As of September 30, 2012, approximately $1.5 billion of loans due to the FRBNY remained outstanding. At September 30, 2011, approximately $11.3 billion of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY created the TALF, LLC, a special purpose vehicle that agreed to purchase from the FRBNY any collateral it has seized due to borrower default. The TALF, LLC would fund purchases from the accumulation of monthly fees paid by the FRBNY as compensation for the agreement. Only if the TALF, LLC had insufficient funds to purchase the collateral did the OFS commit to invest up to $20.0 billion in non-recourse subordinated notes issued by the TALF, LLC. In July 2010, the OFS' commitment was reduced to $4.3 billion. In June 2012, the OFS' commitment was reduced further, from $4.3 billion to $1.4 billion, in consultation with the FRBNY.

The OFS disbursed $100 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the fees are not sufficient to cover purchases. The subordinated notes bear interest at 1 Month LIBOR plus 3.0

percent and mature 10 years from the closing date, subject to extension. Any amounts needed in excess of the OFS commitment and the fees would be provided through a loan from the FRBNY. Upon wind-down of the TALF, LLC (collateral defaults, reaches final maturity or is sold), available cash will be disbursed first to FRBNY and then to the OFS principal balances, secondly to FRBNY and then to the OFS interest balances and finally any remaining cash 10 percent to the FRBNY and 90 percent to the OFS.

As of September 30, 2012 and 2011, no TALF loans were in default and consequently no collateral was purchased by the TALF, LLC.

SBA 7(a) Securities Purchase Program

In March 2010, the OFS began the purchase of securities backed by Small Business Administration 7(a) loans (7(a) Securities) as part of the Unlocking Credit for Small Business Initiative. Under this program OFS purchased 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. In May 2011, OFS began selling its securities to investors. Sales were completed in January of 2012 and the program closed.

The OFS invested a total of $367 million (excluding purchased accrued interest) and received $363 million in principal payments and sales proceeds, as well as $13 million in interest on its securities over the course of the program. During fiscal year 2012, the OFS sold its remaining SBA securities and received proceeds of $127 million, including interest. During fiscal year 2011, the OFS received $236 million in principal payments and $11 million in interest on its securities. As of September 30, 2012, OFS held no investment in SBA 7(a) securities. As of September 30, 2011, OFS held $128 million of SBA 7(a) securities.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was designed to help prevent a significant disruption of the American automotive industry, which could have had a negative effect on the economy of the United States.

General Motors Company (New GM) and General Motors Corporation (Old GM)

In the period ended September 30, 2009, the OFS provided $49.5 billion to General Motors Corporation (Old GM) through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while Old GM was in bankruptcy. The OFS assigned its rights in these various loans (with the exception of $986 million which remained in Old GM for wind down purposes and $7.1 billion that would be assumed) and previously received common stock warrants to a newly created entity, General Motors Company (New GM). New GM used the assigned loans and warrants to credit bid for substantially all of the assets of Old GM in a sale pursuant to Section 363 of the Bankruptcy Code. During fiscal year 2009, upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the OFS received $2.1 billion in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity in New GM. In addition, New GM assumed $7.1 billion of the DIP loan, simultaneously paying $361 million (return of warranty program funds), resulting in a net balance of $6.7 billion. The assets received by the OFS as a result of the assignment and Section 363 sale were considered recoveries of the original loans for subsidy cost estimation purposes. During fiscal year 2010, the OFS received the remaining $6.7 billion as full repayment of the DIP loan assumed.

During fiscal year 2011, New GM repurchased its preferred stock for 102 percent of its liquidation amount, $2.1 billion. As part of an initial public offering by New GM in fiscal year 2011, the OFS sold 412 million shares of its common stock for $13.5 billion, at a price of $32.75 per share (net of fees). The sale resulted in net proceeds less than cost of $4.4 billion. During fiscal year 2012, OFS did not sell any of its New GM common stock shares.

At both September 30, 2012, and 2011, the OFS held 500 million shares of the common stock of New GM that represented approximately 32 percent of the common stock of New GM outstanding. Market value of the shares as of September 30, 2012 and 2011 was $11.4 billion and $10.1 billion, respectively.

On March 31, 2011, the Plan of Liquidation for Old GM became effective and OFS' $986 million loan was converted to an administrative claim. OFS retains the right to recover additional proceeds but recoveries are dependent on actual liquidation proceeds and pending litigation. OFS recovered $26 million in fiscal year 2012 and $111 million in fiscal year 2011 on the administrative claim. OFS does not expect to recover any significant additional proceeds from this claim.

GMAC LLC Rights Offering

In December 2008, the OFS agreed, in principal, to lend up to $1.0 billion to Old GM for participation in a rights offering by GMAC LLC (now known as Ally Financial, Inc.) in support of GMAC LLC's reorganization as a bank holding company. The loan was secured by the GMAC LLC common interest acquired in the rights offering. The loan was funded for $884 million. In May 2009, the OFS exercised its exchange option under the loan and received 190,921 membership interests, representing 35.4 percent of the voting interest at the time, in GMAC LLC in full satisfaction of the loan. As of September 30, 2012 and 2011, the OFS continued to hold the ownership interests obtained in this transaction (see further discussion of OFS' GMAC holdings under Ally Financial Inc. in this note).

Chrysler Group LLC (New Chrysler) and Chrysler Holding LLC (Old Chrysler)

In the period ended September 30, 2009, the OFS invested $5.9 billion in Chrysler Holding LLC (Old Chrysler), consisting of $4 billion for general and working capital purposes (the general purpose loan) and $1.9 billion for DIP financing while Old Chrysler was in bankruptcy. Upon entering bankruptcy, a portion of Old Chrysler was sold to a newly created entity, Chrysler Group LLC (New Chrysler). Under the terms of the bankruptcy agreement, $500 million of the general purpose loan was assumed by New Chrysler. In fiscal year 2010, the OFS received $1.9 billion on the general purpose loan and wrote off the remaining $1.6 billion. Recovery of the $1.9 billion DIP loan was subject to the liquidation of collateral remaining with Old Chrysler. In fiscal year 2010, as part of a liquidation plan, OFS' DIP loan to Old Chrysler was extinguished, and OFS retained a right to receive proceeds from a liquidation trust.

Under the terms of the bankruptcy agreement, the OFS committed to make a $7.1 billion loan to New Chrysler, consisting of $6.6 billion of new commitments (of which $4.6 billion was funded) and $500 million of assumed debt from the general purpose loan with Old Chrysler. The loan was secured by a first priority lien on the assets of New Chrysler. The OFS also obtained other consideration including a 9.9 percent equity interest in New Chrysler and additional notes with principal balances of $284 million and $100 million. Fiat SpA (the Italian automaker), the Canadian government and the United Auto Workers (UAW) retiree healthcare trust were the other shareholders in New Chrysler.

In May 2011, New Chrysler repaid the $5.1 billion in loans outstanding ($4.6 billion in funded commitments and $500 million assumed from Old Chrysler), the additional notes totaling $384 million and all interest due. New Chrysler's ability to draw the remaining $2.1 billion loan commitment was terminated. In July 2011, Fiat SpA paid the OFS $560 million for its remaining equity interest in New Chrysler and for OFS' rights under an agreement with the UAW retiree healthcare trust pertaining to the trust's shares in New Chrysler.

As a result of the fiscal year 2011 transactions, OFS had no remaining interest in New Chrysler as of September 30, 2012 and 2011. Total net proceeds received relating to the 2011 transactions were $896 million less than OFS' cost. OFS continues to hold a right to receive proceeds from a bankruptcy liquidation trust but no significant cash flows are expected. OFS received $9 million and $8 million from the liquidation trust during fiscal years 2012 and 2011, respectively.

Ally Financial Inc. (formerly known as GMAC)

The OFS invested a total of $16.3 billion in GMAC between December 2008 and December 2009, to help support its ability to originate new loans to GM and Chrysler dealers and consumers and to help address GMAC's capital needs. In May, 2010, GMAC changed its corporate name to Ally Financial, Inc. (Ally). As a result of original investments, exchanges, conversions and warrant exercises, at September 30, 2010, the OFS held 450,121 shares of Ally common stock (representing 56.3 percent of the company's outstanding common stock including ownership interests from the GMAC LLC Rights Offering previously discussed), 2.7 million shares of 8 percent cumulative Trust Preferred Securities (TruPS) with a $1,000 per share liquidation preference and 229 million shares of Ally's Series F-2 Mandatorily Convertible Preferred Securities. The Series F-2, with a $50 per share liquidation preference and a stated dividend rate of 9 percent, is convertible into Ally common stock at Ally's option, subject to the approval of the Federal Reserve and consent by the OFS or pursuant to an order by the Federal Reserve compelling such conversion. The Series F-2 security is also convertible at the option of the OFS upon certain specified corporate events. Absent an optional conversion, any Series F-2 remaining will automatically convert to common stock after 7 years from the issuance date. The applicable conversion rate is the greater of the (i) initial conversion rate (0.00432) or (ii) adjusted conversion rate (i.e., the liquidation amount per share of the Series F-2 divided by the weighted average price at which the shares of common equity securities were sold or the price implied by the conversion of securities into common equity securities, subject to antidilution provisions).

In December 2010, 110 million shares of the Series F-2 preferred were converted into 531,850 shares of Ally common stock, resulting in the OFS holdings of Series F-2 preferred decreasing to 119 million shares, and OFS holdings in common stock of Ally increasing to 981,971 shares, representing 73.8 percent of Ally's outstanding common stock.

During fiscal year 2011, the agreement between Ally and OFS regarding its TruPS was amended to facilitate OFS' sale of its TruPS in the open market. Because this amendment to agreement terms was not considered in the formulation subsidy cost estimate for the AIFP program, the OFS recorded a modification resulting in a subsidy cost reduction of $174 million. In March 2011, the OFS sold its TruPS for $2.7 billion, resulting in proceeds in excess of cost of $127 million.

As of September 30, 2012 and 2011, the OFS held 981,971 shares of common stock (73.8 percent of Ally's outstanding common stock) and 119 million shares of the Series F-2 preferred securities. The Series F-2 are convertible into at least 513,000 shares of common stock, which, if combined with the common stock currently owned, would represent 81 percent ownership of Ally common stock by the OFS. In fiscal year 2012, the OFS received $534 million in dividends from Ally. In fiscal year 2011, the OFS received $839 million in dividends.

American International Group, Inc. (AIG) Investment Program

The OFS provided assistance to systemically significant financial institutions on a case by case basis in order to help provide stability to institutions that were deemed critical to a functioning financial system and were at substantial risk of failure as well as to help prevent broader disruption to financial markets. OFS invested in one institution, AIG, under the program.

In November 2008, the OFS invested $40.0 billion in AIG in the form of Series D 10 percent cumulative perpetual preferred stock (the "Series D" preferred stock) The OFS also received a warrant for the purchase of 54 million shares (adjusted to 2.7 million shares after a 20:1 reverse stock split) of AIG common stock. On April 17, 2009, AIG and the OFS restructured their November 2008 agreement. Under the restructuring, the OFS exchanged $40.0 billion of Series D preferred stock for $41.6 billion of AIG Series E 10 percent non-cumulative perpetual preferred stock (the "Series E" preferred stock). Additionally, the OFS agreed to make available to AIG a $29.8 billion equity capital facility from which AIG could draw funds, if needed, to assist in its restructuring. Under the equity capital facility, the OFS received AIG Series F 10 percent non-cumulative perpetual preferred stock with no initial liquidation preference (the "Series F" preferred stock) and a warrant for the purchase of 3,000 shares (adjusted to 150 shares after a 20:1 reverse stock split of AIG common stock).

The Series F liquidation preference increased with any draw down by AIG on the facility, and the dividend rate applicable to these shares was payable quarterly, if declared, on the outstanding liquidation preference. In fiscal year 2011, AIG drew $20.3 billion from the capital facility, for a cumulative total of $27.8 billion drawn.

On September 30, 2010, the Treasury, FRBNY and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring, which occurred January 14, 2011, converted OFS' $27.8 billion investment in Series F preferred stock into $20.3 billion of interests in two AIG SPVs subsidiaries (the "AIG SPVs") and 168 million shares of AIG common stock. The remaining $2.0 billion of undrawn Series F capital facility shares were exchanged for 20,000 shares of a new Series G Cumulative Mandatory Convertible Preferred Stock (the "Series G" preferred stock) equity capital facility under which AIG had the right to draw up to $2 billion. OFS' $41.6 billion of Series E preferred stock was converted into 925 million shares of AIG common stock.[19] On May 27, 2011, pursuant to agreement between the OFS and AIG, and as a result of AIG's primary public offering of its common stock, the Series G equity capital facility, which was undrawn, was canceled.

According to the terms of the preferred stock, OFS had the right to appoint members to the AIG board of directors if AIG missed four scheduled dividend payments. As a result of the nonpayment of dividends, in April 2010, OFS named two directors to the AIG board, increasing the total size from ten directors to twelve directors. In 2012, one of the two OFS-appointed directors resigned from the AIG board, and as of September 30, 2012, the AIG board consists of eleven total directors. Additionally, until Treasury's overall ownership falls below 5 percent, OFS retains the right to have observers at board meetings. All directors are subject to election annually by a majority shareholder vote at the Company's annual meeting.

In fiscal year 2012, OFS received $9.6 billion in distributions from the AIG SPVs, paying off the investment balance of $9.1 billion, recording proceeds in excess of cost of $127 million, and collecting $395 million of investment income (including $204 million capitalized and recognized as income in fiscal year 2011). OFS also sold 806 million shares of common stock for $25.2 billion. These proceeds were less than OFS' cost by $9.9 billion.

In fiscal year 2011, OFS received $11.5 billion in distributions from the AIG SPVs, reduced its outstanding balance relating to the AIG SPVs by $11.2 billion and received investment income of $246 million. OFS also capitalized investment income of $204 million. Additionally, OFS received fees of $165 million from AIG. In May 2011, OFS sold 132 million shares of its AIG common stock for $3.8 billion. These proceeds were less than OFS' cost by $1.9 billion.

At September 30, 2012, the OFS owned 154 million shares of AIG common stock, approximately 10.5 percent of AIG's common stock equity.[20] Market value of the common stock shares was $5.1 billion.

At September 30, 2011, the OFS owned 960 million shares of AIG common stock, approximately 50.8 percent of AIG's common stock equity.[21] Market value of the common stock shares was $21.1 billion. OFS also owned preferred units in an AIG SPV with an outstanding balance of $9.3 billion, including capitalized investment income.

[19] Additionally, the AIG Credit Facility Trust between the Federal Reserve Bank of New York and AIG was terminated and the Department of the Treasury separately, not the OFS, received 563 million shares of AIG common stock as part of the restructuring transaction. At the completion of the restructuring per the agreement, the Department of the Treasury, including OFS, held 92.1 percent of AIG's common stock. See the Agency Financial Report for the Department of the Treasury for its separate presentation and valuation of its shares of AIG common stock.

[20] The Department of the Treasury, not OFS, owned 80 million shares of AIG common stock, approximately 5.4 percent of AIG's common stock equity, at September 30, 2012.

[21] The Department of the Treasury, not OFS, owned 495 million shares of AIG common stock, approximately 26.1 percent of AIG's common stock equity, at September 30, 2011.

Subsidy Cost and Reestimates

The recorded subsidy cost of a direct loan, equity investment or other credit program is based upon the calculated net present value of expected future cash flows. The OFS' actions, as well as changes in legislation that change these estimated future cash flows change subsidy cost, and are recorded as modifications. The cost or reduction in cost of a modification is recognized when it occurs.

During fiscal year 2012, a modification occurred in the CPP, increasing subsidy cost by $973 million. During fiscal year 2011, modifications occurred in the AIFP (see Ally Financial Inc.) and CPP, reducing subsidy cost by $1.2 billion.

The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in equity investment valuations or forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods.

For 2012 and 2011, financial statement reestimates for all programs were performed using actual financial transaction data through September 30. For 2012, a mix of market and security specific data publicly available as of August 31 and September 30, 2012, was used for all programs. For 2011, a mix of market and security specific data publicly available as of August 31 and September 30, 2011, was used for all programs, with the exception of security specific data as of June 30, 2011 that was used for TALF and PPIP.

Net downward reestimates for the fiscal years ended September 30, 2012 and 2011, totaled $11.9 billion and $11.6 billion, respectively. Descriptions of the reestimates, by OFS Program, are as follows:

CPP

The $2.9 billion downward reestimate for CPP for the year ended September 30, 2012 was the result of improved market values of the outstanding investments and the effect of receiving $8.2 billion in repayments, which reduced the remaining investment by about one-half, in fiscal year 2012.

The downward reestimate for CPP of $816 million for the year ended September 30, 2011, was the net result of receipts significantly greater than cost on the sale of Citigroup common stock offset by a decline in the estimated market values of the remaining outstanding investments due to market conditions at September 30, 2011.

TIP

The TIP program was closed in fiscal year 2011, with a final downward reestimate of $192 million, primarily due to a better than projected return on warrant sales. OFS received cumulative receipts of $4.4 billion on total investments of $40.0 billion.

CDCI

The CDCI program continued to reflect improved investment performance, resulting in a $30 million downward reestimate for the year ended September 30, 2012.

The CDCI program reported improved investment performance, resulting in a $99 million downward reestimate, for the year ended September 30, 2011.

PPIP

The $240 million upward reestimate for the PPIP for the year ended September 30, 2012, was due primarily to accelerated repayments and changes in projected performance of the PPIP portfolio.

The $1.8 billion downward reestimate for the PPIP for the year ended September 30, 2011, was due primarily to a decline in market risk projections, program repayments, and changes in projected performance of the PPIP portfolio.

TALF

The investments in the TALF continued to experience improved market conditions and accelerated repayments, resulting in a $96 million downward reestimate for the year ended September 30, 2012.

In fiscal year 2011, the TALF program showed improved market conditions, resulting in a $105 million downward reestimate.

SBA 7(a)

The SBA 7(a) Securities Purchase Program was closed in fiscal year 2012, with a $1 million downward closing reestimate.

The program reported a $6 million downward reestimate for fiscal year 2011, due to improved investment performance.

AIFP

The $230 million upward reestimate for the year ended September 30, 2012, was due to a decline of $1.6 billion in the value of the Ally investment, partially offset by an increase in the common stock market price of New GM, from $20.18 per share at September 30, 2011 to $22.75 per share at September 30, 2012.

The $9.9 billion in upward reestimate for the AIFP for the year ended September 30, 2011, was due to a decline of over $7.0 billion due to changes in the common stock price of New GM since its IPO and a decline in the estimated value of Ally investments due to market conditions.

AIG Investment Program

The $9.2 billion downward reestimate for the year ended September 30, 2012 was due primarily to sales of 806 million shares of common stock at prices higher than the September 30, 2011 price of $21.95 per share and the effect of valuing the remaining 155 million shares at the September 30, 2012 price of $32.79 per share.

The $18.5 billion downward reestimate for the year ended September 30, 2011 for the AIG Investment Program was due primarily to subsidy cost estimates recorded for $20.3 billion of new disbursements during the fiscal year. Under budget rules, the subsidy cost estimate for these new disbursements was determined based upon subsidy rates formulated in April 2009, the period in which OFS originally agreed to make the funding available to AIG. At that time, OFS calculated a subsidy rate of 98.98 percent, which resulted in an estimated subsidy cost of $20.1 billion associated with the $20.3 billion disbursed in fiscal year 2011. OFS calculated a $16.7 billion downward reestimate relating to these fiscal year 2011 disbursements that reflects improvements in AIG's financial condition since the original subsidy rate was formulated. The remainder of the downward reestimate was due to the restructuring of the AIG investment to common stock offset by AIG's financial condition at September 30, 2011. At year end, the subsidy allowance represented about 41 percent of the gross outstanding AIG Investment Program balance.

Summary Tables

The following detailed tables provide the net composition, subsidy cost, modifications and reestimates and a reconciliation of the subsidy cost allowance for each TARP Direct Loan or Equity Investment Program for the years ended September 30, 2012 and 2011. Other Credit Program narrative and detailed tables follow these summary tables.

Troubled Asset Relief Program Loans and Equity Investments

(Dollars in Millions)	TOTAL	CPP	PPIP	AIFP	AIG	CDCI-TALF-SBA
As of September 30, 2012						
Direct Loans and Equity Investment Programs:						
Direct Loans and Equity Investments Outstanding, Gross	$ 63,073	$ 8,664	$ 9,763	$ 37,252	$ 6,727	$ 667
Subsidy Cost Allowance	(22,842)	(2,930)	1,015	(19,706)	(1,658)	437
Direct Loans and Equity Investments Outstanding, Net	$ 40,231	$ 5,734	$ 10,778	$ 17,546	$ 5,069	$ 1,104
New Loans or Investments Disbursed	$ 1,048	$ -	$ 1,048	$ -	$ -	$ -
Obligations for Loans and Investments not yet Disbursed	$ 4,358	$ -	$ 3,058	$ -	$ -	$ 1,300
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning of Period	$ 42,301	$ 4,857	$ (2,434)	$ 19,440	$ 20,717	$ (279)
Subsidy Cost (Income) for Disbursements and Modifications	942	973	(31)	-	-	-
Dividend and Interest Income	2,733	572	1,426	534	191	10
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost	(9,788)	(285)	223	9	(9,735)	-
Net Interest Income (Expense) on Borrowings from BPD and Financing Account Balance	(1,626)	(290)	(439)	(507)	(349)	(41)
Balance, End of Period, Before Reestimates	34,562	5,827	(1,255)	19,476	10,824	(310)
Subsidy Reestimates - Upward (Downward)	(11,720)	(2,897)	240	230	(9,166)	(127)
Balance, End of Period	$ 22,842	$ 2,930	$ (1,015)	$ 19,706	$ 1,658	$ (437)
Reconciliation of Subsidy Cost (Income):						
Subsidy Cost (Income) for Disbursements	$ (31)	$ -	$ (31)	$ -	$ -	$ -
Subsidy Cost (Income) for Modifications	973	973	-	-	-	-
Subsidy Reestimates - Upward (Downward)	(11,720)	(2,897)	240	230	(9,166)	(127)
Total Direct Loan and Equity Investment Programs Subsidy Cost (Income)	$ (10,778)	$ (1,924)	$ 209	$ 230	$ (9,166)	$ (127)

Note: There are no budget execution subsidy rates for FY 2012; the OFS authority expired October 3, 2010 with no additional commitments made after September 30, 2010.

(Dollars in Millions)	TOTAL	CPP	PPIP	AIFP	AIG	CDCI-TALF-SBA-TIP
As of September 30, 2011						
Direct Loans and Equity Investment Programs:						
Direct Loans and Equity Investments Outstanding, Gross	$ 122,405	$ 17,299	$ 15,943	$ 37,278	$ 51,087	$ 798
Subsidy Cost Allowance	(42,301)	(4,857)	2,434	(19,440)	(20,717)	279
Direct Loans and Equity Investments Outstanding, Net	$ 80,104	$ 12,442	$ 18,377	$ 17,838	$ 30,370	$ 1,077
New Loans or Investments Disbursed	$ 23,839	$ -	$ 3,421	$ -	$ 20,292	$ 126
Obligations for Loans and Investments not yet Disbursed	$ 8,479	$ -	$ 4,279	$ -	$ -	$ 4,200
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning of Period	$ 36,745	$ 1,546	$ (676)	$ 14,529	$ 21,405	$ (59)
Subsidy Cost (Income) for Disbursements and Modifications	18,887	(1,010)	(15)	(174)	20,085	1
Dividend and Interest Income	3,461	1,283	428	1,280	450	20
Fee Income	165	-	-	-	165	-
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost	(2,262)	4,540	91	(5,165)	(1,918)	190
Net Interest Income (Expense) on Borrowings from BPD and Financing Account Balance	(3,016)	(686)	(418)	(945)	(938)	(29)
Balance, End of Period, Before Reestimates	53,980	5,673	(590)	9,525	39,249	123
Subsidy Reestimates - Upward (Downward)	(11,679)	(816)	(1,844)	9,915	(18,532)	(402)
Balance, End of Period	$ 42,301	$ 4,857	$ (2,434)	$ 19,440	$ 20,717	$ (279)
Reconciliation of Subsidy Cost (Income):						
Subsidy Cost (Income) for Disbursements	$ 20,071	$ -	$ (15)	$ -	$ 20,085	$ 1
Subsidy Cost (Income) for Modifications	(1,184)	(1,010)	-	(174)	-	-
Subsidy Reestimates - Upward (Downward)	(11,679)	(816)	(1,844)	9,915	(18,532)	(402)
Total Direct Loan and Equity Investment Programs Subsidy Cost (Income)	$ 7,208	$ (1,826)	$ (1,859)	$ 9,741	$ 1,553	$ (401)

Note: There are no budget execution subsidy rates for FY 2011; the OFS authority expired October 3, 2010 with no additional commitments made after September 30, 2010.

Other Credit Programs

Asset Guarantee Program

The Asset Guarantee Program (AGP) provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets.

Section 102 of the EESA required the Secretary to establish the AGP to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities, and established the Troubled Assets Insurance Financing Fund (TAIFF). The OFS completed its only transaction under the AGP in January 2009, when it finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the OFS, the Federal Deposit Insurance Corporation (FDIC), and the FRBNY (collectively the USG Parties) provided protection against the possibility of large losses on an asset pool of approximately \$301.0 billion of loans and securities backed by residential and commercial real estate and other such assets, which remained on Citigroup's balance sheet. The OFS' guarantee was limited to \$5.0 billion.

As a premium for the guarantee, Citigroup issued \$7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8 percent stated dividend rate and a warrant for the purchase of common stock; \$4.0 billion and the warrant were issued to the OFS, and \$3.0 billion was issued to the FDIC. The OFS received \$15 million in dividends on the preferred stock during fiscal year 2011. These dividends were deposited into the TAIFF. The OFS had also invested in Citigroup through CPP and the TIP.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement Citigroup cancelled \$1.8 billion of the preferred stock previously issued to OFS. In addition, the FDIC agreed to transfer to the OFS \$800 million of their Trust Preferred Securities (TruPS) plus dividends by December 31, 2012. The amount OFS will receive would be reduced by any losses FDIC incurs on its Citigroup guaranteed debt. The additional preferred shares from the FDIC were included in the subsidy calculation for AGP, based on the net present value of expected future cash inflows.

In fiscal year 2011, the OFS sold its TruPS for \$2.2 billion and sold additional warrants for \$67 million, leaving only the \$800.0 million of TruPS-related receivable from the FDIC valued at \$967 million on the OFS Balance Sheet at September 30, 2012. This receivable was valued at \$739 million as of September 30, 2011.

For fiscal year 2012, the AGP program recorded a \$207 million downward reestimate, due to revised expectations about the timing of receipt of dividends, interest on the dividends and the TruPS from the FDIC. OFS expects to receive a cash transfer of dividends and interest, along with the TruPS certificates from the FDIC, as scheduled, on December 31, 2012. For fiscal year 2011, the program recorded an upward reestimate of \$30 million due to a decline in market conditions.

The following table details the changes in the receivable account and the AGP subsidy cost during fiscal years 2012 and 2011:

Reconciliation of Asset Guarantee Program Receivable:

(Dollars in Millions)	Fiscal Year 2012	Fiscal Year 2011
Balance, Beginning of Period	$ 739	$ 3,055
Dividend Revenue	-	(15)
Proceeds from Sales in Excess of Cost	-	(2,301)
Net Interest Expense on Borrowings from BPD and Financing Account Balance	21	30
Balance, End of Period, Before Reestimates	760	769
Subsidy Reestimates - (Upward) Downward	207	(30)
Balance, End of Period	$ 967	$ 739
Reconciliation of Subsidy Cost (Income):		
Subsidy Reestimates - Upward (Downward)	$ (207)	$ 30
Total Subsidy Cost (Income)	$ (207)	$ 30

FHA-Refinance Program

The OFS has entered into a loss-sharing agreement with the FHA to support a program in which FHA guarantees refinancing of borrowers whose homes were worth less than the remaining amounts owed under their mortgage loans. In fiscal year 2011, the OFS established a $50 million account, held by a commercial bank, serving as its agent, from which any required reimbursements for losses will be paid to third party claimants, including banks or other investors.

During fiscal year 2012, $234 million of loans were disbursed by the FHA. As of September 30, 2012, 1,774 loans that FHA had guaranteed, with a total value of $307 million, had been refinanced under the program. During fiscal year 2011, $73 million of loans were guaranteed by the FHA. As of September 30, 2011, 334 loans that FHA had guaranteed, with a total value of $73 million, had been refinanced. OFS' maximum exposure related to FHA's guarantee totaled $41 million and $6 million at September 30, 2012 and 2011, respectively. OFS' guarantee resulted in a liability of $7 million at September 30, 2012 and a liability of $1 million at September 30, 2011. The liability was calculated, using credit reform accounting, as the present value of the estimated future cash outflows for the OFS' share of losses incurred on any defaults of the disbursed loans. As of September 30, 2012, no claims have been paid under the program.

Budget subsidy rates for the program, entirely for defaults, excluding modifications and reestimates, were set at 4.0 percent and 1.26 percent for loans guaranteed in fiscal years 2012 and 2011, respectively.

The program recorded a $3 million downward reestimate for the year ended September 30, 2012, due to a reduction in market risks and lower than projected defaults.

The following table details the changes in the FHA-Refinance Program Liability and the Subsidy Cost for the program during fiscal years 2012 and 2011:

Reconciliation of FHA-Refinance Program Liability

(Dollars in Millions)	Fiscal Year 2012	Fiscal Year 2011
Balance, Beginning of Period	$ 1	$ -
Subsidy Cost for Guarantees (Defaults)	9	1
Balance, End of Period, Before Reestimates	10	1
Subsidy Reestimates - Upward (Downward)	(3)	-
Balance, End of Period	$ 7	$ 1
Reconciliation of Subsidy Cost (Income)		
Subsidy Cost for Guarantees (Defaults)	$ 9	$ 1
Subsidy Reestimates - Upward (Downward)	(3)	-
Total Subsidy Cost (Income)	$ 6	$ 1

NOTE 7. DUE TO THE GENERAL FUND

As of September 30, 2012, the OFS accrued $9.7 billion of downward reestimates payable to the General Fund. As of September 30, 2011, the OFS accrued $4.6 billion of downward reestimates payable to the General Fund. Due to the General Fund is a Non-Entity liability on the Balance Sheet.

NOTE 8. PRINCIPAL PAYABLE TO THE BUREAU OF THE PUBLIC DEBT (BPD)

Equity investments, direct loans and other credit programs accounted for under federal credit reform are funded by subsidy appropriations and borrowings from the BPD. The OFS also borrows funds to pay the Treasury General Fund for negative program subsidy costs and downward reestimates (these reduce program subsidy cost) in advance of receiving the expected cash flows that cause the negative program subsidy or downward reestimate. The OFS makes periodic principal repayments to the BPD based on the analysis of its cash balances and future disbursement needs. All debt is intragovernmental and covered by budgetary resources. See additional details on borrowing authority in Note 11, Statement of Budgetary Resources.

Debt transactions for the fiscal years ended September 30, 2012 and 2011, were as follows:

	As of September 30,	
(Dollars in Millions)	2012	2011
Beginning Balance, Principal Payable to the BPD	$ 129,497	$ 140,404
New Borrowings	2,658	35,974
Repayments	(79,327)	(46,881)
Ending Balance, Principal Payable to the BPD	$ 52,828	$ 129,497

Borrowings from the BPD by TARP program, outstanding as of September 30, 2012 and 2011, were as follows:

	As of September 30,	
(Dollars in Millions)	2012	2011
Capital Purchase Program	$ 5,150	$ 19,003
CDCI, TALF and SBA 7(a)	1,020	1,165
Public-Private Investment Program	16,317	23,792
Automotive Industry Financing Program	17,845	32,419
American International Group, Inc. Investment Program	11,736	52,285
Asset Guarantee Program	760	833
Total Borrowings Outstanding	$ 52,828	$ 129,497

As of September 30, 2012, borrowings carried remaining terms ranging from 2 to 29 years, with interest rates from 1.0 percent to 4.4 percent. As of September 30, 2011, borrowings carried remaining terms ranging from 3 to 30 years, with interest rates from 1.0 percent to 4.7 percent.

NOTE 9. COMMITMENTS AND CONTINGENCIES

The OFS is party to various legal actions and claims brought by or against it. In the opinion of management and the Chief Counsel, the ultimate resolution of these legal actions and claims will not have a material effect on the OFS financial statements. The OFS has not incurred any loss contingencies that would be considered probable or reasonably possible for these cases; therefore, no liability was established. Refer to Note 5 for additional commitments relating to the TARP's Housing Programs and Note 6 relating to Direct Loan and Equity Investment Programs.

NOTE 10. STATEMENT OF NET COST

The Statement of Net Cost (SNC) presents the net cost of (income from) operations for the OFS under the strategic goal of ensuring the overall stability and liquidity of the financial system, preventing avoidable foreclosures and preserving homeownership. The OFS has determined that all initiatives and programs under the TARP fall within this strategic goal.

The OFS SNC reports the annual accumulated full cost of the TARP's output, including both direct and indirect costs of the program services and output identifiable to TARP, in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*.

The OFS SNC for fiscal year 2012 includes $2.3 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and $605 million in intragovernmental revenues relating to interest income on financing account balances. The OFS SNC for fiscal year 2011 includes $3.8 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and $781 million in intragovernmental revenues relating to interest income on financing account balances.

Subsidy allowance amortization on the SNC is the difference between interest income on financing fund account balances, dividends and interest income on direct loans, equity investments and other credit programs from TARP participants, and interest expense on borrowings from the BPD. Credit reform accounting requires that only subsidy cost, not the net of other costs (interest expense and dividend and interest income), be reflected in the SNC. The subsidy allowance account is used to present the loan or equity investment at the estimated net present value of future cash flows. The OFS SNC includes $1.1 billion and $430 million of subsidy allowance amortization for fiscal years 2012 and 2011, respectively.

NOTE 11. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) presents information about total budgetary resources available to the OFS and the status of those resources. For the year ended September 30, 2012, the OFS' total resources in budgetary accounts were $41.9 billion and resources in non-budgetary financing accounts, including borrowing authority and spending authority from collections of loan principal, liquidation of equity investments, interest, dividends and fees were $25.9 billion. For the year ended September 30, 2011, the OFS' total resources in budgetary accounts were $16.4 billion and resources in non-budgetary financing accounts were $86.5 billion.

Permanent Indefinite Appropriations

The OFS receives permanent indefinite appropriations annually, if necessary, to fund increases in the projected subsidy costs of direct loans, equity investment and other credit programs as determined by the reestimation process required by the FCRA.

Additionally, Section 118 of the EESA states that the Secretary may issue public debt securities and use the resulting funds to carry out the Act and that any such funds expended or obligated by the Secretary for actions authorized by this Act, including the payment of administrative expenses, shall be deemed appropriated at the time of such expenditure or obligation.

Borrowing Authority

The OFS is authorized to borrow from the BPD whenever funds needed to disburse direct loans and equity investments, and to enter into asset guarantee and loss-sharing arrangements, exceed subsidy costs and collections in the non-budgetary financing accounts. For the year ended September 30, 2012, the OFS had borrowing authority available of $2.6 billion. For the year ended September 30, 2011, the OFS had borrowing authority available of $8.4 billion.

The OFS uses dividends and interest received as well as principal repayments on direct loans and liquidation of equity investments to repay debt in the non-budgetary direct loan, equity investment and other credit program financing accounts. These receipts are not available for any other use per credit reform accounting guidance.

Apportionment Categories of Obligations Incurred: Direct versus Reimbursable Obligations

All of the OFS apportionments are Direct and are Category B. Category B apportionments typically distribute budgetary resources on a basis other than calendar quarters, such as by activities, projects, objects or a combination of these categories. The OFS obligations incurred are direct obligations (obligations not financed from intragovernmental reimbursable agreements).

Undelivered Orders

Undelivered orders as of September 30, 2012 were $40.2 billion in budgetary accounts and $5.9 billion in non-budgetary financing accounts. Undelivered orders as of September 30, 2011 were $43.4 billion in budgetary accounts and $13.2 billion in non-budgetary financing accounts.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Federal agencies and entities are required to explain material differences between amounts reported in the SBR and the actual amounts reported in the Budget of the U. S. Government (the President's Budget).

The President's Budget for 2014, with the "Actual" column completed for fiscal year 2012, has not yet been published as of the date of these financial statements. The President's Budget is currently expected to be published and delivered to Congress in early February 2013. It will be available from the Government Printing Office.

The 2013 President's Budget, with the "Actual" column completed for the year ended September 30, 2011, was published in February 2012, and reconciled to the SBR. The only differences between the two documents were due to:

- Rounding;
- Expired funds that are not shown in the Actual column of the President's Budget; and
- A $32 million downward modification shown as an outlay and as a corresponding distributed offsetting receipt in the SBR in 2011 that was included in the President's Budget in fiscal year 2010.

NOTE 12. RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF (INCOME FROM) OPERATIONS

The OFS presents the SNC using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the SBR. The reconciliation of obligations incurred to net cost of operations shown below categorizes the differences between the two, and illustrates that the OFS maintains reconcilable consistency between the two types of reporting.

The Reconciliation of Obligations Incurred to Net Cost of (Income from) Operations for the fiscal years ended September 30, 2012 and 2011 is as follows:

(Dollars in Millions)	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 35,803	$ 67,646
Actual Offsetting Collections and Recoveries	(87,383)	(91,708)
Offsetting Receipts	(6,063)	(61,832)
Net Obligations	(57,643)	(85,894)
Other Resources	1	1
Total Resources Used to Finance Activities	(57,642)	(85,893)
Resources Used to Finance Items Not Part of Net Cost of (Income from) Operations:		
Net Obligations in Direct Loan, Equity Investment and Asset Guarantee Financing Funds	78,988	23,249
Change in Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	3,157	25,330
Resources that Fund the Acquisition of Assets	-	(50)
Resources that Fund Prior Period Expenses and Reestimates	(23,294)	23,562
Total Resources Used to Finance Items Not Part of Net Cost of (Income from) Operations	58,851	72,091
Total Resources Used to Finance the Net Cost of (Income from) Operations	1,209	(13,802)
Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period:		
Accrued Net Upward (Downward) Reestimates at Year-End	(8,958)	23,293
Other	1	6
Total Components of Net Cost of (Income from) Operations that Will Not Require or Generate Resources in the Current Period	(8,957)	23,299
Net Cost of (Income from) Operations	$ (7,748)	$ 9,497

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)

REQUIRED SUPPLEMENTARY INFORMATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2012

(Unaudited)

	2012					
	Combined		TARP Programs		TARP Administrative	
Dollars in Millions	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES						
Unobligated Balances Brought Forward	$ 14,166	$ 21,143	$ 13,967	$ 21,143	$ 199	$ -
Recoveries of Prior Year Unpaid Obligations	146	6,114	104	6,114	42	-
Borrowing Authority Withdrawn	-	(5,832)	-	(5,832)	-	-
Actual Repayment of Debt, Prior-Year Balances	-	(19,900)	-	(19,900)	-	-
Unobligated Balance from Prior Year Budget Authority, Net	14,312	1,525	14,071	1,525	241	-
Appropriations	27,593	-	27,270	-	323	-
Borrowing Authority	-	2,659	-	2,659	-	-
Spending Authority from Offsetting Collections	-	21,695	-	21,695	-	-
TOTAL BUDGETARY RESOURCES (Note 11)	$ 41,905	$ 25,879	$ 41,341	$ 25,879	$ 564	$ -
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	$ 27,555	$ 8,248	$ 27,270	$ 8,248	$ 285	$ -
Unobligated Balance:						
Apportioned	41	3,946	-	3,946	41	-
Unapportioned	14,309	13,685	14,071	13,685	238	-
Total Unobligated Balance	14,350	17,631	14,071	17,631	279	-
TOTAL STATUS OF BUDGETARY RESOURCES	$ 41,905	$ 25,879	$ 41,341	$ 25,879	$ 564	$ -
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward:						
Unpaid Obligations	$ 43,814	$ 13,158	$ 43,618	$ 13,158	$ 196	$ -
Uncollected Customer Payments from Federal Sources	-	(496)	-	(496)	-	-
Obligated Balance, Net, Brought Forward	43,814	12,662	43,618	12,662	196	-
Obligations Incurred	27,555	8,248	27,270	8,248	285	-
Gross Outlays	(30,675)	(9,366)	(30,400)	(9,366)	(275)	-
Change in Uncollected Customer Payments from Federal Sources	-	147	-	147	-	-
Recoveries of Prior Year Unpaid Obligations	(146)	(6,114)	(104)	(6,114)	(42)	-
Obligated Balance, Net, End of Period:						
Unpaid Obligations, Gross, End of Period	40,548	5,926	40,384	5,926	164	-
Uncollected Customer Payments from Federal Sources	-	(349)	-	(349)	-	-
OBLIGATED BALANCE, NET, END OF PERIOD	$ 40,548	$ 5,577	$ 40,384	$ 5,577	$ 164	$ -
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$ 27,593	$ 24,354	$ 27,270	$ 24,354	$ 323	$ -
Actual Offsetting Collections	-	(81,269)	-	(81,269)	-	-
Change in Uncollected Customer Payments from Federal Sources	-	147	-	147	-	-
BUDGET AUTHORITY, NET	$ 27,593	$ (56,768)	$ 27,270	$ (56,768)	$ 323	$ -
Gross Outlays	$ 30,675	$ 9,366	$ 30,400	$ 9,366	$ 275	$ -
Actual Offsetting Collections	-	(81,269)	-	(81,269)	-	-
Net Outlays	30,675	(71,903)	30,400	(71,903)	275	-
Distributed Offsetting Receipts	(6,063)	-	(6,063)	-	-	-
AGENCY OUTLAYS, NET	$ 24,612	$ (71,903)	$ 24,337	$ (71,903)	$ 275	$ -

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)

REQUIRED SUPPLEMENTARY INFORMATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2011

(Unaudited)

	2011					
	Combined		TARP Programs		TARP Administrative	
Dollars in Millions	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES						
Unobligated Balances Brought Forward	$ 11,075	$ 10,548	$ 10,949	$ 10,548	$ 126	$ -
Recoveries of Prior Year Unpaid Obligations	3,057	4,664	3,018	4,664	39	-
Borrowing Authority Withdrawn	-	(1,368)	-	(1,368)	-	-
Actual Repayment of Debt, Prior-Year Balances	-	(7,996)	-	(7,996)	-	-
Unobligated Balance from Prior Year Budget Authority, Net	14,132	5,848	13,967	5,848	165	-
Appropriations	2,278	-	1,886	-	392	-
Borrowing Authority	-	35,596	-	35,596	-	-
Spending Authority from Offsetting Collections	-	45,101	-	45,101	-	-
TOTAL BUDGETARY RESOURCES (Note 11)	$ 16,410	$ 86,545	$ 15,853	$ 86,545	$ 557	$ -
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	$ 2,244	$ 65,402	$ 1,886	$ 65,402	$ 358	$ -
Unobligated Balance:						
Apportioned	36	511	-	511	36	-
Unapportioned	14,130	20,632	13,967	20,632	163	-
Total Unobligated Balance	14,166	21,143	13,967	21,143	199	-
TOTAL STATUS OF BUDGETARY RESOURCES	$ 16,410	$ 86,545	$ 15,853	$ 86,545	$ 557	$ -
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward:						
Unpaid Obligations	$ 69,128	$ 41,918	$ 68,898	$ 41,918	$ 230	$ -
Uncollected Customer Payments from Federal Sources	-	(23,816)	-	(23,816)	-	-
Obligated Balance, Net, Brought Forward	69,128	18,102	68,898	18,102	230	-
Obligations Incurred	2,244	65,402	1,886	65,402	358	-
Gross Outlays	(24,501)	(89,498)	(24,148)	(89,498)	(353)	-
Change in Uncollected Customer Payments from Federal Sources	-	23,320	-	23,320	-	-
Recoveries of Prior Year Unpaid Obligations	(3,057)	(4,664)	(3,018)	(4,664)	(39)	-
Obligated Balance, Net, End of Period:						
Unpaid Obligations, Gross, End of Period	43,814	13,158	43,618	13,158	196	-
Uncollected Customer Payments from Federal Sources	-	(496)	-	(496)	-	-
OBLIGATED BALANCE, NET, END OF PERIOD	$ 43,814	$ 12,662	$ 43,618	$ 12,662	$ 196	$ -
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$ 2,278	$ 80,697	$ 1,886	$ 80,697	$ 392	$ -
Actual Offsetting Collections	-	(107,307)	-	(107,307)	-	-
Change in Uncollected Customer Payments from Federal Sources	-	23,320	-	23,320	-	-
BUDGET AUTHORITY, NET	$ 2,278	$ (3,290)	$ 1,886	$ (3,290)	$ 392	$ -
Gross Outlays	$ 24,501	$ 89,498	$ 24,148	$ 89,498	$ 353	$ -
Actual Offsetting Collections	-	(107,307)	-	(107,307)	-	-
Net Outlays	24,501	(17,809)	24,148	(17,809)	353	-
Distributed Offsetting Receipts	(61,832)	-	(61,832)	-	-	-
AGENCY OUTLAYS, NET	$ (37,331)	$ (17,809)	$ (37,684)	$ (17,809)	$ 353	$ -

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)

OTHER ACCOMPANYING INFORMATION

SCHEDULE OF SPENDING

For the Years Ended September 30, 2012 and 2011

(Unaudited)

Dollars in Millions	2012 Budgetary Accounts	2012 Nonbudgetary Financing Accounts	2011 Budgetary Accounts	2011 Nonbudgetary Financing Accounts
WHAT IS AVAILABLE TO SPEND?				
Total Resources per Statement of Budgetary Resources (SBR)	$ 41,905	$ 25,879	$ 16,410	$ 86,545
Less Amount Apportioned (not yet agreed to be spent)	(41)	(3,946)	(36)	(511)
Less Amount Unapportioned (not yet available to be spent)	(14,309)	(13,685)	(14,130)	(20,632)
AMOUNT AVAILABLE TO SPEND - OBLIGATIONS INCURRED PER SBR	$ 27,555	$ 8,248	$ 2,244	$ 65,402
HOW WAS THE AMOUNT SPENT?				
Personnel Compensation	$ 20	$ -	$ 24	$ -
Personnel Benefits	6	-	6	-
Travel and Transportation	1	-	1	-
Supplies and Materials	2	-	-	-
Other Services	244	3	322	-
Housing Program Incentive Payments	3,066	-	1,935	-
Investments and Loans	-	1,048	-	23,839
Interest	-	2,252	-	3,828
Subsidies, including Reestimates for Previously Disbursed Loans and Investments Outstanding[22]	27,336	6,063	22,213	61,831
TOTAL SPENDING - OUTLAYS PER SBR	30,675	9,366	24,501	89,498
AMOUNT REMAINING TO BE SPENT (SPENT FROM PREVIOUSLY OBLIGATED AUTHORITY)	(3,120)	(1,118)	(22,257)	(24,096)
AMOUNT AVAILABLE TO SPEND - OBLIGATIONS INCURRED PER SBR	$ 27,555	$ 8,248	$ 2,244	$ 65,402

The Schedule of Spending presents an overview of how and where the OFS is obligating and disbursing funds. Obligations are legally binding agreements that result in outlays, immediately or in the future. The Schedule presents total budgetary resources, gross outlays, and total obligations in further detail than that provided on the Statement of Budgetary Resources, although the data used to populate both is the same.

The section "How Was the Amount Spent" presents disbursements, or outlays, for services received, supplies purchased, subsidies paid and program loans or investments made during 2012 or 2011, even if obligations for those outlays were made in prior years.

[22] Subsidies disbursed from nonbudgetary financing accounts consist of negative subsidies and downward reestimates, which are reductions of subsidy cost, transferred from the financing accounts to the Treasury General Fund.

PART 3:

Appendices

APPENDIX A: TARP GLOSSARY

Asset-Backed Security (ABS): A financial instrument representing an interest in a pool of other assets, typically consumer loans. Most ABS are backed by credit card receivables, auto loans, student loans, or other loan and lease obligations.

Asset Guarantee Program (AGP): A TARP program under which OFS, together with the Federal Reserve and the FDIC, agreed to share losses on certain pools of assets held by systemically significant financial institutions that faced a high risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets.

Automotive Industry Financing Program (AIFP): A TARP program under which OFS provided loans or equity investments in order to avoid a disorderly bankruptcy of one or more auto companies that would have posed a systemic risk to the country's financial system.

Capital Purchase Program (CPP): A TARP program pursuant to which OFS invested in preferred equity securities and other securities issued by financial institutions.

Commercial Mortgage-Backed Securities (CMBS): A financial instrument representing an interest in a commercial real estate mortgage or a group of commercial real estate mortgages.

Commercial Paper (CP): An unsecured debt instrument with a short maturity period, 270 days or less, typically issued by large financial institutions or other large commercial firms.

Community Development Capital Initiative (CDCI): A TARP program that provides low-cost capital to Community Development Financial Institutions to encourage lending to small businesses and help facilitate the flow of credit to individuals in underserved communities.

Community Development Financial Institution (CDFI): A financial institution that focuses on providing financial services to low- and moderate- income, minority and other underserved communities, and is certified by the CDFI Fund, an office within OFS that promotes economic revitalization and community development.

Debtor-In-Possession (DIP): A debtor-in-possession in U. S. bankruptcy law has filed a bankruptcy petition but still remains in possession of its property. DIP financing usually has priority over existing debt, equity and other claims.

Emergency Economic Stabilization Act (EESA): The law that created the Troubled Asset Relief Program (TARP).

Government-Sponsored Enterprises (GSEs): Private corporations created by the U.S. Government. Fannie Mae and Freddie Mac are GSEs.

Home Affordable Modification Program (HAMP): A TARP program OFS established to help responsible but struggling homeowners reduce their mortgage payments to affordable levels and avoid foreclosure.

Legacy Securities: CMBS and non-agency RMBS issued prior to 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without ratings enhancement and that are secured directly by actual mortgage loans, leases or other assets and not other securities.

Making Home Affordable (MHA): A comprehensive plan to stabilize the U.S. housing market and help responsible, but struggling, homeowners reduce their monthly mortgage payments to more affordable levels and avoid foreclosure. HAMP is part of MHA.

Mortgage-Backed Securities (MBS): A type of ABS representing an interest in a pool of similar mortgages bundled together by a financial institution.

Non-Agency Residential Mortgage-Backed Securities: RMBS that are not guaranteed or issued by Freddie Mac, Fannie Mae, any other GSE, Ginnie Mae, or a U.S. federal government agency.

Preferred Stock: Equity ownership that usually pays a fixed dividend and gives the holder a claim on corporate earnings superior to common stock owners. Preferred stock also has priority in the distribution of assets in the case of liquidation of a bankrupt company.

Public-Private Investment Fund (PPIF): An investment fund established to purchase Legacy Securities from financial institutions under PPIP.

Public-Private Investment Program (PPIP): A TARP program designed to support the secondary market in mortgage-backed securities. The program is designed to increase the flow of credit throughout the economy by partnering with private investors to purchase Legacy Securities from financial institutions.

Qualifying Financial Institution (QFI): Private and public U.S.-controlled banks, savings associations, bank holding companies, certain savings and loan holding companies, and mutual organizations.

Residential Mortgage-Backed Securities (RMBS): A financial instrument representing an interest in a group of residential real estate mortgages.

SBA: U.S. Small Business Administration.

SBA 7(a) Securities Purchase Program: A TARP program under which OFS purchased securities backed by the guaranteed portions of the SBA 7(a) loans.

Servicer: An administrative third party that collects mortgage payments, handles tax and insurance escrows, and may even bring foreclosure proceedings on past due mortgages for institutional loan owners or originators. The loan servicer also generates reports for borrowers and mortgage owners on the collections.

Targeted Investment Program (TIP): A TARP program created to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system.

Term Asset-Backed Securities Loan Facility (TALF): A program under which the Federal Reserve Bank of New York made term non-recourse loans to buyers of AAA-rated Asset-Backed Securities in order to stimulate consumer and business lending.

Troubled Asset Relief Program (TARP): The Troubled Asset Relief Program, which was established under EESA to stabilize the financial system and prevent a systemic collapse.

Trust Preferred Security (TruPS): A security that has both equity and debt characteristics, created by establishing a trust and issuing debt to it. TruPS are treated as capital, not debt, for regulatory purposes.

Warrant: A financial instrument that represents the right, but not the obligation, to purchase a certain number of shares of common stock of a company at a fixed price

APPENDIX B: ABBREVIATIONS AND ACRONYMS

ABS Asset-Backed Securities

AGP Asset Guarantee Program

AIFP Automotive Industry Financing Program

AIG American International Group, Inc.

CBO Congressional Budget Office

CDFI Community Development Financial Institution

CMBS Commercial Mortgage-Backed Securities

CP Commercial Paper

COP Congressional Oversight Panel

CPP Capital Purchase Program

CDCI Community Development Capital Initiative

DIP Debtor-In-Possession

EESA Emergency Economic Stabilization Act of 2008

FCRA Federal Credit Reform Act of 1990

FHA Federal Housing Administration

FRBNY Federal Reserve Bank of New York

GAO Government Accountability Office

GSE Government-Sponsored Enterprise

HAFA Home Affordable Foreclosure Alternatives

HHF Hardest Hit Fund

HAMP Home Affordable Modification Program

HPDP Home Price Decline Protection

IPO Initial Public Offering

LIBOR London Interbank Offered Rate

LTV Loan-to-Value Ratio

MBS Mortgage-Backed Security

MHA Making Home Affordable Program

NPV Net Present Value

OFS Office of Financial Stability

OMB Office of Management and Budget

PPIF Public-Private Investment Fund

PPIP Public-Private Investment Program

PRA Principal Reduction Alternative

QFI Qualifying Financial Institution

RMBS Residential Mortgage-Backed Securities

SIGTARP Special Inspector General for the Troubled Asset Relief Program

SPV Special Purpose Vehicle

TAIFF Troubled Assets Insurance Financing Fund

TALF Term Asset-Backed Securities Loan Facility

TARP Troubled Asset Relief Program

TIP Targeted Investment Program

TruPS Trust Preferred Securities

USDA U. S. Department of Agriculture

Office of Financial Stability Websites:

www.FinancialStability.gov

www.MAKINGHOMEAFFORDABLE.gov

Documents Referenced in the AFR:

Monthly Reports to Congress
http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Monthly-Report-to-Congress.aspx

The Financial Crisis Response in Charts – April 2012
http://www.treasury.gov/resource-center/data-chart-center/Documents/20120413_FinancialCrisisResponse.pdf.

Anniversary Reports
http://www.treasury.gov/initiatives/financial-stability/reports/Pages/TARP-Annual-Retrospectives.aspx

Agency Financial Reports, including 2012, 2011, 2010 and 2009:
http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Annual-Agency-Financial-Reports.aspx

Housing Scorecard:
http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard_

Warrant Disposition Report:
http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Warrant-Disposition-Reports.aspx

PPIP Quarterly Reports
http://www.treasury.gov/initiatives/financial-stability/reports/Documents/External%20Report%20-%2009-12%20vFinal.pdf

Making Home Affordable Monthly Reports:
http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx

www.financialstability.gov