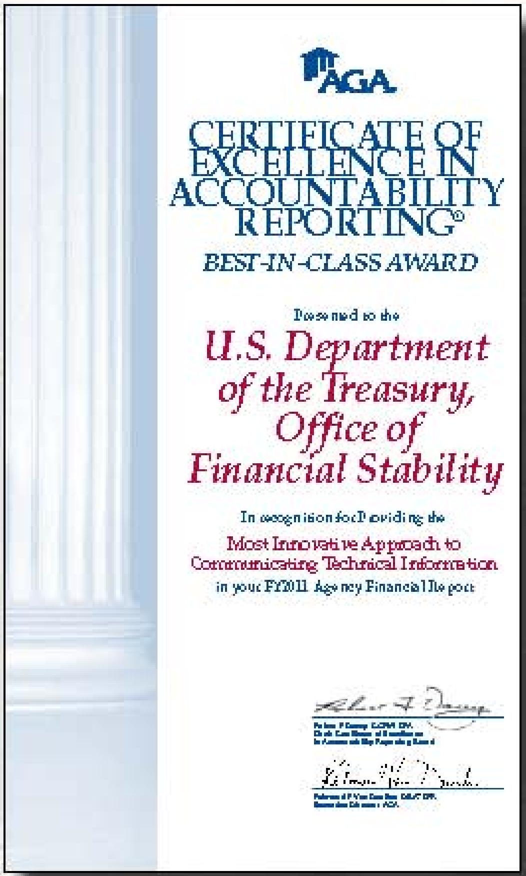
THE DEPARTMENT OF THE TREASURY

CITIZENS' REPORT

Office of Financial Stability – Troubled Asset Relief Program

Fiscal Year 2012

2011 CERTIFICATES OF EXCELLENCE



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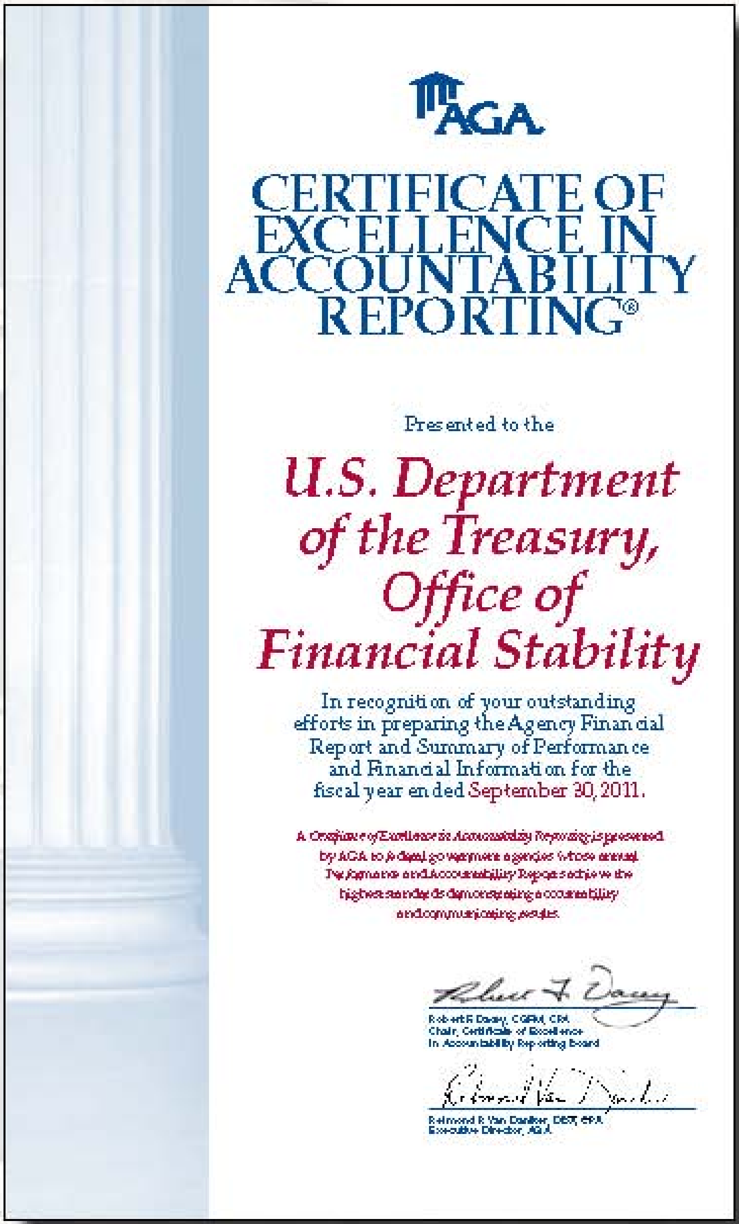

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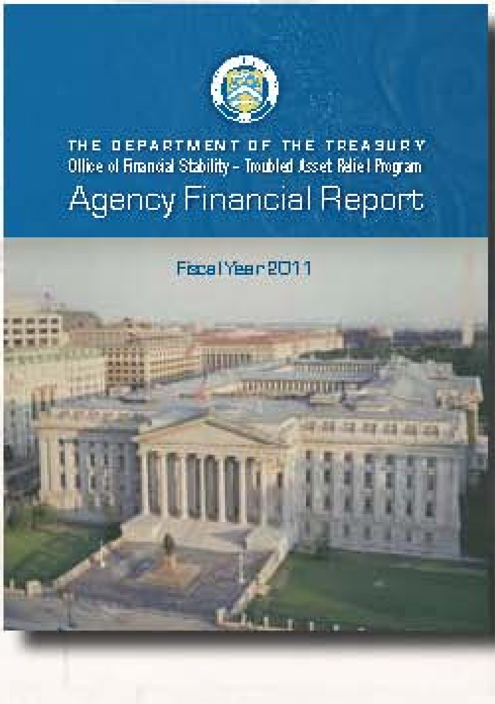

Table of Contents

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Message From The Assistant Secretary For Financial Stability

February 15, 2013

I am pleased to present the Office of Financial Stability's (OFS) Citizens' Report for Fiscal Year (FY) 2012. This report presents our audited financial statements, the latest lifetime cost estimates, and an update on the wind down of the Troubled Asset Relief Program (TARP).

Due to TARP and the other emergency actions taken by the government, as well as the financial reforms that are being put in place, our economy is stronger, banks are better capitalized, the weakest parts of the financial system no longer exist, struggling homeowners are receiving relief and credit is much more available to consumers and small businesses.

TARP was always meant to be a temporary, emergency program. The government should not be in the business of owning stakes in private companies for an indefinite period of time. That's why, after we extinguished the immediate financial fire, we began moving to exit our investments and replace temporary government support with private capital. We can report several highlights during fiscal year 2012:

- Working with the Federal Reserve Bank of New York (FRBNY), we significantly reduced the government's stake in American International Group (AIG). As of September 30, 2012, taxpayers had realized a positive return of $15.1 billion in their investment in AIG. Treasury sold its remaining 234 million common shares on December 14, 2012, increasing the taxpayers' overall gain to $22.7 billion, compared to the original $182.3 billion commitment by the federal government.

- OFS made substantial progress winding down TARP's bank support programs. As of September 30, 2012, there were 290 banks remaining in the Capital Purchase Program (CPP) out of the original 707 that were originally part of the portfolio. Subsequent sales, repayments, and restructurings through December 31, 2012, have further reduced the remaining banks to 212, as a result of implementing the CPP exit strategy that we announced on May 3, 2012. Taxpayers have already earned more than $23 billion in positive returns from their investment in banks under TARP.

- OFS also substantially wound down TARP's credit market programs during 2012 – closing the SBA 7(a) Securities Purchase Program at a small profit, reducing and eventually eliminating OFS's support for the Treasury's loan under the Term Asset-Backed Securities Loan Facility (TALF), and made further progress winding down the investment funds under the Legacy Securities Public-Private Investment Program (PPIP).

While TARP's investment programs are winding down, OFS continues to implement the housing programs funded under TARP, which are designed to prevent avoidable foreclosures. These efforts have directly helped more than one million people avoid foreclosure and indirectly helped millions more by setting new standards and establishing more consumer-friendly practices throughout the mortgage servicing industry.

Going forward, OFS will continue winding down TARP while maintaining the highest standards of transparency and accountability. 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.

While our economy is stronger, we still have work to do to fully repair the damage that the financial crisis has left behind. But the damage would have been far worse, and the costs far higher, without the government's forceful response.

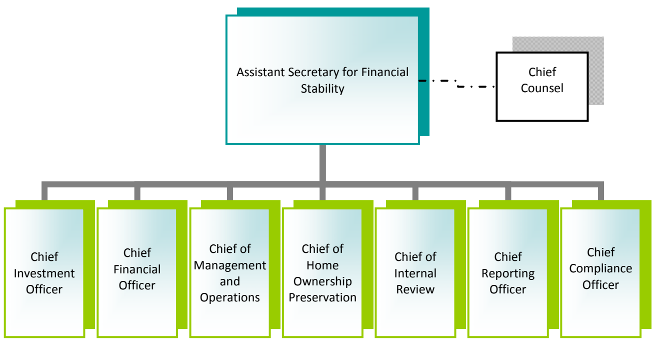
Sincerely,

Timothy G. Massad
Assistant Secretary
Office of Financial Stability

About the Office of Financial Stability

EESA established OFS within the Office of Domestic Finance of the Treasury Department. The mandate of OFS is to implement TARP to help stabilize the U.S. financial system and promote economic recovery following the 2008 financial crisis, while also implementing the various homeowner assistance programs established under TARP.

The OFS organization chart follows:



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 offices.

The Office of the Chief Investment Officer (CIO) is responsible for management and disposition of all investments made 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 managing the internal operations of OFS.

The Office of the Chief of Homeownership Preservation (HPO) oversees the TARP programs that are helping to stabilize the housing market and preventing avoidable foreclosures wherever possible.

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) 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.

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 making sure all OFS programs and activities comply with EESA and with other laws and regulations. It is also responsible for coordinating OFS's work with the external oversight entities including the Government Accountability Office (GAO), the Special Inspector General for TARP (SIGTARP), and the Financial Stability Oversight Board.

OFS is not envisioned as a permanent organization, so to the maximum extent possible and when it makes sense economically, the organization uses private sector expertise to help execute and manage TARP programs. Fannie Mae and Freddie Mac accounted for 56.3 percent of the fiscal year 2012 administrative outlays ($151 million of $268 million) to assist OFS in administering and compliance oversight of the Making Home Affordable (MHA) program.

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Why TARP Was Necessary?

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 effectively ceased to function. Without immediate and forceful government action, our country faced the possibility of a second Great Depression.

The crisis began in the summer of 2007 and gradually increased in intensity and momentum the following year. The forces that brought about the crisis had built up over a long period of time. They included an unsustainable housing boom fueled in part by the easy availability of mortgages, excessive debt held by households and businesses, rapid growth of the nation's financial system, an outdated regulatory framework, and insensitivity to risk on the part of many investors.

On September 15, 2008, the crisis entered a new phase. That is when Lehman Brothers filed for bankruptcy. The following day the stock market plunged by more than 500 points and panic began spreading across the financial world.

Suddenly no investment was safe. Markets that are essential for helping businesses and families meet their everyday financing needs were freezing up, threatening the availability of student loans, small business loans, auto loans and other forms of consumer lending. In short, the mechanisms that keep money flowing throughout our economy were failing.

In today's modern and global economy, credit moves at the speed of a mouse-click. If one part of the system fails, the effects can spread far and wide in an instant. This has the potential to impact everyday financial operations that we all take for granted including debit and credit card transactions, automatic payroll deposits, and even the ability of ATMs to dispense cash.

By the end of September 2008, every major financial institution was threatened and they tried to shore up their balance sheets by shedding risky assets and hoarding cash. There were indications that a generalized run on America's banking and financial systems could start. Millions of jobs had already been lost. Trillions of dollars of household wealth had been wiped out. Home foreclosures were on the rise and businesses were ceasing their investments. The burst of the housing bubble was fueling a national foreclosure crisis on a massive scale.

As September 2008 drew to a close, the economy was in a state of free-fall and the government's ability to contain the damage was quickly vanishing.

The government put in place a forceful and coordinated response to the crisis across many federal agencies. It included actions taken by Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and other areas of the federal government.

However, the severe conditions facing the nation's families, businesses, homeowners, and the economy as a whole required additional resources and authorities. Therefore, in late September 2008, the Bush Administration proposed the Emergency Economic Stabilization Act (EESA). The legislation was passed by Congress and signed into law by President George W. Bush on October 3, 2008. As a result of this legislation, TARP was created and implemented immediately in order to arrest the crisis and restart the nation's economic growth.

TARP Goals and Programs

EESA provided the Secretary of the Treasury with the authority to restore stability and liquidity to the U.S. financial system in the wake of the 2008 crisis. The law also provided the Treasury Secretary with authority to take certain actions that would help homeowners avoid foreclosure on their homes where it was possible.

When TARP was created, Treasury's Office of Financial Stability (OFS) – the office within Treasury that was set up to implement the program – established four strategic goals in order to carry out the purposes of the law. The four strategic goals that OFS established for TARP are:

1. Ensure the overall stability and liquidity of the financial system.
2. Prevent avoidable foreclosures and help preserve homeownership.
3. Protect taxpayer interests.
4. Promote transparency.

To achieve these goals, OFS established several programs under TARP to help stabilize the U.S. financial system and housing market. OFS also established robust internal controls and produces regular public reports to ensure that taxpayers have access to the latest information about the status of TARP's various investment programs and housing initiatives.

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 January 2013) which are available at: http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx

Goal One: Ensure the Overall Stability and Liquidity of the U.S. Financial System

The first goal of TARP was to help restore stability to the financial system. Since the financial crisis ended, our economy has faced additional headwinds and challenges. Yet despite these challenges and the lingering damage left over from the crisis, the U.S. financial system today is far more stable than it was in 2008. This is in no small measure due to the success of TARP and the other emergency actions taken by the government. Soon after the immediate financial fires of 2008 were extinguished, OFS began exiting the various investment programs under TARP. Following is a status update of these programs as of September 30, 2012.

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

OFS invested approximately $245 billion under TARP to stabilize the nation's banking system through five programs. These programs helped to restore confidence in the nation's banking system by bolstering the capital position of viable institutions of all sizes. TARP's banking programs helped to provide these institutions with the additional capital they needed to absorb losses and restart the flow of credit to businesses and consumers.

As of September 30, 2012, OFS had collected nearly $22 billion more than the original investment amount ($245 billion) for TARP's banking investments. Three of these programs – the Asset Guarantee Program (AGP), the Targeted Investment Program (TIP), and the Capital Assistance Program (CAP)—are now closed. The Capital Purchase Program (CPP) and the Community Development Capital Initiative (CDCI)—still have outstanding investments but are in the process of winding down as described below.

Capital Purchase Program

OFS launched the Capital Purchase Program (CPP), the largest 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 able to make new loans and continue to provide other services to consumers and businesses, even while absorbing write-downs and charge-offs on loans that were not performing.

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). 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 had received $193.2 billion in CPP repayments or proceeds from sales, along with approximately $11.8 billion in CPP dividends and interest, as well as $14.6 billion of proceeds in excess of cost[1].

During fiscal year 2012, OFS 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's 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. During fiscal year 2012, 95 financial institutions fully repaid a total of $8.1 billion including proceeds from auctions and sales.

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 received nearly $7.7 billion in proceeds from the sale/repurchase of CPP warrants.

For additional information, please see OFS's Monthly Reports 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

[1] This amount includes $6.9 billion in net proceeds received from the sale of Citigroup common stock in excess of cost.

Targeted Investment Program

OFS established the TIP in December 2008 to prevent a loss of confidence in certain financial institutions, which could undermine the overall economy. Through TIP, OFS invested $20.0 billion in preferred stock in each of two institutions -- Bank of America (BofA) and Citigroup. This was in addition to the 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. TIP closed during fiscal year 2011 and resulted in a positive return of $4 billion 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). The AGP was used to assist BofA and Citigroup in conjunction with TIP investments in those institutions.

No payments were ever made under this program. The AGP is now closed. As of September 30, 2012, the AGP had resulted in a positive return of $3.7 billion for taxpayers. On December 28, 2012, OFS received $800 million in Citigroup trust preferred securities and accumulated dividends from the FDIC as part of the program. These securities were then sold on February 5, 2013, for $895 million resulting in an additional gain for taxpayers.

Capital Assistance Program

In 2009, Treasury worked with federal banking regulators to develop a comprehensive "stress test" known as the Supervisory Capital Assessment Program (SCAP) to assess the health of the nation's 19 largest bank holding companies. In conjunction with SCAP, Treasury announced that it would provide capital under TARP through the Capital Assistance Program (CAP) to those institutions that needed additional capital but were unable to raise it through private sources.

Only one TARP institution (Ally Financial) required additional funds but received them through the Automotive Industry Financing Program, not CAP. CAP closed on November 9, 2009 without making any investments and did not incur any losses to taxpayers. Following the release of the stress test results, banks were able to raise hundreds of billions of dollars in private capital.

Community Development Capital Initiative

OFS created the CDCI to help viable certified Community Development Financial Institutions (CDFIs) and the communities they serve cope with effects of the financial crisis. CDFIs provide financial services to communities that underserved by traditional banks, such as low- and moderate-income, minority, and other underserved communities. Recognizing the unique circumstances facing CDFIs seeking to raise capital, the dividend rate was initially lower and was designed to increase to nine percent after eight years, compared to five years for institutions participating in CPP.

The total investment amount for the CDCI program under TARP was originally $570 million for 84 institutions and is now approximately $532 million. OFS will continue to hold these investments and evaluate its options for winding down the program at a later date.

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

Treasury launched three programs under TARP to restart credit markets that came under severe stress during the financial crisis. These credit market programs, combined with additional measures taken by the Administration, helped ensure that various types of consumer and small business loans remained available in the immediate aftermath of the financial crisis and in the years since.

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 holding these hard-to-value assets, marked at distressed prices on their balance sheets, which constrained liquidity and the availability of credit in these markets.

OFS originally committed approximately $22.1 billion of equity and loans to the nine Public Private Investment Funds (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.

Three PPIFs substantially wound down their funds during fiscal year 2012 with resulting collections of $7.4 billion. As of September 30, 2012, $9.8 billion remained outstanding in the program.

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. TALF supported the issuance of nearly 3 million auto loans, more than 1 million student loans, nearly 900,000 small business loans, 150,000 other types of business loans, and millions of credit card loans.

OFS originally committed to provide $20 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, representing 10 percent of the outstanding TALF loans. 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 cost to taxpayers from the program and fully collected (with interest) Treasury's loan made under this program on February 6, 2013.

Small Business Administration 7(a) Securities Purchase Program

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. 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 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 TARP Investment 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.

OFS provided nearly $80 billion in loans and equity investments under the AIFP to GM, Chrysler, and their financing entities. Treasury also provided loans to ensure that auto suppliers would be compensated for their parts and services that had already been purchased by the auto companies.

An estimated one million jobs were saved by the assistance provided to the auto industry under TARP. This assistance made it possible for them to restructure and compete more effectively. As a result, since 2009 the auto industry has continued to rebound. During fiscal year 2012, OFS focused on carefully managing its remaining AIFP investments in a way that protects taxpayer interests and supports the continued recovery of the auto industry.

Of the approximately $80 billion that was provided to the auto industry under TARP, Treasury has now recovered $46.40 billion. While the auto industry's rescue under TARP will likely have a loss, the cost of disorderly liquidations of GM and Chrysler, and the effects those would have had on the industry and the nation as a whole would have been far higher.

General Motors

OFS provided approximately $50 billion of TARP funds to GM in 2008 and 2009. Since then, GM has gone through a managed bankruptcy and is now a more competitive company. OFS's investment in GM was originally made in the form of loans, some of which were subsequently converted into common and preferred stock. Treasury currently holds only common stock.

As of September 30, 2012, OFS held approximately 500 million shares of GM's common stock, which represented 31.9 percent of the company's outstanding shares of common stock. On December 21, 2012, OFS sold 200 million shares of General Motors (GM) common stock at a share price of $27.50 per share and resulted in proceeds received proceeds of $5.5 billion. OFS intends to sell its remaining 300 million shares of GM common stock within the next 12 to 15 months, subject to market conditions.

Of the approximately $50 billion disbursed to GM under TARP, OFS has recovered approximately $29.5 billion.

Chrysler

OFS committed a total of $12.4 billion to Chrysler under TARP.

In April 2009, as part of a planned restructuring, Chrysler filed for bankruptcy protection. In May 2009, OFS provided $1.9 billion to Chrysler (Old Chrysler) under a debtor-in-possession financing agreement for assistance during its bankruptcy proceeding.

Chrysler emerged from bankruptcy in June 2009 as a newly formed entity, Chrysler Group LLC (New Chrysler) and has continued to rebound in the years since. In July 2011, OFS fully exited its investment in Chrysler, six years ahead of schedule. Of the $12.4 billion disbursed to Chrysler under TARP, OFS recovered more than $11.1 billion for the taxpayers through principal repayments, interest, and cancelled commitments. OFS is unlikely to fully recover the difference of $1.3 billion owed by Old Chrysler.

Ally Financial (formerly GMAC)

OFS also made a $17.2 billion investment in Ally Financial (formerly GMAC) under TARP. The company has been the primary source of financing for GM's dealers and consumers for more than 90 years. Supporting Ally made it possible for GM and Chrysler dealers to continue providing car loans to their customers and secure financing to run their businesses during the financial crisis.

As of September 30, 2012, OFS's outstanding investment in Ally stood at $13.75 billion, having recovered about one-third ($5.8 billion) of the original $17.2 billion investment through repayments and other income. During 2012, Ally began two strategic initiatives: Chapter 11 proceeding for its mortgage subsidiary, Residential Capital, LLC and the sale of its international auto finance operations. These two initiatives are important elements of OFS's strategy for exiting its remaining investments in Ally[2]. Once they are completed, OFS expects to begin monetizing its remaining investment in Ally, subject to market conditions.

American International Group, Inc. (AIG) Investment Program

During the financial crisis, the FRBNY and Treasury provided assistance to prevent the collapse of AIG. At the time, AIG was the largest provider of conventional insurance in the world. Millions of Americans depended on it for their life savings and it had a substantial presence in many critical financial markets, including municipal bonds. The consequences of AIG failing at that time and in those circumstances would have been catastrophic to American families, business, and the larger economy.
Therefore, Treasury and the FRBNY took action to protect the U.S. financial system.

The overall support for AIG peaked at approximately $182 billion. That included $70 billion[3] that Treasury committed through TARP, and $112 billion committed by the FRBNY.

During fiscal year 2012, the government's support for AIG was substantially reduced and taxpayers began to see a positive return on their overall investment in the company. As of September 2012, taxpayers earned more than $15 billion in returns on their AIG investment and debts to the FRBNY were fully repaid. Treasury's interest in AIG was also substantially reduced during 2012. In March 2012, OFS received the remaining $8.6 billion in repayments of its preferred interest in the AIG AIA SPV.

During fiscal year 2012, OFS's 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[4]) with total proceeds of $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.

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

[2] Additional information can be found in a May 2012 statement by Assistant Secretary Timothy Massad: http://www.treasury.gov/connect/blog/Pages/Putting-Taxpayers-in-a-Stronger-Position-to-Continue-Recovering-Their-Investment-in-Ally-Financial.aspx

[3] $2 billion of which was never drawn.

[4] Treasury's investment in AIG common shares has consisted of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares). Treasury has managed the TARP shares and non-TARP shares together and disposed of them pro-rata in proportion to its holdings.

shares. All remaining shares were sold on December 11, 2012, for an additional $7.6 billion in proceeds resulting in an overall positive return of $22.7 billion.

Goal Two: Prevent Avoidable Foreclosures and Help Preserve Homeownership

OFS established two central programs under TARP – the Making Home Affordable (MHA) program and the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF) – to help prevent avoidable foreclosures and preserve homeownership.

OFS has also provided support for the Federal Housing Administration's Short Refinance Program to assist borrowers who are current on their mortgage (or complete a trial payment plan) but owe more than their home is worth, refinance into an FHA-insured loan.

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.

HAMP set new standards and changed industry practices in fundamental ways, thereby indirectly helping millions more families stay in their homes. Before HAMP was launched, there were very few private modifications taking place. Many of those that occurred did not lower payments. This is because there were no standards in the mortgage industry as to how to make modifications affordable and sustainable. HAMP provided such standards. These include using a target debt-to-income ratio to determine an affordable mortgage payment and a net present value test to determine whether the modification makes economic sense mortgage holder.

Nearly 1.3 million[5] homeowners participating in the HAMP programs have had their mortgage terms modified permanently. Homeowners participating in HAMP programs typically save more than $539 per month compared to their monthly mortgage payments before modification.

HAMP has also set important new consumer protection standards. Treasury has required the largest mortgage servicers participating in HAMP to: 1) provide borrowers a single point of contact regarding loan issues; 2) avoid "dual tracking" modification candidates while initiating foreclosure proceedings; and 3) offer 12 months of loan forbearance for unemployed borrowers. These borrower protections have been widely adopted by the industry and 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). They have also served as the basis for rules being developed by the Consumer Financial Protection Bureau (CFPB) scheduled to become effective in 2014.

In 2011, OFS began publishing quarterly assessments of the ten largest servicers to provide a more transparent process for showing how servicers are meeting their obligations to consumers under HAMP. These assessments have provided a vehicle to identify core servicing issues. OFS continued publishing these assessments throughout fiscal year 2012.

Partly as a result of these new standards, the proportion of private loan modifications that reduce monthly payments for homeowners has more than doubled since before the financial crisis began. Together, public and private efforts have helped approximately 6 million Americans get mortgage assistance to prevent avoidable foreclosures.

In addition to HAMP, MHA includes the following major programs to help homeowners facing different challenges:

- The Principal Reduction Alternative (PRA), which is designed to help borrowers whose homes are worth significantly less than what they owe on their mortgages. It 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.

[5] 726,253 of these actions were TARP funded modifications.

- The Home Affordable Unemployment Program (UP), which helps homeowners who have lost their job. It 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.

- The Home Affordable Foreclosure Alternatives Program (HAFA), which helps those homeowners for whom mortgage modification is not possible. It helps these homeowners 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.

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.

As of September 30, 2012, 96 servicers were actively participating in MHA with OFS commitments to fund up to $29.9 billion in modification payments. Since inception, the program has disbursed $4.0 billion.

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.

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.

As of September 30, 2012, all 18 states and the District of Columbia were operating HHF programs statewide and collectively had 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.

During fiscal year 2012, OFS approved 40 program changes submitted by individual HFAs and 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 permits lenders to provide additional refinancing options to homeowners who owe more than their homes are worth. This program, known as the FHA- Refinance program, provides 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 to provide additional coverage to lenders for a share of potential losses on these loans and to provide incentives to support write-downs of second liens and encourage participation by servicers.

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.

Goal Three: Protect Taxpayers' Interests

OFS manages TARP investments to minimize costs to taxpayers. OFS took several steps during fiscal year 2012 to wind down TARP investments in a manner that balances the need to exit as quickly as practicable and maximizing returns for taxpayers. OFS also ensures that TARP recipients comply with statutory and contractual obligations such as executive compensation requirements and restrictions on dividend payments.

In winding down TARP investments, OFS takes a disciplined portfolio approach – reviewing each investment level and closely monitoring risk and performance. OFS employs a mix of dedicated professionals and external asset managers to provide market specific information and detailed credit analysis using public information. OFS also works 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 protect taxpayers' investments while maintaining financial stability. 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

For most of OFS's 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's compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac, to ensure that their obligations are being met.

Goal Four: Promote Transparency

OFS has established comprehensive accountability and transparency measures and is committed to operating every TARP program in full view of the public. This includes publishing regular reports on how TARP funds are being spent, who has received them and on what terms, and how much has been collected to date.

These 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.

They 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.

Each month OFS 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.

OFS 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.

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 the HAMP. The Housing Scorecard is available at: www.hud.gov/scorecard.

FY 2012 Performance and Management Highlights

Throughout 2012, OFS continued to wind down TARP's investment programs in a way that balances speed of exit with maximizing the return for taxpayers. At the close of fiscal year 2012, OFS had achieved several important milestones.

- OFS has continued to wind down TARP's bank support programs. Through September 30, 2012, OFS had recovered $267 billion in repayments, sales, dividends, interest, and fees – compared to the $245 billion that was initially invested. Of the 707 original CPP institutions, OFS held outstanding investments in 290 banks as of September 30, 2012. That amount was subsequently reduced to 212 through various transactions that occurred after the fiscal year. All participants in the TIP have fully repaid OFS and no claim payments were made under the Asset Guarantee Program (AGP). Taxpayers have seen a gain of more than $3 billion from the TIP and more than $4 billion from the AGP.

- OFS also reduced the overall amount that remains outstanding in TARP's credit market programs. The SBA 7(a) Securities Purchase Program closed on January 24, 2012. In total, the program earned approximately $9 million in gains for the taxpayers. OFS also made progress winding down the TALF program, 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 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.

- OFS continued to manage the outstanding investments under TARP in GM and Ally Financial. Of the approximately $80 billion that was provided to the auto industry under TARP, OFS recovered $40.77 billion and exited the taxpayers' investments in Chrysler and Chrysler Financial, although there will be a loss associated with those investments. As of September 30, 2012, OFS's gross AIFP investments outstanding in GM and Ally Financial totaled $37.2 billion, with an estimated value of $17.5 billion[6]. The future value of OFS's investments in GM will depend on the market price of GM's common stock, which is affected by several factors including the company's financial condition, the results of its operations, and the performance of the auto industry and the U.S. economy in general[7].

- Treasury and the FRBNY made substantial progress in winding down the investments related to the AIG, such that taxpayers have now earned a profit on the total amount that was disbursed by the federal government. At the end of fiscal year 2012, Treasury and the Federal Reserve had recovered a combined total of more than $197 billion through repayments of principal and reductions/cancellations in commitments ($178.8 billion), as well as additional income from interest, fees, and other gains ($18.6 billion). This represents a positive return of more than $15 billion compared to the original combined $182 billion peak commitment[8].

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[6] This is based on share price values as of September 30, 2012. On December 21, 2012, Treasury sold 200 million shares of General Motors (GM) common stock at a share price of $27.50 per share and resulted in proceeds received proceeds of $5.5 billion. OFS intends to sell its remaining 300 million shares of GM common stock within the next 12 to 15 months, subject to market conditions.

[7] Subsequent transactions after the close of fiscal year 2012 further reduced Treasury's outstanding investment in GM common stock to approximately 300.1 million shares. Treasury has announced its intention to exit its remaining investment in GM over the next 12-15 months subject to market conditions.

[8] In December 2012, Treasury sold its remaining 234.2 million shares of AIG common stock for $ 7.6 billion and no longer holds any AIG assets. This transaction increased the positive return for taxpayers from the federal government's overall assistance to AIG to $22.7 billion.

- TARP's housing programs continued to help more homeowners avoid foreclosure, with the MHA program surpassing one million permanent modifications during fiscal year 2012. As of September 30, 2012, nearly 1.3 million homeowners had avoided foreclosure as a result of MHA and other programs created under TARP. In early 2012, the Obama Administration announced enhancements to MHA that will extend the program's deadline until December 31, 2013 and expand the pool of eligible borrowers. These enhancements are aimed at helping more people enter the program and helping to improve the overall economy.

TARP Resources

Although EESA provided authority for TARP to purchase or guarantee up to $700 billion in troubled assets, that authority was reduced to $475 billion under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in 2010. Dodd-Frank also limited any new obligations only to programs or initiatives that were initiated prior to June 25, 2010. During fiscal year 2010, Treasury reduced the TARP program allocations to conform to these limitations and OFS's authority to make new commitments under TARP expired on October 3, 2010. Throughout fiscal year 2012, OFS continued to focus on winding down TARP's investment programs, while implementing the various homeowner assistance programs. TARP's housing programs were designed so that funds would be disbursed over many years. The total cost of the housing programs under TARP, excluding administrative costs, cannot exceed—and may be less than— $45.6 billion[9], which is the amount committed to that purpose.

Financial Performance Snapshot

Table 1 shows the reported accounting cost of TARP activities (which differ from budgetary lifetime costs as described below) from the time TARP was created on October 3, 2008, through the fiscal year ending on September 30, 2012. This cost is based on the OFS financial statements and is $20.3 billion cumulatively. 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 for fiscal year 2011 and the $18.5 billion of reported TARP net cost for the period from inception through September 30, 2010. The change of $7.7 billion since fiscal year 2012 is primarily due to improved value of OFS's investments in GM, Ally Financial, and AIG, while partially offset by continued funding of the Treasury Housing Programs under TARP.

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

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. 9.
[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.

TARP Program Summary

Table 2 provides a financial summary for TARP programs since October 3, 2008, through the fiscal year ending September 30, 2012. For each program, the table shows the amount of TARP authority that was used (which includes purchases made, legal commitments to make future purchases, and offsets for guarantees made), the amount that was actually disbursed, repayments that were made to OFS from program participants or from sales of the investments, write-offs and losses, where the net outstanding balances stood as of September 30, 2012, and the 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.[10]

[10] 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 9.
[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's 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 OFS 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 financial institutions.

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.treasury.gov/initiatives/financial-stability/reports/Pages/Warrant-Disposition-Reports.aspx

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 required). The Outstanding Balance columns represent the amounts disbursed by OFS relating to the loans and equity investments that were outstanding as of September 30, 2011 and 2012. The Estimated Value of the Investment columns represent the present value of net cash inflows that OFS estimates it will receive from the loans and equity investments for both fiscal year 2011 and 2012. 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 that OFS follows for budget and accounting purposes.[11]

[11] 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.

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.

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.

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 8 provides information on how OFS's 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 GM and the estimated value of the Ally Financial stock. This table assumes that all expected investments (e.g. PPIP) and disbursements for Treasury's 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 8.
[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.

Challenges/Expectations for 2013

OFS's authority to make new commitments under TARP expired on October 3, 2010. Soon afterwards, OFS continued the task of exiting each TARP investment program and recovering TARP dollars for the American taxpayers. OFS continued that effort throughout 2011 and 2012, while at the same time implementing TARP's homeowner assistance programs consistent with the goal of preventing avoidable foreclosures and preserving homeownership. During 2013, OFS expects to continue these efforts.

Treasury is committed to winding down TARP's investment programs as soon as practicable in a manner consistent with the duty to protect taxpayer's interests. During fiscal year 2013, OFS will continue to evaluate its options for exiting the outstanding investments in banks, programs to restart credit markets, and the two remaining participants in the AIFP (GM and Ally Financial) subject to market conditions.

As of September 30, 2012, the largest remaining outstanding TARP investments were in AIFP. Going forward, the collections or costs from the AIFP and the amount that is ultimately disbursed for Treasury housing programs under TARP are expected to most significantly affect the lifetime cost of TARP. Treasury's housing program disbursements were never intended to be recovered. Therefore OFS does not expect them to result in any repayments.

Nearly 1.3 million homeowners have already received some form of assistance under MHA. Homeowners in active HAMP permanent modifications typically save more than $539 per month – more than one-third of what they were paying before their modification. Since HAMP began, homeowners in permanent modifications have saved an estimated $15.6 billion in monthly mortgage payments.

As part of the Obama Administration's enhancements to MHA, the deadline to enter the program was extended to December 31, 2013. Throughout 2013, OFS expects to assist more homeowners entering the program while building on our outreach efforts to reach as many homeowners as possible who are eligible for assistance while the need is still the greatest. At the same time, OFS will continue working with state HFAs who are drawing down funds committed under the HHF to assist homeowners through locally-tailored programs in their communities.

Over time, the cost of the TARP programs will change and the ultimate cost of the TARP will not be known for some time. Estimates of TARP costs are based in part on currently projected economic factors. These economic factors will likely change, either increasing or decreasing the lifetime cost of the TARP.

Where Readers can learn more?

Office of Financial Stability Websites:

www.FinancialStability.gov

www.MAKINGHOMEAFFORDABLE.gov

Documents Referenced in the Citizens' Report:

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://www.treasury.gov/initiatives/financial-stability/reports/Pages/Monthly-Housing-Scorecard.aspx

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/Pages/Public-Private-Investment-Program-Quarterly-Report.aspx

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

www.financialstability.gov