



DEPARTMENT OF THE TREASURY

Agency Financial Report

Office of Financial Stability – Troubled Asset Relief Program

FISCAL YEAR 2017



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FOREWORD

The Office of Management and Budget (OMB) Circular A-136 provides agencies with the guidance for reporting financial and performance information to Congress, the President, and the American people on an annual basis. In lieu of the consolidated Performance and Accountability Report (PAR), the U.S. Department of the Treasury's (Treasury) Office of Financial Stability (OFS) has chosen to prepare a series of separate reports to provide the fiscal year 2017 financial and performance information for the Troubled Asset Relief Program (TARP). The following Agency Financial Report (AFR) is the first in this series of reports, and includes the following components:

- **Message from the Chief Financial Officer:** A statement from the Chief Financial Officer providing his assessment of the reliability and completeness of the financial and performance data contained in the report, as well as a summary status of TARP programs.
- **Management's Discussion and Analysis:** This section contains summary information about the history of TARP and the mission and organizational structure of OFS; background and analysis of OFS programs and Operational Goals; and analysis of financial statements, systems, controls, and legal compliance, including the Management's Statement of Assurance.
- **Financial Section:** This section provides the Report of the Independent Auditors, the financial statements, the notes to the financial statements, and other statutory reporting.
- **Other Information:** This section includes the information regarding the Improper Payments Information Act (IPIA).

In addition to this AFR, the performance section of the OFS fiscal year 2018 Congressional Budget Justification and the Citizens' Report satisfy the reporting requirements of the following major legislation:

- Reports Consolidation Act of 2000;
- Government Performance and Results Act of 1993 (GPRA) and GPRA Modernization Act of 2010;
- Government Management Reform Act of 1994 (GMRA);
- Federal Managers' Financial Integrity Act of 1982 (FMFIA);
- Federal Financial Management Improvement Act of 1996 (FFMIA); and
- Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

These reports will be available on the OFS website at: <http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx>

MESSAGE FROM THE CHIEF FINANCIAL OFFICER FOR THE OFFICE OF FINANCIAL STABILITY

November 3, 2017

I am pleased to present the Office of Financial Stability's (OFS) Agency Financial Report for Fiscal Year 2017. This report describes our financial and performance results for the ninth year of the Troubled Asset Relief Program (TARP). Within this report you will find the comparative fiscal years 2017 and 2016 financial statements for TARP, the Government Accountability Office's (GAO) auditor's report with the audit opinion on these financial statements, an opinion from GAO on OFS's internal control over financial reporting for TARP, and the results of the GAO's tests of OFS's compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to OFS.

The Emergency Economic Stabilization Act of 2008 (EESA) established OFS within the Office of Domestic Finance at the Department of the Treasury (Treasury) to implement TARP. With the nation in the midst of the worst financial crisis since the Great Depression, TARP was created to "restore the liquidity and stability of the financial system." It was an extraordinary response to an extraordinary crisis.

OFS has made significant progress towards winding down TARP investments. As of September 30, 2017, OFS had collected 103 percent of the \$412.1 billion in program funds that were disbursed under TARP investment programs, as well as an additional \$17.5 billion from Treasury's equity stake in American International Group, Inc. Of the original ten investment programs, eight are effectively closed. Investment programs with remaining outstanding balances include the Capital Purchase Program (\$48 million) and the Community Development Capital Initiative (\$75 million). OFS continues to wind-down those positions as quickly as practicable.

In addition to winding down the investment programs under TARP, TARP's largest housing program, Making Home Affordable (MHA), closed to new applications as of December 30, 2016, as required by the Consolidated Appropriations Act, 2016 (the Act). More than 2.9 million homeowner assistance actions have taken place through the MHA, including 1.7 million permanent modifications through the Home Affordable Modification Program (HAMP). In addition, MHA has indirectly assisted millions more by setting new standards and changing industry practices that led to more affordable and sustainable private modifications. MHA has also demonstrated that a mortgage modification can be a sustainable option for homeowners seeking to avoid foreclosure. As we continue to execute the MHA wind-down, we are actively engaged with stakeholders on what the future of loss mitigation should include to ensure a smooth and successful transition for the mortgage servicing industry to life after MHA.

To date, our efforts through the Hardest Hit Fund (HHF) have assisted approximately 319,000 American homeowners in preventing avoidable foreclosures, and helped stabilize neighborhoods in 18 states and the District of Columbia. In the last year alone, HHF programs assisted approximately 50,000 households. Notwithstanding these accomplishments and recent improvements in the economy, the recovery of the housing market remains uneven. While state unemployment rates and home prices have generally improved, many homeowners and neighborhoods continue to face obstacles. Many of the states participating in the HHF continue to exceed the national average for underemployment and negative equity and many experience higher than average rates of serious mortgage delinquency. In addition, blighted and vacant properties depress property values in many communities that would otherwise benefit from the rise in home

prices, while other communities are unable to attract new homebuyers to stimulate market activity. Recognizing the current and persistent need among HHF states, the Act included a provision that allowed OFS to commit an additional \$2.0 billion in TARP funds to the program. On February 19, 2016, OFS announced that the \$2.0 billion would be allocated to existing HHF program participants. By June 2016, OFS had completed the allocation process and made available the additional funds to Housing Finance Agencies (HFAs).

The financial and performance data contained in this report are reliable and complete. For the ninth consecutive year, OFS has earned an unmodified opinion from the GAO on its financial statements for TARP, and its internal control over financial reporting for TARP.

Sincerely,

A handwritten signature in blue ink that reads "Lorenzo Rasetti". The signature is written in a cursive style with a prominent initial "L".

Lorenzo Rasetti
Chief Financial Officer for the Office of Financial Stability

EXECUTIVE SUMMARY

Nine years ago, the U.S. financial system faced challenges on a scale not seen since the Great Depression. The banks and financial markets on which American families and businesses rely to meet their everyday financing needs were on the brink of failure. By October 2008, major financial institutions of all sizes were threatened and many of them tried to shore up their balance sheets by shedding risky assets and hoarding cash. People were rapidly losing trust and confidence in the stability of America's financial system and the capacity of the government to contain the damage. Without immediate and forceful action by Congress and the federal government, the U.S. economy faced the risk of falling into a second Great Depression.

It was out of these extraordinary circumstances that the Troubled Asset Relief Program (TARP) and the Office of Financial Stability (OFS) were created. They were a central part of the emergency measures taken by the federal government pursuant to the Emergency Economic Stabilization Act of 2008 (EESA). Collectively, TARP and the federal government's other emergency programs helped to prevent the collapse of our financial system. As a result of the careful design, implementation, and coordination of these programs, the federal government was able to limit the broader financial and economic damage caused by the crisis. Although we are still recovering, these measures were critical to restarting economic growth, and in restoring access to capital and credit.

Since late 2010, OFS has focused on carefully winding down TARP's investment programs, recovering the OFS's outstanding investments, and continuing to implement the various housing programs under TARP to help struggling homeowners avoid foreclosure. While the total amount disbursed for TARP programs was \$438.5 billion, OFS has collected \$425.3 billion (or \$442.9 billion if including the \$17.5 billion in proceeds from the additional Treasury American International Group, Inc. shares¹) through repayments, sales, dividends,

interest, and other income. As of September 30, 2017, only \$123 million in bank investments remain outstanding.

The Management's Discussion & Analysis (MD&A) describes the establishment of OFS, its background, mission, and organizational structure. OFS administers programs that fall into two major categories: Investments and Housing. In total, OFS had responsibility for 13 individual programs. Most of these programs have either been closed or are in the process of winding down.

Each year, OFS reports on our Operational Goals, which were developed by management to achieve our strategic goal of promoting domestic economic growth and stability while continuing reforms of the financial system. These goals include:

1. Completing the wind-down of remaining TARP investment programs;
2. Continuing to help struggling homeowners avoid foreclosure;
3. Minimizing the cost of the TARP programs to the taxpayer; and
4. Operating with the highest standards of transparency, accountability, and integrity.

The first operational goal is to complete the wind-down of the remaining TARP investment programs, the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). OFS continues to exit the CPP by either: (i) allowing banks that are able to repurchase in full in the near future to do so; or (ii) restructuring OFS's investments in limited cases. In addition, in August 2016, OFS announced an early repurchase option for CDCI institutions. This plan offered a limited window during which CDCI participants could submit proposals to repurchase their outstanding securities at fair value ahead of scheduled dividend rate step-ups that will take effect in 2018.

OFS's second operational goal is to continue helping struggling homeowners avoid foreclosure. The Making Home Affordable Program (MHA) closed to new applications on December 30, 2016, as required by the Consolidated Appropriations Act, 2016 (the Act)

¹ Totals may not equal due to rounding.

(except with respect to certain loan modification applications made before such date). In 2016, OFS published guidance related to the MHA program termination and borrower application sunset to provide additional clarification to borrowers who request assistance or to whom an offer of assistance has been extended on or before December 30, 2016.

The largest program within MHA is the Home Affordable Modification Program (HAMP). Under this program approximately 1.7 million homeowners have had their mortgages modified permanently. HAMP has also set new standards and changed practices throughout the mortgage servicing industry in fundamental ways.

Another OFS housing program, the Hardest Hit Fund (HHF), provides funding to 18 states and the District of Columbia through each state's Housing Finance Agency (HFA) to provide assistance to struggling homeowners through locally-tailored programs. HFAs have implemented many types of programs to help homeowners, including mortgage payment assistance, reinstatement, short sale/transition assistance, principal reduction, and modification assistance. As the housing recovery has evolved, HFAs have undertaken additional initiatives such as blight elimination and down payment assistance programs, which help prevent foreclosures by stabilizing neighborhoods and property values. On February 19, 2016, OFS announced that an additional \$2.0 billion would be allocated among the participating HFAs, and the program end date would be extended to December 31, 2020². On June 30, 2016, OFS completed its allocation of those additional funds. Although nine HFAs had previously closed their HHF application portals due to approaching full commitment of program funds, many of these HFAs re-opened or expanded

select, closed programs as additional funds became available.

The third operational goal of OFS is to minimize the cost of the TARP programs to the taxpayer. OFS pursues this goal by carefully managing the timely exit of these investments to reduce taxpayers' exposure, returning TARP funds to reduce the federal debt, and continuing to replace government assistance with private capital in the financial system. OFS also takes steps to confirm that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

OFS's final operational goal is to continue operating with the highest possible standards of transparency, accountability, and integrity. OFS posts a variety of reports online that provide taxpayers with 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. In addition to discussing program performance, the MD&A addresses OFS's financial performance in the Analysis of Fiscal Years 2017 and 2016 Financial Summary and Cumulative Net Income section. OFS provides an overview of its financial data and explains its fiscal year 2017 net cost from operations and related loans, equity investments, and other credit programs.

Finally, the Analysis of Systems, Controls, and Legal Compliance section of the MD&A provides a discussion of the actions OFS has taken to address its management control responsibilities. This section includes OFS's assurance related to the Federal Managers' Financial Integrity Act (FMFIA) and the determination of its compliance with the Federal Financial Management Improvement Act (FFMIA).

² In accordance with the Consolidated Appropriations Act, 2016.



Department of the Treasury

Office of Financial Stability

PART 1:

Management's Discussion and Analysis



Program Background and OFS Organization Structure

Program Background Legal Authority

In response to the worst financial crisis since the Great Depression, the Troubled Asset Relief Program (TARP) was created on October 3, 2008 pursuant to the Emergency Economic Stabilization Act (EESA). To carry out the authorities given to the Secretary of the Treasury to implement TARP, the U.S. Department of the Treasury (Treasury) established the Office of Financial Stability (OFS) within the Office of Domestic Finance. 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” to restore the liquidity and stability of the financial system. The terms “troubled assets” and “financial institution” are defined within EESA, which can be found at:

<http://www.gpo.gov/fdsys/pkg/BILLS-110hr1424enr/pdf/BILLS-110hr1424enr.pdf>

In addition, Section 109 of EESA provides the 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. OFS’s authority to make new program commitments under TARP originally expired on October 3, 2010. The Consolidated Appropriations Act, 2016 (the Act), gave the Secretary of the Treasury the ability to commit an additional \$2.0 billion in TARP funds to current Hardest Hit Fund (HHF) participants. The additional \$2.0 billion was obligated by Treasury as of June 2016. OFS currently does not have the authority to commit new program funds.

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

Capital Purchase Program

The Capital Purchase Program (CPP) was launched in October 2008 to help stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. With the additional capital that OFS offered, CPP participants were better equipped to undertake new lending and continue to provide other services to consumers and businesses. OFS received preferred stock or subordinated debt securities in exchange for the CPP investments. Most financial institutions participating in the CPP issued preferred stock with an initial dividend rate of five percent for the first five years, stepping up to a nine percent rate thereafter. In addition, OFS received warrants to purchase common shares or other securities from the banks to enable OFS to receive additional returns on its investments as banks recovered. OFS continues to wind-down the remaining CPP investments through repayments by those institutions that are able to repay, restructurings and sales of common stock, where OFS’s investment shares were converted to common stock holdings.

Targeted Investment Program

OFS established the Targeted Investment Program (TIP) in December 2008. OFS invested a total of \$40.0 billion in two institutions – Bank of America (BofA) and Citigroup – under the TIP. Similar to the CPP, OFS invested in preferred stock and received warrants to purchase common stock in each institution. The TIP investments provided for annual dividends of eight percent. The program also imposed greater reporting requirements and other restrictions on BofA and Citigroup. OFS completed the wind-down of the TIP in December 2009 when both BofA and Citigroup

repaid their TIP investments in full. OFS received net proceeds of \$4.4 billion in excess of disbursements.

Asset Guarantee Program

Under the Asset Guarantee Program (AGP), TARP commitments were used to support two institutions – BofA and Citigroup. BofA, however, ultimately decided not to participate in this program, and paid OFS a termination fee of \$276 million. In January 2009, OFS, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) agreed to share potential losses on a \$301.0 billion pool of Citigroup’s covered assets. As a premium for the guarantee to Citigroup, OFS received \$4.0 billion of Citigroup preferred stock, which was reduced by \$1.8 billion upon early termination of the agreement. OFS completed the wind-down of the AGP in February 2013, and received more than \$4.1 billion in proceeds from the AGP without disbursing any claim payments.

Community Development Capital Initiative

On February 3, 2010, OFS created the Community Development Capital Initiative (CDCI) to help viable certified Community Development Financial Institutions (CDFIs) and the communities they serve cope with effects of the financial crisis. Since many CDFIs don’t have the same access to capital markets as larger banks, the program was designed with more generous terms than the CPP. Under this program, CDFI banks, thrifts, and credit unions received investments aggregating \$570 million in capital with an initial dividend or interest rate of two percent. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increases to nine percent after eight years. In August 2016, OFS

Public-Private Investment Program

On March 23, 2009, OFS launched the Legacy Securities Public-Private Investment Program

announced an early repurchase option for CDCI institutions to allow remaining participants to repurchase their outstanding securities at a fair value ahead of the dividend rate step-ups currently set to take place in 2018. OFS completed the last of the early repurchases in January 2017. In total, there were 27 full and partial repurchases at fair value under the early repurchase option.

Supervisory Capital Assessment Program

In 2009, Treasury worked with federal banking regulators to develop a comprehensive “stress test” known as the Supervisory Capital Assessment Program (SCAP). The purpose of the SCAP was to determine the health of the nation’s 19 largest bank holding companies with unprecedented transparency and thereby help restore confidence in the banking system. In conjunction with the 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. The CAP closed on November 9, 2009, without making any investments.

For additional information on the bank support programs please visit the OFS website at:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/bank-investment-programs/Pages/default.aspx>

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

OFS has completed the wind-down of all three credit market programs that were launched under TARP. A total of \$19.1 billion was disbursed through these programs and a total of \$23.6 billion has been collected.

(PPIP) to help restart the market for non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). Using up to \$22.1 billion of TARP

funds alongside equity capital raised from private investors, PPIP was designed to generate significant purchasing power and demand for troubled RMBS and CMBS. OFS completed the wind-down of the PPIP during fiscal year 2015, with no debt or equity investments outstanding after the final equity repayment was made in June 2013. OFS received \$22.5 billion of repayment, sales and investment income that exceeded the original investment by \$3.9 billion.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was a joint OFS-Federal Reserve program that was designed to restart the markets for asset-backed securities (ABS) and CMBS, which had ground to a virtual standstill during the early months of the financial crisis. OFS originally committed to provide credit protection of up to \$20.0 billion in the form of a subordinated loan commitment to TALF, LLC to support up to \$200.0 billion of lending by the Federal Reserve Bank of New York (FRBNY). In 2013, the commitment was reduced to \$100 million – the loan amount that was ultimately disbursed by OFS to fund the TALF, LLC. As of September 30, 2015, all TALF loans provided by FRBNY had been repaid in full and the program closed. Since inception, accumulated income earned from investments in TALF, LLC totaled \$685 million.

Small Business Administration 7(a) Securities Purchase Program

OFS launched the Small Business Administration (SBA) 7(a) Securities Purchase Program to help facilitate the recovery of the secondary market for small business loans, and thus help free up credit for small businesses. Under this program, OFS purchased securities comprised of the guaranteed portion of SBA 7(a) loans, which finance a wide range of small business needs. OFS invested approximately \$367 million in 31 SBA 7(a) securities between

March and September 2010. Investments under the SBA 7(a) program were fully liquidated by January 2012, resulting in proceeds in excess of cost of \$9 million.

For additional information on the credit market programs, please visit the OFS website at:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/credit-market-programs/Pages/default.aspx>

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was launched in December 2008 to help prevent the disorderly liquidations of General Motors (GM) and Chrysler, which would have resulted in a significant disruption of the U.S. auto industry. Recognizing that both GM and Chrysler were on the verge of collapse, OFS disbursed \$79.7 billion in loans and equity investments to GM, Chrysler, and General Motors Acceptance Corporation (now known as Ally Financial). As of September 30, 2017, OFS has collected \$70.5 billion through sales, repayments, dividends, interest, recoveries, and other income, compared to the original disbursement. Recoveries from the bankruptcy liquidation of Old Chrysler and Old GM remain possible.

For additional information on the AIFP, please visit the OFS website at:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/automotive-programs/Pages/default.aspx>

American International Group, Inc. Investment Program

In 2008, with American International Group, Inc. (AIG) facing potentially fatal liquidity problems and with the crisis threatening to intensify and spread more broadly throughout the economy, Treasury and the Federal Reserve

provided assistance to AIG. In December 2012, Treasury exited all remaining holdings in AIG through the sale of common stock and AIG's repurchase of warrants. During the financial crisis, the Treasury's and the FRBNY's peak support for AIG totaled \$182.3 billion. That included \$69.8 billion in TARP funds that OFS committed and \$112.5 billion committed by the FRBNY, including \$22.1 billion in commitments which were later canceled. As a result of the combined efforts of AIG, Treasury, and the FRBNY, \$22.7 billion in excess of the total of funds disbursed were recovered through sales and other income. OFS's cumulative net proceeds from repayments, sales, dividends, interest, and other income related to AIG assets totaled \$55.3 billion. While TARP recovered less than its \$67.8 billion total investment, this was offset by the proceeds from the additional Treasury shares of AIG, resulting in overall proceeds in excess of disbursements of \$5.0 billion for Treasury as a whole.

For additional information on the AIG Investment Program, please visit the Office of Financial Stability website at:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/aig/Pages/default.aspx>

Housing Programs

Making Home Affordable

In early 2009, OFS launched MHA to help struggling homeowners avoid foreclosure and stabilize the housing market. OFS has committed \$27.8 billion to the MHA program.

MHA is aimed at helping homeowners experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation. At the same time, MHA protects the interests of taxpayers by disbursing funds only when transactions are completed and only as long as contracts remain in place.

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 and sustainable levels to avoid foreclosure. In addition to HAMP, OFS introduced programs under MHA to help homeowners who are unemployed, "underwater" on their loan (i.e. those who owe more on their home than it is currently worth), or are struggling with a second lien. MHA 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.

In accordance with provisions of the Act, MHA terminated on December 31, 2016, except with respect to certain loan modification applications made before such date. Therefore, while applications submitted before the deadline continue to be evaluated and servicers may continue to offer HAMP trials (in accordance with program guidelines), the program is now closed to new applications. MHA has set new standards for mortgage assistance and consumer protection, which have contributed to millions of homeowners receiving assistance to avoid foreclosure through other government programs and proprietary mortgage modifications.

In addition to HAMP, MHA includes programs to help homeowners address specific types of mortgages, in conjunction with the Federal Housing Administration (FHA) and the United States Department of Agriculture (USDA).

Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund)

The HHF was established in February 2010 to provide targeted aid to homeowners in states hit hardest by the economic and housing market downturn. In an effort to restore stability to housing markets, the HHF provides funding for state Housing Finance Agencies (HFAs) to

develop locally-tailored foreclosure prevention solutions in areas that have been hardest hit by home price declines and high unemployment. In total, \$9.6 billion in HHF funds has been allocated among 18 states and the District of Columbia. Seven years after program inception, homeowners continue to face ongoing economic challenges including negative equity and underemployment in hardest hit states in the wake of the financial crisis.

HHF programs vary state to state, but may include such programs as mortgage payment assistance for unemployed or underemployed homeowners, reinstatement to bring homeowners current on their mortgage or property taxes, principal reduction to help homeowners modify or refinance into more affordable mortgages, funding to eliminate homeowners' second lien loans, funding for blight elimination activities, funding for down payment assistance to homebuyers, and help for homeowners who are transitioning out of their homes into more affordable living situations.

For additional information on the housing programs, please visit the OFS website at:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/default.aspx>

Support for FHA-Refinance Program

In March 2010, enhancements were made to an existing FHA program that permitted 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. On December 31, 2016, the application period for the FHA-Refinance Program ended. TARP funds have been made available up to \$27 million to cover the maximum total amount of OFS coverage for the loans in the program.

OFS Organization Structure

OFS is currently headed by OFS's Chief Financial Officer (CFO). In the absence of an Assistant Secretary for Financial Stability (ASFS), OFS's CFO has been formally delegated the authorized duties of the ASFS. Reporting to the CFO are three major organizations: the Office of Finance and Operations, the Homeownership Preservation Office, and the Chief Investment Office. The Office of General Counsel and the Office of Financial Agents also report to the CFO as well as to other Departmental Offices.

OFS is not envisioned as a permanent organization, so to the maximum extent possible when economically efficient and appropriate, OFS utilizes private sector expertise to support the execution and liquidation of TARP programs. These firms assist in the areas of custodial services, accounting and internal controls, administrative support, legal advisory, financial advisory, program compliance, and information technology.

OFS Operational Goals

OFS's Operational Goals were developed by management to achieve our strategic objective to wind-down emergency financial crisis response programs under our strategic goal of promoting domestic economic growth and stability while continuing reforms of the financial system. The following discussion of OFS operational goals focuses on significant events that occurred during fiscal year 2017.

Operational Goal One: Complete the Wind-down of the Investment Programs

Bank Support Programs

OFS disbursed a total of \$245.5 billion under the various TARP bank programs. As of September 30, 2017, OFS has collected more than \$275.8 billion through repayments, dividends, interest, warrant sales, and other income, representing \$30.4 billion in excess of disbursements. OFS is focused on recovering TARP funds in a manner that continues to promote the nation's financial stability while maximizing returns on behalf of the taxpayers.

Capital Purchase Program

In fiscal year 2017, OFS continued to make progress winding down the CPP. Each dollar collected from CPP participants now represents additional collections in excess of disbursements on behalf of taxpayers. From inception of the program through September 30, 2017, OFS has received \$199.7 billion in CPP repayments/sales, along with \$12.1 billion in dividends and interest, and \$14.9 billion of proceeds in excess of cost, which totals \$226.8 billion³. As of September 30, 2017, \$48 million in CPP gross investments remained outstanding in 6 institutions.

³ Totals may not equal due to rounding.

OFS received preferred stock or debt in each bank in which it made an investment, as well as warrants. Under the terms of the CPP, participating financial institutions may repay the funds they received at any time, with the approval of their regulators.

However, since the majority of the institutions currently in the CPP portfolio remain a going concern, OFS continues to work with CPP institutions to restructure certain investments that will allow them to exit TARP. This is typically done in connection with a merger or the bank's plan to raise new capital and is generally proposed by the bank.

During fiscal years 2017 and 2016, one and two investments were repaid in full for a total of \$2 million and \$4 million, respectively. In addition, five and five investments were restructured resulting in proceeds of \$80 million and \$20 million in fiscal years 2017 and 2016, respectively.

At the beginning of the fiscal year, OFS held two of its remaining CPP positions in common stock, First Bancorp-Puerto Rico (FB-PR) and Broadway Financial Corporation (Broadway). During the fiscal year, OFS sold its remaining common stock in FB-PR for net proceeds of \$58 million. In addition, OFS sold 7,450,998 shares of its Broadway common stock for total net proceeds of \$13 million.

Under the CPP, OFS has also received warrants to purchase common shares or other securities from the banks. OFS has followed a policy of disposing of warrants as soon as practicable if no agreement is reached on a repurchase. OFS has received net warrant proceeds of \$8.1 billion to date.

Additional information on the CPP, including details on the program's purpose, overview, and status can be found at the following link:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/bank-investment-programs/cap/Pages/default.aspx>

Community Development Capital Initiative

OFS completed funding through this program in September 2010 with a total investment amount of \$570 million for 84 institutions. Of this amount, \$363 million (\$356 million from principal and \$8 million from warrants) represented exchanges by 28 CPP institutions converting into the CDCI. During fiscal years 2017 and 2016, OFS collected a total of \$327 million and \$35 million, respectively, in repayments, early repayments, dividends, and interest from institutions in the CDCI program. As of September 30, 2017, \$75 million in CDCI investments remained outstanding in 22 institutions.

In keeping with OFS's goal of exiting its crisis-era programs in a timely and responsible manner, in August 2016, OFS announced that it was offering an early repurchase option to eligible CDCI participants. Under the early repurchase option, CDCI institutions were permitted to submit proposals requesting early repurchase of between half and all of their outstanding CDCI securities held by OFS. These proposals were evaluated by a committee using fair market valuation estimates. CDCI institutions had until November 18, 2016 to submit their final proposals. By the end of January 2017, OFS completed 27 full and partial repurchases at fair value under the early repurchase option for a total of \$268 million in repayments. The early repurchase option allowed OFS to dispose of investments at fair value in a manner that helped eliminate longer term credit and market risk exposure to taxpayers from the portfolio.

Additional information on CDCI, including details on the program's purpose, overview, and status can be found at the following link:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/bank-investment-programs/cdci/Pages/default.aspx>

Automotive Industry Financing Program

OFS fully wound down the AIFP during fiscal year 2015, selling its remaining stake in Ally Financial. OFS disbursed \$79.7 billion in loans and equity investments to the auto industry through the AIFP. As of September 30, 2017, OFS has collected \$70.5 billion through sales, repayments, dividends, interest, recoveries, and other income. This includes \$5 million collected during fiscal year 2017, related to the Motors Liquidation Company Debtor-in-Possession (DIP) Lenders Trust.

To further maximize the recovery of TARP funds for taxpayers, OFS, along with Export Development Canada (EDC), which jointly financed administration of the General Motors bankruptcy, entered into a settlement with the Unsecured Creditors Committee of General Motors Corporation to split any proceeds of the Avoidance Action Trust (AAT) litigation, with OFS and EDC receiving 30 percent and the unsecured creditors receiving 70 percent. As a condition of the settlement, OFS and EDC provided an advance of \$15 million (\$13 million provided by OFS) in September 2016 to the AAT to fund the ongoing litigation against certain lenders to Old GM. This settlement yields the most favorable attainable economic outcome to ensure OFS is repaid some portion of any assets recovered through the pending lawsuit.

Additional information on the AIFP, including details on the program's purpose, overview, and status can be found at the following link:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/automotive-programs/Pages/default.aspx>

Operational Goal Two: Continue Helping Families in Need to Avoid Foreclosure

Making Home Affordable

Consistent with OFS's goal of continuing to help struggling homeowners find solutions to avoid foreclosure whenever possible, OFS has developed and is implementing a process to seamlessly transition the program from an active to steady state, while assisting as many homeowners as possible that applied by the program's statutory sunset date of December 31, 2016. As of September 30, 2017, 65 servicers are participating in OFS's MHA program for non-Government Sponsored Enterprise (GSE) loans. As of September 30, 2017, OFS has commitments to fund up to \$27.8 billion in MHA payments and has disbursed \$17.9 billion since inception.

OFS publishes assessments of servicer performance containing data on compliance with program guidelines, as well as metrics on program results. OFS believes that these assessments have set a new standard for transparency about mortgage servicer efforts to assist homeowners at risk of foreclosure, and have helped encourage servicers to improve processes and performance of their foreclosure prevention activities.

MHA performance highlights for fiscal year 2017 can be found at:

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

The largest program within MHA is HAMP. HAMP offered eligible homeowners at risk of foreclosure the opportunity to modify their monthly mortgage payments to a more affordable and sustainable level.

As of September 30, 2017, approximately 1.7 million homeowners have received permanent

modifications through HAMP.⁴ Homeowners participating in HAMP have collectively experienced nearly a 35 percent median reduction in their mortgage payments—representing more than \$466 per month. MHA has also encouraged the mortgage industry to offer their own similar programs, which have helped millions more at no cost to taxpayers.

Additional information on MHA, including details on the program's purpose, overview, and status can be found at the following link:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/mha/Pages/default.aspx>

Hardest Hit Fund

In addition to MHA, OFS operates the HHF, which allows participating state HFAs in the nation's hardest hit housing and unemployment markets to design innovative, locally-targeted foreclosure prevention programs.

In fiscal year 2017, state HFAs continued to adapt their programs to best meet borrower needs in evolving economic and housing markets. Notwithstanding the HFAs' efforts and recent improvements in the economy, the recovery of the housing market remains uneven. Recognizing the current and persistent need among HHF states, the Act included a provision that allowed OFS to commit an additional \$2.0 billion in TARP funds to current HHF program participants.

A total of 16 HFAs offer principal reduction to facilitate a loan modification, refinance, recast, or eliminate subordinate liens. Seven HFAs offer property tax reinstatement for elderly homeowners with reverse mortgages. Additionally, eight HFAs allocate a portion of

⁴ Includes modifications on both non-GSE loans and GSE loans. 1,194,261 of these modifications are OFS funded consisting of 1,072,312 non-GSE modifications and 121,949 GSE modifications.

their HHF funds to blight elimination in an effort to stabilize neighborhoods and prevent foreclosures. Finally, nine HFAs now offer Down Payment Assistance Programs, making assistance available to moderate-income homebuyers in targeted counties that continue to demonstrate housing market distress.

As of September 30, 2017, the 19 HFAs have collectively drawn approximately \$8.4 billion (88 percent) of the \$9.6 billion allocated under the program. For fiscal years 2017 and 2016, this program has disbursed \$1.7 billion and \$1.0 billion, respectively. Each state draws down funds as they are needed, but must have no more than five percent of their allocation on hand before they can draw down additional funds. States have until December 31, 2021 to utilize all HHF funding.

Each HFA submits a quarterly report on the progress of its programs. These reports measure the states' performance against metrics set by OFS for 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>

OFS also publishes a Quarterly Performance Summary, a companion reference to the HFAs' Quarterly Performance Reports. The Summary contains performance data and trends, key economic and loan performance indicators, and brief program descriptions for each HFA. The Quarterly Performance Summary can be found at:

<https://www.treasury.gov/initiatives/financial-stability/reports/Pages/HHF.aspx>

Additional information on the HHF, including details on the program's purpose, overview, and status can be found at the following link:

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx>

FHA-Refinance Program

On March 26, 2010, FHA and OFS announced enhancements to the FHA-Refinance Program, designed to make homeownership more affordable for borrowers whose homes are worth less than the remaining amounts on their mortgage loans (negative equity). TARP funds were made available by OFS through an \$8.0 billion letter of credit facility (incrementally reduced to \$27 million, OFS's maximum liability for loans covered by the program as of December 31, 2016), in order to fund a share of the losses associated with this program. The program closed to new borrowers on December 31, 2016; however, OFS will continue to cover potential loss claim payments through December 31, 2022. As of September 30, 2017, FHA has guaranteed 7,234 refinance loans with a total face value of approximately \$1.0 billion, of which 4,200 loans are subject to OFS coverage with a face value of \$620 million.

Operational Goal Three: Minimize Cost to Taxpayer

OFS manages TARP investments to minimize costs to taxpayers by managing the timely exit of these investments 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 has taken a number of steps during fiscal years 2017 and 2016 to dispose of OFS's outstanding investments in a manner that balances speed of exit with maximizing returns for taxpayers. OFS continues to take 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 takes a disciplined portfolio approach – reviewing each investment and closely monitoring risk and performance. In addition to repayments by participants, OFS has disposed of investments to third parties through public and private offerings and auctions with approval from regulators.

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's investment on behalf of taxpayers, while maintaining financial stability. Specifically, OFS's 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 monitors certain TARP-related statutory and contractual obligations of remaining TARP recipients. Statutory obligations include certification and disclosures related to executive compensation restrictions. Contractual obligations vary by investment type. For most of OFS's preferred stock investments, TARP recipients need to comply with restrictions on payment of dividends and on repurchases of junior securities. Recipients of exceptional assistance (none of which remain in the program) were required to comply with additional restrictions on executive compensation, lobbying, and corporate expenses.

OFS also performs periodic reviews of the 19 HFAs participating in the HHHF program to evaluate each HFA's ongoing compliance with their contractual agreement with OFS, as well as their compliance with HHHF program terms and underwriting requirements.

In addition, all mortgage servicers participating in MHA are subject to program guidelines that require the servicer to offer MHA assistance to all eligible borrowers and to have effective systems, processes, and controls to administer the programs. Servicers are subject to periodic, on-site compliance reviews by OFS's compliance agent, Making Home Affordable-Compliance (MHA-C), a separate, independent division of Freddie Mac, to monitor whether servicers' obligations under MHA requirements are being met.

In fiscal year 2011, OFS began publishing quarterly assessments for the largest servicers that currently comprise approximately 83 percent of the HAMP mortgage servicing. These assessments have been used to ensure focus on emerging areas of interest, draw servicer attention to higher risk areas, and prompt the industry to improve its practices. As the program has evolved and servicers have significantly improved their performance, OFS has updated the assessment to ensure it includes metrics that address current areas of interest and concern.

Currently, OFS is utilizing its third iteration of quarterly assessments, which rely on enhanced loan file review testing. The updated assessment provides additional insight into the impact of servicer performance on the borrower experience and fosters further improvement in servicer performance by tightening performance benchmarks. Beginning in early 2018, compliance testing will transition to a delegated servicer testing model.

Operational Goal Four: Continue to Operate with the Highest Standards of Transparency, Accountability, and Integrity

To protect taxpayers and help ensure that every dollar is directed towards 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, is posted in 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 Monthly TARP Update (formerly the Daily TARP Update) that 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 monthly report on dividend and interest payments;
- A quarterly report on Making Home Affordable;
- A report of each transaction (such as an investment or repayment) within two business days of each transaction;
- A quarterly report on the Hardest Hit Fund; and

- A quarterly report to Congress on administrative expense activities.

In addition, OFS regularly publishes data files related to MHA and transaction reports that show activity related to MHA and HHF. The release of the data file fulfills a requirement within the Dodd-Frank Act to make available loan-level data about the program. OFS updates the file monthly. 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

Audited Financial Statements

OFS prepares separate financial statements for TARP on an annual basis. This is the ninth OFS Agency Financial Report (AFR), which includes the audited financial statements for the fiscal years ended September 30, 2017 and September 30, 2016. Additional reports for prior periods are available at:

<http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Annual-Agency-Financial-Reports.aspx>

In its nine years of operation, TARP's financial statements have received nine unmodified audit opinions from its auditor, the Government Accountability Office (GAO).

TARP Tracker

Since 2013, OFS has offered an interactive tool called the TARP Tracker, which allows users to track the flow of TARP funds over the lifetime of each individual TARP investment area. The TARP Tracker allows users to view each investment area separately to get a clearer sense of what has occurred in a particular program, and includes a scroll of events, major transactions, and legislative actions that have impacted the program.

Readers are invited to refer to these documents at: <http://www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx>

Oversight by Three Separate Agencies

OFS activities are currently reviewed by three oversight entities:

- The Financial Stability Oversight Board, established by EESA Section 104;
- Specific responsibilities for the GAO as set out in EESA Section 116; and
- The Special Inspector General for TARP, established by EESA Section 121.

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.

Congressional Hearings and Testimony

OFS officials have testified in numerous Congressional hearings since TARP was created. Copies of their written testimony are available at:

<http://www.treasury.gov/initiatives/financial-stability/news-room/Pages/default.aspx>

Analysis of Fiscal Years 2017 and 2016 Financial Summary and Cumulative Net Income

OFS's fiscal year 2017 net cost of operations of \$4.1 billion includes the reported net income related to TARP investment and FHA-Refinance programs, as well as expenses for the Treasury housing programs under TARP and administrative expenses. For the fiscal year ended September 30, 2017, OFS reported net subsidy income for four programs – CPP, CDCI, AIFP and FHA-Refinance. These programs collectively reported net subsidy income of \$14 million. Fiscal year 2017 costs for the Treasury housing programs under TARP are \$4.0 billion and administrative costs are \$97 million. For the fiscal year ended September 30, 2016, the net cost of operations was \$4.1 billion. These net cost amounts reported in the financial statements reflect only transactions through September 30, 2017 and September 30, 2016, and therefore are different than lifetime cost estimates made for budgetary purposes. Over time the cost of TARP programs will change. As

described later 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 1 provides a financial summary for TARP programs since its inception on October 3, 2008, through September 30, 2017. 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, 2017, and cash inflows on the investments in the form of dividends, interest or other fees.

Table 1: TARP Summary¹ From TARP Inception through September 30, 2017 (Dollars in millions)

	Purchase Price or Guarantee Amounts	Total \$ Disbursed	Investment Repayments	Write-offs and Losses ⁶	Outstanding Balance ⁷	Received from Investments
Bank Support Programs						
Capital Purchase Program ²	\$ 204,895	\$ 204,895	\$ (199,663) ⁵	\$ (5,184)	\$ 48	\$ 27,090
Targeted Investment Program	40,000	40,000	(40,000)	-	-	4,432
Asset Guarantee Program	5,000	-	-	-	-	4,126
Community Development Capital Initiative	570	570	(468)	(27)	75	64
Credit Market Programs						
Public Private Investment Program	18,625	18,625	(18,625)	-	-	3,852
Term Asset-Backed Securities Loan Facility	100	100	(100)	-	-	685
SBA 7(a) Securities Purchase Program	367	367	(363)	(4)	-	13
Other Programs						
Automotive Industry Financing Program	79,692	79,692	(63,037)	(16,656)	-	7,500
American International Group Investment Program ³	67,835	67,835	(54,350)	(13,485)	-	959
Subtotal for Investment Programs	417,085	412,085	(376,606)	(35,356)	123	48,719
Treasury Housing Programs under TARP	37,425 ⁴	26,410	N/A	N/A	N/A	-
Total for TARP Program	\$ 454,510	\$ 438,494	\$ (376,606)	\$ (35,356)	\$ 123	\$ 48,719

Note: Figures may not foot due to rounding.

1 This table shows TARP activity for the period from inception through September 30, 2017, 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 OFS received \$31.9 billion in proceeds from sales of Citigroup common stock, of which \$25.0 billion is included at cost in Investment Repayments, and \$6.9 billion of net proceeds in excess of cost is included in Received from Investments.

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 (additional Treasury shares).

4 Individual obligation amounts are \$27.8 billion for the Making Home Affordable Program, \$9.6 billion for the Hardest Hit Fund, and \$45 million committed for the FHA-Refinance Program.

5 Includes \$2.2 billion of Small Business Lending Fund (SBLF) refinancing outside of TARP and CDCI exchanges from CPP of \$363 million.

6 Losses represent proceeds less than cost on sales of assets, which are reflected under "net proceeds from sales and repurchases of assets in excess of (less than) cost" in Note 6 of the financial statements.

7 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 do not require (and OFS does not expect) repayments.

Most TARP funds were 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, 2017 OFS received a total of \$24.5 billion in dividends and interest.

OFS has conducted several sales of its investments in banking institutions as part of its exit strategy for winding down TARP. As of September 30, 2017, OFS has sold its investments in 190 banks for combined principal receipts of \$3.1 billion through individual private auctions. These auctions resulted in net proceeds less than cost of to date of \$774 million.

OFS also received warrants in connection with most of its investments, which provides an opportunity for OFS on behalf of taxpayers to realize additional proceeds on investments. Since the program's inception through September 30, 2017, OFS has received \$9.7 billion in gross proceeds from the disposition of warrants associated with CPP, TIP, AGP, and AIG, consisting of (i) \$4.0 billion from issuer

repurchases at agreed upon values and (ii) \$5.6 billion from auctions.

Summary of TARP Equity Investments

Table 2 provides information on the estimated values of TARP investment programs, as of the end of fiscal years 2017 and 2016. OFS 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, 2017 and 2016. The Estimated Value of Investment column represents the present value of net cash inflows that OFS estimates it will receive from the programs. These estimates include market risk assumptions. For equity investments, this amount represents fair value. The total difference of \$30 million (2017) and \$140 million (2016) 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.

Table 2: Summary of TARP Equity Investments

(Dollars in millions)

Program	Outstanding Balance as of September 30, 2017 ¹	Estimated Value of Investment as of September 30, 2017	Outstanding Balance as of September 30, 2016 ¹	Estimated Value of Investment as of September 30, 2016
Bank Support Programs				
Capital Purchase Program	\$ 48	\$ 35	\$ 210	\$ 111
Community Development Capital Initiative	75	58	420	379
Credit Market Programs				
Public-Private Investment Program	0	0	0	0
Term Asset-Backed Securities Loan Facility	0	0	0	0
SBA 7(a) Securities Purchase Program	0	0	0	0
Other Programs				
Automotive Industry Financing Program	0	0	0	0
American International Group Investment Program	0	0	0	0
Total	\$ 123	\$ 93	\$ 630	\$ 490

¹ Before subsidy cost allowance.

The ultimate cost of TARP will not be known for some time, but it is not expected to change significantly as only a few investment programs remain open with many of the original disbursed investments repaid. The financial performance of the remaining 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. Wherever possible, OFS uses market prices of tradable securities to estimate the fair value of TARP investments. Use of market prices is 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

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 OFS estimates since TARP's inception through September 30, 2017, provide a good illustration of this impact. Table 3 provides information on how OFS's estimated lifetime cost of TARP has changed over time. The cost estimates for the non-housing programs have fluctuated in large part due to changes in the market prices of common stock for AIG, GM and Ally. This

adjusted for market risk. Further details on asset valuation can be found in Note 6 of the financial statements.

table assumes that all expected investments and disbursements for Treasury housing programs under TARP are completed, and adhere to general government budgeting guidance. This table will not match the financial statements since the table includes repayments and disbursements expected to be made in the future. Table 3 is consistent with the estimated TARP lifetime cost disclosures on the OFS website at:

<http://www.treasury.gov/initiatives/financial-stability/Pages/default.aspx>

The cost amounts in Table 3 are based on assumptions regarding future events, which are inherently uncertain.

Table 3: Estimated Lifetime TARP Costs (Income)¹
(Dollars in billions)

Program	Estimated Lifetime Cost (Income) as of September 30								
	2009 ⁵	2010	2011	2012	2013	2014	2015	2016	2017
Bank Support Programs									
Capital Purchase Program	(\$14.6)	(\$11.2)	(\$13.0)	(\$14.9)	(\$16.1)	(\$16.1)	(\$16.3)	(\$16.3)	(\$16.3)
Targeted Investment Program	(1.9)	(3.8)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Asset Guarantee Program ²	(2.2)	(3.7)	(3.7)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Community Development Capital Initiative	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Credit Market Programs									
Public Private Investment Program	1.4	(0.7)	(2.4)	(2.4)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
Term Asset-Backed Securities Loan Facility	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
SBA 7(a) Securities Purchase Program	N/A	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other Programs									
Automotive Industry Financing Program	34.5	14.7	23.6	24.3	14.7	12.2	12.1	12.2	12.2
American International Group Investment Program ³	56.8	36.9	24.3	15.3	15.2	15.2	15.2	15.2	15.2
Subtotal	74.1	32.1	24.6	14.1	2.6	0.1	(0.2)	(0.2)	(0.3)
Treasury Housing Programs under TARP ⁴	50.0	45.6	45.6	45.6	37.7	37.4	37.4	34.7	32.6
Total	\$124.1	\$77.7	\$70.2	\$59.7	\$40.3	\$37.5	\$37.2	\$34.5	\$32.3

Note: Figures may not foot due to rounding.

1 Estimated program costs (+) or savings (in parentheses) over the life of the program, including interest on reestimates and excluding administrative costs.

2 Prior to the termination of the guarantee agreement, OFS 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 (additional Treasury shares).

4 The estimated lifetime cost for Treasury Housing Programs under TARP consist of the MHA, HHF, and FHA-Refinance programs. The estimated lifetime cost of the FHA-Refinance Program (which is accounted for under credit reform) represents the total estimated subsidy cost associated with total obligated amount.

5 Estimated lifetime cost for 2009 includes funds for projected disbursements and anticipated obligations.

Key Factors Affecting TARP Future Activities and Ultimate Cost

TARP investment programs are nearly wound down with only \$123 million of the total \$412.1 billion disbursed still outstanding, representing 28 small banks in the CPP and CDCI portfolios. The estimated lifetime income associated with investment programs

is currently \$254 million and may fluctuate in the future. Going forward, the expenditures for Treasury housing programs under TARP are expected to most significantly affect changes to the lifetime cost of TARP. The ultimate cost of Treasury housing programs will depend on macroeconomic factors, including real-estate values, financing available in capital markets, and the market demand for housing.

Analysis of Systems, Controls, and Legal Compliance

Management Assurances

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.

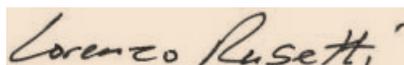
As a result of our reviews, management concludes that the management control objectives described below, taken as a whole, were achieved as of September 30, 2017. Specifically, this assurance is provided relative to Section 2 (internal controls) and 4 (systems controls) of FMFIA. OFS further assures 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's internal controls are designed to meet the management objectives established by Treasury and listed below:

- (a) Reliable financial reporting;
- (b) Effective and efficient operations;
- (c) Compliance with laws and regulations; and
- (d) Financial management systems comply with Federal financial management systems requirements.

In addition, OFS management conducted its assessment of the effectiveness of internal control over financial reporting which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix A, Internal Control over Financial Reporting. Based on the results of this evaluation, OFS provides unmodified assurance that internal control over financial reporting is appropriately designed and operating effectively as of September 30, 2017, with no related material weaknesses noted.

Sincerely,



Lorenzo Rasetti
Chief Financial Officer for the Office of Financial
Stability

Federal Managers' Financial Integrity Act (FMFIA)

The management control objectives under FMFIA are to reasonably ensure that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the assets.

FMFIA requires agencies to evaluate and report on the effectiveness of controls over operations and financial reporting, compliance with applicable laws and regulations (FMFIA Section 2), and conformance with financial management systems requirements (FMFIA Section 4) and Federal Financial Management Improvement Act (FFMIA) that protect the integrity of federal programs. Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses."

OFS continues to have a high performing internal control program in compliance with FMFIA. FMFIA and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, require agencies to evaluate and report on enterprise risk management (ERM) and internal controls in place to help ensure effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reliability of reporting. OFS has completed these rigorous internal control assessments since fiscal year 2009.

OFS has a Senior Assessment Team (SAT) to guide the organization's efforts to meet the statutory and regulatory requirements surrounding ERM and a sound system of internal control. OFS's ERM and internal control framework is based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The SAT leverages this framework in communicating risks and control objectives across OFS and its third-party service providers. Furthermore, managers throughout OFS are responsible for identifying relevant risks, and ensuring that effective internal controls are implemented in their areas of responsibility. Senior management throughout OFS provides sub-certification statements annually concerning whether there is reasonable assurance that the objectives of ERM and internal control are met. Senior management also reports on and takes steps to correct control weaknesses and tracks those weaknesses through resolution.

OFS management believes that maintaining integrity and accountability in all programs and operations is critical to its mission and demonstrates responsible stewardship over assets and resources. It also promotes responsible leadership and maximizes desired program outcomes. OFS has received unmodified opinions from the GAO on its financial statements and internal control over financial reporting for TARP since fiscal year 2009, its first year of operation. OFS continues to execute its ERM and internal controls assessment process to ensure that management can identify risks and deficiencies and take timely corrective actions. The OFS fiscal year 2017 self-assessment of its ERM activities and system of internal controls did not identify any significant deficiencies or material weaknesses.

Federal Financial Management Improvement Act and Financial Management Systems

Federal Financial Management Improvement Act (FFMIA)

FFMIA mandates that agencies “...implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.” FFMIA also requires the development of remediation plans by any entity unable to report substantial compliance with these requirements.

During fiscal year 2017, OFS used a risk-based approach to assess its financial management systems’ compliance with FFMIA, as required by OMB and in accordance with Treasury-wide guidance. OFS conducted its self-assessment to determine its risk levels and determined that all OFS financial management systems are in compliance with FFMIA.

Financial Management Systems Framework

OFS’s financial management systems framework consists of two fundamental components: 1) core financial and mixed systems maintained by OFS and Treasury bureaus that cross-service OFS; and 2) systems that are financially relevant operated and supported by financial agents. Combined, this framework satisfies OFS’s diverse financial, operational, and reporting needs as well as OFS’s internal and external reporting requirements.

In fiscal year 2017, OFS continued to utilize the Core Investment Transaction Flow (CITF), TARP’s system of record and accounting translation engine.

In addition, OFS continued to utilize financial systems maintained by Treasury Departmental Offices and various Treasury bureaus. These systems are in compliance with federal financial management systems requirements and undergo regular independent audits.

In fiscal year 2017, OFS continued to devote substantial attention to simplifying its technology footprint in concert with the reduced activity and size of OFS operations. The simplification effort helps ensure the reliability, maintainability, and controllability of OFS technology as TARP programs wind-down.

Certain financially relevant systems are operated and 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. These plans and programs are reviewed and approved by OFS on an on-going basis.

Legal Compliance

OFS is subject to numerous legislative and regulatory requirements that promote and support an effective ERM and internal control environment. At least on an annual basis, OFS conducts a formal process to identify and document applicable laws and regulations. This process includes the review and consideration of Treasury guidance, statutory and OMB requirements, as well as consultation with OFS program management and the Treasury Office of General Counsel. OFS program managers are responsible for identifying laws and regulations which impact their areas, developing policies and procedures which ensure compliance with those laws and regulations, and disseminating information to employees regarding compliance responsibilities.

In order to test compliance with laws and regulations, OFS maps the requirements of each applicable law or regulation to controls that support the requirements. The majority of the laws and regulations applicable to OFS are tested in this manner. In instances where OFS cannot leverage specific controls, OFS either performs alternative evaluation

procedures or, through adherence to the guidance provided by Treasury, checks that controls are in place to meet guidance concerns and specifications where they apply.

The results of OFS's evaluation of compliance with applicable laws and regulations are reflected in OFS's assurance statement.

Other Management Information, Initiatives, and Issues

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 oversee and monitor closely these third parties to safeguard OFS resources and help ensure the operational efficiency of programs and processes. Where necessary and appropriate to ensure fiscal responsibility, OFS will look to reduce the number of third-party service providers commensurate with the wind-down in OFS operations.
- 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. OFS will manage this process through the SAT to ensure that any resulting risk is minimal and controlled.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of OFS's 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 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 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.

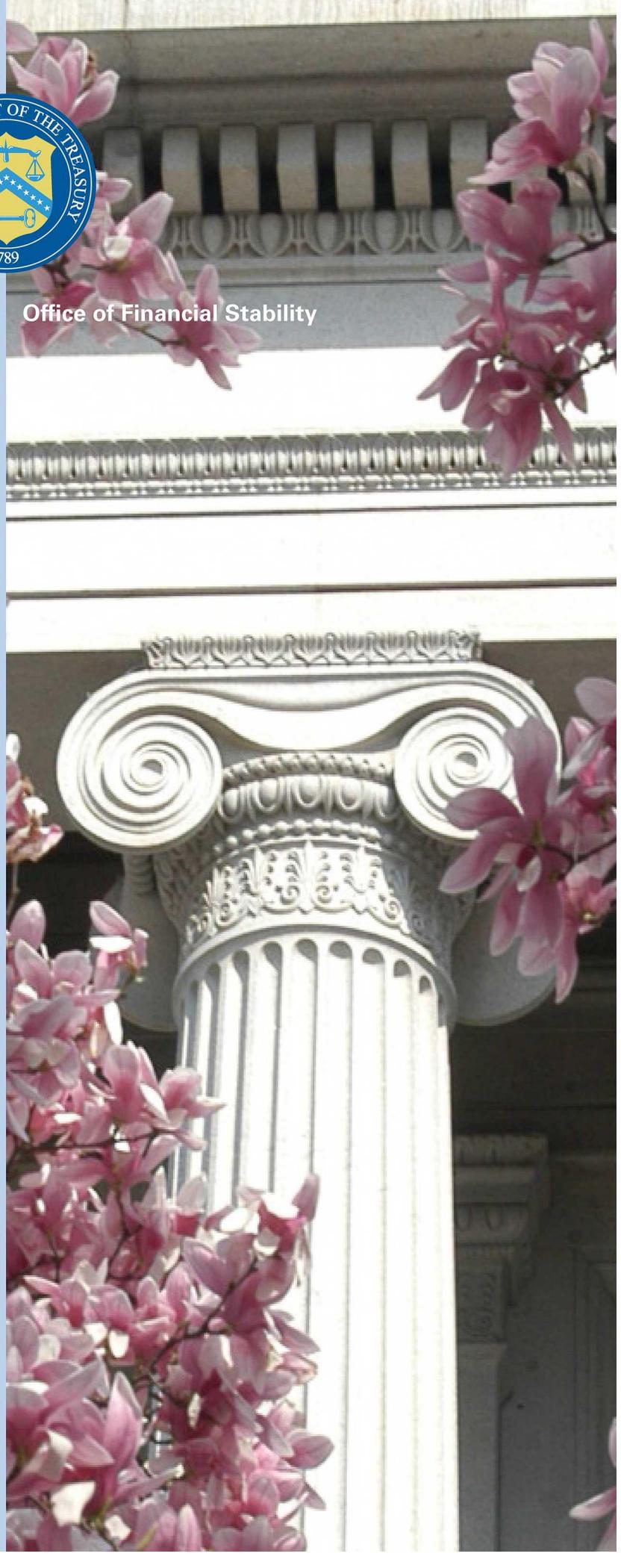


Department of the Treasury

Office of Financial Stability

PART 2:

Financial Section



GOVERNMENT ACCOUNTABILITY OFFICE AUDITOR'S REPORT



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Chief Financial Officer for the Office of Financial Stability

In our audits of the fiscal years 2017 and 2016 financial statements of the Troubled Asset Relief Program (TARP), which is implemented by the Office of Financial Stability (OFS),¹ we found

- the OFS financial statements for TARP as of and for the fiscal years ended September 30, 2017, and 2016, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2017; and
- no reportable noncompliance for fiscal year 2017 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis of matter related to certain factors affecting the valuation of TARP equity investments, and required supplementary information (RSI)² and other information included with the financial statements;³ (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments. GAO has the responsibility to audit OFS's annual financial statements for TARP under the Emergency Economic Stabilization Act of 2008 (EESA), as amended.⁴

¹Section 101 of the Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, div. A, 122 Stat. 3765, 3767 (Oct. 3, 2008), *classified at* 12 U.S.C. § 5211, established OFS within the Department of the Treasury (Treasury) to implement TARP.

²RSI consists of Management's Discussion and Analysis and the Combined Statement of Budgetary Resources, which are included with the financial statements.

³Other information consists of information included with the financial statements, other than RSI and the auditor's report.

⁴EESA is classified, in part, as amended, at sections 5201 through 5261 of Title 12 of the United States Code. Section 116(b) of EESA, 12 U.S.C. § 5226(b), requires that Treasury annually prepare and submit to Congress and the public audited fiscal year financial statements for 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 (GAAS).

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with EESA, we have audited the OFS financial statements for TARP. The OFS financial statements for TARP comprise the balance sheets as of September 30, 2017, and 2016; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited OFS's internal control over financial reporting for TARP as of September 30, 2017, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

OFS management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with 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) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2017, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on OFS's internal control over financial reporting for TARP based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of

the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.⁵ The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered OFS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information 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 whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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 accordance 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 provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. 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.

Opinion on Financial Statements

In our opinion, OFS's financial statements for TARP present fairly, in all material respects, TARP's financial position as of September 30, 2017, and 2016, and its net cost of operations,

⁵A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Valuation of TARP's Equity Investments

As discussed in notes 2 and 6 to OFS's financial statements for TARP, the valuation of TARP's equity investments 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 equity investments, 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.⁶ 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 equity investments as of September 30, 2017, and 2016 (which totaled \$93 million and \$490 million, respectively), and the amounts that OFS will ultimately realize from these assets, and the differences may be material. These differences will also affect TARP's ultimate cost.⁷

Our opinion on OFS's financial statements for TARP is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2017, based on criteria established under FMFIA.

During our fiscal year 2017 audit, we identified deficiencies in OFS's internal control over financial reporting for TARP that we do not consider to be material weaknesses or significant deficiencies.⁸ Nonetheless, these deficiencies warrant OFS management's attention. We have

⁶The 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 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 Federal Housing Administration refinance program.

⁷The 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.

⁸A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

communicated these matters to OFS management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the 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. 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.

Other Information

OFS's other information 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. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on OFS's financial statements for TARP. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of OFS's financial statements for TARP, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

OFS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to OFS.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to OFS that have a direct effect on the determination of material amounts and disclosures in TARP's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to OFS.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2017 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to OFS. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, OFS stated that it is proud to receive an unmodified opinion on its financial statements and its internal control over financial reporting. OFS also stated that it is committed to maintaining the high standards and transparency reflected in these audit results. The complete text of OFS's response is reprinted in appendix II.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 3, 2017

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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Management's Report on Internal Control over Financial Reporting

The Office of Financial Stability's (OFS) internal control over financial reporting (for TARP) 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 accordance 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 provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the financial statements.

OFS management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. OFS management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2017, 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, 2017, OFS's internal control over financial reporting was effective.



Lorenzo Rasetti
Chief Financial Officer for the Office of Financial Stability

November 3, 2017

Appendix II: OFS Response to Auditor's Report



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 3, 2017

Ms. Cheryl E. Clark
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548
Dear Ms. Clark:

We have reviewed the Independent Auditor's Report concerning your audit of the Office of Financial Stability's (OFS) fiscal year 2017 financial statements. OFS is proud to receive nine unmodified opinions on our financial statements and our internal controls over financial reporting.

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,

Lorenzo Rasetti
Chief Financial Officer
Office of 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's 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 activities 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, 2017 and 2016. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The Statement of Net Cost presents the net cost of operations for the fiscal years ended September 30, 2017 and 2016.

The Statement of Changes in Net Position presents the change in OFS's net position for two components, Cumulative Results of Operations and Unexpended Appropriations, for the fiscal years ended September 30, 2017 and 2016. 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 fiscal years ended September 30, 2017 and 2016.

Office of Financial Stability - Troubled Asset Relief Program

As of September 30, 2017 and 2016

BALANCE SHEET

Dollars in Millions

	2017	2016
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	\$ 19,442	\$ 23,652
Total Intragovernmental Assets	19,442	23,652
Cash on Deposit for Housing Program (Note 4)	10	10
Equity Investments, Net (Note 6)	93	490
Total Assets	\$ 19,545	\$ 24,152
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable and Other Liabilities	\$ 2	\$ 1
Due to the General Fund (Note 7)	16	86
Principal Payable to the Bureau of the Fiscal Service (Note 8)	119	469
Total Intragovernmental Liabilities	137	556
Accounts Payable and Other Liabilities	13	33
Liabilities for Treasury Housing Programs Under TARP:		
FHA-Refinance Program (Notes 5 and 6)	2	3
Making Home Affordable Program (Note 5)	179	262
Total Liabilities	\$ 331	\$ 854
Commitments and Contingencies (Note 9)		
NET POSITION		
Unexpended Appropriations	\$ 19,205	\$ 23,298
Cumulative Results of Operations	9	-
Total Net Position	\$ 19,214	\$ 23,298
Total Liabilities and Net Position	\$ 19,545	\$ 24,152

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

Office of Financial Stability - Troubled Asset Relief Program

For the Years Ended September 30, 2017 and 2016

STATEMENT OF NET COST

Dollars in Millions	2017	2016
STRATEGIC GOAL: TO PROMOTE DOMESTIC ECONOMIC GROWTH AND STABILITY WHILE CONTINUING REFORMS OF THE FINANCIAL SYSTEM		
Gross Cost of Operations:		
Program Subsidy Cost (Income) (Note 5 and Note 6)		
Equity Investment Programs	\$ (13)	\$ (48)
FHA-Refinance Program	(1)	(2)
Total Program Subsidy Cost (Income)	(14)	(50)
Interest Expense on Borrowings from the Bureau of the Fiscal Service (Note 10)	11	17
Treasury Housing Programs Under TARP (Note 5)	4,048	4,053
Administrative Cost	97	129
Total Gross Cost of Operations	4,142	4,149
Earned Revenue:		
Dividend and Interest Income - Programs (Note 6)	(3)	(9)
Interest Income on Financing Account (Note 10)	(5)	(1)
Subsidy Allowance Amortization (Note 10)	(3)	(7)
Total Earned Revenue	(11)	(17)
Total Net Cost of Operations	\$ 4,131	\$ 4,132

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

Office of Financial Stability - Troubled Asset Relief Program

For the Years Ended September 30, 2017 and 2016

STATEMENT OF CHANGES IN NET POSITION

Dollars in Millions	2017		2016	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	\$ 23,298	\$ -	\$ 27,408	\$ (11)
Budgetary Financing Sources				
Appropriations Received	138	-	825	-
Appropriations Used	(4,160)	4,160	(4,855)	4,855
Other Adjustments - Canceled Authority	(71)	-	(80)	-
Other Financing Sources	-	(20)	-	(712)
Total Financing Sources	(4,093)	4,140	(4,110)	4,143
Net Cost of Operations	-	(4,131)	-	(4,132)
Net Change	(4,093)	9	(4,110)	11
Ending Balances	\$ 19,205	\$ 9	\$ 23,298	\$ -

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

Office of Financial Stability - Troubled Asset Relief Program

For the Years Ended September 30, 2017 and 2016

STATEMENT OF BUDGETARY RESOURCES

2017 2016

Dollars in Millions	2017		2016	
	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	\$ 174	\$ 59	\$ 8,366	\$ 150
Recoveries of Prior-Year Unpaid Obligations	61	-	2,031	1
Actual Repayments of Debt, Prior-Year Balances	-	(35)	-	(1)
Canceled Authority	(71)	-	(80)	-
Other Changes in Unobligated Balances	-	-	(8,159)	-
Unobligated Balance from Prior-Year Budget Authority, Net	164	24	2,158	150
Appropriations	138	-	825	-
Borrowing Authority	-	-	-	72
Spending Authority from Offsetting Collections	-	121	-	722
TOTAL BUDGETARY RESOURCES (Note 11)	\$ 302	\$ 145	\$ 2,983	\$ 944
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	\$ 121	\$ 101	\$ 2,809	\$ 885
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	19	24	19	9
Unapportioned, Unexpired Accounts	42	20	1	50
Unexpired Unobligated Balance, End of Year	61	44	20	59
Expired Unobligated Balance, End of Year	120	-	154	-
Unobligated Balance, End of Year (Total)	181	44	174	59
TOTAL BUDGETARY RESOURCES	\$ 302	\$ 145	\$ 2,983	\$ 944
CHANGE IN OBLIGATED BALANCES				
Unpaid Obligations:				
Unpaid Obligations Brought Forward, October 1	\$ 15,260	\$ -	\$ 19,582	\$ 1
New Obligations and Upward Adjustments	121	101	2,809	885
Gross Outlays	(4,262)	(101)	(5,100)	(885)
Recoveries of Prior-Year Unpaid Obligations	(61)	-	(2,031)	(1)
Unpaid Obligations, End of Year	11,058	-	15,260	-
Uncollected Payments from Federal Sources:				
Uncollected Payments Brought Forward, October 1	\$ -	\$ -	\$ -	\$ -
Change in Uncollected Payments	-	-	-	-
Uncollected Payments from Federal Sources, End of Year	-	-	-	-
OBLIGATED BALANCES				
(Net of Unpaid Obligations and Uncollected Payments Above)				
Obligated Balance, Net, Brought Forward, October 1	\$ 15,260	\$ -	\$ 19,582	\$ 1
Obligated Balance, Net, End of Year	\$ 11,058	\$ -	\$ 15,260	\$ -
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget authority, Gross	\$ 138	\$ 121	\$ 825	\$ 794
Actual Offsetting Collections	-	(436)	-	(742)
Change in Uncollected Payments, Federal Sources	-	-	-	-
Recoveries of Prior-Year Paid Obligations	-	-	-	-
BUDGET AUTHORITY, NET	\$ 138	\$ (315)	\$ 825	\$ 52
Gross Outlays	\$ 4,262	\$ 101	\$ 5,100	\$ 885
Actual Offsetting Collections	-	(436)	-	(742)
Net Outlays	4,262	(335)	5,100	143
Distributed Offsetting Receipts	(91)	-	(855)	-
AGENCY OUTLAYS, NET	\$ 4,171	\$ (335)	\$ 4,245	\$ 143

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, as amended (EESA). EESA 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. 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 as the aggregate purchase prices of all troubled assets held. 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. The Consolidated Appropriations Act, 2016 (the Act), gave the Secretary of the Treasury the ability to commit an additional \$2.0 billion in TARP funds to current Hardest Hit Fund (HHF) participants. The additional \$2.0 billion was obligated by Treasury as of June 2016. OFS currently does not have the authority to commit new program funds. OFS had utilized (including purchases made, legal commitments to make purchases and offsets for guarantees made) \$454.5 billion as of September 30, 2017 and \$454.6 billion as of September 30, 2016.

During fiscal year 2017, the TARP administered the following programs: the Capital Purchase Program (CPP); the Community Development Capital Initiative (CDCI); and the Treasury Housing Programs Under TARP. During fiscal year 2016, the Public-Private Investment Program (PPIP) and Term Asset-Backed Securities Loan Facility (TALF)

programs were closed. See Notes 5 and 6 for details regarding these programs.

While these financial statements reflect the activities 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 entered into several different types of direct loan, equity investment, and other credit programs (which consists of the Federal Housing Administration (FHA) Refinance Program) (collectively, the OFS programs) with private entities. The OFS 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; they were not entered into to engage in the business activities of the respective private entities. Based on this intent, the OFS concluded that such programs are considered "bailouts," 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 should 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 such investments was recorded in the OFS financial statements.

The EESA established the OFS within the Office of Domestic Finance of the U. S. Department of the Treasury (Treasury) to administer the TARP and required its separate audited financial statements. The OFS prepares stand-alone financial statements for TARP to satisfy EESA Section 116(b) (1). Additionally, as an office of the Treasury, its financial statements are consolidated into Treasury's Agency Financial Report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying financial statements include the results of operations of the TARP 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 revised. 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.

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 equity investment and FHA Refinance 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, the OFS accounts for its equity investments at fair value. Since fair value is not defined in federal accounting standards, as established in 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*, 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 Equity Investments 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. The OFS applies the provisions of FCRA for budgetary accounting and the associated FASAB accounting standard SFFAS No. 2 for financial reporting for loan guarantee programs. 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 equity investments, the subsidy allowance account represents the difference between the face value of the outstanding 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 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 reflects changes, referred to as reestimates, in its determination of the value of equity investment and FHA-Refinance programs in the subsidy cost on the Statement of Net Cost annually.

In certain programs, the OFS has received common stock warrants, additional preferred stock (referred to as warrant preferred stock) or additional notes as additional consideration. The OFS accounts for any proceeds received from the sale of these investments as fees under SFFAS No. 2; as such, they 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 Equity Investments, Net, 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 OFS programs. These valuation 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 Equity Investments, Net, as of fiscal year-ends include 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 OFS accounts for the cost of equity investment and FHA-Refinance 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. The FCRA calls for the establishment of program, financing and general fund receipt accounts to segregate and report receipts and disbursements. These accounts are classified as either budgetary or non-budgetary in the Statement of Budgetary Resources. The OFS maintains budgetary program accounts which receive appropriations and obligate funds to cover the subsidy cost of equity investment and FHA-Refinance programs, and disburse 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 equity investment and FHA-Refinance 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. Financing arrangements specifically for the TARP activities are provided for in EESA as follows: (1) borrowing for program funds under Section 118, reported as “appropriations” in these financial statements and (2) borrowing by financing accounts for amounts not covered by subsidy cost, under the FCRA and Section 123. The OFS uses budgetary 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. Any assets in these accounts are non-entity assets, not available to the OFS, 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

accounts is not included in the OFS's 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 equity investment and FHA-Refinance 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 were 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 and financing funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by the Treasury, and the OFS's 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. Other changes in unobligated balances represent unavailable funds from appropriations fulfilled. See Note 3.

Equity Investments, Net

Equity Investments, Net represents the estimated net outstanding amount of the OFS equity investments. The equity investment balances have been determined in accordance with the provisions of SFFAS No. 2 and are recorded at fair value (see Note 6). Write-offs of equity investment balances (presented in Note 6 table)

are recorded when a legal event occurs, such as a bankruptcy or liquidation with suspension or termination of collection action, or extinguishment of a debt instrument by agreement and there is currently no expectation of further collection. 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.

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, 2017 and 2016.

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 loan, equity investment, and FHA-Refinance programs as of September 30, 2017 and 2016. See Notes 6 and 7.

Principal Payable to the Bureau of the Fiscal Service

Principal Payable to the Bureau of the Fiscal Service (Fiscal Service) is the amount due for equity investments funded by borrowings from the Fiscal Service as of the end of the fiscal year. Additionally, OFS borrows from the Fiscal Service for payment of intragovernmental interest and payment of downward reestimates to the general fund, as necessary. See Note 8.

Liabilities for 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, 2017 and 2016, is based on information about loan modifications

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

reported by participating servicers for the Making Home Affordable Program. 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's share of losses was determined under credit reform accounting and 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 reduced by canceled authority in budgetary appropriated funds as of September 30, 2017 and 2016.

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. Cumulative Results of Operations in 2017 and 2016 included \$10 million, reported as Cash on Deposit for Housing Program on the Balance Sheet, see Note 4.

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 Cost. 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

There are no related parties for OFS.

NOTE 3. FUND BALANCES WITH TREASURY

Fund Balances with Treasury (FBWT), by fund type and status, as of September 30, 2017 and 2016, are presented in the following table.

(Dollars in Millions)	As of September 30,	
	2017	2016
Fund Balances:		
General Funds	\$ 19,399	\$ 23,593
Financing Funds	43	59
Total Fund Balances	\$ 19,442	\$ 23,652
Status of Fund Balances:		
Unobligated Balances		
Available	\$ 43	\$ 28
Unavailable	182	205
Obligated Balances Not Yet Disbursed	11,058	15,260
Non-Budgetary FBWT ¹	8,159	8,159
Total Status of Fund Balances	\$ 19,442	\$ 23,652

¹ Non-Budgetary FBWT represents Housing Program amounts no longer available for obligation, since the purpose for which the appropriation was enacted has been fulfilled.

NOTE 4. CASH ON DEPOSIT FOR HOUSING PROGRAM

As of September 30, 2017 and 2016, the OFS had \$10 million, on deposit with a commercial bank to facilitate its payments of claims under the FHA-Refinance Program as OFS's agent.

See Note 5 for further details regarding the FHA-Refinance Program. Under terms of the agreement with the commercial bank, unused funds will be returned to the OFS upon the termination of the program.

NOTE 5. TREASURY HOUSING PROGRAMS UNDER TARP

Fiscal years 2017 and 2016 saw 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) Hardest-Hit Fund (HHF); and
- 3) FHA-Refinance Program.

Features of these initiatives follow:

Housing Program	Features
MHA	
Home Affordable Modification Program (HAMP)	
First Lien Modification Program (Tier 1, Tier 2, and Streamline)	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 (PRA)	Pays financial incentives to investors for principal reduction in conjunction with a first lien HAMP modification.
Home Affordable Foreclosure Alternatives (HAF)	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 forbearance of a portion of their mortgage payments. This program does not require any payments from OFS.
FHA-HAMP	
Second Lien Program (2MP)	Offers financial incentives to participating servicers who modify second liens in conjunction with a HAMP modification.
Rural Development Program (RD-HAMP)	Provides for lower monthly payments on USDA guaranteed loans.
HHF	
	Provides locally tailored assistance to states hardest hit by the housing market downturn, to assist struggling homeowners and help stabilize housing markets.
FHA-Refinance Program	
	Joint initiative with HUD to encourage refinancing of existing underwater mortgage loans not currently insured by FHA into FHA insured mortgages.

Making Home Affordable

In early 2009, Treasury launched MHA to help struggling homeowners avoid foreclosure. Since its inception, MHA has helped homeowners avoid foreclosure by providing a variety of solutions to modify 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 FHA and the U.S. Department of Agriculture (USDA).

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.

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.

The MHA program terminated on December 31, 2016, except with respect to certain loan modification applications made before such date, per December 2015, Section 709(b) of the Consolidated Appropriations Act, 2016 (the Act).

Hardest Hit Fund

The HHF was implemented in fiscal year 2010, and provides locally tailored assistance to states hit hardest by the housing market downturn, to assist struggling homeowners and help stabilize housing markets through each state’s Housing Finance Agency (HFA). States that meet the criteria for this program, consisting 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, receive funding from the OFS. Approved states develop and roll out their own programs with timing and types of programs targeted to address the specific needs and economic conditions of their state. An additional \$2.0 billion in commitments was authorized for HHF by the Act in December 2015. These funds were obligated to 18 of the 19 HFAs in 2016. States have until December 31, 2021 to utilize all HHF funding.

FHA-Refinance Program

The FHA-Refinance Program is intended to encourage refinancing of existing underwater mortgage loans not currently insured by FHA into FHA-insured 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 were able to refinance into FHA-guaranteed mortgages through December 31, 2016 and OFS will honor its share of claims against the letter of credit through December 31, 2022. Cumulatively, as of September 30, 2017 and September 30, 2016, 7,234 and 7,190 loans had been refinanced through the program,

respectively, of which 4,200 and 4,156 are subject to potential Treasury reimbursement. OFS originally deposited \$50 million with a commercial bank as its agent to administer payment of claims under the program; that amount was reduced to \$10 million in 2015; cumulatively, \$242,934 in claim payments have been made as of September 30, 2017, of which \$35,553 was disbursed during fiscal year 2017.

See Notes 4 and 6 for further details about the deposit and the program. OFS paid \$0.2 million in fiscal year 2017 and \$0.2 million in fiscal year 2016 to maintain the letter of credit.

The table below recaps housing program commitments as of September 30, 2017, and payments and accruals as of September 30, 2017 and 2016.

Treasury Housing Programs Under TARP

(Dollars in Millions)	Total Commitments as of September 30, 2017 ¹		Fiscal Year Payments through September 30,		Accruals as of September 30,					
			2017	2016	2017	2016				
MHA	\$	27,780	\$	2,454	\$	3,253	\$	179	\$	262
HFA Hardest Hit Fund		9,600	\$	1,677		1,035		-		-
FHA - Refinance²		45		-		-		-		-
Totals	\$	37,425	\$	4,131	\$	4,288	\$	179	\$	262

¹ Total commitments represent amounts obligated to support all of OFS's Housing programs. As of September 30, 2017, \$10,836 million remains available to be spent. FHA- Refinance commitments include \$18 million for administrative expenses to administer the Letter of Credit facility.

² Payments do not include \$10 million of reserve funds transferred, shown on Balance Sheet as Cash on Deposit for Housing Program, nor the subsidy cost to fund OFS's estimated share of defaults, which establishes the liability for losses, see Note 6. Payments are the FHA-Refinance Letter of Credit administrative expense only.

NOTE 6. EQUITY INVESTMENTS, NET AND FHA-REFINANCE PROGRAM

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 currently consist of a loss-sharing program under the TARP. The table below recaps OFS remaining programs by title and type:

Program	Program Type
Direct Loans and Equity Investments	
Capital Purchase Program	Equity Investment/Subordinated Debentures
Community Development Capital Initiative	Equity Investment/Subordinated Debentures
Automotive Industry Financing Program	Equity Investment and Direct Loan
Other Credit Program	
FHA-Refinance Program	Loss-sharing Program with FHA

Equity Investment Programs

Capital Purchase Program

In October 2008, the OFS began implementation of the TARP with the 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 had a stated dividend rate of 5.0 percent through year five, which increased to 9.0 percent in subsequent years. In addition to the senior preferred stock, the OFS received warrants, with a 10-year term, as required by Section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. QFIs that are Subchapter S corporations issued subordinated debentures instead of preferred stock (to comply with tax code

In fiscal year 2017, other sales, redemptions, other receipts, and dividends, resulted in net proceeds of \$84 million.

regulations) with interest rates of 7.7 percent for the first five years and 13.8 percent thereafter.

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 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 have issued the preferred shares. Generally, these 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.

In fiscal year 2016, other sales, redemptions, other receipts, and dividends, resulted in net proceeds of \$29 million.

During fiscal year 2017 there was one institution declaring bankruptcy. During fiscal year 2016, there were no institutions closed by their regulators or declaring bankruptcy.

There was one CPP institution written off during fiscal years 2017 and none during fiscal year 2016. The following tables provide key data points related to the CPP for the fiscal years ending September 30, 2017 and 2016:

CPP Participating Institutions

	Cumulative as of September 30,	
	2017	2016
Number of Institutions Funded	707	707
Institutions Paid in Full, Merged or Investments Sold	(503)	(498)
Institutions Transferred to CDCI	(28)	(28)
Institutions Refinanced to SBLF	(137)	(137)
Institutions Written Off After Bankruptcy or Receivership	(33)	(32)
Number of Institutions with Outstanding OFS Investments	<u>6</u>	<u>12</u>
Institutions in Bankruptcy or Receivership (not written off)	-	-
Number of CPP Institutions Valued at Year-End	<u><u>6</u></u>	<u><u>12</u></u>
Of the Institutions Valued, Number that Have Missed One or More Dividend Payments	5	10

CPP Investments

(Dollars in Millions)

	Fiscal Year 2017	Fiscal Year 2016
Outstanding Beginning Balance, Investment in CPP Institutions, Gross	\$ 210	\$ 268
Repayments and Sales of Investments	(79)	(24)
Write-Offs	(12)	-
Losses from Sales and Repurchases of Assets	(71)	(34)
Outstanding Balance, Investment in CPP Institutions, Gross	<u>\$ 48</u>	<u>\$ 210</u>
Interest and Dividend Collections	\$ -	\$ -
Net Proceeds from Sales and Repurchases of Assets Less Than Cost	<u>\$ (67)</u>	<u>\$ (30)</u>

Community Development Capital Initiative

In February 2010, the OFS announced the 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. CDFI banks and thrifts could apply to receive capital up to 5 percent of risk-weighted assets while CDFI credit unions could apply for up to 3.5 percent of total assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate increases to 9 percent after eight years. 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 years 2017 and 2016, there were no CDCI institutions written off.

In fiscal year 2017, OFS received \$325 million in repayments and \$3 million in dividends and interest from its CDCI investments with, as of September 30, 2017, an outstanding balance of \$75 million and value of \$58 million.

In fiscal year 2016, OFS received \$26 million in repayments and \$9 million in dividends and interest from its CDCI investments with, as of September 30, 2016, an outstanding balance of \$420 million and value of \$379 million.

Automotive Industry Financing Program

General Motors Company and General Motors Corporation

In the period ended September 30, 2009, the OFS provided \$51.0 billion to General Motors Corporation (Old GM) through various loan agreements including the initial loan for general and working capital purposes, auto supplier and warranty programs, and the final loan for debtor in possession (DIP) financing while Old GM was in bankruptcy. Since 2014, the OFS retained no ownership of GM. OFS received a cumulative total of \$39.7 billion in stock sale proceeds, loan repayments, dividends and interest on the GM program.

In fiscal year 2011, \$986 million of OFS's loan to Old GM 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. Because OFS did not expect to recover any significant additional proceeds from this claim, OFS recognized a write-off of the remaining \$826 million in fiscal year 2014 resulting in no outstanding balance since September 30, 2014. During fiscal years 2017 and 2016, OFS recovered \$5 million and \$3 million, respectively, on this administrative claim.

In August 2016, Treasury along with Export Development Canada (EDC), which jointly financed the administration of the General Motors bankruptcy, entered into a settlement with the Unsecured Creditors Committee of General Motors Corporation (UCC) to split any proceeds of the Avoidance Action Trust (AAT) litigation, with Treasury and EDC receiving 30 percent and the unsecured creditors receiving 70 percent. As a condition of the settlement, OFS provided an advance of \$12.6 million to the AAT to fund the ongoing operating and legal costs associated with the litigation. This settlement yields the most favorable attainable economic outcome for OFS to recover funds related to this claim.

Chrysler Group LLC and Chrysler Holding LLC

During fiscal years 2009 and 2010, OFS invested \$7.8 billion in Chrysler Holding LLC (Old Chrysler), including the auto supplier and warranty programs, and an additional \$4.6 billion in Chrysler Group LLC (New Chrysler) under the terms of Chrysler's bankruptcy agreement. Since 2011, the OFS had no remaining interest in Chrysler.

In fiscal year 2016, the bankruptcy liquidation trust related to Old Chrysler was closed, and OFS received final proceeds of \$2 million.

OFS received a cumulative total of \$11.2 billion in loan repayments, interest and additional payments.

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 addition, in May 2009, under the terms of a separate \$884 million loan to Old GM, OFS exercised its exchange option and received 190,921 shares of GMAC common stock from Old GM in full satisfaction of the loan. In May 2010, GMAC changed its corporate name to Ally Financial, Inc. (Ally), a private bank holding company. Since 2015 OFS had no remaining interest in GMAC/Ally.

In fiscal year 2016, the GMAC/Ally investment program was closed.

OFS received a cumulative total of \$19.6 billion in sales proceeds, dividends, and additional payments on its initial investment.

Valuation Methodology

The OFS applies fair value and the provisions of SFFAS No. 2 to account for equity investments and the FHA-Refinance Program. 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 using market prices of similar securities to estimate an appropriate market-adjusted discount rate 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 following table displays the assets held by the observability of inputs significant to the measurement of each value.

(Dollars in Millions)

	As of September 30, 2017			
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Program				
CPP	\$ 6	\$ -	\$ 29	\$ 35
CDCI	5	-	53	58
Total TARP Programs	\$ 11	\$ -	\$ 82	\$ 93

(Dollars in Millions)

	As of September 30, 2016			
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Program				
CPP	\$ 71	\$ -	\$ 40	\$ 111
CDCI	12	-	367	379
Total TARP Programs	\$ 83	\$ -	\$ 407	\$ 490

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 Investments⁵

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 its balance sheet. The model assumes a probabilistic approach to estimate the projected cash flows due to the Treasury based on market pricing data and the strength of a given institution's balance sheet. Each institution's performance is subject to uncertainty. In fiscal year 2014, OFS implemented a new estimation methodology in its model for its remaining equity investments. The new model was implemented as the risk profile of the remaining equity investments within the TARP portfolio evolved over time and as the portfolio as a whole continued to wind-down. Within the new model, some institutions are increasingly likely to default or to miss the preferred dividends as the quality of their assets deteriorates or the level of capital they have available to absorb losses declines as a share of their assets. The probability of default was estimated based on the performance of a large sample of U.S. banks over time and on the historical behavior of the TARP's own equity investments. At the other end of the spectrum, institutions are increasingly likely to call their preferred shares over time as their balance sheets improve. Inputs to the model included institution-specific accounting data obtained from regulatory filings, an institution's stock price volatility and historical bank failure information, as well as market pricing data of comparable securities trading in the market. The market risk adjustment is estimated by grouping institutions with similar financial performance and applying credit spreads from similar securities. For both its fiscal years 2017 and 2016 models, 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 that are exchange traded are valued at the quoted market price as of year-end.

Automotive Industry Financing Program

OFS has had no investments remaining since 2015, and the Ally equity program was closed in fiscal year 2016.

Subsidy Cost and Reestimates

The recorded subsidy cost of equity investments or the FHA-Refinance program is based upon the calculated net present value of expected future cash flows. The OFS's 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 2017, there were no modifications to any of the remaining programs.

During fiscal year 2016, a modification occurred in the CDCI program as a result of the early repurchase option announced in August 2016 that allowed remaining participants to repurchase their outstanding securities at a fair market value. This resulted in subsidy cost of \$25 million.

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 fiscal years 2017 and 2016, financial statement reestimates for all programs, except the FHA-Refinance program, were performed using actual financial transaction data through September 30. For fiscal years 2017 and 2016 market and security specific data publicly available as of September 30 were used. FHA-Refinance reestimates used actual financial transaction data through August 31.

⁵ This consists of equity investments made under CPP and CDCI.

Net downward reestimates for the fiscal years ended September 30, 2017 and 2016, totaled \$14 million and \$75 million, respectively. Descriptions of the reestimates, by OFS Program, are as follows:

Capital Purchase Program

The \$5 million downward reestimate for CPP for fiscal year ended September 30, 2017 was the result of repayments and improved market values.

The \$38 million downward reestimate for CPP for the fiscal year ended September 30, 2016 was the result of repayments and improved market values.

Community Development Capital Initiative

The \$3 million downward reestimate for CDCI for fiscal year ended September 30, 2017 was the result of repayments and improved market values.

The CDCI program experienced improved market values and repayments in full, resulting in a \$42 million downward reestimate for the fiscal year ended September 30, 2016.

Automotive Industry Financing Program

For fiscal year ended September 30, 2017 a \$5 million downward reestimate was due to collections related to the Old GM.

For the fiscal year ended September 30, 2016 a \$7 million upward reestimate was due mostly to an advance to the Avoidance Action Trust to support ongoing litigation.

Summary Table

The following table recaps gross equity investments, subsidy allowance, net equity investments, reconciliation of subsidy cost allowance and subsidy cost, by TARP program, as of and for the fiscal years ended September 30, 2017 and 2016. OFS authority expired October 3, 2010 and no commitments were made thereafter, so there were no investment program budget execution subsidy rates for fiscal years 2017 and 2016.

Troubled Asset Relief Program Equity Investments

(Dollars in Millions)

	TOTAL	CPP	AIFP	CDCI
As of September 30, 2017				
Equity Investment Programs:				
Equity Investments Outstanding, Gross	\$ 123	\$ 48	\$ -	\$ 75
Subsidy Cost Allowance	(30)	(13)	-	(17)
Equity Investments Outstanding, Net	<u>\$ 93</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>\$ 58</u>
Obligations for Investments not yet Disbursed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Subsidy Cost Allowance:				
Balance, Beginning of Period	\$ 140	\$ 99	\$ -	\$ 41
Interest and Dividend Revenue	3	-	-	3
Net Proceeds from Sales and Repurchases of Assets				
Less than Cost	(82)	(67)	5	(20)
Write-Offs	(12)	(12)	-	-
Net Interest Expense on Borrowings from Fiscal Service and Financing Account Balance	(6)	(2)	-	(4)
Balance, End of Period, Before Reestimates	<u>43</u>	<u>18</u>	<u>5</u>	<u>20</u>
Subsidy Reestimates Upward (Downward), Net	(13)	(5)	(5)	(3)
Balance, End of Period	<u>\$ 30</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 17</u>
Reconciliation of Subsidy Cost (Income):				
Subsidy Reestimates Upward (Downward), Net	(13)	(5)	(5)	(3)
Total Equity Investment Programs				
Subsidy Cost (Income)	<u>\$ (13)</u>	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ (3)</u>

(Dollars in Millions)

	TOTAL	CPP	AIFP	CDCI
As of September 30, 2016				
Equity Investment Programs:				
Equity Investments Outstanding, Gross	\$ 630	\$ 210	\$ -	\$ 420
Subsidy Cost Allowance	(140)	(99)	-	(41)
Equity Investments Outstanding, Net	<u>\$ 490</u>	<u>\$ 111</u>	<u>\$ -</u>	<u>\$ 379</u>
Obligations for Investments not yet Disbursed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Subsidy Cost Allowance:				
Balance, Beginning of Period	\$ 232	\$ 169	\$ -	\$ 63
Subsidy Cost for Modifications	25	-	-	25
Interest and Dividend Revenue	9	-	-	9
Net Proceeds from Sales and Repurchases of Assets				
Less than Cost	(37)	(30)	(7)	-
Net Interest Expense on Borrowings from Fiscal Service and Financing Account Balance	(16)	(2)	-	(14)
Balance, End of Period, Before Reestimates	<u>213</u>	<u>137</u>	<u>(7)</u>	<u>83</u>
Subsidy Reestimates Upward (Downward), Net	(73)	(38)	7	(42)
Balance, End of Period	<u>\$ 140</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 41</u>
Reconciliation of Subsidy Cost (Income):				
Subsidy Cost (Income) for Modifications	\$ 25	\$ -	\$ -	\$ 25
Subsidy Reestimates Upward (Downward), Net	(73)	(38)	7	(42)
Total Equity Investment Programs				
Subsidy Cost (Income)	<u>\$ (48)</u>	<u>\$ (38)</u>	<u>\$ 7</u>	<u>\$ (17)</u>

FHA-Refinance Program

As discussed in Note 5, the OFS 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.

During fiscal year 2017, \$9 million of new loans were guaranteed by the FHA under this program that could require a Treasury contribution.

During fiscal year 2016, no Treasury contribution was required for new loans guaranteed by FHA under this program.

Cumulatively, as of September 30, 2017 and 2016, 4,200 and 4,156 loans, respectively, that FHA guaranteed, with a total value of \$620 and \$611 million, had been refinanced under the program that could require a Treasury contribution.

OFS's maximum exposure related to FHA's guarantee totaled \$23 million and \$27 million at September 30, 2017 and 2016, respectively. OFS's guarantee resulted in a liability of \$2 million at September 30, 2017 and a liability of \$3 million at

September 30, 2016. The liability was calculated, using credit reform accounting, as the present value of the estimated future cash outflows for the OFS's share of losses incurred on any defaults of the FHA guaranteed loans. Cumulatively, as of September 30, 2017 and 2016, \$242,934 and \$207,381 of claims had been paid by OFS under the program, respectively.

At September 30, 2017 and 2016, OFS's obligation for subsidy for potential new FHA guaranteed loans under the program was \$24 million and \$100 million, respectively.

Budget subsidy rates for the program, entirely for defaults, were set at 0.8 percent for loans guaranteed in fiscal year 2017 (loans endorsed by FHA from October 1, 2016 to December 31, 2016).

The program recorded \$1 million and \$2 million in downward reestimates, for fiscal years 2017 and 2016, respectively, due to 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 2017 and 2016.

FHA-Refinance Program

(Dollars in Millions)

	Fiscal Year	
	2017	2016
Balance, Beginning of Period	\$ 3	\$ 5
Subsidy Cost for Guarantees (Defaults)	-	-
Balance, End of Period, Before Reestimates	3	5
Subsidy Reestimates - Upward (Downward), Net	(1)	(2)
Balance, End of Period	<u>\$ 2</u>	<u>\$ 3</u>
Reconciliation of Subsidy Cost (Income)		
Subsidy Cost for Guarantees (Defaults)	\$ -	\$ -
Subsidy Reestimates - Upward (Downward), Net	(1)	(2)
Total Subsidy Cost (Income)	<u>\$ (1)</u>	<u>\$ (2)</u>

NOTE 7. DUE TO THE GENERAL FUND

As of September 30, 2017, the OFS accrued \$16 million of downward reestimates payable to the General Fund. As of September 30, 2016, the OFS

accrued \$86 million 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 FISCAL SERVICE (Fiscal Service)

The equity investment and the FHA-Refinance Programs, accounted for under federal credit reform, are funded by subsidy appropriations and borrowings from the Fiscal Service. The OFS also borrows funds to pay the Treasury General Fund for downward reestimates (these reduce program subsidy cost) in advance of receiving the expected cash flows that cause the downward reestimate. The OFS makes periodic principal repayments to the

Fiscal Service 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, 2017 and 2016 were as follows:

(Dollars in Millions)	As of September 30,	
	2017	2016
Beginning Balance, Principal Payable to the Fiscal Service	\$ 469	\$ 418
New Borrowings	-	72
Repayments	(350)	(21)
Ending Balance, Principal Payable to the Fiscal Service	<u>\$ 119</u>	<u>\$ 469</u>

Borrowings from the Fiscal Service by TARP program, outstanding as of September 30, 2017 and 2016, were as follows:

(Dollars in Millions)	As of September 30,	
	2017	2016
CPP	\$ 39	\$ 86
CDCI	80	370
AIFP	-	13
Total Borrowings Outstanding	<u>\$ 119</u>	<u>\$ 469</u>

As of September 30, 2017, borrowings carried remaining terms ranging from 21 to 24 years, with interest rates from 2.96 percent to 3.80 percent. As

of September 30, 2016, borrowings carried remaining terms ranging from 6 to 25 years, with interest rates from 2.72 percent to 3.80 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 Office of General Counsel, the ultimate resolution of these legal actions and claims will not have a materially adverse effect on the OFS financial statements, except for the pending legal action described below which may have a materially adverse impact on the financial statements depending on the outcome of the case. Contingent liabilities related to litigation are recorded in the financial statements if and when losses are determined to be probable and measurable. Contingent liabilities are disclosed where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. If litigation losses are to be paid by the Treasury Judgment Fund, the related cost is allocated to the appropriate federal entity, which records the cost and an offsetting financing source in its financial statements.

Starr International Co., Inc. v. United States: Plaintiff is an American International Group (AIG) shareholder that brought suit on behalf of two putative classes of shareholders alleging that the government violated the Fifth Amendment by illegally exacting or taking property without just compensation. One class, the Credit Agreement Class, claimed that the Fifth Amendment was violated when a majority share of AIG's equity and voting rights was conveyed in connection with an \$85 billion loan that rescued AIG during the 2008 financial crisis. Starr also asserted a Fifth Amendment violation on behalf of the second class, the Reverse Stock Split Shareholder Class, that a June 2009 reverse stock split constituted a taking of the common stockholders' asserted right to a shareholder vote on whether to approve a reverse split of AIG's common stock. The Court of Federal Claims held that the Credit Agreement Shareholder Class shall prevail on liability, but shall recover zero damages, and that the Reverse Stock Split Shareholder Class shall not prevail on liability or

damages. Both the Plaintiff and the United States appealed to the United States Court of Appeals for the Federal Circuit. The Federal Circuit issued a decision concluding Plaintiff-Appellant lacks standing to pursue the equity-acquisition claims directly, as those claims belong exclusively to AIG. The Federal Circuit concluded that the Court did not err in denying relief for Plaintiff's reverse-stock-split claims and therefore vacated the judgment that the government committed an illegal exaction and remanded with instructions to dismiss the equity-acquisition claims that seek direct relief. The Federal Circuit affirmed the judgment as to the denial of direct relief for the reverse-stock-split claims. On October 6, 2017, Plaintiff-Appellant petitioned the Supreme Court for certiorari.

The Department of Justice (DOJ), which is representing the United States Treasury and the Board of Governors of the Federal Reserve System in this lawsuit, is unable to determine the likelihood of a favorable or unfavorable outcome or make an estimate of potential loss, if any, at this time. In addition, if an unfavorable outcome were to occur, OFS believes that the settlement would be paid by the Treasury Judgment Fund. Accordingly, if an unfavorable outcome were deemed probable and measureable and the related cost is allocated to OFS, then OFS would record an imputed cost and offsetting financing source in its financial statements.

In addition, the OFS pays for a portion of the Starr litigation expenses incurred by DOJ based on an Inter-Agency Agreement (IAA) between the OFS and DOJ. Under the terms of the IAA, OFS paid approximately \$2 million to DOJ for expenses invoiced to date.

Refer to Note 5 for additional commitments relating to the Treasury Housing Programs under TARP and Note 6 relating to Equity Investments, Net and FHA-Refinance Programs.

NOTE 10. STATEMENT OF NET COST

The Statement of Net Cost (SNC) presents the net cost of operations for the OFS under the strategic goal to promote domestic economic growth and stability while continuing reforms of the financial system. 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 2017 includes \$11 million of intragovernmental costs relating to interest expense on borrowings from the Fiscal Service and \$5 million intragovernmental revenues relating to interest income on financing account

balances. The OFS SNC for fiscal year 2016 includes \$17 million of intragovernmental costs relating to interest expense on borrowings from the Fiscal Service and \$1 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 equity investments and FHA-Refinance programs from TARP participants, and interest expense on borrowings from the Fiscal Service. The subsidy allowance account is used to present the equity investments at the estimated net present value of future cash flows. The OFS SNC includes \$3 million and \$7 million of subsidy allowance amortization for fiscal years 2017 and 2016, 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 fiscal year ended September 30, 2017, the OFS's total resources in budgetary accounts were \$0.3 billion and resources in non-budgetary financing accounts, including spending authority from collections of equity investment liquidations, dividends, interest and fees, were \$0.1 billion. For the fiscal year ended September 30, 2016, the OFS's total resources in budgetary accounts were \$3.0 billion and resources in non-budgetary financing accounts were \$0.9 billion.

Permanent Indefinite Appropriations

The OFS receives permanent indefinite appropriations annually, if necessary, to fund increases in the projected subsidy costs of equity investments and FHA-Refinance 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 EESA and that any such funds expended or obligated by the Secretary for actions authorized by EESA, 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 Fiscal Service to pay interest costs in excess of interest income and to fund downward reestimates transfers to the General Fund. For the fiscal year ended September 30, 2017, the OFS had no borrowing authority available or authorized. For the fiscal year ended September 30, 2016, the OFS had no borrowing authority available of the \$72 million authorized.

The OFS uses dividends and interest received as well as recoveries on direct loans and liquidation of

equity investments to repay debt in the non-budgetary direct loan and equity investment 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, 2017 were \$10.9 billion in budgetary accounts and no funds remained in non-budgetary financing accounts. Undelivered orders as of September 30, 2016 were \$15.0 billion in budgetary accounts and no funds remained 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 2019, with the “Actual” column completed for fiscal year 2017, 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 2018. It will be available from the Government Printing Office.

The 2018 President’s Budget, with the “Actual” column completed for the fiscal year ended September 30, 2016, was published in May 2017, and reconciled to the SBR. The only differences between the two documents were due to:

- Rounding; and
- Expired funds that are not shown in the “Actual” column of the President’s Budget.

NOTE 12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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 Net Cost of Operations to Budget for the fiscal years ended September 30, 2017 and 2016 follows:

Dollars in Millions	Fiscal Year	
	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred / New Obligations and Upward Adjustments per SBR	\$ 222	\$ 3,694
Actual Offsetting Collections, Net of Change in Uncollected Payments, and Recoveries	(496)	(2,774)
Offsetting Receipts	(91)	(855)
Net Obligations	(365)	65
Other Non-Budgetary Resources	-	-
Total Resources Used to Finance Activities	(365)	65
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Net Obligations in Direct Loan, Equity Investment and FHA-Refinance Program Financing Funds	335	(142)
Change in Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	4,100	4,077
Resources that Fund Prior Period Expenses and Reestimates	76	208
Total Resources Used to Finance Items Not Part of Net Cost of Operations	4,511	4,143
Total Resources Used to Finance the Net Cost of Operations	4,146	4,208
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Accrued Net Downward Reestimates at Year-End	(16)	(77)
Other	1	1
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	(15)	(76)
Net Cost of Operations	\$ 4,131	\$ 4,132

REQUIRED SUPPLEMENTARY INFORMATION

Office of Financial Stability - Troubled Asset Relief Program

REQUIRED SUPPLEMENTARY INFORMATION COMBINED STATEMENT OF BUDGETARY RESOURCES

	2017				
	Combined		TARP Programs		TARP Administrative
	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts	Budgetary Accounts
Dollars in Millions					
BUDGETARY RESOURCES					
Unobligated Balance Brought Forward, October 1	\$ 174	\$ 59	\$ 1	\$ 59	\$ 173
Recoveries of Prior-Year Unpaid Obligations	61	-	41	-	20
Actual Repayments of Debt, Prior-Year Balances	-	(35)	-	(35)	-
Canceled Authority	(71)	-	-	-	(71)
Other Changes in Unobligated Balances	-	-	-	-	-
Unobligated Balance from Prior-Year Budget Authority, Net	164	24	42	24	122
Appropriations	138	-	15	-	123
Borrowing Authority	-	-	-	-	-
Spending Authority from Offsetting Collections	-	121	-	121	-
TOTAL BUDGETARY RESOURCES (Note 11)	\$ 302	\$ 145	\$ 57	\$ 145	\$ 245
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (Total)	\$ 121	\$ 101	\$ 15	\$ 101	\$ 106
Unobligated Balance, End of Year:					
Apportioned, Unexpired Accounts	19	24	-	24	19
Unapportioned, Unexpired Accounts	42	20	42	20	-
Unexpired Unobligated Balance, End of Year	61	44	42	44	19
Expired Unobligated Balance, End of Year	120	-	-	-	120
Unobligated Balance, End of Year (Total)	181	44	42	44	139
TOTAL BUDGETARY RESOURCES	\$ 302	\$ 145	\$ 57	\$ 145	\$ 245
CHANGE IN OBLIGATED BALANCES					
Unpaid Obligations:					
Unpaid Obligations Brought Forward, October 1	\$ 15,260	\$ -	\$ 15,170	\$ -	\$ 90
New Obligations and Upward Adjustments	121	101	15	101	106
Gross Outlays	(4,262)	(101)	(4,146)	(101)	(116)
Recoveries of Prior-Year Unpaid Obligations	(61)	-	(41)	-	(20)
Unpaid Obligations, End of Year	11,058	-	10,998	-	60
Uncollected Payments from Federal Sources:					
Uncollected Payments Brought Forward, October 1	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Uncollected Payments	-	-	-	-	-
Uncollected Payments from Federal Sources, End of Year	-	-	-	-	-
OBLIGATED BALANCES					
(Net of Unpaid Obligations and Uncollected Payments Above)					
Obligated Balance, Net, Brought Forward, October 1	\$ 15,260	\$ -	\$ 15,170	\$ -	\$ 90
Obligated Balance, Net, End of Year	\$ 11,058	\$ -	\$ 10,998	\$ -	\$ 60
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget authority, Gross	\$ 138	\$ 121	\$ 15	\$ 121	\$ 123
Actual Offsetting Collections	-	(436)	-	(436)	-
Change in Uncollected Payments, Federal Sources	-	-	-	-	-
Recoveries of Prior-Year Paid Obligations	-	-	-	-	-
BUDGET AUTHORITY, NET	\$ 138	\$ (315)	\$ 15	\$ (315)	\$ 123
Gross Outlays	4,262	101	4,146	101	116
Actual Offsetting Collections	-	(436)	-	(436)	-
Net Outlays	4,262	(335)	4,146	(335)	116
Distributed Offsetting Receipts	(91)	-	(91)	-	-
AGENCY OUTLAYS, NET	\$ 4,171	\$ (335)	\$ 4,055	\$ (335)	\$ 116

Office of Financial Stability - Troubled Asset Relief Program

REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended September 30, 2016
 (Unaudited)
 COMBINED STATEMENT OF BUDGETARY RESOURCES

	2016				
	Combined		TARP Programs		TARP Administrative
	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts	Budgetary Accounts	Non-Budgetary Credit Reform Financing Accounts	Budgetary Accounts
Dollars in Millions					
BUDGETARY RESOURCES					
Unobligated Balance Brought Forward, October 1	\$ 8,366	\$ 150	\$ 8,159	\$ 150	\$ 207
Recoveries of Prior-Year Unpaid Obligations	2,031	1	2,001	1	30
Borrowing Authority Withdrawn	-	-	-	-	-
Actual Repayments of Debt, Prior-Year Balances	-	(1)	-	(1)	-
Canceled Authority	(80)	-	-	-	(80)
Other Changes in Unobligated Balances	(8,159)	-	(8,159)	-	-
Unobligated Balance from Prior-Year Budget Authority, Net	2,158	150	2,001	150	157
Appropriations	825	-	673	-	152
Borrowing Authority	-	72	-	72	-
Spending Authority from Offsetting Collections	-	722	-	722	-
TOTAL BUDGETARY RESOURCES (Note 11)	\$ 2,983	\$ 944	\$ 2,674	\$ 944	\$ 309
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (Total)	\$ 2,809	\$ 885	\$ 2,673	\$ 885	\$ 136
Unobligated Balance, End of Year:					
Apportioned, Unexpired Accounts	19	9	-	9	19
Unapportioned, Unexpired Accounts	1	50	1	50	-
Unexpired Unobligated Balance, End of Year	20	59	1	59	19
Expired Unobligated Balance, End of Year	154	-	-	-	154
Unobligated Balance, End of Year (Total)	174	59	1	59	173
TOTAL BUDGETARY RESOURCES	\$ 2,983	\$ 944	\$ 2,674	\$ 944	\$ 309
CHANGE IN OBLIGATED BALANCES					
Unpaid Obligations:					
Unpaid Obligations Brought Forward, October 1	\$ 19,582	\$ 1	\$ 19,459	\$ 1	\$ 123
New Obligations and Upward Adjustments	2,809	885	2,673	885	136
Gross Outlays	(5,100)	(885)	(4,961)	(885)	(139)
Recoveries of Prior-Year Unpaid Obligations	(2,031)	(1)	(2,001)	(1)	(30)
Unpaid Obligations, End of Year	15,260	-	15,170	-	90
Uncollected Payments from Federal Sources:					
Uncollected Payments Brought Forward, October 1	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Uncollected Payments	-	-	-	-	-
Uncollected Payments from Federal Sources, End of Year	-	-	-	-	-
OBLIGATED BALANCES (Net of Unpaid Obligations and Uncollected Payments Above)					
Obligated Balance, Net, Brought Forward, October 1	\$ 19,582	\$ 1	\$ 19,459	\$ 1	\$ 123
Obligated Balance, Net, End of Year	\$ 15,260	\$ -	\$ 15,170	\$ -	\$ 90
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget Authority, Gross	\$ 825	\$ 794	\$ 673	\$ 794	\$ 152
Actual Offsetting Collections	-	(742)	-	(742)	-
Change in Uncollected Payments, Federal Sources	-	-	-	-	-
Recoveries of Prior-Year Paid Obligations	-	-	-	-	-
BUDGET AUTHORITY, NET	\$ 825	\$ 52	\$ 673	\$ 52	\$ 152
Gross Outlays	\$ 5,100	\$ 885	\$ 4,961	\$ 885	\$ 139
Actual Offsetting Collections	-	(742)	-	(742)	-
Net Outlays	5,100	143	4,961	143	139
Distributed Offsetting Receipts	(855)	-	(855)	-	-
AGENCY OUTLAYS, NET	\$ 4,245	\$ 143	\$ 4,106	\$ 143	\$ 139

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Department of the Treasury

Office of Financial Stability

PART 3:

Other Information

(Unaudited)





Section A – Payment Integrity

Risk Assessment

The central purpose of the *Improper Payments Information Act of 2002* (IPIA, Pub. L. 107-300) is to enhance the accuracy and integrity of federal payments. To achieve this objective, IPIA provided an initial framework for federal agencies to identify the causes of and solutions for reducing improper payments.

On July 22, 2010, President Obama signed into law the *Improper Payments Elimination and Recovery Act of 2010* (IPERA, Pub. L. 111-204). IPERA amends IPIA, generally repeals the *Recovery Auditing Act* (31 USC §§3561-3567), and significantly increases agency payment recapture efforts by expanding the types of payments to be reviewed and lowering the dollar threshold of annual payments that requires agencies to conduct payment recapture audit programs. Agencies continue to be required to review their programs and activities periodically to identify those susceptible to significant improper payments. OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments" (A-123, Appendix C), amended October 20, 2014, defines "significant improper payments" as gross annual improper payments in a program exceeding both the threshold of 1.5 percent and \$10 million, or exceeding \$100 million regardless of the improper payment percentage. A-123, Appendix C, also requires agencies to review all programs with annual payments of \$1 million or more, if cost-effective.

OFS 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 2017 IPERA review per Treasury-wide guidance and did not assess any programs or activities as susceptible to significant improper payments.

Recapture of Improper Payment Reporting

In accordance with IPIA, as amended, and OMB Circular No. A-123, Appendix C, OFS performs and reports annually on its payment recapture program for all programs and payment activities that expend \$1 million or more, including contracts, benefits, and other payment types. During fiscal year 2017, OFS reviewed administrative and program payments totaling approximately \$4.2 billion. OFS does not have an improper payment recapture audit contingency contract or formal management improvement program in place. Instead, OFS performs both targeted post-award audits and improper payment recapture audits designed to identify erroneous payments, principally applying payment offsets for any identified erroneous payments. OFS has in place extensive annual audit and testing procedures to monitor administrative and program payments for errors. To date, these procedures have identified no significant erroneous payments or audit findings.

More specifically, with respect to administrative payments, OFS works externally with the Bureau of the Fiscal Service – Administrative Resource Center and Internal Revenue Service – Office of Treasury Procurement Services (OTPS) to support payment recapture reporting. Fiscal Service processes OFS's contract and administrative payments, including payments to OFS's financial agents. OTPS solicits, negotiates, and awards contracts on behalf of OFS. Both organizations have extensive payment recapture audit and improper payments reporting capabilities.

OFS performs extensive payment recapture audit activities to identify erroneous incentive payments under the MHA program. OFS ensures that the Investor Reporting 2 (IR/2) system, the MHA system of record, is configured to calculate incentive payments in accordance with program guidelines based on data provided by servicers. The MHA program

administrator performs a validation of all incentive payments which is then reconciled with OFS loan level payment and accounting files on a monthly basis. In addition, the MHA compliance agent performs post-award loan level reviews of MHA incentive payments to ensure validity in accordance with the MHA Handbook and Supplemental Directives issued by Treasury.

In conjunction with participating states' housing finance administrations, OFS also performs targeted payment recapture audit activities to detect and prevent erroneous payments under the HHF program.

OFS reports annually improper payments identified through its recapture audit activities. Improper payments, recapture audit results, and disposition of recaptured funds are disclosed within the U.S.

Department of the Treasury Agency Financial Report. In summary, OFS has a strong enterprise risk management and internal control environment in place to prevent, detect, and correct improper payments associated with its administrative and program payments.

IPERIA Do Not Pay Initiative

The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA, Pub. L. 112-248) was signed into law by the President on January 10, 2013, and also amends IPIA. It is important to note that Section 5 of IPERIA, regarding the “Do Not Pay” Initiative, is treated separately from Circular No. A-136 reporting requirements. Fiscal Service partnered with the Saint Louis and Kansas City Federal Reserve Banks to operate the “Do Not Pay Business Center” as part of a government-wide “Do Not Pay” solution. During fiscal year 2013, OFS implemented the “Do Not Pay” solution to monitor administrative disbursements to ensure, to the extent permitted by law, a thorough review of available databases with relevant information on eligibility occurs before the release of any federal funds. To date, the Fiscal Service “Do Not Pay” Business Center has not identified any potential OFS improper payments. Additional “Do Not Pay” analysis is disclosed within the U.S. Department of the Treasury Agency Financial Report.

Section B – Fraud Reduction and Data Analytics Act

Overview of the Act

Under the Fraud Reduction and Data Analytics Act of 2015 (P.L. 114-186, 31 USC 3321), each entity must disclose in its Agency Financial Report information pertaining to its fraud reduction efforts undertaken in fiscal year 2017 and the final quarter of fiscal year 2016.

These disclosures should include information on the entity's progress in implementing:

- financial and administrative controls pursuant to the Act;
- the fraud risk principle in the Standards for Internal Control in the Federal Government; and
- OMB Circular A-123 with respect to leading practices for managing fraud risk.

These disclosures should also include information on the entity's progress in:

- identifying risks and vulnerabilities to fraud (e.g., payroll, beneficiary payments, grants, large contracts, purchase and travel cards); and
- establishing strategies, procedures, and other steps to curb fraud.

Reporting

OFS has no confirmed fraud within its programs and activities.

OFS remains under significant scrutiny by various oversight bodies. OFS's Senior Assessment Team (SAT) routinely discusses risks, including those related to fraud, during its meetings. OFS's operational and accounting process are well-documented and relatively mature, most having been established over eight years ago. These processes consider fraud risk principles outlined within the Standards for Internal Control in the Federal Government. The remaining TARP investments are steadily being liquidated through planned, well-coordinated transactional events. There are established practices for initiating, approving, processing and recording payments to third parties, including those related to the TARP programs and for the TARP administration. During wind-down, OFS remains vigilant in ensuring its controls are adequate to prevent or detect fraud.

OFS disclosures required under the Act are included within the U.S. Department of the Treasury Agency Financial Report.

Section C – Reduce the Footprint

Overview of the Memorandum

Consistent with Section 3 of the OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, and OMB Management Procedures Memorandum 2015-01, the “Reduce the Footprint” implementation policy, all CFO Act entities must set annual targets to reduce the total square footage of their domestic inventory of

office and warehouse space compared to the Fiscal Year 2015 baseline.

Reporting

OFS disclosures required under the Memorandum are included within the U.S. Department of the Treasury Agency Financial Report.

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.

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.

Consolidated Appropriations Act, 2016: The law which included provisions that i.) the MHA program will terminate on December 31, 2016, except with respect to certain loan modification applications made before such date and ii.) allowed Treasury to commit an

additional \$2.0 billion in TARP funds to the HHF program.

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.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act): The law that limited Treasury's authority to purchase or guarantee troubled assets to a maximum of \$475.0 billion.

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.

Hardest Hit Fund (HHF): A TARP program to help 18 hardest hit states, plus the District of Columbia, to develop locally-tailored programs to assist struggling homeowners in their communities.

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.

Housing Finance Agencies (HFAs): State-charted authorities established to help meet the affordable housing needs of the residents of their states.

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.

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.

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 help prevent a systemic collapse.

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.

Contact Information

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Website Information

Treasury www.treasury.gov
Office of Financial Stability www.financialstability.gov
Making Home Affordable Program..... www.makinghomeaffordable.gov

Additional References

TARP Programs www.treasury.gov/initiatives/financial-stability/TARP-Programs/Pages/default.aspx
TARP Reports www.treasury.gov/initiatives/financial-stability/reports/Pages/default.aspx
TARP Tracker..... www.treasury.gov/initiatives/financial-stability/reports/Pages/TARP-Tracker.aspx
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