



The Department of the Treasury
CITIZENS' REPORT

Office of Financial Stability – Troubled Asset Relief Program

FISCAL YEAR 2015

THE TREASURY OF
THE UNITED STATES



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MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCIAL STABILITY

November 23, 2015

I am pleased to present the Office of Financial Stability's (OFS) Citizens' Report for the Fiscal Year 2015. This report describes our financial and performance results for the seventh year of the Troubled Asset Relief Program (TARP). 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 the 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.

Today, it is generally agreed that as a result of the forceful and coordinated response by the federal government through TARP and many other emergency programs, we helped avert what could have been a devastating collapse of our financial system. Although we are still repairing the damage from the crisis and many families still face challenges on a daily basis, the financial system is much more stable and our economy is growing, albeit not as fast as we would like. Credit is more available than would otherwise be the case for families, businesses, and local governments; banks are better capitalized; and we are implementing reforms to address the underlying causes of the crisis.

OFS has made significant progress towards winding down TARP investments. As of September 30, 2015, 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 AIG. Here is where we stand concerning the four categories of TARP investment programs:

- **Banking Programs.** OFS has collected more than \$275.4 billion (including \$339 million collected in fiscal year 2015) for all TARP bank support programs through repayments, sales, dividends, interest, and other income, compared to \$245.5 billion invested. As of September 30, 2015, \$714 million in banking program investments remained outstanding, primarily in community banks, and OFS is continuing to wind down these investments through repurchases by banks and asset sales.
- **Credit Market Programs.** OFS has completed the wind-down of all of the TARP credit market programs, including investments made under the Public-Private Investment Program (PPIP), Term Asset-Backed Securities Loan Facility (TALF) program, and the SBA 7(a) Securities Purchase Program. As of the end of fiscal year 2015, OFS has collected \$23.6 billion compared to \$19.1 billion disbursed under these programs.
- **Auto Industry Financing Program.** In December 2014, OFS completed the wind-down of the Auto Industry Finance Programs (AIFP) with the sale of its remaining 55 million shares of Ally Financial. In total, OFS collected \$70.5 billion through sales, repayments, dividends, interest, recoveries, and other income, compared to \$79.7 billion disbursed under the program.
- **American International Group.** In fiscal year 2013, OFS exited all remaining holdings in the American International Group, Inc. (AIG). During the financial crisis, the peak amount of assistance committed by OFS and the Federal Reserve to prevent the collapse of AIG totaled

\$182.3 billion, a portion of which was later canceled. As a result of the combined efforts of AIG, Treasury, and the Federal Reserve, \$22.7 billion in excess of the total of funds disbursed to AIG was recovered through sales and other income. Of the \$67.8 billion total disbursed to AIG by OFS, TARP's cumulative net collections from repayments, sales, dividends, interest, and other income related to AIG assets totaled \$55.3 billion. Treasury's non-TARP AIG shares generated proceeds in excess of cost of \$17.5 billion, resulting in net proceeds in excess of cost of \$5.0 billion for Treasury as a whole.

While OFS carefully winds down the investment programs under TARP, we are continuing to implement and enhance the TARP Housing Programs to continue helping struggling homeowners avoid foreclosure, primarily through mortgage modifications and other forms of direct assistance. These programs (which include the government sponsored enterprises (GSE) programs) have also created new mortgage modification and consumer protection standards that have helped transform the mortgage servicing industry. During the past fiscal year, the Obama administration made a number of changes to strengthen the Making Home Affordable Program (MHA), including increasing borrower incentives and reducing documentation requirements, that will help more families qualify for MHA assistance.

The financial and performance data contained in this report are reliable and complete. For the seventh consecutive year, OFS has earned unmodified opinions from the Government Accountability Office (GAO) on its financial statements for TARP, and its internal control over financial reporting for TARP.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Mark McArdle', with a long horizontal flourish extending to the right.

Mark McArdle
Deputy Assistant Secretary for Financial Stability

Background and OFS Organization Structure

Background

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>

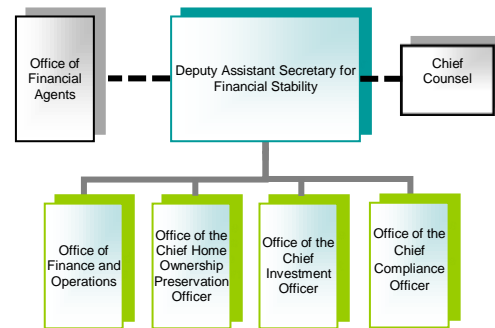
In addition, Section 109 of EESA provides authority to assist homeowners.

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 billion to a cumulative \$475 billion. OFS’s authority to make new commitments under TARP expired on October 3, 2010. OFS is carefully managing the disposition of TARP financial assets to recover OFS’s outstanding investments while continuing to implement initiatives to help struggling homeowners avoid foreclosure.

OFS Organization Structure

OFS is currently headed by the Deputy Assistant Secretary for Financial Stability. Reporting to the Deputy Assistant Secretary are four major organizations: the Office of Finance and Operations, the Office of the Chief Home Ownership Preservation Officer, the Office of the Chief Investment Officer, and the Office of the Chief Compliance Officer. A Chief Counsel’s Office and an Office of Financial Agents also reports to the Deputy Assistant Secretary as well as to other Departmental Officers.

The OFS organization chart follows:



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, 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 years 2015 and 2014.

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

Banking Support Programs

OFS disbursed a total of \$245.5 billion under the various TARP bank programs. As of September 30, 2015, OFS has collected more than \$275.4 billion through repayments, dividends, interest, warrant sales, and other income, representing \$29.9 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 (CPP)

In fiscal year 2015, OFS continued to make substantial progress winding down the CPP according to its three-pronged exit strategy. 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, 2015, OFS has received \$199.6 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 \$226.6 billion. As of September 30, 2015, \$268 million in CPP gross investments remained outstanding in 19 institutions.

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.

Throughout fiscal year 2015, OFS continued to implement the CPP exit strategy by periodically selling preferred stock and subordinated debt in CPP participants through private auctions. OFS held two preferred placement auctions with combined net proceeds of \$50 million during fiscal year 2015 compared to six auctions with \$289 million in net proceeds in fiscal year 2014. During fiscal year 2015 and 2014, 22 and 62 investments were repurchased or sold for a total of \$148 million and \$1.5 billion, respectively.

Another component of OFS's exit strategy for the CPP is to restructure certain investments in limited cases. 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.

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 held one warrant auction in fiscal year 2015, with net proceeds of \$49 million. As of September 30, 2015, OFS has collected \$8.1 billion in net proceeds from the sale of warrants since inception.

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

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

Community Development Capital Initiative (CDCI)

Unlike the CPP, OFS did not take substantial actions during fiscal year 2015 to wind down the CDCI because of the unique circumstances facing participating institutions. In particular, many CDCI participants lack the same access to capital markets that CPP institutions have, making it more challenging for them to repay the TARP investments in their institutions.

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 (nearly \$356 million from principal and nearly \$8 million from warrants) represented exchanges by 28 CPP institutions converting into the CDCI. During fiscal years 2015 and 2014, OFS collected a total of \$28 million and \$20 million, respectively, in repayments, dividends, and interest from institutions in the CDCI program. As of September 30, 2015, \$446 million in CDCI investments remained outstanding.

OFS will continue to closely monitor the performance of the CDCI and make decisions regarding the program's wind-down at a later date. Additional information on CDCI, including details on the program's purpose, overview, and status can be found at the following website:

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

Credit Market Programs

OFS has now 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 through September 30, 2015.

Public Private Investment Program (PPIP)

OFS completed the wind-down of the PPIP during fiscal year 2015, with no debt or equity investments outstanding after the final outstanding equity repayment was made in June 2013. During fiscal year 2015, OFS received the final termination notice and distribution from the one remaining Public Private Investment Fund (PPIF) for a total of \$63,311. From inception of the program through September 30, 2015, OFS has received \$2.4 billion in interest and investment income and \$1.5 billion in net proceeds in excess of cost. The total of \$22.5 billion of repayments, sales, and investment income exceeds the original investment by \$3.9 billion.

Additional information on PPIP, including details on fund performance can be found at the following website:

<http://www.treasury.gov/initiatives/financial-stability/reports/Pages/Public-Private-Investment-Program-Quarterly-Report.aspx>

Term Asset-Backed Securities Loan Facility (TALF)

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). After subsequent reductions in OFS's commitments in 2013, the commitment was \$100 million – the initial loan amount disbursed by OFS to fund the TALF, LLC.

During fiscal year 2013, OFS's original \$100 million loan disbursed was fully repaid with interest. As of September 30, 2015, all TALF loans provided by FRBNY have been repaid in full and the program is closed. Since inception, accumulated income earned from investments in TALF, LLC totaled \$685 million, including \$39 million in fiscal year 2015.

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

<http://www.treasury.gov/initiatives/financial-stability/TARP-Programs/credit-market-programs/talf/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, 2015, OFS has collected \$70.5 billion through sales, repayments, dividends, interest, recoveries, and other income under this program.

OFS invested \$17.2 billion in Ally Financial – formerly known as GMAC – \$16.3 billion in initial GMAC investments and an \$884 million loan to Old GM on behalf of GMAC.

OFS took significant action in fiscal years 2015 and 2014 to exit its remaining investment in Ally Financial. During fiscal year 2014, OFS sold Ally common stock through a private offering, an initial public offering, and a series of pre-arranged written trading plans. OFS held 55 million shares of Ally common stock after the last trading plan, which ended in October 2014. In December 2014, OFS sold all of its remaining shares in Ally Financial generating cumulative receipts of \$19.6 billion or \$2.4 billion in proceeds in excess of cost.

During fiscal year 2015, OFS collected \$100 million in recoveries from the Old Carco Liquidation Trust, set up in accordance with the plan of liquidation for the debtors of Old Chrysler.

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

<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 (MHA)

Consistent with OFS's goal of continuing to help struggling homeowners find solutions to avoid foreclosure wherever possible, OFS is continuing to implement the MHA program and to reach as many homeowners as possible. As of September 30, 2015, 77 servicers are participating in Treasury's MHA program for non-GSE loans. As of September 30, 2015, OFS has commitments to fund up to \$29.8 billion in MHA payments and has disbursed \$12.2 billion since inception.

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

MHA performance highlights for fiscal year 2015 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 the Home Affordable Modification Program (HAMP). HAMP offers eligible homeowners at risk of foreclosure the opportunity to obtain reduced monthly mortgage payments that are affordable and sustainable over the long-term.

As of September 30, 2015, approximately 1.5 million homeowners have received permanent modifications through HAMP.² Homeowners participating in HAMP have collectively experienced nearly a 35 percent median reduction in their mortgage payments—representing more than \$481 per month. MHA has also encouraged the mortgage industry to adopt similar programs that have helped millions more at no cost to taxpayers by establishing standards and best practices for loss mitigation evaluations.

In fiscal year 2015, OFS made changes to MHA programs to better assist homeowners avoid foreclosure and create a safety net for borrowers facing rate step-ups in a HAMP modification. Specifically, OFS enhanced borrower pay-for-performance incentives; required servicers to offer to recast a borrower's loan which provides payment relief; reduced the HAMP Tier 2 interest rate; and increased borrower relocation assistance for Home Affordable Foreclosure Alternative (HAFA) short sale or deed-in-lieu transactions. In addition, OFS announced a streamlined modification process under HAMP in July 2015 to assist homeowners who are seriously delinquent and have not completed a HAMP application.

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

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

²Includes modifications on both non-GSE loans and GSE loans. 923,226 of these modifications were OFS funded consisting of 893,568 non-GSE modifications and 29,658 GSE modifications.

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

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

In fiscal year 2015, state HFAs continued to adapt their programs to best meet borrower needs in evolving economic and housing markets. A total of fifteen HFAs now offer principal reduction to induce a loan modification, refinance, or recast. In addition, Alabama, Tennessee, and South Carolina joined Illinois, Indiana, Ohio, and Michigan in allocating a portion of their HHHF funds to blight elimination in an effort to stabilize neighborhoods and prevent foreclosures. Finally, Florida, Illinois, and North Carolina 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, 2015, the 19 HFAs have collectively drawn approximately \$5.7 billion (75 percent) of the \$7.6 billion allocated under the program. For fiscal years 2015 and 2014, this program has disbursed \$1.3 billion and \$1.6 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, 2017 to enter into agreements with borrowers. As of September 30, 2015, seven HFAs had stopped accepting new applications for assistance in anticipation of full commitment of program funds: the District of Columbia, Illinois, New Jersey, Ohio, Oregon, Rhode Island and Tennessee.

Each HFA submits a quarterly report on the progress of its program. 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:

<http://www.treasury.gov/initiatives/financial-stability/reports/Documents/FINAL%20Q1%202014%20Hardest%20Hit%20Fund%20Program%20Performance%20Summary.pdf>

Additional information on the Hardest Hit Fund, including details on the program's purpose, overview, and status can be found at the following website:

<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 Federal Housing Administration Refinance Program (FHA Refinance), 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, in order to fund a share of the losses associated with this program (subsequently reduced to \$100 million as of

fiscal year 2015 due to low utilization). As of September 30, 2015, FHA has guaranteed 6,639 refinance loans with a total face value of almost \$955 million, of which, 4,156 loans are subject to OFS coverage with a face value of \$611 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 2015 and 2014 to dispose of OFS's outstanding investments in a manner that balances the desire to exit these investments as quickly as practicable with maximizing returns on behalf of 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 must comply with restrictions on payment of dividends and on repurchases of junior securities. Recipients of exceptional assistance were required to comply with additional restrictions on executive compensation, lobbying, and corporate expenses. Ally Financial was the last such recipient, but is no longer subject to these restrictions since December 2014.

OFS also performs periodic reviews of the 19 HFAs participating in the HHF program, to evaluate each HFA's ongoing compliance with their contractual agreement with OFS, as well as compliance with HHF 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 performed 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 86% 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.

Beginning with the second quarter 2015, OFS transitioned to the 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.

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

All of this information, along with numerous reports of different frequencies, 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 seventh OFS Agency Financial Report (AFR), which includes the audited financial statements for the fiscal years ended September 30, 2015 and September 30, 2014. Additional reports for prior periods are available at:

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

In its seven years of operation, TARP's financial statements have received seven unmodified audit opinions from its auditor, the GAO.

TARP Tracker

During fiscal year 2013, OFS launched an expanded version of its existing TARP Tracker, which is an online, interactive tool that allows users to track the flow of TARP funds in greater detail over the lifetime of each individual TARP investment area. The expanded capability allows users to view each investment area separately to get a clearer sense of what has occurred in a particular program, including 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;
- 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>

Fiscal Year 2015 and 2014 Financial Summary and Cumulative Net Income

OFS's fiscal year 2015 net cost of operations of \$4.4 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, 2015, OFS reported net subsidy income for 6 programs – [CPP, CDCI, PPIP, TALF, AIFP, and FHA-Refinance]. These programs collectively reported net subsidy income of \$0.2 billion. Fiscal year 2015 expenses for the Treasury housing programs under TARP are \$4.5 billion and administrative costs are \$146 million. For the fiscal year ended September 30, 2014, the net cost of operations was \$3.0 billion. These net cost amounts reported in the financial statements reflect only transactions through September 30, 2015 and September 30, 2014, respectively, 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, 2015. 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, 2015, 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, 2015

(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	\$ (199,560) ⁵	\$ (5,067)	\$ 268	\$ 27,080
Targeted Investment Program	40,000	40,000	(40,000)	0	0	4,432
Asset Guarantee Program	5,000	-	-	-	-	4,126
Community Development Capital Initiative	570	570	(117)	(7)	446	52
Credit Market Programs						
Public Private Investment Program	18,625	18,625	(18,625)	0	0	3,852
Term Asset-Backed Securities Loan Facility	100	100	(100)	0	0	685
SBA 7(a) Securities Purchase Program	367	367	(363)	(4)	0	13
Other Programs						
Automotive Industry Financing Program	79,692	79,692	(63,037)	(16,655)	0	7,502
American International Group Investment Program ³	67,835	67,835	(54,350)	(13,485)	0	959
Sub-total for Investment Programs	417,085	412,085	(376,153)	(35,218)	714	48,700
Treasury Housing Programs under TARP	37,507 ⁴	17,991	N/A	N/A	N/A	-
Total for TARP Program	\$ 454,591	\$ 430,075	\$ (376,153)	\$ (35,218)	\$ 714	\$ 48,700

¹ This table shows TARP activity for the period from inception through September 30, 2015, 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 \$29.8 billion for the Making Home Affordable Program, \$7.6 billion for the Hardest Hit Fund, and \$125 million committed for the FHA-Refinance Program.

⁵ Includes \$2.2 billion of 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 in the financial statements within "net proceeds from sales and repurchases of assets in excess of (less than) cost".

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, 2015 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. OFS plans to continue to sell its investments in banks that are not expected to repay OFS in the foreseeable future. These sales are being conducted over time and in stages and include both common and preferred stock and debentures. During fiscal years 2015 and 2014, OFS sold its investments in 8 and 31 banks for combined principal receipts of \$49 million and \$263 million, respectively, through individual private auctions. These auctions resulted in net proceeds less than cost of \$32 million and \$73 million for those investments during fiscal years 2015 and 2014, respectively.

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, 2015, OFS has received \$9.6 billion in gross proceeds from the disposition of warrants associated with 241 investments in 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 2015 and 2014. 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, 2015 and 2014. The Estimated Value of the 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 \$232 million (2015) and \$679 million (2014) between the two columns is considered the "subsidy cost allowance" under the Federal Credit Reform Act methods OFS follows for budget and accounting purposes.

Table 2: Summary of TARP Equity Investments

(Dollars in millions)

Program	Outstanding Balance as of September 30, 2015 ¹	Estimated Value of Investment as of September 30, 2015	Outstanding Balance as of September 30, 2014 ¹	Estimated Value of Investment as of September 30, 2014
Bank Support Programs				
Capital Purchase Program	\$ 268	\$ 99	\$ 625	\$ 281
Community Development Capital Initiative	446	383	465	410
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	1,763	1,483
American International Group Investment Program	0	0	0	0
Total	\$ 714	\$ 482	\$ 2,853	\$ 2,174

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 adjusted for market risk.

Comparison of Estimated Lifetime TARP Costs over Time

Market conditions and the performance of specific financial institutions are critical determinants of TARP's estimated lifetime cost. The changes in OFS estimates since TARP's inception through September 30, 2015, 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 table assumes that all expected investments and disbursements for Treasury housing programs under TARP are completed, and adhere to general government budgeting guidance. 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
Bank Support Programs							
Capital Purchase Program	(\$14.6)	(\$11.2)	(\$13.0)	(\$14.9)	(\$16.1)	(\$16.1)	(\$16.3)
Targeted Investment Program	(1.9)	(3.8)	(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)
Community Development Capital Initiative	0.4	0.3	0.2	0.2	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)
Term Asset-Backed Securities Loan Facility	(0.3)	(0.4)	(0.4)	(0.5)	(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
Other Programs							
Automotive Industry Financing Program	34.5	14.7	23.6	24.3	14.7	12.2	12.1
American International Group Investment Program ³	56.8	36.9	24.3	15.3	15.2	15.2	15.2
Subtotal	74.1	32.1	24.6	14.1	2.6	0.1	(0.2)
Treasury Housing Programs under TARP ⁴	50.0	45.6	45.6	45.6	37.7	37.4	37.4
Total	\$124.1	\$77.7	\$70.2	\$59.7	\$40.3	\$37.5	\$37.2

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 represent the total commitment except for the FHA Refinance Program, which is accounted for under credit reform. The estimated lifetime cost of the FHA Refinance Program 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.

Appendix A: TARP Glossary

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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www.FinancialStability.gov
www.MAKINGHOMEAFFORDABLE.gov

Additional References:

Monthly Reports to Congress

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

The Financial Crisis Response in Charts – April 2012

http://www.treasury.gov/resource-center/data-chart-center/Documents/20120413_FinancialCrisisResponse.pdf

Anniversary Reports

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

Agency Financial Reports, including 2015, 2014, 2013, 2012, 2011, 2010 and 2009:

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

Housing Scorecard:

http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard

Making Home Affordable Monthly Reports:

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



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