Part 2
Agency Financial Statements

Message from the Chief Financial Officer

I am very pleased to submit the Office of Financial Stability's (OFS) Annual Financial Report for FY 2009. This report provides our stakeholders with meaningful financial results and program performance as required by the Emergency Economic Stabilization Act (EESA) and the Reports Consolidation Act. The unqualified audit opinion provided by our auditor, the Government Accountability Office (GAO), on these financial statements represents an extraordinary achievement by OFS and Treasury staff. The support of our contractors, staff at the Office of Management and Budget and the GAO audit team was invaluable to this success. I am exceptionally proud and appreciative of the effort and commitment made by everyone involved.

Under the EESA authority as described throughout this report, the government made unprecedented investments in private entities through the Troubled Asset Relief Program (TARP). The unique features of the EESA programs, as well as the statutory requirement that the budgetary cost of the programs be determined under the standards of the Federal Credit Reform Act (FCRA), adjusted for market risk, meant that the OFS had to navigate unchartered ground in Federal budget and accounting concepts. For these and related reasons, creating the accounting and reporting infrastructure and internal control environment to support the development of the first year financial statements for the TARP, was an extraordinary challenge.

As a start up organization with an unprecedented emergency mission to stabilize the nation's financial system, the OFS moved swiftly to develop and implement eight new programs. The face value of the amounts obligated for these programs in FY 2009 totaled $454 billion, nearly as much as the entire combined FY 2008 Federal non-defense discretionary outlays. OFS's budget, accounting, and financial reporting policies and operations had to be designed and executed simultaneously with the establishment of the new programs. OFS was able to leverage a number of Treasury's existing financial management systems and resources, but also had to develop procedures, reports, models, and methodologies from scratch.

All of the TARP initiatives except for the housing program are loans, guarantees or investments and are accounted for using FCRA methods of net present value for budgeting and financial reporting. Cost models (or "subsidy" models as they are called under FCRA) had to be developed for all of the programs and unique transactions. Never before has a Federal entity created as many subsidy cost models in such a short period made even more difficult by the vastness and complexity of TARP's programs. While we and GAO identified some non-material errors and opportunities for improvements in the models and processes, overall the results were outstanding, given the magnitude of the effort required this year. Because the credit and investment programs constitute the vast majority of OFS's financial activity, continuing to build a very strong internal control process and high quality, state of the art subsidy cost models is a top priority for us.

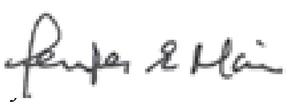
A consistent focus on internal control was a mainstay of the OFS's efforts. From the first transactions in October, 2008, 23 days after passage of EESA, OFS instituted comprehensive controls around the highest risk elements of the transaction lifecycle – for example the disbursement and receipt of funds and receipt of appropriate consideration such as preferred shares and warrants associated with a transaction. OFS aggressively used prototyping to establish an effective process design, cross-functional meetings to ensure cohesion across areas, and real time control monitoring of all transactions to improve accuracy in execution. We focused on core controls such as appropriate levels of authorization and reconciliation of critical transaction information. Over the course of the year, we were able to maturate much of our internal control capacity from heavily monitored, individual transactions, to documented, repeated processes with embedded control monitoring, automated control evidence collection, and ongoing control testing.

Finally, OFS implemented the internal control requirements for financial reporting under Appendix A of OMB Circular A-123. OFS staff within the Office of the Chief Financial Officer worked closely with the program and other support offices to develop a comprehensive sub-certification and review process supporting management's interim and final assurance statements.

Looking ahead, we plan to continue improving our financial management capacity, including strengthening our financial reporting processes, developing additional or enhancing existing documentation supporting our policies, and formalizing our financial data management approach. We will be actively addressing GAO's audit findings and look forward to building on our successes this year to resolve the outstanding issues identified in this audit.

Successfully preparing the first year financial statements for the programs developed under the EESA required extraordinary dedication and commitment. It has been a privilege to lead this effort and I want to extend my thanks to the many people who contributed to making this endeavor successful.

Thank you for your interest in our FY 2009 Annual Financial Report.



Chief Financial Officer

Government Accountability Office (GAO)'s Report on FY 2009 Financial Statements

G A O
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

To the Assistant Secretary for Financial Stability

In accordance with the Emergency Economic Stabilization Act of 2008 (EESA),[1] we are required to audit the financial statements of the Troubled Asset Relief Program (TARP), which is implemented by the Office of Financial Stability (OFS).[2] In our audit of OFS's financial statements for TARP for the period from October 3, 2008, (date of OFS's inception) through September 30, 2009, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009; and
- no reportable noncompliance in the period ended September 30, 2009, with provisions of laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusion on Management's Discussion and Analysis (MD&A) and other required supplementary and other accompanying information; (3) our audit objectives, scope, and methodology; and (4) OFS's comments on a draft of this report. In addition to our responsibility to audit OFS's annual financial statements for TARP, we also are required under EESA to report at least every 60 days on the findings resulting from our oversight of the actions taken under TARP.[3] This report responds to both of these requirements. We

[1]Section 116(b) of EESA, 12 U.S.C. § 5226(b), requires that the Department of the Treasury (Treasury) annually prepare and submit to Congress and the public audited fiscal year financial statements for TARP that are prepared in accordance with generally accepted accounting principles. Section 116(b) further requires that GAO audit TARP's financial statements annually in accordance with generally accepted auditing standards.

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

[3]Section 116 of EESA, 12 U.S.C. § 5226, requires the U.S. Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

have issued numerous other reports on TARP in connection with this 60-day reporting responsibility which can be found on GAO's Web site at http://www.gao.gov.

Opinion on Financial Statements

OFS's financial statements for TARP, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, OFS's assets, liabilities, and net position as of September 30, 2009, and its net cost, changes in net position, and budgetary resources for the period from October 3, 2008, (date of OFS's inception) through September 30, 2009.

As discussed in notes 2 and 6 to OFS's financial statements for TARP, the valuation of TARP direct loans, equity investments, and asset guarantees is based on estimates using economic and financial credit subsidy models. The estimates use entity-specific as well as relevant market data as the basis for assumptions about future performance, and incorporate an adjustment for market risk to reflect the variability around any unexpected losses. In valuing the direct loans, equity investments, and asset guarantees, OFS management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated subsidy allowance and related subsidy costs reported in the financial statements.[4] However, there are a large number of 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 transactions associated with the multiple initiatives undertaken for TARP and the lack of historical program experience upon which to base the estimates. As such, there will be differences between the net estimated values of the direct loans, equity investments, and asset guarantees as of September 30, 2009, that totaled $239.7 billion, and the amounts that OFS will ultimately realize from these assets, and such differences may be material. These differences will also affect the ultimate cost of TARP. Further, the ultimate cost will change as

[4]The subsidy allowance represents the difference between the amounts paid by OFS to acquire the direct loans and equity investments and the reported value of such assets. The subsidy cost is composed of (1) the subsidy cost allowance, (2) net intragovernmental interest cost, (3) certain inflows from the direct loans and equity investments (e.g., dividends, interest, proceeds from repurchase of warrants by financial institutions, and other realized fees), and (4) the estimated discounted net cash flows related to the Asset Guarantee Program.

OFS continues to purchase troubled assets and incur related subsidy costs as well as incur costs under other TARP initiatives.[5] OFS's authority to purchase or insure additional troubled assets expires on December 31, 2009, but may be extended by the Secretary of the Treasury to up to October 3, 2010.[6]

As discussed in note 1 to the financial statements, while OFS's financial statements reflect activity of OFS in implementing TARP, including providing resources to various entities to help stabilize the financial markets, the statements do not include the assets, liabilities, or results of operations of commercial entities in which OFS has a significant equity interest. According to OFS officials, OFS's investments were not made to engage in the business activities of the respective entities and OFS has determined that none of these entities meet the criteria for a federal entity.

Opinion on Internal Control

Although certain internal controls could be improved, OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

[5] Under EESA, as amended, OFS is authorized to purchase or insure up to almost $700 billion in troubled assets.

[6] Section 120 of EESA, 12 U.S.C. § 5230, established that the authorities under Sections 101(a), excluding Section 101(a)(3), and Section 102, shall terminate on December 31, 2009. Section 120 of EESA further established that the Secretary of the Treasury, upon submission of a written certification to Congress, may extend the authority provided under these sections of EESA to expire no later than 2 years from the date of the enactment of EESA (Oct. 3, 2008).

We identified two significant deficiencies[7] in OFS's internal control over financial reporting, which although not material weaknesses, are important enough to merit management's attention. These deficiencies, described in more detail later in this report, concern OFS's (1) accounting and financial reporting processes, and (2) verification procedures for data used for asset valuations.

We will be reporting additional details concerning these significant deficiencies separately to OFS management, along with recommendations for corrective actions. We also identified other deficiencies in OFS's system of internal control that we consider not to be material weaknesses or significant deficiencies. We have communicated these matters to management and, where appropriate, will report on them separately.

Significant Deficiencies

Since its creation on October 3, 2008, OFS has made significant progress in building a financial reporting structure, including developing an internal control system over TARP activities and transactions and addressing key accounting and financial reporting issues necessary to enable it to prepare financial statements, and receive an audit opinion on those statements, for the period ended September 30, 2009. However, OFS's financial reporting structure continued to evolve throughout the year as new TARP programs were implemented, which posed a challenge to OFS's ability to establish a comprehensive system of internal control while simultaneously reacting to market events and implementing TARP initiatives. This challenge contributed to the following two significant deficiencies in OFS's internal control that we identified.

Accounting and Financial Reporting Processes

While OFS had developed and implemented controls over TARP transactions and activities, we identified several control deficiencies that collectively represented a significant deficiency in OFS's internal control

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

over its accounting and financial reporting processes. Specifically, OFS did not effectively implement its review and approval process for preparing its financial statements and related disclosures for TARP. We identified incorrect amounts and inaccurate, inconsistent, and incomplete disclosures in OFS's draft financial statements, footnotes, and MD&A for TARP that were significant, but not material, and that were not detected by OFS. OFS revised the financial statements, footnotes, and MD&A to address the issues that we identified. In addition, OFS had not finalized its procedures related to its processes for accounting for certain program transactions, preparing its September 30, 2009, financial statements, and its oversight and monitoring of financial-related services provided to OFS by asset managers and certain financial agents. Further, OFS did not have proper segregation of duties over a significant accounting database it uses in valuing its assets in that the same individual was responsible for performing both the data entry and the reconciliation of the data output. However, OFS had other controls over TARP transactions and activities that reduced the risk of misstatements resulting from these deficiencies. Properly designed and implemented controls over the accounting and financial reporting processes are key to providing reasonable assurance regarding the reliability of the balances and disclosures reported in the financial statements and related notes in conformity with generally accepted accounting principles.

Verification Procedures for Data Input for Asset Valuations

OFS did not effectively implement its verification procedures for certain assumptions and related data that were input into the economic and financial credit subsidy models used for the valuation of TARP direct loans, equity investments, and asset guarantees. Specifically, we identified data input errors to the estimation models, such as incorrect dividend rates and maturity dates, that were not detected by OFS's verification procedures. Significant errors that we identified were corrected and amounts were properly reflected in the September 30, 2009, financial statements. OFS did perform procedures to assess the reasonableness of the model outputs, including comparison of the asset valuations calculated by the model with independently performed valuations. We believe that these procedures reduced the risk of misstatements resulting from the data input errors. Nonetheless, we believe the ineffective implementation of data input verification procedures represents a significant deficiency in OFS's internal control warranting management's attention. Effective verification of data inputs used in the subsidy models is key to providing reasonable assurance that the asset valuations and related subsidy cost are reliably reported in the financial statements.

Compliance with Laws and Regulations

Our tests of OFS's compliance with selected provisions of laws and regulations for the period ended September 30, 2009, disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

OFS's MD&A, other required supplementary information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We did not audit and we do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with OFS officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or the form and content guidance in Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*.

Objectives, Scope, and Methodology

OFS management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing and maintaining effective internal control over financial reporting, and evaluating its effectiveness; and (3) complying with applicable laws and regulations. Management evaluated the effectiveness of OFS's internal control over financial reporting as of September 30, 2009, based on the criteria established under FMFIA. OFS management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) OFS's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) OFS management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and (2) performing limited procedures with respect to certain other information accompanying the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting;
- considered OFS's process for evaluating and reporting on internal control over financial reporting that OFS is required to perform by FMFIA and Section 116(c) of EESA;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
- tested relevant internal control over financial reporting;
- tested compliance with selected provisions of the following laws and regulations: EESA, as amended; the Antideficiency Act, as amended; the Federal Credit Reform Act of 1990; and the Purpose Statute; and
- performed such other procedures as we considered necessary in the circumstances.

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

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to OFS. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for the period ended September 30, 2009. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

Agency Comments

In commenting on a draft of this report, the Assistant Secretary, Office of Financial Stability, stated OFS concurred with the two significant deficiencies in its internal control over financial reporting that GAO identified. He also stated that OFS is committed to correcting the deficiencies. The complete text of OFS's comments is reprinted in appendix II.

Gary T. Engel

Gary T. Engel
Director
Financial Management and Assurance

December 4, 2009

Assistant Secretary's Response to GAO Report on FY 2009 Financial Statements

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 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 the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

OFS management is responsible for establishing and maintaining effective internal control over financial reporting. OFS management evaluated the effectiveness of OFS' internal control over financial reporting as of September 30, 2009, 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, 2009, OFS' internal control over financial reporting was effective.

Office of Financial Stability

Herbert M. Allison Jr.
Assistant Secretary for Financial Stability

Jennifer E. Main
Chief Financial Officer

December 4, 2009

Appendix II

Comments from the Office of Financial Stability

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

December 7, 2009

Mr. Gary T. Engel
Director, Financial Management and Assurance
U.S. Government Accountability Office

Dear Mr. Engel:

We have reviewed the draft Independent Auditor's Report concerning your audit of the Office of Financial Stability's fiscal year 2009 financial statements. As an organization in its first year executing complex programs unique in the Federal government, OFS is very proud to receive an unqualified opinion on our financial statements and an unqualified opinion on management's assertion that our internal controls were operating effectively. We are also proud that there were no reportable instances of noncompliance with laws or regulations.

Your audit report did identify two significant deficiencies in internal control in the areas of 1) accounting and financial reporting processes, and 2) verification procedures for data input into the credit subsidy models used for valuing loans, equity investments, and asset guarantees. We concur with these findings and are committed to pursuing remediation plans until the deficiencies are corrected.

We know that your audit team faced many of the same challenges we did in preparing these first year financial statements. We appreciated the professionalism and commitment demonstrated by your staff throughout the audit process. The audit 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 (TARP).

Sincerely,

Herbert M. Allison

Herb Allison
Assistant Secretary
Office of Financial Stability

Financial Statements

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

While these financial statements reflect activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include, as more fully discussed in Note 1, the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest. In addition, comparative information is not available because OFS began operations on October 3, 2008.

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

The Statement of Net Cost shows the net cost of operations for the reporting period.

The Statement of Changes in Net Position presents the OFS ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position. 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 at the end of the reporting period.

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
BALANCE SHEET
As of September 30, 2009

Dollars in Millions		
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 4)	$	97,733
Troubled Asset Relief Program:		
Direct Loans and Equity Investments, Net (Note 6)		237,892
Asset Guarantee Program (Note 6)		1,765
Total Assets	**$**	**337,390**
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable and Other Liabilities	$	5
Principal Payable to the Bureau of the Public Debt (Note 8)		143,335
Due to the General Fund (Note 3)		109,748
Total Intragovernmental Liabilities	$	253,088
Accounts Payable and Other Liabilities		73
Liability for Home Affordable Modification Program (Note 5)		1
Total Liabilities	**$**	**253,162**
Commitments and Contingencies (Note 7)		
NET POSITION		
Unexpended Appropriations	$	84,229
Cumulative Results of Operations		(1)
Total Net Position	$	84,228
Total Liabilities and Net Position	$	337,390

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

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
STATEMENT OF NET COST
For the Period Ended September 30, 2009

Dollars in Millions		
Gross Cost:		
Subsidy Cost (Note 6)		
Direct Loan and Equity Investments Program	$	43,605
Asset Guarantee Program		(2,201)
Total Program Subsidy Costs		41,404
Interest Expense on Borrowings from the Bureau of the Public Debt (Note 8)		6,436
Home Affordable Modification Program (Note 5)		2
Administrative Cost		167
Total Gross Cost	$	**48,009**
Less Earned Revenue:		
Dividend and Interest Income - Programs (Note 6)	$	(9,503)
Interest Income on Fianancing Account		(3,649)
Subsidy Allowance Amortized (Note 9)		6,716
Net Earned Revenue	$	**(6,436)**
Total Net Cost of Operations	$	**41,573**

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

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
STATEMENT OF CHANGES IN NET POSITION
For the Period Ended September 30, 2009

Dollars in Millions	Unexpended Appropropations	Cumulative Results of Operations
Beginning Balances, at Inception	$ —	$ —
Budgetary Financing Sources		
Appropriations Received	238,268	—
Appropriations Used	(154,039)	154,039
Other Financing Sources	—	(112,467)
Total Financing Sources	84,229	41,572
Net Cost of Operations	—	(41,573)
Ending Balances	$ 84,229	$ (1)

The accompanying notes are an integral part of these financial statements

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2009

Dollars in Millions	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES		
Unobligated Balances Brought Forward, Inception	$ —	$ —
Budget Authority:		
Appropriations	238,268	—
Borrowing Authority	—	309,971
Spending Authority from Offsetting Collections		
Earned: Collected	—	243,072
Change in Unfilled Orders Without Advance	—	28,927
Total Budget Authority	238,268	581,970
Permanently Not Available	—	(120,841)
TOTAL BUDGETARY RESOURCES (Note 10)	**$ 238,268**	**$ 461,129**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 210,112	$ 452,184
Unobligated Balance:		
Apportioned and Available	28,156	7,009
Not Available	—	1,936
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 238,268**	**$ 461,129**
CHANGE IN OBLIGATED BALANCES		
Obligated Balance Brought Forward, Inception	$ —	$ —
Obligations Incurred	210,112	452,184
Gross Outlays	(153,961)	(372,982)
Change in Uncollected Customer Payments from Federal Sources	—	(28,927)
Obligated Balance, Net, End of Period:		
Unpaid Obligations	56,151	79,202
Uncollected Customer Payments from Federal Sources	—	(28,927)
Obligated Balance, Net, End of Period	**$ 56,151**	**$ 50,275**
NET OUTLAYS		
Gross Outlays	$ 153,961	$ 372,982
Offsetting Collections	—	(243,072)
Distributed Offsetting Receipts	(2,720)	—
NET OUTLAYS	**$ 151,241**	**$ 129,910**

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

NOTE 1. REPORTING ENTITY

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

The EESA established certain criteria under which the TARP would operate, including provisions that impact the budgeting, accounting, and reporting of troubled assets acquired under the Act. Section 101(a) of the EESA provided the authority for the Secretary to purchase troubled assets, and Section 101(a)(3) of the EESA established the Office of Financial Stability (OFS) to implement the TARP. Section 102 of the EESA required the Secretary to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. Section 115 of the EESA limits the authority of the Secretary to purchase troubled assets up to $700 billion[1] outstanding at any one time, calculated at the aggregate purchase prices of all troubled assets held. There was approximately $381.3 billion outstanding against the Section 115 authority as of September 30, 2009. Section 120 of the EESA established that the authorities under Sections 101(a), excluding Section 101(a)(3) and Section 102 of the EESA, shall terminate on December 31, 2009. Section 120 of the EESA further established that the Secretary, upon submission of a written certification to Congress, may extend the authority provided under the Act to expire no later than 2 years from the date of the enactment of the Act (October 3, 2008).

Under the provisions of the EESA, the OFS implemented the TARP which resulted in the development of the following programs: the Capital Purchase Program; the Targeted Investment Program; the Asset Guarantee Program; the Consumer and Business Lending Initiative; the Public-Private Investment Program; the American International Group, Inc. Investment Program (formerly known as the Systemically Significant Failing Institutions Program); and the Automotive Industry Financing Program (see Note 6); as well as the Home Affordable Modification Program (see Note 5).

While these financial statements reflect the activity of the OFS in executing its programs, including providing resources to various entities to help stabilize the financial markets, they do not include the assets, liabilities, or results of operations of commercial entities in which the OFS has a significant equity interest. Through the purchase of troubled assets, the OFS has entered into several different types of direct loan, equity investment, and asset guarantee arrangements with private entities. These direct loans, equity investments, and asset guarantees were made with the intent of helping to stabilize the financial markets and mitigating, as best as possible, any adverse impact on the economy. These direct loans, equity investments, and asset guarantees were not made to engage in the business activities of the respective private entities. Based on this intent, the OFS has concluded that such direct loans, equity investments, and asset guarantees are considered "bail outs", under the provisions of paragraph 50 of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*. In addition, these entities do not meet the conclusive criteria in SFFAC No. 2. As such, OFS determined that none of these entities

1 The Helping Families Save Their Homes Act of 2009 (PubL. No. 111-22, Div. A, 123 Stat., 1632 (2009) amended the act to reduce the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.7 billion. As required under Section 102 of EESA, the $381.3 billion does not include a subtraction from the outstanding guarantee amount to reflect the balance in the Troubled Assets Insurance Financing Fund.

meet the criteria to be classified as a federal entity. Consequently, their assets, liabilities, and results of operations are not consolidated in these OFS financial statements.

In addition, the OFS has made investments in certain Special Purpose Vehicles[2] (SPV). SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control over an SPV to carry out government powers and missions, as criteria in the determination of consolidation. The OFS has concluded that the lack of control over the SPVs is the primary basis for determining that none of the SPVs meet the criteria to be classified as a federal entity. As a result, the assets, liabilities and results of operations of the SPVs are not included in these OFS financial statements. The OFS has recorded the investments in private entities and investments in SPVs in accordance with Credit Reform Accounting, as discussed below. Additional disclosures regarding these SPV investments are included in these Notes.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

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

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

In addition to the above, Section 123(a) of the EESA requires that the budgetary cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities, be determined in accordance with the Federal Credit Reform Act of 1990 (FCRA). Section 123(b) (1) of the EESA requires that the budgetary costs of troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. As a result of this requirement, the OFS considered market risk in its calculation and determination of

2 The OFS has invested in SPV's under the Consumer and Business Lending Initiative and the Automotive Industry Financing Program.

the estimated net present value of its direct loans, asset guarantees, and equity investments for budgetary purposes. Similarly, market risk is considered in valuations for financial reporting purposes (see Note 6 for further discussion).

Consistent with the accounting policy for equity investments made by Treasury in private entities, the OFS accounts for its equity investments at fair value, defined as the estimated amount of proceeds the OFS would receive if the equity investments were sold to a market participant. The OFS uses the present value accounting concepts embedded in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, to derive fair value measurements. The OFS concluded that the equity investments were similar to direct loans in that there is a stated rate and a redemption feature which, if elected, requires repayment of the amount invested. Furthermore, consideration of market risk provides a basis to arrive at a fair value measurement. Therefore, the OFS uses SFFAS No. 2 (as more fully discussed below) for reporting and disclosure requirements of its equity investments.

Federal loans and loan guarantees are governed by FCRA for budgetary accounting and the associated FASAB accounting standard SFFAS No. 2, as amended for financial reporting. The OFS applies the provisions of the SFFAS No. 2, as amended, when accounting for direct loans, equity investments, and asset guarantees. Direct loans and equity investments disbursed and outstanding are recognized as assets at the net present value of their estimated future cash flows and outstanding asset guarantees are recognized as liabilities or assets at the net present value of their estimated future cash flows. The subsidy allowance account represents the difference between the face value of the outstanding direct loan and equity investment balance and the net present value of the expected future cash flows, and is reported as an adjustment to the face value of the direct loan or equity investment. Consequently, direct loans, asset guarantees, and equity investments, including investments in preferred and common stock and warrants of public companies, are accounted for and reported by the OFS using credit reform accounting in accordance with SFFAS No. 2, as amended.

The OFS recognizes dividend revenue associated with equity investments when declared by the entity in which OFS has invested and when received in relation to any repurchases and restructuring. The OFS reflects changes in the value of direct loans, equity investments, and asset guarantees in the subsidy cost on the Statement of Net Cost annually. The OFS has received common stock warrants, additional preferred stock (referred to as warrant preferred stock) or additional notes, as additional consideration for direct loans and equity investments made and asset guarantees entered into. The OFS accounts for the warrants and warrant preferred stock received under Section 113 of EESA as fees under SFFAS No. 2, and, as such, the value of the warrants and warrant preferred stock is a reduction of the subsidy allowance.

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 line items subject to estimates include Troubled Asset Relief Program Direct Loans and Equity Investments, Net, Asset Guarantee Program, and related subsidy cost (see Note 6).

The most significant differences between actual results and estimates may occur in the valuation of direct loans, equity investments, and asset guarantees. The forecasted future cash flows used to determine these amounts as of September 30, 2009, are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities which the OFS has an equity interest, estimates of expected default, and prepayment rates. Forecasts of future financial results have inherent uncertainty and the OFS's Troubled Asset Relief Program Direct Loans and Equity Investments, Net, and Asset Guarantee Program line items as of September 30, 2009, are reflective of relatively illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions. Additional discussion related to sensitivity analysis can be found in the Management Discussion and Analysis section of the Agency Financial Report.

CREDIT REFORM FOR ACCOUNTING

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

As discussed previously, the OFS accounts for the cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities, including direct loans, in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting and SFFAS No. 2 for financial reporting, except for the Home Affordable Modification Program (HAMP) (see Note 5).

The authoritative guidance for financial reporting is primarily contained in the SFFAS No. 2, as amended by the SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and the SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*.

In accordance with SFFAS No. 2, the OFS maintains program accounts which receive appropriations and obligate funds to cover the subsidy cost of direct loans, equity investments and asset guarantees, and disburses the subsidy cost to the OFS financing accounts. The financing accounts are non-budgetary accounts that are used to record all of the cash flows resulting from the OFS direct loans, equity investments and asset guarantees.[3] Cash flows include disbursements, repayments, repurchases, fees, recoveries, borrowings from the Treasury, interest, negative subsidy and the subsidy cost received from the program accounts.

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows:

(1) borrowing for program funds under Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements;
(2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and
(3) the Troubled Assets Insurance Financing Fund (TAIFF) under section 102(d).

The OFS has general fund receipt accounts which are used to record the receipt of amounts paid from the financing accounts when there is a negative subsidy or negative modification from the original estimate or a downward reestimate. Amounts in the general fund receipt accounts are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the general fund receipt account is no longer included in the OFS's fund balance reporting.

3 For the Asset Guarantee Program, OFS has established the Troubled Assets Insurance Financing Fund, as required by Section 102(d) of the EESA which is the financing account under FCRA for the Asset Guarantee Program.

The 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 an initial estimate of the future performance of direct loans, equity investments, and asset guarantees. The data used for these estimates were reestimated at the fiscal year-end to reflect adjustments for market risk, asset performance, and other key variables and economic factors. The reestimate data was then used to estimate and report the "Subsidy Cost" in the Statement of Net Cost. A detailed discussion of the OFS subsidy calculation and reestimate assumptions, process and results is provided in Note 6.

FUND BALANCE WITH TREASURY

The Fund Balance with Treasury includes general, financing and other funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by the Treasury, and the OFS'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.

TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS, NET

Troubled Asset Relief Program Direct Loans and Equity Investments, Net represents the estimated net outstanding amount of the OFS direct loans and equity investments, exclusive of the HAMP. The direct loan and equity investment balances have been determined in accordance with the provisions of SFFAS No. 2 (see Note 6).

ASSET GUARANTEE PROGRAM

The Asset Guarantee Program represents the asset resulting from the net present value of the estimated cash inflows that are in excess of the estimated future claim payments (see Note 6).

LIABILITIES FOR HOME AFFORDABLE MODIFICATION PROGRAM

Liabilities for Home Affordable Modification Program (HAMP) represent the liability for payments to servicers and investors, and principal balance reduction payments for the account of borrowers under the HAMP are accounted for in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government.* Under SFFAS No. 5, a liability is recognized for any unpaid amounts due as of the reporting date. This liability includes amounts due from the OFS to pay for benefits and services provided under the terms of the HAMP as of the OFS's reporting date regardless of whether such payments have been reported to the OFS. The liability estimate is calculated based on information reported by participating servicers.

The OFS has determined that credit reform accounting, is not applicable to HAMP since there are no incoming cash flows to be valued.

GENERAL PROPERTY AND EQUIPMENT

Equipment with a cost of $50 thousand 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. Under this policy, the OFS had no capitalized general property and equipment at September 30, 2009.

ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

PRINCIPAL PAYABLE TO THE BUREAU OF THE PUBLIC DEBT

Principal Payable to the Bureau of the Public Debt (BPD) represents the net amount due to the BPD for equity investments, direct loans, and asset guarantees funded by borrowings from the BPD as of September 30, 2009 (see Note 8).

DUE TO THE GENERAL FUND

Due to the General Fund represents the amount of downward reestimates as of September 30, 2009, related to direct loans, equity investments, and asset guarantees as of September 30, 2009 (see Notes 3 and 6).

UNEXPENDED APPROPRIATIONS

Unexpended Appropriations represents the OFS undelivered orders and unobligated balances as of September 30, 2009.

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 since inception, through September 30, 2009. The Other Financing Sources in the Statement of Changes in Net Position consist primarily of transfers due to the Treasury General Fund as of September 30, 2009, relating to the downward reestimates.

LEAVE

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

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.

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 both retirement plans and Social Security, as well as imputed costs for pension and other retirement benefit costs administered by the Office of Personnel Management, are recognized on the Statement of Net Cost as Administrative Costs. Federal employee benefits also include the Thrift Savings Plan (TSP). For FERS employees, a TSP account is automatically established and the OFS matches employee contributions to the plan, subject to limitations. The matching contributions are also recognized as Administrative Costs on the Statement of Net Cost.

NOTE 3. NON-ENTITY LIABILITIES

The OFS had approximately $109.7 billion in downward reestimates related to its Troubled Asset Relief Program Direct Loans and Equity Investments, Net and Asset Guarantee Program which is a non-entity liability payable due to the Treasury General Fund as of September 30, 2009 (see Note 6).

NOTE 4. FUND BALANCES WITH TREASURY

As of September 30, 2009, Fund Balances with Treasury, by fund type and status, consisted of the following:

	(dollars in Millions)
Fund Balances:	
General Funds	$ 45,650
Program Funds	38,658
Financing Funds	13,425
Total Fund Balances	**$ 97,733**
Status of Fund Balances:	
Unobligated Balances	
Available	$ 35,165
Unavailable	1,936
Obligated Balances Not Yet Disbursed	60,632
Total Status of Fund Balances	**$ 97,733**

Included in the OFS Financing Funds is the premium collections of approximately $174.8 million related to the Asset Guarantee Program (AGP) that are required by the EESA Section 102(d) to be maintained in the TAIFF (see Note 6).

NOTE 5. THE HOME AFFORDABLE MODIFICATION PROGRAM

The Home Affordable Modification Program (HAMP) is designed to assist eligible homeowners who are experiencing financial hardships to remain in their homes by providing reductions in their monthly mortgage payments for up to five years. The HAMP provides for one-time, monthly, and annual incentives to servicers, borrowers, and investors who participate in the program. On an ongoing basis, beyond such incentives, the OFS shares equally in the cost of the reductions with the mortgage investors. Lastly, investors are paid a Home Price Decline Protection payment to partially offset losses from home price declines.

For the HAMP, Fannie Mae provides direct programmatic support as a third party agent on behalf of the OFS, Freddie Mac provides compliance oversight 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.

As of September 30, 2009, the OFS had entered into agreements with 63 servicers to provide up to approximately $27.1 billion in payments and incentives to borrowers, servicers and investors. As of September 30, 2009, this $27.1 billion was included in Obligations Incurred in the Statement of Budgetary Resources. All HAMP payments are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. As of September 30, 2009, approximately $946.5 thousand in incentive payments had been paid to three servicers in incentive payments for 743 borrowers who had completed official loan modifications.

Servicers have until December 31, 2012, to enter into mortgage modifications with borrowers.

As of September 30, 2009, the OFS had accrued approximately $1.4 million of first lien incentive for modifications under the HAMP program.

NOTE 6. TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS, NET AND ASSET GUARANTEE PROGRAM

The OFS applies the provisions of SFFAS No. 2 to account for direct loans, equity investments and asset guarantees. 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 basic methods for each of these models are outlined below.

Direct Loans

The estimated future cash flows for direct loans are derived using analytical models that estimate the cash flows to and from the OFS over the life of the loan. These cash flows include the scheduled principal, interest, and other payments to the OFS, including estimated proceeds from equity interest obtained or additional notes. These models also include estimates of default and recoveries, incorporating the value of any collateral provided by the contract. The probability and timing of default and losses relating to a default are estimated by using applicable historical data when available, or publicly available proxy data, including credit rating agency historical performance data.

In the case of the Term Asset-backed Securities Loan Facility (TALF), the OFS uses an analytical model to project cash flows to and from the OFS based on the estimated loan collateral performance, the estimated mix of collateral funded through the TALF and the terms of the contracts.

The models include an adjustment for market risk which is intended to capture the risk of unexpected losses, but are 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.

Equity Investments

Preferred stock cash flows are projected using an analytical model developed to incorporate the risk of losses associated with adverse events, such as failure of the institution or increases in market interest rates. The model estimates how cash flows vary depending on: 1) current interest rates, which may affect the decision whether to repay the preferred stock; and 2) the strength of a financial institution's assets. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. OFS estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the market price. The result of using market prices, either quoted prices for the identical asset or quoted prices for comparable assets, is that the equity investments are recorded at estimated fair value.

Asset Guarantees

The value of the asset guarantee reflects the net present value of estimated default-claim payments by the OFS, net of income from recoveries on defaults, fees, or other income. Guarantee fees to date have been paid in the form of preferred stock, subsequently converted to trust preferred stock, and a warrant to purchase common stock of the financial institution, whose value is modeled using the same methodology for other equity purchase programs, discussed above. Default-claim payments are based on estimated losses on the guaranteed assets. Key inputs into these estimates are forecasted gross domestic product, unemployment rates and home price depreciation, in a base scenario and a stress scenario.

Subsidy Cost

The recorded subsidy cost of a direct loan, equity investment or asset guarantee is based on a set of estimated future cash flows. OFS actions that change these estimated future cash flows change subsidy costs and are recorded as a modification. The cost of a modification is recognized as a modification expense, included in subsidy cost, when the direct loan, equity investment, or asset guarantee is modified. During fiscal year 2009, modifications occurred within the Capital Purchase Program, Consumer and Business Lending Initiative, the American International Group, Inc. Investment Program, and the Automotive Industry Financing Program. See detailed discussion related to each program and related modifications below. Total net modification costs for the period ended September 30, 2009, approximated $412.1 million.

EQUITY INVESTMENTS, DIRECT LOAN AND ASSET GUARANTEE PROGRAMS

The OFS administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The OFS has purchased direct loans and made equity investments and entered into asset guarantees. The table below is a list and type of the OFS programs:

Program	Program Type
Capital Purchase Program	Equity Investment/Subordinated Debentures
Targeted Investment Program	Equity Investment
Asset Guarantee Program	Guarantee
Consumer and Business Lending Initiative	Direct Loan
Public-Private Investment Program	Equity Investment and Direct Loan
American International Group, Inc. Investment Program (*)	Equity Investment
Automotive Industry Financing Program	Equity Investment and Direct Loan

(*) Formerly known as the Systemically Significant Failing Institutions Program

A description of each of these programs is provided below, and certain financial data by program is provided in the table at the end of this footnote.

CAPITAL PURCHASE PROGRAM

In October 2008, the OFS began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the OFS purchases senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0% through year five, increasing to 9.0% in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others and payable when and if declared by the institution's board of directors. Under the original terms of the senior preferred stock the QFI may not redeem the shares within the first three years of the date of the investment, unless it has received the proceeds of one or more Qualified Equity Offerings (QEO)[4] which results in aggregate gross proceeds to the QFI of not less than 25.0% of the issue price

4 A Qualified Equity Offering is defined as the sale by the QFI after the date of the senior preferred stock investment of Tier 1 perpetual preferred stock or common stock for cash.

of the senior preferred stock. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7% for the first 5 years and 13.8% for the remaining years.

In February 2009 and May 2009, the United States Congress passed the American Recovery and Reinvestment Act of 2009 and the Helping Families Save Their Homes Act of 2009, respectively. These acts contained amendments to the EESA (EESA Amendments) which require the Secretary to allow QFIs to repay at any time, subject to regulatory approval, regardless of whether the 25.0% or greater QEO was accomplished. The ability of a QFI to repay the OFS investment prior to year 3 or a 25.0% QEO was not considered in the original subsidy cost estimate. Therefore, a modification cost of $77.7 million was recorded as a result of these amendments.

In addition to the senior preferred stock, the OFS received warrants, as required by section 113(d) of EESA, from public QFIs to purchase a number of shares of common stock. The warrants have an aggregate market price equal to 15.0% of the total senior preferred stock investment. The exercise price and market value used to determine the number of shares of common stock subject to the warrant was calculated based on the average of closing prices of the common stock on the 20 trading days ending on the last day prior to the date the QFIs application was preliminarily approved for participation in the program. The warrants include customary anti-dilution provisions. In the event that a public QFI completes, prior to December 31, 2009, one or more QEOs with aggregate gross proceeds of not less than 100.0% (100.0% QEO) of the senior perpetual preferred stock investment, the number of shares subject to the warrants will be reduced by 50.0%. As of September 30, 2009, 19 QFIs reduced the number of shares available under the warrants as a result of this provision. The warrants have a 10 year term. The OFS may exercise one half of the warrants prior to the earlier of a 100.0% QEO, or December 31, 2009. Subsequent to December 31, 2009, OFS may exercise any warrants held in whole or in part. The OFS considers the impact of potential future QEOs in the valuation process.

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% (13.8% interest rate for subordinate debentures) and a liquidation value equal to 5.0% 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. The OFS did not receive warrants from banks considered Community Development Financial Institutions (CDFIs). As of September 30, 2009, the OFS has invested in 20 institutions considered CDFIs.

The EESA Amendments previously discussed also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, a QFI, upon the repurchase of its senior preferred stock, also has the contractual right to repurchase the common stock warrants at the market price.

In June 2009, the OFS entered into an exchange agreement with Citigroup. Under the terms of the agreement the OFS exchanged $25.0 billion of its investment in senior preferred stock for a new series (Series M) of mandatorily convertible preferred stock. The initial conversion price was $3.25 per share. In July 2009, the OFS received the Series M shares, which were subsequently converted in September 2009 to approximately 7.7 billion common shares of Citigroup. This exchange transaction was not considered in the original subsidy cost estimate for CPP. As a result, the OFS recorded a modification cost of approximately $1.8 billion for the fiscal year ended 2009. The OFS also has investments in Citigroup through the TIP and AGP.

During the period ended September 30, 2009, OFS invested approximately $204.6 billion in 685 institutions, including small, community, regional, and national banks, as well as CDFIs, in 48 states, the District of Columbia, and Puerto Rico. Approximately $70.7 billion of the OFS investments have been repurchased or redeemed bringing the total gross investment balance as of September 30, 2009, to approximately $133.9 billion. In addition, during the period ended September 30, 2009, the OFS received under CPP approximately $6.8 billion in dividends on senior preferred and warrant preferred stock and approximately $2.9 billion in proceeds from the repurchase of warrants and warrant preferred stock. 38 QFIs have not declared and paid one or more dividends to OFS under CPP as of September 30, 2009.

On November 1, 2009, a CPP participant, CIT Group, filed for Chapter 11 Bankruptcy. The OFS had invested $2.3 billion in senior preferred stock of CIT Group and received a warrant for the purchase of common stock. The OFS does not expect a significant recovery of its preferred stock investment. As such, this investment has been reduced to zero in these financial statements. The ultimate amount received, if any, from this investment will depend on the outcome of the bankruptcy proceedings.

On November 6, 2009, a subsidiary of UCBH Holdings, Inc. (a CPP participant), United Commercial Bank, was closed by its regulators. The OFS had invested approximately $298.7 million in senior preferred stock and received a warrant for the purchase of common shares. The value of these shares, including the warrant, reflected in these financial statements is approximately $22.5 million as of September 30, 2009. The ultimate amount received, if any, from this investment will depend on the outcome of the receivership.

On November 13, 2009, a subsidiary of Pacific Coast National Bancorp. (a CPP participant), Pacific Coast National Bank, was closed by its regulators. The OFS had invested approximately $4.1 million in senior preferred stock and received warrant preferred stock in the amount of $206 thousand. The value of the shares, including the warrant preferred stock, reflected in these financial statements is approximately $154 thousand as of September 30, 2009. The ultimate amount received, if any, from this investment will depend on the outcome of the receivership.

Further details on the outstanding senior preferred share investments and subordinated debentures under CPP and the net investment amount including estimated cash flows associated with the sale or exercise of the warrants, as of September 30, 2009, are presented in the table at the end of this section.

TARGETED INVESTMENT PROGRAM

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. The OFS considers institutions as candidates for the TIP on a case-by-case basis, based on a number of factors described in the program guidelines. These factors include the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

The OFS completed the first transaction under the TIP in December 2008, when it invested $20.0 billion in Citigroup cumulative perpetual preferred stock and received a warrant for the purchase of Citigroup common stock. Under the agreement with Citigroup, the OFS receives an 8.0% annual dividend, payable quarterly, if and when declared by Citigroups' Board of Directors. As part of this agreement, Citigroup must implement rigorous compensation standards and other restrictions on corporate expenditures. In June 2009, the OFS and Citigroup agreed to an exchange of the cumulative perpetual preferred stock issued under the TIP for a new series of trust preferred securities. Citigroup issued subordinated debentures to a trust established by Citigroup, and the trust issued trust preferred securities to the OFS. Interest and principal payments on the subordinated debentures are passed-through to the trust preferred security holders. The trust preferred securities pay a quarterly distribution at an annual rate of 8.0% to OFS. The subordinated debentures contain an interest deferral provision allowing Citigroup to defer payment of interest for up to 5 years. The OFS will not receive distributions from the trust preferred securities during a deferral period. Deferred interest is required to be paid upon termination of the deferral period. As of September 30, 2009, Citigroup has not exercised its option to defer interest payments. The subordinated debentures mature in 2039. As a result, the trust is scheduled to pay out the proceeds to the holders of the trust preferred securities. In addition, the subordinated debentures can be prepaid by Citigroup at any time prior to maturity, subject to consultation with the Federal Reserve, as long as the U.S. Government holds the trust preferred securities. The terms of the new securities are substantially the same as the preferred stock originally received by the OFS and therefore the exchange transaction did not result in a modification. The OFS also has investments in Citigroup through the CPP and the AGP.

In January 2009, OFS completed its second transaction under the TIP, investing $20.0 billion in Bank of America. Under the agreement with Bank of America, the OFS purchased $20.0 billion of cumulative perpetual preferred stock and received a warrant for the purchase of Bank of America common stock. The preferred stock purchased from Bank of America contains a stated annual dividend rate of 8.0%, payable quarterly, if declared. Bank of America's agreement under the TIP stipulated that the institution must implement rigorous executive compensation standards and other restrictions on corporate expenditures. The OFS also has investments in Bank of America through the CPP.

During the period ended September 30, 2009, OFS received approximately $1.9 billion in dividends under the TIP. See the table presented at the end of this section for further details.

ASSET GUARANTEE PROGRAM

The Asset Guarantee Program (AGP) provides guarantees for assets held by systemically significant financial institutions that face a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. The AGP is applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly.

Section 102 of the EESA established the AGP to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities, and established the Troubled Assets Insurance Financing Fund (TAIFF). In accordance with Section 102(c) and (d) of the EESA, premiums from financial institutions, are collected and all fees are recorded by the OFS in the TAIFF. In addition, Section 102(c)(3) of the EESA requires that the original premiums assessed are "set" at a minimum level necessary to create reserves sufficient to meet anticipated claims. In the event there are insufficient funds within the TAIFF for the payment of claims, amounts are borrowed from the Treasury until sufficient funds are received into the TAIFF. In the event that the estimate of claims exceeds the estimated future cash inflows, an upward reestimate would be recorded and amounts would be transferred to the TAIFF as a subsidy expense.

The OFS completed its first transaction under the AGP in January 2009, when it finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the OFS, the Federal Deposit Insurance Corporation

(FDIC), and the Federal Reserve Bank of New York (FRBNY) provided protection against the possibility of large losses on an asset pool of approximately $301.0 billion of loans and securities backed by residential and commercial real estate and other such assets, which remain on Citigroup's balance sheet. The following loss-sharing terms apply to the transaction: Citigroup absorbs the first $39.5 billion in losses, and losses over the $39.5 billion are shared by the U. S. government (90.0 %) and Citigroup (10.0 %) (the "second loss"). For the second loss, the OFS absorbs up to $5.0 billion, then the FDIC absorbs up to $10.0 billion, and lastly the FRBNY funds any U.S. government losses above the OFS and the FDIC commitments through a non-recourse loan. The guarantee is in place for ten years for residential assets and five years for non-residential assets.

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock with an 8.0 % stated dividend rate and a warrant for the purchase of common stock; approximately $4.0 billion and the warrant were issued to the OFS, and approximately $3.0 billion was issued to the FDIC. As part of the agreement, Citigroup submitted an executive compensation plan to the OFS and the FDIC for approval and must comply with certain common stock dividend restrictions. The OFS has received approximately $174.8 million in dividends on the preferred stock received as compensation for this arrangement. These dividends have been deposited into the TAIFF. The preferred stock originally issued to the OFS and the FDIC were exchanged for the trust preferred securities discussed above under the TIP. The OFS has also invested in Citigroup through the CPP and the TIP.

The net present value of the estimated cash inflows from the preferred stock and warrant received by the OFS from Citigroup as a premium is greater than the estimated net present value of future claim payments, resulting in an asset of approximately $1.8 billion, after reestimates, as of September 30, 2009.

In January 2009, the OFS, FDIC, FRBNY (together the USG Parties) and Bank of America signed a Summary of Terms (Term Sheet) pursuant to which the USG Parties agreed to guarantee or lend against a pool of up to $118.0 billion of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America notified the USG Parties of its desire to terminate negotiations with respect to the guarantee contemplated in the Term Sheet. All parties agreed that Bank of America received value for entering into the Term Sheet with the USG Parties and that the USG Parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the Term Sheet through the termination date. Under the terms of the settlement, the U.S. Treasury received $276.0 million for its role in the guarantee agreement through the OFS, the FRBNY received $57.0 million, and the FDIC received $92.0 million. All the OFS funds received for the settlement were deposited in the TAIFF and subsequently paid to the Treasury General Fund. The $276 million received by OFS pursuant to the settlement is reflected in the OFS Statement of Net Cost as a reduction of the AGP subsidy cost.

CONSUMER AND BUSINESS LENDING INITIATIVE (CBLI)

Term Asset-Backed Securities Loan Facility

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

Under the TALF, the FRBNY, as implementer of the TALF program, originated loans on a non-recourse basis to holders of certain AAA rated ABS secured by recently originated consumer and commercial loans and commercial mortgage backed securities (New Issue CMBS). In addition to securities secured by recently originated loans, CMBS issued prior to January 2009 and originally AAA rated (Legacy CMBS) are eligible collateral. TALF loans have a term of 3 or 5 years and are secured solely by eligible collateral. Haircuts (a percentage reduction used for collateral valuation) are determined based on the riskiness of each type of eligible collateral and the maturity of the eligible collateral pledged to the FRBNY. The "haircuts" provide additional protection to OFS by exposing the TALF borrowers to some risk of loss. Interest rates charged on the TALF loans depend on the weighted average maturity of the pledged collateral, the collateral type and whether the collateral pays a fixed or variable coupon

As part of the program, the FRBNY has entered into a put agreement with the TALF, LLC, a special purpose vehicle created by the FRBNY. In the event of a TALF borrower default, the FRBNY will seize the collateral and sell it to the TALF, LLC under this agreement. The TALF, LLC receives a monthly fee equal to the difference between the TALF loan rate and the FRBNY's fee (spread) as compensation for entering into the put agreement. The accumulation of this fee will be used to fund purchases. In the event there are insufficient funds to purchase the collateral, the OFS has committed to invest up to $20.0 billion in non-recourse subordinate notes issued by TALF, LLC. The subordinate notes bear interest at 1 Month LIBOR plus 3.0% and mature 10 years from the closing date, subject to extension. The OFS disbursed $100.0 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the spread is not sufficient to cover purchases. Any amounts needed in excess of the OFS commitment and the fee would be provided through a loan from the FRBNY. Upon wind-down of TALF, LLC (collateral defaults, reaches final maturity or is sold), the cash balance will be disbursed according to the following payment priority:

1. FRBNY principal balance
2. OFS principal balance
3. FRBNY interest
4. OFS interest
5. Remaining cash balance – 90.0% to the OFS, 10.0% to the FRBNY

Subsequent to the initial cost estimates prepared for the TALF, certain changes were made to the terms of the program, including increasing the term to 5 years and the addition of different types of acceptable collateral. These program changes resulted in a modification, increasing the original cost estimate by $8.0 million.

The TALF, LLC is owned and controlled by the FRBNY. The credit agreement between the OFS and the TALF, LLC provides the OFS with certain rights consistent with a creditor but would not constitute control. As such TALF, LLC is not a federal entity and the assets, liabilities, revenue and cost of TALF, LLC are not included in the OFS financial statements. The discussion below provides information on 1) the amount of TALF loans issued by the FRBNY, by collateral class, and 2) the assets, liabilities, income and expense of the TALF, LLC.

The FRBNY has originated $50.9 billion in TALF loans[5], of which about $42.7 billion is outstanding as of September 30, 2009. The average "haircut" was approximately 9.92% of the originated balance. As of September 30, 2009, all of the TALF loans performed as agreed. The table below shows the outstanding balance of the FRBNY TALF loans as of September 30, 2009, by collateral type:

5 These represent loans originated by the FRBNY and not the OFS. The intention of this disclosure is to show the activity in the program and the types of collateral that could eventually be purchased by the TALF, LLC with funding provided by the OFS.

Collateral Type	Loan Amount (Dollars in Billions)		% of Total
Auto	$	7.43	17.3 %
Credit Cards	$	21.61	50.6 %
Equipment	$	0.89	2.1 %
Floor Plan	$	1.01	2.4 %
Premium Finance	$	0.99	2.3 %
Servicing Advances	$	0.58	1.4 %
Small Business	$	0.46	1.1 %
Student Loan	$	5.63	13.1 %
New Issue CMBS	$	0.0	0.0 %
Legacy CMBS	$	4.13	9.7 %
Total	**$**	**42.73**	**100.0 %**

As of September 30, 2009, the TALF, LLC has assets of approximately $198.9 million consisting primarily of investments in U.S. Treasury and Agency securities[6]. Total liabilities of the TALF, LLC are $101.8 million consisting of the OFS subordinated note plus accrued interest. During the period ended September 30, 2009, the TALF, LLC collected $99.1 million in fees and investment income and incurred $2.3 million in expenses, $1.8 million of which is accrued interest on the OFS subordinated note. As of September 30, 2009, there were no TALF borrower defaults and consequently no purchases of collateral by the TALF, LLC.

AMERICAN INTERNATIONAL GROUP, INC. INVESTMENT PROGRAM (AIG)

The OFS provides assistance to certain systemically significant financial institutions on a case by case basis in order to provide stability to institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to prevent broader disruption to financial markets.

In November 2008, the OFS invested $40.0 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0% compounded quarterly. On April 17, 2009, AIG and the OFS restructured their November 2008 agreement. Under the restructuring, the OFS exchanged $40.0 billion of cumulative Series D preferred stock for $41.6 billion of non-cumulative 10.0% Series E preferred stock. The amount of Series E preferred stock is equal to the original $40.0 billion, plus approximately $733.0 million in undeclared dividends as of the February 1, 2009, scheduled quarterly dividend payment date, $15.0 million in dividends compounded on the undeclared dividends, and an additional $855.0 million in dividends from February 1, 2009, but not paid as of April 17, 2009. AIG's restructured agreement kept the quarterly dividend payment dates of May 1, August 1, November 1, and February 1, as established by the original November 2008 agreement. The original subsidy cost estimate did not consider this restructuring which resulted in a modification cost of $127.2 million.

In addition to the exchange, the OFS agreed to make available an additional $29.8 billion capital facility to allow AIG to draw additional funds if needed to assist in AIG's restructuring. The OFS investment consists of Series F non-cumulative perpetual preferred stock with an initial liquidation amount of $0.0. This liquidation amount increases with any draw down by AIG on the facility. The dividend rate applicable to these shares is 10.0% and is payable quarterly, if declared, on the outstanding liquidation amount. As of September 30, 2009, approximately

6 Agency securities refer to securities issued by either Ginnie Mae, Fannie Mae, Freddie Mac, or the Federal Home Loan Banks.

$3.2 billion has been funded by the OFS to AIG under this additional capital facility. Consistent with SSFAS No. 2, the unused portion of the AIG capital facility is not recognized as an asset as of September 30, 2009.

As of September 30, 2009, AIG has not made any dividend payments on any of the perpetual preferred stock. Subsequently, AIG failed to make a dividend payment on November 2, 2009. Per the terms of the preferred stock, if AIG misses 4 dividend payments, the OFS may appoint to the AIG board of directors, the greater of two members or 20.0% of the total number of directors of the Company.

AUTOMOTIVE INDUSTRY FINANCING PROGRAM

The objective of the Automotive Industry Financing Program (AIFP) was to help prevent a significant disruption of the American automotive industry, which could have a negative effect on the economy of the United States. The discussion below details the various investments and loans made by the OFS in the automotive industry, generally provided in chronological order.

The table below illustrates amounts originally disbursed and collected under AIFP. These amounts are shown before conversions, exchanges, or valuation. For a detailed discussion on the current status of the loans see the narrative below the table.

(Dollars in Millions)	Amounts Disbursed as of September 30, 2009	Collection of Interest, Dividends, and Additional Notes	Principal Repayments	Amount Outstanding before Conversions, Exchanges, and Valuation
GM General Purpose Loan including Working Capital Advances	$ 19,400	$ 134	$ —	$ 19,400
GMAC LLC Rights Offering	884	9	—	884
Chrysler Holding LLC General Purpose	4,000	53	—	4,000
Chrysler Financial	1,500	22	1,500	—
Auto Supplier Support Program	413	6	—	413
Auto Warranty Program	640	4	640	—
Chrysler Debtor-In-Possession	1,888	—	—	1,888
Chrysler Exit	4,577	—	—	4,577
GM Debtor-In-Possession	30,100	34	—	30,100
GMAC Preferred stock	5,000	265	—	5,000
GMAC Mandatorily Convertible Preferred Stock	7,500	165	—	7,500
Total	$ 75,902	$ 692	$ 2,140	$ 73,762

General Motors (GM or old GM) General Purpose Loan including Working Capital Advances

The OFS provided GM with a total of $13.4 billion in a three-year direct loan bearing interest at 3 Month LIBOR (subject to a 2.0% floor), plus 3.0% and secured by various types of collateral. $4.0 billion of this loan was funded in December 2008, an additional $5.4 billion in January, 2009, and an additional $4.0 billion in February 2009. In April 2009, the OFS and GM amended this loan agreement to increase the maximum loan amount from $13.4 billion to $15.4 billion, and on May 20, 2009 to increase the maximum loan amount from $15.4 billion to $19.4 billion (these amendments are referred to as the Working Capital Advances) to provide GM with adequate working capital to assist in the restructuring effort. The additional amounts were funded upon amendment, bringing the total funded under this loan to $19.4 billion. The agreement required GM to develop and implement a restructuring plan to achieve long-term financial viability and required compliance with certain enhanced executive compensation and expense control requirements.

Furthermore, the OFS received warrants for shares of GM common stock and an additional senior unsecured note in the principal amount of $748.6 million. The purpose of this loan was to enhance the ability of GM and its subsidiaries to pursue timely and aggressive production of energy-efficient advanced technology vehicles; preserve and promote the jobs of American workers employed directly by GM and its subsidiaries; safeguard the ability of GM and its subsidiaries to provide retirement and health care benefits for retirees and their dependents; and stimulate manufacturing and sales of automobiles produced by GM. On June 1, 2009, GM filed for Chapter 11 bankruptcy. All rights under this loan were transferred to a newly created entity (GM NewCo) and subsequently extinguished in connection with a successful credit bid for the assets of old GM. In addition, the OFS received $134.4 million in interest while the loan was outstanding. See further discussion below under GM Debtor-In-Possession.

GMAC LLC Rights Offering

In December 2008, the OFS agreed, in principal, to lend up to $1.0 billion to GM for participation in a rights offering by GMAC in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interest acquired in the rights offering. The loan agreement specified that at any time, at the option of the lender (OFS), the unpaid principal and accrued interest was exchangeable for the membership interest purchased, by GM, during the rights offering. The note was funded for $884.0 million. In May 2009, the OFS exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36% of the voting interest, in GMAC in full satisfaction of the loan. In addition, OFS received $9.1 million in interest while the loan was outstanding. The conversion to GMAC shares was not considered in the original subsidy cost. As a result, a modification was recorded reducing the estimated subsidy cost by approximately $1.6 billion.

Chrysler Holding LLC General Purpose

The OFS provided a three-year, $4.0 billion loan to Chrysler in January 2009, bearing interest at 3 Month LIBOR (subject to a 2.0% floor) plus 3.0%. The loan was secured by various collateral including parts inventory, real estate, and certain equity interests held by Chrysler. This agreement required Chrysler to submit a restructuring plan to achieve long-term viability and required compliance with certain enhanced executive compensation and expense-control requirements. Furthermore, the OFS received a senior unsecured note from Chrysler in the principal amount of approximately $266.8 million, containing the same terms as the General Purpose loan. The purpose of this loan was to: enhance the ability of Chrysler and its subsidiaries to pursue timely and aggressive production of energy-efficient advanced technology vehicles; preserve and promote the jobs of American workers employed directly by Chrysler and its subsidiaries; safeguard the ability of Chrysler and its subsidiaries to provide retirement and health care benefits for retirees and their dependents; and stimulate manufacturing and sales of automobiles produced by Chrysler.

On April 30, 2009, Chrysler filed for Chapter 11 bankruptcy. Upon entering bankruptcy, a portion of Chrysler was sold to a newly created entity (New Chrysler). Under the terms of the bankruptcy agreement, $500.0 million of this loan was assumed by New Chrysler (see discussion under Chrysler Exit for discussion of note terms). The balance remains outstanding and is in default. Any recovery of the remainder of this loan will depend on: (a) Chrysler Holding's obligation to pay the greater of $1.375 billion or 40.0% of the equity value of Chrysler Financial to OFS should Chrysler Holding receive certain distributions from Chrysler Financial and, (b) proceeds received from the sale of assets remaining in the bankrupt company. In addition, OFS received $52.1 million in interest payments on this note.

Chrysler Financial

In January, 2009, the OFS loaned $1.5 billion to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. The five-year loan bore interest at 1 Month LIBOR plus 1.0% for the first year, 1.5% for the remaining term and was secured by a senior secured interest in a pool of newly originated consumer automotive loans, and Chrysler served as a guarantor for certain covenants of Chrysler Financial. Under the agreement, Chrysler Financial was required to comply with the executive compensation and corporate governance requirements of Section 111(b) of the EESA, as well as enhanced restrictions on executive compensation including the need to reduce by 40.0% its bonus pool for Senior Executive Officers and Senior Employees. In lieu of warrants, the OFS received additional notes in an amount equal to 5.0% of the maximum loan amount. The additional notes would vest 20.0% on the closing date and 20.0% on each anniversary of the closing date and had other terms similar to the loan. The purpose of this loan was to assist Chrysler Financial in providing retail financing to purchasers of automobiles, light duty trucks and recreational vehicles; to stimulate manufacturing and sales of automobiles produced by Chrysler's affiliates; preserve and promote the jobs of American workers employed directly by Chrysler's affiliates and in related industries; and safeguard the ability of Chrysler to provide retirement and health care benefits for their retirees and their dependents. On July 14, 2009, the loan and additional note of $15.0 million were paid in full. In addition, the OFS received $7.4 million in interest payments while this loan was outstanding.

Auto Supplier Support Program

In April 2009, the OFS committed $5.0 billion in financing for the Auto Supplier Support Program, as follows: $3.5 billion for GM suppliers and $1.5 billion for Chrysler suppliers. These commitments were subsequently reduced to $2.5 billion for GM suppliers and $1.0 billion for Chrysler suppliers per the loan agreement. Under the program, suppliers are able to sell their receivable to a SPV, created by the respective automaker, at a discount. The purchases of the receivables are funded by equity investments made by the automaker, cash payments made by the automaker on previously purchased receivables or from draws on the OFS funding commitment. The duration of the program is 12 months, extendable at the option of the OFS. Interest is charged on advances under the facility at a rate of 3 Month LIBOR (subject to a 2.0% floor) plus 3.5%. In addition, the OFS received a contingent payment note comprised of an exit fee equal to 4.0% of the adjusted commitment amount and 50.0% of the residual equity in the SPV after the program's end date. This program provides suppliers with access to government backed protection ensuring that money owed to them for the products they ship will be paid regardless of what happens to the recipient car company. This provided suppliers with needed funding to operate their businesses and help unlock credit more broadly in the supplier industry. Purchases of receivables and collection of amounts due from GM and Chrysler is performed by a third party service provider. Suppliers must maintain qualifying commercial terms with the automakers to participate in the program. The OFS has provided approximately $413.1 million of funding to this program. The bankruptcy of Chrysler and GM did not impact this program, as both companies were allowed to continue paying suppliers while in bankruptcy. As of September 30, 2009, the OFS had received $5.9 million in interest under the Auto Supplier Support Program.

Auto Warranty Program

In April 2009 and May 2009, the OFS loaned approximately $280.0 million to Chrysler and $360.6 million to GM, respectively, to capitalize SPVs created by Chrysler and GM to finance participation in the Warranty Commitment Program (warranty program). The OFS also received additional notes as consideration for its loans in an amount equal to 6.67% of the funded amounts. The warranty program covered all warranties on new vehicles purchased from Chrysler and GM during the period in which Chrysler and GM were restructuring. The program was run by a third party program administrator with the backing of financial resources allocated by the OFS, Chrysler and GM. Chrysler and GM contributed 15.0% of the projected cost for warranty service on each covered vehicle, with the OFS providing additional funds to cover 110.0% of the projected cost. The SPVs holding the funds operated separately from Chrysler and GM and would transfer the necessary funds to a third-party to handle all warranty claims even if Chrysler and GM entered into bankruptcy or went out of business. Both Chrysler and GM have completed the Section 363[7] sales in June 2009 and July 2009, respectively. Upon completion of the sale, the OFS received principal amounts due from both GM and Chrysler and terminated the warranty program. Interest in the amount of $3.1 million was received by the OFS from Chrysler. No interest was received in connection with the GM repayment. The GM additional note was assigned to the New GM as part of the bankruptcy proceedings and extinguished as part of the credit bid for the assets of old GM. The Chrysler additional note is still outstanding.

Chrysler Debtor-In-Possession

In May 2009, the OFS and the Canadian government jointly agreed to make a loan in the total amount of $4.1 billion ($3.0 billion by the OFS and $1.1 billion by Canada) to Chrysler LLC in its capacity as debtor-in-possession (DIP) in its bankruptcy case. In May 2009, the OFS increased its loan commitment in the DIP credit agreement to $3.8 billion, and the Canadian government increased its commitment to $1.2 billion, bringing the maximum loan amount to $5.0 billion. The loan interest rate was the 3 Month Eurodollar rate plus 3.0%. The stated maturity was September 2009, with earlier maturity depending on the bankruptcy proceedings. Of the $3.8 billion committed by the OFS, approximately $1.9 billion was funded during the bankruptcy. This DIP loan provided the necessary liquidity to sustain Chrysler during the bankruptcy period. Upon the Section 363 sale of the Chrysler assets, the funding commitment was reduced to amounts previously drawn. As such, no additional amounts were drawn from this facility. Recovery of the DIP loan is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler.

Chrysler Exit

In May 2009, the OFS committed to make a loan to New CarCo Acquisition LLC (New Chrysler or Chrysler Group LLC), the company that purchased the assets of Chrysler. The final terms of the credit agreement resulted in a loan to New Chrysler for approximately $7.1 billion. This amount consists of $6.6 billion of new funding and $500.0 million of assumed debt[8] from the OFS January 2, 2009 credit agreement with Chrysler Holding LLC. The loan was secured by a first priority lien on the assets of Chrysler Group LLC. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. The following describes the terms of Tranches B and C.

The maximum funding under Tranche B was $2.0 billion and was funded on the closing date of the agreement. Interest on Tranche B is 3 Month Eurodollar plus 5.0% margin (in certain situations, defined in the agreement, a rate other than the 3 Month Eurodollar rate will be applied. This rate, referred to as the Alternative Base Rate, will be the greater of the Prime Rate, the Federal Funds Effective rate plus 0.5% or the 3 Month Eurodollar rate plus 1.0%. If this Alternative Base Rate is applied, the margin will be 4.0% versus the 5.0% if the 3 Month Eurodollar Rate is used). Tranche B is due and payable on December 10, 2011, provided that the Chrysler Group

7 Section 363 refers to Section 363 of the Federal Bankruptcy Code, which allows companies in bankruptcy to sell assets in reorganization.
8 The assumed debt contains the same terms as the Tranche C loan with respect to mandatory prepayment, interest and maturity.

LLC may elect to extend the maturity of up to $400.0 million of Tranche B to the Tranche C maturity date. If so elected, the applicable margin will increase to 6.5% for Eurodollar and 5.5% for ABR loans, respectively.

The maximum funding under Tranche C is approximately $4.64 billion, of which approximately $2.58 billion was funded on the closing date. Interest on Tranche B is 3 Month Eurodollar plus 7.91% margin (in certain situations, defined in the agreement, a rate other than the 3 Month Eurodollar rate will be applied. This rate, referred to as the Alternative Base Rate, will be the greater of the Prime Rate, the Federal Funds Effective rate plus 0.5% or the 3 Month Eurodollar rate plus 1.0%. If this Alternative Base Rate is applied, the margin will be 6.91% versus the 7.91% if the 3 Month Eurodollar Rate is used). On June 10, 2016, the Tranche C loan shall be prepaid to the extent the funded amount is greater than 50.0% of the closing date commitment amount, taking into consideration amounts previously prepaid as a voluntary prepayment. The remaining balance of the Tranche C loan is due and payable on June 10, 2017.

Interest on both the Tranche B and Tranche C will be payable in-kind through December 2009 and will be added to the principal balance of the respective Tranche. In addition, additional in-kind interest will accrue in the amount of $17.0 million per quarter. Such amount will be added to the Tranche C loan balance subject to interest at the appropriate rate.

The OFS also obtained other consideration, including a 9.85% equity interest in Chrysler Group LLC and additional notes[9] with principal balances of $288.0 million and $100.0 million[10]. As of September 30, 2009, the OFS has funded approximately $4.6 billion under this facility.

GM Debtor-In-Possession

On June 1, 2009, GM filed for Chapter 11 bankruptcy. As part of the filing the OFS and the Canadian government agreed to lend up to $33.3 billion under the terms of the DIP credit agreement; the OFS's commitment amount was $30.1 billion. The OFS funded the $30.1 billion of which approximately $986.0 million remains outstanding as of September 30, 2009. In July 2009, the DIP credit agreement was amended to reflect the fact that the amounts there under (other than approximately $986.0million that remained with GM for wind-down in bankruptcy and $7.1 billion that was assumed by GM NewCo) were extinguished in connection with a successful credit bid for the assets of old GM.

The OFS has assigned its rights in this loan as well as the General Purpose and Working Capital loans and previously received common stock warrants to a newly created entity (GM NewCo or General Motors Company). The purpose of this GM NewCo was to obtain sufficient assets of GM out of bankruptcy to satisfy the original loans disbursed to GM and discussed above, which it accomplished through a successful credit bid for the assets in a sale pursuant to Section 363 of the Bankruptcy Code. Upon closing of the Section 363 sale, the General Motors Company has assumed $7.1 billion of the DIP loan, simultaneously paying $0.4 billion (return of warranty program funds), resulting in a balance of $6.7 billion. The loan has a term of 6 years and bears interest at 3 Month Eurodollar (subject to a 2.0% floor) plus 5.0% and has a first lien security interest in the assets of General Motors Company. The OFS also received $2.1 billion in 9.0% cumulative perpetual preferred stock and 60.8% of the common equity interest in General Motors Company. The assets received by the OFS as a result of the assign-

9 The additional notes bear the same interest rate and maturity as the Tranche C loan.
10 Interest begins to accrue on this note after certain events, defined in the credit agreement, have taken place.

ment and Section 363 sale are considered recoveries of the original loans for subsidy cost estimation purposes. As of September 30, 2009, the OFS had received $34.1 million in dividends on GM preferred stock.

GMAC Preferred Stock

In December 2008, the OFS purchased preferred membership interests for $5.0 billion which were converted to senior preferred stock with an 8.0% annual distribution right (dividends) from GMAC. Under the agreement, GMAC issued warrants to the OFS to purchase, for a nominal price, additional preferred equity in an amount equal to 5.0% of the preferred equity purchased. These warrants were exercised at closing of the investment transaction. The additional preferred stock provided for a 9.0% annual distribution right. The purpose of this investment was to enable GMAC to restore liquidity to its finance businesses and restore stability to the domestic automobile industry in the United States. As of September 30, 2009, the OFS has received $265.2 million in dividends associated with these preferred and warrant preferred stock.

GMAC Mandatorily Convertible Preferred Stock

In May 2009, the OFS published a non-binding term sheet to invest $13.1 billion to support GMAC, subject to definitive documentation and GMAC's capital needs. The OFS has invested $7.5 billion (of the $13.1 billion) in 9.0% Mandatorily Convertible Preferred Stock in GMAC to support its ability to originate new loans to Chrysler dealers and consumers, and help address GMAC's capital needs. The preferred stock have a liquidation amount of $50 per share and are convertible in whole or in part, at any time, at the option of GMAC, subject to the approval of the Federal Reserve. Furthermore, GMAC shall not convert any of the stock to the extent such conversion would result in the OFS owning in excess of 49% of GMAC's common equity except (1) with the prior written consent of the OFS, (2) pursuant to GMAC's Capital Plan, or (3) pursuant to an order of the Federal Reserve compelling such a conversion. The determination of the percentage of common equity owned by the OFS would take into account the common stock currently owned by the OFS as a result of the conversion of the GMAC Rights Offering, previously discussed. Absent a previous conversion, the preferred stock will automatically convert after 7 years. The conversion rate is 0.00432 units of common stock per unit of convertible preferred stock. The remaining $5.6 billion (per the non-binding term sheet) is subject to the FRB's review of GMAC's capital plan assessment of whether additional capital is needed. As of September 30, 2009, the remaining $5.6 billion has not been funded. The OFS had received approximately $165.4 million in dividends associated with these preferred and warrant preferred stock.

PUBLIC-PRIVATE INVESTMENT PROGRAM

The Public-Private Investment Program (PPIP) is part of the OFS's efforts to help restart the market and provide liquidity for legacy assets. Under this program, the OFS will make equity and debt investments in investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment will be used to match private capital and will equal not more than 50.0% of the total equity invested. The debt investment will be, at the option of the investment manager, equal to 50.0% or 100.0% of the total equity (including private equity). The PPIFs are only allowed to purchase commercial mortgage-backed securities and non-agency residential mortgage-backed securities issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets and not other securities. The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90 percent of the assets underlying any eligible asset must be situated in the United States. On September 30, 2009, the OFS signed definitive limited partnership and loan agreements with two investment managers, committing to potentially disburse up to $6.7 billion. As of September 30, 2009, no private fund managers had made any investments and the OFS had not disbursed any funds.

Subsidy Reestimates

The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates for all programs were performed using actual financial transaction data through September 30, 2009. In accordance with credit reform guidance and to ensure the timely completion of the credit reform reestimate process, market and security specific data publicly available as of September 30, 2009, was used for the CPP, AGP, TIP and direct loan AIFP and data through August 31, 2009 was used for the equity portion of AIFP, AIG and TALF in the reestimate calculations. The OFS assessed the key inputs of the reestimates using data publically available as of September 30, 2009, and in its determination, there were no significant changes to the key inputs for the three programs for which August 31, 2009, data was used that would require a revision to the reestimates.

Downward Reestimates for the fiscal year ended September 30, 2009, are as follows:

	Downward Reestimate Amounts (Dollars in Millions)		
Program	Subsidy	Interest	Total
AGP	$ (1,097)	$ (77)	$ (1,174)
Direct Loan			
AIFP	$ (9,039)	$ (1,571)	$ (10,610)
CBLI/TALF	(222)	(21)	(243)
Subtotal Direct	$ (9,261)	$ (1,592)	$ (10,853)
Equity Investment			
CPP	$ (68,558)	$ (3,861)	$ (72,419)
TIP	(20,366)	(1,101)	(21,467)
AIG	(845)	(280)	(1,125)
AIFP	(2,331)	(379)	(2,710)
Subtotal Equity	$ (92,100)	$ (5,621)	$ (97,721)
Total	**$ (102,458)**	**$ (7,290)**	**$ (109,748)**

Descriptions of the reestimates, by OFS Program, are as follows:

The approximately $1.2 billion in downward reestimates for the AGP is primarily due to improvements in market conditions from when the guarantee was committed in January 2009. The improved market conditions resulted in an increase in the projected AGP asset due to the net present value of the estimated cash inflows from the preferred stock and warrants received by OFS from Citigroup as a premium being greater than the estimated value of future claim payments associated with the $5.0 billion asset guarantee.

The approximately $10.6 billion in downward reestimates for the direct loans-AIFP is primarily the result of the post bankruptcy improved financial position of one of the major companies participating in the program. The $0.2 billion in downward reestimates for the TALF is entirely due to projected improved performance of the securities within the program versus the original estimate.

The $70.7 billion in repurchases during fiscal year 2009 accounts for $9.7 billion of the $72.4 billion in downward reestimates in the CPP. Projected repurchases of $30.0 billion in the next 12 months accounts for approximately $5.4 billion, with the $57.3 billion balance in downward reestimates in the CPP primarily due to improved market conditions from when the original estimate was made in December 2008.

The $21.5 billion in downward reestimates in the TIP is mostly due to improved market conditions from when the original estimates were made in December 2008 and January 2009. Approximately $2.3 billion is due to a $20.0 billion repurchase forecast within 12 months following September 30, 2009.

The $1.1 billion in downward reestimates for the AIG Investment Program and $2.7 billion in downward reestimates for the AIFP equity programs are primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

Key financial data for the Troubled Asset Relief Program Loans and Equity Investments and Asset Guarantee Program are included in the following two tables:

1. Direct Loans and Equity Investments Outstanding, Gross, represent amounts paid by OFS to acquire the loans and equity investments. Repurchases, redemptions, and repayments have been deducted from these balances.
2. Net Direct Loans and Equity Investments represent the present value of net cash flows that OFS estimates it will receive from the loans and equity investments. For equity securities, this amount represents fair value.
3. Subsidy Expense by component, subsidy cost allowance and a reconciliation of the subsidy cost allowance illustrate the relationship between subsidy cost and asset value.
4. Reconciliation of subsidy cost by program, is also incorporated in the tables.

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
NOTES TO THE FINANCIAL STATEMENTS
For the Period Ended September 30, 2009

(Dollars in Millions)	TOTAL	CPP	AIG	TIP	AIFP	CBLI
Note 6: Troubled Asset Relief Program Loans and Equity Investments						
Direct Loans And Equity Investment Programs:						
Direct Loans and Equity Investments Outstanding, Gross	$ 290,969	$ 133,901	$ 43,206	$ 40,000	$ 73,762	$ 100
Subsidy Cost Allowance	(53,077)	7,770	(30,054)	341	(31,478)	344
Net Direct Loans and Equity Investments	**$ 237,892**	**$ 141,671**	**$ 13,152**	**$ 40,341**	**$ 42,284**	**$ 444**
New Loans or Investments Disbursed	$ 363,826	$ 204,618	$ 43,206	$ 40,000	$ 75,902	$ 100
Obligations for Loans and Investments not yet Disbursed	**$ 51,681**	$ —	**$ 26,629**	$ —	**$ 5,152**	**$ 19,900**
BUDGET SUBSIDY RATE, EXCLUDING MODIFICATIONS AND REESTIMATES: (see Note 1 below)						
Interest Differential		5.97%	-45.52%	9.31%	6.97%	5.87%
Defaults		25.60%	123.56%	48.38%	54.21%	0.00%
Other		-4.58%	4.74%	-8.84%	-3.13%	-110.10%
Total Budget Subsidy Rate		**26.99%**	**82.78%**	**48.85%**	**58.05%**	**-104.23%**
Subsidy Cost by Component:						
Interest Differential	$ 4,175	$ 12,279	$ (17,280)	$ 3,724	$ 5,446	$ 6
Defaults	161,297	52,655	46,906	19,352	42,384	—
Other	(13,705)	(9,414)	1,799	(3,536)	(2,444)	(110)
Total Subsidy Cost, Excluding Modifications and Reestimates	**$ 151,767**	**$ 55,520**	**$ 31,425**	**$ 19,540**	**$ 45,386**	**$ (104)**
Reconciliation of Subsidy Cost Allowance:						
Balance, inception	$ —	$ —	$ —	$ —	$ —	$ —
Subsidy cost for disbursements	151,767	55,520	31,425	19,540	45,386	(104)
Subsidy cost for modifications	412	1,866	127	—	(1,589)	8
Interest and Dividend Collections	9,329	6,790	—	1,862	677	—
Warrants and additional notes	2,916	2,901	—	—	15	—
Net Interest (to) from Treasury on borrowings and Financing Account Balance	(2,773)	(2,428)	(373)	(276)	309	(5)
Balance, End of period, before reestimates	$ 161,651	$ 64,649	$ 31,179	$ 21,126	$ 44,798	$ (101)
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)
Balance, End of period	**$ 53,077**	**$ (7,770)**	**$ 30,054**	**$ (341)**	**$ 31,478**	**$ (344)**
Reestimates						
Interest on Reestimate	$ (7,213)	$ (3,861)	$ (280)	$ (1,101)	$ (1,950)	$ (21)
Subsidy	(101,361)	(68,558)	(845)	(20,366)	(11,370)	(222)
Total Reestimates - (Decrease) in Subsidy Cost	**$ (108,574)**	**$ (72,419)**	**$ (1,125)**	**$ (21,467)**	**$ (13,320)**	**$ (243)**
Reconciliation of Subsidy Costs:						
Subsidy cost for disbursements	$ 151,767	$ 55,520	$ 31,425	$ 19,540	$ 45,386	$ (104)
Subsidy cost for modifications	412	1,866	127	$ —	(1,589)	8
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)
Total Direct Loan and Equity Investment Programs Subsidy Costs	**$ 43,605**	**$ (15,033)**	**$ 30,427**	**$ (1,927)**	**$ 30,477**	**$ (339)**

Note 1: The rates reflected in the "Budget Subsidy Rate" table above are weighted rates for the program. To compensate for the weighting of the various risk category subsidy rates, the "by component" dollar amounts reflected were computed as a ratio of the component rate to the total weighted subsidy rate multiplied by the subsidy expense for the program. Therefore, the *Total Subsidy Cost excluding modifications and reestimates* will not equal the *New Loans or Investments Disbursed* multiplied by the *Budget Subsidy Rate*.

OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
NOTES TO THE FINANCIAL STATEMENTS
For the Period Ended September 30, 2009
(in Millions)

		AGP
Asset Guarantee Program		
Asset Guarantees Outstanding:		
Oustanding Principal Amount of Guaranteed Assets, Face Value	$	301,000
Amount of Outstanding Principal Guaranteed	$	5,000
Asset for Asset Guarantee Program	$	1,765
BUDGET SUBSIDY RATE, EXCLUDING MODIFICATIONS AND REESTIMATES:		
Defaults		43.62%
Fees and Other Collections		-53.23%
Other		-5.37%
Total Budget Subsidy Rate		-14.98%
Subsidy Cost by Component:		
Defaults		2,181
Fees and Other Collections		(2,662)
Other		(270)
Total Subsidy Cost, Excluding Modifications and Reestimates	$	(751)
RECONCILIATION OF ASSET GUARANTEE PROGRAM:		
Balance, Inception	$	—
Subsidy cost		(751)
Dividend Collections on Preferred Stock		175
Net Interest from Treasury on Borrowings and Financing Account Balance		(15)
Balance, End of Period, Before Reestimate	$	(591)
Subsidy Reestimate		(1,174)
Balance, End of Period	$	(1,765)
REESTIMATES:		
Interest on Reestimate	$	(77)
Subsidy		(1,097)
Total Reestimates - (Decrease) in Subsidy Cost	$	(1,174)
RECONCILIATION OF SUBSIDY COSTS:		
Subsidy cost	$	(751)
Subsidy reestimate		(1,174)
Cancellation fees collected		(276)
Total Asset Guarantee Program Subsidy Cost	$	(2,201)

NOTE 7. COMMITMENTS AND CONTINGENCIES

The OFS is party to various legal actions and claims brought by or against it. In the opinion of management and General Counsel, the ultimate resolution of these legal actions and claims will not have a material effect on the OFS financial statements as of September 30, 2009. The OFS has not incurred any loss contingencies that would be considered probable or reasonably possible for these cases. Refer to Note 6 for additional commitments.

NOTE 8. PRINCIPAL PAYABLE TO THE BUREAU OF THE PUBLIC DEBT

Equity investments, direct loans, and asset guarantees accounted for under credit reform accounting are funded by subsidy appropriations and borrowings from the BPD. The OFS also borrows funds to pay the Treasury General Fund for negative subsidy costs and downward reestimates. The OFS makes periodic principal repayments to the BPD based on the analysis of its cash balances and future disbursement needs. All debt is intragovernmental and covered by budgetary resources. See additional details on borrowing authority in Note 10, Statement of Budgetary Resources.

Debt transactions for the period ending September 30, 2009, are:

	(Dollars in Millions)	
Beginning Balance, Principal Payable to the BPD	$	—
New Borrowings		215,593
Repayments		(72,258)
Ending Balance, Principal Payable to the BPD	$	143,335

Borrowings from the BPD by TARP Program that are outstanding as of September 30, 2009, are as follows:

	(Dollars in Millions)	
Capital Purchase Program	$	77,232
American International Group, Inc. Investment Program		12,531
Targeted Investment Program		20,460
Automotive Industry Financing Program		32,134
Consumer & Business Lending Initiative		204
Asset Guarantee Program		774
Total Borrowings Outstanding	$	143,335

Borrowings are payable to the BPD as collections are available and carry terms ranging from 2 to 30 years. Interest rates on borrowings range from 1.0% to 4.5%. Interest expense for the period ended September 30, 2009, was $6.4 billion.

NOTE 9. STATEMENT OF NET COST

The Statement of Net Cost (SNC) presents the net cost of operations for the OFS for the Department of the Treasury strategic goal of ensuring that U.S. and World economies perform at full economic potential. The OFS has determined that all initiatives and programs under the TARP fall within this strategic goal.

The OFS SNC reports the 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 includes approximately $6.4 billion of intragovernmental costs relating to interest expense on borrowings from the BPD and approximately $3.6 billion in intragovernmental revenues relating to interest income on financing account balances for the period ended September 30, 2009.

Subsidy Allowance Amortized on the SNC is the difference between interest income on financing fund account balances, dividends and interest income on direct loans, equity investments, and asset guarantees from TARP participants, and interest expense on borrowings from the BPD. Credit reform accounting requires all costs on the SNC for programs to be reflected only in the subsidy cost. The subsidy allowance account is used to present the loan or equity investment at the estimated net present value of future cash flows.

NOTE 10. 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 period ended September 30, 2009. The OFS's total budgetary resources were approximately $238.3 billion for the period ended September 30, 2009. Additionally, non-budgetary resources including borrowing authority and spending authority from collections of loan principal, liquidation of equity investments, interest and fees in financing funds were approximately $461.1 billion for the period ended September 30, 2009.

PERMANENT INDEFINITE APPROPRIATIONS

The OFS receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loans and the OFS investment programs as determined by the reestimation process required by the FCRA. The initial funding as a result of the reestimation process will occur in 2010.

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

BORROWING AUTHORITY

The OFS is authorized to borrow from the BPD when funds needed to disburse direct loans and investments, and to enter into asset guarantee arrangements exceed subsidy costs and collections in the non-budgetary financing accounts. As of September 30, 2009, the OFS had available approximately $45.8 billion of borrowing authority.

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

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. 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 reimbursements).

UNDELIVERED ORDERS

Undelivered orders as of September 30, 2009, were approximately $56.1 billion in budgetary accounts, and approximately $79.2 billion in non-budgetary financing accounts.

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

Federal agencies 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 (President's Budget). However, the President's Budget, which will include the FY 2009 actual amounts for OFS, has not yet been published. The President's Budget is expected to be published in February 2010 and will be made available from the U.S. Government Printing Office. Since the financial statements are published before the President's Budget, a reconciliation is to be performed between the prior year's SBR and the actual amounts for that year published in the prior year's President's Budget. Any significant differences identified from this reconciliation are to be explained in the federal agency's notes to its financial statements. Given that FY 2009 is the OFS's first year of operations, no prior year data was available to perform a comparison.

NOTE 11. RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

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

The Reconciliation of Obligations Incurred to Net Cost of Operations for the period ended September 30, 2009 is as follows:

	(Dollars in Millions)
Resources Used to Finance Activities:	
Obligations Incurred	$ 662,296
Spending Authority from Offsetting Collections	(271,999)
Offsetting Receipts	(2,720)
Total Resources Used to Finance Activities	387,577
Resources Used to Finance Items Not Part of Net Cost:	
Net Obligations in Loan and Investment Financing Funds	(180,185)
Increase in Resources Obligated for Items Ordered but not yet Provided	(56,073)
Total Resources Used to Finance Items Not Part of Net Cost	(236,258)
Resources Used to Finance Net Cost	151,319
Components of Net Cost That Will Not Require or Generate Resources in the Current Period:	
Downward Reestimate of Subsidy Cost	(109,748)
Other	2
Total Components of Net Cost Not Requiring or Generating Resources in the Current Period	(109,746)
Net Cost of Operations	**$ 41,573**

REQUIRED SUPPLEMENTARY INFORMATION
OFFICE OF FINANCIAL STABILITY (TROUBLED ASSET RELIEF PROGRAM)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2009

	Combined		TARP Programs		TARP Administrative Fund	
(Dollars in Millions)	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts	Budgetary Accounts	Nonbudgetary Financing Accounts
BUDGETARY RESOURCES						
Unobligated Balances Brought Forward, Inception	$ —	$ —	$ —	$ —	$ —	$ —
Budget Authority:						
Appropriations	238,268	—	237,989	—	279	—
Borrowing Authority	—	309,971	—	309,971	—	—
Spending Authority from Offsetting Collections						
Earned: Collected	—	243,072	—	243,072	—	—
Change in Unfilled Orders Without Advance	—	28,927	—	28,927	—	—
Total Budget Authority	238,268	581,970	237,989	581,970	279	
Permanently Not Available	—	(120,841)	—	(120,841)	—	—
TOTAL BUDGETARY RESOURCES	$ 238,268	$ 461,129	$ 237,989	$ 461,129	$ 279	$ —
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred:						
Direct	$ 210,112	452,184	$ 209,863	452,184	$ 249	$ —
Unobligated Balance:						
Apportioned and Available	28,156	7,009	28,126	7,009	30	—
Not Available	—	1,936	—	1,936	—	—
TOTAL STATUS OF BUDGETARY RESOURCES	$ 238,268	$ 461,129	$ 237,989	$ 461,129	$ 279	$ —
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward, Inception	$ —	$ —	$ —	$ —	$ —	$ —
Obligations Incurred	210,112	452,184	209,863	452,184	249	—
Gross Outlays	(153,961)	(372,982)	(153,871)	(372,982)	(90)	—
Change in Uncollected Customer Payments from Federal Sources	—	(28,927)	—	(28,927)	—	—
Obligated Balance, Net, End of Period:						
Unpaid Obligations	56,151	79,202	55,992	79,202	159	—
Uncollected Customer Payments from Federal Sources	—	(28,927)	—	(28,927)	—	—
Obligated Balance, Net, End of Period	$ 56,151	$ 50,275	$ 55,992	$ 50,275	$ 159	$ —
NET OUTLAYS						
Gross Outlays	$ 153,961	$ 372,982	$ 153,871	$ 372,982	$ 90	$ —
Offsetting Collections	—	(243,072)	—	(243,072)	—	—
Distributed Offsetting Receipts	(2,720)	—	(2,720)	—	—	—
NET OUTLAYS	$ 151,241	$ 129,910	$ 151,151	$ 129,910	$ 90	$ —

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