DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 10, 2013

The Honorable Christy L. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street, NW, 4th Floor
Washington, D.C. 20036

Re: Response to SIGTARP July 2013 Quarterly Report

Dear Ms. Romero:

I write for two purposes, both of which are in response to your July 24, 2013 Quarterly Report to Congress. First, as I do every quarter, I write to provide an update on open recommendations from the Special Inspector General for the Troubled Asset Relief Program. Second, I write to raise concerns about SIGTARP's failure to publish correspondence from the Department of the Treasury about the Troubled Asset Relief Program.

On the first point, Treasury gives careful consideration to all of SIGTARP's recommendations. Treasury's policies and programs currently address many of SIGTARP's concerns, and in many cases Treasury has taken specific actions to implement SIGTARP's recommendations. When we determine that a recommendation would not further Treasury's statutory duties under the Emergency Economic Stabilization Act, we develop alternative methods to address SIGTARP's underlying concerns and explain those methods in our responses to SIGTARP and to Congress. I note that you sent three recommendations related to the appointment of bank directors on September 30, 2013, the last day of the quarter. As such, we are still in the process of reviewing them and will respond at a later date. Treasury's updates on other SIGTARP recommendations are enclosed as Attachment A.

On the second point, I note that SIGTARP has stopped publishing in the Quarterly Reports certain letters from Treasury. Such letters include our updates on open recommendations, our responses to recommendations, our responses to past reports, and corrections to SIGTARP misstatements about our programs. These letters not only provide valuable information to you about the status of TARP, but they also would inform Congress and the general public about important issues affecting the taxpayers' investment.

Although we have taken steps to keep the public informed by posting this correspondence on our website at www.financialstability.gov, I again ask SIGTARP to publish Treasury's correspondence (including this letter) in the Quarterly Reports. As always, I am available to discuss these issues with you further at your convenience.

Sincerely,

Tim Massad

Timothy G. Massad
Assistant Secretary for Financial Stability

Enclosures

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

October 10, 2013

ASSISTANT SECRETARY

The Honorable Christy L. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street, NW, 4th Floor
Washington, DC 20036

Re: Reporting of TARP Investments

Dear Ms. Romero:

I write in response to your recent letter to the Treasury Department regarding accounting for funds repaid under the Troubled Asset Relief Program (TARP). Treasury welcomes oversight in all of its programs, including TARP. We are happy to respond to your suggestions.

You write that "in order to prevent confusion, promote transparency, and present taxpayers who funded TARP with clear and accurate reporting, when Treasury discusses the amount of TARP funds (or CPP funds) recovered or repaid, Treasury should not count the $2.2billion [sic] in TARP investments that Treasury refinanced into the Small Business Lending Fund." We agree with the goals of your recommendation. We have already taken many steps that achieve the objective while remaining consistent with the requirements of law and the accounting rules we must follow. We have explained this below, first by detailing the law and accounting requirements that apply to us and then noting the actions we have taken to provide clear reporting within this framework.

We appreciate your desire for clear communication to taxpayers. In that spirit, we also have noted a few areas where we believe SIGTARP could change its own reporting of TARP accounts so as to be consistent with the required accounting principles and avoid confusion.

I. TARP Accounting Follows Applicable Laws and Principles.

It is first useful to note the laws and principles that govern these issues. The Small Business Lending Fund (SBLF) is a fund created under the Small Business Jobs Act of 2010. The SBLF was designed to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. Congress specifically directed that SBLF not be a part of TARP, and thus SBLF and TARP accounts are kept separate.

In addition, Congress specifically required Treasury "to permit eligible institutions to refinance securities issued to Treasury under [TARP] for securities to be issued under the [SBLF]."[1] These Congressional mandates explain why we permitted eligible institutions that applied for SBLF financing and satisfied the relevant criteria to refinance their TARP investments with SBLF funds. We note that your letter omits these points.

[1] Pub. L. No. 111-240, 124 STAT. 2591.

In addition to the requirements under the Small Business Jobs Act, the Emergency Economic Stabilization Act of 2008 (EESA) (the law that created TARP) mandates the reporting principles that apply to TARP reports. EESA requires Treasury to produce financial statements for TARP on a stand-alone basis. These financial statements are required to be produced in accordance with the Generally Accepted Accounting Principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB). These are the same accounting standards that the Congressional Budget Office, the Government Accountability Office, and other Federal entities use in their financial reporting. These standards require Treasury to include in its financial statements all funds repaid by institutions that received TARP investments, regardless of the source of the funds used by the bank to make a repayment.

Congress did not amend EESA when it created the SBLF. As such, we are required to count repayments that are made through SBLF refinancings as "repayments." We have done this ever since the SBLF was launched.

The GAO audits our financial statements annually and thus has reviewed our accounting for SBLF-refinanced repayments. We have received an unqualified audit opinion from the GAO each year since TARP began. Treasury also has received a Certificate of Excellence in Accountability Reporting from the Association of Government Accountants each of those years. Such accomplishments and recognition are rare, especially for a start-up operation of this magnitude.

II. We Have Taken Actions that Address the Goals of Your Recommendation.

We agree that it is in the public interest to make clear the amount of TARP investments that were repaid with SBLF funds. Toward that end, we have taken the following action in our financial statements and other public reports:

- Agency Financial Report (AFR) – EESA requires the Office of Financial Stability (OFS) to prepare an annual stand-alone AFR. Within the fiscal year 2012 report, located at www.treasury.gov/initiatives/financial-stability/reports/Documents/2012_OFS_AFR_Final_11-9-12.pdf, OFS references SBLF refinancings in multiple locations, including a footnote to Table 2 on page 7, as a stand-alone paragraph on page 20, and on pages 69-70 in the narrative and tables.

- Transactions Report – EESA requires Treasury to produce a report within two business days of any TARP "transaction." This includes a repayment of a CPP investment. Although not required by EESA or the Small Business Jobs Act, we have taken action to distinguish SBLF repayments from all other repayments. The transaction report includes four footnotes identifying specifically "Repayment pursuant to Title VII, Section 7001(g) of the American Recovery and Reinvestment Act of 2009 using proceeds received in connection with the institution's participation in the Small Business Lending Fund."

- Daily TARP Update – Although not required by EESA, Treasury produces online a daily detailed statement that shows, for each program under TARP, how much has been obligated, disbursed and repaid, along with the amount still outstanding. It also shows income such as dividends and fees. Although applicable accounting rules treat SBLF-financed repayments like any other, we have taken steps to distinguish them on this report also. The Daily TARP Update includes a unique column for repayments under the SBLF, separate from other repayments. That column also includes a footnote reading "This row represents the portion of CPP repayments that were received from refinancing to the Small Business Lending Fund (SBLF), which is not a TARP program. The law creating the SBLF provided that banks could refinance securities issued under the CPP and CDCI programs with securities issued under the SBLF. A total of 137 CPP banks refinanced under the SBLF resulting in repayments of $2.21 billion in CPP investments. This amount is included in total repayments and therefore, this column is not used to calculate the 'Outstanding' amount."

- Monthly Report to Congress – EESA requires Treasury to produce a monthly report to Congress containing all transactions during the reporting period. Although not required, we distinguish SBLF-financed repayments from all others in several places. The report contains the Daily Tarp Update as of the last date of the month which contains the dedicated SBLF disclosure noted above. In addition, Figure 2 of the report is entitled "Treasury Estimates of the Impact of TARP Programs and Other Treasury Investment in AIG on the Federal Budget." This statement includes a footnote that reads "The law creating the Small Business Lending Fund (SBLF) provided that banks could refinance securities issued under the CPP and CDCI programs with securities issued under the SBLF. A total of 137 CPP banks refinanced under the SBLF resulting in repayments of $2.21 billion in CPP investments." Finally, in the section of the report that contains the program updates on CPP, which is called the CPP Snapshot, the number of institutions exiting via SBLF Repayments is specifically stated with a footnote: "2/ Actual collections to date. Includes $2.21 billion in SBLF transfers and $0.36 billion in CDCI transfers."

- Press releases on CPP Auctions—we periodically issue press releases on the results of our auctions of CPP investments. These press releases sometimes include a statement on the total collections, with an SBLF disclosure making clear the portion of the repayments that comes from SBLF.

- Recent presentation on the Financial Crisis—we recently posted a chart presentation on our website marking the fifth anniversary of the financial crisis. Where we discussed total collections on the bank programs, we included a disclosure to note the portion that came from repayments made through SBLF refinancings.

These examples make clear that we have addressed SIGTARP's recommendation by specifically breaking-out the SBLF figures in our public reports. We have attached examples of these disclosures to this letter.

III. Accurate Public Reports are Essential to the Public's Understanding of TARP.

Not only do we agree with SIGTARP that our public reports about TARP financial data should be as clear as possible, we believe the same standard should apply to SIGTARP's reports about TARP investments. Over the past year, I have written SIGTARP about its Quarterly Report to Congress and other public statements, which have included figures not consistent with Treasury's audited financial statements, Treasury's monthly report to Congress, or Treasury's Daily TARP Update. I remain concerned that SIGTARP's alternative figures could lead to confusion about the taxpayers' investment in TARP.

For example, SIGTARP continues to refer to an amount of TARP investments that it believes is still "owed," even though this is not a number that is in our financial statements and SIGTARP calculates this amount in a manner that is not consistent with GAAP requirements. Since SIGTARP uses this figure instead of the amount "outstanding," which is a GAAP required number, SIGTARP's reports could create a false impression about TARP's overall cost to the taxpayer.

As of June 30, 2013 (the time period for the most recent Quarterly Report), the amount of "outstanding" TARP investments was $28.6 billion. In contrast, SIGTARP reported the amount "owed" as $57.6 billion. The amount "owed" represents only the amount disbursed less principal repayments on those investments. It does not take into account write-offs related to bankrupt entities and realized losses generally resulting from sales. The amount "outstanding," by contrast, does take into account the amount of such write-offs and realized losses.

In addition, SIGTARP's use of the amount "owed" is not an accurate presentation of what would make the taxpayers "whole" on the outstanding TARP investments. This is because SIGTARP's calculation of the amount "owed" does not include any of the additional income Treasury has received. As of June 30, 2013, such additional income (from dividends, interest payments, warrant sales, and stock sales) was $46.4 billion (or a total of $64.0 billion when accounting for the non-TARP AIG shares repaid).

IV. Conclusion

Treasury is committed to transparency and providing clear and accurate information to the public. If you have any questions about how to reflect the current status of TARP investments in accordance with GAAP, my letters from the past year provide greater detail. I would also be happy to discuss these issues with you at your convenience.

Sincerely,

Tim M

Timothy G. Massad
Assistant Secretary for Financial Stability

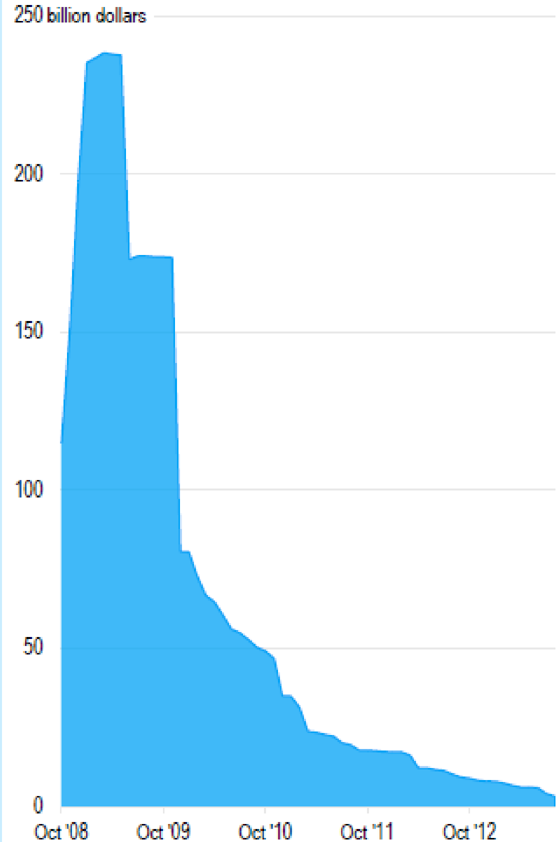
Enclosures

Bank Support Programs Update

In early October 2008, Treasury launched a series of programs to stabilize the nation's banking institutions. A total of $245.1 billion was invested in banking institutions. As of August 31, 2013 Treasury has recovered $272.7 billion through repayments[3], dividends, interest, and other income, with approximately $3.3 billion outstanding. This represents a gain of $27.6 billion on its investments through TARP's bank programs. Every additional dollar collected from its investments in banking institutions represents an additional gain for taxpayers.

Of the five banking programs established under TARP, only two – the Capital Purchase Program (CPP) and the Community Development Capital Initiative (CDCI) -- remain. Treasury is now following a strategy to wind down its remaining TARP bank investments in a way that protects taxpayer interests, promotes financial stability, and preserves the strength of our nation's community banks.

Bank Support Program Funds Outstanding



[3] This includes (i) $2.21 billion in CPP investments refinanced under the Small Business Lending Fund (SBLF), a program created by Congress outside of TARP under which certain CPP institutions were allowed to repay TARP funds by borrowing under that program, and (ii) $0.36 billion in exchanges of CPP investments into the Community Development Capital Initiative (CDCI), as permitted under the terms of that program.

Daily TARP Update for 10/08/2013

(*Dollars in Billions*)	Obligated	Principal/Investment						Income/Revenue					Total Cash Back[7]
		Disbursed	Repayments	Refinancing to SBLF[1]	CPP Exchanges Into CDCI[2]	Write-offs & Realized Losses	Outstanding[3]	Dividends[4]	Interest[4]	Warrants Sold[5]	Other Income (Expenses)[6]	Total Income	
Bank Support Programs													
Capital Purchase Program (CPP)													
Banks with Assets $10 Billion or Greater	$ 165.33	$ 165.33	$ 161.50	$ -	$ -	$ 2.65	$ 1.17	$ 9.45	$ -	$ 7.48	$ 0.02	$ 16.95	$ 178.45
Banks with Assets Less Than $10 Billion	$ 14.57	$ 14.57	$ 11.05	$ 2.21	$ 0.36	$ 1.96	$ 1.20	$ 1.66	$ -	$ 0.35	$ (0.02)	$ 1.99	$ 13.04
Citigroup Common[8]	$ 25.00	$ 25.00	$ 25.00		$ -	$ -	$ -	$ 0.93	$ -	$ 0.05	$ 6.85	$ 7.84	$ 32.84
Targeted Investment Program (TIP)													
Bank Of America	$ 20.00	$ 20.00	$ 20.00			$ -	$ -	$ 1.44	$ -	$ 1.24	$ -	$ 2.67	$ 22.67
Citigroup	$ 20.00	$ 20.00	$ 20.00			$ -	$ -	$ 1.57	$ -	$ 0.19	$ -	$ 1.76	$ 21.76
Asset Guarantee Program (AGP)													
Bank Of America	$ -	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ 0.28	$ 0.28	$ 0.28
Citigroup	$ 5.00	$ -	$ -			$ -	$ -	$ 0.64	$ -	$ 0.07	$ 3.14	$ 3.85	$ 3.85
Community Development Capital Initiative (CDCI)	$ 0.57	$ 0.21	$ 0.09		$ (0.36)	$ 0.01	$ 0.47	$ 0.03	$ -	$ -	$ -	$ 0.03	$ 0.12
Bank Program Totals	**$ 250.46**	**$ 245.10**	**$ 237.64**		**$ -**	**$ 4.62**	**$ 2.85**	**$ 15.72**	**$ -**	**$ 9.38**	**$ 10.27**	**$ 35.36**	**$ 273.01**
Credit Market Programs													
Public-Private Investment Program (PPIP)													
Equity[9]	$ 7.23	$ 6.25	$ 6.25			$ -	$ -	$ 0.89	$ -	$ -	$ 2.64	$ 3.52	$ 9.77
Debt	$ 12.38	$ 12.38	$ 12.38			$ -	$ -	$ -	$ 0.32	$ -	$ -	$ 0.32	$ 12.70
Term Asset Backed Securities Lending Facility	$ 0.10	$ 0.10	$ 0.10			$ -	$ -	$ -	$ 0.01	$ -	$ 0.57	$ 0.58	$ 0.68
Purchase SBA 7(a) Securities (SBA)	$ 0.37	$ 0.37	$ 0.36			$ 0.00	$ -	$ -	$ 0.01	$ -	$ 0.00	$ 0.01	$ 0.38
Credit Market Program Totals	**$ 20.08**	**$ 19.09**	**$ 19.09**			**$ 0.00**	**$ -**	**$ 0.89**	**$ 0.35**	**$ -**	**$ 3.21**	**$ 4.44**	**$ 23.53**
Other Programs													
American International Group (AIG)[10]													
Common	$ 47.54	$ 47.54	$ 34.06			$ 13.48	$ -	$ -	$ -	$ 0.03	$ -	$ 0.03	$ 34.08
Preferred	$ 20.29	$ 20.29	$ 20.29			$ -	$ -	$ 0.64	$ -	$ -	$ 0.29	$ 0.93	$ 21.23
AIG Totals	**$ 67.84**	**$ 67.84**	**$ 54.35**			**$ 13.48**	**$ -**	**$ 0.64**	**$ -**	**$ 0.03**	**$ 0.29**	**$ 0.96**	**$ 55.31**
Automotive Industry Financing Program (AIFP)													
GM[11]	$ 51.03	$ 51.03	$ 35.22			$ 9.70	$ 6.12	$ -	$ 0.77	$ -	$ (0.01)	$ 0.76	$ 35.98
Chrysler	$ 12.37	$ 12.37	$ 9.44			$ 2.93	$ -	$ -	$ 1.19	$ -	$ 0.50	$ 1.69	$ 11.13
Ally (GMAC)	$ 16.29	$ 16.29	$ 2.54			$ 0.00	$ 13.75	$ 3.54	$ -	$ -	$ 0.13	$ 3.67	$ 6.21
AIFP Totals	**$ 79.69**	**$ 79.69**	**$ 47.20**			**$ 12.62**	**$ 19.87**	**$ 3.54**	**$ 1.95**	**$ -**	**$ 0.62**	**$ 6.12**	**$ 53.31**
Other Programs Totals	**$ 147.53**	**$ 147.53**	**$ 101.55**			**$ 26.11**	**$ 19.87**	**$ 4.18**	**$ 1.95**	**$ 0.03**	**$ 0.91**	**$ 7.07**	**$ 108.62**
Treasury Housing Programs Under TARP													
Making Homes Affordable	$ 29.87	$ 6.51											
HFA Hardest-Hit Fund	$ 7.60	$ 2.91											
FHA Refinance[12]	$ 1.03	$ 0.06											
Housing Totals	**$ 38.49**	**$ 9.48**											
TARP Totals	**$ 456.56**	**$ 421.20**	**$ 358.28**		**$ -**	**$ 30.73**	**$ 22.72**	**$ 20.79**	**$ 2.30**	**$ 9.40**	**$ 14.39**	**$ 46.88**	**$ 405.16**
Additional Treasury Holdings													
Additional AIG Common Shares Held by Treasury[10]											$ 17.55	$ 17.55	$ 17.55
Total for TARP Programs and Additional AIG Shares	**$ 456.56**	**$ 421.20**	**$ 358.28**		**$ -**	**$ 30.73**	**$ 22.72**	**$ 20.79**	**$ 2.30**	**$ 9.40**	**$ 31.94**	**$ 64.43**	**$ 422.71**

Notes

All figures are as of prior business day and are subject to adjustment(s)

1 This row represents the portion of CPP repayments that were received from refinancing to the Small Business Lending Fund (SBLF), which is not a TARP program. The law creating the SBLF provided that banks could refinance securities issued under the CPP and CDCI programs with securities issued under the SBLF. A total of 137 CPP banks refinanced under the SBLF resulting in repayments of $2.21 billion in CPP investments. This amount is included in total repayments and therefore, this column is not used to calculate the "Outstanding" amount.

2 This column represents non-cash exchanges out of CPP into CDCI. A total of 28 CPP banks, representing $355.7 million, converted from CPP to CDCI. The total amount exchanged into CDCI, with converted warrants, was $363.3 million.

3 Excludes outstanding investments in institutions that have entered into bankruptcy or receivership.

4 For equity programs, all dividend and interest payments are classified in the “Dividends” category. For direct loan programs, all dividend and interest payments are classified in the “Interest” category. These classifications are consistent with the accounting treatment used to produce OFS’ financial statements.

5 Amount of "Warrants Sold" reflects net cash receipts.

Notes (continued)

[6] "Other Income (Expenses)" includes gains on sales, investment income, fees collected, and disposition expenses.

[7] This column represents the sum of repayments plus income/revenue. All returned TARP funds are paid into the general fund of the Treasury for the reduction of the public debt. These amounts do not represent lifetime cost estimates, which OFS provides in its monthly 105(a) report to Congress.

[8] Citigroup CPP investment was originally in the form of preferred shares and was converted to common stock in September 2009.

[9] Allocation of PPIP Equity receipts between repayments and income are subject to reclassification.

[10] Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares). Treasury managed the TARP shares and non-TARP shares together, and disposed of them pro-rata in proportion to its holdings. Only the TARP shares are included under "Other Programs—AIG" and the "Write-offs & Realized Losses" column shows a loss based on Treasury's cost basis of $43.53 in the TARP shares alone. The non-TARP shares are shown at the bottom of the page after the TARP Total under "Additional AIG Common Shares Held by Treasury." A gain in the "Other Income (Expenses)" column is shown for the non-TARP shares because Treasury's cost basis in such shares is deemed to be zero. When the TARP shares and non-TARP shares are considered together, Treasury's cost on a cash basis is $28.73 per share. With the sale of all remaining shares in December 2012, Treasury has recovered a total of $72.84 billion (including proceeds from the sale of the non-TARP shares), compared to total TARP disbursements of $67.84 billion.

[11] Treasury's investment in GM was originally made primarily in the form of loans, some of which were subsequently converted into common and preferred stock. Treasury currently holds only common stock. The realized loss reflects the difference between the prices at which Treasury has sold common shares in GM's initial public offering and subsequent sales and the Treasury's cost basis ($43.52 per common share) for such shares. Treasury intends to continue to dispose of its GM shares in an orderly fashion, subject to market conditions.

[12] Treasury has entered into a letter of credit (L/C) to fund the FHA Short Refinance Program. Pursuant to this L/C, a reserve account has been pre-funded with $50 million in funds for any future loss claim payments. Treasury will be reimbursed for all unused amounts from this account. In March 2013, Treasury extended the L/C to provide coverage for loans refinanced throughout the eligibility period, which had been extended to December 2014, but reduced the amount to $1 billion. The obligation related to the FHA Short Refinance Program was reduced accordingly from $8 billion to $1 billion.

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U.S. DEPARTMENT OF THE TREASURY

Press Center

Treasury Department Announces $91.0 Million In Proceeds From Pricing of Auctions of Preferred Stock of Six Financial Institutions

9/18/2013

WASHINGTON – As part of the strategy it outlined for winding down its remaining Troubled Asset Relief Program (TARP) bank investments, the U.S. Department of the Treasury announced that it priced auctions of preferred stock (the "CPP Securities") in the following six institutions at the following prices:

Issuer and Security	Price per share*	Number of shares	Aggregate Gross Proceed
Centrue Financial Corporation, Ottawa, IL			
Fixed Rate Cumulative Perpetual Preferred Stock, Series C	$325.00	25,266	$8,211,450.0
DeSoto County Bank, Horn Lake, MS			
Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A	$828.33	1,173	$971,631.0
Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B	$970.00	59	$57,230.0
Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C	$812.51	1,508	$1,225,265.0
			$2,254,126.1
First Banks, Inc., Clayton, MO			
Fixed Rate Cumulative Perpetual Preferred Stock, Class C	$551.59	11,669	$6,436,503.7
RCB Financial Corporation, Rome, GA			
Fixed Rate Cumulative Perpetual Preferred Stock, Series A	$907.11	8,900	$8,073,279.0
Fixed Rate Cumulative Perpetual Preferred Stock, Series B	$955.01	268	$255,942.6
			$8,329,221.6
Reliance Bancshares, Inc., Frontenac, MO			
Fixed Rate Cumulative Perpetual Preferred Stock, Series A	$1,004.90	40,000	$40,196,000.0
Fixed Rate Cumulative Perpetual Preferred Stock, Series B	$1,111.01	2,000	$2,222,020.0
			$42,418,020.0

Severn Bancorp, Inc., Annapolis, MD			
Fixed Rate Cumulative Perpetual Preferred Stock, Series B	$998.90	23,393	$23,367,267.7

*Reflects a liquidation preference of $1,000 per share.

Treasury sold approximately 77% of its shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C, of Centrue Financial Corporation due to the fact that Treasury did not receive sufficient bids above the minimum price for the security in accordance with the auction procedures. Treasury set a minimum price for each security as part of the auctions in order to protect taxpayer interests.

The aggregate gross proceeds to Treasury from the auctions are expected to be approximately $91.0 million.

"We are one step closer to winding down the TARP bank programs after this latest round of auctions," said Timothy Massad, Assistant Secretary for Financial Stability. "These programs helped prevent a collapse of our financial system and have generated a $27 billion return for taxpayers."

TARP's bank programs have already earned a significant profit for taxpayers. Including the expected proceeds from the transactions announced today, Treasury has now recovered more than $272 billion from TARP's bank programs through repayments, dividends, interest, and other income – compared to the $245 billion initially invested. Approximately $2 billion of the repayments were refinanced under the Small Business Lending Fund (SBLF). Congress created the SBLF outside of TARP and required Treasury to let CPP institutions repay TARP funds by borrowing under that program. Each additional dollar recovered from TARP's bank programs is an additional dollar of profit for taxpayers.

The vast majority of the more than $272 billion in funds recovered to date are from repayments at par, as well as dividends, interest, and sales of warrants. Proceeds from CPP preferred stock auctions comprise less than one percent (approximately $3 billion) of that overall total (over $272 billion).

These auctions are part of the strategy that Treasury outlined in May 2012 for winding down its remaining TARP bank investments in a way that protects taxpayer interests and preserves the strength of our nation's community banks. Treasury indicated that it intends to use a combination of repayments, restructurings, and sales to manage and recover those remaining investments.

The closings for the auctions are expected to occur on or about September 25, 2013, subject to customary closing conditions. The offerings were priced through modified Dutch auctions.

The CPP Securities sold in the auction have not been and will not be registered under the Securities Act of 1933, as amended (the Act), and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons absent registration under, or an applicable exemption from, the registration requirements of the Act and applicable state securities law. The CPP Securities were offered only to (1) domestic "qualified institutional buyers" as defined in Rule 144A under the Act, (2) certain domestic institutional "accredited investors" as defined in Rule 501 (a) under the Act that have total assets of not less than $25,000,000 and (3) in certain cases, certain directors and executive officers of the respective issuers of the CPP Securities. This press release does not constitute an offer to sell or the solicitation of an offer to buy the CPP Securities, and shall not constitute an offer, solicitation or sale in any jurisdiction in which, or to any persons to whom, such offering, solicitation or sale would be unlawful.

For more details on Treasury's lifetime cost estimates for TARP programs, please visit Treasury's Monthly 105(a) Report to Congress on TARP at this link. To see how Treasury has invested and recovered TARP funds, please see the interactive TARP Tracker here.

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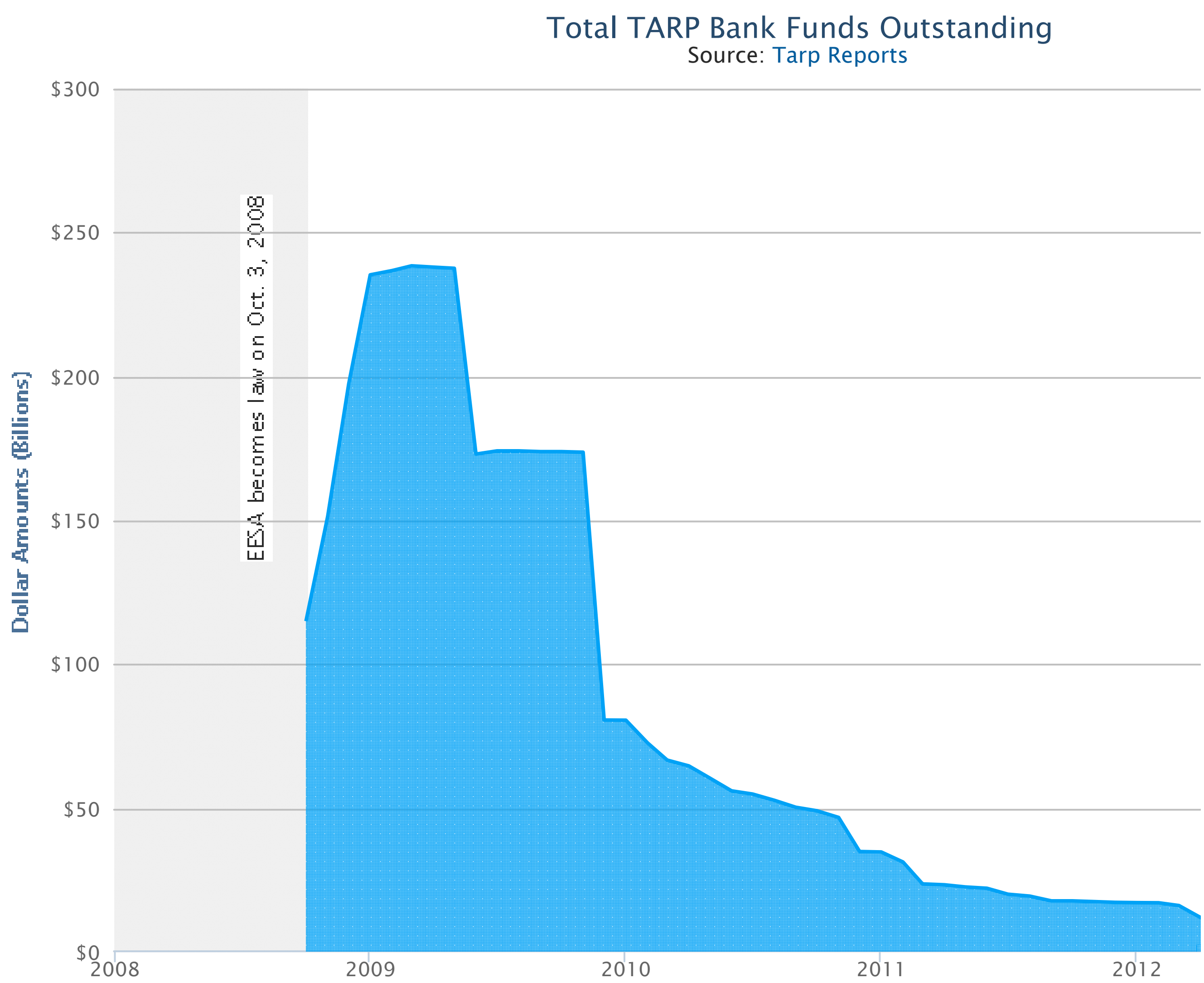
U.S. DEPARTMENT OF THE TREASURY

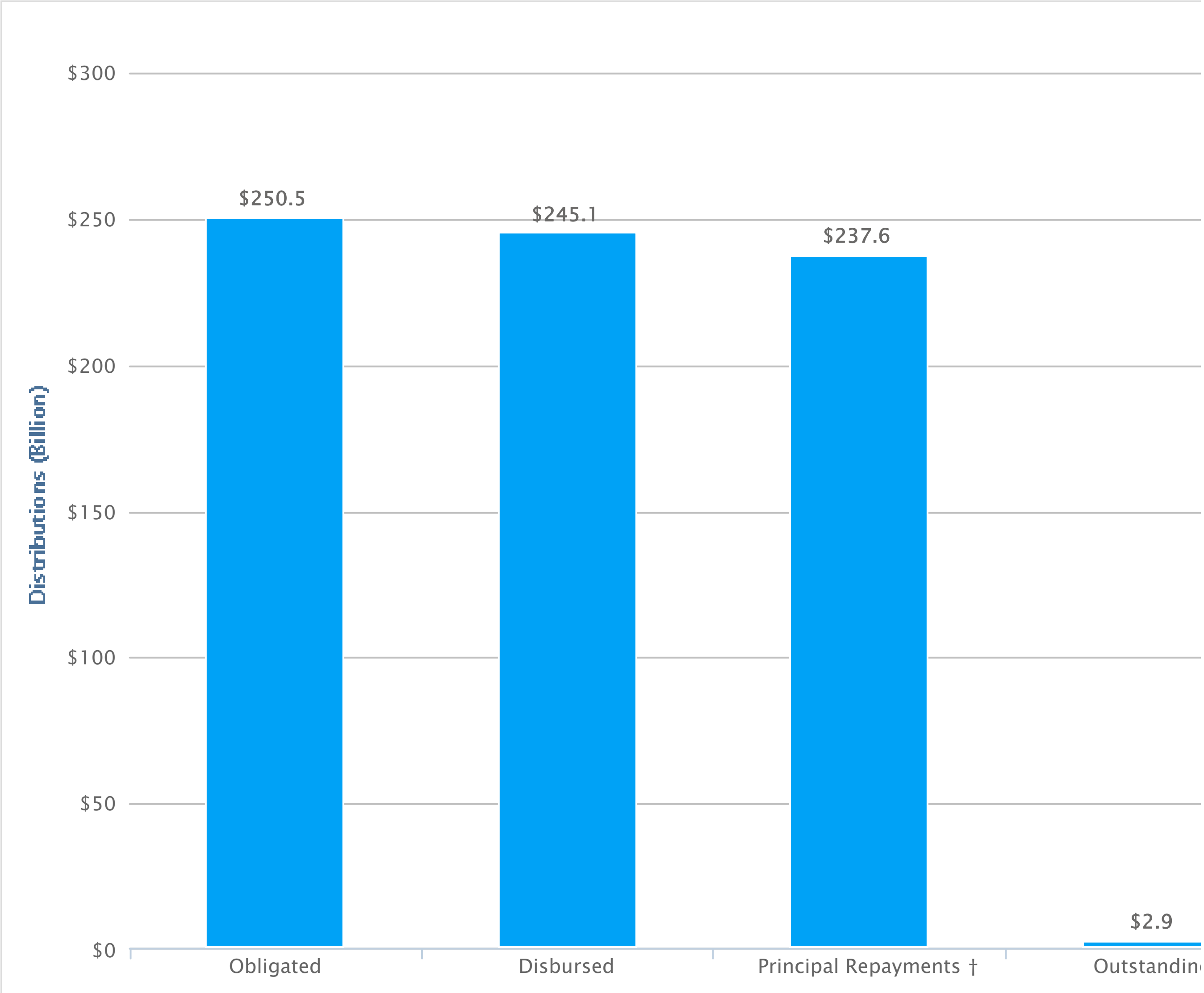
Office of Financial Stability - TARP Tracker

TARP Tracker from October 2008 to October 2013

All	AIG	Auto	Bank	C



Disposition of TARP Bank Funds as of October 2013



TARP Tracker from October 2008 to October 2013

Disclaimer

* = Outstanding is the amount disbursed less any principal repayments, write-offs, and realized losses.

† = This includes $2.21 billion, received between July and September 2011, from 137 institutions that refinanced CPP or CDCI securities using proce
institution's participation in the Small Business Lending Fund.

Numbers in graphs may not add because of rounding. These graphs illustrate the major expenditures and repayments associated with the TARP pro
You may access Treasury's official reports that detail all TARP transactions and significant events in the Reports Section.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 10, 2013

ASSISTANT SECRETARY

Ms. Christy L. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street, NW, 4th Floor
Washington, DC 20036

Re: Treasury Response to SIGTARP HAMP Default Recommendations

Dear Ms. Romero:

I write in response to your letter of September 3, 2013, in which you provide three recommendations that you believe would reduce the number of homeowners defaulting on their mortgages under the Home Affordable Modification Program (HAMP). The Treasury Department welcomes oversight of all its programs, including HAMP and the other programs under the Troubled Asset Relief Program. Earlier this year, SIGTARP offered four recommendations similar to these three. Treasury is committed to reducing re-default rates as much as possible, and agrees with the broad points made in support of those four recommendations, as stated in our letter to you of July 5, 2013, as well as with many of the broad points made in support of these additional recommendations. This letter describes Treasury's efforts to assess and reduce the risk of re-default and responds to SIGTARP's three recent recommendations.

I. The Longer Homeowners Remain in HAMP, the More Likely They Are to Keep Up with their Mortgage Payments and Avoid Foreclosure.

At the outset, it is important to note some general facts about the program. HAMP already has helped more than 1.2 million borrowers. In addition, Treasury's housing programs set standards for mortgage modifications, prompting changes in industry procedures that have contributed to nearly 7 million permanent modifications and loss mitigation interventions since early 2009 (including HAMP). Today, borrowers in HAMP continue to demonstrate a high likelihood of long-term success in the program.

Treasury's program data shows that the longer homeowners remain in HAMP, the more likely they are to keep up with their mortgage payments and avoid foreclosure. In addition, the Office of the Comptroller of the Currency has found that homeowners in HAMP consistently exhibit lower delinquency and re-default rates than those in private industry modifications.[1]

[1] OCC Mortgage Metrics Report, First Quarter 2013, available at http://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics-2013/mortgage-metrics-q1-2013.pdf.

The program was designed to minimize the number of borrowers that default on HAMP-modified loans in several ways. One is the trial period —when the borrower demonstrates the ability and willingness to make payments at the modified amount— before receiving the permanent modification. Another is HAMP's incentive structure, under which servicers and borrowers each receive a financial incentive for maintaining the modified loan in good standing. Servicer incentives also encourage servicers to engage borrowers as quickly as possible in the event of a missed payment. HAMP program guidance also requires servicers to work with the borrower to cure any re-default.[2] In addition, the servicer issues a loss-of-good-standing letter to notify the borrower of the amount necessary to reinstate the loan and the consequences of re-default. That letter also encourages the borrower to contact the servicer to be evaluated for other loss-mitigation alternatives.

In addition to these efforts to reduce the risk of re-default, we also have developed standards for mortgage modifications generally. At the start of the financial crisis, the mortgage servicing industry was not equipped to respond to the wave of potential foreclosures on the horizon. Servicers were particularly inadequate with respect to the process of reaching out to delinquent borrowers and determining whether to provide a mortgage modification. These inadequacies affected whether a borrower received a trial modification in the first place and whether that trial modification was converted into a permanent modification.

Setting standards for consumer protection, and making affordable and sustainable modifications, is one of HAMP's most important accomplishments. For example, we implemented standards to address widespread problems, such as servicers failing to make contact with the borrower, failing to respond to borrowers in a timely fashion, and losing documents submitted by borrowers. We also implemented standards for establishing right party contact, preventing dual tracking, and assigning a single point of contact within the servicer's organization. We also streamlined our own documentation and other requirements to simplify the modification process. These standards have been widely adopted across the industry. They also have formed the basis for the standards required under the National Mortgage Settlement between and among the nation's five largest mortgage servicers, the Federal government, and 49 state Attorneys General.

II. Treasury Continues to Conduct Research, Which Addresses SIGTARP's First Recommendation.

SIGTARP previously recommended that Treasury conduct research on the causes of re-defaults. We noted in our July 5 response that we have been doing so and would continue to do so. In the most recent letter, SIGTARP's first recommendation is that Treasury should "research and analyze whether and to what extent the conduct of HAMP mortgage servicers may contribute to homeowners re-defaulting on HAMP permanent modifications."

As we noted in our July 5 letter, since HAMP's inception we have relied on mortgage modification research (both our own and from third parties) to adjust our program to further reduce the risk of re-default. Such adjustments included increasing the up-front servicer incentive to encourage servicers to modify loans in the early stages of delinquency and increasing the incentives for principal reduction.

[2] MHA Handbook v4.3, Chapter 2, Section 9.4.

We also continue to perform our compliance reviews, which involve thousands of loan file reviews. Those compliance results are published in our quarterly Servicer Assessments reports. Servicer performance has improved significantly since we began publishing those reports as reflected in the three compliance categories in the attached chart.[3]

The question of whether servicer performance affects re-default rates is also something we have examined. For example, one critical area where servicer behavior could impact re-defaults is the initial calculation of borrower income, or "income calculation." Correctly calculating homeowner monthly income is a fundamental component of evaluating eligibility for HAMP, as well as establishing an accurate modified payment. Treasury tests servicer income calculations to determine their error rates and measures those rates against Treasury's benchmark for performance. Treasury publishes the results of those tests in the quarterly Servicer Assessments.

Treasury's work has led to significant reductions in servicer income calculation error rates. In the first quarter of 2011, the highest income calculation error rate was above 30%. Two years later, the highest income calculation error rate from any of the top servicers was 3.1%. Consistent with the recent recommendations, Treasury will continue to monitor servicer performance with respect to income calculation, publish the results, and exercise the appropriate remedies as necessary. Treasury has and will continue to look for ways to enhance our compliance process to improve servicer compliance with MHA requirements.

We understand that your recommendation was not made as part of any audit of Treasury and therefore appears not to be based on any specific research or fieldwork on this issue. We have asked you if there were specific types of servicer behavior that you thought were contributing to re-default rates and which Treasury is not currently addressing. Thus far you have not provided any. If you do have concerns about particular conduct that is contributing to re-default rates, please let us know.

III. Treasury's Servicer Assessments Address SIGTARP's Second and Third Recommendations to Develop and Publish Benchmarks on Servicer Performance.

Your second and third recommendations are that we establish "an achievable benchmark for a re-default rate that represents acceptable performance," that we report and require servicers to report against that benchmark, and that we take action if a servicer fails to meet the benchmark. We agree that establishing appropriate benchmarks and publishing servicer performance against those benchmarks is important. That is why we developed the Servicer Assessment reports.

At the same time, measuring servicer performance against industry-wide quantitative metrics only makes sense if such metrics exist, or if they can be created and still be logical, defensible, non-arbitrary and non-discriminatory. Your letter identifies that no industry metric currently exists to measure servicer impact on re-default. There may be reasons for that.

We note, for example, that re-default rates are the product of a host of variables, many of which are not in the servicer's control. These variables include fluctuations in economic conditions and changes in borrower circumstance. In addition, some of those variables differ across servicers'

[3] Excerpt from the July 2013 MHA Program Performance Report.

loan portfolios. Some servicers specialize in servicing subprime loans with a higher risk of re-default, so their portfolios would be expected to have a higher rate of re-default. Other servicers do not. As a result, absent further information, a servicer's re-default rate cannot be relied upon as an accurate measure of a servicer's performance.

In addition, to the extent that re-default rates vary based on factors within the servicer's control, although a benchmark could have positive effects, it could also induce undesirable behavior that leads only to the appearance of reduced re-default rates without achieving the actual desired effect of helping borrowers. For example, servicers whose re-default rate is higher might seek to sell their lower credit quality loans to another servicer and decline to provide or service mortgages to persons with lower credit scores in the future. This could create a chilling effect on helping the very loans most in need of special servicing.

As we have indicated previously, we are open to input from you and your team on what an appropriate quantitative benchmark should be, and how one should be established. If SIGTARP is aware of any data or evidence that a particular benchmark would reduce re-default without incentivizing undesirable behavior, we would appreciate reviewing it.

IV. Conclusion.

Treasury is committed to reducing re-default rates to the lowest possible level. While we will continue to consider your recommendations, Treasury will also continue to examine whether other steps can help reduce the risk of re-defaults. For example, we recently published guidance requiring servicers to provide financial counseling to borrowers who have received mortgage modifications under HAMP, at no cost to the borrower. This requirement applies to borrowers who have shown signs of payment distress or who are otherwise deemed to be at higher risk of default, as well as borrowers who are beginning trial modifications under HAMP. We are also proceeding with plans to conduct a survey of borrowers who have re-defaulted, in order to better understand the causes of re-default.

We believe these steps will be effective at reducing the risk of re-default, which addresses the spirit of your last seven recommendations on this topic. Please feel free to contact me about these issues if you would like to discuss them further.

Sincerely,

Tim Massad

Timothy G. Massad
Assistant Secretary for Financial Stability

Enclosure

MHA Servicer Assessment

Overview

MHA Compliance Results, Loan File Review: 2nd Quarter 2011–2nd Quarter 2013

Servicer	Second Look % Disagree[1]								
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Bank of America, N.A.	0.8%	1.0%	1.0%	2.0%	1.0%	1.2%	1.3%	0.0%	0.0%
CitiMortgage, Inc.	0.5%	1.5%	1.0%	1.0%	1.0%	2.0%	6.7%	1.3%	4.7%
GMAC Mortgage, LLC [4]	1.7%	1.0%	0.5%	0.0%	0.5%	1.3%	2.0%	0.0%	N/A
Homeward Residential, Inc. [4]	0.7%	0.0%	1.5%	1.0%	1.0%	0.0%	0.0%	0.0%	N/A
JPMorgan Chase Bank, N.A.	1.2%	0.0%	0.7%	0.2%	0.0%	0.1%	0.2%	0.2%	0.7%
Litton Loan Servicing, LP[4]	3.3%	1.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ocwen Loan Servicing, LLC	2.7%	0.0%	0.7%	1.0%	1.0%	0.0%	0.0%	0.7%	3.1%
OneWest Bank	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Select Portfolio Servicing, Inc.	0.0%	0.8%	0.0%	0.0%	0.5%	0.0%	2.0%	1.3%	2.0%
Wells Fargo Bank, N.A.	0.4%	0.4%	0.0%	0.3%	1.0%	1.3%	3.0%	1.3%	3.0%

Servicer	Second Look % Unable to Determine[2]								
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Bank of America, N.A.	8.2%	1.5%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CitiMortgage, Inc.	5.5%	0.5%	1.0%	0.5%	1.0%	3.8%	6.0%	4.7%	0.0%
GMAC Mortgage, LLC [4]	0.7%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	2.0%	N/A
Homeward Residential, Inc. [4]	1.0%	0.0%	0.0%	1.0%	0.5%	1.3%	1.3%	1.3%	N/A
JPMorgan Chase Bank, N.A.	3.2%	0.9%	1.0%	0.7%	1.7%	1.4%	3.8%	3.1%	2.7%
Litton Loan Servicing, LP[4]	2.7%	2.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ocwen Loan Servicing, LLC	3.0%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	2.0%
OneWest Bank	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%
Select Portfolio Servicing, Inc.	0.3%	0.8%	0.0%	3.0%	0.0%	0.7%	0.7%	0.7%	0.0%
Wells Fargo Bank, N.A.	1.3%	1.3%	0.0%	0.0%	0.8%	1.0%	0.5%	0.3%	0.0%

Servicer	Income Calculation Error Rate[3]								
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Bank of America, N.A.	13.2%	6.0%	6.0%	5.0%	2.0%	3.0%	1.0%	3.0%	3.0%
CitiMortgage, Inc.	12.0%	6.0%	3.0%	4.0%	1.0%	3.1%	0.0%	1.0%	2.0%
GMAC Mortgage, LLC [4]	4.2%	4.2%	6.5%	4.0%	6.0%	10.0%	4.0%	2.0%	N/A
Homeward Residential, Inc. [4]	5.3%	2.0%	1.0%	2.0%	1.0%	4.0%	7.0%	2.0%	N/A
JPMorgan Chase Bank, N.A.	20.6%	6.0%	10.0%	9.0%	0.0%	2.0%	0.0%	1.0%	0.0%
Litton Loan Servicing, LP[4]	2.0%	1.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ocwen Loan Servicing, LLC	2.0%	2.0%	2.0%	3.0%	3.0%	0.0%	0.0%	1.0%	1.3%
OneWest Bank	2.0%	2.0%	0.0%	3.0%	1.0%	0.0%	1.0%	0.0%	0.0%
Select Portfolio Servicing, Inc.	10.0%	3.2%	1.0%	3.0%	2.0%	3.0%	2.0%	0.0%	3.1%
Wells Fargo Bank, N.A.	4.4%	5.5%	4.0%	2.0%	0.0%	1.0%	1.5%	1.0%	0.5%

[1] Second Look % Disagree: Percentage of loans reviewed where MHA-C did not concur with the servicer's MHA determination.
[2] Second Look % Unable to Determine: Percentage of loans reviewed where MHA-C was not able to conclude on the servicer's MHA determination.
[3] Income Calculation Error %: Percentage of loans for which MHA-C's income calculation differs from the servicer's by more than 5%.
[4] Ocwen Loan Servicing, LLC includes loans previously reported under Litton Loan Servicing LP, Homeward Residential, Inc. and GMAC Mortgage, LLC.