DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 4, 2012

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: Reporting of TARP Investments

Dear Ms. Romero:

In connection with your upcoming October 2012 Quarterly Report to Congress, I write to raise some concerns regarding your July 2012 Quarterly Report (and previous Reports). In particular, I am concerned that SIGTARP's accounting methods are not consistent with either the Generally Accepted Accounting Principles (GAAP), or with methods approved by the Government Accountability Office (GAO). To reduce the risk of misconceptions and inaccuracies related to investments under the Troubled Asset Relief Program (TARP), I ask SIGTARP to conform its reporting of TARP investments to the standards consistent with GAAP and approved by the GAO. In the interest of maximum transparency and openness, I also ask that you publish Treasury's responses to your Quarterly Reports, alongside the other Treasury correspondence you usually publish.

I. Background

The Department of the Treasury (Treasury) is committed to transparency in all of its programs, including TARP. To that end, Treasury devotes a substantial amount of time, energy, and resources to providing complete and accurate accounting of TARP's finances. For example, we prepare annual financial statements for TARP in accordance with GAAP (promulgated by the Federal Accounting Standards Advisory Board). These financial statements are audited by the GAO, and Treasury has 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.

In addition to the annual financial reporting, Treasury also provides a monthly report to Congress that details how TARP funds have been used, the amount recovered in each program, and current estimates of the cost of each TARP program; a monthly housing report containing detailed metrics on TARP housing programs; a quarterly report on the Public-Private Investment Program that provides detailed information on the funds, their investments, and returns; a quarterly report that details all dividend and interest payments; and periodic reports on the sale of warrants, which include information on auctions as well as on how the sale price was determined in the case of any purchase of warrants by a TARP recipient. Treasury also issues a report on each

TARP transaction, such as a sale or repayment by an institution, within two business days of completing the transaction. Annual use-of-capital surveys contain detailed information on the lending and other activities of banks that have received TARP funds.

In addition to these reports, many of which are not required by statute or any other authority, Treasury also maintains an extensive Financial Stability website at www.financialstability.gov. This website allows taxpayers to review how TARP money is spent, identify the recipients of TARP funds, and access the terms of our investments. On www.financialstability.gov, Treasury's "Daily TARP Update," which shows the status of all TARP funds in detail – the amount obligated, the amount disbursed, the amount repaid, the amount of additional income received, and the amount attributed to write-offs and realized losses – is updated each day. Other reports available on the website show every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program.

Recently, in your Quarterly Report to Congress and other public statements, you included figures not consistent with Treasury's audited financial statements, Treasury's monthly report to Congress, or Treasury's Daily TARP Update. As I explain in more detail below, I am concerned that your alternative figures could lead to confusion about the taxpayers' investment in TARP.

II. Reporting the Amounts "Outstanding" Are More Accurate than SIGTARP's Reports of the Amounts "Owed."

Treasury follows GAAP, the same accounting standards that the Congressional Budget Office (CBO), the GAO, and all other Federal entities use in their financial reporting. These concepts dictate that Treasury report the amount "outstanding" on TARP investments. The amount "outstanding" represents the amount disbursed less principal repayments, write-offs, and realized losses. Based on those figures, as of June 30, 2012, (the time period for your most recent Quarterly Report) the amount "outstanding" on Treasury's TARP investments was $93.5 billion.

The figure SIGTARP recently reported, both in the Quarterly Report and on the front page of the SIGTARP website (see Attachment A), was $109 billion "owed." The amount "owed" is different from the amount "outstanding" and is not consistent with a GAAP methodology. The amount "owed" represents only the amount disbursed less principal repayments on those investments. It excludes write-offs related to bankrupt entities and realized losses generally resulting from common stock sales. The chart below – using figures as of June 30, 2012 – provides additional clarity.

Amount disbursed	$411.59	---- Does not include housing
Less principal repaid	$302.54	
Subtotal	$109.05	---- SIGTARP reporting ("owed")
Less write offs and realized losses	$ 15.55	
Total	$ 93.50	---- GAAP ("outstanding")

In addition, Treasury's outstanding investments are not loans that typically are considered "owed" to the lender; rather they are equity investments in the institutions. Finally, SIGTARP's use of the amount "owed" is not even an accurate presentation of what would make the taxpayers "whole." This is because SIGTARP's calculation of the amount "owed" does not include any of the additional income Treasury has received on any of the TARP investments. As of June 30, 2012, such additional income (from dividends, interest payments, warrant sales, and stock sales) is $41.10 billion.

The figures for TARP's bank support programs illustrate the issue with conflating "owed" with "outstanding" and neglecting to include additional income in SIGTARP's calculations. As of June 30, 2012, the amount outstanding under the bank support programs was $11.63 billion. If every remaining bank repaid its principal investment in full tomorrow, the amount outstanding would be zero. By contrast, under SIGTARP's method, there would still be an amount "owed" of roughly $2.77 billion on the bank support programs – because this is the amount of write-offs and realized losses. But this amount is neither outstanding nor recoverable. Moreover, it also implies that the banking programs have resulted in a net loss. But quite the opposite is true. As of June 30, 2012, the banking programs have already resulted in a gain to taxpayers of $19 billion because of additional income from dividends, warrant sales, and stock sales. At this point, each additional dollar recovered from TARP's banking programs represents an additional dollar of profit to taxpayers on those programs.

The following chart sets forth the relevant figures for the bank programs as of June 30, 2012:

Amount disbursed	$245.10	---- Bank Support Only
Less principal repaid	$230.71	
Subtotal	$ 14.39	---- SIGTARP reporting ("owed")
Less write offs and realized losses	$ 2.77	
Total Outstanding	$ 11.63	---- Consistent with GAAP
Income Revenues	$ 33.68	---- Other Income (not principal)
Total Cash Back	$264.39	---- Principal and Other Income
Net Program Result	$ 19.29	---- Net Gain to Taxpayers

SIGTARP's use of "owed" is inconsistent with (a) the required governmental accounting standards, (b) the legal definition of what can be "owed," and (c) the common sense understanding of the amount necessary to be made "whole."

III. Cost Estimates

Our concerns over SIGTARP's accounting also extend to how SIGTARP has recently reported individual investments as well. Treasury no longer has any investment in Chrysler or Chrysler Financial, for example. We report a net loss of $1.24 billion on the Chrysler investments, which reflect the total amount invested less repayments and additional income. Treasury's accounting has been audited by GAO. Yet SIGTARP does not report these GAAP-based numbers. Instead, you recently testified before Congress that "Treasury suffered a $2.9 billion loss on its TARP investment in Chrysler." Your calculation appears to have ignored the income received in the form of interest payments and gains on sale of stock; this oversight is inconsistent with GAAP.

IV. Transparent and Accurate Information is Critical to the Public's Understanding of TARP.

I also wish to raise another concern about certain inaccuracies in your reports. On July 10, 2012, I wrote to you to respond to your April 2012 Quarterly Report to Congress. In that letter, I responded to inaccuracies in your Report related to "widely held misconceptions" about the overall cost of TARP. I also identified ways in which your Report addressed issues outside the scope of your statutorily limited mandate to oversee the purchase, management, and sale of assets under TARP. In particular, your Report misstated and omitted key facts about what authorities regulators have exercised under the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding systemically important financial institutions.

Standard practice under the Generally Accepted Government Accounting Standards (GAGAS) is for the auditor to include in its report the agency's response. Historically, you have published in the Quarterly Reports all intra-quarter correspondence with Treasury, including Treasury's responses to past Quarterly Reports. In contrast, my July 10, 2012 letter was not included in your July Quarterly Report. When we first raised this point with your senior team, they suggested that it was likely an oversight and that they would look into it immediately. Two weeks later, your team explained that not publishing my letter was a deliberate decision, and they referred to it as an exertion of SIGTARP's "independence."

Your failure to publish my response is inconsistent both with the GAGAS and your historical practice for Quarterly Report correspondence. It is also surprising, given that SIGTARP asks for a response in the Data Call process, and publishing our response (particularly when it points out inaccuracies in a SIGTARP report) furthers the goals of transparency and accuracy. It is unclear how publishing Treasury's official response to a SIGTARP report affects your independence in any way. Therefore, I renew my request that you publish that letter, along with this one, in your upcoming Quarterly Report.

V. Conclusion

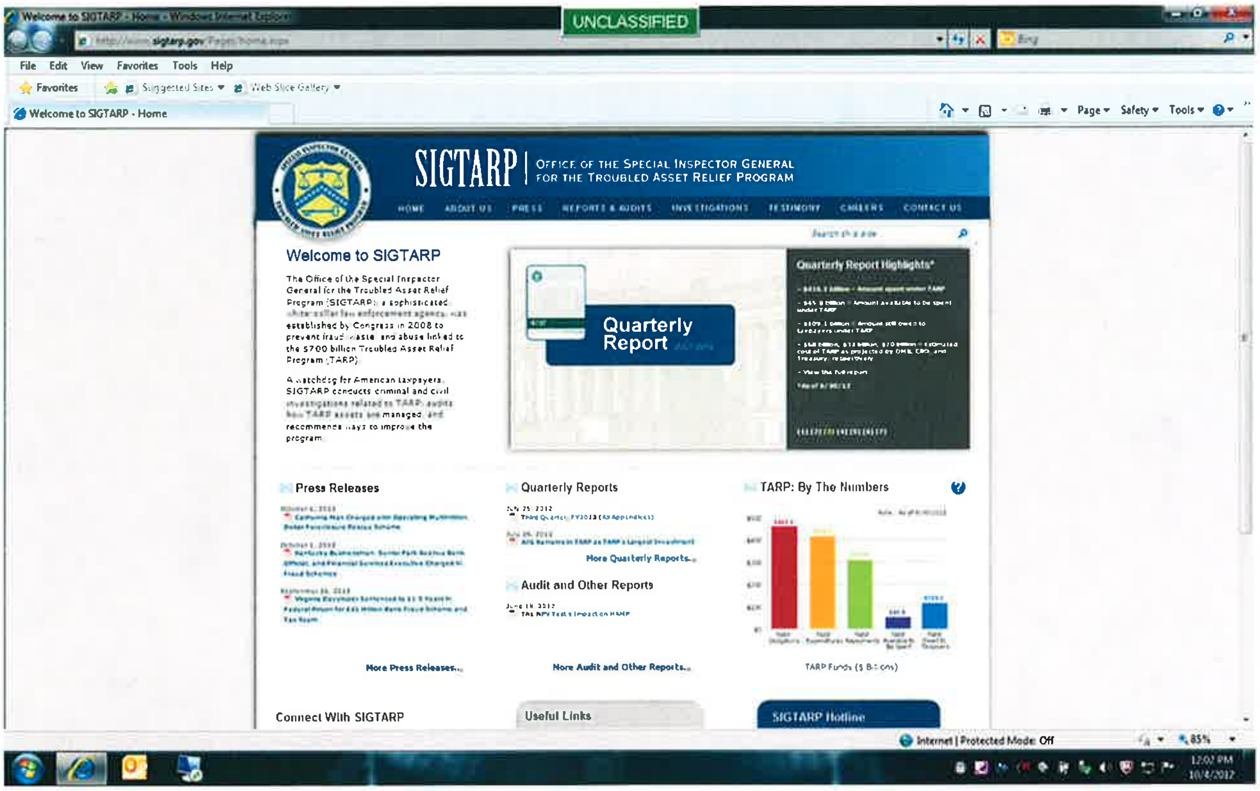
Treasury believes in effective oversight. Treasury also believes in transparency and providing clear and accurate information to the public. Despite the volume of information Treasury makes public about TARP, there are often misconceptions about the program. To reduce the risk of misconceptions and inaccuracies, we ask SIGTARP to conform its reporting of TARP accounting to the standards consistent with GAAP and GAGAS and approved by the GAO, and to publish Treasury's responses to SIGTARP's reports.

Sincerely,

Tim Massad

Timothy G. Massad
Assistant Secretary for Financial Stability

Attachment A – SIGTARP website on October 4, 2012



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ASSISTANT SECRETARY

July 10, 2012

The Honorable Christy L. Romero
Special Inspector General
for the Troubled Assets Relief Program
1801 L Street, NW, 4th Floor
Washington, D.C. 20220

Re: SIGTARP Quarterly Report to Congress

Dear Ms. Romero:

I am writing in response to your recent Quarterly Report to Congress (Report), dated April 25, 2012. The Department of the Treasury strongly supports transparency in all its programs and activities, including the Troubled Assert Relief Program (TARP). We also appreciate the important oversight role of the Office of the Special Inspector General for TARP (SIGTARP).

In particular, we recognize that SIGTARP has a statutory responsibility to produce a quarterly report that provides information on the purchase, sale, and management of assets under TARP, as well as on SIGTARP's activities related to those subjects. As you know, Treasury devotes a substantial amount of time and staff resources to supporting this effort. For each Report, we respond to hundreds of requests for information, often under tight deadlines that require our team to work nights, weekends, and holidays. Treasury staff compile the detailed transactional and housing-related data that is included in each Report; we carefully review close to three hundred pages of "vetting drafts" of almost every section of each Report; and we provide numerous factual edits and corrections.

SIGTARP, however, does not share in advance its Executive Summary (Summary)—which appears at the beginning of each Report—and the most recent Summary raises several concerns. First, it makes assertions that we believe are incorrect and not supported by factual evidence. For example, the Summary states that it "is a widely held misconception that TARP will make a profit." As you know, Treasury regularly publishes estimates of the overall cost of TARP. This information is widely available and frequently cited in the press. In fact, the cost figures included in the Summary of your recent report are not independent projections made by SIGTARP, but rather are Treasury's own published estimates. Nonetheless, to the extent there is a misconception, we believe it is the opposite: many people incorrectly believe that TARP will cost taxpayers hundreds of billions of dollars. As you know, while TARP's bank programs have resulted in a positive return for taxpayers, our most recent estimate is that TARP is projected to have an overall direct fiscal cost of $60 billion, due primarily to the cost of the programs to help homeowners avoid foreclosure.

Second, the Summary raises issues that are outside of the purchase, management, and sale of assets under TARP; raises issues that are not addressed in the body of the Report; and misstates or omits key facts. For example, the Summary states: "The Dodd-Frank Act gives regulators enhanced supervision for institutions deemed systemically significant ('SIFIs'). However, regulators have not proposed rules on the supervision and have been silent on how they will use their new authority." This is incorrect. In December 2011, the Federal Reserve issued proposed rules for the enhanced supervision of large bank holding companies and for the supervision of nonbank financial companies that are designated by the Financial Stability Oversight Council (Council) for such supervision; and in April 2012, the Council issued a final rule and interpretive guidance on the process and analytic framework for the designation of nonbank financial companies for supervision by the Federal Reserve. Moreover, federal regulators have spoken at length—in congressional hearings and in other public contexts—about their new authorities under Dodd-Frank. And again, these issues are outside of the management of TARP and are not addressed in the body of the Report.

Third, the Summary states that "[a]ll SIGTARP recommendations should be fully implemented for Treasury to adequately protect taxpayers against fraud, waste, and abuse." This statement, however, is inconsistent with other guidance your office has provided to Treasury. In numerous instances, when we have not agreed with a particular recommendation, we have worked with your staff to address the underlying issue in an alternative manner.[1] Although such recommendations are usually recorded as "partially implemented," we understood SIGTARP to be satisfied with Treasury's actions. In recent discussions, your senior staff has confirmed this understanding. Nonetheless, the Summary seems to criticize Treasury for not "fully" implementing each and every recommendation.

As always, I would be happy to discuss these matters further at your convenience. We value a constructive relationship with all of our oversight bodies, and we look forward to working with you in the future.

Sincerely,

Tim M

Timothy G. Massad

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[1] For example, Recommendation 26 states that Treasury should require "the notarized signature and thumbprint" of each homeowner as a condition to obtaining a mortgage modification under its housing program. Treasury did not implement this recommendation as it would have made it harder to provide assistance to eligible homeowners without a corresponding benefit. Instead, as the Report notes, Treasury took several other "actions to prevent fraud on the part of either MHA servicers or applicants." Although the Report lists the recommendation as only "partially implemented," we understood this item to be closed to mutual satisfaction.