

***The U.S. Treasury Department's
Summary Response to GAO Recommendations***

December 7, 2009

This Summary Response provides updated information regarding the status of Treasury's implementation of recommendations in the GAO's reports issued in December 2008 and January, March, June, July, and October 2009.

Treasury continues to enjoy a productive relationship with the GAO and welcomes the GAO's recommendations on the Troubled Asset Relief Program (TARP). Treasury's interactions with the GAO include providing information responsive to specific requests and facilitating comprehensive briefings on TARP programs with senior Treasury staff. In addition, Treasury apprises the GAO of its progress on implementing recommendations and of key developments in current and proposed programs and policies under the Emergency Economic Stabilization Act of 2008 (EESA).

This Summary Response describes the open GAO recommendations and summarizes Treasury's actions to address each such recommendation. As described below, Treasury's Office of Financial Stability (OFS) continues to enhance its structure and procedural framework, while developing and implementing Treasury's policies and programs to stabilize the financial system.

GAO Recommendation 1:

Establish a process to ensure compliance with all CPP requirements, including those associated with limitations on executive compensation, limitations on dividends, and stock repurchase restrictions.

Summary of Treasury's Actions in Response to this Recommendation

As the GAO is aware, on June 15, 2009, Treasury published the Interim Final Rule (Rule) on executive compensation, promulgated under the EESA as amended by the American Recovery and Reinvestment Act of 2009. The Rule contains distinct requirements for recipients of TARP funding under certain programs, including participants in the Capital Purchase Program (CPP) and recipients of exceptional assistance.

All TARP recipients, including CPP participants, were required to adopt a luxury expenditure policy consistent with the requirements of the Rule, provide the policy to Treasury, and post the policy on their Internet website (if applicable), in each case within 90 days following publication of the Rule or 90 days after the closing date of the agreement between the TARP recipient and Treasury, whichever is later. These policies are generally required to address expenses, including entertainment or other events, office and facility renovations, and aviation or other transportation services.

As stated in our previous response to the GAO, the Compliance Office within OFS (OFS Compliance) is responsible for monitoring whether policies are submitted and whether they are consistent with the Rule. As of mid-November, OFS Compliance had sent an e-mail to each CPP recipient for whom we had not yet received a policy. Additionally,

OFS Compliance requested further information from other recipients via e-mail (e.g. fiscal year end, website). As a result of these emails, OFS Compliance received over 200 missing policies as well as collected the requested further information for all recipients where a policy was received. Many CPP recipients responded that they did have their Board approve the policy and include the policy on their website but did not realize they needed to send the policy to Treasury. As of the end of November, less than 10% policies remain outstanding. OFS Compliance intends to follow up with the CPP recipients for whom we have yet to receive a policy within the next two weeks.

The Rule also requires that the compensation committee, CEO, and CFO of each TARP recipient provide certain certifications to Treasury with respect to compliance with the Rule. These certifications are due within 120 days of the completion of the TARP recipient's fiscal year. OFS Compliance has logged certifications received to date and is continuing to develop processes for monitoring these certifications, a majority of which are due in April 2010.

The Rule also establishes the Office of the Special Master for TARP Executive Compensation (Special Master). The Special Master has responsibility for rendering advisory opinions on the Rule and for administering the "lookback" provision of Section 111 of EESA. The Office of the Special Master is currently designing the processes to help the Special Master in his administration of the "lookback" provision.

As stated in its prior responses, OFS continues to track the number of missed payments in the monthly Dividends and Interest Report. The CPP team, through information received or obtained, reviews and documents other CPP requirements (e.g., stock repurchases, dividend restrictions on other equity securities) including, if required, decisions made by that team. Instances of non-compliance with CPP requirements of which OFS becomes aware are reported to OFS Compliance and are evaluated to determine if further action is required. OFS continues to investigate potential software solutions as well as other methods to improve compliance monitoring.

GAO Recommendation 2:

Formalize, develop, and implement a communication strategy that includes building an understanding and support for the various components of the program. Specific actions could include hiring a communications officer, integrating communications into TARP operations, scheduling regular and ongoing contact with congressional committees and members, holding town hall meetings with the public across the country, establishing a council of advisors, and leveraging available technology. Fully implement a communication strategy that ensures that all key congressional stakeholders are adequately informed and kept up to date about TARP.

Summary of Treasury's Actions in Response to this Recommendation

OFS is developing an integrated communications plan in coordination with Treasury's Offices of Public Affairs, Legislative Affairs, and OFS program offices. The integrated communications plan will address both internal and external communications and develop recommendations on how Treasury can best communicate the goals and progress of TARP programs to Congress, the public, Treasury employees, and other stakeholders.

Treasury has taken several important steps to improve dissemination of information about TARP. In March 2009, Treasury launched its *FinancialStability.gov* website, which provides comprehensive information on the Financial Stability Plan and all TARP programs, and features reports issued by Treasury on TARP. Since its launch in March 2009, *FinancialStability.gov* has had over 38 million page views. Treasury continues to revise and improve the website to make it more user-friendly.

The site recently received an A grade for transparency from AEI scholar Norman Ornstein. All contracts for TARP investments of funds and service agreements are posted to *FinancialStability.gov*. Treasury has proactively made monthly TARP Dividends & Interest Reports, which track dividend and interest payments received from TARP recipients, available on *FinancialStability.gov*. Also on a monthly basis, Treasury posts an overview of the lending activities of all CPP participating institutions and a detailed “snapshot” of the top 22 CPP participants. With contributions from the federal banking agencies, Treasury also publishes a Quarterly Analysis of Institutions in the Capital Purchase Program.

Treasury has revised the form of the monthly 105(a) Report, Tranche Report, and Transactions Report to make the reports easier to understand, **all of which are available through *FinancialStability.gov***. In addition, Treasury intends to make certain public reports available in xls (Excel) and xml format (in addition to the official PDF version) to enhance the ability of the public to access the information.

In addition to the website, Treasury responds to numerous inquiries on TARP from Members of Congress and conducts periodic briefings with Congressional staff on TARP programs. These briefings are in addition to Treasury Secretary Timothy F. Geithner’s and Assistant Secretary Herbert M. Allison, Jr.’s frequent testimonies before Congress and many public statements on TARP and the Financial Stability Plan. Treasury also regularly provides updates on TARP programs to its oversight entities - the GAO, the Special Inspector General for the TARP, and the Congressional Oversight Panel, as well as the Financial Stability Oversight Board.

With regard to its Making Home Affordable (MHA) program, Treasury has recently revamped its communications strategy. Treasury continues to work with a council of advisors from various offices within Treasury including the Office of Public Affairs, the Public Liaison Office, and the Office of Legislative Affairs, as well as communications officials at the White House, Department of Housing and Urban Development, Federal Housing Finance Agency, Fannie Mae, Freddie Mac, NeighborWorks America, and the HOPE NOW Alliance. In addition, Treasury’s Director of Marketing and Communications for the Homeownership Preservation Office (HPO) continues efforts to better coordinate outreach efforts.

Treasury's efforts to disseminate helpful information to the public regarding the MHA program include:

- Posted streamlined documents required for borrowers to enter trial period plans (the Request for Modification and Affidavit form and IRS Form 4506T-EZ) in a fill-in-able form on www.MakingHomeAffordable.gov with step-by-step instructions and a "how-to" video about converting from trial to permanent modification. These materials were also made available through email blasts to housing counselors, elected officials, and national advocacy groups.
- Partnering with the Ad Council to develop a new Public Service Announcement (PSA) campaign, expected to launch in April, targeting audiences who may be eligible for the program. Treasury is also working with the Ad Council to refresh a NeighborWorks America PSA with an MHA focus to air while the new campaign is being developed.
- Hosted a Marketing Summit on September 30, 2009, with representatives of key participating servicers to discuss better ways to present the program to eligible borrowers and is holding monthly conference calls with marketing representatives from participating servicers and quarterly in-person meetings.
- Continues its national outreach campaign in local markets hardest hit by foreclosure by hosting outreach events in each area to engage borrowers, key local officials, including Congressional field office staff, housing officials, and advocacy groups. To date, Treasury has visited 19 cities.

GAO Recommendation 3:

Continue to develop a comprehensive system of internal control over TARP, including policies, procedures, and guidance that are robust enough to protect taxpayers' interests and ensure that program objectives are being met.

Summary of Treasury's Actions in Response to this Recommendation

Recognizing the complexity of TARP's programs, Treasury has taken a multi-faceted approach to its system of internal control, which includes risk management and internal control.

With regard to risk management, Treasury has implemented a comprehensive set of assessments geared toward identifying risks, evaluating their potential impact, and prioritizing resource assignments to manage risks. Resource assignments include top-down assessments that poll the perspectives of senior members of OFS and cover a broad array of risks. The results are compared with bottom-up risk assessments that are based on the GAO's *Internal Control Management and Evaluation Tool*. The analysis of both the top-down and bottom-up assessments allows senior OFS management to effectively identify risks, prioritize them, and assign resources to manage and mitigate risks across the organization.

In addition to top-down and bottom-up risk assessments, OFS performs an additional assessment focused on identifying and assessing risk at the program and at the support function levels. OFS program and function managers use these assessments to improve their processes and effectively allocate resources.

With regard to internal control, Treasury has implemented a framework and plan for internal control over TARP. The Internal Control Framework serves as a guide to assist management in establishing controls for new programs. Whether deploying operational processes to support new TARP programs or implementing complex budget and financial reporting processes to support its operation, OFS continuously strives to establish an effective initial operating capability for internal controls that are first and foremost effective at mitigating risk. Then, OFS enhances the initial operating capability to a sustainable level that is effective and efficient.

Treasury does this by managing and mitigating risks, and ensuring that the appropriate controls are in operation on an ongoing basis. This work includes the preparation and maintenance of process flows and related controls documentation, as well as evidence of control execution. In addition, the Internal Control Program Office uses risk matrices to ensure appropriate coverage of high impact areas. Treasury continues to monitor the operational controls related to program asset acquisition, asset management, and asset disposition activities. As part of its progression to a more efficient environment, Treasury is increasingly using technology to store evidence of control execution and thereby reducing its reliance on hardcopy binders.

OFS has successfully completed the implementation of an Integrated Internal Controls Assessment Program as of September 30, 2009. OFS management plans to conduct a “lessons learned” analysis to define the learning and improvement areas from year 1. This will serve as a basis for further maturing OFS internal controls and the assessment process by September 30, 2010 for internal controls broadly including financial reporting and operations (FMFIA sections 2 and 4, FFMIA, and Appendix A of OMB Circular A-123). As part of this analysis, OFS will take an end-to-end approach to look for improvement areas to make processes more efficient and effective as well as address any significant deficiencies identified in the year 1 assessment.

OFS delivered draft policies and procedures to the GAO on June 30, 2009. Final policies and procedures covering a majority of OFS were delivered to the GAO on September 30, 2009. The Senior Assessment Team (SAT), Internal Control Program Office, and Internal Review Office continue to guide OFS’s efforts to meet the statutory and regulatory requirements for a sound system of internal controls for the TARP. The bulk of the remainder of OFS policies and procedures relating to existing business support functions and programs will be delivered by December 31, 2009. Regarding new processes, processes undergoing reorganization, and new programs, OFS policies and procedures will be delivered on or about March 31, 2010.

In addition, OFS has hired a new Chief of Internal Review, reporting directly to the Assistant Secretary of Financial Stability, who manages OFS's compliance and internal review functions.

GAO Recommendation 4:

Complete the review of, and as necessary renegotiate, existing vendor conflicts-of-interest mitigation plans to enhance specificity and conformity with the new interim conflicts-of-interest rule and take continued steps to manage and monitor conflicts of interest and enforce mitigation plans.

Summary of Treasury's Actions in Response to this Recommendation

Treasury is actively renegotiating the contracts and financial agent agreements in place before the new Conflict of Interest (COI) interim final regulation became effective on January 21, 2009 and that remained active after April 30, 2009. To date, Treasury has successfully renegotiated the conflicts of interest provisions and approved the conflicts mitigation plans for seven of the eight contracts/agreements that required modifications; Treasury is actively working on the remaining contract. The complex nature of this contract and the complexity of the contractors' businesses require significant time to develop mitigation plans that appropriately meet the provisions of the regulation. During the renegotiating process, the conflict of interest group within OFS Compliance has been expanded. With the addition of new employees focused on conflicts of interest, we expect to complete negotiation of the remaining contract by December 31, 2009.

Treasury has taken steps to systematize and formally document processes regarding conflicts of interests. OFS Compliance works with the financial agents/contractors at the outset of the financial agency agreement/contract to identify conflicts mitigation plans that meet Treasury's requirements under the new Conflict of Interest interim final regulations. In accordance with the regulations, the financial agents/contractors provide documentation related to conflicts of interest throughout the term of the contract. The Contracting Officer's Technical Representatives (COTRs) report any discussions regarding conflicts of interest with their financial agents/contractors as part of their systematic monitoring of assigned contracts and promptly raise any perceived or potential conflicts of interest to the attention of OFS Compliance for evaluation.

As stated in Treasury's May 2009 *Summary Response to GAO Recommendations*, in conjunction with Treasury Procurement Office, OFS Compliance has developed conflict of interest procedures, process flows and a policy. Before finalizing the procedures, the flows became the basis of internal and external communications describing the formal processes and requirements contractors and financial agents must follow for conflict of interest communication with Treasury. Treasury delivered a presentation to the COTRs and financial agent liaisons to explain formal processes and distributed an e-mail with the same message to all contractors and financial agents. A reminder communication regarding conflict of interest requirements and processes to financial agents and contractors, as well as refresher training for COTRs and OFS financial agent liaisons, is planned for early 2010.

As stated in previous responses, OFS Compliance has established a conflicts of interest mailbox as a central method for formal communication between contractors and financial agents and OFS Compliance. Additionally, OFS Compliance created a database to document, archive, and monitor communications and information from contractors and financial agents. The database is populated with information shortly after it is received through the mailbox. OFS Compliance has recently expanded the capabilities of this database to monitor certifications as well as COI reviews of proposed solicitations, task orders, and solicitation/task order responses. In addition, the calendar linked to the COI database is used by OFS Compliance to track and monitor timely receipt of certifications.

Treasury has vetted all public comments received on the interim final COI regulations, and is in the process of drafting revisions to the existing regulations.

GAO Recommendation 5:

Update OFS documentation of certain internal control procedures and the guidance available to the public on determining warrant exercise prices to be consistent with actual practices applied by OFS.

Summary of Treasury's Actions in Response to this Recommendation

Treasury has implemented this recommendation. Treasury clarified its procedures for determining warrant exercise prices by updating its FAQs on CPP repayment and the Capital Assistance Program and posting the updated FAQs on *FinancialStability.gov* in May 2009. Treasury completed documentation of CPP process flows, risk and compliance matrices, and narratives on June 30, 2009. Treasury supplied the GAO with draft policies and procedures regarding validation of the warrant exercise price calculation on June 30, 2009 and provided final Acquisition Execution Procedures, which address warrant exercise price calculation validation on September 30, 2009.

GAO Recommendation 6:

Ensure that the warrant valuation process maximizes benefits to taxpayers and consider publicly disclosing additional details regarding the warrant repurchase process, such as the initial price offered by the issuing entity and Treasury's independent valuations, to demonstrate Treasury's attempts to maximize the benefit received for the warrants on behalf of the taxpayer.

Summary of Treasury's Actions in Response to this Recommendation

As stated in its August 2009 *Summary Response to GAO Recommendations*, on June 26, 2009, Treasury released a written description of its warrant repurchase and disposition process for the CPP. When a publicly traded institution repays Treasury's CPP investment, the original contract under the CPP provides the bank a right to repurchase the warrants at fair market value via an independent valuation process. The relevant sections of the transaction documentation describing this process are in the Warrants FAQ on *FinancialStability.gov*.

Treasury will begin publishing additional information on each warrant that is repurchased, including a bank's initial and subsequent determinations of fair market value, if applicable, in the near future. The timing and format of such disclosure must

insure that Treasury preserves its ability to maximize taxpayer return in future dispositions of warrants, and discussions. All of this information will be available at *FinancialStability.gov*.

If an issuer chooses not to repurchase the warrants according to its existing contractual rights, Treasury has the discretion to dispose of the warrants as it sees fit over time. In these instances, Treasury has the option to sell the warrants through an auction process.

On November 19, 2009, Treasury announced its intention to dispose of several warrant positions received in consideration for investments made under CPP. Over the next month, Treasury intends to conduct auctions to sell its warrant positions in JP Morgan Chase & Co., Capital One Financial Corporation, and TCF Financial Corporation.

Each of these banks has fully repurchased Treasury's preferred stock investment. The warrant sales anticipated over the next month, if consummated in full, would represent Treasury's disposition of its remaining holdings in these companies. The proceeds of these sales will provide an additional return to the American taxpayer from Treasury's investments in these banks beyond the dividend payments it received on the related preferred stock.

Treasury intends to sell these warrants through registered public offerings. These offerings will be executed using a modified Dutch auction methodology that establishes a market price by allowing investors to submit bids at specified increments above a minimum price specified for each auction. More detailed guidance for the auctions will be available in prospectuses that will be filed by the warrant issuers prior to the opening of each auction. Treasury expects to conduct similar auctions in the future for comparable warrant positions it holds in banks that have repaid CPP investments.

On December 1, 2009, Treasury announced the commencement of a secondary public offering of approximately 12,657,960 warrants to purchase the common stock of Capital One Financial Corporation. Deutsche Bank Securities Inc. is the sole book-running manager and Siebert Capital Markets is the co-manager for the offering. Deutsche Bank Securities Inc., in its capacity as auction agent, specified the commencement of the auction for 8 a.m., Eastern Time, on December 3, 2009, and closing at 6:30 p.m. on that same day.

The President has clearly stated that his objective is to dispose of the government's investments in individual companies as quickly as is practicable. In reaching the judgment to dispose of the warrants in the manner described, Treasury considered a range of options including holding the warrants for a longer term or until their expiration or disposing of them through alternative sale mechanisms.

Under these alternative scenarios, there was no certainty that Treasury would realize higher values. Accordingly, Treasury concluded that a fully transparent auction provides

the best method to realize the market value of certain warrants in the near term on behalf of taxpayers.

Treasury publishes information on all CPP transactions, including warrant repurchases, in the TARP Transactions Reports within two business days of closing. All Transaction Reports are available on Treasury's website at *FinancialStability.gov*.

GAO Recommendation 7:

In consultation with the Chairmen of the Federal Deposit Insurance Corporation and the Federal Reserve, the Comptroller of the Currency, and the Acting Director of the Office of Thrift Supervision, ensure consideration of generally consistent criteria by the primary federal regulators when considering repurchase decisions under TARP.

Summary of Treasury's Actions in Response to this Recommendation

Treasury is not in a position to dictate criteria that regulators should apply in making such decisions. Federal banking law vests the primary regulator of each institution with the authority to determine whether and on what terms to permit the institution to reduce its capital, including by repurchasing or redeeming preferred stock held by Treasury. To the extent different regulators may apply different criteria in making that determination, that variation is a function of the division of authority under the bank regulatory system.

GAO Recommendation 8:

Consider methods of (1) monitoring whether borrowers with total household debt of over 55 percent of their income who have been told that they must obtain HUD-approved housing counseling do so, and (2) assessing how this counseling affects the performance of modified loans to see if the requirement is having its intended effect of limiting re-defaults.

Summary of Treasury's Actions in Response to this Recommendation

Treasury believes that housing counseling is beneficial for high debt-to-income borrowers. Therefore, Treasury requires such borrowers to certify that they will obtain counseling. Borrowers participating in the HAMP are provided a list of local HUD-approved housing counseling agencies from which to select an appropriate counselor.

Counseling may have the benefit of helping to reduce re-defaults among borrowers with high total debt burdens. Treasury is exploring options for monitoring what proportion of borrowers is, in fact, obtaining counseling. Servicers have expressed concerns, however, about the potential difficulty and burden of communication with counseling agencies to certify that borrowers had received counseling. Treasury is first and foremost committed to preventing foreclosures and does not plan to deny modifications to borrowers who successfully complete the trial period and meet the other requirements for a HAMP modification, even if it is not feasible to confirm that they obtained counseling.

GAO Recommendation 9:

Reevaluate the basis and design of the HPDP program to ensure that HAMP funds are being used efficiently to maximize the number of borrowers who are helped under HAMP and to maximize overall benefits of utilizing taxpayer dollars.

Summary of Treasury's Actions in Response to this Recommendation

In response to both GAO recommendations and as a result of internal analysis, Treasury made two fundamental changes in the Home Price Decline Protection (HPDP) program before its introduction. Both of these changes will improve the targeting of the subsidy. First, the size of HPDP incentive payments is based on the size of the unpaid principal balance (UPB) of the mortgage, as opposed to the property's value, as was originally described in early program documents. Mortgages with higher UPB stand to lose more value in the case of default and, therefore, are provided with larger HPDP incentive payments. Second, HPDP incentive payments are scaled according to the mark-to-market loan-to-value market ratio (LTV): mortgages with higher LTVs will receive higher HPDP incentive payments.

These changes improve the targeting of HPDP payments and will help ensure a greater number of borrowers in areas with rapid and recent home price declines have the opportunity to stay in their homes. These changes will also help to stabilize housing prices in impacted areas.

Treasury believes that making HPDP incentives available only for loans that would not otherwise pass the net present value (NPV) test would potentially result in a reduced number of modifications for otherwise eligible borrowers. Under an approach where the HPDP subsidy is set so that loans just pass the NPV test, servicers would have an incentive to select the highest discount rates and most pessimistic re-default rate in order to maximize the HPDP subsidy per loan modified. However, these assumptions could result in fewer loans passing overall. Therefore, this approach would either require a reworking of the NPV process to eliminate all servicer choice, or risk resulting in a reduced number of modifications as servicers select the highest discount rates and most pessimistic re-default rates in order to maximize HPDP payments.

GAO Recommendation 10:

Institute a system to routinely review and update key assumptions and projections about the housing market and the behavior of mortgage holders, borrowers, and servicers that underlie Treasury's projection of the number of borrowers whose loans are likely to be modified under HAMP and revise the projection as necessary in order to assess the program's effectiveness and structure.

Summary of Treasury's Actions in Response to this Recommendation

Projections for the number of borrowers who will participate in HAMP are generated quarterly as part of the budget cap process. These estimates are made by aggregating the projected number of modifications in each servicer's portfolio. These servicer-level projections are generated with full cooperation from participating servicers, using a combination of confidential, detailed survey data, and more aggregated publicly available data.

Servicer level projections of expected HAMP participation are quite detailed and are performed at the cohort level, meaning that loans are segmented according to specific

characteristics, such as mark-to-market LTV, originating FICO score, current delinquency status, and product/market segment (e.g., prime, subprime, alt-a, fixed or variable rate). After loans are segmented in this manner, they are put through a detailed calculation sequence that estimates the probability that each cohort-identified loan will be modified. This involves estimating the probability that a loan will become 60-days delinquent, that its current DTI is greater than 31, as well as the probability that the NPV test will yield a positive result, and, conditional on these outcomes, that the cohort will then choose to participate in the program and successfully complete the trial modification. These projections are updated quarterly as part of the process of estimating servicer-specific funding caps.

The underlying methodology and assumptions are continually reviewed and, where appropriate, updated. Treasury continues to gather data on the determinants of borrower participation as it becomes available. Treasury will continue to use the best available information to improve and build upon the economic and behavioral assumptions underlying the projections.

Treasury actively monitors the nation's housing markets through evaluation of aggregate statistics, which include sales, prices, housing starts, delinquencies, and foreclosures, as well as the analysis of loan level data. Treasury actively coordinates with other agencies to monitor the nation's housing markets.

GAO Recommendation 11:

Place a high priority on fully staffing vacant positions in HPO — including filling the position of Chief of Homeownership Preservation with a permanent placement — and evaluate HPO's staffing levels and competencies to determine whether they are sufficient and appropriate to effectively fulfill its HAMP governance responsibilities.

Summary of Treasury's Actions in Response to this Recommendation

OFS has hired a permanent Chief of Homeownership Preservation, who joined OFS on November 9, 2009.

HPO currently has 27 full-time staff (FTE), relative to a projected level of 36 FTEs. The new Chief of Homeownership Preservation will evaluate the overall organization structure and staffing needs, with the support of Human Resources by the end of first quarter 2010.

GAO Recommendation 12:

Expediently finalize a comprehensive system of internal control over HAMP, including policies, procedures, and guidance for program activities, to ensure that the interests of both the government and taxpayer are protected and that the program objectives and requirements are being met once loan modifications and incentive payments begin.

Summary of Treasury's Actions in Response to this Recommendation

Treasury has a comprehensive system of internal controls over the HAMP. Treasury has provided the GAO evidence of its internal controls, including testing and implementation. Treasury continues to refine its internal control environment through close interaction with its financial agents, Fannie Mae and Freddie Mac.

Treasury has developed and implemented policies, procedures, and guidance over the HAMP. Since the inception of the HAMP, Treasury has publicly issued directives to guide program participants, which include borrowers, servicers, investors, and financial agents. Eight directives are available on Treasury's administrative website for HAMP, HMPadmin.com. As new programs are developed or revised, including HPDP and Second Lien programs, additional directives containing policies and procedures will be issued as necessary to coincide with program implementation.

Treasury is also working with its financial agents, Fannie Mae and Freddie Mac, to assess the design and refine the internal controls implemented within their operations, including regular meetings exclusively on internal controls. The continuous implementation of new program components will require Treasury, Fannie Mae, and Freddie Mac to continue to work together to build and refine internal control processes critical to the HAMP's ongoing success.

Treasury has developed a HAMP Compliance Committee with members from the Office of Internal Review, Homeownership Preservation Office, Office of Financial Agents, Office of General Counsel, Freddie Mac, and Fannie Mae. The Committee's objective is to understand servicers' compliance review results and other performance considerations to determine appropriate recommended servicer actions. Actions range from servicer operational enhancements to requiring modification of improperly rejected loans to recommending compensation related remedies to the Assistant Secretary. A charter for the HAMP Compliance Committee has been approved. A draft policy on servicer remedies has been developed and is expected to be finalized in December 2009.

For fiscal year 2010, OFS is defining the scope and approach for assessing the HAMP process and control environment at third parties (Fannie Mae, Freddie Mac, and BNYM). After the scope is defined, we anticipate obtaining a SAS70 for third party processing or other program effectiveness assessment methods as necessary for our annual assurance statement covering Appendix A of OMB A-123 FMFIA sections 2 and 4, and FFMIA.

GAO Recommendation 13:

Expediently develop a means of systematically assessing servicers' capacity to meet program requirements during program admission so that Treasury can understand and address any risks associated with individual servicers' abilities to fulfill program requirements, including those related to data reporting and collection.

Summary of Treasury's Actions in Response to this Recommendation

Treasury is working with Fannie Mae on a servicer readiness self-evaluation. This self-evaluation will be required to be completed by all servicers during the servicers' acceptance process. These self-evaluations will provide insights into the servicers' view

of their staffing, processes and systems capabilities / readiness. It is anticipated that this information will help Fannie Mae determine training needs and potential technical concerns as well as assist Freddie Mac in identifying potential risk factors, compliance activities, and timing considerations for compliance activities.

As stated in previous responses, Treasury has worked closely with Freddie Mac to develop a robust compliance program. The program consists of on-site and off-site compliance activities and has been recently enhanced. As part of the enhancement, Treasury and Freddie Mac determined “Second Look” loan file reviews should be conducted in the early stages of a servicer’s entrance into the program. The “Second Look” loan file reviews use a statistical sample of Servicers’ loans to ensure compliance with the HAMP guidelines and that borrowers are not inadvertently denied HAMP modifications. Through these reviews, Freddie Mac gains an understanding on servicers’ processes for soliciting borrowers, forestalling foreclosures until HAMP eligibility can be determined, determining HAMP eligibility and processing HAMP modifications. As of October, “Second Look” loan files were requested for all servicers that executed an agreement with Treasury as of September. The results of these reviews help determine the types of other compliance activities and frequency for which those activities will be performed as well as if further actions are required including training, policy clarification, process remediation, or other remedies.

Other compliance activities Freddie Mac will conduct with servicers include on-site visits, Net Present Value testing, data analytics. These components, along with the Second Look loan file reviews, will help ensure servicers’ capabilities match the HAMP program requirements throughout the “lifecycle” of the servicers’ agreement.

GAO Recommendation 14:

Consider TARP in a broad market context and as part of determining whether to extend TARP, work with the Chairmen of the Federal Reserve and FDIC to develop a coordinated framework and analytical basis to determine whether an extension is needed. If it is, the Secretary should clearly spell out what the objectives and measures of any extended programs would be, along with anticipated costs and safeguards.

Summary of Treasury’s Actions in Response to this Recommendation

Coordination between the Treasury, the Federal Reserve, and the FDIC has been critical in the success of the policy response to this financial crisis. The process of terminating crisis-related programs must be done in a measured way that maintains confidence and the strength to respond so that exit does not undermine progress toward economic recovery. Any decision on whether to extend TARP must take account of Federal Reserve and FDIC policies. Many of the Federal Reserve and FDIC programs that have complemented TARP investments are ending. This creates a financial environment in which new shocks can have outsized effects. As we wind down many of the government programs launched initially to address the crisis, it is imperative that there be complete confidence that we have the tools, strength, and capacity to respond if financial conditions worsen.

In deciding whether to extend the TARP authority beyond December 31, 2009, the Treasury Secretary will coordinate with appropriate officials to ensure that the determination is considered in a broad market context that takes account of relevant objectives, costs, and measures.

GAO Recommendation 15:

Document Treasury's analytical decision-making process and clearly communicate the results to Congress and the American people for determining whether an extension is needed.

Summary of Treasury's Actions in Response to this Recommendation

The decision on whether to extend TARP must weigh a number of factors. As the financial system has stabilized and the economic outlook has improved, we are winding down many of the financial support programs that were put in place to deal with the financial crisis. Moreover, we must work together to reduce the fiscal deficit.

However, a variety of non-TARP programs that were implemented by Treasury, the Federal Reserve, and the FDIC to respond to the financial crisis have expired or are winding down in the coming months. Terminating TARP authority and programs abruptly could jeopardize the progress that has been made. Americans families and financial markets remain under strain. Businesses and consumers are still having difficulty getting loans and many families are struggling to keep their homes. Several of our programs continue to play a central role in addressing these issues. It is essential that we finish implementing programs that provide critical support to households, businesses, and key channels of credit creation. In addition, we must maintain the capacity to stabilize our financial system. The threat of another severe disruption has declined, but it is still unacceptably high and could derail our nascent economic recovery.

If a decision is made to extend TARP, the Secretary of Treasury will provide a detailed justification to Congress and the American people.

GAO Recommendation 16:

Update its projected use of funds and, if the program is extended, continue to re-evaluate them on a periodic basis.

Summary of Treasury's Actions in Response to this Recommendation

The October Section 105(a) Report reflected changes in the projected use of TARP funds. Additionally, Treasury regularly evaluates funding needs for TARP programs and will continue to announce revisions as those decisions are made.