

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

May 29, 2009

The Treasury Department (Treasury) welcomes the recommendations on the TARP made by the GAO in its March 2009 report. This summary response provides an update on the March 2009 recommendations, as well as on GAO recommendations provided in the December 2008 and January 2009 reports that remain outstanding.

Treasury works closely with the GAO. Treasury communicates with the GAO on a daily basis regarding TARP programs. This includes responding to specific GAO inquiries and organizing comprehensive briefings on the progress of TARP programs with senior Treasury staff. Treasury keeps the GAO apprised of its progress on these recommendations, as well as on developments with current and proposed programs and policies under the Emergency Economic Stabilization Act (EESA).

This report first identifies each outstanding GAO recommendation and then provides a summary of Treasury's actions to address the specific recommendation. As described below, the Office of Financial Stability (OFS) continues to make tremendous progress on building out the organization and related frameworks and procedures, while simultaneously developing and implementing Treasury's policies to respond to the financial crisis.

GAO Recommendation 1:

Work with bank regulators to establish a systematic means of determining and reporting in a timely manner whether financial institutions' activities are generally consistent with the purposes of the Capital Purchase Program (CPP).

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury publishes a monthly lending survey on www.financialstability.gov, which highlights and aggregates the lending patterns of CPP participants. In addition, OFS is working with banking regulators to obtain quarterly regulatory call report data on CPP participants. This data will be analyzed to determine changes in the balance sheets, loan provisioning, and intermediation activities of institutions in which TARP investments have been made. OFS will compare the activities of these institutions to equivalent data for comparable institutions that have not received TARP capital investments. The first report is planned for publication on June 30, 2009.

GAO Recommendation 2:

Treasury should continue to expeditiously hire personnel needed to carry out and oversee TARP.

Summary of Treasury's Actions in Response to this GAO Recommendation

OFS continues actively to interview and hire qualified candidates for management and staff positions needed to carry out and oversee TARP. As of May 29, 2009, OFS projects a 54.8% increase in hiring since the release of the March 2009 GAO report. OFS headcount is projected to increase from 113 employees as of March 16, 2009 to 175 employees by June 8, 2009, including 144 long-term staff and 31 detailees. During this same period, OFS decreased detailee staff from 36 to 31, a 16 percent decrease. OFS also continues to benefit from the support of 40-50 additional employees from across Treasury offices and bureaus.

OFS continues to use direct-hire and other appointments to expedite its ability to bring highly qualified candidates on board quickly. This has enabled OFS to reduce the number of temporary and contract staff and strengthen the continuity and institutional knowledge of the workforce. In May, OFS met with the GAO to review functional statements outlining the responsibilities of the key working groups of the different OFS offices. A Strategic Workforce Plan, Workforce Analysis Report, and Workforce Planning Review Process have also been completed to target key strategic needs and ensure efficient staffing for OFS functions.

GAO Recommendation 3:

Develop a comprehensive system of internal control over TARP, including policies, procedures, and guidance for program activities that are robust enough to ensure that the program's objectives and requirements are being met.

Summary of Treasury's Actions in Response to this GAO Recommendation

OFS has developed a framework and plan for internal control over TARP. The initial Internal Control Framework, which was presented to GAO, is being used to guide establishment of internal controls for new programs. OFS is currently working with program management to identify initial program objectives, risks, control objectives, and control activities. This includes the preparation of binders containing process flows, narratives and risk/control matrices as well as evidence of control execution. OFS continues to perform monitoring over the operational controls related to program purchase activities.

OFS is on schedule to meet its Circular A-123 implementation plan. April and May activities included initiating end-to-end process walkthroughs and completing key Improper Payment Improvement Act activities. OFS also completed, as required, the GAO Internal Control Questionnaire as part of its risk assessment process.

Management has developed a comprehensive list of policies and procedures with associated milestone dates to achieve its June 30th draft and September 30th final targets for completion. The Senior Assessment Team continues to oversee the critical milestones and internal control progress.

GAO Recommendation 4:

Treasury should expand the scope of planned monthly CPP surveys to include collecting at least some information from all institutions participating in the program.

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury has fully implemented this recommendation. OFS has expanded the scope of monthly CPP surveys to include all CPP participants. The survey responses will provide insight into the activities of banks participating in the CPP program.

OFS sent a survey out to all CPP participants on March 20, 2009, requesting data on outstanding loans. Every two weeks thereafter, OFS has sent surveys to all banks that have received CPP investments since the last survey to ensure that all banks are included. The first report will be published at the end of May and then monthly, thereafter.

GAO Recommendation 5:

Treasury should ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants.

Summary of Treasury's Actions in Response to this GAO Recommendation

OFS currently collects lending data from all CPP participants. All CPP participants report lending data on a monthly basis in the "CPP Monthly Lending Report" that includes information on average loans balances for consumer lending, commercial lending, and total lending. The top 21 CPP participants submit the "Monthly Lending and Intermediation Snapshot," which is a two page document detailing monthly loan balances, originations, and other financial intermediation activity. Beginning with April 2009 data, the top 21 CPP participants will also report on small business lending.

GAO Recommendation 6:

Treasury should 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 GAO Recommendation

OFS tracks compliance with CPP non-executive compensation requirements (e.g. dividend payments, limitations on dividends and stock repurchase restrictions). For this purpose, OFS currently uses Bloomberg and other informational sources, such as SEC filings, press releases, and other reports compiled by Treasury's retained custodian bank, as well as information provided by CPP participants. Instances of non-compliance with

CPP requirements that OFS becomes aware of are reported to the CRCO's office and evaluated to determine if further action is required.

Treasury recently engaged three asset management firms. These firms will provide information as described above for all financial institutions participating in the CPP. This information will be used to assist OFS with compliance monitoring. In addition, OFS is finalizing business functional requirements for exception handling, tracking, and reporting for CPP requirements, and is in the process of investigating potential software solutions as well as additional data sources to improve compliance monitoring.

Treasury plans to issue an interim final rule on executive compensation as required by the American Recovery and Reinvestment Act of 2009 in the near future, which will specify the compliance requirements. OFS will formalize a monitoring process for executive compensation after the rule is issued.

GAO Recommendation 7:

Treasury should develop and implement a well-defined and disciplined risk-assessment process; as such a process is essential to monitoring program status and identifying any risks of potential inadequate funding of announced programs.

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury has made significant progress in developing a well-defined and disciplined risk-assessment process. The process includes a number of steps, including setting internal operational objectives, setting risk and other objectives, identifying major risks, designing and assigning responsibility for implementing risk mitigation actions, monitoring and reporting on risks, and testing risk mitigation actions.

OFS's Executive Committee and SAT will implement this process. The Executive Committee has responsibility over setting objectives (internal operational, risk and other), and establishing risk priorities. The SAT, along with the OFS operational units, identifies major risks, designs and implements risk mitigation activities, monitors and reports on risks, and works with the Chief Financial Officer (CFO)'s area to test risk mitigation actions. Charters are available for both groups.

The initial risk identification and assessment process has been completed. It is a combination of top-down and bottom-up processes. Each area within OFS has identified first-cut high level risks. The Executive Committee is in the process of prioritizing the high level risks, and assigning responsibility for addressing these risks.

GAO Recommendation 8:

Develop a communication strategy/vision that includes building an understanding and support for the various components of the program, specifically actions to preserve homeownership. 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 counsel of advisors, and leveraging available technology.

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury has established a working group to address communications within OFS and with external stakeholders. The working group is in the process of developing a communications plan that seeks to build upon existing communications resources within Treasury in order to explain and build support for the various programs being implemented under EESA. The working group will also address, monitor, and report on all communication efforts within OFS. OFS is in the process of hiring a communications professional to coordinate OFS support for Treasury's Offices of Public Affairs and Legislative Affairs in executing the communications plan.

Treasury has already taken a number of 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 also features reports issued by Treasury on TARP. Since its launch, *www.financialstability.gov* has had over 16 million hits and over 3 million unique visits. In addition to the website, Treasury responds to numerous inquiries on TARP from Members of Congress and has begun to conduct regular briefings with Congressional staff on TARP programs (the first one took place on May 15, 2009 with House and Senate staff). These briefings are in addition to Treasury Secretary Timothy Geithner's frequent testimony before Congress and many public statements on TARP and the Financial Stability Plan since taking office.

For its Making Home Affordable program, Treasury has developed an extensive communications strategy working with HUD, the White House, FHFA, Fannie Mae and Freddie Mac to communicate with stakeholders across the country. In March 2009, Treasury launched its *makinghomeaffordable.gov* website, which contains a wealth of information for homeowners on refinancing and modification. Since its launch, *www.makinghomeaffordable.gov* has had over 19.5 million hits and almost 4 million unique visits. As part of the effort to disseminate information about the Making Home Affordable program, Treasury is developing a PSA campaign in both English and Spanish to target audiences who may be eligible for the program, and, working with the

Homeownership Preservation Foundation, is providing free call center services on a 24/7 basis in English and Spanish to borrowers seeking information on the program.

OFS also communicates all updates on TARP programs with oversight entities: the GAO, the Special Inspector General for the Troubled Asset Relief Program and the Congressional Oversight Panel.

GAO Recommendation 9:

Require that AIG seek concessions from stakeholders, such as management, employees, and counterparties, including seeking to renegotiate existing contracts, as appropriate, as it finalizes the agreement for additional assistance.

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury has recouped the retention payments made to AIG's Financial Products division in March 2009, and will work with AIG management to renegotiate or modify significant compensation payments more generally.

As pledged in Secretary Geithner's letter to Congress dated March 17, 2009, Treasury recouped the retention payments by deducting \$165 million from the total amount of available support under the Series F preferred stock support facility and imposing a commitment fee of the same amount to be paid out of operating income when it finalized the \$30 billion capital draw facility for AIG on April 17, 2009. In addition, pending the release of Treasury's Interim Final Rule on executive compensation restrictions for TARP recipients, AIG is consulting with Treasury before making any significant compensation payments.

GAO Recommendation 10:

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 GAO Recommendation

OFS has clarified its procedures for determining warrant exercise prices by updating its FAQs on the Capital Purchase Program Repayment and Capital Assistance Program and posted them on the *financialstability.gov* website. OFS also is in the process of updating the relevant internal control procedure documentation to reflect current activities. Lastly, OFS will finalize procedures to validate the warrant exercise price calculation for public institutions.

GAO Recommendation 11:

Complete the review of, and as necessary renegotiate, the existing vendor conflicts-of-interest mitigation plans to enhance specificity and conformity with the new interim conflicts-of-interest

rule. Take continued steps to manage and monitor conflicts of interest and enforce mitigation plans

Summary of Treasury's Actions in Response to this GAO Recommendation

Treasury is actively renegotiating the contracts that were in place before the new Conflict of Interest interim final regulation became effective on January 21, 2009 and that remained active after April 30, 2009. To date, Treasury has renegotiated the conflicts of interest provisions and approved the conflicts mitigation plans for four of the eight contracts that require these modifications. Treasury is conducting regular meetings with the remaining four contractors to incorporate the appropriate modifications and expects to complete this process by July 31, 2009.

GAO Recommendation 12:

Improve transparency pertaining to TARP program activities by reporting publicly the monies, such as dividends, paid to Treasury by TARP participants.

High Level Summary of Treasury's Responsive Action to this GAO Recommendation

Beginning in June 2009, Treasury will publish a monthly report that will reflect dividends and interest received by institution and TARP program. The report will include the dividend or interest payment date, the type of dividend (cumulative or noncumulative), the dividend or interest frequency, a life-to-date dividend or interest amount received by TARP, and the date of the next scheduled payment. The first report will cover payments received in May 2009. All reports will be posted to www.financialstability.gov.

GAO Recommendation 13:

Issue guidance requiring that key communications and decisions concerning potential or actual vendor-related conflicts of interest be documented.

Summary of Treasury's Actions in Response to this GAO Recommendation

OFS is finalizing process flows for the conflict of interest processes, including the process relating to conflict of interest inquiries from contractors and financial agents, and is expecting to complete them by May 29, 2009. OFS has begun developing written policies and procedures from those finalized flows and expects to complete them by July 31, 2009. Although OFS has discussed the process for formal conflict of interest requests with most of our contractors and financial agents and documents and tracks all formal decisions, OFS will issue written guidance formalizing the conflict of interest inquiry processes, and communicate this guidance to contractors and financial agents by June 21, 2009.

