The U.S. Department of the Treasury
Summary Response to SIGTARP Recommendations

September 25, 2009

The Department of the Treasury (Treasury) welcomes the recommendations on the Troubled Assets Relief Program (TARP) from the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). This summary response serves as a status report on Treasury's response to recommendations contained in SIGTARP's February 2009, April 2009, and July 2009 Quarterly Reports.

The Treasury has given careful consideration to the 40 recommendations in SIGTARP's prior quarterly reports when taking actions to stabilize the financial system and restore the flow of credit. Treasury's policies and programs currently address many of the issues raised in your recommendations, and in other cases, Treasury has taken specific actions to implement your recommendations. Treasury also has executed or will execute alternative approaches that we believe address some of the issues raised in your recommendations. When we believe a particular recommendation would not help carry out Treasury's statutory duties under the Emergency Economic Stabilization Act (EESA), we have developed alternative ways to address the underlying concerns SIGTARP has raised and have explained the measures we are employing to do so to in our summary responses to SIGTARP and to Congress.

This report first presents Treasury's response to the new recommendations issued by SIGTARP in the July 2009 Quarterly Report, and then provides a status report on our actions to address the outstanding recommendations identified in the SIGTARP chart contained in the same quarterly report. We used the corresponding recommendation number from the SIGTARP chart to identify the actions Treasury has taken to address the relevant outstanding recommendations. We have not included in this summary response those recommendations that SIGTARP has confirmed that Treasury has "implemented," specifically, 1, 17, 18, 19, 24, 25, 29, and 31. We also have not included those recommendations that Treasury has previously described in our summary responses the measures we have taken to address concerns raised by SIGTARP, and, based on previous conversation with SIGTARP officials, consider these recommendations as "closed," specifically, 7, 8, 9, 10, 12, 13, 14, 15, 16, 21, 22, 23, 26, 28, 30, and 32. The summary response covers the eight recommendations identified in the July 2009 Quarterly Report and the remaining eight outstanding recommendations identified in the SIGTARP chart.

Recommendations from the July 2009 Quarterly Report

SIGTARP Recommendation 1:

Treasury should require the imposition of strict information barriers or "walls" between the Public-Private Investment Program (PPIP) fund managers making investment decisions on behalf of the Public-Private Investment Fund (PPIF) and those employees of the fund management company who manage non-PPIF funds.

Treasury's Response

Treasury does not believe this recommendation is necessary or appropriate for the PPIP, and has previously explained to SIGTARP officials the alternative ways that Treasury has addressed concerns raised by the SIGTARP in a supplemental letter dated July 2, 2009. As discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 2:
Treasury should periodically disclose trading activity and require PPIF managers to disclose to SIGTARP, within seven days of the close of the quarter, all trading activity, holdings, and valuations so that SIGTARP may disclose such information, subject to reasonable protections, in its quarterly reports.

Treasury's Response

Treasury is currently developing a template for periodic reports to be publicly disclosed, which would provide aggregated information on Eligible Assets investments across the PPIFs. These reports will provide meaningful information regarding the performance of PPIF investments while protecting confidential, sensitive information related to the investment strategies and individual positions of each PPIF.

SIGTARP Recommendation 3:
Treasury should have appropriate metrics defined and an evaluation should be put in place to monitor the effectiveness of the PPIF managers, both to ensure that they are fulfilling the terms of their agreements and to measure their performance against pre-established benchmarks and against each other.

Treasury's Response

Treasury has substantively adopted this recommendation, and is developing appropriate metrics to monitor the effectiveness of the PPIP fund managers as well as the PPIP in general. Treasury is presently working with PPIP fund managers to establish expected reporting requirements. In addition, Treasury is hiring a fund advisor consultant that will assist in the ongoing evaluation, monitoring and reporting of each PPIF. Treasury currently expects to have selected this fund advisor consultant by mid-November and will solicit additional input from this firm in order to refine Treasury's ongoing reporting requirements after that point.

Performance metrics will be evaluated across three principal areas:

- Effectiveness of achieving policy goals for programs for Legacy Assets – Metrics to measure the program's effects on price discovery and restarting the markets for Eligible Assets are expected to include pricing for Eligible Assets including benchmark indices (e.g. ABX and CMBX).

- Financial performance of a PPIF – Metrics are expected to include PPIF returns relative to appropriate fixed income benchmarks. Treasury will work with its fund advisor consultant to establish appropriate fixed income benchmarks with which to measure performance.
- Adherence to compliance regime – Treasury is presently discussing the applicability of compliance metrics with its compliance contractor.

Treasury has the ability to end the investment period after 12 months in its sole discretion, and to the extent a certain PPIP fund manager is underperforming, Treasury and the private investors will have the ability to replace the General Partner of the PPIF. In addition, material violations of the Rules will be included as Events of Cause in the Partnership Agreements governing each PPIF.

SIGTARP Recommendation 4:
The conditions that give Treasury "cause" to remove a manager should be expanded to include a manager's performance below a certain standard benchmark, or if Treasury concludes that the manger has materially violated compliance or ethical rules.

Treasury's Response

Treasury does not believe this recommendation is necessary or appropriate for the PPIP, and previously explained the alternative ways that Treasury has addressed concerns raised by the SIGTARP in our supplemental letter dated July 2, 2009. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 5:
Treasury should require fund managers to disclose to Treasury, as part of the Watch List process outlined in the term sheet, info about holdings in eligible assets and holdings in related assets or exposure to related liabilities.

Treasury's Response

Treasury accepts this recommendation and will require PPIP fund managers to disclose holdings in derivatives in non-PPIF funds where derivative values are related to Eligible Assets held in the PPIF.

SIGTARP Recommendation 6:
Treasury should require PPIF managers to obtain and maintain information about the beneficial ownership of all the private equity interests, and Treasury should have the unilateral ability to prohibit participation of private equity investors.

Treasury's Response

Treasury has adopted most of this recommendation, and explained measures employed to address the concerns raised by the SIGTARP in our summary response and supplemental letter, both dated July 2, 2009. As further explained in our supplemental letter, Treasury does not agree that having the unilateral ability to prohibit participation of private equity investors is necessary or appropriate for the PPIP. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 7:
Treasury and the Federal Reserve Bank of New York should examine Moody's assertions and develop mechanisms to ensure that acceptance of collateral in the Term Asset-Backed Securities Loan Facility (TALF) is not unduly influenced by the improper incentives to overrate that exist among the rating agencies.

Treasury's Response

The Treasury and Federal Reserve have a robust TALF risk management program that does not rely solely on ratings issued by rating agencies. Additionally, the Federal Reserve Bank of New York recently engaged collateral monitors to assess the risk associated with ABS and CMBS collateral. The collateral monitors, in addition to the credit ratings, conservative haircuts, interest premiums, and other terms and conditions, collectively serve to protect taxpayer interests.

Treasury and the Federal Reserve have discussed concerns about potential overrating or rating shopping with the rating agencies, and we will continue to develop and enhance our risk management tools and processes, where appropriate.

SIGTARP Recommendation 8:
Treasury should require TARP recipients to submit periodic reports to Treasury on their use of funds, including what they were able to do with their TARP funds, such as lending, investments, acquisitions, and other activities that they could not have conducted without TARP funding. Treasury should also require TARP recipients to retain all supporting documentation in conjunction with any reporting requirement that Treasury may impose.

Treasury's Response

In our continuing effort to improve the transparency of our programs, and in order to more closely adopt the recommendations in the SIGTARP report, Treasury is expanding its Quarterly Capital Purchase Program (CPP) Report to include additional categories of information included in the SIGTARP survey responses underlying the SIGTARP report, such as financial institutions' repayments of their outstanding debt obligations and total investments. This expansion will begin with the next Quarterly CPP Report, scheduled to be released during October 2009.

Most of the information contained in SIGTARP survey responses is already captured by Treasury's Monthly Lending and Intermediation Snapshot, CPP Monthly Lending Report or Quarterly CPP Report. Specifically, these Treasury reports capture financial institution activities regarding lending, capital cushions and other reserves, and investments in mortgage-backed securities and asset-backed securities. Treasury publishes its Monthly Lending and Intermediation Snapshot to help measure the lending activities of the nation's largest Capital Purchase Program (CPP) financial institutions. This report includes quantitative information on lending and other intermediation activities, as well as a qualitative section that allows banks to comment on the lending environment and the host of factors outside a bank's control that affect lending levels, such as loan demand, borrower creditworthiness, capital markets liquidity and the macroeconomic environment. Although some of the largest recipients of TARP funds have recently repaid the assistance, Treasury has obtained their agreement to provide this information to Treasury for the remainder of 2009.

In addition to the Monthly Lending and Intermediation Snapshot, Treasury provides an expanded CPP Monthly Lending Report that includes the monthly average outstanding balances of consumer loans and commercial loans and total loans from all CPP participants. Finally, Treasury publishes a Quarterly CPP Report that provides extensive detail on the financial positions and activities of both CPP and non-CPP banks based on regulatory data collected by each institution's primary financial regulator.

The SIGTARP report provided descriptions of the general uses of capital by TARP recipients but did not contain quantitative data on such uses. By tracking the additional information discussed above, we believe that these reports will now capture all of the categories of information covered by SIGTARP's audit responses. Moreover, because quantitative data used in these reports is based on data that is provided and reviewed by the financial institution's primary banking regulator, they constitute a more reliable and measurable way of tracking how financial institutions use their capital.

Recommendations from the SIGTARP Chart

SIGTARP Recommendation 2:

Treasury should include language in new TARP agreements to facilitate compliance and oversight. Specifically, each program participant should (1) acknowledge explicitly the jurisdiction and authority of SIGTARP and other oversight bodies, as relevant, to oversee compliance of the conditions contained in the agreement in question, (2) establish internal controls with respect to that condition, (3) report periodically to the Compliance department of the Office of Financial Stability ("OFS-Compliance") regarding the implementation of those *controls and its compliance with the condition, and (4) provide a signed certification from an appropriate senior official to OFS-Compliance that such report is accurate.*

Treasury's Response

Treasury will implement this recommendation with respect to new TARP programs going forward, as appropriate. Additional details on how Treasury has implemented this recommendation are available in our summary responses dated April 7, 2009 and July 2, 2009. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 3:
All existing TARP agreements, as well as those governing new transactions, should be posted on the Treasury website as soon as possible.

Treasury's Response

Treasury continues to make progress on implementing this recommendation. Treasury posts all the agreements governing new transactions on its *Financial Stability* website. Treasury posts a redacted version of the new agreement for each transaction on the Treasury website ten business days from the closing date of the transaction.

Additionally, Treasury has posted all previously executed TARP agreements, except for approximately 78 CPP agreements. Treasury is working towards posting the remaining 78 CPP agreements, and expects to complete this task by November 1, 2009.

SIGTARP Recommendations 4:
Treasury should require all TARP recipients to report on the actual use of TARP funds.

Treasury's Response

Treasury has previously explained the alternative ways that Treasury has addressed concerns raised by the SIGTARP in our summary response dated July 2, 2009, and as described above, plans to expand its current quarterly report to capture all categories of uses of TARP funds identified by participants in response to SIGTARP's survey. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 5
Treasury should formalize its going-forward valuation methodology.

Please see response below under Recommendation 11.

SIGTARP Recommendation 11:
Treasury should formalize its valuation strategy and begin providing values of the TARP investments to the public.

Treasury's Response

Treasury agrees with SIGTARP that it is in the public interest to provide periodic disclosure of the estimated value of the TARP portfolio so that the public knows the value of the investments that Treasury has made. A valuation of the portfolio was previously provided as part of the President's 2010 Budget. Under Federal law, Treasury is required to provide a valuation of its investments in connection with the preparation of its annual financial statements. On November 16, 2009, Treasury will publish the financial statements for the fiscal year ended September 30, 2009. The methodology used for such valuation is governed by Federal accounting principles and the financial statements and the methodology are being audited by the GAO.

SIGTARP Recommendation 6:
Treasury should develop an overall investment strategy to address its portfolio of stocks and decide whether it intends to exercise warrants of common stock.

Treasury's Response

Treasury has been implementing this recommendation. In Treasury's July 2, 2009 response to the SIGTARP's April 21, 2009 Quarterly Report to Congress, Treasury described its investment strategy policy and asset management tenets prescribed by EESA. Treasury is refining the investment and asset management guidelines for CPP and the other programs which comprise the TARP portfolio. Such a strategy considers financial market stability and broader economic goals, taxpayer protection and transparency, a portfolio approach with discipline at the individual investment level, risk management at the portfolio, program and individual investment levels, and a disposition methodology which minimizes market disruption.

With respect to the recommendation on warrants, as previously stated in our summary response dated July 2, 2009, Treasury does not, at this time, intend to exercise the warrants except under certain circumstances related to mergers and acquisitions activity, although Treasury could consider exercising the warrants in the future. Treasury will review its policies from time to time to ensure they serve the goals of promoting financial stability and protecting the taxpayer. Treasury considers this recommendation closed.

SIGTARP Recommendation 20:
Treasury should significantly increase the staffing levels of OFS-Compliance and ensure the timely development and implementation of an integrated risk management and compliance program.

Treasury's Response

Treasury has made significant progress in increasing staffing levels in its compliance functions; notably, we now have a team of executive compensation professionals and a dedicated lead of conflicts has joined the OFS-Compliance staff (overseeing conflicts issues involving contractors and financial agents). A number of other hires are in various stages of the hiring process and we expect a number of additional hires to begin work in the next few weeks in various functions within OFS-Compliance, including anti-fraud, conflicts, reporting, and oversight. In addition, Treasury has posted job descriptions and is reviewing resumes and conducting interviews to fill remaining compliance positions at all levels in the organization. When fully staffed, the compliance department will have senior compliance professionals and supporting teams overseeing each TARP program.

In the meantime, the compliance staff is receiving assistance from other OFS personnel, including those in the risk management, financial management, home ownership preservation and investment areas, to ensure that TARP participants are meeting their responsibilities under the investment agreements. In addition, Treasury is using Freddie Mac, Fannie Mae, and contractors to provide substantive expertise and program monitoring services under the direction of the compliance staff.

SIGTARP Recommendation 27:
Additional anti-fraud protections should be adopted in MHA to verify the identity of the participants in the transaction and to address the potential for services to steal from individuals by receiving Government subsidies without applying them for the benefit of the homeowner.

Treasury's Response

Incentive payments to servicers include servicer incentives, investor payments, and borrower incentives. Payments represent (i) incentive payments to the servicer at the successful conclusion of the trial loan modification period (90-120 days) and (ii) payments to the servicer to be passed on to the investor as a partial offset to reduced interest income resulting from the loan modification. After one year (and annually thereafter, and for up to five years) payments to servicers also include borrower incentives, assuming the borrower is current, which would be applied to reduce the principal amount of the residential mortgage loan for the borrower.

Freddie Mac, Treasury's compliance agent for the Home Affordable Modification Program ("HAMP"), is in the process of refining procedures to verify that incentives paid to servicers are applied to the respective borrower participating in HAMP, and to investors. These compliance procedures will be performed by Freddie Mac on each HAMP participating servicer by reviewing a random sample of serviced mortgage loans, starting in October, since cash payments have only just begun (Treasury made payments to just one HAMP servicer in August). Through this random sampling, Freddie Mac's procedures will look to verify that borrower incentives paid to servicers were properly applied to reduce the outstanding principal balance of the related borrower's residential mortgage loan by tracing the incentives allocated to such loan. Freddie Mac will also look to verify that the investor incentives have been passed through to the related investors. Additional procedures include loan file reviews performed by Freddie Mac to verify that the loan exists, and that the data submitted by the servicer to the HAMP system of record is accurate. Freddie Mac will also use third party databases to verify the existence of the mortgaged property.

Treasury does not believe that additional anti-fraud protections are necessary to identify borrowers and/or co-borrowers involved in HAMP because borrower incentives are in the form of a principal reduction of the related borrower's residential mortgage loan, and thus, no cash payments are made to the borrowers. In addition, controls are in place to ensure that borrowers can receive benefit for only one modification to a first lien loan and, if applicable, only one modification to a second lien loan.

Treasury also does not believe that additional anti-fraud protections are necessary to identify incentives paid to investors since the ownership of mortgage loans can change on a regular basis, as they are often traded in the secondary mortgage market, or in the case of any mortgage loans held in a securitization, the loans are held in a pooled trust and many investors may hold separate slices of this pooled trust. Freddie Mac will, as part of its servicer compliance reviews, reconcile on a sample basis the investor payments remitted to the servicer to verify that servicers are not retaining these incentives.