This Summary Response describes the actions Treasury has taken to address the three recommendations in the GAO's February 2010 report titled *Treasury Needs to Strengthen Its Decision-Making Process on the Term Asset-Backed Securities Loan Facility*.

The Term Asset-Backed Securities Loan Facility (TALF), a joint program among the Federal Reserve Board of Governors (Federal Reserve Board), the Federal Reserve Bank of New York (FRBNY) and the United States Department of the Treasury (Treasury), was announced in November 2008 and launched in March 2009. The purpose of TALF is to address the severe credit availability problems for consumers and small businesses by increasing liquidity and tightening credit spreads in the asset-backed securities markets. TALF, by all measures, has been a resounding success. Credit availability has been substantially increased; the asset-backed securities markets are functioning again; and credit spreads have been reduced significantly. The asset-backed securities and legacy commercial mortgage backed securities (CBMS) portions of the TALF program are now closed to new subscriptions. The new issue CMBS portion of TALF will close to new subscriptions in June.

During the last months of the program, the capital markets have relied less and less on TALF financing. Treasury is pleased to have been a part of this important program.

Set forth below are our responses to the recommendations, In addition, we have attached an appendix in which we note our disagreement with some of the statements made by the GAO in its report.

GAO Recommendation 1:
To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, given the distressed conditions in the commercial real estate market, as part of its ongoing monitoring of TALF collateral, the Secretary of the Treasury should direct the Office of Financial Stability (OFS) to continue to give greater attention to reviewing risks posed by CMBSs.

Summary of Treasury's Actions in Response to this Recommendation
Treasury, along with the Federal Reserve Bank of New York (FRBNY) and the Board of Governors of the Federal Reserve (Federal Reserve Board), will continue to be attentive to risks posed by CMBS. We have put in place several mechanisms to monitor those risks and Treasury will continue to monitor those risks in collaboration with FRBNY and the Federal Reserve. Treasury is committed to ensuring that TALF is administered in a way that protects the taxpayer against unnecessary loss.

A number of safeguards were developed to help protect against taxpayer loss with respect to CMBS, including:

- Prior to the inclusion of CMBS to TALF, an extensive level of analysis was conducted independently by both the FRBNY and Treasury on CMBS and the means of minimizing the risk of taxpayer loss. To that end, third party consultants have opined that the current structure of legacy and new issue CMBS programs, based on conservative terms and conditions, have a minimal probability of credit loss.

- Eligible CMBS must be super-senior tranches, and have a current rating in the highest long-term investment-grade rating category from at least two rating agencies that are eligible to rate TALF CMBS and must not have a rating below the highest long-term investment-grade from any TALF CMBS-eligible rating agency.
- CMBS CUSIPs are not accepted as collateral based on credit ratings alone. In addition, the FRBNY conducts an internal risk assessment to evaluate how each CUSIP might perform under an adverse risk scenario. In support of this process, the FRBNY has engaged three independent collateral monitors to provide credit analysis on each CMBS security presented for a TALF loan**,** including a review of any CMBS with underlying loans that are not performing satisfactorily or that otherwise pose unacceptable risk.
- As with previous asset classes, conservative haircuts have been set to address the risk that the collateral will decline in value and ensure that investors have an equity stake in the transaction. Further, haircuts for legacy CMBS are based not on percentage of par, but rather, are applied on a dollar basis to market prices. This results in larger haircuts as a percentage of purchase price for assets that are bought at steeper discounts relative to par, tending to increase the Federal Reserve's protection for what may be riskier collateral.
- Some interest on collateral above specified limits will be diverted toward accelerated repayment of the loan. The interest deferral effectively increases the haircut overtime, ensures that the borrower has a strong incentive for ex ante due diligence, and reduces the likelihood that borrower will elect not to repay the loan.

Treasury continues to work collaboratively with the Federal Reserve Board and FRBNY in minimizing taxpayer risk while achieving the program's purpose of encouraging lending to consumers and businesses.

GAO Recommendation 2:
To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, the Secretary of the Treasury should direct the OFS to strengthen the process for making major program decisions for TALF and document how it arrives at final decisions with the Federal Reserve and FRBNY. Such decisions should include how Treasury considers expert and contractor recommendations and resolves those recommendations that differ from those of the Federal Reserve and FRBNY.

Summary of Treasury's Actions in Response to this Recommendation

As noted in our discussions with the GAO, Treasury's decision-making process is strong, as Treasury has robust safeguards in place to assure measured, informed, and well thought out decision-making. As we have previously stated, Treasury engages in daily phone conversations with the Federal Reserve Board and FRBNY, requires multiple levels of approval for program amendments, and coordinates all decision-making between its investment and legal departments. In addition, in response to this recommendation, Treasury is creating explicit policies and procedures for documenting its decision-making process. These policies and procedures will codify already existing practices.

GAO Recommendation 3:

To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, the Secretary of the Treasury should direct the OFS to conduct a review of what data to track and metrics to disclose to the public in the event that TALF LLC purchases surrendered assets from FRBNY. Such data and metrics should relate to the purchase, management, and sale of assets in TALF LLC that potentially impact TARP funds. Metrics related to TALF LLC could include periodic reports on the date and purchase price of assets; fluctuations in the market value of assets held; the date, price, and rationale when assets are sold; and the total amount of loans outstanding to Treasury.

Summary of Treasury's Actions in Response to this Recommendation

As the GAO report notes, Treasury has not been required to purchase any surrendered assets from FRBNY. This is why the program is currently expected to make a profit for the taxpayer. As noted above, TALF has also ceased to issue loans with respect to all asset classes other than new CMBS, and there will be one final opportunity for loans in respect of new CMBS. Nevertheless, it is possible that Treasury would be required in the future to purchase surrendered assets from FRBNY, in which case Treasury would track data relating to the purchase, management, and sale of the assets. Treasury currently tracks and monitors risks and discloses potential loss projections related to TALF LLC in its financial statements and would continue to do so if TALF LLC purchases surrendered assets from FRBNY. Moreover, Treasury will continue to enhance its existing reporting on its investments in TALF that strikes an appropriate balance between our goal of transparency and the need to avoid compromising either the competitive positions of investors or Treasury's ability to recover funds for taxpayers.