



UNITED STATES DEPARTMENT OF THE TREASURY  
OFFICE OF FINANCIAL STABILITY

# Citizens' Report

On The Troubled Asset Relief Program (TARP)

FISCAL  
YEAR 2009



SUMMARY OF PERFORMANCE  
AND FINANCIAL RESULTS

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# Message from the Assistant Secretary



This report summarizes the activities of the Troubled Asset Relief Program (TARP), which was established under the Emergency Economic Stabilization Act of 2008 as amended (EESA), in October 2008. It also presents valuations of TARP investments as of September 30, 2009.

The purpose of TARP was to restore the liquidity and stability of the financial system. While it will never be known for certain what would have happened without TARP, there is broad agreement today that because of TARP and other governmental actions, the United States averted a potentially catastrophic failure of the financial system. Such a failure would have resulted in an economic downturn far worse than was actually experienced.

The actions taken under EESA have been one of the principal reasons for the improvements we have seen in the economy over the last several months. These actions have met their goals; we are unwinding them. All of this is happening faster than we anticipated. As of February 15, 2010, \$170 billion of the \$240 billion invested in the banking system under TARP has been repaid. Private capital is replacing public capital in our financial institutions. The taxpayers have received \$17.2 billion in income as of December 31, 2009 on TARP investments in the form of dividends, interest, and the proceeds of warrant sales, and more will be realized in the future.

While EESA provided the Secretary of the Treasury with the authority to purchase or guarantee \$700 billion in troubled assets, Treasury expects to spend less than \$550 billion of that authority. Most of this will be in the form of investments that we expect will ultimately be repaid. As a result of improved financial conditions and careful stewardship of the program, losses on TARP investments are likely to be significantly lower than previously expected. And if the Administration's proposed Financial Crisis Responsibility Fee is adopted by Congress, the American taxpayer will not pay one cent of the cost of TARP.

Despite this progress, significant challenges remain. Too many American families, homeowners, and small businesses still face severe financial pressure. Although the economy is recovering, foreclosures are increasing, and unemployment is unacceptably high. Businesses are still cautious given uncertainty about the strength of the recovery, and many small businesses face very difficult credit conditions. Further, the recovery of our financial system remains incomplete. Near-term shocks to that system could undermine the economic recovery we have seen to date.

For these reasons, our exit strategy for TARP balances the mandate of EESA to address these challenges with the need to exercise fiscal discipline and reduce the burden on current and future taxpayers. There are four broad elements to our strategy. First, we will continue terminating and winding down many of the government programs put in place during the crisis. Second, we will limit new commitments in 2010 to two areas:

- Continue to mitigate foreclosures for responsible American homeowners as we take the steps necessary to stabilize our housing market;
- Provide capital to small and community banks in order to facilitate small business lending.

Third, beyond these limited new commitments, we will not use remaining EESA funds unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability.

Finally, Treasury will continue to manage our investments in a commercial manner and in a way that ensures accountability, transparency, and oversight, and seek to dispose of them as soon as practicable.

Treasury is also committed to keeping taxpayers informed of TARP's actions, results, investments and costs through frequent and timely public reports, close communication with oversight bodies, public responses to oversight reports, and direct outreach to taxpayers through its websites: *FinancialStability.gov* and *MakingHomeAffordable.gov*.

While TARP was necessary, it has put the federal government in the undesirable position of owning sizeable investments in private sector companies. Treasury has already begun selling warrants it has acquired and, as economic and market conditions continue to improve, it will sell other investments as quickly as practicable, in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests.

Sincerely,



Herbert M. Allison Jr.  
Assistant Secretary  
Office of Financial Stability

# Why TARP?

## MISSION & STRATEGIC GOALS

EESA was enacted on October 3, 2008, in response to the severe financial crisis facing our country. EESA established the Office of Financial Stability (OFS) within the Office of Domestic Finance of The Department of the Treasury to implement TARP. Treasury established the following goals for the TARP and developed a number of programs to stabilize our financial system and the housing market:

STRATEGIC GOALS	TREASURY ACTIONS
<p><b>Goal 1:</b> Ensure the overall stability and liquidity of the financial system</p> <ul style="list-style-type: none"> <li>a. Make capital available to viable institutions</li> <li>b. Provide targeted assistance as needed</li> <li>c. Increase liquidity and volume in securitization markets</li> </ul>	<p>Treasury provided capital infusions directly to banks and thrifts deemed viable by their regulators (Capital Purchase Program).</p> <p>Treasury provided direct aid to certain institutions in order to mitigate the potential risks to the financial system and the economy as a whole from the difficulties facing these firms (Targeted Investment Program, Asset Guarantee Program, AIG Investment Program, Automotive Industry Financing Program).</p> <p>Treasury developed programs to revitalize asset-backed securities markets critical to restoring the flow of credit to consumers and small businesses (Term Asset-Backed Securities Loan Facility, Public-Private Investment Program).</p>
<p><b>Goal 2:</b> Prevent avoidable foreclosures and help preserve homeownership</p>	<p>Treasury created a mortgage modification program that provides incentives to mortgage servicers, investors, and homeowners to work together to reduce eligible homeowners' monthly payments to affordable levels based on the homeowners' current income (Home Affordable Modification Program).</p>
<p><b>Goal 3:</b> Protect taxpayer interests</p>	<p>Treasury manages TARP investments to minimize costs to taxpayers and receives income on its holdings of preferred equity and other TARP investments in the form of interest, dividends, and fees. Treasury also takes steps to ensure that TARP recipients comply with all TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.</p>
<p><b>Goal 4:</b> Promote transparency</p>	<p>Treasury provides a variety of regular reports to the Congress and the public, including transaction reports, monthly reports with detailed information on TARP programs, dividends and interest reports, mortgage modification data, and monthly lending reports detailing the lending activity of participants in the Capital Purchase Program.</p>

## BACKGROUND OF THE FINANCIAL CRISIS

The financial crisis began to surface in August 2007. Over the preceding two decades, the financial system had grown rapidly in an environment of economic growth and stability. Ample credit and accommodative monetary policy around the world fueled an unsustainable housing boom in the first half of the last decade. When the housing market inevitably turned down, starting in early 2006, the pace of mortgage defaults accelerated at an unprecedented rate. By mid-2007, rising mortgage defaults were undermining the performance of many investments held by major financial institutions.

Over the summer of 2007 and into 2008, the crisis gradually increased in intensity and momentum. Stresses in U.S. financial markets increased as the performance of subprime mortgages deteriorated significantly, and losses on related securities began to climb. With the extent and distribution of losses quite uncertain, concerns arose about the financial condition of banks and other financial institutions. Several major institutions, including Countrywide Financial, Bear Stearns, and IndyMac collapsed; and Fannie Mae and Freddie Mac, the largest players in the mortgage market, came under severe stress.

## THE CRISIS INTENSIFIES

In September 2008, a series of events caused the crisis to escalate. The Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship, using authority and funding provided in July 2008 by the Housing and Economic Recovery Act of 2008. Goldman Sachs and Morgan Stanley faced significant liquidity pressures and both became bank holding companies in September 2008.

On September 15, Lehman Brothers filed for bankruptcy protection. What followed was not just trouble for banks, but also a broad scramble for liquidity that affected most money and credit markets. Some money market mutual funds, marketed as very safe investments, had begun trading at a discount. The run on these funds, in turn, severely disrupted the commercial paper market, which was a vital source of funding for many brick and mortar businesses. American International Group, Inc. (AIG), a global insurance company, also experienced severe liquidity pressures, necessitating assistance from the Federal Reserve, with the concurrence of Treasury, on September 16, 2008. These pressures spilled over to virtually all credit markets. Markets for instruments backed by consumer loans, such as auto loans, credit card receivables, and home-equity lines of credit, collapsed. In response, banks tightened standards and sharply curtailed the issuance of new loans.

In the fall of 2008, for the first time in 80 years, the collapse of the U.S. financial system was a real possibility. Peoples' trust and confidence in the stability of major institutions and the capacity of the government to contain the damage was vanishing.

In the wake of the bankruptcy of Lehman Brothers and the near failure of AIG, spreads on interbank borrowing jumped to a record high as banks sought to safeguard their own liquidity and interbank lending contracted sharply. In light of the weakening economy, banks continued to tighten their credit terms and standards on loans to their customers. The availability of credit shrank and economic activity declined. In the corporate bond market, borrowing costs increased dramatically and the spread of corporate yields to comparable maturity Treasury yields rose, reflecting

financial market stresses and a weakening economic outlook. Stock price indexes fell sharply, nearly 15 percent in early October 2008, leaving them down about 40 percent from the beginning of 2008.

By January 2009, the nation was in a deep recession. The economy was contracting at an annual rate of about six percent. The financial system was on the verge of collapse. Housing prices continued to fall rapidly. Credit was frozen. Because of the economy's dependence on the flow of credit, serious strains on credit providers resulted in disproportionately large costs on the broader economy in terms of production and employment.

## NEED FOR EESA

The Federal Reserve and the FDIC did not have the tools to resolve this crisis. The Federal Reserve provided sorely-needed liquidity to many financial institutions, which allowed them to meet near-term obligations. But it did not have the authority to inject capital directly into banks and other financial institutions to address potential capital shortfalls. The FDIC has a broader toolset in some respects—including the ability to inject capital or to purchase or guarantee liabilities—but these tools are only for depository institutions. In the fall of 2008, the crisis spread well beyond traditional banks, and threatened to exceed the limitations of the FDIC's capacity to respond effectively. Investors feared that U.S. financial institutions needed, in the aggregate, hundreds of billions of dollars to offset potential credit losses.

To provide the additional resources and authorities necessary to address the financial crisis and the dangers posed by such problems to consumers, businesses, and the broader economy, Congress passed the EESA,<sup>1</sup> which provided Treasury with the authority to purchase or guarantee up to \$700 billion in troubled assets held by financial institutions. Treasury was directed to exercise this authority to promote the liquidity and stability of the financial system, and this authority became a critical component of the coordinated government response to the financial crisis.

<sup>1</sup> The Emergency Economic Stabilization Act of 2008 (EESA), Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 et seq.

# What Treasury Did

## BUDGETARY RESOURCES

Treasury used the \$700 billion in TARP authority to make equity investments, loans, and asset guarantees in a range of financial institutions. In exchange for this assistance, Treasury, on behalf of the taxpayer, received financial instruments—equity (preferred and common stock), debt, warrants, and additional notes—from these companies. Treasury expects that most of the funding will be repaid.

Table 1 presents a financial summary for TARP programs. It shows the amount committed for each program, the amount actually disbursed, repayments to Treasury from program participants, the net outstanding balance—the amount on the original investment that is due to be repaid to Treasury—and cash inflows on the investments for each program, in each case as of September 30, 2009. As of that date:

- Treasury had not used the full \$700 billion in authority. Treasury entered into commitments with a face value of \$454 billion in TARP authority during the fiscal year.
- Of the \$454 billion in commitments, Treasury paid out \$364 billion in TARP funds in fiscal 2009 to make loans and equity investments.
- Treasury received approximately \$73 billion of repayments on certain investments and loans made in fiscal year 2009.

## FINANCIAL PERFORMANCE SNAPSHOT

Because most of the investments are expected to be repaid in full, Treasury estimated that the net cost of the \$364 billion disbursed in fiscal 2009 would be \$41.6 billion as of September 30, 2009. Of the funds that Treasury has used for TARP programs, some TARP investments are estimated to result in a cost, but others are estimated to produce a net return to taxpayers.

Based on investments made and expenses incurred as of September 30, 2009, Treasury projected that four programs (the Capital Purchase Program (CPP), the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the Consumer and Business Lending Initiative) will generate a net return of \$19.5 billion on a present value basis.<sup>2</sup> Also, as of September 30, 2009, Treasury estimated that two programs—the AIG Investment Program and the Automotive Industry Financing Program (AIFP)—would cost \$60.9 billion. In addition, the actual administrative expenses for fiscal year 2009

<sup>2</sup> Net present value is a term commonly used when looking at investments and is the sum of the present value (i.e., in today's dollars) of estimated future cash inflows from an investment minus the initial payment made to purchase the investment. In a net present value calculation, cash flows in the future are put into today's dollar terms using a discount rate; i.e., one dollar paid out today will have more value than a dollar received back a year from now.

**TABLE 1: TARP SUMMARY AS OF SEPTEMBER 30, 2009  
(\$ IN BILLIONS)**

	Purchase Price or Guarantee Amounts	Total \$ Disbursed	Investment Repayments	Outstanding Balance	Cash Received from Investments
Capital Purchase Program	\$ 204.6	\$ 204.6	\$ 70.7	\$ 133.9	\$ 9.7
Targeted Investment Program	\$ 40.0	\$ 40.0	\$ 0.0	\$ 40.0	\$ 1.9
Asset Guarantee Program	\$ 5.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.5
American International Group Investment Program	\$ 69.8	\$ 43.2	\$ 0.0	\$ 43.2	\$ 0.0
Term Asset-Backed Securities Loan Facility	\$ 20.0	\$ 0.1	\$ 0.0	\$ 0.1	\$ 0.0
Public Private Investment Program	\$ 6.7	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Automotive Industry Financing Program	\$ 81.1	\$ 75.9	\$ 2.1	\$ 73.8	\$ 0.7
Home Affordable Modification Program	\$ 27.1	\$ 0.0	NA	NA	\$ 0.0
<b>Totals</b>	<b>\$ 454.3</b>	<b>\$ 363.8</b>	<b>\$ 72.8</b>	<b>\$ 291.0</b>	<b>\$ 12.8</b>

of \$167 million bring the total estimated net costs to \$41.6 billion for the period ended September 30, 2009.

**TABLE 2: NET RETURN (COST) OF TARP OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2009 (\$ IN MILLIONS)**

<b>Programs with Estimated Net Positive Return Over the Life of the Program</b>	
Capital Purchase Program	\$ 15,033
Targeted Investment Program	\$ 1,927
Asset Guarantee Program	\$ 2,201
Consumer and Business Lending Initiative	\$ 339
Net Return (Cost) from Programs Above	\$ 19,500
<b>Programs with Estimated Net (Cost) Over the Life of the Program</b>	
American International Group, Inc. Investment Program	\$ (30,427)
Automotive Industry Financing Program	\$ (30,477)
Net (Cost) of Two Programs Above	\$ (60,904)
<b>Total Net Return (Cost)</b>	<b>\$ (41,404)</b>
<b>Additional TARP (Costs)</b>	
Home Affordable Modification Program	\$ (2)
Administrative Costs	\$ (167)
<b>Total Net (Costs) of TARP Operations</b>	<b>\$ (41,573)</b>

The ultimate cost of the TARP will not be known for some time. Market conditions and the performance of specific financial institutions will be critical determinants of the TARP's final cost. The changes in Treasury's estimates during the period ended September 30, 2009, provide a good illustration of this impact. The estimated net cost of programs implemented to that date declined by approximately \$110 billion as compared to estimates made while the programs were being initiated in the heart of the financial market crisis last winter, in large part due to market stabilization seen to date and actual and forecast repayments occurring at a faster rate than originally anticipated.

**FINANCIAL UPDATE:** Since September 30, 2009, Treasury has received significant repayments of investments made under the CPP and the TIP in addition to what is shown in Table 1. The outstanding balance of the CPP is now \$75.3 billion and all investments made under TIP have been repaid. Bank of America, Wells Fargo, and Citigroup repaid a total of \$90 billion in December 2009, and PNC repaid \$7.6 billion in February 2010. The total amount of TARP repayments is now \$173 billion, including more than two-thirds of the total amount that was invested in banks. This is a much faster recovery for the taxpayer than was expected when the program was launched. In addition, the AGP has been terminated without any disbursements and at a profit to the taxpayer. In December 2009, Treasury also received a \$1 billion principal repayment from GM. Treasury also committed \$3.8 billion of new capital to GMAC, a \$1.8 billion reduction from the \$5.6 billion originally estimated to be needed.

EESA called for the \$700 billion in authority to expire on December 31, 2009, but EESA also gave the Secretary of the Treasury (Secretary) the authority to extend that authority to no more than 2 years from the date of EESA's enactment (October 3, 2008), upon submission of a written certification to Congress. On December 9, 2009, the Secretary extended the authority until October 3, 2010 to enable TARP to continue implementing programs that address the housing market, needs of small businesses, and to maintain the capacity to respond to any unforeseen threats. The Secretary also announced that no more than \$550 billion is expected to be disbursed.

The total cost of TARP is expected to be higher than the \$41.6 billion which was reported for the funds spent as of September 30, 2009, because additional investments and disbursements will be made after fiscal year 2009. These include additional costs for the Home Affordable Modification Program (HAMP), the Public Private Investment Partnership (PPIP) and the Consumer and Business Lending Initiative. The President's Budget for fiscal year 2011 now estimates total TARP costs of \$117 billion, which includes the estimated costs for those dollars that were already disbursed in fiscal year 2009 as well as those dollars estimated to be spent this fiscal year and through the life of TARP. This number is down significantly from the \$341 billion presented in the President's budget update in August 2009.



# TARP Programs

**Capital Purchase Program:** Under the CPP, Treasury invested in banks and other financial institutions to increase their capital. With the additional capital, CPP participants were better equipped to undertake new lending, even while absorbing write downs and charge-offs on loans that were not performing. This program was closed to new investments in the fourth quarter of 2009.

**Targeted Investment Program:** Treasury established TIP to provide additional assistance on a case-by-case basis in order to stabilize financial institutions that were critical to the functioning of the financial system. Through TIP, Treasury purchased \$20 billion of preferred stock in each of Bank of America and Citigroup to prevent a loss of confidence that could have resulted in significant financial market disruptions, threatened the financial strength of similar financial institutions, impaired broader financial markets, and undermined the overall economy. Both institutions fully repaid their TIP funding in the fourth quarter of calendar year 2009.

**American International Group, Inc. (AIG) Investment Program:** Since September 2008, the Federal Reserve and Treasury have taken a series of actions to address the liquidity and capital needs of AIG, thereby preventing the company's disorderly failure and mitigating systemic risks. Treasury purchased preferred shares in AIG and received warrants to purchase common shares in the company. Treasury also created an equity capital facility under which AIG may draw up to \$29.8 billion as needed in exchange for issuing additional preferred stock to Treasury. As of September 30, 2009, AIG had drawn down approximately \$3.2 billion from the facility.

**Asset Guarantee Program:** AGP, like the TIP, was a targeted program aimed at maintaining the stability of financial institutions whose failure would have harmed the financial system. More specifically, the AGP provided protection against the risk of significant loss on pools of assets held by systemically significant

financial institutions. By committing to limit an institution's exposure to losses on illiquid or distressed assets through AGP, Treasury helped the institution maintain the confidence of its depositors and other funding sources, and continue to meet the credit needs of households and businesses. Treasury used this program to assist Citigroup and also announced a commitment to assist Bank of America (BoFA). Citigroup recently terminated the assistance and BoFA terminated the commitment, and both institutions paid substantial fees to the government.

**Term Asset-Backed Securities Loan Facility:** As part of the Consumer and Business Lending Initiative, the Federal Reserve and Treasury announced the creation of the Term Asset-Backed Securities Loan Facility (TALF) and launched TALF under the Financial Stability Plan on February 10, 2009. The TALF's objective is to stimulate investor demand for certain types of eligible asset-backed securities (ABS), specifically those backed by loans to consumers and small businesses. TALF has reduced the cost and increased the availability of new credit to consumers and businesses. Under the TALF, the Federal Reserve can extend up to \$200 billion in three- and five-year non-recourse loans to investors that agree to purchase eligible consumer or small business ABS. Treasury provides up to \$20 billion of TARP funds in credit protection to the Federal Reserve for losses that may arise under TALF loans.

**Public-Private Investment Program:** Treasury, in conjunction with the Federal Reserve and the FDIC, announced PPIP on March 23, 2009, as a part of the Financial Stability Plan. Under the PPIP, Treasury provides equity and debt financing to newly-formed public-private investment funds (PPIFs) established by fund managers with investors for the purpose of purchasing legacy securities from financial institutions. These securities are commercial mortgage-backed securities and non-agency residential mortgage-backed securities.

**Automotive Industry Financing Program:** Treasury established AIFP on December 19, 2008, to help prevent a significant disruption to the American automotive industry that would have posed a systemic risk to the stability of the financial system and the economy. Treasury made emergency loans available from the TARP under the AIFP to General Motors Corporation (GM) and Chrysler LLC (Chrysler) to enable those companies to conduct orderly restructurings and achieve viability. In addition to committing AIFP funds to GM and Chrysler, Treasury determined that TARP assistance was also needed for the financing companies affiliated with these manufacturers so that credit would remain available to GM's and Chrysler's dealers and customers.

**Home Affordable Modification Program:** Treasury announced a comprehensive \$75 billion program, the Home Affordable Modification Program (HAMP), in February 2009 to help distressed homeowners remain in their homes and thereby prevent avoidable foreclosures. Treasury is providing up to \$50 billion in funding through the TARP, while Fannie Mae and Freddie Mac agreed to provide up to \$25 billion of additional funding. The program's objective is to offer affordable mortgages to three to four million qualifying homeowners by December 31, 2012.



# Treasury's Performance — Management Highlights

## ACCOMPLISHMENTS

Fiscal year 2009 represented the start up period for Treasury's unprecedented emergency mission to stabilize the nation's financial system. Treasury met extraordinary challenges in launching a wide range of TARP programs in a short time while instilling strong operating and financial controls. The Government Accountability Office rendered unqualified ("clean") audit opinions on the OFS financial statements for fiscal year 2009 and opined that OFS maintained effective internal control over financial reporting with no material weaknesses.

Since TARP programs began, confidence in the stability of our financial markets and institutions has improved dramatically. Interbank lending rates, which reflect stress in the banking system, have returned to levels associated with more stable market conditions. For example, the spread of one-month LIBOR to the overnight index swap (another measure of risk in the financial system) fell from a peak of about 340 basis points<sup>3</sup> in the fall of 2008 to roughly 10 basis points at the end of October 2009.

At the same time, borrowing costs have declined for many businesses, homeowners, and municipalities. Investment-grade corporate bond rates have fallen by over 70 percent since the fall of 2008, and high-yield bond rates have fallen by more than half. Fears of default on these bonds have receded, providing further relief on prices. Conventional 30-year mortgage rates remain at historic lows — under five percent. AAA municipal bond rates are three percent, down from five percent in the fall of 2008.

Securitization markets that provide important channels of credit for consumers and small businesses have also improved, in large part because of programs launched under the TARP. Issuance of ABS backed by consumer

and business loans averaged \$14 billion per month since the government launched TALF in March 2009 through September 30, 2009, compared to about \$1.6 billion per month in the six months prior to the program's launch. Spreads on credit cards and auto loans fell from a peak of 600 basis points to less than 100 basis points over their benchmarks during fiscal year 2009, the same levels that existed before Lehman Brothers' bankruptcy filing in September 2008.

The incentives offered under the HAMP are helping American homeowners and stabilizing the housing market. Approximately 89 percent of eligible mortgage debt outstanding is serviced by HAMP participating servicers. In the fourth quarter of calendar year 2009, the volume of active trial and permanent modifications rose by more than 75 percent from the third quarter. The monthly volume of trial modifications has averaged 100,000 since June 2009 and the total number of trial modifications initiated now exceeds one million. Homeowners receiving a trial modification have been saving over \$500 per month on average.

Today, due in large part to aggressive government actions, including those taken under EESA, the financial system is more stable and the economy is growing again. In the final quarter of 2009, the economy grew more quickly than at any time in the past six years. Credit is starting to flow again to consumers and businesses. Housing markets have shown signs of stabilization, and home prices have ticked up in recent months, after three straight years of declines.

<sup>3</sup> A basis point is one hundredth of a percentage point or 0.01 percent so 100 basis points equals 1 percent. Basis points are often used to measure small changes in interest rates or yields on financial instruments.

# Challenges/Expectations for 2010

Treasury will continue to protect the taxpayer through careful management and disposition of all TARP investments. Treasury seeks to sell investments as soon as practicable, subject to approval of regulators where required, in order to eliminate or further minimize risks to taxpayers. Repayments of TARP funds reduce the federal debt. Treasury encourages recipients of TARP funds to replace the federal government's investment with private capital. Where Treasury holds voting shares in a company, its role as a shareholder is to manage the government's investment. Treasury will not engage in the day-to-day management decisions of a company in which it is an investor.

Treasury's strategy for TARP balances the mandate of EESA—promoting financial stability—with the need to exercise fiscal discipline and reduce the burden on current and future taxpayers. Treasury's strategy has four broad elements:

1. Treasury will continue terminating and winding down many of the government programs put in place last fall. For example, Treasury's investments in banks are now confined almost entirely to small and mid-sized banks with assets of less than \$10 billion each.
2. In 2010, the Obama Administration will focus the TARP program on two main activities:
  - the Making Home Affordable Program to mitigate preventable foreclosures for responsible American homeowners as necessary steps are taken to stabilize our housing market, and
  - the newly announced programs to promote lending to small businesses by providing capital to small and community banks and Community Development Financial Institutions.
3. Beyond these limited new commitments, Treasury will not use remaining EESA funds unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability, and Treasury will consult with the President and Chairman of the Federal Reserve Board before doing that.
4. Treasury will continue to manage its investments in a commercial manner and in a way that ensures accountability, transparency and oversight, and seek to dispose of them as soon as practicable.

# About the Office of Financial Stability

To administer the programs under TARP, the Secretary of the Treasury established OFS, an office within Treasury. As of September 30, 2009, the staff of OFS had grown to 198 full-time employees (101 career civil servants, 85 term appointments, and 12 detailees) who support the TARP. The fiscal year 2009 Administrative budget obligations totaled \$248 million split between salaries and benefits of approximately \$14 million and non-personnel services, generally contracts, of approximately \$234 million. The total staff of OFS was 219 at January 31, 2010. The recent increase in staff has been concentrated in areas engaged in operations and internal controls.

The Assistant Secretary of Financial Stability heads the OFS which has six program divisions to carry out all OFS responsibilities: the Chief Investment Office, the Office of the Chief Financial Officer, the Office of

the Chief of Homeownership Preservation, the Office of the Chief Administrative Officer, the Office of the Chief Counsel, and the Office of Internal Review. The OFS is also supported by dedicated personnel in other areas of Treasury.

As OFS is designed to be temporary in nature, OFS uses private sector expertise to the maximum extent possible and appropriate in implementing TARP programs. Asset managers were hired to serve as financial agents in managing the portfolio of assets associated with several TARP programs. The balance of the private sector firms assist with the significant volume of work associated with the TARP in the areas of accounting and internal controls, administrative support, facilities, legal advisory, financial advisory, and information technology.

# Where Readers Can Learn More

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Treasury's website that details financial stability programs in a simplified format:

<http://www.FinancialStability.gov/>

Comprehensive information on mortgage modification efforts aimed at stabilizing the housing market:

<http://www.MakingHomeAffordable.gov>

The Office of Financial Stability's Agency Financial Report (AFR), including the TARP financial statements, Management's Discussion and Analysis of the results and the Government Accountability Office audit opinion:

<http://www.treas.gov/press/releases/OSF%20AFR%2009.pdf>

In addition, four different government entities have oversight responsibilities for TARP and produce detailed reports available to the public:

- Government Accountability Office (GAO)  
<http://gao.gov/docsearch/featured/financialmarketsandhousing.html>
- Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)  
<http://www.sig tarp.gov/>
- Congressional Oversight Panel (COP)  
<http://cop.senate.gov/>
- Financial Stability Oversight Board (FSOB)  
<http://www.financialstability.gov/about/oversight.html>