GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-11-74, a report to congressional addressees

January 2011

TROUBLED ASSET RELIEF PROGRAM

Status of Programs and Implementation of GAO Recommendations

Why GAO Did This Study

Since the Troubled Asset Relief Program (TARP) was implemented, GAO has issued more than 40 reports containing more than 60 recommendations to the Department of the Treasury (Treasury). This report assesses the status of Treasury's implementation of GAO's recommendations and current condition of TARP. Specifically, this 60-day report provides information on (1) the condition and status of active TARP programs; (2) Treasury's progress in implementing an effective management structure, including staffing for the Office of Financial Stability (OFS), overseeing contractors, and establishing a comprehensive system of internal control; and (3) trends in the status of key relevant economic indicators. GAO reviewed relevant documentation from various TARP programs and met with OFS officials and financial regulators. GAO also used information from existing reports and ongoing work.

What GAO Recommends

As TARP enters its next phase and winds down, GAO recommends that OFS take action to further enhance its ongoing operations by finalizing a plan for addressing how it will manage its workforce, in particular term-appointed and key Senior Executive Service employees. While Treasury agreed with our recommendation, we have differing views on the status of prior recommendations. We will continue to update the status of recommendations as appropriate.

View GAO-11-74 or key components.
For more information, contact Thomas J. McCool, (202) 512-2642 or mccoolt@gao.gov.

What GAO Found

TARP programs implemented over the last 2 years covered a broad range of activities, including injecting capital into financial institutions; addressing issues in the securitization markets; providing assistance to the automobile industry and American International Group, Inc. (AIG); and offering incentives for modifying residential mortgages, among other things. While some programs have been terminated, others remain active, including those that focus on preserving homeownership and providing assistance to AIG, and require continued monitoring. Further, the Homeownership Preservation Office has not yet conducted a workforce assessment, despite the recent addition of several new programs. In prior work GAO has identified a number of weaknesses in Treasury's implementation of the Home Affordable Modification Program (HAMP), and a number of homeowner preservation initiatives have not yet reported activity. Other TARP programs have ended or are winding down. Table 1 provides an overview of selected outstanding programs, key GAO findings, and the status of the implementation of GAO recommendations. As of September 30, 2010, OFS reported \$179.2 billion in gross outstanding direct loans and equity investments with a subsidy cost allowance of \$36.7 billion resulting in a net balance of \$142.5 billion. The reported net cost of TARP transactions from inception through September 30, 2010, was \$18.5 billion; however, the ultimate cost of TARP will change as a result of (1) differences between the estimated values and the amounts that OFS will ultimately realize (as the assumptions and estimates underlying the valuation of direct loans and equity investments are inherently subject to substantial uncertainty); and (2) further disbursements, such as those relating to the housing programs which are not subject to repayment. For example, the proposed restructuring of AIG, if implemented, will likely affect TARP's ultimate cost.

Although OFS staffing has become more stable over the past year, with more than 200 employees, its stability remains fragile as it faces new challenges. For example, while it has filled key leadership positions, the Assistant Secretary of Financial Stability resigned in September 2010 and this key leadership position is temporarily filled. Staffing remains important as some programs are still being implemented, while others have closed or been terminated but have assets that must be managed, repaid, and divested. OFS has begun to take steps that will help to retain staff. But staff retention could be a challenge for OFS going forward, because more than half of OFS's employees, including key leaders, are term appointments (many with 4-year term limits). OFS has also begun to address succession planning for critical senior positions, but its workforce plan has not been updated since March 2009. Without a plan that considers various scenarios, OFS may find itself unprepared to adequately manage and oversee the remaining TARP investments and programs. OFS has strengthened its management and oversight of contractors and financial agents and its system of internal control for financial reporting and compliance with program requirements. Continued progress will depend on retaining qualified staff.

Table 1: Status of Selected Programs and GAO Recommendations and Gross Outstanding Program Balance as of September 30, 2010

Program	Gross outstanding balance
Capital Purchase Program (CPP). To provide capital to viable banks through the purchase of preferred shares and subordinated debentures. While many institutions have repaid Treasury, a growing number of institutions still participating have missed dividend payments or requested restructuring of CPP investments. Treasury has addressed many of GAO's concerns regarding transparency and accountability, but more needs to be done to monitor regulators' decisions on repayments and withdrawals. GAO previously recommended that to the extent future Treasury programs (e.g., Small Business Lending Fund) are modeled after CPP, Treasury should collect information on and monitor regulators' recommendations that applicants withdraw. Without this information, Treasury risks not having a basis for determining whether decisions involving similar institutions were being made consistently and thus whether participants were being treated equitably. Moreover, GAO recommended that OFS periodically collect and review certain information from the bank regulators supporting their decisions on CPP repayment requests and provide feedback for the regulators' consideration to help ensure that similar institutions are treated consistently. Treasury has not yet implemented these recommendations.	$49.8
Automotive Industry Financing Program (AIFP). To prevent a significant disruption of the American automotive industry. GM and, to a lesser extent, Chrysler have repaid some of their AIFP funding; however, the ability of the government to fully recoup its investments in these companies will depend on the companies' profitability and the success of future public stock offerings. GAO previously recommended that Treasury ensure it had adequate staff on board to monitor the government's investment in the auto companies and to report to Congress on how it planned to assess the companies' performance. Treasury has hired additional staff but has not yet provided information to Congress on its future monitoring plans.	67.2
AIG (formerly Systemically Significant Failing Institutions Program). To provide stability in financial markets and avoid disruptions to the markets from the failure of a systemically significant institution. While AIG has announced plans to significantly restructure its outstanding assistance, several conditions will need to be met for the plan to work as intended. These include repaying the outstanding balance on the Federal Reserve Revolving Credit Facility, drawing down Treasury's equity capital facility, amending and creating new equity purchase agreements, and converting some preferred stock for common equity. However, whether Treasury will fully recoup its investment will not be known for some time and therefore, requires continued monitoring and oversight.	47.6
HAMP. To offer assistance to homeowners through a cost-sharing arrangement with mortgage holders and investors to reduce the monthly mortgage payment amounts of those at risk of foreclosure to affordable levels. The program had a slow start and has not performed as anticipated. Further, the Homeownership Preservation Office has not yet conducted a workforce assessment, despite the recent addition of several new programs. Despite program changes that are intended to increase the number of mortgage loan modifications made under HAMP, more borrowers have had their trial modifications canceled than have received permanent modifications. Further, while Treasury has added TARP-funded housing program enhancements in an effort to reach more borrowers and address persistently high default and foreclosure levels, the newly announced programs have had very limited activity to date and Treasury continues to face challenges in expeditiously implementing a prudent design for these programs, as GAO recommended in a June 2010 report. Treasury has not yet fully implemented all of our prior recommendations to increase the transparency, accountability, and consistency of the program.	n/a
Public-Private Investment Program. To address the challenge of "legacy assets" as part of Treasury's efforts to repair balance sheets throughout the financial system and increase the availability of credit to households and businesses. The program, though slow to start, has resulted in positive returns but continued monitoring is necessary because market prices can fluctuate, and Treasury still holds oversight responsibility for the fund managers.	13.7
Consumer and Business Lending Initiative. Several programs designed to provide capital to certain financial institutions or liquidity to secondary markets for small business loans and other asset classes, and thereby improve access to credit for consumers and businesses. Although the purpose of the Community Development Capital Initiative was initially unclear to some participants, public communications about the dual purposes of the program—to assist small business lending and to support the mission of Community Development Financial Institutions—was clarified towards the end of the program. Treasury has addressed concerns that GAO raised about Treasury's role in the Term Asset-Backed Securities Loan Facility, including monitoring risks related to commercial mortgage-backed securities, formalizing the decision-making process with the Board of Governors of the Federal Reserve System, and conducting an assessment of how to track and report on assets that might be surrendered.	0.9
Total	**$179.2**

Source: GAO analysis of Treasury's OFS information.

Some credit markets are beginning to show signs of a sustained recovery, even as other areas of the economy, particularly housing markets and job starts, remain fragile. Indicators that GAO monitors to assess the effectiveness of TARP showed that credit markets have largely held the gains they achieved since October 2008. While the degree of effectiveness has varied across programs, some programs have reportedly had the desired effects, especially if stabilizing and restoring confidence in the financial system are considered the principal goals of the government's interventions. GAO noted in prior reports that while isolating the impact of TARP from various other significant federal efforts is impossible, many of the anticipated effects on credit markets and the economy had materialized. These effects included declines in perceptions of risks in various financial markets, including asset spreads in asset-backed securities; declines in interest rates in interbank, mortgage, and bond markets; a renewed ability by banks to access capital markets; increasing securitizations; and price recovery for some legacy or "troubled" assets.