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Report to Congressional Addressees

January 2013

TROUBLED ASSET RELIEF PROGRAM

Treasury Sees Some Returns as It Exits Programs and Continues to Fund Mortgage Programs

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Highlights

Highlights of GAO-13-192, a report to congressional addressees

January 2013

TROUBLED ASSET RELIEF PROGRAM

Treasury Sees Some Returns As it Exits Programs and Continues to Fund Mortgage Programs

Why GAO Did This Study

The Emergency Economic Stabilization Act of 2008 authorized Treasury to create TARP, a $700 billion program designed to restore liquidity and stability to the financial system and to preserve homeownership by assisting borrowers struggling to make their mortgage payments. The act also required that GAO report every 60 days on TARP activities in the financial and mortgage sectors. This report examines the condition and status of (1) nonmortgage-related TARP programs and (2) TARP-funded mortgage programs and Treasury's efforts to better ensure that servicers are implementing as intended two new requirements designed to improve interactions with borrowers (the MHA single point of contact and resolution of escalated cases requirements). To do this work, GAO analyzed audited financial data for various TARP programs; reviewed documentation such as program terms and agency reports on TARP programs; and interviewed Office of Financial Stability officials.

Treasury generally agreed with the findings. Treasury, Ally Financial, and General Motors provided technical comments that GAO incorporated, as appropriate.

What GAO Found

As of September 30, 2012, the Department of the Treasury (Treasury) was managing assets totaling $63.2 billion in nonmortgage-related Troubled Asset Relief Programs (TARP) (see figure). As of this date, Treasury had exited 4 of the 10 nonmortgage-related programs, and in December 2012 Treasury announced the exit from a fifth program—the American International Group (AIG) Investment Program. Exactly when Treasury will exit the remaining five programs remains uncertain. Treasury has identified several factors that will affect its decisions. For example,

- for the Capital Purchase Program (CPP, created to provide capital to financial institutions), the financial condition of the participating institutions and the success of auctions;
- for the Community Development Capital Initiative (CDCI, created to provide capital to credit unions and financial institutions in underserved communities), which Treasury has not yet decided to exit, the financial condition of the participating institutions and the rate at which the institutions repay Treasury; and
- for the Automotive Industry Financing Program (AIFP, created to prevent a significant disruption of the American automotive industry).

Some programs, such as CPP, have yielded returns that exceed the original investments. Others, such as CDCI and AIFP, have not.

Unlike the nonmortgage-related TARP programs, TARP-funded mortgage programs, which focus on mitigating foreclosures, are ongoing, and Treasury's oversight of new requirements designed to improve servicers' interactions with borrowers showed both challenges and improvements. Treasury allocated $45.6 billion in TARP funds to three programs, including Making Home Affordable (MHA), but more than $40 billion of the funding has not yet been disbursed, and the programs have not reached the expected number of borrowers. The centerpiece of MHA is the Home Affordable Modification Program, which has provided about 1.1 million permanent modifications to borrowers. To help ensure that homeowners receive appropriate assistance from servicers under this and other MHA programs, since September 2011 Treasury has required servicers to identify a "relationship manager" to serve as the homeowner's single point of contact throughout a delinquency or imminent default resolution process. GAO found that Treasury's initial reviews of servicers' implementation of this requirement had identified some inconsistencies. However, oversight of a second requirement designed to improve the resolution of borrower inquiries and disputes (escalated cases) showed that the nine largest servicers had met the performance target. Treasury officials said that the MHA program administrator, Fannie Mae, handled oversight of the escalation process and the vendors who supported in keeping with Treasury's guidelines.

View GAO-13-192 or key components.

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Status of Programs, as of September 30, 2012

	Program	Amounts (dollars in billions)
Non-mortgage-related programs with outstanding assets	**Capital Purchase Program (CPP)** To provide capital to viable banks through the purchase of preferred shares and subordinated debentures.	$8.7 outstanding assets **Disbursed: $204.9**
	Community Development Capital Initiative Program To provide capital to credit unions and financial institutions in underserved communities.	$0.6 outstanding assets **Disbursed: $0.6**
	Automotive Industry Financing Program (AIFP) To prevent a significant disruption of the American automotive industry.	$37.3 outstanding assets **Disbursed: $79.7**
	AIG Investment Program To provide stability in financial markets and avoid disruptions to the markets from the deterioration of AIG's financial condition.	On December 14, 2012, Treasury announced that it had received payment from its final sale of AIG stock, bringing to an end the government's assistance to the company.
	Public-Private Investment Program To address the challenge of "legacy assets" by partnering with investors to purchase certain residential and commercial mortgage-backed securities.	$9.8 outstanding assets **Disbursed: $18.6**
	Term Asset-backed Securities Loan Facility To provide liquidity in securitization markets for various asset classes to improve access to credit for consumers and businesses.	$0.1 outstanding assets **Disbursed: $0.1**

	Program	Lifetime income (dollars in billions)
Non-mortgage programs Treasury has exited	**SBA 7(a) Program** To alleviate liquidity strains in secondary markets for SBA 7(a) loans. Treasury purchased 31 SBA 7(a) securities between March and September 2010.[a]	**$0.004**
	Asset Guarantee Program (AGP) To provide federal government assurances for assets held by financial institutions that were viewed as critical to the functioning of the nation's financial system.[b]	**$3.9**
	Targeted Investment Program (TIP) To foster market stability and strengthen the economy by making investments on a case-by-case basis in institutions that Treasury deemed critical to the functioning of the financial system.	**$4.0**
	Capital Assessment Program (CAP) Created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program (SCAP)—or "stress test"—requirements. This program was never used.	**N/A**
TARP-funded mortgage programs	To offer assistance to homeowners at risk of foreclosure.[c]	$5.5 in payments **Authorized: $45.6**

Source: GAO analysis of Treasury data.

Notes: The September 30, 2012, data are audited numbers from Treasury's financial statements. Outstanding assets are presented at book value.

[a]The SBA 7(a) program is SBA's primary program for helping small businesses obtain access to credit when they cannot obtain it from private lending institutions. The program provides credit for working capital and other business needs.

[b]Treasury no longer holds assets for this program that it must manage, though the Federal Deposit Insurance Corporation still holds Citigroup trust preferred stock and Treasury could receive income when these assets are sold.

[c]TARP-funded mortgage programs include a variety of programs to assist homeowners. Unlike the investment programs, these programs do not hold assets to manage and sell and thus have no outstanding assets.

Contents

Figures

Abbreviations

ABS	asset-backed securities
AIFP	Automotive Industry Financing Program
AGP	Asset Guarantee Program
AIG	American International Group, Inc.
CAP	Capital Assessment Program
CDCI	Community Development Capital Initiative
CDFI	Community Development Financial Institutions
CMBS	commercial mortgage-backed securities
CPP	Capital Purchase Program
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EBIT	earnings before interest and tax
EESA	Emergency Economic Stabilization Act
Federal Reserve	Board of Governors of the Federal Reserve System
FDIC	Federal Deposit Insurance Corporation
FRBNY	Federal Reserve Bank of New York
FHA	Federal Housing Administration
FHA Short Refinance or FHASR	FHA Refinance of Borrowers in Negative Equity Positions
GM	General Motors
GMAC	General Motors Acceptance Corporation
HAFA	Home Affordable Foreclosure Alternatives
HAMP	Home Affordable Modification Program
Hardest Hit Fund or HHF	Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets
HUD	Department of Housing and Urban Development
IPO	initial public offering
MHA	Making Home Affordable
OFS	Office of Financial Stability
PPIF	public-private investment fund
PPIP	Public-Private Investment Program
PRA	Principal Reduction Alternative
RD	Rural Development
RHS	Department of Agriculture's Rural Housing Service
RMBS	residential mortgage-backed securities
SBA	Small Business Administration
SBLF	Small Business Lending Fund
TALF	Term Asset-backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TIP	Targeted Investment Program
Treasury	Department of the Treasury

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United States Government Accountability Office
Washington, DC 20548

January 7, 2013

Congressional Addressees

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized $700 billion to assist financial institutions and markets, businesses, homeowners, and consumers through the Troubled Asset Relief Program (TARP).[1] This amount was intended to provide confidence that the U.S. government would help address the greatest threat the financial markets and economy had faced since the Great Depression. As the severity and immediacy of the 2008 financial crisis began to diminish, Congress reduced the authorized amount to $475 billion as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[2]

TARP costs were not estimated to reach the authorized amounts, and over time the projected costs have declined as financial institutions repay some assistance and other programs move closer to their termination dates.[3] However, a number of banks that received investments under the Capital Purchase Program (CPP), the largest TARP program, have missed dividend or interest payments related to their government assistance, although the number of banks remaining in the program has decreased. TARP-funded housing programs also continue their expenditures in an effort to address the ongoing foreclosure crisis.

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[1]EESA, Pub. L. No. 110-343, 122 Stat. 3765 (2008) (codified at 12 U.S.C. §§ 5201 *et seq*.). EESA originally authorized Treasury to purchase or guarantee up to $700 billion in troubled assets. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, 123 Stat. 1632 (2009), amended EESA to reduce the maximum allowable amount of outstanding troubled assets under EESA by almost $1.3 billion, from $700 billion to $698.741 billion.

[2]The Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), (1) reduced Treasury's authority to purchase or insure troubled assets to a maximum of $475 billion and (2) prohibited Treasury, under EESA, from incurring any additional obligations for a program or initiative unless the program or initiative had already been initiated prior to June 25, 2010.

[3]The Department of the Treasury, the Congressional Budget Office, and the Office of Management and Budget provided cost estimates that were all below $700 billion; the highest estimate was about half the $700 billion allocated for TARP.

The Department of the Treasury (Treasury) is the primary agency implementing TARP, and it has undertaken a broad range of activities. Treasury established the Office of Financial Stability (OFS) to carry out TARP activities, which have included injecting capital into key financial institutions, implementing programs to address problems in the securitization markets, providing assistance to the automobile industry, and offering incentives for modifying residential mortgages, among other activities.

As required by EESA, we have provided oversight of TARP activities since they began in 2008. This 60-day report assesses the condition of TARP as of September 30, 2012.[4] Specifically, it examines the condition and status of (1) nonmortgage-related TARP programs; and (2) TARP mortgage programs, including Treasury's efforts to ensure that servicers are implementing two requirements. These requirements are establishing a single point of contact for each borrower and following procedures for resolving disputed cases that are "escalated" or referred for review.

To assess the condition and status of nonmortgage-related TARP programs, we collected and analyzed data about program utilization and assets held, as applicable, focusing primarily on financial information that we had audited in the Office of Financial Stability's (OFS) financial statements, as of September 30, 2012. In some instances we provided more recent, unaudited financial information.[5] The financial information includes the types of assets held in the program, obligations that represent the highest amount ever obligated for a program, disbursements, and income. Further, we reviewed Treasury documentation such as program terms, press releases, and reports on TARP programs and costs. Also, we interviewed OFS program officials to determine the current status of each TARP program, the role of TARP staff, and exit considerations for TARP programs. To assess the condition

[4]We have issued 60-day TARP reports as required by EESA section 116 (codified at 12 U.S.C. § 5226). These reports may be found at www.gao.gov.

[5]We provided non-audited financial information for significant repayments occurring after September 30, 2012. This included information related to the American International Group (AIG) Investment Program, the Automotive Industry Financing Program (AIFP), and the Public-Private Investment Program (PPIP). In the first case, Treasury has recouped its assistance to AIG, and in case of AIFP, the updates relate directly to Treasury's exit strategy. We added information for PPIP because the payment amounts were relatively large. Our future reports on TARP will address audited financial information for the various nonmortgage TARP programs for the post-September 30, 2012, period.

and status of TARP-funded mortgage programs and Treasury's efforts to ensure that servicers were implementing the single point of contact requirement and procedures for resolving escalated cases, we analyzed Treasury's public reports and statements; reviewed internal Treasury documentation; and interviewed OFS officials. For both objectives, we also leveraged our past reporting on TARP, as well as that of the Special Inspector General for TARP, as appropriate. Unless otherwise noted, we provide financial information about the TARP programs throughout this report as of September 30, 2012. Appendix I contains additional information about our scope and methodology.

We conducted this performance audit from September 2012 to January 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

When EESA was enacted on October 3, 2008, the U.S. financial system was facing a severe crisis that rippled throughout the global economy, moving from the U.S. housing market to an array of financial assets and interbank lending. The crisis restricted access to credit and made the financing on which businesses and individuals depended increasingly difficult to obtain. Further tightening of credit exacerbated a global economic slowdown. During the crisis, Congress, the President, federal regulators, and others undertook a number of steps to facilitate financial intermediation by banks and the securities markets. In addition to Treasury's efforts, policy interventions were led by the Board of Governors of the Federal Reserve System (Federal Reserve) and the Federal Deposit Insurance Corporation. While the banking crisis in the United States no longer presents the same level of systemic concerns as it did in 2008, the financial system continues to face vulnerabilities, including lagging investor confidence, financial concerns about European banks and countries, and generally weak economic growth globally.

TARP Programs and Implementation

The passage of EESA resulted in a variety of programs supported with TARP funding.[6] (See table 1.) Treasury estimates several of the programs over their lifetimes will provide income to the government while others will incur a cost. Each program that remained active through September 30, 2012, will be addressed in this report.

Table 1: Programs Supported by TARP Funding and Their Estimated Lifetime Income (Cost) as of September 30, 2012

Program	Program description	Lifetime income (cost) estimate (dollars in billions)
American International Group, Inc. (AIG) Investment Program (formerly Systemically Significant Failing Institutions Program)	Provided support to AIG to avoid disruptions to financial markets as its financial condition deteriorated.	($15.3) TARP 17.6 Non-TARP[a]
Asset Guarantee Program	Provided federal government assurances for assets held by financial institutions that were viewed as critical to the functioning of the nation's financial system. Bank of America and Citigroup were the only two institutions that participated in this program.	3.9
Automotive Industry Financing Program (AIFP)	Aimed to prevent a significant disruption of the American automotive industry through government investments in certain domestic automakers—Chrysler and General Motors (GM)—and auto financing companies Ally Financial (formerly known as General Motors Acceptance Corporation, or GMAC) and Chrysler Financial.	(24.3)
Capital Assessment Program	Created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program—or "stress test"—requirements. This program was never used.	N/A
Capital Purchase Program (CPP)	The largest TARP program, designed to provide capital investments to financially viable financial institutions. Treasury received preferred shares and subordinated debentures, along with warrants.[b]	14.9

[6]For more information on these programs, see our previous reports on TARP issued after each of its first 3 years of implementation: GAO, *Troubled Asset Relief Program: As Treasury Continues to Exit Programs, Opportunities to Enhance Communication on Costs Exist*, GAO-12-229 (Washington, D.C.: Jan. 9, 2012), *Troubled Asset Relief Program: Status of GAO Recommendations to Treasury*, GAO-11-906R (Washington, D.C.: Sept. 16, 2011), *Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations*, GAO-11-74 (Washington, D.C.: Jan. 12, 2011), and *Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges*, GAO-10-16 (Washington, D.C.: Oct. 8, 2009).

Program	Program description	Lifetime income (cost) estimate (dollars in billions)
Consumer and Business Lending Initiative programs	• *Community Development Capital Initiative (CDCI)* provided capital to Community Development Financial Institutions (CDFI) by purchasing preferred stock and subordinated debentures.[c]	(0.2)
	• *Small Business Administration (SBA) 7(a) Securities Purchase Program* provided liquidity to secondary markets for government-guaranteed small business loans in SBA's 7(a) loan program.	0.004
	• *Term Asset-backed Securities Loan Facility (TALF)* provided liquidity in securitization markets for various asset classes to improve access to credit for consumers and businesses.	0.5
TARP-funded housing programs	• *Making Home Affordable* includes several housing programs. The primary program has been the *Home Affordable Modification Program (HAMP)*, under which Treasury shares the cost of reducing monthly payments on first lien mortgages with mortgage holders/investors and provides financial incentives to servicers, borrowers, and mortgage holders/investors for loans modified under the program.[d]	(45.6) for all programs
	• *Hardest Hit Fund* seeks to help homeowners in the states hit hardest by unemployment and house price declines.	
	• *Support for the Department of Housing and Urban Development's Federal Housing Administration (FHA) Short Refinance program* enables homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages.	
Public-Private Investment Program (PPIP)	Created to address the challenge of "legacy assets" as part of Treasury's efforts to repair balance sheets throughout the financial system. Treasury partnered with private funds to purchase residential and commercial mortgage-backed securities.	2.4
Targeted Investment Program (TIP)	Sought to foster market stability and strengthen the economy by making case-by-case investments in institutions that Treasury deemed critical to the functioning of the financial system. Bank of America and Citigroup were the only two institutions that participated in this program.	4.0

Source: GAO analysis of Treasury data.

Note: The data in this table are as of September 30, 2012, and do not reflect significant transactions related to AIG, GM, and PPP that occurred after that date but are discussed later in this report.

[a]In addition to using TARP to support AIG, Treasury also supported AIG through non-TARP assistance. Treasury received 562,868,096 common shares outside of TARP from a trust created by the Federal Reserve Bank of New York for the benefit of the Treasury. The trust exchanged its AIG Series C preferred shares, for AIG common shares.

[b]A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

[c]CDFIs are financial institutions that provide financing and related services to communities and populations that lack access to credit, capital, and financial services.

[d]For more information on additional Making Home Affordable programs funded through TARP see GAO, *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs,* GAO-12-783 (Washington, D.C.: July 19, 2012).

Many TARP programs have been winding down, and some have ended.[7] Treasury has stated that when deciding to sell assets and exit TARP programs, it strives to:

- protect taxpayer investment and maximize overall investment returns within competing constraints, and promote the stability of financial markets and the economy by preventing disruptions to the financial system;
- bolster markets' confidence in order to encourage private capital investment; and
- dispose of investments as soon as practicable.

While Treasury has identified these goals for the exit process for many programs, we and others have noted that these goals, at times, can conflict.[8] For example, we previously reported that deciding to unwind some of its assistance to General Motors (GM) by participating in an initial public offering (IPO) presented Treasury with a conflict between maximizing taxpayer returns and exiting as soon as practicable. Holding its shares longer could have meant realizing greater gains for the taxpayer but only if the stock appreciated in value. By participating in GM's November 2010 IPO, Treasury tried to fulfill both goals, selling almost half of its shares at an early opportunity. Treasury officials stated that although they strove to balance these competing goals, they had no strict formula for doing so. Rather, they ultimately relied on the best available information in deciding when to start exiting this program.

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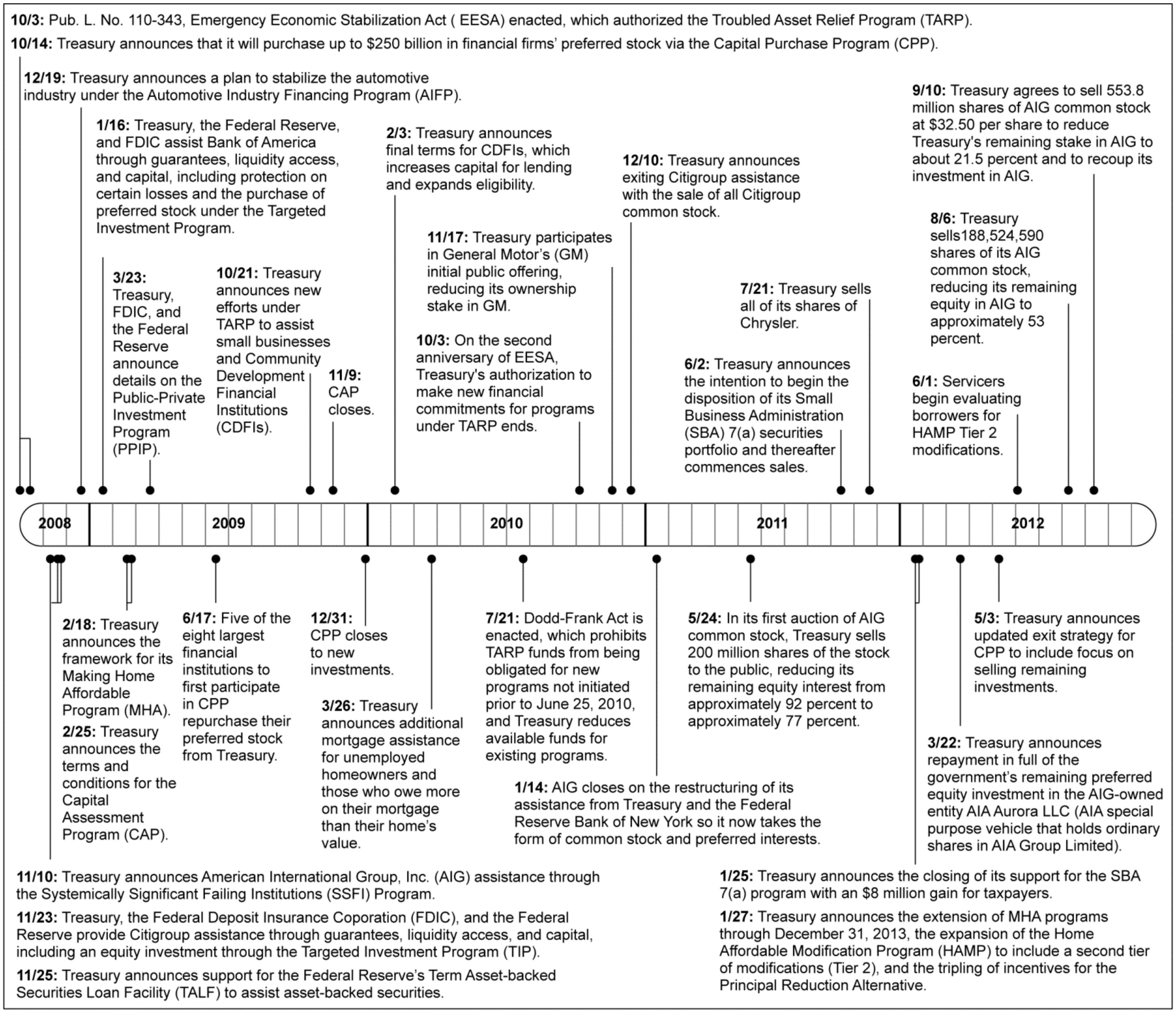
[7]In addition to programs that are moving towards exit, the Asset Guarantee Program, the Capital Assessment Program, the Targeted Investment Program, and the SBA 7(a) Securities Purchase Program are no longer active, and Treasury no longer holds assets related to these programs that it must manage. We have previously reported on programs that ended in 2012 (see app. II). The Asset Guarantee Program, which provided federal government assurances for assets held by financial institutions deemed critical to the functioning of the U.S. financial system, still had a receivable outstanding from the Federal Deposit Insurance Corporation (FDIC) as of September 30, 2012, that could affect the overall cost of TARP.

[8]See GAO, *TARP: Treasury's Exit from GM and Chrysler Highlights Competing Goals, and Results of Support to Auto Communities Are Unclear*, GAO-11-471 (Washington, D.C.: May 10, 2011). The Congressional Oversight Panel also noted these competing goals. See Congressional Oversight Panel, *January Oversight Report: Exiting TARP and Unwinding Its Impact on the Financial Markets* (Washington, D.C.: Jan. 14, 2010).

Moreover, in some cases Treasury's ability to exercise control over the timing of its exit from TARP programs is limited. For example, Treasury has limited control over its exit from the Public-Private Investment Program (PPIP), because the program's exit depends on when each public-private investment fund (PPIF) decides to sell its investments. Treasury continues to face this tension in its goals with a number of TARP programs. Figure 1 provides an overview of key dates for TARP implementation and the unwinding of some programs. In addition, appendix III provides information on Treasury's administration of the TARP programs, including an update on the staffing challenges we have previously reported and Treasury's reliance on the private sector to assist with TARP administration and operations.

Figure 1: Timeline for Recent Major Events from TARP's Implementation and Unwinding, October 3, 2008, through September 10, 2012



Source: GAO analysis of Treasury data.

Most Nonmortgage-Related Programs Continue to Wind Down

Most nonmortgage-programs continue to wind down, but the status and potential ending date of each nonmortgage-related TARP program varies. Key information includes,

- the estimated date, if known, that the program will end or stop acquiring new assets and no longer receive funding;
- Treasury's estimated date for exiting the program or selling the assets it acquired while the program was open;
- outstanding assets, as applicable, as of September 30, 2012;[9] and
- the lifetime estimated costs (or income) for each program as calculated by Treasury.

Institutions' Financial Strength and the Outcomes of Auctions Will Help Determine When Remaining Participants Exit CPP

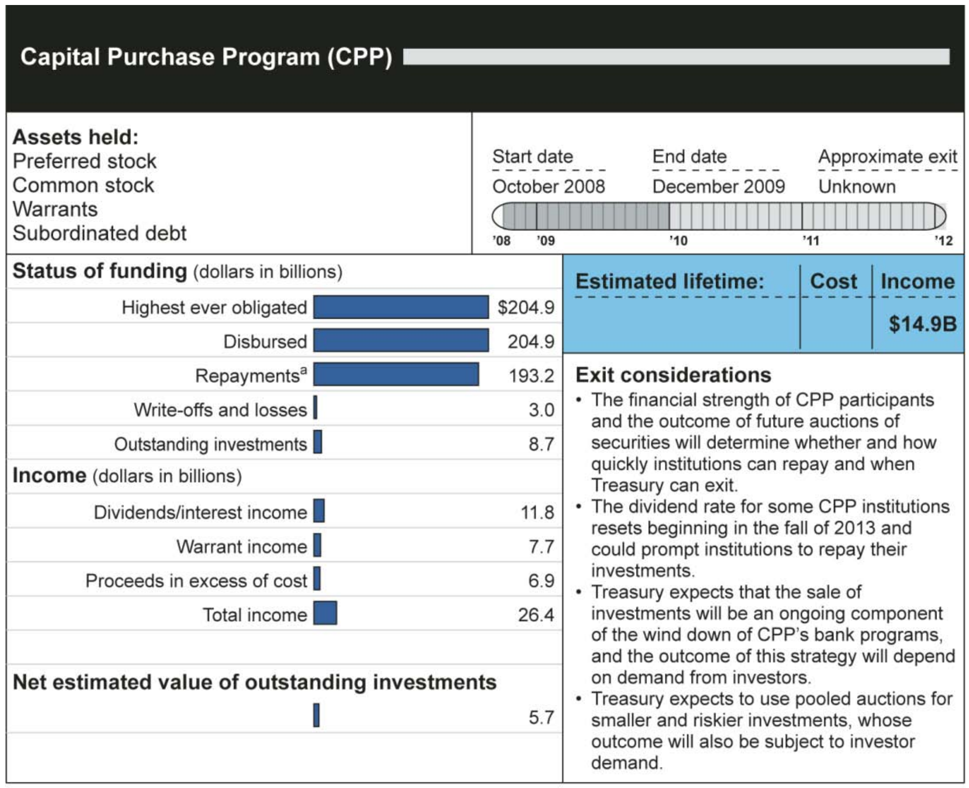
While repayments and income from CPP investments have exceeded the original outlays, the financial strength of participating institutions and the outcome of future securities auctions will help determine when the remaining institutions exit the program. As we have reported, Treasury disbursed $204.9 billion to 707 financial institutions nationwide from October 2008 through December 2009.[10] As of September 30, 2012, Treasury had received $219.5 billion in repayments and income from its CPP investments, exceeding the amount originally disbursed by $14.6 billion (see fig. 2). The repayment and income amount included $193.2 billion in repayments of original CPP investments, as well as $11.8 billion in dividends, interest, and fees; $7.7 billion in warrant income; and $6.9 billion in net proceeds in excess of costs. After accounting for write-offs and realized losses on sales totaling $3.0 billion, CPP had $8.7 billion in

[9]Note that some numbers in our program figures will not total due to rounding.

[10]See GAO-11-74. We also reported on CPP in *Troubled Asset Relief Program: Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process*, GAO-11-47 (Washington, D.C.: Oct. 4, 2010) and *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012).

outstanding investments as of September 30, 2012. Treasury estimates lifetime income of $14.9 billion for CPP as of September 30, 2012.[11]

Figure 2: Status of CPP, as of September 30, 2012



Source: GAO analysis of Treasury data.

[a]The total amount of repayments includes $363 million from institutions that transferred to the Community Development Capital Initiative and $2.2 billion from institutions that transferred to the Small Business Lending Fund.

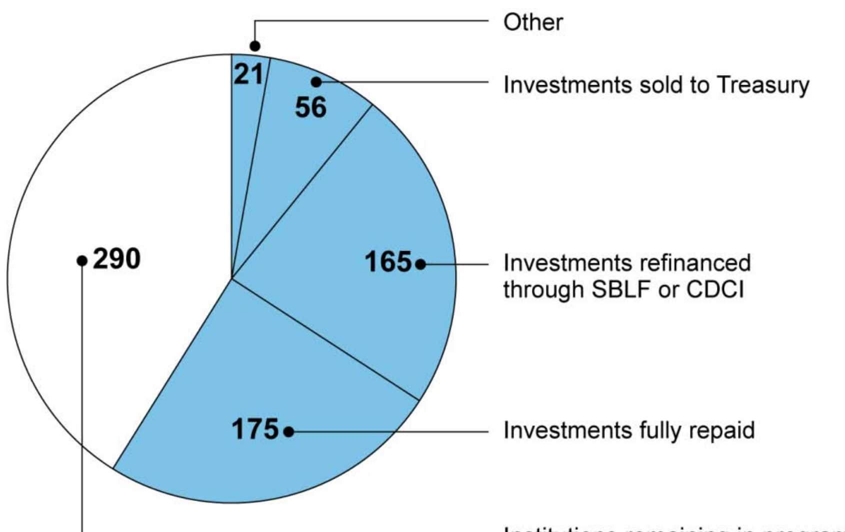
Over half (417) of the 707 institutions that originally participated in CPP had exited the program as of September 30, 2012.[12] Of the 417

[11]Throughout this report we use "lifetime income" to refer to instances when cost estimates suggest that certain TARP programs could result in net income for the taxpayer because the proceeds from Treasury's investments (e.g., repayments, dividends, and interest payments) are expected to exceed costs.

[12]See Department of the Treasury, *Troubled Asset Relief Program (TARP) Monthly 105(a) Report-September 2012* (Washington, D.C.: Oct. 10, 2012).

institutions that have exited CPP, about 42 percent, or 175 institutions, exited by repaying their investments.[13] Another 40 percent, or 165 institutions, exited CPP by exchanging their securities under other federal programs: 28 through TARP's Community Development Capital Initiative (CDCI) and 137 through the non-TARP Small Business Lending Fund (SBLF) (see fig. 3).[14] Of the remaining 18 percent of CPP recipients that exited the program, 56 had their securities sold by Treasury, 18 went into bankruptcy or receivership, and 3 merged with another institution.

Figure 3: Status of Institutions That Received CPP Investments, as of September 30, 2012



Source: GAO analysis of Treasury data.

[13]Additionally, 16 institutions have made partial repayments but remain in the program.

[14]CDCI is a TARP program that provides capital to Community Development Financial Institutions that have a federal depository institution supervisor. The program structure is similar to CPP but includes credit unions and provides more favorable capital terms. SBLF was created by the Small Business Jobs Act of 2010, Pub. L. No. 111-240, 124 Stat. 2504 (2010), enacted on September 27, 2010. SBLF is a capital support program that encourages small and midsize banks and community development loan funds to lend to small businesses.

As of September 30, 2012, much of the $8.7 billion in outstanding investments was concentrated in a relatively small number of institutions. The largest single outstanding investment was $967.9 million, and the top three outstanding investments totaled $2.3 billion—27 percent of the amount outstanding. The top 25 remaining CPP investments accounted for $5.4 billion, or 63 percent of the outstanding amount. In addition, while 290 of the original 707 institutions remained in CPP, their $8.7 billion in outstanding investments accounted for just 4 percent of what Treasury originally disbursed.

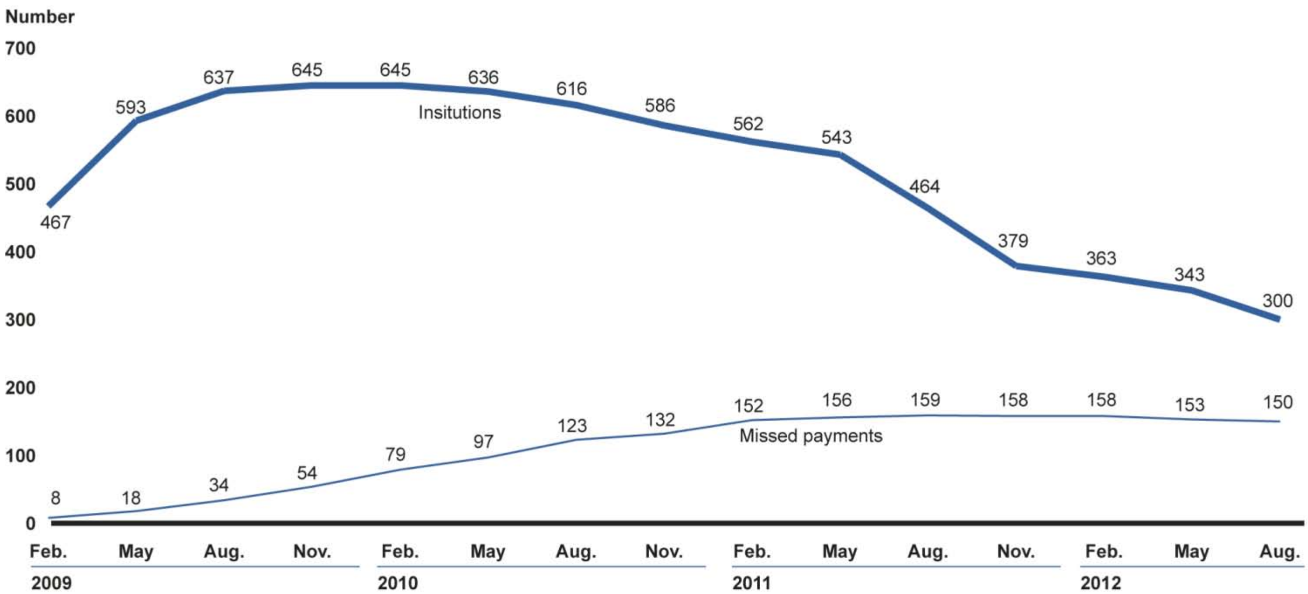
However, the number of institutions that have missed payments has been rising. The cumulative number of financial institutions that had missed at least one scheduled dividend or interest payment by the end of the month in which the payments were due rose from 219 as of August 31, 2011, to 242 as of August 31, 2012.[15] These 242 institutions represent over one-third of the 707 institutions that participated in CPP and account for a cumulative total of 1,631 missed payments.[16] As of August 31, 2012, 208 institutions had missed three or more payments and 142 had missed six or more. The total amount of missed dividend and interest payments was $376 million, although some of these payments were later made prior to the end of the reporting month. On a quarterly basis, the number of institutions missing dividend or interest payments due on their CPP investments increased steadily from 8 in February 2009 to 150 in August 2012, or about half of the institutions still in the program (see fig. 4). This

[15]Under CPP terms, institutions pay cumulative dividends on their preferred shares, except for banks that are not subsidiaries of holding companies, which pay noncumulative dividends. Some other types of institutions, such as S-corporations, received their CPP investment in the form of subordinated debt and pay Treasury interest rather than dividends. An S-corporation makes a valid election to be taxed under subchapter S of chapter 1 of the Internal Revenue Code and thus does not pay any income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders.

[16]These figures differ from the number of dividend or interest payments outstanding because some institutions made their payments after the end of the reporting month. CPP dividend and interest payments are due on February 15, May 15, August 15, and November 15 of each year, or the first business day subsequent to those dates. The reporting period ends on the last day of the calendar month in which the dividend or interest payment is due. In its dividend and interest reports, Treasury no longer considers a payment to be missed or unpaid once the institution (1) repays its investment amount and exits CPP, (2) repays dividends by way of capitalization at the time of exchange, or (3) enters bankruptcy or its bank subsidiary is placed into receivership. We included such institutions in our counts.

increase occurred despite the reduced program participation, so the proportion of those missing scheduled payments has risen accordingly.

Figure 4: Number of Institutions Missing Scheduled Dividend or Interest Payments, by Quarter, as of August 31, 2012



Source: GAO analysis of Treasury data.

Note: Dividend and interest payments are due on a quarterly basis. The number of participating institutions on any given quarter did not reach 707 (i.e., the total number of institutions that participated in CPP) because these institutions entered and exited the programs at different points in time. Also, 300 institutions remained in CPP as of August 31, 2012, but as of September 30, 2012, that number had decreased to 290.

The number of institutions missing payments has stabilized in recent quarters, but most of the institutions with missed payments had missed them repeatedly. In particular, 133 of the 150 institutions that missed payments in August 2012 had also missed payments in each of the previous three quarters. Moreover, these 150 institutions had missed an average of 7.3 additional previous payments, while 4 had never missed a previous payment. Institutions can elect whether to pay dividends and may choose not to pay for a variety of reasons, including decisions that they or their federal and state regulators make to conserve cash and maintain (or increase) capital levels. Institutions are required to pay dividends only if they declare dividends, although unpaid cumulative dividends generally accrue and the institution must pay them before making payments to other types of shareholders, such as holders of common stock.

In May 2012, Treasury announced a strategy to wind down its remaining investments. The strategy includes three options that the department says will protect taxpayer interests, promote financial stability, and preserve the strength of the nation's community banks. These options include allowing banks to repurchase or restructure their investments or selling Treasury-held stock through public auctions. In considering these options, Treasury will need to balance the goals of protecting taxpayer-supported investments while expeditiously unwinding the program. Treasury officials said that they would continue to evaluate the CPP exit strategy, but added that they expected to continue using these options for the foreseeable future.

The first option allows banks, with the approval of their regulators, to repurchase from Treasury their preferred shares in full. Treasury points out that this strategy has been used since 2009 and is one it expects some banks to continue to use through late 2013. Under this option, Treasury's ability to exit the program largely depends on the ability of institutions to repay their investments. Institutions will have to demonstrate that they are financially strong enough to repay the CPP investments in order to receive regulatory approval to exit the program. Dividend rates will increase from 5 percent to 9 percent for remaining institutions beginning in late 2013, a development that may prompt institutions to repay their investments. If broader interest rates are low, especially approaching the dividend reset, banks could have further incentive to redeem their preferred shares.

A second option allows banks to restructure their investments, usually in connection with a merger or a plan to raise new capital. With this option, Treasury receives cash or other securities that generally can be sold more easily than preferred stock. Treasury officials said that, as of early October 2012, approximately 28 restructurings had occurred. The officials expected a limited number of restructurings to continue, but added that because Treasury's investments were sometimes sold at a discount during restructuring, they would approve the sales only if the terms represented the best deal for taxpayers.

Under the third option, Treasury may sell its preferred stock through public auctions. Treasury conducted the first such auction of CPP investments in March 2012 and reported that it generated strong investor interest. As of September 30, 2012, Treasury had conducted six auctions resulting in the sale of 40 investments with total net proceeds of about $1.3 billion. Treasury also reported that this option can be beneficial for community banks that do not have easy access to the capital markets, because it could attract new, private capital to replace the temporary TARP support. Treasury expects this option to continue to be part of its effort to wind down CPP. Thus far, Treasury has sold investments individually, but noted that it might combine other investments, particularly smaller ones, into pools. Whether Treasury sells stock individually or in pools, the outcome of this option will depend largely on investor demand for these securities.

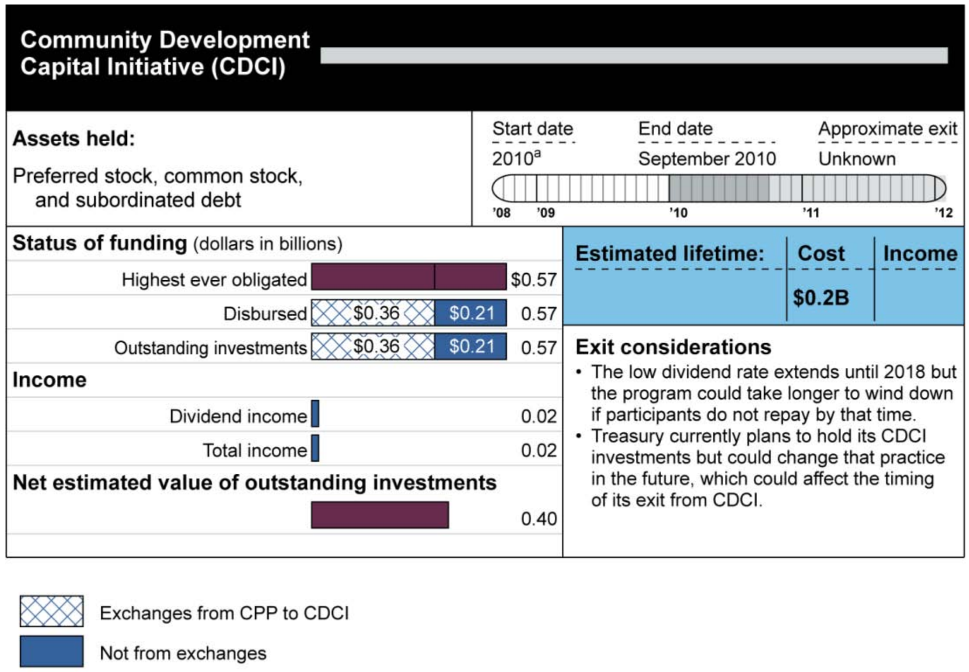
The Financial Strength of CDCI Participants Will Affect When Treasury Terminates the Program

Treasury disbursed $570 million to its 84 CDCI participants and completed funding the program in September 2010 (see fig. 5).[17] As we previously reported, CDCI is structured much like CPP, in that it has provided capital to financial institutions by purchasing equity and subordinated debt from them.[18] No additional funds are available through the program, as CDCI's funding authority expired in September 2010. As of September 2012, Treasury expects CDCI will cost approximately $200 million over its lifetime, less than half of the $570 million obligated to the program. Officials stated that CDCI will have a lifetime cost, while CPP is estimated to result in lifetime income, in part because CDCI provides a lower dividend rate that increases the net financing cost to Treasury. Also, unlike CPP, the program does not require warrants from participating institutions that would have helped offset Treasury's costs. As of September 30, 2012, two CDCI participants have repaid Treasury $2.85 million, and Treasury has received $22 million in dividend payments from CDCI participants.

[17]Twenty-eight of these institutions previously participated in CPP. According to Treasury, of this amount, approximately $363 million from these 28 institutions was exchanged from investments under CPP into CDCI. Institutions interested in transferring to CDCI from CPP were required to be (1) current on dividend payments, (2) in good standing with CPP, and (3) in compliance with all reporting requirements.

[18]While similar to CPP, CDCI differs from CPP in several important aspects: (1) CDCI provides financial assistance to CDFIs, which in turn provide financial services to underserved communities; (2) CDCI also provides assistance to credit unions, unlike CPP; and (3) CDCI provides more favorable capital terms to its participants than CPP, including a longer repayment period at a lower dividend rate. For more details, see GAO-11-74.

Figure 5: Status of CDCI, as of September 30, 2012



Source: GAO analysis of Treasury data.

Note: Treasury began holding common stock for CDCI after September 30, 2011.

[a]Treasury first announced CDCI in October 2009. The program first provided capital to CDFIs in 2010.

As with CPP, Treasury must continue to monitor the performance of CDCI participants because their financial strength will affect their ability to repay Treasury. According to Treasury officials, Treasury will continue to hold its CDCI investments and has not made any disposition decisions about the program. However, they said that when Treasury decides to exit the CDCI program, it will need tools in place similar to those used by CPP institutions to exit the CPP program. As of September 30, 2012, 5 of the 84 CDCI participants had missed at least one dividend or interest payment, and 2 of the participants had paid accrued and unpaid dividends after missing the initial scheduled payment date(s), according to Treasury. While the continuing weak economy could negatively affect distressed communities and the CDFIs that serve them, the program's low dividend rates may help participants remain current on payments.

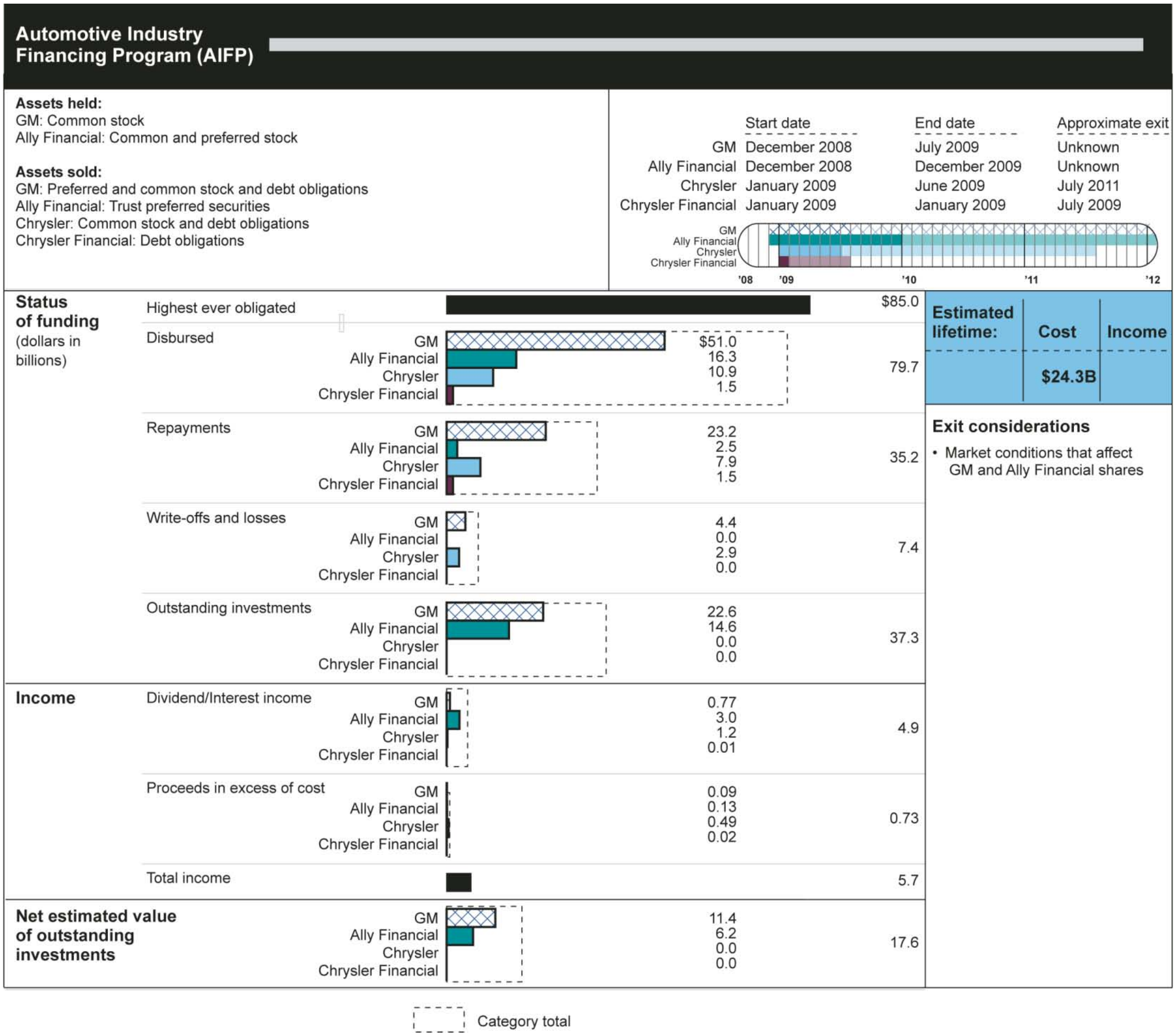
When Treasury will exit CDCI is unknown, but the dividend rate that program participants pay increases in 2018. However, Treasury officials noted that the program was intended to be long term and said that they believed the program was meeting its objective by providing long-term, low-cost capital. CDCI institutions have an opportunity to keep CDCI capital in their communities, which are usually moderate and low income, for a longer time. Treasury officials indicated that, as with CPP investments, Treasury's current practice was to hold CDCI investments but that this strategy could change, and Treasury could opt to sell its CDCI shares.

Competing Goals and Market Conditions Have Affected Treasury's Exit from GM and Ally

Since investing roughly $80 billion in the automotive industry, as of September 30, 2012, Treasury had received more than $40 billion in proceeds. Nevertheless, Treasury still held substantial investments in GM and Ally Financial, which included 32 percent of GM's common stock, 74 percent of Ally Financial's common stock, and $5.9 billion of Ally Financial's mandatory convertible preferred stock (see fig. 6).[19]

[19]On December 18, 2012, Treasury announced it would sell 200 million of its remaining GM shares to the company, which would reduce Treasury's investment to 19 percent. If Treasury converted its mandatory convertible preferred securities, its common equity in Ally Financial would increase to 81 percent.

Figure 6: Status of AIFP, as of September 30, 2012



Source: GAO analysis of Treasury data.

Notes: Numbers may not sum because of rounding. Ally Financial was formerly known as the General Motors Acceptance Corporation, or GMAC. The figures in this graphic do not reflect Treasury's December announcement about its exit plans for its GM investments, which are discussed in the text of the report.

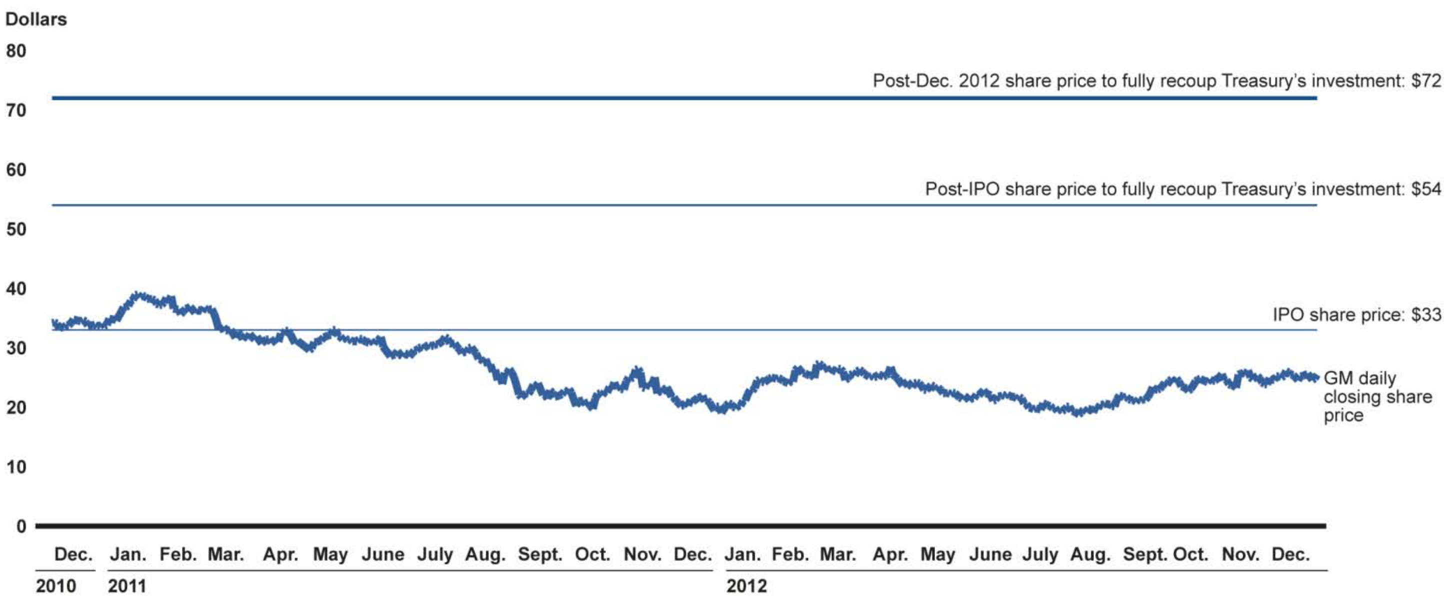
Treasury officials told us that they continued to monitor GM's financial condition as well as overall market and economic conditions as they developed a divestment strategy for GM. In general, GM's financial condition has improved since the IPO, but the company continued to address challenges with its European operations. Specifically, GM's net income rose 43 percent—from about $6.5 billion in 2010 to about $9.3 billion in 2011, with the company achieving 11 straight quarters of profitability since its formation in July 2009. However, the company saw a decline in net income in 2012—from about $8.5 billion in the first three quarters of 2011 to about $5.1 billion in the first three quarters of 2012. GM officials reported this decline was largely due to increased losses in the company's European Operations, a region where the automotive industry as a whole struggles. The company continues to post losses in Europe, with vehicle sales declining 7.4 percent between the first three quarters of 2011 and the first three quarters of 2012. In contrast, GM's North American sales increased 3.2 percent over 2011 levels for that same time period. The company has reported taking actions to help restructure its European operations and expects financial results to improve.[20]

The company has also recently made a number of other changes in an effort to improve its financial condition and flexibility. In June 2012, in an effort to de-risk its pension plans and further strengthen its balance sheet, GM announced that it would provide certain U.S. salaried retirees with a continued monthly payment administered and paid by The Prudential Insurance Company of America and others with a voluntary lump-sum payment option, which it estimated would reduce its salaried pension obligation by about $29 billion. In November 2012 GM announced plans for its captive financing subsidiary, GM Financial, to acquire Ally Financial, Inc.'s International Operations in 14 countries, which the company expects to drive higher vehicle sales in China, Mexico, Europe and Latin America. Also in November 2012, GM secured a new $11 billion revolving to help improve GM Financial's financial flexibility.

[20]In its third quarter earnings release, GM estimated the adjusted earnings before interest and tax (EBIT) for its European operations to be at a loss of $1.5 billion to $1.8 billion for 2012, depending on the level of restructuring activity in the fourth quarter. The company is also targeting 2013 to be slightly better than 2012 with break-even EBIT adjusted results by mid-decade.

In December 2012, two years after the GM IPO, Treasury announced that it would sell 200 million or 40 percent of its remaining shares in the company, and intends to sell the other remaining 300.1 million shares through a pre-arranged written trading plan within the next 12 to 15 months, subject to market conditions. In May 2011, we reported that GM's share price would have to increase dramatically from current levels to an average of more than $54 for Treasury to fully recoup its investment. Because the December 2012 sale price of $27.50 per share is considerably less than the breakeven level, GM's shares will now have to increase to roughly $72 per share, or more than double the average 2012 share price, for Treasury to fully recoup its investment (see fig. 7).[21]

Figure 7: GM's Share Price, November 18, 2010, through December 18, 2012



Source: Yahoofinance.com and GAO analysis.

[21]See GAO-11-471. Additional reporting on AIFP appears in GAO, *Troubled Asset Relief Program: Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future*, GAO-10-492 (Washington, D.C.: Apr. 6, 2010); *Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM*, GAO-10-151 (Washington, D.C.: Nov. 2, 2009); and *Auto Industry: Summary of Government Efforts and Automakers' Restructuring to Date*, GAO-09-553 (Washington, D.C.: Apr. 23, 2009).

In addition to its outstanding investments in GM, Treasury remains heavily invested in Ally Financial. According to Treasury officials, the department continues to explore all potential options for divesting its interest in Ally Financial, including public and private options such as a possible IPO or selling its equity in a private transaction. However, since we last reported on Ally Financial the company has undergone a number of changes that could affect the timing of Treasury's exit.[22] For instance, on May 14, 2012, Ally Financial's mortgage subsidiary Residential Capital, LLC, and certain of its subsidiaries, filed for Chapter 11 bankruptcy. The company is also in the process of selling its international business, which includes auto finance, insurance, and banking and deposit operations in Canada, Mexico, Europe, the United Kingdom, China, and South America. According to Ally Financial, contracts for each of these countries have been signed, and deal closings are expected to occur in stages throughout the first half of 2013. Ally Financial reported that these actions would improve the financial viability of the company and increase the likelihood of repaying Treasury. Ally's net income for the first three quarters of 2012 has declined from the same period in 2011—decreasing from a positive $49 million in 2011 to a loss of $204 million in 2012. This loss is primarily attributable to charges related to the Residential Capital, LLC, bankruptcy filing in the second quarter of 2012.[23]

The challenges facing Ally Financial and reductions in the share prices of common stock holdings in GM highlight how market conditions contribute to the risks associated with AIFP and the variability of lifetime cost estimates. The projected lifetime cost of AIFP has increased since 2010 and as of September 30, 2012, was estimated at $24.3 billion—about $700 million more than in September 2011 and almost $10 billion more than in September 2010. According to Treasury officials, Treasury

[22]On March 31, 2011, Ally Financial filed a registration statement with the Securities and Exchange Commission for a proposed IPO. Additionally, Treasury officials have not ruled out the possible sale of its equity in a private transaction.

[23] In 2012, Ally's net income declined from $310 million in the first quarter to a loss of $898 million in the second quarter, and then increased to $384 million in the third quarter. Ally's second quarter net income included a non-recurring charge of $1.192 billion related to the Residential Capital, LLC, bankruptcy. Ally officials noted that the company's core income for the first three quarters of 2012—which excludes the Residential Capital, LLC bankruptcy filing and reflects the income (loss) from continuing operations before taxes and primarily bond exchange original issue discount ("OID") amortization expense—has increased from $1.009 billion in 2011 to $1.451 billion in 2012.

continues to balance its goals of exiting as soon as practicable and maximizing taxpayer returns.

Treasury Sold Its Remaining AIG Shares

On December 11, 2012, Treasury announced that it agreed to sell all of its remaining shares of AIG common stock, and on December 14, 2012, announced that it had received payment from its final sale of AIG stock, bringing to an end the government's assistance to the company. Prior to TARP, in September 2008 AIG received assistance in the form of a loan from the Federal Reserve Bank of New York (FRBNY). In exchange, AIG provided shares of preferred stock to the AIG Credit Facility Trust that FRBNY created. These preferred shares were converted to common stock and then transferred to the Treasury. In addition to this and other non-TARP support, Treasury provided assistance to AIG in November 2008 through TARP by purchasing preferred shares that were also later converted to common stock. In late January 2011, following the recapitalization of AIG, Treasury owned 1.655 billion common shares in AIG (1.092 billion TARP and 0.563 billion non-TARP) and a $20.3 billion preferred interest in two special purpose vehicle subsidiaries of AIG.[24]

In May 2011, Treasury began to sell its AIG shares. Since then and through six offerings, Treasury has sold all of its shares of AIG common stock, both TARP and non-TARP shares. The shares it sold in May 2011 and March 2012 to the public brought $29 per share; the shares it sold in

[24]Specifically, in September 2008, a trust created by FRBNY received 100,000 shares of Series C preferred stock, and the Treasury received a 77.9 percent voting interest in AIG, in exchange for an FRBNY revolving loan. This transaction predated TARP. In November 2008, Treasury used TARP funds to purchase $40 billion in cumulative preferred shares of Series D stock, which was exchanged in April 2009 for $41.6 billion of Series E noncumulative preferred stock (the difference of $1.6 billion was in accumulated but unpaid dividends on the Series D stock). That same month, Treasury used TARP funds to purchase 300,000 shares of Series F noncumulative preferred stock and a warrant to purchase up to 3,000 shares of AIG common stock in exchange for providing AIG with a $29.835 billion equity facility. In January 2011, AIG was recapitalized, and Treasury exchanged its Series E and F preferred stock for 1.0921 billion shares of common shares and a $20.3 billion preferred interest in two special purpose vehicle subsidiaries of AIG. We refer to these shares as "TARP shares." Also in January, the trust exchanged its Series C preferred stock for 562.9 million shares of common stock and subsequently transferred these shares to Treasury. We refer to these shares as "non-TARP shares." Treasury owned a total of 1.655 billion common shares in AIG or approximately 92 percent of the company as of January, 2011. For additional information on the non-TARP assistance provided to AIG see GAO, *Financial Crisis: Review of Federal Reserve System Financial Assistance to American International Group, Inc.*, GAO-11-616 (Washington, D.C.: Sept. 30, 2011).

May and August of 2012 to the public brought $30.50 per share; and the shares it sold in September and December 2012 to the public brought $32.50 per share. The share price, on a weighted average basis, was $31.18, exceeding Treasury's break-even price of $28.73 per share on an overall cost basis for both the TARP and non-TARP shares.[25] At an average price of $31.18 per share, the returns include about $34 billion on the 1.092 billion TARP shares and $17.6 billion on the 563 million non-TARP shares—totaling over $51.6 billion in proceeds. (See table 2.) While it has sold its remaining AIG common shares, Treasury continues to hold warrants to purchase approximately 2.7 million shares of AIG common stock.

[25] See GAO, *Troubled Asset Relief Program: The Government's Exposure to AIG Following the Company's Recapitalization*, GAO-11-716 (Washington, D.C.: July 18, 2011). As discussed in GAO-11-716, this calculation is based on a cash-in/cash-out approach and reflects Treasury's primary goal of recouping taxpayers' costs. It includes only the cost of the liquidation preferences in the Series E and Series F preferred shares—$47.543 billion—to calculate a breakeven share price of $28.73. Under a different approach that captures $47.543 billion of liquidation preferences in Series E and Series F preferred shares, plus $1.605 billion of unpaid dividends and fees (for a total of $49.148 billion), the breakeven share price would increase to approximately $29.70, which represents the minimum average price at which Treasury would need to sell all of its shares to fully recover the $49.148 billion. Additional AIG reporting includes GAO, *Troubled Asset Relief Program: Third Quarter 2010 Update of Government Assistance Provided to AIG and Description of Recent Execution of Recapitalization Plan*, GAO-11-46 (Washington, D.C.: Jan. 20, 2011); *Troubled Asset Relief Program: Update of Government Assistance Provided to AIG*, GAO-10-475 (Washington, D.C.: Apr. 27, 2010); and *Troubled Asset Relief Program: Status of Government Assistance Provided to AIG*, GAO-09-975 (Washington, D.C.: Sept. 21, 2009).

Table 2: Treasury Offerings of Its AIG Common Stock Holdings, May 2011 to December 2012

Execution dates	Treasury shares sold to the public (includes over allotments sold)	Treasury shares sold to AIG	Price per share	Proceeds	Treasury's remaining AIG common shares	Percent government equity remaining in AIG
May 24, 2011	200,000,000		$29.00	$5,800,000,000	1,455,037,962	77
March 8, 2012	103,448,276	103,448,276	29.00	6,000,000,008	1,248,141,410	70
May 6, 2012	98,360,656	65,573,770	30.50	4,999,999,993	1,084,206,984	63
May 7, 2012	24,590,163[a]	0	30.50	749,999,972	1,059,616,821	61
Aug. 3, 2012	65,573,770	98,360,656	30.50	4,999,999,993	895,682,395	
Aug 6, 2012	24,590,164[b]	0	30.50	750,000,002	871,092,231	53
Sept. 10, 2012	400,000,000	153,846,153	32.50	17,999,999,973	317,246,078	21.5
Sept. 11, 2012	83,076,922[c]	0	32.50	2,699,999,965	234,169,156	15.9
Dec. 11, 2012	234,169,156	0	32.50	7,610,497,570	0[d]	0
Totals	**1,233,809,107**	**421,228,855**		**$51,610,497,476**		

Source: GAO analysis of Treasury data.

[a]These additional shares were sold as a result of underwriters exercising their overallotment option and were sold under the same prospectus and registration statement as the shares sold on May 6, 2012.

[b]These additional shares were sold as a result of underwriters exercising their overallotment option and were sold under the same prospectus and registration statement as the shares sold on August 3, 2012.

[c]These additional shares were sold as a result of underwriters exercising their overallotment option and were sold under the same prospectus and registration statement as the shares sold on September 10, 2012.

[d]After the closing of December 11, 2012, offering, Treasury will continue to hold warrants to purchase approximately 2.7 million shares of AIG common stock. Proceeds from the sale of these warrants will provide an additional positive return to taxpayers.

Treasury received approximately $72.8 billion of proceeds and cancelled $2 billion of its commitment, undrawn, on the AIG investments, exceeding the $69.8 billion total Treasury commitment to assist AIG by approximately $5 billion. As of December 2012, the total reflected the $54.3 billion generated on Treasury's common stock sales and AIG repaid $20.3 billion on the preferred interests in two special purpose vehicle subsidiaries of AIG. In addition, Treasury said that it received $930 million in interest and participation rights on the special purpose vehicle investments. Treasury's returns from selling common stock have been in addition to those realized by the returns of other assistance to AIG. With AIG's final repayment of all FRBNY assistance to the company in 2012, FRBNY had realized returns in the form of interest, dividends, and fees in excess of the assistance it provided AIG through a revolving credit facility and several special purpose vehicles.[26]

As of September 30, 2012, prior to the December 2012 sale of AIG shares. Treasury lowered its expected lifetime cost from $24.3 billion to $15.3 billion for its TARP shares and increased its expected income from $12.8 billion to $17.6 billion for its non-TARP shares, changing what was an expected net estimated cost of $11.5 billion to a net expected gain of $2.3 billion for assistance to AIG.[27]

Treasury Expects Lifetime Income from Term Asset-backed Securities Loan Facility (TALF) and Plans to Exit the Program by 2015

The Federal Reserve established TALF in an effort to reopen the securitization markets and improve access to credit for consumers and businesses.[28] As of September 30, 2012, Treasury is committed to contributing as much as $1.4 billion to provide credit protection to FRBNY for TALF loans should borrowers fail to repay and surrender the asset-backed securities (ABS) or commercial mortgage-backed securities (CMBS) pledged as collateral.[29] To date, Treasury has disbursed $100 million for start-up costs related to the FRBNY-established TALF special-purpose vehicle, TALF LLC (see fig. 8). TALF LLC receives a portion of

[26]See GAO-12-574 for a more detailed discussion of FRBNY's assistance to AIG.

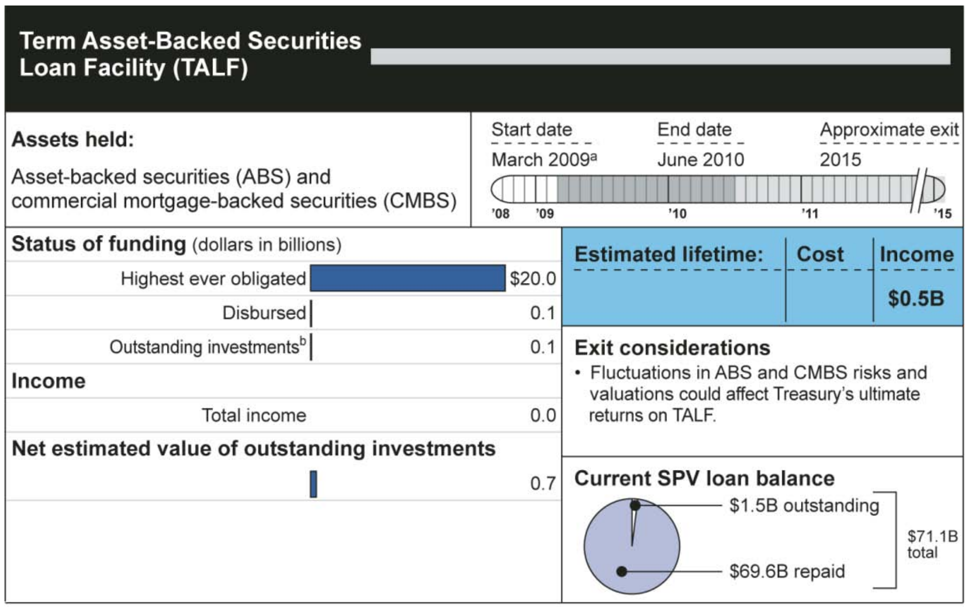
[27]Unlike the other lifetime estimates reported here, the lifetime income estimate of $17.6 billion for Treasury's non-TARP shares has not been audited by GAO. The estimate was obtained from the Department of the Treasury, *Troubled Asset Relief Program: Monthly Report to Congress* (Washington, D.C.: Nov. 9, 2012).

[28]FRBNY provided loans to certain institutions and business entities in return for collateral in the form of securities that are forfeited if the loans are not repaid. Securitization is a process that aggregates into pools similar debt instruments—such as loans, leases, or receivables. Interest-bearing securities backed by these pools are then sold to investors. These ABS provide a source of liquidity for consumers and small businesses, because financial institutions can take assets that they would otherwise hold on their balance sheets, sell them as securities, and use the proceeds to originate new loans, among other purposes. CMBS are securitizations with cash flows backed by principal and interest payments on a pool of loans on commercial properties. For additional information about securitization and about TALF, see GAO, *Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance*, GAO-11-696 (Washington, D.C.: July 21, 2011), and *Troubled Asset Relief Program: Treasury Needs to Strengthen Its Decision-Making Process on the Term Asset-Backed Securities Loan Facility*, GAO-10-25 (Washington, D.C.: Feb. 5, 2010).

[29]Initially, Treasury committed to providing as much as $20 billion in credit protection to FRBNY, but in July 2010, Treasury and the Federal Reserve agreed to reduce the credit protection to $4.3 billion. In June 2012, they agreed to reduce the credit protection aqain, this time to $1.4 billion.

the interest income earned on TALF loans (known as excess interest under the program) that can be used to purchase any borrower-surrendered collateral from FRBNY.

Figure 8: Status of TALF, as of September 30, 2012



Source: GAO analysis of Treasury data.

[a]Although the program was first announced in November 2008, the first program activity was initiated in March 2009.

[b]The outstanding investments is the $100 million contributed by Treasury to the TALF special purpose vehicle. The net estimated value of Treasury's outstanding investments is the projected returns from the SPV consisting of the $100 million contributed by Treasury to TALF LLC and the TARP share of the SPV's excess interest as calculated using Statements of Federal Financial Accounting Standards that are consistent with the Federal Credit Reform Act (Credit Reform Accounting).

FRBNY stopped issuing new TALF loans in 2010.[30] Treasury officials report that FRBNY TALF loan balances, which were $29.7 billion in September 2010, had fallen to $11.3 billion as of September 30, 2011, and to $1.5 billion as of September 26, 2012. Agency officials also indicated that all TALF loans were current and that borrowers continued to pay down their loans.

[30]TALF expired on March 31, 2010, for loans backed by ABS and legacy CMBS, and on June 30, 2010, for loans backed by newly issued CMBS.

Excess interest in TALF LLC grew by more than 30 percent between October 2010 and September 2011, rising from $523 million to $685.6 million. Over the next year (September 2011 to September 2012), it grew to $754.2 million. If the balance of excess interest in TALF LLC exceeds the value of any surrendered collateral, Treasury may not need to disburse any additional funds for the program and could instead realize lifetime income because it will receive 90 percent of funds remaining in TALF LLC after all obligations are repaid and the program ends. Further, the equity that borrowers hold in TALF collateral has grown since TALF loans were first issued.[31] As of September 30, 2012, Treasury estimated that TALF would result in a lifetime income of approximately $517 million. Treasury officials told us in September 2012 that they did not have any particular concerns about the CMBS market that would have an effect on current TALF holdings, and that prices remained strong throughout 2012. Despite these positive trends, the officials told us that FRBNY and Treasury staff will continue to monitor market conditions and credit rating agency actions that could affect TALF assets. As we have previously reported, market value fluctuations could affect future results.

Treasury expects to exit TALF by 2015, although it does not have complete control over its exit because its role in TALF is secondary to that of the Federal Reserve. Treasury models loan repayments using TALF loan terms and data provided by the Federal Reserve and projects repayment schedules, collateral cash flows, prepayments, and performance loss rates. Based on these analyses, Treasury expects that the last TALF loan will be paid in 2015. No borrowers have surrendered TALF collateral to date, and all loans are current. However, should TALF LLC be required to purchase and manage TALF assets, Treasury could be involved in TALF beyond 2015, as TALF assets may have maturity dates that extend beyond the loan maturity dates.

[31]FRBNY established the "haircut" or amount of equity the borrower holds in TALF collateral based on its weighted average life and market risks for each sector and subsector. The haircut is also the difference between the value of the TALF collateral and the value of the loan. In other words, if haircuts have grown, the borrower has more equity in the collateral and should be less likely to default on the loan. See GAO-10-25 for more details.

The Investment Periods for PPIP Funds Have Terminated, and All PPIF Funds Have Begun Unwinding

Treasury created PPIP, partnering with private funds, to purchase troubled mortgage-related assets from financial institutions. Treasury provided the PPIFs with equity and loan commitments of approximately $7.4 billion and $14.7 billion, respectively, but disbursed a total of $18.6 billion. PPIFs have finished their 3-year investment period, which started at each fund's inception date. There were nine PPIFs established through PPIP, the first of which was liquidated in the first quarter of 2010 and the last terminated in December 2012.[32] PPIFs with terminated investment periods can no longer draw money from Treasury or make new investments under this authority, and Treasury has not granted approval for any new draws under the PPIP program.[33] With the investment periods ended, PPIFs must begin unwinding their positions and completely divest within 5 years, although Treasury can decide to extend this period for up to 2 additional years for each PPIF. According to Treasury, the PPIF liquidated in the first quarter of 2010 yielded Treasury a profit of $20.1 million on its $156.3 million equity investments and the PPIF whose investment period ended in September 2011 returned all of its equity proceeds to Treasury and fully wound down its fund. Three additional PPIFs have returned 100 percent of Treasury and private investors' equity investments in the fund with equity gains and fully repaid Treasury's debt. According to Treasury, these three funds have a small amount of capital remaining to unwind their operations. The investment periods for the remaining PPIFs have subsequently ended and thus have begun to unwind.

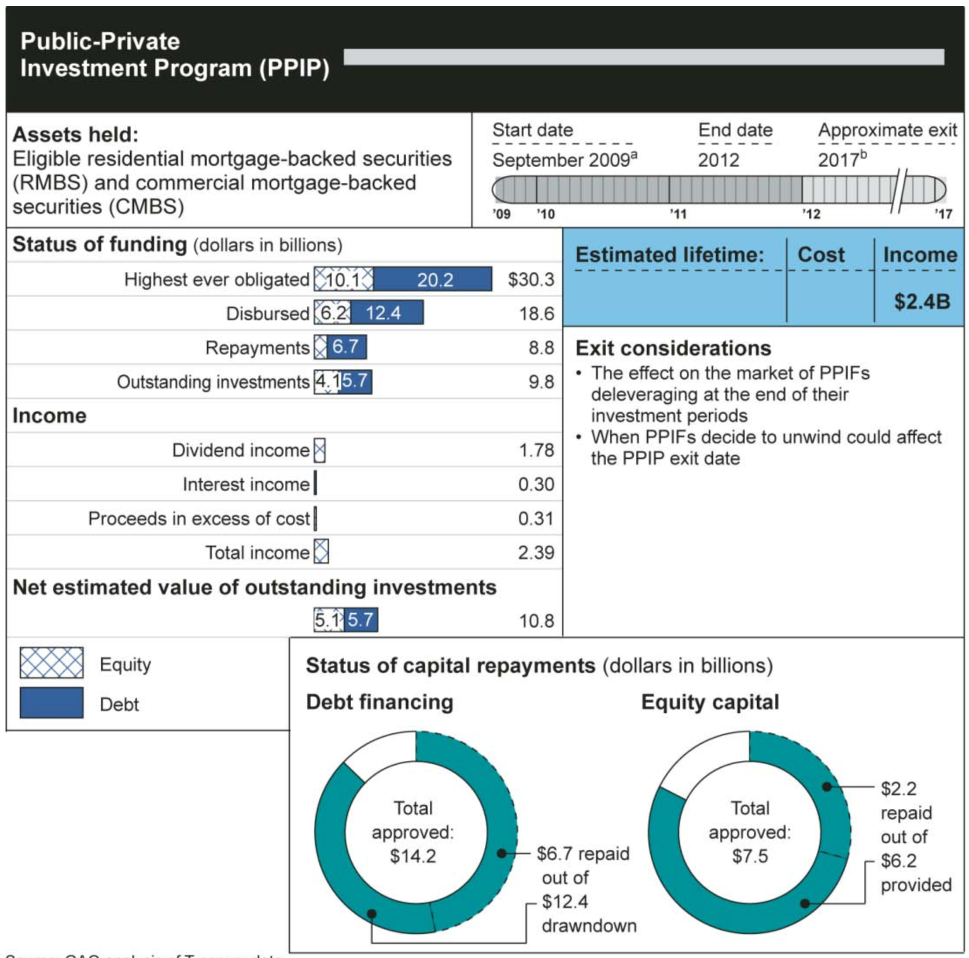
According to Treasury, as of September 30, 2012, PPIFs had accessed about 86 percent of the equity and debt available through Treasury and private investors, and had repaid Treasury a total of $6.7 billion in debt financing. In addition, since September 30, 2012, Treasury has received around $5.5 billion of payments under PPIP. As of September 30, 2012, Treasury estimates that PPIP will ultimately result in lifetime income of

[32]According to Treasury, of the remaining seven PPIFs, one terminated its investment period in September 2011 and another PPIF terminated its investment period in July 2012. Investment periods for four other PPIFs terminated in October 2012 and the remaining one terminated in November 2012.

[33]PPIFs received an approximately equal share of equity from Treasury and private investors. PPIFs also received access to credit from Treasury. PPIFs were able to draw on these funds to invest in eligible residential mortgage-backed securities and commercial mortgage-backed securities. According to Treasury officials, approvals could be given for pending transactions placed prior to the end of the investment period, for example.

about $2.4 billion (see fig. 9). As of November 5, 2012, the four PPIFs that have sold all of their remaining investments and returned substantially all of the proceeds have generated more than $1.4 billion in realized gains and income on Treasury's equity and warrant investments. However, according to Treasury, the ultimate results will depend on a variety of factors, including when PPIFs choose to divest and the performance of the assets they hold.

Figure 9: Status of PPIP, as of September 30, 2012



Source: GAO analysis of Treasury data.

Note: The figures in this graphic do not reflect the approximately $5.5 billion of payments under PPIP received after September 30, 2012, which are discussed in the text of the report.

[a]PPIFs began their investment periods in 2009. The program was first announced in March 2009.

[b]The stipulated exit date is 2017, though the program could be extended through 2019.

Treasury officials said that their role while PPIFs were in their investment periods was to follow the progress of each PPIF's investment strategy and the risks and target returns of the portfolios. In this role, Treasury staff and contractors monitored compliance with PPIP terms. With the end of the PPIFs' investment periods, Treasury officials said that Treasury would focus on the strategies PPIFs used to maintain and ultimately divest themselves of their portfolios. Also, Treasury officials said that the contractors hired to provide investment fund consulting and analysis of PPIF portfolios would continue to provide such services in this postinvestment period.

Current PPIP terms stipulate an exit by 2017.[34] Unlike the circumstances found in some other TARP programs, Treasury officials do not face the same consideration of competing goals in exiting the program because the terms of the program dictate when the PPIFs must wind down. However, Treasury officials noted that PPIFs can liquidate at any time before the exit date. Officials also noted that the program was designed to discourage firms from keeping their investments outstanding longer than needed by the PPIF fund managers after the investment period expired, at which time PPIFs would no longer have access to debt financing from Treasury, unless permitted by provisions within the loan agreement and approved by Treasury. Now that the investment periods have terminated, PPIFs must pay down their Treasury loans and make distributions to their partners as the PPIFs receive proceeds from RMBS and CMBS payments and dispositions. Officials noted that this program structure created an incentive for PPIFs to sell their assets promptly once their access to Treasury ended. The officials also said that they were not concerned about any effects of PPIPs' eventual winding down on markets, as the 5-year period for unwinding would likely mitigate them.

[34]While PPIP is scheduled to end in 2017 (8 years after the last PPIP was initiated), it could be extended for 2 years. Such decisions would occur on a case-by-case basis for each PPIF, depending on market conditions and other factors.

Mortgage Programs Remain Active, and Oversight Has Shown Both Challenges and Improvements

To help meet EESA's goals of preventing avoidable foreclosures and preserving homeownership, Treasury allocated $45.6 billion in TARP funds to three mortgage programs:

- Making Home Affordable (MHA), which has several components, including the Home Affordable Modification Program (HAMP);
- Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund or HHF); and
- Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) Refinance of Borrowers in Negative Equity Positions (FHA Short Refinance or FHASR).[35]

The bulk of the funds allocated to TARP programs to help distressed borrowers avoid foreclosure—$40.1 billion—had not yet been disbursed as of September 30, 2012. The estimated lifetime cost for the mortgage programs is $45.6 billion. Unlike for the programs discussed previously, Treasury will continue to disburse TARP funds under the mortgage programs for several more years. Specifically, homeowners have until December 31, 2013, to apply for assistance under MHA programs, and Treasury will continue to pay incentives for up to 5 years after the last permanent modification begins. Treasury's obligation under FHASR will continue until September 2020. Unlike TARP expenditures under some other programs, such as those that provided capital infusions to banks, expenditures under these programs are generally direct outlays of funds with no provision for repayment.[36]

[35]Treasury also refers to FHASR as the FHA-Refinance Program.

[36]Under the FHASR program, if FHA recovers any amount of a claim payment from a servicer, FHA will remit Treasury's share to Treasury.

TARP-Funded Mortgage Programs Continue to Assist Homeowners, but Much of the Funding Remains Unspent

The centerpiece of Treasury's MHA program is HAMP, which seeks to help eligible borrowers facing financial distress avoid foreclosure by reducing their monthly first-lien mortgage payments to more affordable levels.[37] Treasury announced HAMP (now called HAMP Tier 1) on February 18, 2009. Generally, HAMP Tier 1 is available to qualified borrowers who occupy their properties as their primary residences and whose first-lien mortgage payment is more than 31 percent of their monthly gross income. Treasury shares with mortgage holders or investors the cost of lowering borrowers' monthly payments to 31 percent of monthly income for a 5-year period. In an effort to reach more borrowers, Treasury established HAMP Tier 2, which servicers began implementing in June 2012. HAMP Tier 2 is available for either owner-occupied or rental properties, and borrowers' monthly mortgage payments prior to modification do not have to exceed a specified threshold. Treasury also provides incentive payments for modifications under HAMP Tier 1 and HAMP Tier 2 to servicers and investors, and to borrowers under HAMP Tier 1.

Treasury originally announced that up to 3 million to 4 million borrowers would be helped under HAMP.[38] However, Treasury reported that through September 2012 only about 1.1 million permanent modifications had been started.[39] Monthly activity peaked during the early part of 2010 and has experienced a significant decline, as shown in figure 10. Since June 1, 2010, when Treasury began requiring all servicers to perform full income

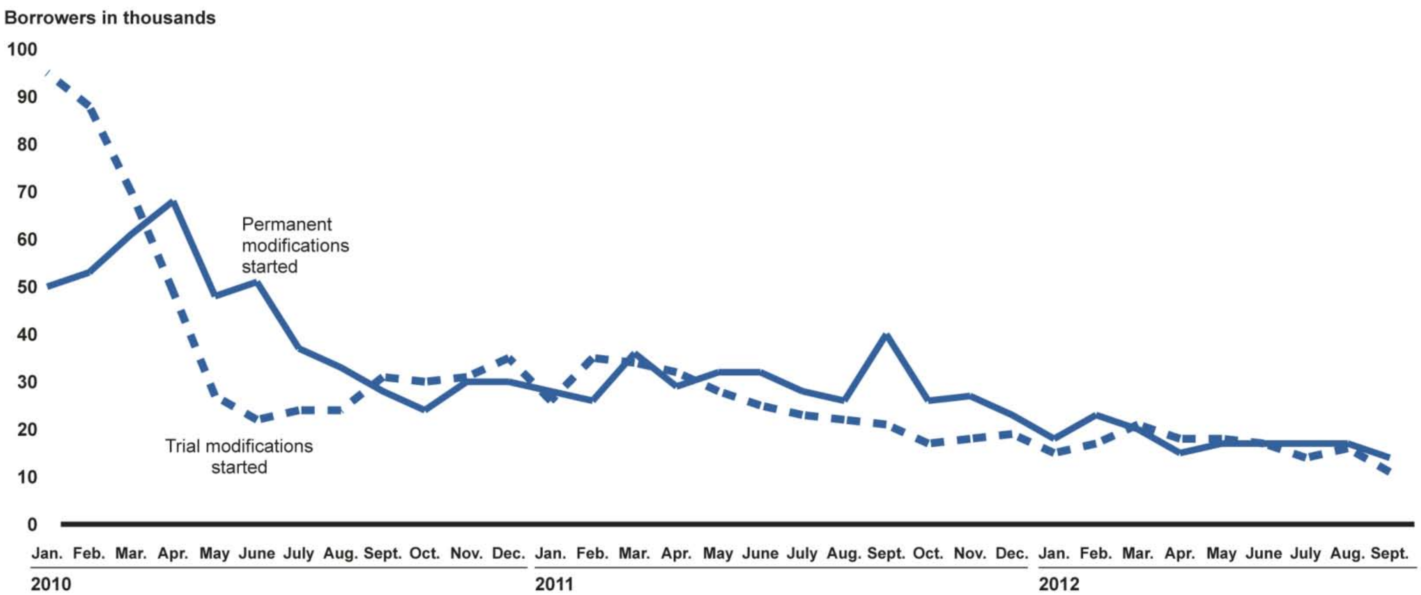
[37]HAMP first-lien modifications are available to qualified borrowers who took out their loans on or before January 1, 2009. Only single-family properties (one to four units) with mortgages no greater than $729,750 for a one-unit property are eligible.

[38]We have made a number of recommendations to Treasury regarding its efforts to implement the MHA program. See GAO, *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs*, GAO-12-783 (Washington, D.C.: July 19, 2012); GAO-11-288; *Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs*, GAO-10-634 (Washington, D.C.: June 24, 2010); and *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, GAO-09-837 (Washington, D.C: July 23, 2009). While Treasury has taken various actions consistent with our recommendations, several of our MHA-related recommendations remain open. We will be providing a status report of these recommendations later in 2013.

[39]Under HAMP, borrowers must successfully complete a trial modification of at least 3 months before receiving a permanent modification. Totals include HAMP modifications completed by Fannie Mae and Freddie Mac, which participate in HAMP but do not receive TARP funding for incentives.

verification to determine a borrower's eligibility for HAMP before offering a trial modification, the monthly number of new trial modifications reported by servicers has remained below 40,000. Monthly trial modification starts during September 2012 were the lowest reported since the initial roll-out of the program in 2009. Treasury has not yet published data on the number of trial periods or permanent modifications started under HAMP Tier 2, according to Treasury officials.

Figure 10: HAMP Modifications Started Monthly, January 2010 through September 2012



Source: GAO analysis of Treasury data.

In addition to HAMP, Treasury has implemented a number of additional MHA components that use TARP funds to augment or complement the HAMP first-lien modification program:[40]

- *Home Affordable Foreclosure Alternatives Program*. The Home Affordable Foreclosure Alternatives Program offers assistance to homeowners looking to exit their homes through a short sale or deed-in-lieu of foreclosure. Treasury offers incentives to eligible homeowners, servicers, and investors under the program. Through September 2012, servicers reported completing about 74,000 short sales and 1,900 deeds-in-lieu under the program.

- *Home Price Decline Protection Incentives*. This program provides investors with additional incentives to modify loans under HAMP on properties located in areas where home prices have recently declined and where investors are concerned that price declines may persist. Through September 2012, Treasury had paid about $269 million to investors in program incentives to support the HAMP modification of more than 154,000 loans.

- *Principal Reduction Alternative (PRA)*. PRA requires servicers to evaluate the benefit of principal reduction for mortgages that have a loan-to-value ratio of 115 percent or more and that are not owned or guaranteed by Fannie Mae or Freddie Mac. Servicers are required to evaluate homeowners for PRA when evaluating them for a HAMP first-lien modification but are not required to actually reduce principal as part of the modification. Through September 2012, servicers reported having started about 78,000 permanent modifications with principal reductions under PRA.

- *Second Lien Modification Program*. The Second Lien Modification Program provides additional assistance to homeowners receiving a HAMP first-lien permanent modification who have an eligible second lien with participating servicers. When a borrower's first lien is

[40]Another Treasury program, the Home Affordable Unemployment Program, does not entail the use of TARP or other federal program funds. The Unemployment Program requires servicers participating in MHA to grant qualified unemployed borrowers a forbearance period for a minimum of 12 months. During this period, mortgage payments are temporarily reduced or suspended while borrowers look for new jobs. Borrowers can apply for a HAMP modification either when they secure employment or before the forbearance period ends. Treasury reported that more than 27,000 Unemployment Program forbearance plans had been started through August 2012.

modified under HAMP, participating program servicers must offer to modify the borrower's eligible second lien according to a defined protocol.[41] This assistance can result in a modification or even full or partial extinguishment of the second lien. On February 16, 2012, Treasury doubled the amount of incentives provided on second-lien modifications that included principal reduction and became effective on or after June 1, 2012. Through September 2012, servicers reported starting about 97,000 second-lien modifications, of which about 24,000 fully extinguished the second lien.

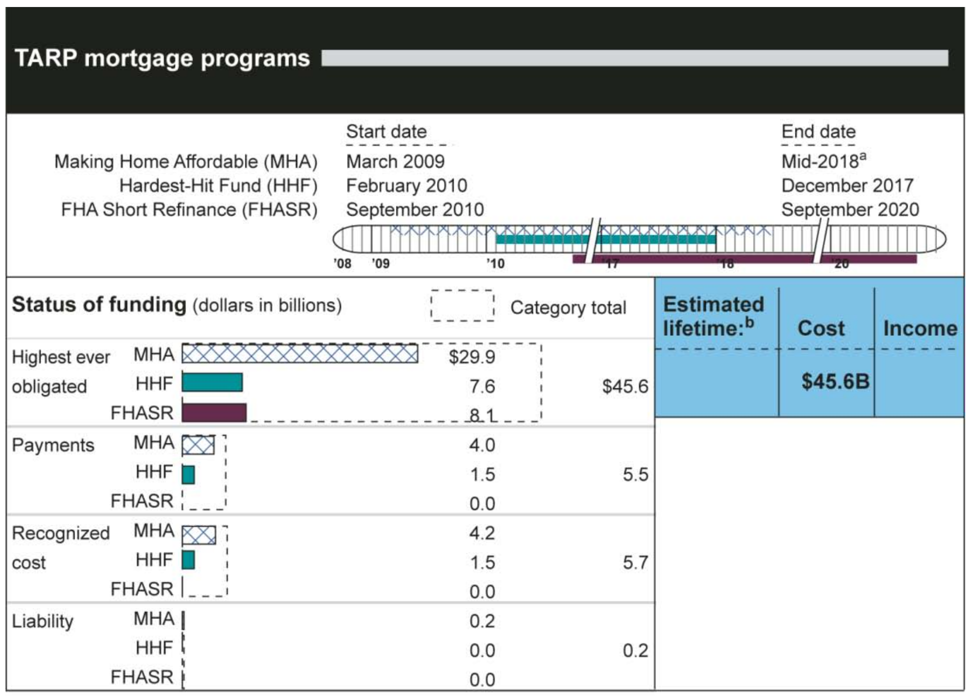
- *Government-insured or guaranteed loans (FHA-HAMP and RD-HAMP)*. FHA and the Department of Agriculture's Rural Housing Service (RHS) have implemented modification programs similar to HAMP Tier 1 for FHA-insured and RHS-guaranteed first-lien mortgage loans. Each of these programs results in loan modifications that provide borrowers with an affordable monthly mortgage payment equal to 31 percent of the homeowners' monthly gross income and requires borrowers to complete a trial payment plan before permanent modification. If a modified FHA-insured or RHS-guaranteed mortgage loan meets Treasury's eligibility criteria, the borrower and servicer can receive TARP-funded incentive payments from Treasury. Treasury reported that there were nearly 9,100 permanent modifications started that received Treasury FHA-HAMP incentives through September 2012. According to Treasury officials, servicers had reported only 11 modifications that qualified for Rural Development (RD)-HAMP incentives as of September 30, 2012.

- *Treasury/FHA Second Lien Program (FHA2LP)*. Under this program, Treasury provides incentive payments to servicers and investors if they partially or fully extinguish second liens associated with an FHA Short Refinance. Servicers can receive a one-time payment of $500 for each second lien extinguished under the program, and investors are eligible for incentive payments based on the amount of principal extinguished. According to Treasury, no second liens had been extinguished and no incentive payments made under the Treasury/FHA Second Lien Program as of September 30, 2012.

[41]In order to be eligible for the Second Lien Modification Program, borrowers' loans must meet certain criteria. For example, the loan must have been originated on or before January 1, 2009; have an unpaid balance of greater than $5,000 and a premodification monthly payment greater than $100; and can be modified only once under the program.

Treasury obligated $29.9 billion to MHA, of which nearly $4.0 billion had been disbursed as of September 2012 (see fig. 11). Treasury estimated that an additional $6.5 billion could be spent on incentives for HAMP modifications and other MHA interventions that were already in effect as of September 2012, assuming none of these modifications default. After combining these potential incentive payments with incentives already paid, Treasury estimated that $19.4 billion of the $29.9 billion remain available for future modifications and other interventions.

Figure 11: Status of Mortgage Programs as of September 2012



Reported activity through September 2011 by subcomponent (if applicable)

MHA	Home Affordable Modification Program (HAMP)	1,090,596 HAMP permanent modifications
	Home Price Decline Protection Program	154,383 modifications
	Home Affordable Foreclosure Alternatives (HAFA) Program	75,423 HAFA agreements completed
	Second Lien Modification Program (2MP)	96,922 2MP modifications
	Principal Reduction Alternative (PRA)	77,655 PRA permanent modifications
	Government Loans (FHA and Department of Agriculture Rural Housing Service HAMP (RD HAMP) loan modifications)	9,089 FHA-HAMP modifications 11 RD-HAMP modifications
	Treasury/FHA Second Lien Program (FHA2LP)	No activity reported
HFAHF		77,164 HFA borrowers assisted
FHASR		1,774 FHA loans refinanced

Source: GAO analysis of Treasury data.

[a]Borrowers have until December 31, 2013, to apply for HAMP. Trial modifications must be successful for at least 3 months before borrowers can convert into a permanent modification. Incentives are paid for up to 5 years after the date a trial modification is converted to a permanent modification and servicers have several months to submit loan data for incentive payments. As a result, the last HAMP incentive payment is likely to occur sometime in 2019.

[b]Treasury's estimated lifetime cost estimates reflect the actual outlay of funds to the mortgage-related programs and do not use the same Credit Reform accounting as the other program-specific lifetime cost estimates.

In addition to the MHA program, Treasury has allocated $7.6 billion in TARP funds for HHF, which seeks to help homeowners in 18 states hit hardest by unemployment and house price declines (Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee) plus the District of Columbia. States were chosen because they had experienced steep home price declines, high levels of unemployment in the economic downturn, or both. According to Treasury, each state housing agency gathered public input to implement programs designed to meet the distinct challenges homeowners in their state were facing. As a result, HHF programs vary across states, but services offered often include mortgage payment assistance for unemployed homeowners and reinstatement assistance to cover arrearages (e.g., one-time payment to bring a borrower's delinquent mortgage current).[42] Treasury reported that it had disbursed approximately $1.5 billion to the states for the HHF program as of September 2012. States reported having spent about $742 million through September 2012 to help more than 77,000 homeowners since the program began, and $199 million on administrative expenses.

Treasury has also allocated $8.1 billion in TARP funds to the FHA Short Refinance program to enable homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages. This opportunity allows borrowers who are current on their mortgage—or if they are delinquent, who successfully complete a trial period—to qualify for an FHA Short Refinance loan if the lender or investor writes off the unpaid principal balance of the original first lien mortgage by at least 10 percent. Treasury entered into a letter of credit facility with Citibank in order to fund up to $8 billion of any losses associated with providing FHA Short Refinance loans. Treasury's commitment extends until September 2020, and to the extent that FHA experiences losses on those refinanced

[42]See GAO-12-783 for an expanded discussion of the various state programs.

mortgage loans, Treasury will pay claims up to the predetermined percentage after FHA has paid its portion of the claim. Treasury will also pay a fee to the issuer of the letter of credit based on the amount of funds drawn against the letter of credit and any unused amount. The terms of the agreement cap the fee at $117 million. As of September 30, 2012, FHA had insured 1,774 loans with a total face value of $307 million under the refinance program. As of September 30, 2012, Treasury had paid about $7.2 million in fees to Citibank, which issued the letter of credit. Treasury also placed $50 million in a reserve account to cover any future loss claims on these loans, although no funds have been disbursed for loss claim payments.

Treasury Has Identified Both Implementation Challenges and Improvements in Processes Aimed at Enhancing Borrower Assistance

Through its monitoring of processes put in place to improve servicers' communication with borrowers and resolution of disputes, Treasury has identified some implementation challenges but has also found improvements in performance. One process, which Treasury announced in May 2011, requires large servicers participating in HAMP to identify a "relationship manager" to serve as the borrower's single point of contact throughout the delinquency or imminent default resolution process, effective September 1, 2011.[43] By implementing this requirement, called the single point of contact requirement, Treasury was seeking to enhance communications between servicers and borrowers during the delinquency resolution process.[44] To monitor servicers' implementation of the single point of contact requirement, Treasury adopted compliance review procedures to determine whether servicers (1) had established a single point of contact in accordance with MHA requirements, (2) were monitoring assignments and activities to verify that they were in accordance with internal policies and MHA guidance, and (3) had created

[43]The requirement applies to servicers with program participation caps of $75,000,000 or more as of May 18, 2011, although all participating servicers are encouraged to adopt this practice. Treasury's requirement is similar to a requirement issued by federal banking regulators as part of consent orders obtained against 14 servicers and by the April 2012 national mortgage settlement agreed to by state attorneys general, the federal government, and five servicers.

[44]In November 2012, Treasury issued a report entitled, *Making Contact: The Path to Improving Mortgage Industry Communication with Homeowners*, which describes how the largest servicers have implemented the single point of contact requirement, including the different customer relationship models servicers are using. The report is available at http://www.treasury.gov/initiatives/financial-stability/reports/Documents/SPOC%20Special%20Report_Final.pdf accessed on December 12, 2012.

written notices of assignments or changes and sent accurate, timely information on them to borrowers. Following the effective date of Treasury's requirement, Treasury's compliance agent, MHA-C, used these procedures to assess servicers' implementation of the single point of contact requirement during dedicated compliance reviews, according to Treasury.

These initial reviews revealed some initial challenges with implementing the requirement, including delays in assigning relationship managers to borrowers and poor communication of assignments and reassignments. Servicers' performance was reflected in the qualitative measures of internal controls included in the servicer assessments that Treasury publishes quarterly, according to Treasury. The reviews also identified areas in which the servicers differed in their implementation of the requirements, such as the precise timing of the assignment of relationship managers. Treasury officials said that servicers have many options for appropriately implementing the requirement, given the flexibility provided in its guidance, and noted that servicers were making progress in addressing the issues identified in the initial compliance reviews. However, Treasury officials also stated that they were considering whether to issue additional guidance to clarify the requirements and to help ensure greater consistency across servicers.

Treasury put in place another process aimed at enhancing borrower assistance: a case escalation process for resolving borrower inquiries and disputes. In June 2010, we reported that it was unclear whether the process that Treasury had established for resolving concerns about HAMP eligibility determinations was effective. The escalation process in place at that time lacked standard requirements for complaint tracking, and Treasury had not clearly communicated the availability of the escalation process through the HOPE Hotline to the borrower.[45] In November 2010, Treasury announced requirements for servicers to adopt a standard process for resolving certain borrower MHA disputes—called escalated cases—effective February 1, 2011. Treasury now requires that servicers have procedures and personnel in place to provide timely and appropriate responses to escalated cases. Escalated cases include but are not limited to:

[45] GAO-10-634.

- allegations that the servicer did not assess the borrower for the applicable MHA program(s) according to program guidelines;

- inquiries regarding inappropriate program denials or the content of a nonapproval notice; and

- disputes or inquiries about the initiation or continuance of a foreclosure action in violation of program guidelines.

In addition, MHA Help and the HAMP Solution Center (collectively referred to as the MHA support centers) can refer escalated cases to the servicer on behalf of either borrowers or third parties assisting borrowers. MHA Help, which is a team of specialists dedicated exclusively to working with borrowers and servicers to resolve escalated MHA cases, receives cases from borrowers who call the HOPE Hotline. A third party, such as a housing counselor, may escalate a case through the HAMP Solution Center.

In its capacity as the MHA program administrator, Fannie Mae staffs the HAMP Solution Center and oversees vendors that staff MHA Help and the HOPE Hotline, according to Treasury. In order to resolve a case escalated through these support centers, the servicer must obtain the concurrence of the center that escalated the case with the proposed resolution. If the case cannot be resolved at the support center, it is forwarded to Treasury, which works with the servicer to resolve the issue

Treasury has adopted procedures to monitor the performance of servicers and borrower support centers in resolving escalated cases. Treasury currently publicly reports on one servicer performance measure related to escalations: the average number of days required to resolve escalated cases involving loans not owned or guaranteed by Fannie Mae or Freddie Mac. Treasury established a target of 30 calendar days or fewer (including processing time by the support center). In the most recent two quarters for which data were available (the second and third quarters of 2012), the nine largest MHA servicers achieved that target. In the two prior quarters, one of these servicers did not achieve the target.

In addition to reporting on the timeliness of the escalation process, Treasury conducts other reviews to monitor the program administrator's management of its vendors and the outcomes of the process. The program administrator prepares weekly and monthly performance reports for the HOPE Hotline and the MHA support centers. These reports include case escalation information for the larger MHA servicers.

Treasury officials in the Office of Financial Agents and the Homeownership Preservation Office review these reports with the program administrator and, as necessary, its vendors. In addition, Treasury reviews a sample of escalated case files monthly to ensure that staff at the support centers are providing the services Treasury expects of them. Staff from the Homeownership Preservation Office score the files—five from each support center—on seven criteria that indicate whether:

- the resolution template was properly completed;
- the full course of the resolution could be easily identified and understood;
- the case was resolved according to the escalation case process;
- MHA policy and guidance were appropriately applied;
- engagement with the servicer led to timely closure of the case;
- reasonable efforts had been made to reach the requestor and resolve the inquiry; and
- the support center representative demonstrated homeowner advocacy.

Treasury began scoring escalated case files in January 2012, and according to documents Treasury provided to us, the support centers' scores improved substantially between January 2012 and June 2012. Treasury officials said that they had provided training for staff of the support centers to serve as advocates for homeowners and had provided additional training for this purpose. The most notable improvement in the support centers' scores was in the area of demonstrating homeowner advocacy. Treasury's continued attention to resolutions of escalated cases and the performance of the support centers and servicers is instrumental in helping to ensure that eligible borrowers receive appropriate assistance.

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury for its review and comment. In its written comments, reproduced in appendix IV, Treasury generally concurred with our findings. We also provided relevant portions of the draft report to Ally Financial and General Motors to verify the factual information they provided about their companies and business trends. Treasury, Ally Financial, and General Motors provided technical comments that we have incorporated as appropriate.

We are sending copies of this report to the Financial Stability Oversight Board, Special Inspector General for TARP, interested congressional committees and members, and Treasury. The report also is available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov for questions about non-mortgage-related TARP programs, or Mathew Scire at (202) 512-8678 or sciremj@gao.gov for questions about mortgage-related TARP programs. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

Thomas J. McCool
Director
Center for Economics, Applied Research and Methods

List of Addressees

The Honorable Barbara Mikulski
Chairwoman
The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking,
Housing, and Urban Affairs
United States Senate

The Honorable Chairman
The Honorable Jeff Sessions
Ranking Member
Committee on the Budget
United States Senate

The Honorable Max Baucus
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate

The Honorable Hal Rogers
Chairman
The Honorable Nita Lowey
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Committee on the Budget
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The Honorable Jeb Hensarling
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The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Dave Camp
Chairman
The Honorable Sandy Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

The objectives in this report were to examine the condition and status of (1) nonmortgage-related Troubled Asset Relief Programs (TARP) programs and (2) TARP mortgage programs, including Treasury's efforts to ensure that servicers are implementing two new requirements.

To assess the condition and status of all the nonmortgage-related programs initiated under the TARP, we collected and analyzed data about program utilization and assets held, as applicable, focusing primarily on financial information that we had audited in the Office of Financial Stability's (OFS) financial statements, as of September 30, 2012. In some instances we provided more recent, unaudited financial information. The financial information includes the types of assets held in the program, obligations that represent the highest amount ever obligated for a program (to provide historical information on total obligations), disbursements, and income. We also provide information on program start dates, defining them based on the start of the first activity under a program, and we provide program end dates, based on official announcements or program terms from the Department of the Treasury (Treasury). Finally, we provide approximate program exit dates—either estimated by Treasury or actual if the exit already occurred—that reflect the time when a program will no longer hold assets that need to be managed. We also used OFS cost estimates for TARP that we audited as part of the financial statement audit. In addition, we tested OFS's internal controls over financial reporting as they relate to our annual audit of OFS's financial statements. The financial information used in this report is sufficiently reliable to assess the condition and status of TARP programs based on the results of our audits of fiscal years 2009, 2010, 2011, and 2012 financial statements for TARP.[1]

Further, we reviewed Treasury documentation such as program terms, press releases, and reports on TARP programs and costs. Also, we interviewed OFS program officials to determine the current status of each TARP program, the role of TARP staff while most programs continue to unwind, and to update what is known about exit considerations for TARP programs. Other TARP officials we interviewed included those responsible for financial reporting. Additionally, in reporting on these programs and their exit considerations we leveraged our previous TARP

[1]See GAO-13-126R, GAO-12-169, GAO-11-174, and GAO-10-301.

reports and publications from the Special Inspector General for TARP, as appropriate. In addition, we did the following:

- For the Capital Purchase Program, we used OFS's reports to describe the status of the program, including the amount of investments outstanding, the number of institutions that had exited the program, and the amount of dividends paid. In addition, we reviewed Treasury's press releases on the program and interviewed officials from Treasury.

- For the Community Development Capital Initiative, we interviewed program officials to determine what exit concerns Treasury has for the program.

- To update the status of the Automotive Industry Financing Program and Treasury's plans for managing its investment in the companies, we leveraged our past work and reviewed information on Treasury's plans for overseeing its remaining financial interests in General Motors (GM) and Ally Financial, including Treasury reports. To obtain information on the current financial condition of the companies, we reviewed information on GM's and Ally Financial's finances and operations, including financial statements and industry analysts' reports. We also interviewed officials from Treasury.

- To update the status of the American International Group, Inc. (AIG) Investment Program (formerly the Systemically Significant Failing Institutions Program), we reviewed relevant documents from Treasury and other parties. For the AIG Investment Program, these documents included Emergency Economic Stabilization Act of 2008 (EESA) monthly 105(a) reports provided periodically to Congress by Treasury, public information made available by the Federal Reserve Bank of New York, and other relevant documentation such as AIG's financial disclosures and Treasury's press releases. We also interviewed officials from Treasury.

- For the Term Asset-Backed Securities Loan Facility (TALF), we reviewed program terms and requested data from Treasury about loan prepayments and TALF LLC activity. Additionally, we interviewed OFS officials about their role in the program as it continues to unwind.

- To update the status of the Public-Private Investment Program, we analyzed program quarterly reports, term sheets, and other documentation related to the public-private investment funds. We also interviewed OFS staff responsible for the program to determine the status of the program while it remains in active investment status.

- To obtain the final status for Small Business Administration (SBA) 7(a) Securities Purchase Program that Treasury exited and for which Treasury no longer holds assets that it must manage, we reviewed Treasury's recent reports and leveraged our past work.

To assess the status of TARP-funded mortgage programs and Treasury's efforts to ensure servicers are implementing the Making Home Affordable (MHA) single point of contact and resolution of escalated cases requirements, we reviewed Treasury reports, guidance, and documentation and interviewed Treasury officials. Specifically, to determine the status of Treasury's TARP-funded housing programs, we obtained and reviewed Treasury's published reports on the programs and servicer performance, as well as guidelines and related updates issued by Treasury for each of the programs. In addition, we obtained information from and interviewed Treasury officials about the status of the TARP-funded mortgage programs, including the actions Treasury had taken to address our prior recommendations. To assess the status of Treasury's efforts to ensure servicers are implementing the MHA single point of contact requirement, we reviewed Treasury's compliance review procedures and review findings related to single point of contact for several of the largest MHA servicers. To assess Treasury's oversight of the escalated case resolution process, we obtained documentation from Treasury of its process for monitoring the MHA borrower support centers—MHA Help and the Home Affordable Modification Program (HAMP) Solution Center—and reviewed monthly performance reports. We also interviewed Treasury officials about their oversight of the single point of contact requirement and case escalation process.

We conducted this performance audit from September 2012 to January 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

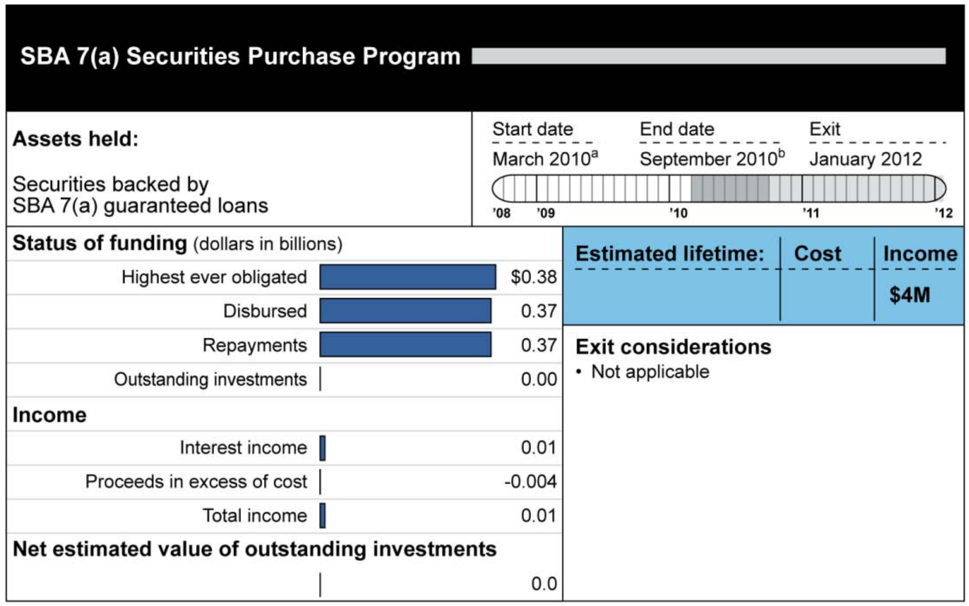
Appendix II: Treasury's Termination of the TARP Small Business Administration 7(a) Securities Purchase Program

The SBA 7(a) Securities Purchase Program was launched as part of TARP to help facilitate the recovery of the secondary market for small business loans. Under this program, Treasury purchased securities that comprised the guaranteed portion of SBA 7(a) loans.

These loans finance a wide range of small business needs, including working capital, machinery, equipment, furniture, and fixtures. Treasury originally invested $367 million in 31 SBA 7(a) securities between March and September 2010. These securities comprised more than 1,000 loans from 17 different industries, including retail, food services, manufacturing, scientific and technical services, health care, and educational services. Since Treasury began its purchases, the SBA 7(a) market has recovered with new SBA 7(a) loan volumes returning to precrisis levels.

Treasury sold its eight remaining securities in the portfolio for approximately $63.2 million in proceeds on January 24, 2012. That sale marked the wind down of this TARP program. In total, Treasury recovered $376 million through sales ($334 million) and principal and interest payments ($42 million) over the life of the SBA 7(a) Securities Purchase Program. After considering Treasury's cost of financing, the SBA 7(a) Securities Purchase Program resulted in an income of approximately $4 million to taxpayers on Treasury's original investment of $367 million (see fig. 12).

Figure 12: Status of SBA 7(a) Securities Purchase Program, as of September 30, 2012



Source: GAO analysis of Treasury data.

Note: This figure represents financial information as of September 30, 2012.

[a]The program's first activity was in March 2010, although it was first announced in March 2009.

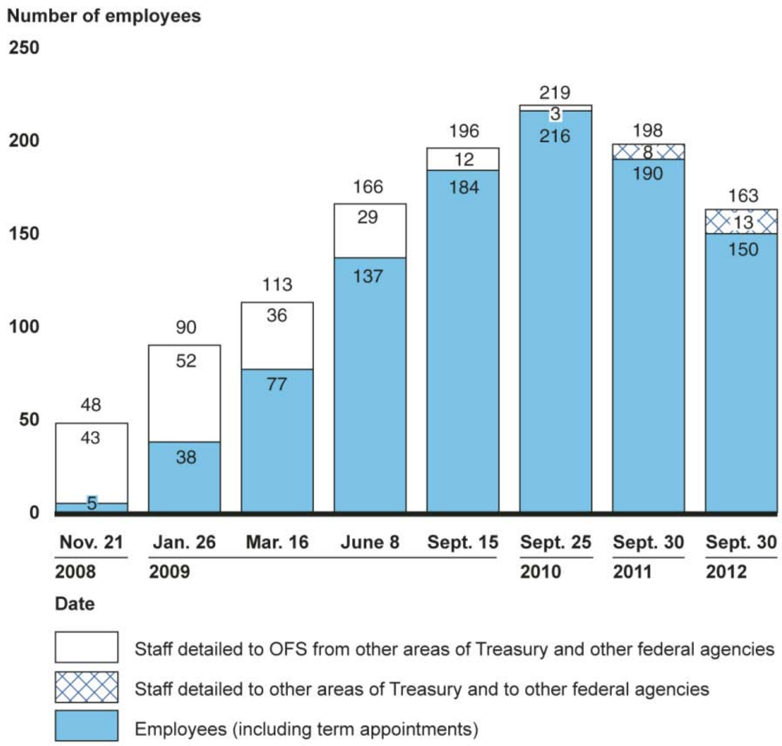
[b]The program's funding ended in September 2010, though some purchases that were previously committed to prior to September were fulfilled after that date.

Appendix III: Treasury's Office of Financial Stability Staffing and Use of Private Sector Contracting

Office of Financial Stability Staffing

As we noted in our 2012 annual TARP report, Treasury has addressed several staffing challenges that we had previously identified, and the overall staffing numbers, which began to decline in 2011, continued to decrease through September 30, 2012 (see fig. 13).[1] Treasury's Office of Financial Stability (OFS) used employees (including term employees) and detailees from other Treasury offices and other federal agencies to meet its workload requirements.

Figure 13: OFS Employees and Detailees, November 21, 2008, through September 30, 2012



Source: GAO analysis of Treasury data.

OFS's overall staffing numbers declined from 198 in 2011 to 163 in 2012, but staffing levels within individual OFS offices have fluctuated according to the resources needed. Many OFS staff were not replaced because their skill sets were no longer needed; for example, many staff in the

[1]See GAO-12-229.

Chief Investment Office were not replaced as the investment programs wound down.

According to Treasury officials, Treasury evaluates departing staff on a case-by-case basis to determine whether a vacancy needs to be filled and whether present staff can cover the departing staff's responsibilities, and only one new staff person was added in 2012. In addition, OFS officials stated that OFS had detailed some of its staff to other Treasury programs, as Treasury had exited several programs and no longer had assets to manage for them and many of the other TARP programs were winding down. Treasury officials continue to anticipate that staffing levels in OFS offices will decrease over time, and some staff have moved or may relocate to other parts of Treasury or other federal agencies.

Treasury also has addressed several turnover-related staffing issues. We previously reported that a number of staff from the OFS leadership team departed in 2010 and 2011, and in 2013 the terms of two other leadership team members are scheduled to expire. As we previously reported, OFS addressed this leadership challenge by replacing the Assistant Secretary of Financial Stability with OFS's former Chief Counsel in 2011 and replacing departing OFS leaders with existing OFS staff members (generally to term positions). We also reported that OFS had been addressing other staffing issues, including implementation of its staffing plan.

Contracts and Other Agreements Supporting TARP Administration and Operations

Since TARP was established, Treasury has relied on the private sector to assist OFS with TARP administration and operations. Treasury engages with private sector firms through financial agency agreements, contracts, and blanket purchase agreements.[2] According to OFS procedures, financial agency agreements are used for services that cannot be provided with existing Treasury or contractor resources. Specifically, Treasury has relied on financial agents for asset management, transaction structuring, disposition services, custodial services, and administration and compliance support for the TARP housing assistance

[2] A blanket purchase agreement is a method of filling anticipated repetitive needs for supplies or services through qualified sources of supply. The agreement contains the basic terms and conditions governing the types of services the firms will provide. As specific needs arise, blanket purchase agreements allow Treasury to issue task orders to the firms describing the specific services required, establishing time frames, and setting pricing arrangements.

programs. In addition, Treasury uses TARP contracts for a variety of legal, investment consulting, accounting, and other services and supplies.

Through September 30, 2012, Treasury had awarded 19 financial agency agreements, 13 of which remained active, and awarded or used 131 contracts and blanket purchase agreements, of which about 40 percent remained active.[3] As shown in table 3, the obligated value of the financial agency agreements and contracts totaled more than $900 million, with most of the funding going for financial agency agreements. The increase in obligations since 2010 is largely due to Treasury's reliance on financial agents to support the oversight of TARP assets and the continued implementation of the housing programs over the last couple of years. Also, 3 of its financial agency agreements for transaction structuring and disposition services remained active.

Table 3: Cumulative Value of Contracts and Financial Agency Agreements in Support of TARP

	Obligated value through fiscal year 2010	Obligated value through fiscal year 2011	Obligated value through fiscal year 2012
Financial agency agreements	$327,355,188	$547,487,042	$722,512,644
Contracts	108,907,207	154,934,812	184,892,212
Total	**$436,262,395**	**$702,421,854**	**$907,404,856**

Source: GAO analysis of Treasury data.

The vast majority of the financial agency agreement obligations shown above (approximately $525 million) are for Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), which provide administrative and compliance services, respectively, for the TARP housing programs.[4] The two largest contracts are $35 million with PricewaterhouseCoopers, LLP for internal control services and $17 million with Cadwalader, Wickersham & Taft, LLP for

[3]The 131 contracts and blanket purchase agreements include six contractual arrangements in which OFS is engaging vendors that have existing contracts with other Treasury offices or bureaus or with other federal agencies. For more information about Treasury's use of financial agency agreements and contracts and blanket purchase agreements, see GAO, *Treasury Continues to Implement Its Oversight System for Addressing TARP Conflicts of Interest*, GAO-12-984R (Washington, D.C.: Sept. 18, 2012).

[4]Congress established Fannie Mae and Freddie Mac as government sponsored entities, chartering them as for-profit, shareholder-owned corporations to stabilize and assist the U.S. secondary mortgage market and facilitate the flow of mortgage credit.

legal services. Treasury also has encouraged small and minority- and women-owned businesses to pursue opportunities for TARP contracts and financial agency agreements. The majority of these businesses participating in TARP are subcontractors.

Managing Potential Conflicts of Interest

Treasury has taken a number of actions since 2008, in part in response to recommendations we made, to establish a structured system to manage potential conflicts of interest involving its contractors and financial agents. The system is based on a regulation Treasury issued in interim form in 2009 and final form in 2011 that prohibits retained entities from engaging in activities that create organizational or personal conflicts of interest without a waiver or mitigation under a Treasury-approved plan.[5] The regulation sets forth standards to address actual and potential conflicts that may arise, establishes responsibilities for contractors and financial agents in preventing conflicts from occurring, and outlines Treasury's process for reviewing and addressing conflicts.

Treasury has developed and implemented a multifaceted process to manage and oversee potential conflicts of interest that is managed by OFS's Office of the Chief Compliance Officer. The process includes reviewing proposed contracts and financial agency agreements, approving contractor and financial agent mitigation plans, responding to conflict-of-interest inquiries from contractors and financial agents, verifying that contractors and financial agents are regularly certifying that they are preventing or properly mitigating actual or potential conflicts of interest, and preparing feedback reports that provide a snapshot of how each contractor and financial agent is performing with respect to conflict-of-interest requirements. In addition, because the monitoring of conflicts of interest is based to some degree on self-reported information that contractors and financial agents submit, Treasury began conducting onsite design and compliance reviews in 2011. These reviews are designed to evaluate the effectiveness of contractors' and financial agents' internal controls and procedures for identifying and addressing conflicts of interest.

[5] 31 C.F.R. Part 31.

Appendix IV: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 12, 2012

Thomas J. McCool
Director, Center for Economics
Applied Research and Methods
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. McCool:

Thank you for the opportunity to review your draft report titled *"Treasury Sees Some Returns as It Exits Programs and Continues to Fund Mortgage Programs"* (Draft Report), which was provided to the Department of the Treasury (Treasury) on November 28, 2012. Treasury appreciates the efforts of the Government Accountability Office (GAO) in providing an updated summary of the current condition and status of the Troubled Asset Relief Program (TARP).

Four years after the establishment of TARP, Treasury has made substantial progress in withdrawing the extraordinary assistance that had to be provided during the financial crisis. As Treasury winds down the TARP investment programs, protecting the taxpayers' interest, maximizing returns, and exiting as soon as practicable continue to be our priorities.

With respect to our housing programs, we have taken significant steps to expand the reach of our programs and strengthen oversight of servicers. We appreciate the Draft Report's recognition of these efforts and the positive effect they have had on assisting borrowers. Treasury's housing programs have directly helped over one million homeowners avoid foreclosure and have indirectly helped millions more by setting new standards throughout the mortgage servicing industry.

Treasury values GAO's detailed review of TARP and shares its underlying objective of continuously improving the program. We look forward to continuing to work with you and your team as we move forward.

Sincerely,

Tim Massad

Timothy G. Massad
Assistant Secretary for Financial Stability

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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In addition to the contacts named above, Dan Garcia-Diaz; Gary Engel; and William T. Woods (lead directors); Marcia Carlsen; Lynda Downing; Harry Medina; Joseph O'Neill; John Oppenheim; Raymond Sendejas; and Karen Tremba (lead assistant directors); Donald Brown; Emily Chalmers; Rachel DeMarcus; Sarah Farkas; John Forrester; Christopher Forys; Jackie Hamilton; Heather Krause; Risto Laboski; Aaron Livernois; John Lord; Marc Molino; Dragan Matic; and Erin Schoening have made significant contributions to this report.

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