

Minutes of the Financial Stability Oversight Board Meeting December 21, 2009

A meeting of the Financial Stability Oversight Board (“Board”) was held at 2:30 p.m. (EDT) on Monday, December 21, 2009, at the offices of the Department of the Treasury (“Treasury”).

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
Mr. Donovan
Ms. Schapiro¹
Mr. DeMarco¹

STAFF PRESENT:

Mr. Treacy, Executive Director
Mr. Fallon, General Counsel
Mr. Gonzalez, Secretary

AGENCY OFFICIALS PRESENT:

Mr. Allison, Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury¹

Mr. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

Mr. Miller, Chief Investment Officer, Office of Financial Stability, Department of the Treasury

Ms. Caldwell, Chief of Homeownership Preservation Office, Office of Financial Stability, Department of the Treasury

Ms. Main, Chief Financial Officer, Office of Financial Stability, Department of the Treasury

Ms. Ochs, Senior Advisor to the Counselor to the Secretary and Assistant Secretary for Financial Stability, Department of the Treasury

Mr. Wilcox, Deputy Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System¹

Ms. Liang, Senior Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Palumbo, Deputy Associate Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development

Mr. Delfin, Special Counsel to the Chairman, Securities and Exchange Commission¹

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 2:35 p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on November 23, 2009, which had been circulated in advance of the meeting.

¹ Participated by telephone.

Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, officials from the Department of the Treasury (“Treasury”) then provided an update on the programs established by Treasury under the Troubled Asset Relief Program (“TARP”). Discussion during the meeting focused on the annual financial statements for the Office of Financial Stability (“OFS”); the Secretary of the Treasury’s extension of the TARP authorities provided under the Emergency Economic Stabilization Act (“EESA”); repayments under the Capital Purchase Program (“CPP”) and other programs; the Legacy Securities Public-Private Investment Partnership (“S-PPIP”) Program; and the Home Affordable Modification Program (“HAMP”). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the Term Asset-Backed Securities Loan Facility (“TALF”); the most recent data gathered as part of Treasury’s Monthly Lending and Intermediation Snapshots and Report; and information concerning the aggregate level and distribution of commitments and disbursements under TARP, and the level of resources remaining available under TARP. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first reviewed and discussed with Members the OFS Agency Financial Report for Fiscal Year 2009, which describes the activities and

financial results for the TARP since its inception in October 2008 through the fiscal year ended September 30, 2009 (“Financial Report FY2009”). The Government Accountability Office (“GAO”) audited the FY 2009 financial statements prepared by OFS for the TARP and found that the OFS maintained, in all material respects, effective internal control over financial reporting and found no material weaknesses in OFS internal controls. Treasury officials also discussed the steps being taken by Treasury to address the two significant deficiencies identified by GAO in OFS’s internal controls over financial reporting.

Officials and Members also reviewed the updated estimate from Treasury concerning the projected costs and projected returns of the TARP, which were included in the Financial Report FY2009. After giving effect to projected losses on investments and anticipated additional disbursements, the report indicates that Treasury estimates the total cost of TARP to be at least \$200 billion less than the \$341 billion estimate in the August 2009 Mid-Session Review.

Members and officials then reviewed and discussed Secretary Geithner’s notification to Congress on December 9, 2009, pursuant to section 120 of the EESA, that Treasury would extend the TARP authorities provided under the EESA until October 3, 2010, and the exit strategy proposed for TARP. Treasury officials noted that the extension and exit strategy are designed to preserve the capacity to respond to future threats to financial stability, while allowing Treasury to focus potential new commitments under the TARP on mitigating foreclosures for responsible Americans and stabilizing the housing

market, increasing the supply of credit to small businesses, including through the provision of capital to community banks and community development financial institutions, and improving the securitization markets that facilitate consumer and small business loans, as well as commercial loans. Treasury officials indicated that Treasury did not expect to commit more than \$550 billion of the funds available under TARP.

Treasury officials then provided the Members with an update on repayments made by banking organizations under the CPP and Targeted Investment Program (“TIP”), including the completed or announced repayments by Bank of America Corporation, Citigroup, Inc., and Wells Fargo & Company. Members and officials also reviewed and discussed Citigroup’s proposed termination of the package of asset guarantees and liquidity assistance provided by Treasury, the Federal Deposit Insurance Corporation, and the Federal Reserve with respect to a designated pool of \$301 billion in assets. As part of this discussion, Members and officials also discussed recent developments involving GMAC LLC (“GMAC”), including the potential for additional capital to be made available to GMAC consistent with the previously announced Supervisory Capital Assessment Program.

Treasury officials and Members then reviewed and discussed the recent public auctions held by Treasury to sell the warrants it had received from JP Morgan Chase & Co., Capital One Financial Corporation and TCF Financial under the CPP, and the potential for auctions to be used for selling other positions held by Treasury. Treasury officials noted that the auctions for the

three institutions were oversubscribed and the auctions raised an aggregate of approximately \$1.1 billion in gross proceeds. Officials and Members also discussed the trading prices of the warrants after sale by the Treasury.

Treasury officials then provided the Members with an update on the S-PPIP. As part of this discussion, Members and officials discussed the amount of equity capital and debt funding already provided to fund managers under the S-PPIP; the status of additional private capital raised by fund managers; and the potential timing of future closings. Members and officials also discussed Treasury’s progress in hiring a fund consultant to assist with the program, and developing a public report on S-PPIP activities. Treasury officials also reviewed and discussed recent developments involving TCW Group, Inc. (“TCW”), a PPIF fund manager, including the recent departure of TCW’s Chief Investment Officer. Treasury officials informed the Members that this departure constituted a Key Person Event under the relevant limited partnership agreement and, accordingly, Treasury officials were conducting a review of the program’s relationship with TCW.

Using prepared materials, Treasury officials then provided the Members with an update regarding the HAMP. As part of this discussion, Members and officials reviewed and discussed the number of trial modifications initiated under the program, the challenges to the conversion of trial modifications into permanent modifications, and the steps being taken to address these challenges. For example, Treasury officials described the steps taken under the conversion campaign

launched by Treasury on November 30, 2009, to help improve the number of loans converted from trial to permanent modifications by December 31, 2009. Members and officials also discussed the manner in which modifications are reported in Treasury's monthly reports, and the options available for borrowers who do not qualify for a permanent modification under HAMP after entering into a trial modification.

Members and officials also discussed the steps taken by Treasury, working in conjunction with the Special Inspector General for the TARP, to establish a use of funds survey, under which Treasury will collect qualitative data related to the use of funds by institutions participating in the CPP. As part of this discussion, Members and officials reviewed the timing of the survey and the expected release date of survey results.

Members and officials then engaged in a roundtable discussion regarding the current state of the U.S. housing and financial markets and the effect of the programs established under the TARP in stabilizing the financial system, promoting the flow of credit to households and businesses, and providing homeownership. As part of this discussion, officials from the Federal Reserve briefed Members concerning developments in the financial markets and officials from the Federal Housing Finance Agency briefed members on developments in the housing and housing finance markets. The data reviewed included corporate bond spreads, stock prices, credit default swap spreads for selected financial institutions, debt growth among household and nonfinancial businesses, conditions in the commercial

paper and asset-backed securities markets, credit conditions for small businesses, and data related to credit demand and standards drawn from the Federal Reserve's Senior Loan Officer Opinion Survey. Members also reviewed data related to mortgage rates, delinquencies, Federal Home Loan Bank advances, originations, mortgage insurance activity, as well as housing-prices, -sales, -starts, and -supply.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending December 31, 2009, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential contents of the report.

The meeting was adjourned at approximately 3:35 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary