Minutes of the Financial Stability Oversight Board Meeting February 22, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:00 p.m. (EST) on Monday, February 22, 2010, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro
Mr. DeMarco

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 Treasury

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

Mr. Miller, Acting 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

Mr. Shelby, Deputy 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 System

Ms. Liang, Senior 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 Commission

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Mr. Ugoletti, Special Advisor to the Office of the Director, Federal Housing Finance Agency

Chairperson Bernanke called the meeting to order at approximately 3:05p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on January 19, 2010, which had been circulated in advance of the meeting. 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 Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Community Development Capital Initiative ("CDCI"); the proposed program to provide additional help in certain states that have been particularly affected by house price declines; the President's legislative proposal to create a Small Business Lending Fund ("SBLF"); recent repayments and dividends received under the Capital Purchase Program ("CPP"); the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; the Home Affordable Modification Program ("HAMP"); and the estimated program costs for TARP included in the President's Fiscal Year 2011 budget. 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"), and the most recent data gathered as part of Treasury's Monthly Lending and Intermediation Snapshots and Report. 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 Treasury's plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") as part of the CDCI announced on February 3, 2010. Under the program, eligible CDFI banks and thrifts may apply to receive capital of up to 5 percent of their risk-weighted assets that would carry a dividend rate of 2 percent, increasing to 9 percent after eight years. The program also would be open to eligible CDFI credit unions. Investments in eligible credit unions would be made through subordinated debt instruments with comparable terms as those offered to CDFI banks and thrifts. Treasury officials noted that CDFIs participating in the CPP, in good standing, will be eligible to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program. Under the program, if a qualifying CDFI's primary regulator determines, in connection with the institution's application to the CDCI, that the institution needs additional capital to be viable, the CDFI may participate in the program if the CDFI obtains private capital prior to, or concurrently with, any investment by Treasury. In such circumstances, the amount that Treasury invests will be limited to the amount of private capital raised, and Treasury will not invest unless the combined amount of capital received is sufficient for the CDFI to be viable on a pro-forma basis (as determined by the institution's primary federal regulator).

Treasury officials then provided the Members with an update on the program being developed by Treasury, in conjunction with state Housing Finance Agencies ("HFAs"), to help address the problems facing states that have suffered an average home price drop of more than 20 percent from their respective peak. The initiative would make available up to $1.5 billion of TARP funds to support pilot programs designed to foster innovative solutions to housing problems, such as those caused by unemployment, loan-to-value ratios in excess of 100 percent, or second mortgages. As part of this discussion, Members and officials discussed the steps being taken to operationalize the program, including determining the method for allocating funds among eligible states and establishing rules governing the submission and review of proposals by HFAs, and to ensure compliance with all applicable EESA requirements. During this discussion, Mr. Donovan noted that the Department of Housing and Urban Development ("HUD") expected to announce improvements to the Neighborhood Stabilization Program to further assist communities suffering from foreclosures and abandoned properties.

Treasury officials then provided Members with an update on the President's legislative proposal to establish the SBLF. If enacted, banks with under $1 billion in total assets would be eligible to receive capital under the SBLF of up to 5 percent of their risk-weighted assets, and banks with total assets of between $1 billion and $10 billion would be eligible to receive capital of up to 3 percent of their risk-weighted assets, in the form of preferred stock. In order to promote small business lending by participating banks, officials noted that the dividend rate on the capital provided would adjust downward (from an initial rate of 5 percent) during the first two years if the bank's business lending increased above certain amounts compared to a baseline level. The rate would then be fixed for the next three years, increasing to 9 percent after five years to encourage repayment. Officials noted that most CPP participants with $10 billion or less in assets could refinance their CPP capital through the program. As part of this discussion, Members and officials also discussed the features of the program designed to encourage participation and potential oversight structures for the program.

Treasury officials then provided the Members with an update on repayments made under the CPP and other TARP programs. Treasury officials noted that approximately $169 billion in repayments had been made by banking organizations under the CPP and Targeted Investment Program, including the recent repayment by The PNC Financial Services Group Inc. of $7.6 billion on February 10, 2010. Members and officials also discussed the amount of dividends received by Treasury, the number of institutions that are not making dividend payments, and Treasury's plan for disposing certain securities.

Using prepared materials, Treasury officials then reviewed and discussed with the Members the aggregate level and distribution of commitments, disbursements, and administrative expenses under TARP. During this discussion, Treasury officials discussed the projected gain or loss on TARP programs as reflected in the President's FY 2011 budget. Treasury officials noted that, after giving effect to projected losses on investments and anticipated additional disbursements, the President's FY 2011 budget estimated the total cost of TARP to be approximately $116 billion, as compared to the $341 billion cost estimate at the time of the August 2009 Mid-Session Review. Treasury officials also reviewed the current and expected administrative expenses of the Office of Financial Stability.

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 raises by fund managers, and the market value and composition of non-agency residential mortgage-backed securities and commercial mortgage-backed securities held by PPIFs as of December 31, 2009. Treasury officials also updated Members regarding the liquidation of the PPIF managed by TCW Group, Inc.

Using prepared materials, Treasury officials then provided the Members with an update regarding the HAMP. As part of this discussion, Treasury officials reviewed with Members recent data for HAMP and noted that the number of permanent modifications under the program increased significantly between December 31, 2009, and January 30, 2010. Members and officials also reviewed the universe of borrowers potentially eligible for HAMP modifications, the performance of modifications made under the program, the median mortgage payment reductions of participating homeowners, and potential ways to increase the pace of conversion of borrowers from trial to permanent modifications under the program. Treasury officials also provided Members with an update on the Second Lien Modification Program and the steps taken by Treasury to develop an operational framework for the program and encourage participation. During this discussion, officials from Treasury and the HUD also provided an update on the work by HUD, in consultation with Treasury, to integrate the HOPE for Homeowners program into the HAMP framework.

The meeting was adjourned at approximately 4:10 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary