

Minutes of the Financial Stability Oversight Board Meeting March 18, 2010

A meeting of the Financial Stability Oversight Board (“Board”) was held at 4:30 p.m. (EDT) on Thursday, March 18, 2010, at the offices of the Department of the Treasury (“Treasury”).

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
Mr. Donovan
Ms. Schapiro¹
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 Treasury²

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. Wheeler, Senior Advisor,
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. Pence, Chief, Household and Real Estate Finance, Division of Research & Statistics, Board of Governors of the Federal Reserve System

Mr. Apgar, Senior Advisor to the Secretary, Department of Housing and Urban Development²

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 4:30p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on February 22, 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.

¹ Participated by telephone.

² Participated in a portion of the meeting.

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 Consumer Business Lending Initiative (“CBLI”); Treasury’s warrant auction process; the Legacy Securities Public-Private Investment Partnership (“S-PPIP”) Program; the Community Development Capital Initiative (“CDCI”); the investment in American International Group, Inc. (“AIG”); Treasury’s proposed program to provide additional help in certain states that have been particularly affected by house price declines; the Home Affordable Modification Program (“HAMP”); and the Term Asset-Backed Securities Loan Facility (“TALF”). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the recent repayments and dividends received under the Capital Purchase Program (“CPP”); aggregate information of allocated and disbursed amounts under TARP; the most recent data gathered as part of Treasury’s monthly HAMP report; 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 provided the Members with an update on Treasury’s pilot program to purchase under the CBLI securities backed by guaranteed portions of loans made under the 7(a) loan program established by the

Small Business Administration (“SBA”). As part of this discussion, Members and officials discussed the steps taken by treasury to operationalize the pilot program, including the selection of a valuation agent for the program.

Treasury officials and Members then reviewed and discussed the recent public auctions held by Treasury to sell the warrants it had received from Bank of America Corp., Washington Federal, Inc., Texas Capital Bancshares, Inc., and Signature Bank. As part of this discussion, Members and officials discussed the demand for auctioned securities, the relatively narrow post-auction trading prices for the securities, and the aggregate gross proceeds received in the recent auctions (approximately \$1.6 billion). Members and officials also reviewed the number of institutions that were not current on their CPP dividend payments, as well as other actions taken by Treasury with respect to its CPP investments in institutions currently experiencing financial trouble.

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 provided to and invested by fund managers under the S-PPIP, the progress by fund managers in raising private capital, and returns to date on S-PPIP investments. Officials also noted that two additional retail-oriented funds that invest in PPIFs completed initial public offerings in February.

Treasury officials then provided Members with an update on Treasury’s plan to provide lower-cost capital under TARP to qualified Community

Development Financial Institutions (“CDFIs”) under the CDCI. As part of this discussion, Members and officials discussed the number of CDFIs participating in the CPP that have sought to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program, and the steps taken by Treasury, in conjunction with the National Credit Union Administration, to increase awareness and operationalize the program for eligible credit unions.

Using prepared materials, Treasury officials then provided the Members with an update on the investment in AIG, which included a review of the recent agreement by the company to sell American Life Insurance Company (“ALICO”) and American International Assurance Company Ltd. (“AIA”), two insurance subsidiaries of AIG, for combined proceeds of more than \$50 billion. Treasury officials noted that, upon closing, the cash proceeds of these sales will be used to repay a substantial majority of the preferred interests held by the Federal Reserve in the two special purpose vehicles (“SPVs”) that AIG created to hold all of the outstanding common stock of ALICO and AIA. The remaining cash proceeds, as well as the proceeds received through the sale or disposition of the securities received as part of the consideration for the sales, will be used by AIG to pay down the company’s revolving credit line with the Federal Reserve.

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. As part of this discussion Members and officials discussed the methodology used by Treasury to allocate funds to each eligible state under the program. Officials noted that HFAs in these states must submit proposals to Treasury by April 16, 2010, describing how they propose to use the funding to develop and implement innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets, such as programs targeting unemployed borrowers, underwater borrowers and second-lien relief.

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, including data showing an increase in the number of permanent modifications under the program between January 30, 2010, and February 28, 2010. Members and officials reviewed the proportion of potentially eligible borrowers currently participating in HAMP (through either a temporary or permanent modification), the performance of borrowers under temporary and permanent modifications made under the program, and foreclosure alternatives available for those borrowers unable to complete a modification under the Home Affordable Foreclosure Alternatives Program (“HAFA”). 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, Mr. DeMarco provided an update on the actions taken by Fannie Mae and

Freddie Mac to assist borrowers in temporary HAMP modifications, but who do not provide the required documentation to obtain a permanent modification under the program. Members and officials also discussed potential enhancements to HAMP to further assist struggling borrowers affected by temporary unemployment or whose principal mortgage balance exceeds the market value of their home.

Using prepared materials, Treasury officials then provided the Members with an update on the TALF. As part of this discussion, Treasury officials noted that, since March 2009, there has been a total of \$109 billion of TALF-eligible ABS new issuance in the capital market. The final ABS subscription took place on March 4, 2010. Members also discussed recent issuance and purchases of ABS completed without TALF funding.

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 promoting homeownership. As part of this discussion, staff from the Federal Reserve briefed Members concerning developments in the financial markets and officials from the Federal Housing Finance Agency (“FHFA”) briefed members on developments in the housing and housing finance markets. The data reviewed included corporate stock prices, credit default swap spreads for bank holding companies, corporate bond spreads and ratings, debt growth among household and nonfinancial businesses,

growth of loans at depository institutions, 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 and delinquencies, Federal Home Loan Bank advances, mortgage originations, as well information on housing prices, sales, starts, and supply. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the GSEs.

Members and officials then engaged in a discussion regarding the Board’s quarterly report to Congress for the quarter ending March 31, 2010, 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 5:40 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary