FINANCIAL STABILITY OVERSIGHT BOARD QUARTERLY REPORT TO CONGRESS

For the quarter ending
December 31, 2009

Submitted pursuant to section 104(g) of the
Emergency Economic Stabilization Act of 2008

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I. INTRODUCTION

This report constitutes the fifth quarterly report of the Financial Stability Oversight Board ("Oversight Board") pursuant to section 104(g) of the Emergency Economic Stabilization Act of 2008 ("EESA"). This report covers the period from October 1, 2009, through December 31, 2009 (the "quarterly period").

The Oversight Board was established by section 104 of the EESA to help oversee the Troubled Asset Relief Program ("TARP") and other emergency authorities and facilities granted to the Secretary of the Treasury ("Secretary") under the EESA. The Oversight Board is composed of the Secretary, the Chairman of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the Director of the Federal Housing Finance Agency ("FHFA"), the Chairman of the Securities and Exchange Commission ("SEC"), and the Secretary of the Department of Housing and Urban Development ("HUD").

Through Oversight Board meetings and other activities, the Oversight Board has continued to review and monitor the development, implementation, and effect of the policies and programs established under the TARP to restore liquidity and stability to the U.S. financial system. Based on its assessment to date, the Oversight Board believes that the accumulated effects of Treasury's actions under TARP contributed significantly to improved conditions in many financial markets during the quarterly period.

Among significant financial market developments during the quarterly period, major banking organizations raised substantial amounts of new common equity in public markets and took other steps to improve their capital bases. These actions in turn allowed several banking organizations to repay significant amounts of capital investments made by Treasury under TARP, including repayment by Citigroup Inc. and Bank of America Corporation of the investments received under the Targeted Investment Program ("TIP"). On a cumulative basis, as of December 31, 2009, financial institutions had repaid during the year about $162 billion of capital that had been invested by Treasury under the Capital Purchase Program ("CPP") and TIP.

Indications of greater stability in home prices continued to emerge in the quarterly period, building once again on the positive influences of other TARP programs and other initiatives by Treasury, the Federal Reserve, HUD, and FHFA. The number of homeowners participating in Treasury's Home Affordable Mortgage Program ("HAMP") increased significantly during the quarterly period, providing households at risk of foreclosure the opportunity to materially reduce their mortgage debt service obligations. On a cumulative basis, as of December 31, 2009, more than 1.1 million modification offers had been extended since the introduction of HAMP, and over 900,000 trial modifications periods had begun. The pace of conversion from trial to permanent modifications, however, remains slow. In response, Treasury commenced initiatives designed to materially increase the number of trial modifications converted to permanent modifications.

The economic environment remains challenging, households and small businesses continue to face tight credit conditions, and more broadly, the financial system has not yet fully recovered from the effects of the financial crisis and remains potentially vulnerable to adverse shocks in the future. On December 9, 2009, Secretary Geithner notified Congress that, pursuant to section 120 of the EESA, Treasury would extend the authorities provided under EESA through October 3, 2010, to preserve capacity to respond to unforeseen threats to financial stability and to address continuing challenges. Secretary Geithner also set forth an exit strategy for TARP that, among other things, calls for the termination and winding down of many of the TARP programs established in the fall of 2008, and the focusing of new TARP commitment on foreclosure mitigation and stabilization of the housing markets, initiatives to increase lending to small business, and measures to aid securitization markets for consumers, small businesses, and commercial mortgage loans. In light of current circumstances, the Oversight Board believes the Secretary's decision to extend and refocus the TARP was appropriate.

This report is divided into four parts. Following this Introduction (Part I), Part II (Oversight Activities of the Financial Stability Oversight Board) highlights the key oversight activities and administrative actions taken by the Oversight Board during the quarterly period. Part III (Evaluating the Effects of EESA Programs) presents the Oversight Board's evaluation of the effects thus far of the policies and programs implemented by Treasury under TARP. Finally, Part IV (Discussion of the Actions Taken by Treasury under the EESA during the Quarterly Period) provides a more detailed description of the programs, policies, and administrative actions taken, and financial commitments entered into, by Treasury under TARP during the quarterly period.

II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on October 28, November 23, and December 21, 2009. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board received extensive presentations and briefings from Treasury officials to assist the Oversight Board in monitoring and reviewing actions taken, or proposed to be taken, by the Treasury Department under the TARP and the Financial Stability Plan announced by the Obama Administration in February 2009 to promote financial stability, preserve homeownership, promote the availability of credit to consumers and businesses of all sizes, and protect the interests of taxpayers.

[1] Approved minutes of the Oversight Board's meetings are made available on the internet at: http://www.financialstability.gov/about/oversight.html.

a. Key Initiatives and Developments

The following highlights some of the key initiatives and actions taken under TARP and the Financial Stability Plan during the quarterly period, which were reviewed and discussed by the Oversight Board.

Exit Strategy for, and Extension of, EESA Authorities

- On December 9, 2009, Secretary Geithner notified Congress that, pursuant to section 120 of the EESA, the authorities provided to the Treasury under EESA would be extended until October 3, 2010, in order to assist American families and facilitate the flow of credit, and maintain financial market stability. In connection with this decision, the Secretary also laid out an exit strategy for the TARP designed to allow Treasury to continue to promote the goals of EESA in a manner consistent with fiscal discipline and the protection of taxpayers. This exit strategy has the following four key elements:

  - The termination and winding down of many of the programs put in place under TARP in the fall of 2008, including closure of the Capital Assistance Program ("CAP") and TIP and completion of final investments under the CPP;

  - The limitation of potential new TARP commitments in 2010 to foreclosure mitigation and stabilization of the housing market, to initiatives to increase credit for small businesses, and to the Term Asset-Backed Securities Loan Facility ("TALF"), which aids securitization markets for consumer, small business, and commercial mortgage loans;

  - Remaining EESA funds will not otherwise be used unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability; and

  - The continued protection of taxpayers, including through the prudent management of the equity investments acquired through EESA.

  In addition, the Secretary notified Congress that Treasury does not expect to use more than $550 billion of the $700 billion authorized by Congress for TARP.

Preventing Avoidable Foreclosures

- Home Affordable Modification Program. HAMP is a mortgage modification program that is designed to help prevent avoidable foreclosures by reducing to affordable levels the mortgage payments of American homeowners who are delinquent or at risk of imminent default. During the quarterly period, the number of active trial modifications under HAMP increased from 487,081 as of September 30, 2009, to 787,231 as of December 31, 2009. Moreover, as of December 31, 2009, 66,465 mortgage loans had transitioned from trial modifications to permanent modifications under the program.

- o During the quarterly period, the Oversight Board closely monitored the steps being taken by Treasury to increase the number of trial modifications converted to permanent modifications. For example, in December 2009, Treasury conducted a nationwide mortgage modification conversion campaign, which included onsite monitoring of the seven largest participating servicers, to ensure that participating servicers make every reasonable effort to convert eligible borrowers from a trial to a permanent modification. In addition, Treasury introduced streamlined borrower document requirements to facilitate conversions, enhanced public data reporting for servicer conversion rates to promote transparency and servicer accountability, and extended the time that borrowers have to provide required documents.

- o In November 2009, Treasury also introduced the Home Affordable Foreclosure Alternatives Program ("HAFA") under HAMP, which provides financial incentives to encourage the use of short sales or deeds-in-lieu to avoid foreclosure on a HAMP-eligible loan. During the quarterly period, Acting Director DeMarco and Secretary Donovan also briefed the Oversight Board regarding actions being taken by Fannie Mae, Freddie Mac, and HUD to assist distressed homeowners.

Stabilizing Financial Markets and Financial Institutions and Maintaining Confidence in the U.S. Financial System

- Capital Programs for Banking Organizations. During the quarterly period, as financial conditions and the availability of private capital improved, banking organizations accelerated their repayment of the capital assistance previously provided by Treasury and the capital programs for banking organizations were either closed or began to wind down.

  - o As of December 31, 2009, banking organizations had repaid \$121.89 billion of the \$204.89 billion of capital investments made under the CPP, and banking organizations had repurchased a total of \$2.92 billion of warrants issued under the CPP. During the quarterly period, Treasury also received an aggregate of approximately \$1.1 billion in net proceeds from the public auction of CPP warrants in three banking organizations (Capital One Financial Corporation, JPMorgan Chase & Co., and TCF Financial Corporation).

  - In addition, during the quarterly period, Bank of America Corporation ("Bank of America") and Citigroup Inc. ("Citigroup"), after raising additional common equity and with the approval of their appropriate federal banking agencies, each repaid the $20 billion investment made by Treasury under TIP. Citigroup also terminated--without making any claims under--the loss-protection agreement it had entered into with the Treasury, the Federal Deposit Insurance Corporation, and the Federal Reserve with respect to a designated pool of up to $301 billion in assets.

  - In November 2009, Treasury also announced that the CAP--which was established to complement the Supervisory Capital Assessment Program ("SCAP") conducted by the Federal banking agencies--closed without making any investments. Of the 19 financial institutions that participated in the SCAP or "stress test," 18 were able to meet their SCAP capital raising targets without requiring additional assistance under the CAP. In December 2009, Treasury announced that it would provide an additional $3.8 billion in capital to the remaining institution (GMAC) under the Automotive Industry Financing Program ("AIFP").

  - During the quarterly period, three CPP recipients--CIT Group Inc., UCBH Holdings Inc., and Pacific Coast National Bancorp--filed for bankruptcy. Although these investments likely will result in a loss, Treasury has indicated that it expects a positive return on its TARP investments in banking organizations in the aggregate.

- <u>Legacy Securities Public-Private Investment Program ("S-PPIP")</u>. As of December 31, 2009, the nine pre-qualified S-PPIP fund managers had raised an aggregate of $6.2 billion in private capital for Public-Private Investment Funds ("PPIFs") and, with Treasury equity and debt financing, these PPIFs had $24.8 billion in total funds available to acquire legacy mortgage-backed and other asset-backed securities. The program is designed to support market functioning and facilitate price discovery in the markets for legacy securities and allow banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. In light of these closings, Treasury expects to begin issuing public reports on the S-PPIP in early 2010.

  - During the quarterly period, the S-PPIP fund managers established partnerships with several small-, minority-, and women-owned businesses, and several of the fund managers developed products to offer to retail investors.

  - On January 4, 2010, following the departure of certain key investment professionals at The TCW Group, Inc. ("TCW"), an S-PPIP fund manager, Treasury and TCW entered into a Winding-Up and Liquidation Agreement for the TCW PPIF. After careful consideration, Treasury and the private investors in the TCW PPIF agreed that it was in the best interest of all investors to end the TCW PPIF investment period, release each limited partner (including Treasury) from its capital commitment to the fund, and liquidate the fund in a manner designed to maximize value to all investors.

Restoring the Flow of Securitized Credit to Consumers and Businesses

- Term Asset-Backed Securities Loan Facility. The TALF is designed to assist the financial markets in meeting the credit needs of consumers and businesses of all sizes by facilitating the issuance of securities backed by consumer, business, or commercial mortgage loans. In the November 2009 subscription, TALF financing facilitated the first primary issuance of commercial mortgage-backed securities backed by newly originated mortgages to occur since June 2008.

Supporting the Orderly Restructuring of the Domestic Auto Companies

- During the quarterly period, General Motors made its first quarterly $1 billion payment on its loan from Treasury and also repaid $140 million of the financing provided under the Automotive Supplier Support Program.

- On December 30, 2009, Treasury provided an additional $3.8 billion of capital to GMAC under the AIFP, as fulfillment of the capital buffer that GMAC required under the SCAP, and restructured its investment in GMAC.

Financial Statements

- In November 2009, Treasury released the Office of Financial Stability ("OFS") Agency Financial Report for Fiscal Year 2009, which describes the activities and financial results for 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 TARP and issued an unqualified audit opinion. The GAO also found that OFS' financial statements were presented fairly in accordance with U.S. generally accepted accounting principles and the OFS maintained, in all material respects, effective internal control over financial reporting and found no material weaknesses in OFS internal controls.

- The Financial Report FY2009 provides estimates from Treasury with lower projected costs and higher projected returns for TARP as compared to the August 2009 Mid-Session Review. After giving effect to projected losses on investments and anticipated additional disbursements, Treasury estimated the total cost of TARP to be at least $200 billion less than the $341 billion estimate in the August 2009 Mid-Session Review.

Additional details concerning these developments and programs are included in Part IV below.

b. Coordination with Other Oversight Bodies

Throughout the quarterly period, staff of the Oversight Board and of the agencies represented by each Member of the Oversight Board continued to have regular discussions with representatives from the Office of the Special Inspector General for the TARP ("SIGTARP") and the GAO to discuss recent and upcoming activities of the oversight bodies. These efforts continued to help facilitate coordinated oversight and minimize the potential for duplication. During the quarterly period, the Oversight Board monitored Treasury's responses to the recommendations made by the SIGTARP and GAO with respect to transparency, the establishment of internal controls, compliance and risk monitoring, staffing and Treasury's communication strategy.

c. Aggregate Level of Commitments, Disbursements and Repayments

As part of its oversight activities, the Oversight Board also monitored the aggregate level and distribution of commitments and disbursements under TARP, repayments of TARP funds, and the level of resources that remain available under TARP. EESA authorized a maximum of $700 billion for TARP. As of December 31, 2009, Treasury had entered into commitments to invest $491.4 billion and had disbursed $373.79 billion, some of which was repaid earlier in the year. A large part of the total investments to date occurred under the CPP following the enactment of EESA in October 2008. The more recent commitments include amounts extended under the Financial Stability Plan. The chart in Figure 1 summarizes TARP commitments, disbursements, and repayments as of December 31, 2009.

Figure 1

TARP/Financial Stability Plan Budget Table
(Status as of 12/31/09)

All dollars in billions All figures are as of COB the prior business day and are subject to adjustment(s) after final reconciliation.	Planned Allocation	Face Value Obligations	Face Value Disbursed/ Outlays[1]
Capital Purchase Program (CPP)	208.00	204.89	204.89
Targeted Investment Program (TIP)	40.00	40.00	40.00
Asset Guarantee Program (Citigroup loss share agreement with FDIC)	5.00	5.00	0.00
Capital Assistance Program (CAP)	TBD	TBD	TBD
Consumer & Business Lending Initiative (CBLI)			
1) TALF	30.00	20.00	0.10 [2]
2) Small Business and Community Bank Initiatives	30.00	0.00	0.00
Subtotal - - Consumer & Business Lending Initiative[3]	60.00	20.00	0.10
Legacy Securities Public-Private Investment Program (S-PPIP)	30.00	30.00	3.08
AIG Investment	69.84	69.84	45.34
Automotive Industry Financing Program (AIFP)	86.60	84.84	79.69
Home Affordable Modification Program (HAMP)[4]	50.00	36.80	1.27
PROGRAM TOTALS:	549.44	491.38	374.39
Remaining Available Funds:	150.56	208.62	325.61
Actual Redemptions / Repayments :	161.89	161.89	161.89
Loan Principal Repaid:	3.28	3.28	3.28
Remainder of $700 billion (total accessible):	315.73	373.79	490.78
Percentage of $700 billion (total accessible):	45%	53%	70%
Dividends Received To Date:	12.53		
Interest Received To Date:	0.36		
Proceeds from the sale of Warrants and Preferred Stock: (received as a result of Exercised Warrants)	4.01		
Proceeds from Additional Notes:	0.02		

[1] Represents TARP cash that has left the Treasury.

[2] Up to $20B may be disbursed as credit protection for the $200B Federal Reserve Loan Facility. Treasury will only provide funding to cover assets put to the TALF SPV and will receive 90% of funds accumulated in the SPV (from Interest spreads on the $200B Federal Reserve Loan Facility) over a 3-5 year period. Expected receipts exceed the expected disbursements, resulting in a significant negative subsidy rate. Initial funding of $100M on 3/25/09.

[3] $10B of the amount planned for TALF could potentially be reallocated to Small Business and Community Bank Initiatives.

[4] TARP funds allocated, obligated and disbursed for the Home Affordable Modification Program (HAMP) include $1.244B to offset costs of program changes for the "Helping Families Save Their Homes Act of 2009", Public Law No: 111-22, Section 202 (b). Also included is $15M for administrative expenditures relating to the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

Note: Redemptions are made under the provisions of the Emergency Economic Stabilization Act of 2008 (EESA) and repayments under the provisions of the American Recovery and Reinvestment Act (ARRA)

III. EVALUATING THE EFFECTS OF EESA PROGRAMS

In light of severe stresses in the U.S. and global financial markets, Congress passed the EESA to "immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States."[2] Utilizing this authority, Treasury has implemented or announced a range of programs to stabilize the financial markets and financial institutions, support the flow of credit to consumers and businesses, and help at-risk homeowners remain in their homes and avoid foreclosure. These programs are described in more detail in Part IV of this report and in the previous quarterly reports of the Oversight Board. This section provides the Oversight Board's evaluation to date of the effects of Treasury's efforts under EESA, building on the assessments made in previous quarterly reports.

Based on its assessment to date, the Oversight Board believes that the accumulated effects of Treasury's actions under TARP contributed significantly to improved conditions in many financial markets during the quarterly period. Treasury's actions under EESA also have continued to reduce uncertainty among financial market participants and to provide meaningful support to core financial markets during the fourth quarter of 2009. Since their introduction, the capital investment and other programs established through TARP and the Financial Stability Plan have been a key stabilizing factor for the financial system. While lending activity continues to exhibit significant weakness, the actions of Treasury under TARP have likely prevented a greater deterioration in the availability of credit to households, businesses, and communities. In particular, TARP capital investments in banking organizations, in conjunction with TALF and other government programs, have contributed to the easing of liquidity pressures and increased market confidence in banking organizations since late 2008.

Among significant market developments during the quarterly period, Bank of America, Citigroup, and Wells Fargo & Company raised substantial amounts of new common equity in public markets and took other steps to improve their capital bases. These actions allowed each of the three firms to repay some or all of the capital investments made by Treasury in the organizations under TARP. Other major banking organizations also repaid TARP capital investments during the quarterly period, adding to those amounts repaid earlier in 2009. On a cumulative basis, as of December 31, 2009, financial institutions had repaid during the year about $162 billion of capital provided by Treasury under the CPP and TIP.

[2] 12 U.S.C. § 5201(1). For an overview of the conditions in the financial markets prior to passage of the EESA, see Part V.a of the Oversight Board's First Quarterly Report to Congress for the quarter ending December 31, 2008.

In addition, HAMP continued to make significant headway in providing households at risk of foreclosure the opportunity to undertake trial mortgage loan modifications, with the goal of making these mortgages more affordable. During the quarterly period, about 416,000 new trial modifications were initiated. On a cumulative basis, as of December 31, 2009, more than 1.1 million modification offers had been extended since the introduction of HAMP, and more than 900,000 trial modifications periods had begun. In October and November, the pace of conversion from trial to permanent modifications remained slow. In December, Treasury undertook a conversion campaign to increase the number of trial modifications converted to permanent modifications. This conversion campaign had a positive impact, with the number of permanent modifications increasing more than 100 percent (to roughly 66,000) between the end of November and December 31, 2009. However, there is much more work to be done to increase rapidly the overall number of permanent modifications. Indications of greater stability in home prices continued to emerge in the quarterly period, building once again on the positive influences of other TARP programs and other initiatives by Treasury, the Federal Reserve, HUD, and FHFA.

Nevertheless, there remain significant conceptual and practical challenges to separating the magnitude of the beneficial effects of Treasury's actions from the effects of other government programs, the broader influences on U.S. and global economic activity, and the normal adverse effects of economic cycles on lending markets.

a. Assessment of the effect of the actions taken by Treasury in stabilizing financial markets

Conditions and sentiment in financial markets continued to improve during the fourth quarter of 2009, as available data pointed to a pickup in economic activity and programs funded by TARP continued to reduce uncertainty. Improvements were apparent across many markets: broad stock price indexes increased, on net; risk spreads on corporate bonds narrowed; and pressures in short-term funding markets continued to ease. However, the improvement in market conditions was tempered by concerns about the timing and the pace of the nascent economic recovery as well as continued uncertainty surrounding the outlook for commercial and residential real estate valuations. Amid this uncertain backdrop, lending by banks remained very weak in the fourth quarter.

The SCAP exercise, which was completed in May 2009, generally reassured investors about the financial condition of major banking organizations. In November, the Federal Reserve Board announced that nine of the ten bank holding companies that were required after the SCAP to raise additional capital had met or exceeded the required capital. In addition, during the fourth quarter, some banking organizations repaid or announced that they would repay all or a substantial part of the investments received under TARP. Consistent with the improved sentiment among market participants, credit default swap ("CDS") spreads for banking organizations, a key measure of investors' concerns about the health of these institutions, declined modestly over the quarter, especially in early December, when most TARP repayments were announced (figure 2). However, concerns regarding bank profitability remain, and in the fourth quarter bank stock prices retraced some of their third quarter increases (figure 3).

Figure 2

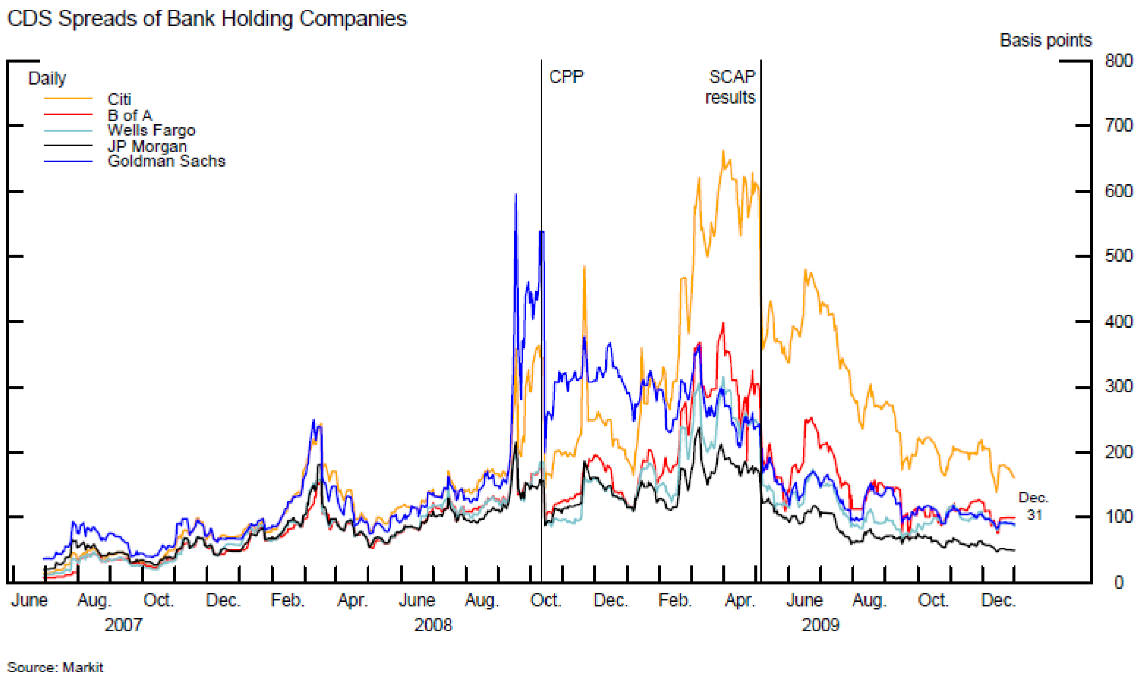
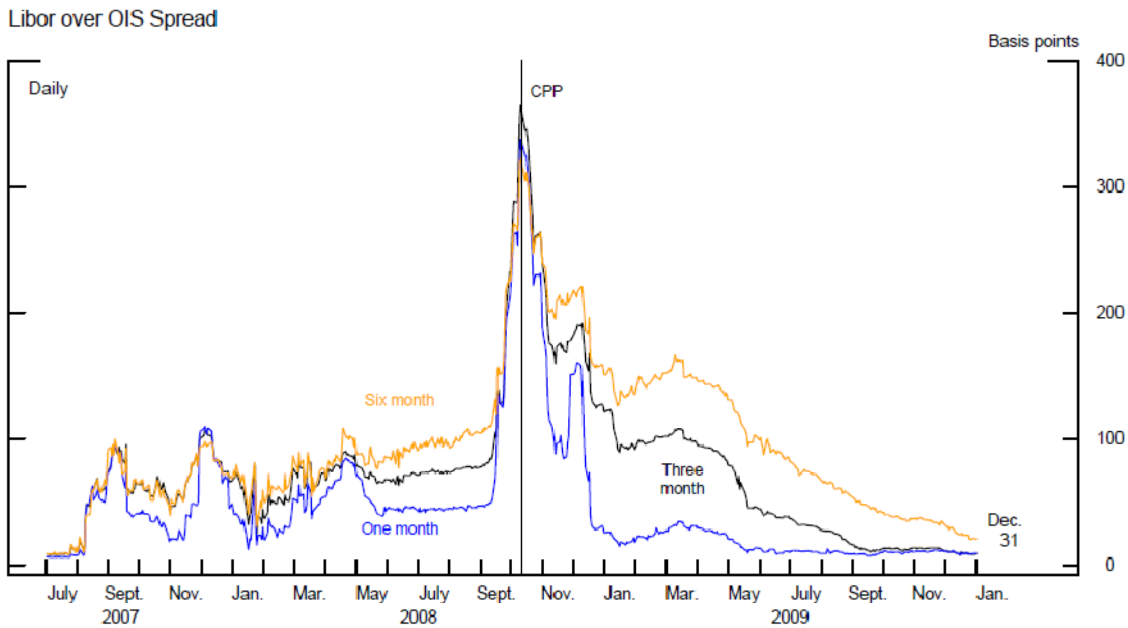


Figure 3

Note. Large bank ETF consists of 24 banks. Regional and smaller bank ETF consists of 51 banks.
Source. Keefe, Bruyette & Woods, Bloomberg, and Standard and Poor's.

Conditions in interbank markets improved further, as indicated by the spreads of LIBOR rates to overnight index swap ("OIS") rates, a useful measure of banks' short-term borrowing costs (figure 4). The spreads of the one-month and three-month LIBOR over OIS remained low and near the levels prevailing before the financial crisis, and the 6-month LIBOR-OIS spread has edged down further. In line with these improvements in bank funding markets, the use of the Federal Reserve liquidity facilities directed at depository institutions has declined.

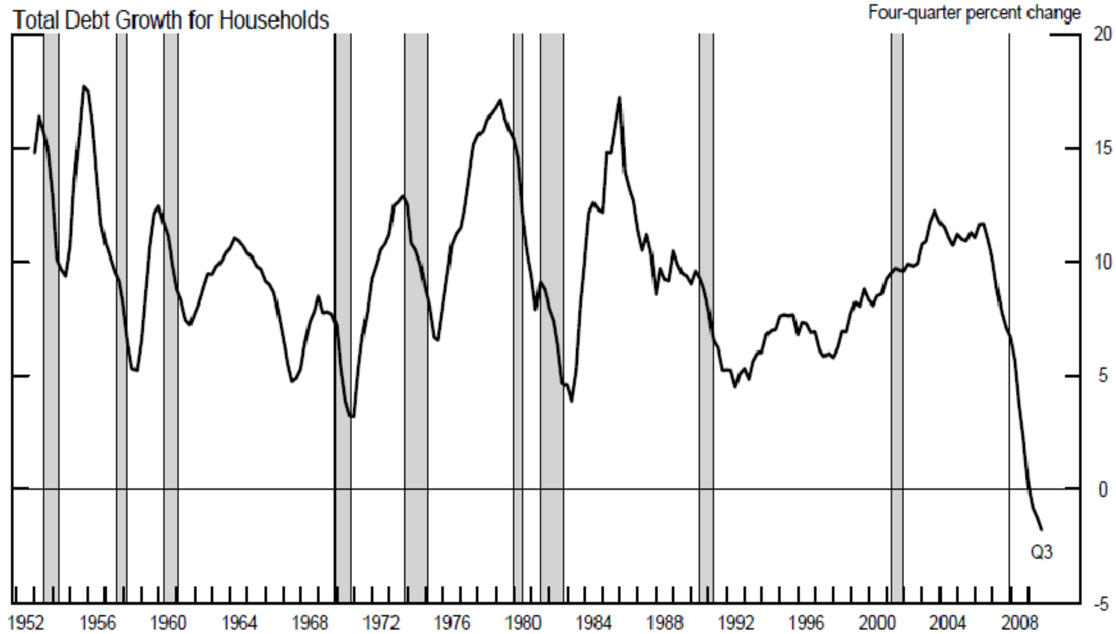
Figure 4



Source. Bloomberg.

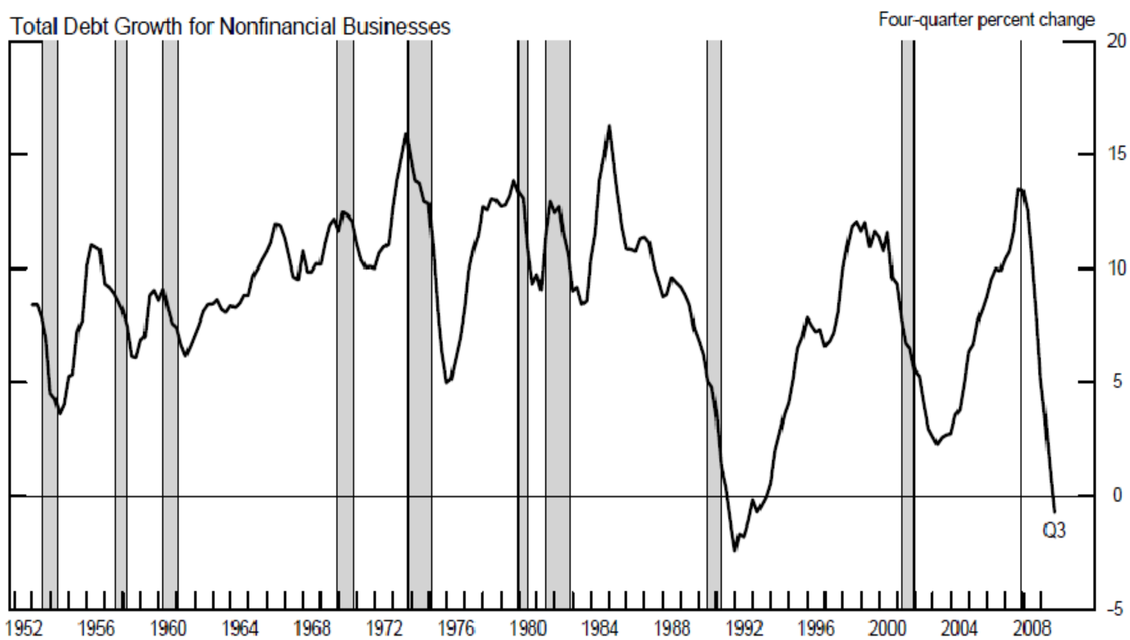
Debt growth for nonfinancial businesses and households, however, has continued to be weak in recent months. To put the current lending trends in historical perspective, data from the Flow of Funds Accounts published by the Federal Reserve Board show that, aggregating across banks and other sources of debt, growth in borrowing by households and nonfinancial businesses has tended to slow significantly in periods of economic weakness, and generally has not strengthened until after the trough in economic activity (figures 5 and 6, respectively). Viewed against that backdrop, data through the third quarter of 2009 (the latest data available for the Flow of Funds Accounts) indicate that year-over-year growth in borrowing by households and nonfinancial businesses has decelerated more sharply than in other recessions.

Figure 5



Source: Federal Reserve Board, Flow of Funds Accounts.
Note: Shaded areas denote NBER recession periods. The solid line is the December 2007 business cycle peak identified by the NBER.

Figure 6

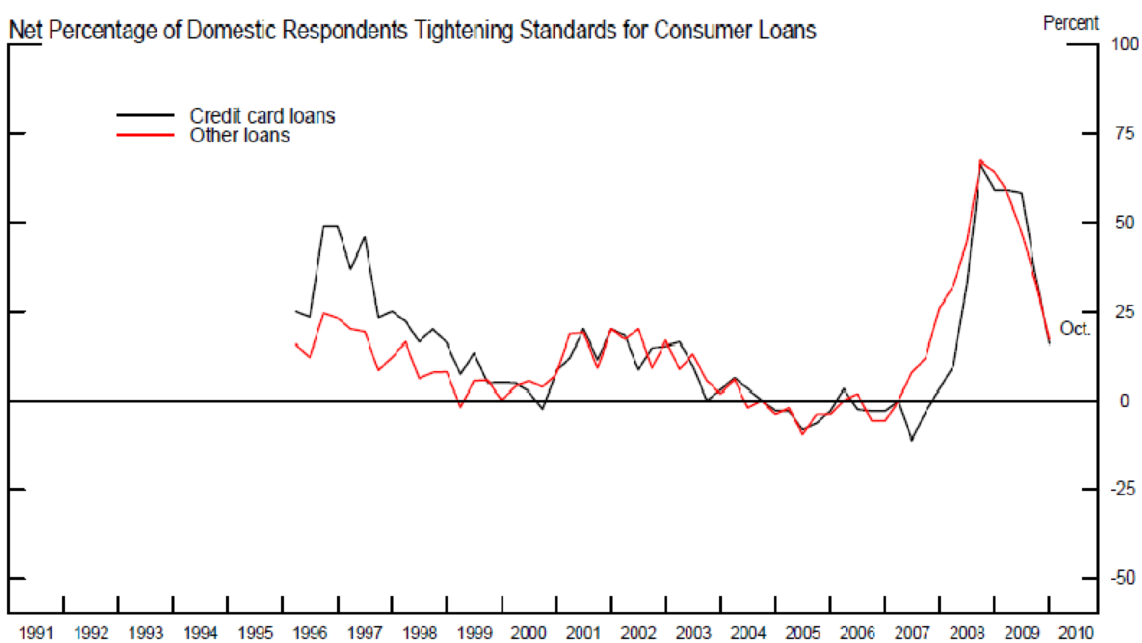


Source: Federal Reserve Board, Flow of Funds Accounts.
Note: Shaded areas denote NBER recession periods. The solid line is the December 2007 business cycle peak identified by the NBER.

Identifying the effects of EESA programs on lending continue to present significant conceptual and practical challenges. Foremost among these challenges are the inherent difficulties in disentangling the relative importance of reduced demand for credit due to weaker economic activity, reduced supply of credit because borrowers appear less creditworthy, or reduced supply of credit because lenders face pressures that restrain them from extending credit, such as possible concerns about capital adequacy.

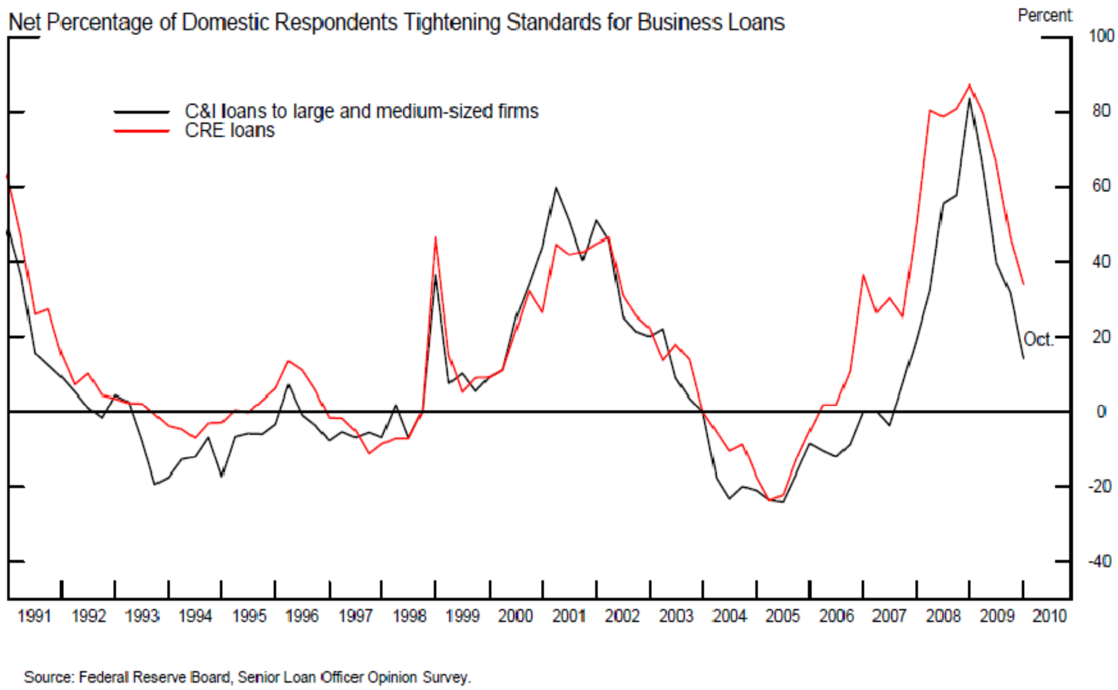
The October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve provides useful insight into the salience and direction of these various influences on bank lending. The October survey results suggest that banks see demand factors and economic conditions playing a more important role in holding down lending activity than concerns about bank capital. Domestic banks have been tightening standards and terms since early 2008 for consumer (figure 7), commercial and industrial ("C&I"), and commercial real estate ("CRE") loans (figure 8), although the net percentage of banks that tightened standards and terms has continued to decline in recent months. Almost all of the banks that tightened standards indicated that concerns about a weaker or more uncertain economic outlook were important in their decision to do so. Only about one-third of the banks surveyed cited concerns about deterioration in their own current or future capital position as an important reason for tightening standards or terms; this result suggests that the availability of TARP capital investments may have helped to prevent an even greater tightening of lending standards than has actually occurred.

Figure 7



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey.

Figure 8



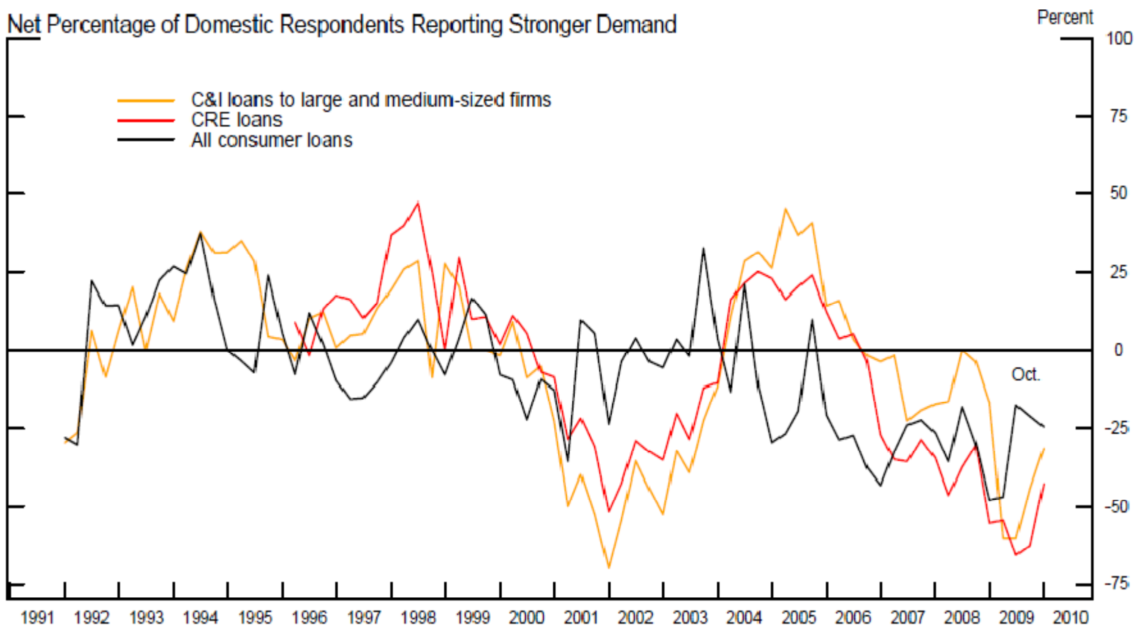
Banks also reported weaker demand for loans, in particular for C&I and CRE loans (figure 9).[3]

Additional evidence on the demand for loans is provided by a monthly survey of small businesses conducted by the National Federation of Independent Businesses.[4] When small businesses were asked to identify their most important business problem, only a relatively small percentage of respondents chose financing conditions. In contrast, a much larger percentage cited weak customer demand to be the most important business problem they faced (figure 10). These responses highlight the importance of weak demand to the recent weakness in borrowing. However, survey responses also indicate that among small businesses interested in obtaining credit, conditions remained tight. The Term Asset-Backed Securities Loan Facility has made an important contribution by helping to finance some 480,000 loans to small businesses.

[3] The answers to survey questions about loans to small firms, not explicitly shown in figures 9 and 10, closely parallel the data about loans to large and medium-sized firms reported in those figures.

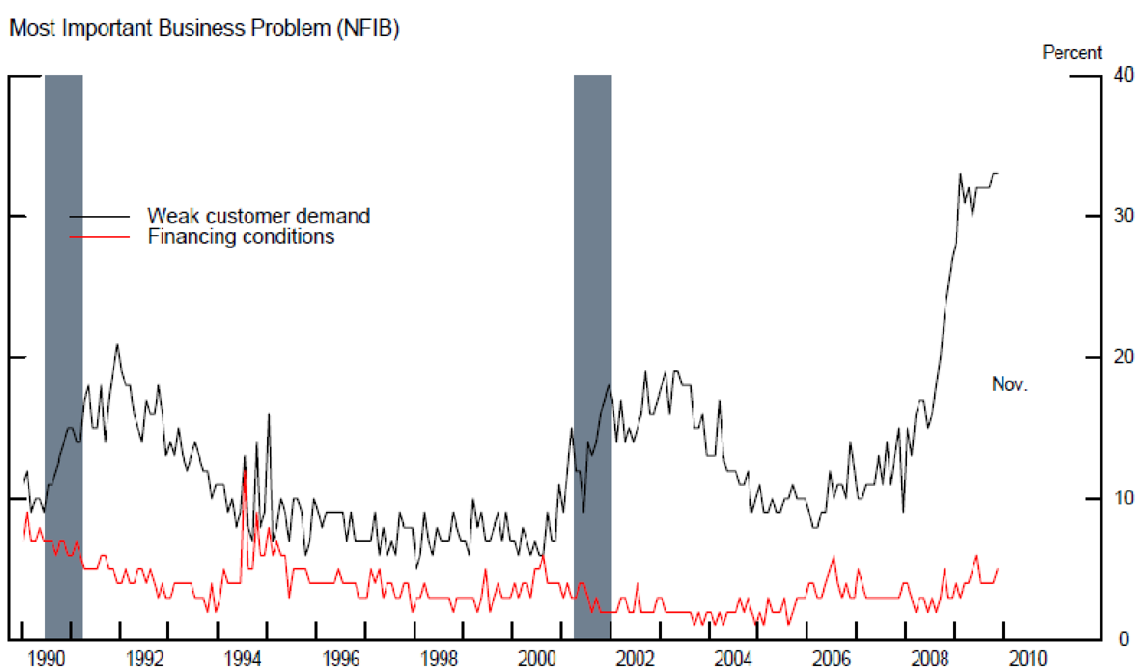
[4] See the National Federation of Independent Businesses (NFIB) *Small Business Economic Trends*, published monthly by the Research Foundation of the NFIB and available online at http://www.nfib.com/research-foundation/.

Figure 9



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey.

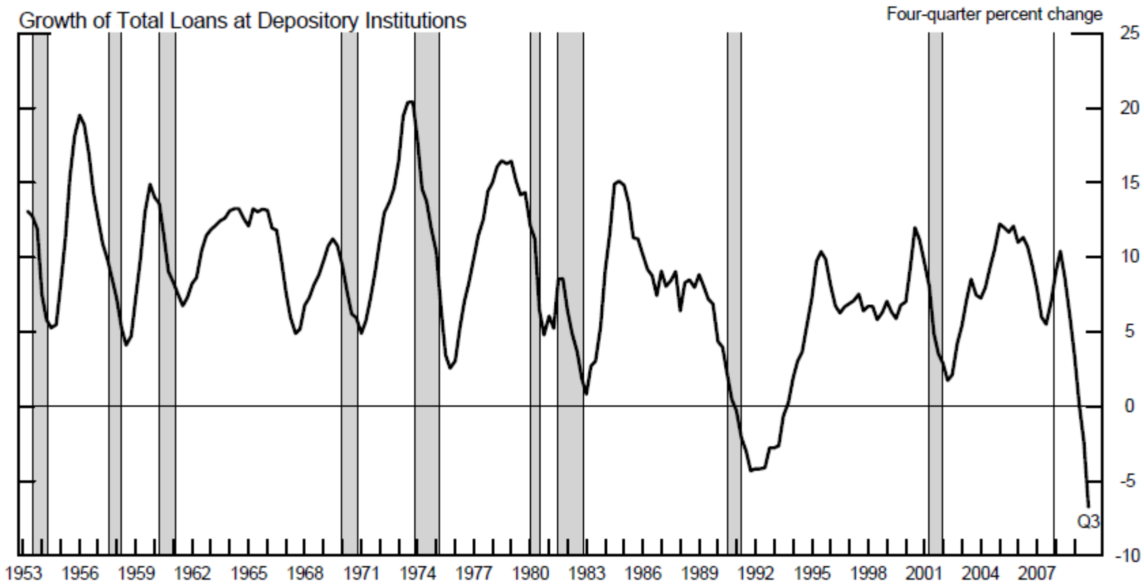
Figure 10



Note. Percent of respondents reporting. Not seasonally adjusted.
Source. National Federation of Independent Businesses.

Consistent with these trends in supply and demand for bank credit, Flow of Funds data show that growth in total loans at depository institutions has fallen off since the most recent business cycle peak in December 2007, and loans outstanding contracted in the third quarter of 2009 (figure 11). Data from the weekly survey of banks summarized in the Federal Reserve's H.8 Statistical Release provides evidence that bank credit to households and to nonfinancial businesses has remained weak during the fourth quarter.

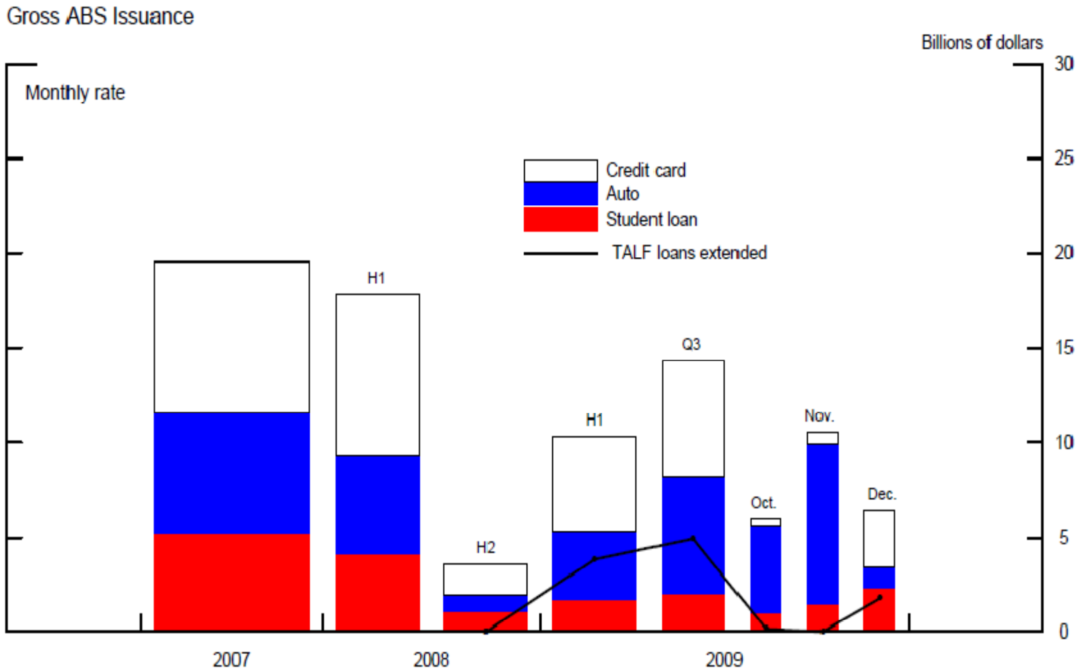
Figure 11



Source: Federal Reserve Board, Flow of Funds.
Note: Shaded areas denote NBER recession periods. The solid line is the December 2007 business cycle peak identified by the NBER.

Securitization of household credit declined, on net, during the fourth quarter. Issuance of auto loan and student loan ABS was solid, but credit card ABS issuance came to a near-halt in October due, in part, to uncertainty about the treatment of securitized assets in the event that a sponsoring bank is taken into receivership. Although some uncertainty remains, credit card issuance restarted, albeit at a low level, in December (figure 12). TALF loan extensions continued to drop in the fourth quarter, as the spreads on many ABS are now too low for the securities to be financed profitably with TALF loans, reflecting the return of private financing to the market.

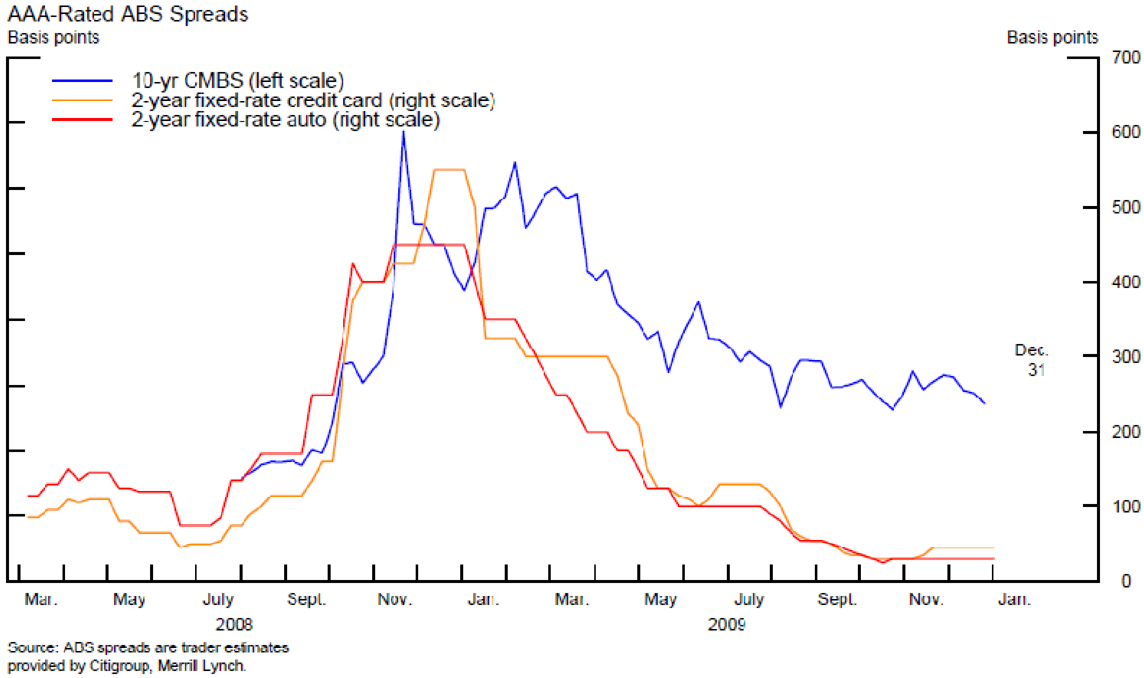
Figure 12



Note. Auto ABS include car loans and leases and financing for buyers of motorcycles.
Source. Inside MBS & ABS and Merrill Lynch.

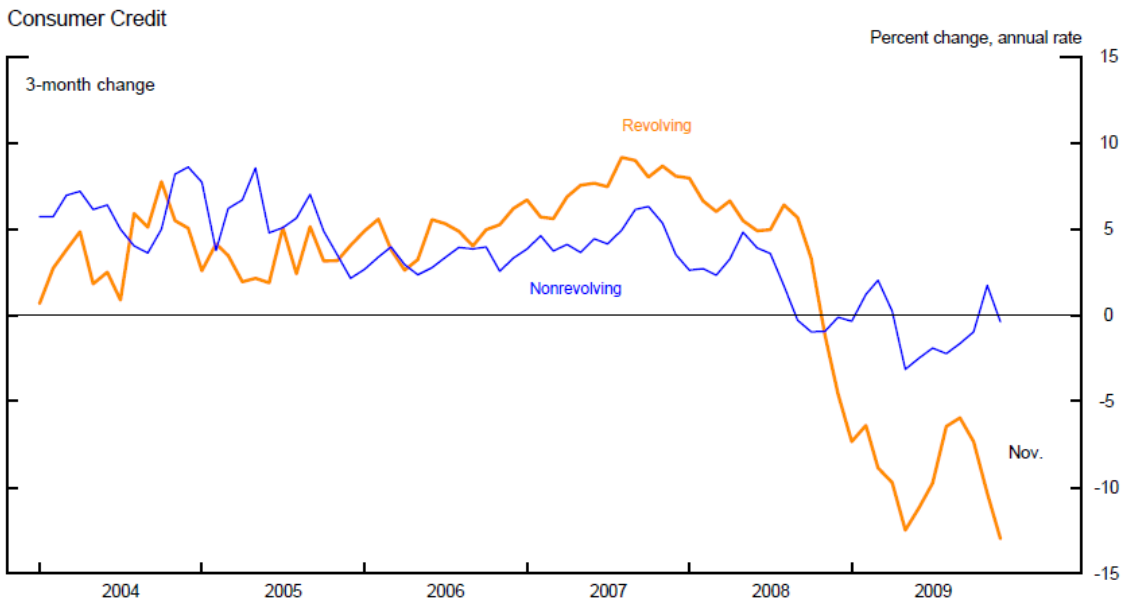
The effects of the conditions in ABS markets on the interest rates faced by households are more difficult to gauge, given that credit quality normally deteriorates during recessions and delinquency rates on consumer loans have risen (figure 13). Interest rate spreads on new car loans at dealerships declined during the fourth quarter, as finance companies sweetened their interest-rate incentives. In contrast, interest rate spreads on credit cards rose during the quarter, influenced by industry responses to newly implemented statutory requirements applicable to credit card accounts, continued uncertainty about credit-card securitization, and high charge-offs on credit card loans.

Figure 13



Overall, consumer credit continued to contract at a rapid pace in recent months, held down by a combination of sluggish consumer spending, high charge-off rates, and limited credit availability (figure 14). Conditions in the credit card market have remained extremely tight, reflecting in part deterioration in household credit quality. Call report data show that unused commitments for credit cards at commercial banks fell at a 15 percent annual rate in the third quarter, following a remarkable 30 percent annual pace of contraction in the first half of the year. In contrast to the credit card market, conditions in the auto finance market are not as tight as they were last fall, as noted above; as a result, nonrevolving credit was flat in November.

Figure 14



Source. Federal Reserve.

In commercial mortgage markets, spreads on AAA-rated CMBS, which had dropped significantly after certain of these securities became eligible for TALF financing earlier in the year, remained flat, on net (figure 13). These spreads, however, remain elevated, reflecting continued concerns about the prospects for commercial real estate markets.

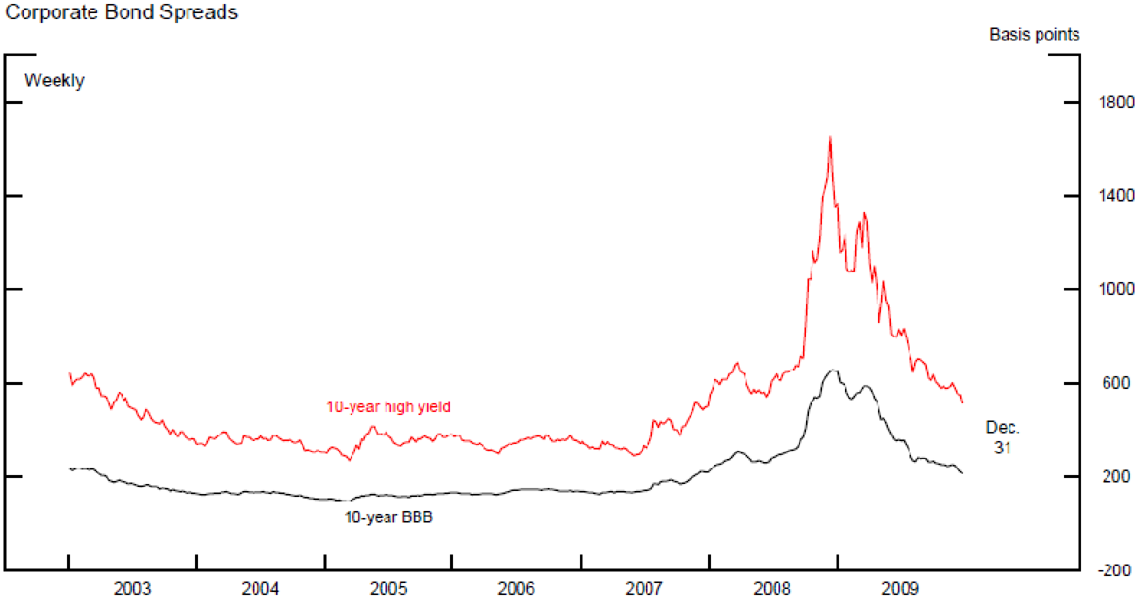
Overall, commercial real estate markets continued to exhibit considerable stress during the fourth quarter, as commercial property prices declined and delinquency rates rose. Demand for permanent and interim financing may be large, with more than half a trillion dollars in commercial mortgage loans expected to mature in 2010, per industry analysts' reports and Federal Reserve staff estimates. The majority of those mortgages are held by commercial banks. In the current environment, some borrowers may have trouble refinancing their loans at maturity, especially loans on construction properties for which values have fallen and cash flow has weakened.

The TALF program has injected some needed liquidity into the commercial real estate market. In particular, in late November a new CMBS deal, financed partially with TALF funds, was issued, the first deal involving new CMBS brought to market since June 2008. Two more new CMBS deals, not TALF-eligible, were also issued in December. These transactions should contribute to reduced uncertainty about liquidity and valuations. However, concerns remain because many of the construction loans maturing in 2009 and 2010 were originated in the elevated real estate markets of 2006 and 2007 and are on new properties that do not have an established stream of rental payments. Potential refinance lenders may be less willing to provide the same financing amounts and terms for properties whose values have fallen and for which the amounts of incoming cash flow are subject to significant uncertainty.

In credit markets for corporate borrowers, corporate bond spreads have decreased in recent months (figure 15). Gross bond issuance by nonfinancial corporations, both investment and speculative grade, has remained relatively strong in the fourth quarter; about a third of the corporate bonds issued in the second half of the year have been speculative-grade, reflecting an apparent increase in appetite for risk among investors (figure 16). With declining spreads, firms have reportedly continued to use the proceeds of some of the newly issued bonds to pay down shorter-term debt, notably bank loans, which helps to explain, in part, the decline in C&I loans. These developments indicate that nonfinancial businesses have taken advantage of some of the easing of financial strains and issued long-term debt to improve their financial positions.

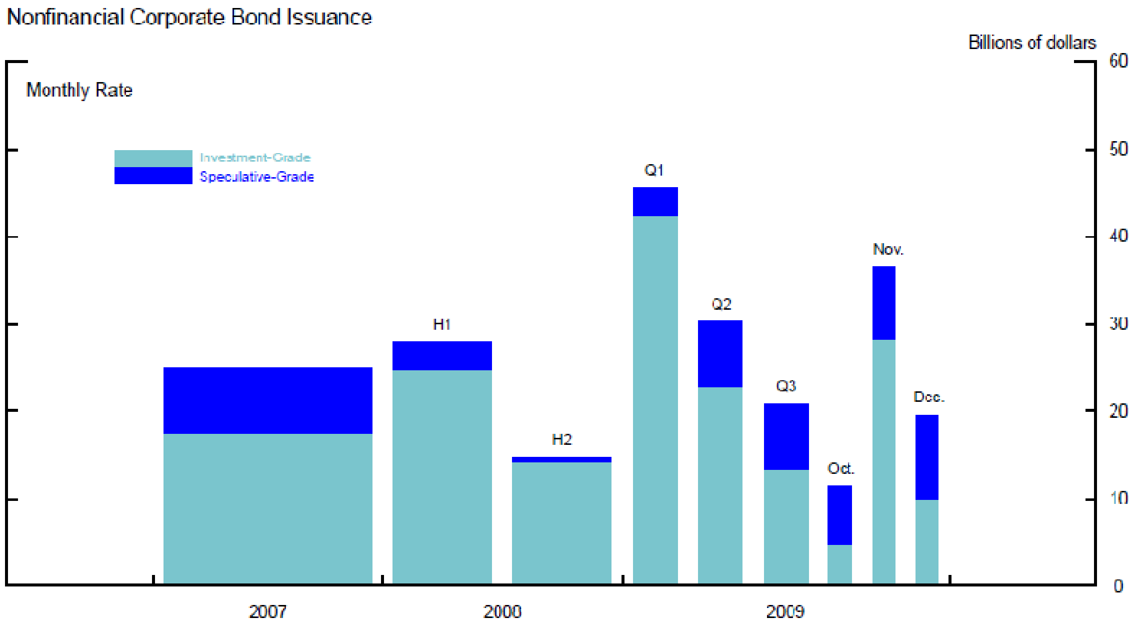
Figure 15

Corporate Bond Spreads



Note. Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

Figure 16

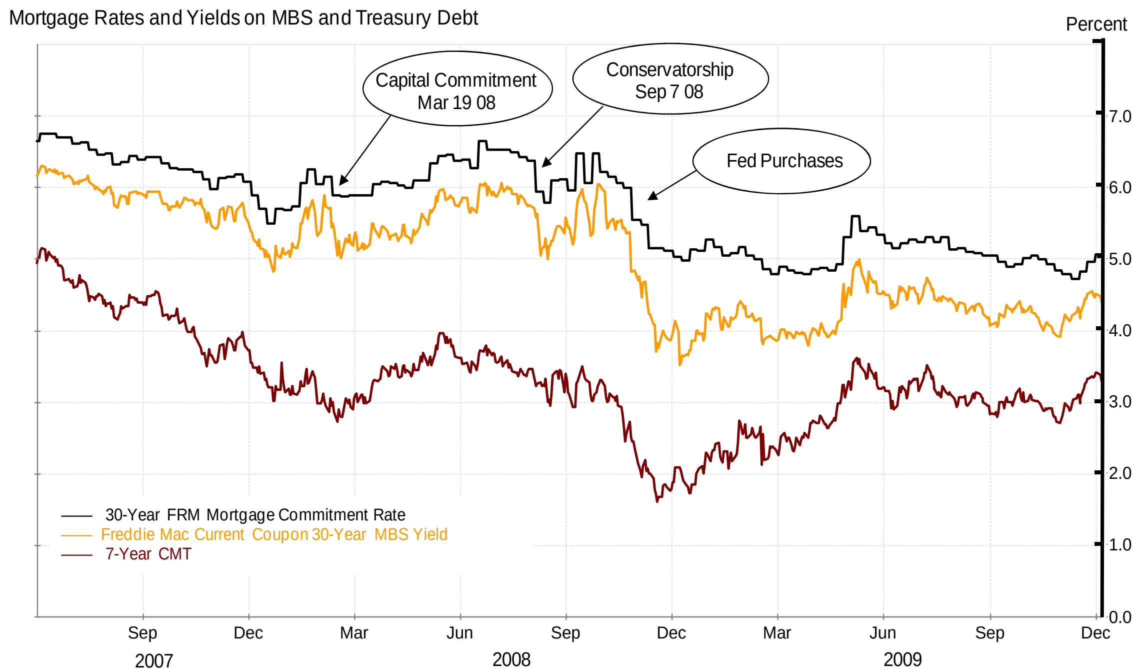


Source: Thomson Financial.

b. Assessment of the effect of the actions taken by Treasury in stabilizing housing markets

The Oversight Board believes that actions taken by the Treasury under TARP, together with those taken by the Federal Reserve, HUD, and FHFA, continued to aid the housing market and mortgage borrowers during the quarterly period. These actions helped to maintain stable conditions in housing finance markets and helped to reduce avoidable foreclosures. Purchases of agency MBS by the Federal Reserve and the Treasury, while roughly one-fourth less than in the third quarter, were sufficient to keep mortgage interest rates low. Interest rates on 30-year fixed rate mortgages remained close to five percent, well below those of late 2008 (figure 17). Low mortgage rates reflect the effects of both Federal Reserve monetary policy actions and the MBS purchases that have reduced the spread between mortgage rates and yields on reference Treasury securities.

Figure 17



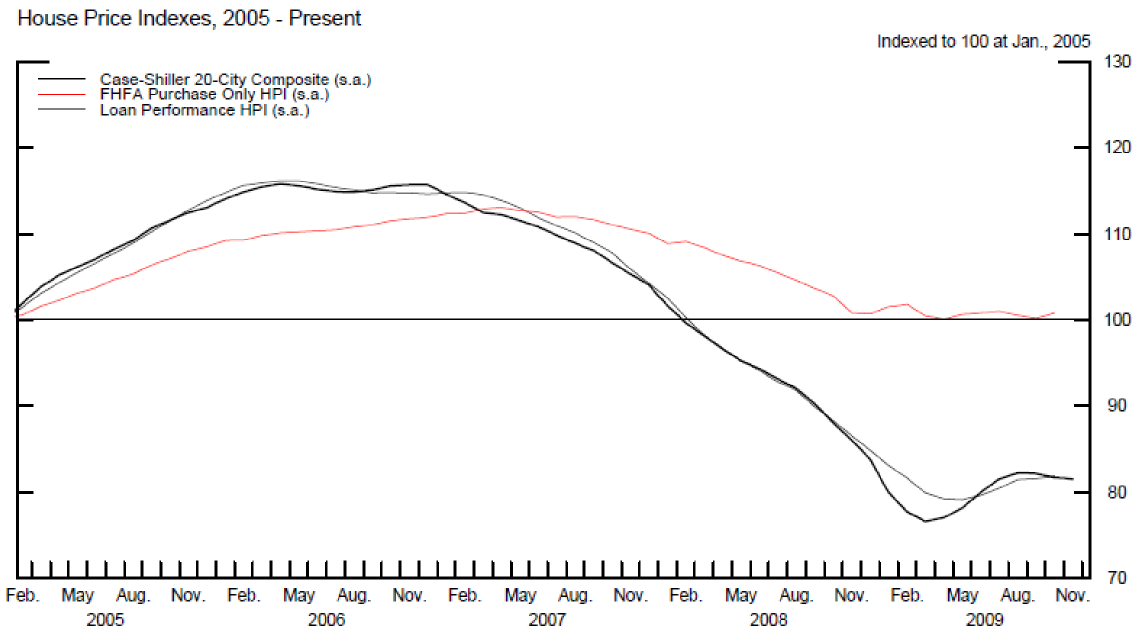
Foreclosure mitigation efforts under TARP continued to expand during the quarter. HAMP continued to extend loan modification offers to borrowers for whom HAMP modification was preferable to foreclosure for the borrower, lender, and investors. On a cumulative basis, the number of loan modification offers rose 45 percent during the quarter to more than 1.1 million, while the number of active trial and permanent modifications together exceeded 850,000. The pace of conversion from trial to permanent modifications increased somewhat from its earlier slow rate due to the Treasury's conversion campaign, with the number of permanent modifications increasing over 100 percent to about 66,000. Also during the quarterly period, servicers extended offers for an additional 46,000 permanent loan modifications that are pending borrower acceptance.

Other federal foreclosure mitigation efforts included the FHA HAMP, which was introduced in the third quarter of 2009 and began to produce noticeable activity in the quarterly period.[5] The FHA HAMP implements new statutory options provided to HUD, under the May 2009 Helping Families Save Their Homes Act, to assist FHA-insured borrowers who are in jeopardy of losing their homes due to permanent reductions in income. In the fourth quarter of 2009, 14,000 borrowers were offered trial modifications under the FHA HAMP option, nearly 10,000 of which had made their first payment by December 31.

[5] See Federal Housing Administration, Mortgagee Letter 2009-23, July 30, 2009, "Making Home Affordable Program: FHA's Home Affordable Modification Loss Mitigation Option," available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/2009ml.cfm.

Housing markets have benefitted from low interest rates. Data from the National Association of Realtors and the Census Bureau show house sales at their fastest pace in 2.5 years and housing starts well above their early 2009 lows. Inventories of houses for sale have continued to decline, influenced in part by the accumulated effects of foreclosure mitigation efforts. These improvements have been reflected in modest house price gains in recent months. The less volatile FHFA House Price Index is only marginally above its April 2009 low, but the Loan Performance HPI and Case-Shiller indexes have shown more strength (figure 18).

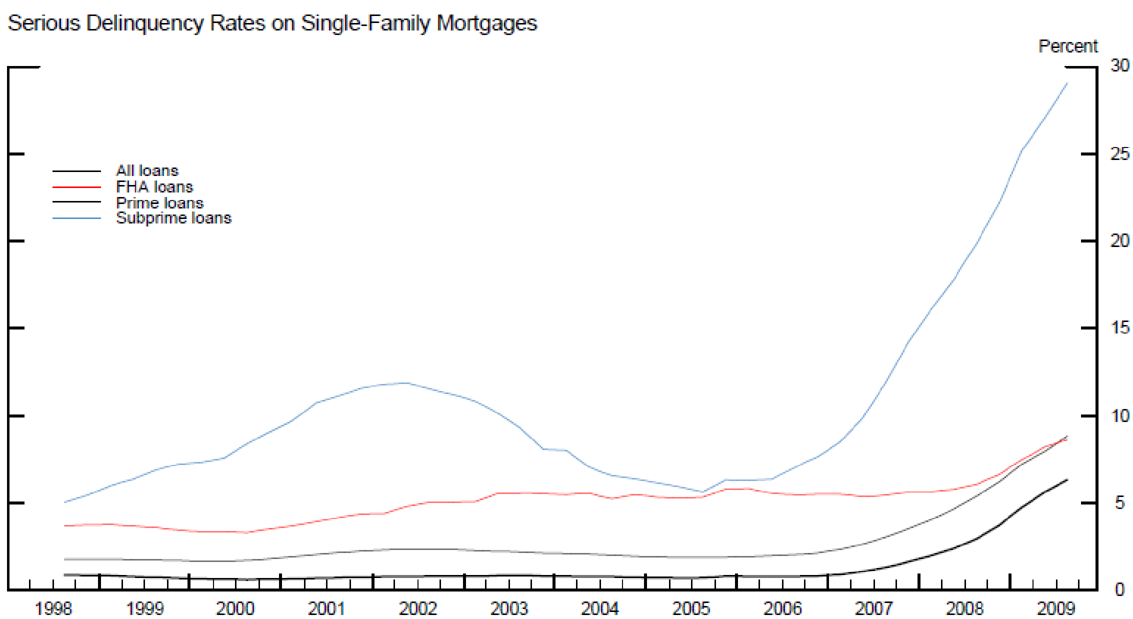
Figure 18



Meanwhile, new and ongoing government efforts outside of TARP worked to improve access to mortgage financing during the quarterly period. In October, the Treasury, HUD, FHFA, Fannie Mae, and Freddie Mac announced two temporary programs to assist funding access for state housing finance agencies ("HFAs"). In return for appropriate fees, Fannie Mae and Freddie Mac will purchase or provide credit protection on HFA securities, and the Treasury will in turn provide non-TARP funding for the purchases and credit support for both programs. Despite persistent low interest rates, fewer borrowers refinanced in the fall than in the summer, as the number of those eligible to refinance and with a financial incentive to do so has declined after the surge of refinancing in the summer. An effort to expand eligibility, the Home Affordable Refinance Program, has contributed 156,000 refinancings through November 2009. While that total is less than hoped for, access to the program by borrowers with loan-to-value ratios between 105 and 125 percent has only recently begun.

The outlook for housing market conditions remains clouded by exceptionally high and rising mortgage delinquency rates. Overall, 8.85 percent of all loans were 90 days delinquent or in process of foreclosure at the end of the third quarter, an increase of nearly one percentage point (figure 19). High unemployment rates have brought a continuing flow of new delinquencies, particularly among loans originally considered prime, while relatively few loans have been permanently modified or completed foreclosure. Without successful resolution of these loans, a large volume of additional houses for sale will weigh heavily on housing market performance for some time.

Figure 19



For FHA loans, the year-over-year percentage change in new 90-day delinquencies slowed dramatically during the quarterly period from rates seen in previous quarters. While the numbers of new 90-day delinquencies is still rising, the rate of increase in 2009Q4 was much smaller than it had been for many quarters.

IV. DISCUSSION OF THE ACTIONS TAKEN BY TREASURY UNDER THE EESA DURING THE QUARTERLY PERIOD

This part provides an overview of the various programs, policies, financial commitments, and administrative actions taken by Treasury under the EESA during the quarterly period, subject to the review and oversight of the Oversight Board.

a. Extension of TARP and Exit Strategy

On December 9, 2009, pursuant to section 120(b) of EESA, the Secretary of the Treasury issued a letter to Congressional leaders that certified the extension of TARP authority until October 3, 2010, and laid out an exit strategy for the TARP. The Secretary identified two principal objectives for the extension of TARP, to preserve capacity to respond to unforeseen threats to financial stability and to address continuing challenges. While the Secretary extended TARP, he indicated that Treasury does not expect to use more than $550 billion of the $700 billion authorized by Congress.

The Secretary identified four elements for the TARP exit strategy. The exit strategy corresponds to the termination and winding down of many of the government programs put in place in the fall of 2008.[6] Potential new TARP commitments in 2010 are expected to be limited to foreclosure mitigation and stabilization of the housing market, to initiatives to increase credit for small businesses, and to the TALF, which aids securitization markets for consumer, small business, and commercial mortgage loans. In addition, the Secretary indicated that remaining EESA funds will not be used unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability. Finally, the Secretary indicated that Treasury will continue to seek to protect taxpayers while managing TARP investments.

b. Making Home Affordable and the Home Affordable Modification Program

HAMP is a component of the Treasury's Making Home Affordable ("MHA") program. HAMP is designed to help prevent avoidable foreclosures by reducing first-lien mortgage payments to no more than 31 percent of gross monthly income for homeowners who are experiencing a financial hardship.[7] To facilitate and promote modifications,

[6] Additional details regarding the winding down of various government programs are provided in the report entitled *The Next Phase of Government Financial Stabilization and Rehabilitation Policies*, dated September 2009, which is available at: http://www.treas.gov/press/releases/docs/Next%20Phase%20of%20Financial%20Policy,%20Final,%202009-09-14.pdf.

[7] MHA also includes a refinancing component (the Home Affordable Refinance Program, or HARP) funded outside of TARP that allows homeowners who have loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance at lower interest rates.

HAMP offers "pay-for-success" incentives to borrowers, servicers, lenders, and investors on permanent modifications, as long as borrowers stay current on their payments. HAMP also includes additional incentive payments for modifications on properties located in areas where home prices have declined and additional incentives for foreclosure alternatives if modification is not a viable option.[8] In addition, Treasury provides streamlined guidelines and procedures for first-lien mortgage modification to standardize the process for borrowers. HAMP has an allocation of $75 billion, of which $50 billion comes from TARP.

In announcing the extension of the TARP, Treasury indicated that reducing foreclosures for responsible homeowners and further stabilizing the U.S. housing market is one of the key areas to which TARP funds will be committed going forward. Participating servicers must enter into Servicer Participation Agreements with Fannie Mae, Treasury's financial agent, on or before October 3, 2010. Borrowers may be accepted into the program if they are offered a Home Affordable Modification Trial Period Plan by their servicer on or before December 31, 2012, and subsequently make all of the required Trial Period Plan payments. Modification interest rates are locked for five years from the start date of the modification. Incentive payments to servicers, investors and borrowers will continue to be paid out over that period while incentive criteria are met. If a below-market interest rate was used to bring the borrower's payments within the program's affordability standards, then at the end of five years the reduced interest rate will increase by one percentage point per year until it reaches the cap, which is the market rate at the time the trial period began. The capped rate is fixed for the life of the loan.

i. Program Updates

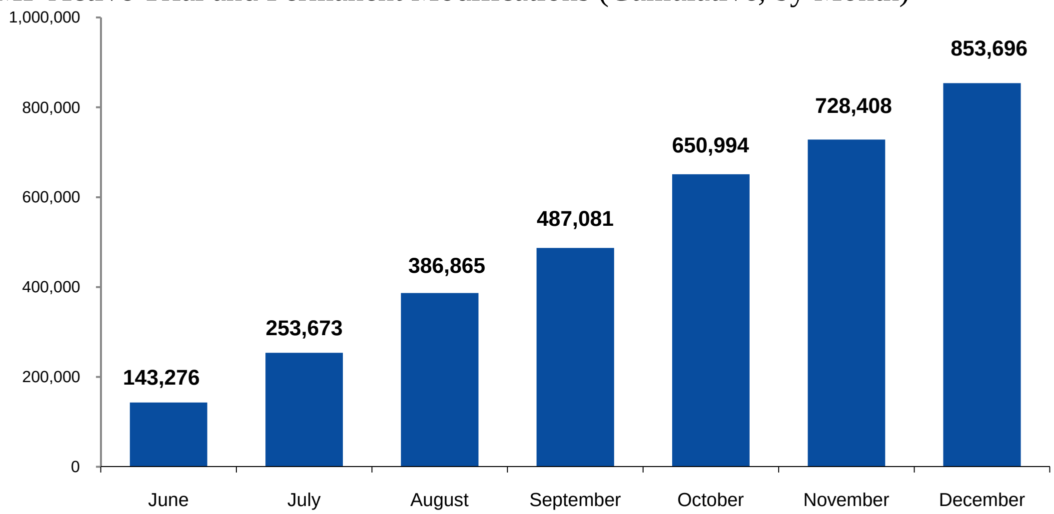
During the quarterly period, the number of borrowers and servicers participating in HAMP continued to increase. On October 8, 2009, HAMP achieved its target of having more than 500,000 trial modifications underway, nearly one month ahead of the November 1, 2009, deadline established by Treasury. As of December 31, 2009, the number of trial modifications was 787,231 and the number of permanent modifications was 66,465 (see figure 20).

Also, by the end of the quarterly period, 102 servicers had signed Servicer Participation Agreements to participate in HAMP, representing an addition of 39 servicers during the quarter. Taking into account loans covered by participating servicers and loans owned or securitized by Fannie Mae and Freddie Mac, more than 85 percent of all first-lien mortgage loans in the United States are serviced by HAMP-participating servicers.

[8] Additional details regarding the program are available at http://www.FinancialStability.gov/roadtostability/homeowner.html.

Figure 20

HAMP Active Trial and Permanent Modifications (Cumulative, by Month)



Active trial and permanent modifications as of December 31, 2009. Numbers reported by servicers to HAMP system of record. Source: IR2 Official System of Record

Throughout the quarterly period, Treasury took several steps, in conjunction with participating servicers and state, local, and community stakeholders, to improve the overall effectiveness and efficiency of HAMP. On November 30, 2009, Treasury launched a nationwide mortgage modification conversion campaign. The conversion campaign sought to ensure that servicers are making every reasonable effort to convert eligible borrowers from a trial to a permanent modification. The conversion campaign involved onsite monitoring of the seven largest servicers by Treasury and Fannie Mae staff, and daily loan-level conversion reporting through the month of December. The conversion campaign resulted in a significant number of borrowers being offered permanent modifications by these servicers, which activity will be reflected in the February HAMP reporting cycle. The conversion drive also resulted in servicers implementing operational changes that should improve modification processing going forward.

Treasury is taking a three-pronged approach to promote conversions from trial to permanent modification. This approach involves (1) holding servicers accountable for ensuring that borrowers have complete documentation to facilitate conversion; (2) providing resources for borrowers to submit required documents in the application process; and (3) communicating with counselors, advocates, and community groups on MHA conversion requirements. As part of these efforts, top servicers are required to submit a schedule demonstrating their plans to reach a decision on each loan for which they have documentation. They also must send either a modification agreement or denial letter to those borrowers within an established time period. Treasury and Fannie Mae liaisons have been assigned to these servicers to monitor the servicers' progress in advancing the plans submitted by the servicers. Daily progress is aggregated at the end of each business day and reported to the Treasury.

Building on the conversion campaign, Treasury announced an extended review period lasting until January 31, 2010, for all trial modifications that were set to expire on or before that date, but are either missing required documents, or for which the servicer has not had time to review required documents. During this extended review period, servicers may not cancel any active trial modifications unless the related property does not meet basic HAMP property eligibility requirements. Servicers must review all outstanding trial modifications, notify borrowers if any documents are missing, and give these borrowers until January 31, 2010, to submit any missing documents and make any missed trial period payments.[9]

Additional steps taken by Treasury during the quarterly period to improve the effectiveness and efficiency of the HAMP included—

- Establishing a streamlined documentation process, including standardization of forms, reduced paperwork requirements, servicer-to-borrower response guidelines, and electronic signature acceptance for modification documents; and

- Enhancing the availability of foreign language translations for HAMP information and document summaries, and other web tools for borrowers.

ii. Monthly Servicer Performance Reports

In order to promote transparency and maintain servicer accountability, Treasury released three monthly Servicer Performance Reports during the quarterly period, covering September, October and November.[10] The October report (issued on November 10, 2009) expanded the information reported to include state-by-state foreclosure data and housing market indices for the first time. In the November report (released on December 10, 2009), Treasury further expanded the reports to include information on the portfolio composition of the 20 largest servicers and highlighted the 15 metropolitan areas with the highest program activity. This report also contained data on permanent modifications by servicer for the first time.

[9] This Supplemental Directive is available at: https://www.hmpadmin.com/portal/docs/hamp_servicer/sd0910.pdf

[10] The October 2009, November 2009 and December 2009 Monthly Making Home Affordable Servicer Performance Reports are available at http://www.FinancialStability.gov/latest/reportsanddocs.html

iii. Home Affordable Foreclosure Alternatives Program

On November 30, 2009, Treasury published detailed guidance for the Home Affordable Foreclosure Alternatives Program to provide viable alternatives for borrowers who do not qualify for a HAMP trial period plan, do not successfully complete a HAMP trial period plan, are delinquent on a HAMP modification by missing at least two consecutive payments, or request a short sale or deed-in-lieu ("DIL").[11] The HAFA program simplifies, streamlines, and encourages the use of short sale and DIL options by incorporating financial incentives to borrowers, servicers, and investors. The program also requires pre-approved short sale terms prior to listing the property on the market, and requires that borrowers be fully released from future liability for the debt upon successful completion of a transaction.

c. Capital and Guarantee Programs for Banking Organizations

Consistent with the exit strategy identified by the Secretary, during the quarterly period, Treasury has wound down the capital and guarantee programs established in the fall of 2008 under TARP for banking organizations. The CPP was established by Treasury in October 2008 to address severely deteriorated conditions in credit markets and to stabilize the financial system by providing capital to a broad range of viable U.S. financial institutions. The CPP remained open through 2009 for investments in small banks, with terms aimed at encouraging participation by small community banks that are qualified financial institutions ("QFIs") under CPP terms. The last application deadline was November 21, 2009, and final investments occurred in December, effectively closing the CPP.

During the quarterly period, Treasury invested $277 million in 50 banks through the CPP. Since the CPP was announced in October 2008, $204.89 billion has been disbursed to 707 institutions under the program. During the quarterly period, 121 institutions withdrew their CPP applications, bringing the total number of withdrawals under the program to 658 since inception. As of December 31, 2009, Treasury had received more than $8.31 billion in dividends, interest, and fees under the program. In addition, as of December 31, Treasury had received $121.89 billion in total repayments under the CPP--representing approximately 60 percent of the total amount of capital invested. Notable CPP redemptions during the quarterly period included Wells Fargo & Company ($25 billion) and Bank of America ($25 billion). Each of these institutions raised additional private capital in advance of the repayments.[12]

[11] Treasury issued a Supplemental Directive to provide further guidance on the HAFA. The Supplemental Directive is available at: https://www.hmpadmin.com/portal/docs/hamp_servicer/sd0909.pdf

[12] Repayments by Bank of America and Citigroup of TARP investments are discussed in more detail below.

Also, on November 9, 2009, Treasury announced the closing of CAP. Of the 19 banks that participated in the SCAP or "stress test," 18 demonstrated no need for additional capital or fulfilled their need in the private market and, thus, did not need to seek additional capital under CAP. GMAC is the only SCAP institution that was not able to raise sufficient capital from private sources. On December 30, 2009, GMAC and Treasury converted existing investments and completed an additional investment under the AIFP (see Section g. below).

In addition, during the quarterly period, all capital provided under TIP was repaid, and the remaining asset guarantee arrangement entered into under the Asset Guarantee Program ("AGP") was terminated, and these programs were closed. TIP and AGP were programs established by Treasury during the fourth quarter of 2008, when a loss of confidence in systemically important financial institutions could have resulted in significant financial market disruptions, threatened the financial strength of similarly situated financial institutions, impaired broader financial markets, and undermined the overall economy. AGP was aimed at maintaining the stability of systemically important financial institutions by supporting the value of certain assets held by participating financial institutions, by helping them absorb unexpectedly large credit losses on certain assets held on their balance sheets.

i. Update on Bank of America

On December 9, 2009, Bank of America repurchased the $20 billion of preferred stock issued under the TIP and the $25 billion of preferred stock issued under the CPP. These repayments were reviewed and approved by the appropriate Federal banking agencies. In this regard, since completion of the SCAP, Bank of America had raised a substantial amount of new capital, including $19.2 billion through a common stock offering undertaken in connection with the repayment. Bank of America also demonstrated its ability to access the long-term debt markets without reliance on the Temporary Liquidity Guarantee Program of the Federal Deposit Insurance Corporation ("FDIC"). Treasury continues to hold warrants in Bank of America.

ii. Update on Citigroup

On December 23, 2009, Citigroup repurchased the $20 billion of trust preferred securities held by Treasury under the TIP. On the same date, Citigroup, Treasury, the FDIC, and the Federal Reserve agreed to terminate the asset-guarantee and liquidity arrangement previously entered into with respect to a designated pool of up to $301 billion in assets. For the time period that these arrangements were in place, Citigroup made no claims for loss payments to any federal party and the U.S. government parties incurred no losses under the agreement.

Under the Termination Agreement, (1) Treasury's guarantee commitment was terminated, (2) in light of the early termination of the guarantee, Treasury agreed to cancel $1.8 billion of the $4.034 billion trust preferred securities issued by Citigroup as part of the AGP agreement, and (3) the FDIC and Treasury agreed that, subject to the conditions set out in the Termination Agreement, the FDIC may transfer $800 million of trust preferred securities to Treasury at the close of Citigroup's participation in the FDIC's Temporary Liquidity Guarantee Program. The Federal Reserve received a $50 million termination fee from Citigroup. Citigroup is required to continue to comply with the 2009 executive compensation determinations of the Special Master. Citigroup will also remain subject to the executive compensation provisions of Section 111 of EESA, other than those applicable to entities receiving exceptional assistance, until Treasury no longer holds any of Citigroup's remaining TARP obligations. In addition, Citigroup has agreed to comply during 2010 with the executive compensation restrictions included in the AGP agreement. A supervisory review of the actual incentive compensation agreements for Citigroup's top 30 earners also will be conducted to ensure they comport with the incentive compensation principles in the Federal Reserve Board's supervisory guidance.[13]

Citigroup's repayment of the TIP preferred and termination of its loss-protection arrangements were reviewed and approved by the appropriate Federal banking agencies in accordance with the repayment guidelines established for SCAP participants. In connection with the repayment and termination, Citigroup raised $17 billion in common stock and an additional $3.5 billion in equity equivalents in order to complete the transactions. Citigroup also had demonstrated an ability to access the long-term debt markets without reliance on the FDIC's Temporary Liquidity Guarantee Program. Treasury continues to hold warrants in Citigroup.

iii. Repurchases and Sales of CPP Warrants

Treasury acquired warrants in connection with its CPP investments in participating QFIs. In the case of a CPP investment in a company that is publicly traded, Treasury received warrants to acquire common stock with a price equal to 15 percent of the senior preferred investment. The exercise price on the warrants was the market price of the participating institution's common stock at the time of preliminary approval calculated on a 20-trading day trailing average. In the case of an investment in a privately-held company, Treasury received warrants to purchase, at a nominal cost, additional preferred stock equivalent to five percent of the senior preferred investment. Treasury exercised such warrants at closings of the senior preferred investment in a privately-held company.

CPP participating banks have a contractual right to repurchase the warrants upon redemption of the preferred stock issued to Treasury within a specified period. Treasury has established a methodology for valuing warrants for purposes of this process for all banks, regardless of the size of the bank or the warrant position. Treasury's determination of the value of any warrant is based on three categories of input: market

[13] The Federal Reserve Board's proposed supervisory guidance on incentive compensation is available at: http://www.federalreserve.gov/newsevents/press/bcreg/20091022a.htm.

prices, financial modeling, and outside consultants. If a bank wishes to repurchase its warrants, the issuer and Treasury must agree on a price. If the bank and Treasury do not agree on a price, either party may invoke a procedure with independent appraisers. In the event a bank chooses not to repurchase, Treasury may sell the warrants to third parties. Even if agreement is not reached within the period, an institution that has redeemed its preferred stock may bid to repurchase its warrants at any time and Treasury can choose to accept a bid. Treasury also retains the right to sell the warrants to a third party at a mutually agreed price. If following repayment of the preferred stock, an institution notifies Treasury that it does not intend to repurchase its warrants, or if an agreement is not reached, Treasury intends to dispose of the warrants through public auctions.

As of December 31, 2009, 37 banks had repurchased a total of $2.92 billion of CPP warrants. In addition, in December 2009, Treasury conducted public auctions for its warrants in Capital One Financial Corporation, JPMorgan Chase & Co., and TCF Financial Corporation. Each of these banks had fully repurchased Treasury's preferred stock investment. The auctions were conducted as modified "Dutch" auctions registered under the Securities Act of 1933, in a format where qualified bidders could submit one or more independent bids at different price-quantity combinations and the warrants would be sold at a uniform price that clears the market. Proceeds to Treasury from the auction of its warrants in Capital One Financial Corporation, JPMorgan Chase & Co. and TCF Financial Corporation, were approximately $148.73 million, $950.32 million and $9.60 million, respectively, with net receipts to Treasury after underwriting fees and selling expenses of approximately $146.50 million, $936.06 million, and $9.45 million, respectively. Treasury expects to conduct similar auctions to sell warrants in the future.

iv. Update on Certain Institutions

On November 1, 2009, CIT Group Inc. ("CIT") filed for Chapter 11 bankruptcy and submitted a plan of reorganization. Treasury had invested $2.3 billion in senior preferred stock of CIT and received a warrant for the purchase of common stock. The ultimate amount received from this investment will depend on the outcome of the bankruptcy proceedings. On December 10, 2009, CIT's reorganization plan was confirmed by the bankruptcy court. Pursuant to the terms of the reorganization plan, the preferred stock and warrants held by Treasury were terminated. Treasury and other holders of preferred stock were allotted contingent value rights ("CVRs") in the reorganized CIT. The conversion amount, if any, of the CVRs will be determined after a 60-day period, if the enterprise value of CIT exceeds the aggregate amount of secured and unsecured debt claims immediately prior to filing.

On November 6, 2009, a subsidiary of UCBH Holdings, Inc. ("UCBH"), United Commercial Bank, was closed by its regulators. Treasury had invested approximately $298.7 million in senior preferred stock in UCBH and received a warrant for the purchase of common shares. On November 24, 2009, UCBH filed for Chapter 7 bankruptcy dissolution. The ultimate amount received, if any, from this investment will depend on the outcome of the bankruptcy proceedings.

On November 13, 2009, a subsidiary of Pacific Coast National Bancorp, Pacific Coast National Bank, was closed by its regulators. Treasury had invested $4.1 million in senior preferred stock in Pacific Coast National Bancorp and exercised a warrant to purchase preferred stock in the amount of $206,000. On December 17, 2009, Pacific Coast National Bancorp filed for Chapter 7 bankruptcy dissolution.

v. Update on Bank Lending Surveys

Each month, Treasury asks banks that participate in the CPP to provide information about their lending activities and publishes the results in two reports, referred to as the Monthly Lending and Intermediation Snapshot (the "Snapshot") and the Monthly Lending Report. These two reports are intended to help the public easily assess the lending and intermediation activities of participating banks. During the quarterly period, Treasury released three new Snapshots and three Monthly Lending Reports covering the period extending from July through October 2009. In addition, Treasury released the Quarterly CPP Report.

a. Monthly Lending and Intermediation Snapshots

Treasury's monthly Snapshot provides data on the lending and other intermediation activities for the 22 largest financial institutions that received TARP investments under the CPP.[14] In December, Treasury released the following information on October lending—

- The overall outstanding loan balance (of all respondents) fell one percent from September to October at the top 22 participants in the CPP. All loan categories experienced decreases.

- Total originations of new loans at the 22 surveyed institutions were flat from September to October. Total originations of loans by all respondents rose in two categories (mortgages and commercial and industrial ("C&I") new commitments) and fell in six loan categories (home equity lines of credit, credit cards, other consumer lending products, C&I renewals of existing accounts, commercial real estate ("CRE") renewals of existing accounts and CRE new commitments).

[14] In July 2009, the Hartford Financial Service Group began reporting Snapshot information to Treasury, which included results from April 2009 to June 2009, thereby increasing the total number of institutions covered by the Snapshot to 22 institutions.

b. CPP Monthly Lending Report

Treasury's Monthly Lending Report provides data on consumer lending, commercial lending, and total lending for all CPP participants. The chart in Figure 21 summarizes total loan activity among CPP participants.

Figure 21

Summary of CPP Monthly Lending Report Data
($ millions)

All CPP recipients (excluding top 22)*

Date	Number of Respondents*	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	498	$285,063	$574,600	$859,603
3/31/2009	532	$283,966	$580,570	$864,548
4/30/2009	519	$267,023	$563,499	$830,517
5/31/2009	590	$268,226	$580,921	$849,165
6/30/2009	582	$258,721	$688,116	$946,838
7/31/2009	582	$272,252	$625,246	$897,498
8/31/2009	627	$274,327	$636,876	$911,204
9/30/2009	630	$270,695	$631,527	$902,223
9/30/2009 (Adjusted)	620	$269,176	$628,130	$897,306
10/31/2009	622	$267,325	$626,676	$894,002
10/31/2009 (Adjusted)	620	$267,216	$626,169	$893,386
Change (Sept Adjusted to Oct Adjusted)		*-0.73%*	*-0.31%*	*-0.44%*

Top 22 CPP Recipients

Date	Number of Respondents	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	21	$2,612,968	$1,806,091	$4,419,059
3/31/2009	21	$2,601,696	$1,778,446	$4,380,142
4/30/2009	22	$2,585,627	$1,766,037	$4,351,665
5/31/2009	22	$2,575,301	$1,765,699	$4,341,000
6/30/2009	22	$2,553,504	$1,741,814	$4,295,318
7/31/2009	22	$2,531,032	$1,719,149	$4,250,181
8/31/2009	22	$2,514,781	$1,691,557	$4,206,338
9/30/2009	22	$2,524,317	$1,635,894	$4,160,211
10/31/2009	22	$2,501,474	$1,621,917	$4,123,391
Change (September to October)		*-0.91%*	*-0.86%*	*-0.89%*

All CPP Recipients*

Date	Number of Respondents*	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	519	$2,898,031	$2,380,691	$5,278,662
3/31/2009	553	$2,885,662	$2,359,016	$5,244,690
4/30/2009	541	$2,852,650	$2,329,536	$5,182,182
5/31/2009	612	$2,843,527	$2,346,620	$5,190,165
6/30/2009	604	$2,812,225	$2,429,930	$5,242,156
7/31/2009	604	$2,803,284	$2,344,395	$5,147,679
8/31/2009	649	$2,789,108	$2,328,433	$5,117,542
9/30/2009	652	$2,795,012	$2,267,421	$5,062,434
9/30/2009 (Adjusted)	642	$2,793,493	$2,264,024	$5,057,517
10/31/2009	644	$2,768,799	$2,248,593	$5,017,393
10/31/2009 (Adjusted)	642	$2,768,690	$2,248,086	$5,016,777
Change (Sept Adjusted to Oct Adjusted)		*-0.90%*	*-0.71%*	*-0.81%*

**** See attached "reporting groups" table***

CPP Monthly Lending Report: Reporting Groups

Date	Data	Includes	Excludes*
2/28/2009	2/28/09 data received by 7/31/09	Institutions that were funded on or before 4/30/09	Institutions that repaid CPP funds on or before 4/30/09
3/31/2009	3/31/09 data received by 7/31/09	Institutions that were funded on or before 5/31/09	Institutions that repaid CPP funds on or before 4/30/09
4/30/2009	4/30/09 data received by 7/31/09	Institutions that were funded on or before 6/30/09	Institutions that repaid CPP funds on or before 5/31/09
5/31/2009	5/31/09 data received by 7/31/09	Institutions that were funded on or before 6/30/09	Institutions that repaid CPP funds on or before 6/30/09
6/30/2009	6/30/09 data received by 7/31/09	Institutions that were funded on or before 7/31/09	Institutions that repaid CPP funds on or before 7/31/09
7/31/2009	7/31/09 data received by 8/31/09	Institutions that were funded on or before 8/31/09	Institutions that repaid CPP funds on or before 8/31/09
8/31/2009	8/31/09 data received by 9/30/09	Institutions that were funded on or before 9/30/09	Institutions that repaid CPP funds on or before 9/30/09
9/30/2009	9/30/09 data received by 10/31/09	Institutions that were funded on or before 10/31/09	Institutions that repaid CPP funds on or before 10/31/09
9/30/2009 (Adjusted)	9/30/09 data received by 10/31/09	Institutions that reported both 9/30/09 data and 10/31/09 data (using consistent reporting methodology)	Institutions that did not report both 9/30/09 data and 10/31/09 data (using consistent reporting methodology)
10/31/2009	10/31/09 data received by 11/30/09	Institutions that were funded on or before 11/30/09	Institutions that repaid CPP funds on or before 11/30/09
10/31/2009 (Adjusted)	10/31/09 data received by 11/30/09	Institutions that reported both 9/30/09 data and 10/31/09 data (using consistent reporting methodology)	Institutions that did not report both 9/30/09 data and 10/31/09 data (using consistent reporting methodology)

** All reporting groups exclude institutions that did not submit a conforming CPP Monthly Lending Report by the reporting deadline.*

c. The Quarterly Capital Purchase Program Report

To better understand how the CPP and other initiatives launched by the Treasury may have affected financial institutions and their activities, an interagency group was formed to determine and conduct appropriate analyses. This interagency group consists of representatives from Treasury, the Federal Reserve Board and other Federal banking agencies. In November, Treasury released the second Quarterly Analysis of Institutions in the CPP (the "Quarterly CPP Report") undertaken by this interagency group, which covered the second quarter of 2009.

The Quarterly CPP Report analyzes the financial data submitted by depository institutions to their primary federal regulator in Call Reports and Thrift Financial Reports, as well as the Y-9C Reports submitted by large bank holding companies each quarter to the Federal Reserve. The report distinguishes between the 21 largest CPP participants as of June 2009; CPP participants that received funds in the fourth quarter of 2008; CPP participants that received funds in the first quarter of 2009; CPP participants that received funds in the second quarter of 2009; and the remaining institutions who also submitted reports, but were not participants in the CPP as of the end of June 30, 2009.

d. Term Asset-Backed Securities Loan Facility

The TALF was established by Treasury and the Federal Reserve in November 2008 to help accommodate the credit needs of consumers and businesses of all sizes by facilitating the issuance of asset-backed securities ("ABS") collateralized by a variety of consumer and business loans. Under the TALF, the Federal Reserve extends credit on a non-recourse basis with a term of up to five years to holders of eligible ABS, including ABS backed by auto loans, student loans, credit card receivables, equipment loans, floorplan loans, insurance premium finance loans, loans guaranteed by the Small Business Administration ("SBA"), residential mortgage servicing advances, or commercial mortgage loans. On December 16, 2009, the Federal Reserve announced that the expiration dates for the TALF remained set at June 30, 2010, for loans against newly issued CMBS and March 31, 2010, for loans backed by all other types of collateral. The maximum amount of loans that may be outstanding under the TALF at any one time is $200 billion, and Treasury provides protection against losses on loans extended by the Federal Reserve under TALF of up to $20 billion using funds authorized under TARP.[15]

The TALF has been effective in helping to restart the securitization markets. Since the TALF was launched in March 2009, there has been $96 billion of TALF-eligible ABS new issuance in the capital markets. Of that total ABS issuance, approximately 50 percent, or $48 billion has been financed using TALF loans. Since March 2009, issuance of TALF-eligible and ineligible ABS backed by consumer and business loans has averaged approximately $12 billion per month, compared to approximately $2 billion per month in the six months prior to the program's launch. TALF has helped finance 2.6 million auto loans, 867,600 student loans, more than 100 million credit card accounts, and 480,000 loans to small businesses. Included among those business loans are 4,800 loans to auto dealers to help finance their inventories. Most notably, a substantial fraction of ABS is now being purchased by investors that do not seek TALF financing, and ABS-issuers have begun to bring non-TALF-eligible deals to market supported by purely private financing.

During the quarterly period, six additional TALF subscriptions occurred and certain announcements and changes were made to the program. For example, on December 9, 2009, Treasury announced it would consider increasing its financial commitment to the TALF in 2010, if it was considered appropriate. Treasury expects that increasing its commitment to the TALF would not result in additional cost to taxpayers.

During the quarterly period, the availability of TALF financing facilitated the first issuance of CMBS backed by newly originated mortgages to occur since June 2008. Of the $323 million of AAA-tranche debt issued, approximately 22 percent, or $72 million, was financed with TALF loans, while non-TALF investors purchased the remaining 78 percent of the TALF eligible securities. In addition, during the quarterly period, at the three CMBS subscriptions held on October 21, November 17 and December 14, 2009, $2.12 billion, $1.42 billion and $1.32 billion in TALF loans were requested in connection with legacy CMBS financings, respectively and $1.93 billion, $1.33 billion, and $1.28 billion of TALF loans were extended, respectively.

In the October, November, and December 2009 ABS subscriptions, $2.47 billion, $1.15 billion and $3.05 billion of TALF loans were requested, respectively. In the October ABS subscription, 23 percent or $1.5 billion of the $6.6 billion of TALF eligible ABS issuance was financed through TALF loans. Approximately $0.9 billion in loans also was extended against previously issued TALF-eligible collateral during the October subscription. In the November subscription, 8 percent or $0.5 billion of the $6.0 billion of TALF eligible ABS issuance was financed with TALF loans, and in the December subscription, 59 percent or $2.3 billion of $3.8 billion TALF eligible ABS issuance was

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[15] Detailed terms and conditions for the TALF are made available on the website of the Federal Reserve Bank of New York at: http://www.newyorkfed.org/markets/talf.html.

financed with TALF loans. Approximately $0.6 billion in loans during the November subscription was extended against previously issued TALF-eligible collateral; of this amount, $0.4 billion was extended against SBA-guaranteed certificates. Approximately $0.7 billion in loans during the December subscription was extended against previously issued TALF-eligible collateral; of this amount, $0.3 billion was extended against SBA-guaranteed certificates.

The relatively small amount of TALF financing in October and November was partially a function of credit card issuers being unable to obtain a AAA-rating as a result of FDIC's pending true sale treatment following FASB accounting changes, as well as a general increase in cash investors and the decline in yield of TALF-eligible securities below the TALF loan rate. By the December subscription, the FDIC had clarified its treatment of credit card receivables in a bank receivership, and December saw an increase in the level of TALF financing. Moreover, nearly 20 percent of TALF loans have been prepaid as investors sought to lock in their gains. Overall, TALF loans extended during the quarterly period supported the issuance of 26 percent of all TALF-eligible ABS.

On December 4, 2009, the Federal Reserve adopted a final rule establishing a process for determining the eligibility of the ratings issued by credit rating agencies for purposes of determining the eligibility of collateral for the TALF. The final rule was substantively the same as the proposed rule announced immediately following the end of the prior quarterly period, on October 5, 2009. The rule establishes criteria for determining the eligibility of agencies to issue credit ratings on ABS, other than those backed by commercial real estate, to serve as collateral against TALF loans. The criteria include registration as a nationally recognized statistical rating organization ("NRSRO") with the SEC, and experience issuing credit ratings specific to the types of assets accepted as collateral in the TALF. The rule, which is intended to promote competition among NRSROs and ensure appropriate protection against credit risk for the U.S. taxpayer, will take effect for the set of NRSROs that become eligible under the new criteria beginning with the February 2010 TALF subscription.[16]

e. American International Group, Inc.

Beginning in September 2008, the Federal Reserve and Treasury have taken a series of actions related to AIG in order to address the liquidity and capital needs of AIG, thereby helping to stabilize the company and prevent a disorderly failure, which could have severely disrupted financial markets and contributed to a further worsening of economic conditions.

As part of these actions, in November 2008, Treasury purchased $40 billion in preferred stock from AIG. The Series D preferred stock accrued dividends at an annual rate of 10 percent. On March 2, 2009, Treasury and the Federal Reserve announced a

[16] Additional details regarding the Federal Reserve's final rule are available at: http://www.federalreserve.gov/newsevents/press/monetary/20091204a.htm.

restructuring of the government's assistance to AIG. In April 2009, Treasury accrued Series D dividends and exchanged that amount, along with the $40 billion face value of Series D preferred stock, into $41.6 billion of Series E preferred stock. In connection with this restructuring, in April 2009, Treasury also created an equity capital commitment (the Series F preferred equity commitment), under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional preferred stock to Treasury. The Series E and Series F investments carry a 10 percent non-cumulative dividend. As of December 31, 2009, AIG has drawn $5.34 billion from the Series F commitment.

AIG reported a profit in the third quarter of 2009, as certain of its businesses continued to stabilize, and the company's results reflected positive market valuation changes. During the quarterly period, AIG also carried out two transactions contemplated by the March 2009 restructuring. On December 1, 2009, the Federal Reserve received $25 billion in preferred equity interests in two special purpose vehicles ("SPVs") formed to hold the outstanding stock of AIG's largest foreign insurance subsidiaries, American International Assurance Company Ltd.("AIA") and American Life Insurance Company ("ALICO"), in exchange for an equivalent reduction in both the outstanding balance, and amount of credit available, under AIG's revolving credit facility with the Federal Reserve. These transactions position AIA and ALICO for initial public offerings or sale.

f. Legacy Securities Public-Private Investment Program

i. Background

The Legacy Securities Public-Private Investment Program, or "S-PPIP," is designed to support market functioning and facilitate price discovery in the ABS markets, allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. Under the terms of the program, Treasury has partnered with fund managers who will invest in legacy securities through a Public-Private Investment Fund ("PPIF").

ii. Program Updates

As of December 31, 2009, all nine PPIFs established by pre-qualified fund managers had completed an initial closing.[17] Following the initial closing, each PPIF fund manager has up to six months to raise additional private capital to receive the full allocation of the $3.3 billion in matching equity and debt capital from Treasury available under the program. As of December 31, 2009, the PPIFs have completed closings on approximately $6.2 billion of private sector equity capital which has been matched 100 percent by Treasury, representing $12.4 billion of total equity capital. Treasury has

[17] The investment contracts for the PPIFs are available at: http://www.FinancialStability.gov/roadtostability/publicprivatefund.html .

also provided $12.4 billion of debt capital, providing the PPIFs an aggregate of $24.8 billion in total purchasing power.

Several fund managers have established investment vehicles that offer retail investors the opportunity to participate as an investor in a PPIF, including Invesco (allocating $25 million from its public REIT to the Invesco PPIF) and Wellington (investing approximately 25 percent of a $350 million closed-end fund into the Wellington PPIF).

In December 2009, The TCW Group, Inc., a PPIP fund manager, terminated the employment of individuals designated as "Key Persons" under the Limited Partnership Agreement for the TCW PPIF. Treasury subsequently notified TCW that a Key Person Event had occurred under the Limited Partnership Agreement and commenced a review of its options as an equity and debt investor in the TCW PPIF. Due to the occurrence of a Key Person Event, the TCW PPIF was immediately barred from making new investments or dispositions (other than to avoid a material loss). Pursuant to mutual agreement among Treasury, TCW and other investors in the TCW PPIF, TCW's PPIF will be liquidated. According to the terms of the liquidation agreement, TCW will reimburse Treasury for its legal expenses, must split any profit earned by the fund among Treasury and the private investors in the TCW PPIF, and will not receive any fees for its management of Treasury's funds.

iii. Oversight and Compliance

To protect taxpayers, Treasury supervises PPIF investments to ensure that the PPIF fund managers comply with their obligations under the definitive legal agreements and manage the PPIFs in accordance with Treasury's stated investment objectives while also protecting taxpayers. Fund managers are required to disclose to and seek the consent of Treasury for changes to certain fundamental corporate policies that would be reasonably likely to materially adversely impact Treasury or the other PPIFs. In addition, the PPIFs are subject to restrictions on dealings with affiliates and other interested parties, which will help ensure that the PPIFs only enter into arm's-length transactions. Treasury applies rigorous disclosure requirements and conflict of interest provisions established by the Public-Private Improvement and Oversight Act of 2009 to these funds.[18] Due to the potential for actual or potential conflicts of interest, which are inherent in any market-based investment program, Treasury has worked very closely with

[18] See section 402 of the Helping Families Save Their Homes Act of 2009 (12 U.S.C. § 5231a).

the SIGTARP and others, including the Federal Reserve, to develop a robust conflict of interest and compliance process.[19]

In particular, Treasury and the Federal Reserve have implemented additional controls to address SIGTARP's concerns regarding the potential for PPIFs to take on additional leverage through TALF or other means. These controls include increased haircuts on the total amount of TALF debt that may be available to leverage the PPIF equity; a total leverage cap of 5 times to ensure that all PPIFs have adequate equity capital at risk; a prohibition on PPIP fund managers utilizing TALF or third party debt financing if Treasury debt capital comprises more than 50 percent of the aggregate equity capital commitments of the PPIF; and pricing Treasury's debt investment to reflect the additional risk associated with higher leverage. Moreover, the terms of any additional leverage would be subject to Treasury's review and written consent. As of December 31, 2009, no PPIF had taken on additional leverage.

g. Automotive Industry Financing Program

The AIFP was created by Treasury in December 2008, in order to avoid a significant disruption of the U.S. automotive industry due to the risk such a disruption could have posed to financial market stability and the broader U.S. economy. The funding provided by Treasury under the program has helped successor companies to General Motors ("GM") and Chrysler Holding ("Chrysler") to emerge from bankruptcy proceedings as leaner and more efficient companies with substantially improved long-term viability prospects. Treasury also has provided financing under the AIFP to GMAC, which is an important source of automobile financing.

As of the close of the quarterly period, Treasury holds common stock in GM, Chrysler, and GMAC, and at this time, there is no market for the common stock. Treasury also holds preferred stock (including trust preferred securities issued on December 30, 2009) in GM and GMAC. Treasury will periodically evaluate both public and private options to exit the equity investments under the AIFP. For GM, the most likely exit strategy is a gradual sale of shares following a public offering. For Chrysler and GMAC, the exit strategy may involve either a private sale or a gradual sale of shares following a public offering. Additionally, the outstanding loans must be repaid by certain dates. The GM loan matures in 2015 and was amended in November 2009 to require quarterly mandatory prepayments of $1 billion from existing escrow amounts in addition to the obligation for such funds to be applied to repay the loan by June 30, 2010, unless extended. A portion of the Chrysler loan matures in December 2011 and the balance in June 2017.

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[19] Details on the guidance released with regard to the S-PPIP compliance regime and other terms and conditions applicable to the fund managers are available at: http://www.FinancialStability.gov/docs/FSOB/FINSOB-Qrtly-Rpt-063009.pdf; and at http://www.FinancialStability.gov/roadtostability/publicprivatefund.html.

i. Update on General Motors

On December 31, 2008, Treasury agreed to loan $13.4 billion to GM with working capital. Under the terms of the loan agreement, GM also was required to implement a viable restructuring plan. The first plan GM submitted failed to establish a credible path to viability, and the deadline was extended to June 1, 2009. Treasury loaned an additional $6 billion to fund GM during this period. To achieve an orderly restructuring, GM filed for bankruptcy on June 1, 2009. Treasury provided $30.1 billion under a debtor-in-possession ("DIP") financing agreement to assist GM during the bankruptcy. New GM began operating on July 10, 2009, after purchasing most of the assets of old GM.

When the sale to the newly formed General Motors Company ("New GM") was completed on July 10, Treasury converted most of its loans to 60.8 percent of the common equity in New GM and $2.1 billion in preferred stock. New GM assumed a portion of the DIP financing loan in the amount of $7.1 billion. On December 18, 2009, Treasury received the first quarterly $1 billion repayment from New GM as part of the company's accelerated plan to exit the U.S. Government's investments under the TARP. As of December 31, 2009, a total of $5.7 billion remains outstanding.

ii. Update on Chrysler

On January 2, 2009, Treasury provided a $4 billion loan to Chrysler. On March 30, 2009, the Auto Task Force and the National Economic Council determined that the business plan submitted by Chrysler failed to demonstrate viability and announced that in order for Chrysler to receive additional taxpayer funds, it needed to find a partner with whom it could establish a successful alliance. Chrysler made the determination that forming an alliance with Fiat was the best course of action for its stakeholders. Treasury continued to support Chrysler as it formed an alliance with Fiat. In connection with Chrysler's bankruptcy proceedings filed on April 30, 2009, Treasury provided an additional $1.9 billion under a DIP financing agreement to assist Chrysler in an orderly restructuring.

On June 10, 2009, pursuant to a court-approved order, substantially all of Chrysler's assets were sold to the newly formed Chrysler Group LLC ("New Chrysler"). Treasury committed to loan $6.6 billion to New Chrysler in working capital funding, and, as of September 30, 2009, New Chrysler has drawn $4.6 billion of this amount. New Chrysler also assumed $500 million of old Chrysler's initial loans from Treasury. When the sale to New Chrysler was completed, Treasury acquired the rights to 9.9 percent of the common equity in New Chrysler.

The original loans made by Treasury to old Chrysler remain outstanding and are in default (less than $500 million of the debt assumed by New Chrysler). In July 2009, the borrower under the loan (CGI Holding LLC) agreed to pay the greater of $1.375 billion or 40 percent of the equity value of Chrysler Financial to Treasury should old Chrysler receive certain distributions from Chrysler Financial and Treasury agreed to certain forbearance with respect to the non-bankrupt loan parties.

As of December 31, 2009, Treasury owned 9.9 percent of the equity in New Chrysler and had $5.1 billion of loans outstanding to New Chrysler.

iii. Update on GMAC

On December 29, 2008, Treasury purchased $5 billion in preferred equity from GMAC LLC, and received an additional $250 million in preferred shares through warrants that Treasury exercised at closing. At the same time, Treasury also agreed to lend up to $1 billion to GM (one of GMAC's owners), to purchase additional ownership interests in GMAC's rights offering. GM drew $884 million under that commitment on January 16, 2009. In May 2009, Treasury purchased $7.5 billion of preferred shares from GMAC and received warrants that Treasury exercised at closing for an additional $375 million in preferred shares. On May 29, 2009, Treasury exercised its option to exchange the $884 million loan it had made to GM in January 2009 for 35.4 percent of the common membership interests in GMAC.

During the quarterly period, Treasury provided an additional $3.8 billion of capital to GMAC under the AIFP, as fulfillment of the capital buffer that GMAC required under the SCAP. The results of the SCAP in May 2009 identified an additional capital need of $5.6 billion for GMAC. Due to a variety of factors, including that the restructurings of General Motors and Chrysler were accomplished with less disruption to GMAC than banking supervisors initially projected, Treasury, with the approval of the Federal Reserve, committed $3.8 billion of new capital to GMAC rather than the $5.6 billion originally anticipated.

Treasury also restructured its investment in GMAC to protect taxpayers and put GMAC in a position to raise private capital and pay back taxpayers as soon as practicable. On December 30, 2009, Treasury invested $3.8 billion of new capital in the form of $2.54 billion of Trust Preferred Securities ("TRUPs"), which are senior to all other capital securities of the company, and $1.25 billion of Mandatory Convertible Preferred Stock ("MCP"). Treasury also received warrants to purchase an additional $127 million of TRUPs and $63 million of MCP, which it exercised immediately. Treasury also converted $3 billion of its existing MCP, which was invested in May 2009, into common equity to boost the quality of the capital supporting GMAC. Treasury's equity ownership of GMAC increased from 35 percent to 56 percent due to this conversion. Treasury has the right to nominate two additional directors to the GMAC Board of Directors, so that four of nine directors may be nominated by Treasury. Treasury intends to nominate its new directors in time for GMAC's annual meeting at the end of April.

To enable GMAC to meet its SCAP requirements for Tier 1 capital, Treasury also exchanged $5.25 billion of preferred stock into MCP, in substantially the same form as Treasury's existing MCP. As a result of this transaction and the conversion described above, as of December 31, 2009, Treasury held $11.4 billion of MCP in GMAC. Treasury also acquired a "reset" feature on the entirety of its MCP holdings such that the conversion price under which its MCP can be converted into common equity will be adjusted in 2011, if beneficial to Treasury, based on the market price of private capital transactions occurring in 2010.

GMAC will continue to be subject to a variety of other covenants and requirements, including the executive compensation and corporate governance requirements of Section 111 of the EESA and, as an ongoing recipient of "exceptional assistance," GMAC remains subject to the oversight of the Special Master for TARP Executive Compensation, Kenneth Feinberg.

iv. Update on the Auto Supplier Support Program

Treasury also provided loans to auto suppliers to ensure that such suppliers received compensation for their services and products in the related Auto Supplier Support Program On November 20, 2009, Treasury received a repayment of $140 million from General Motors under the ASSP. As of December 30, 2009, Treasury's disbursements under the ASSP were $150 million for General Motors and $123 million for Chrysler. Treasury does not anticipate increased participation in the ASSP (which has a maximum aggregate limit of $3.5 billion) prior to the program's April 2010 expiration.

h. Corporate Governance

i. Update on executive compensation

On June 15, 2009, Treasury published the Interim Final Rule on TARP Standards for Compensation and Corporate Governance ("Interim Final Rule"), which, among other things, established the Office of the Special Master for TARP Executive Compensation. The Special Master's duties include reviewing all forms of compensation for the five most senior executive officers and the next 20 most highly compensated employees (the "Top 25"), as well as compensation structures for executive officers and up to the 75 additional most highly compensated employees ("Covered Employees 26–100"), at firms that have received exceptional TARP assistance. At the time the Interim Final Rule was adopted there were seven such firms: AIG, Bank of America, Chrysler, Chrysler Financial, Citigroup, GM and GMAC.

On October 22, 2009, the Special Master released determinations on the compensation packages for the Top 25 at the seven exceptional assistance recipients.[20] The Special Master generally rejected the companies' initial proposals for the top 25 executives and approved a modified set of compensation structures and payments with the following features—

[20] Copies of the October 22, 2009, determination letters and all other Special Master determinations are available at: http://www.FinancialStability.gov/about/executivecompensation.html

- Cash salaries generally no greater than $500,000, with the remainder of compensation in equity.

- Most equity compensation paid as vested “stock salary,” which executives must hold until 2011, after which it can be transferred in three equal, annual installments (subject to acceleration on the company’s repayment of federal assistance).

- Annual incentives payable in “long-term restricted stock,” (which is forfeited unless the employee provides three years of service following the grant date), in amounts determined based on objective performance criteria and in no cases greater than one third of the total annual compensation. Actual payment of the restricted stock is subject to the company’s repayment of TARP funds (in 25 percent installments).

- $25,000 limit on perquisites and “other” compensation, absent special justification.

- No further accruals or company contributions to executive pension and retirement programs.

On December 11, 2009, the Special Master issued determinations on the compensation structures for Covered Employees 26–100. Unlike the October rulings, which addressed specific amounts payable to Top 25 executives, Treasury regulations require the Special Master to only address compensation structures for Covered Employees 26–100. These determinations covered four companies: AIG, Citigroup, GM, and GMAC. Chrysler and Chrysler Financial were exempt from the Special Master’s review during this round because total pay for their executives does not exceed the $500,000 “safe harbor” limitation in Treasury’s compensation regulations. As detailed below, because Bank of America repaid its TARP obligations, its Covered Employees 26–100 were no longer subject to the Special Master’s review.

The compensation structures approved by the Special Master for Covered Employee 26–100 groups have the following general features:

- Short-term cash compensation is restricted. Cash salaries are generally limited to $500,000 other than for exceptional cases, with overall cash limited in most cases to 45% of total compensation. All other pay must be in company stock.

- Incentive compensation without real achievement is forbidden. Total incentives are limited to a fixed pool, incentive payments may be made only if objective goals are achieved, and all such payments must be subject to “clawback” if results prove illusory.

- Compensation structures must have a long-term focus. In most cases, at least 50 percent of total compensation must be held for three years, at least 50 percent of incentive pay must be granted in long-term stock, and any cash incentives must be delivered over at least two years—single, lump-sum cash bonuses are not permitted.

- Pay practices that are not aligned with shareholder and taxpayer interests, such as golden parachutes, supplemental executive retirement benefits, excessive perquisites and tax gross-ups are frozen or forbidden.

In addition to determinations for Covered Employees 26–100, the Special Master issued several supplemental determinations in December, including determinations approving pay packages for the new chief executive officer of GMAC and the new chief financial officer of New GM. The pay packages approved by the Special Master for the newly hired executives generally conform to the principles and structures of the Top 25 determinations.

The Special Master is in the process of requesting 2010 compensation proposals for the exceptional assistance recipients.

The Special Master also has responsibility for administering the "lookback" provision of Section 111(f) of EESA, which requires a review of bonuses, retention awards, and other compensation paid to the senior executive officers and 20 next most highly compensated employees of each TARP recipient that received TARP assistance before February 17, 2009. The Office of the Special Master is currently designing processes that will assist the Special Master in the administration of the "lookback" provision.

All TARP recipients were required to adopt a luxury expenditure policy consistent with the requirements of the Interim Final Rule, provide the policy to Treasury, and post the policy on their internet website (if applicable), within 90 days following publication of the Interim Final Rule or 90 days after the closing date of the agreement between the TARP recipient and Treasury, whichever is later. These policies are generally required to address expenses, including entertainment or other events, office and facility renovations, and aviation or other transportation services. The Office of Internal Review ("OIR") within OFS is responsible for monitoring whether policies are submitted and whether they are consistent with the Interim Final Rule. As of December 31, 2009, less than eight percent of policies remain outstanding, and OIR intends to follow up with the CPP recipients who have not yet submitted a policy.

Additionally, the Interim Final Rule requires that the compensation committee and the CEO and CFO of each TARP recipient provide certain certifications to Treasury with respect to compliance with the Interim Final Rule. These certifications have due dates ranging from 90 days to 120 days of the completion of the TARP recipient's fiscal year. OIR has received and logged the certifications received to date and has developed processes for monitoring these certifications, which, for TARP recipients with a calendar fiscal year end, are due in March 2010 and April 2010.

Finally, the December repayment of certain TARP obligations by Bank of America and Citigroup affected the status of each firm under the Interim Final Rule.

First, prior to the Special Master's determinations for the Covered Employee 26–100 groups, Bank of America repaid its TARP obligations, ending its "TARP period" under the Rule. As a result, the compensation structures for Bank of America's Covered Employees 26–100 were no longer subject to the Special Master's review, and no determination in that regard was issued. In addition, Special Master approval is not required for future compensation structures and payments to Bank of America executives. Payments to Bank of America's Top 25 relating to service prior to the repayment, however, remain subject to the Special Master's October determinations. With respect to its Top 25, Bank of America agreed to comply with the Rule and with the October determinations as if the repayment occurred on December 31, 2009.

Second, after the Special Master's determinations for the Covered Employee 26–100 groups, Citigroup repaid certain TARP obligations, and ceased to be an "exceptional assistance recipient" for purposes of the Rule. As a result of the repayment, Special Master approval is not required for future compensation structures and payments to Citigroup executives. Payments and compensation structures for Citigroup's Top 25 and Covered Employees 26–100, however, remain subject to the Special Master's October and December determinations, respectively. Citigroup agreed to comply with the Rule and with the October and December determinations as if the repayment occurred on December 31, 2009. The executive compensation restrictions that apply to TARP recipients that are not "exceptional assistance recipients" continue to apply to Citigroup until it extinguishes its remaining TARP obligations.

ii. Treasury's voting rights

As a result of the unusual policies and programs that have been put in place to ameliorate the effects of the financial turmoil of the past two years, Treasury has acquired a legal or beneficial ownership of a substantial portion of the outstanding common equity of New Chrysler, New GM, GMAC and Citigroup. In each case, Treasury maintains the goal of keeping the period of government ownership as short as possible and encouraging the return of private capital to replace the government's investment. The following are the fundamental principles that Treasury has established governing its actions as a shareholder—

- The U.S. government is a shareholder reluctantly and out of necessity. Treasury intends to dispose of its interests as soon as practicable, with the dual goals of achieving financial stability and protecting the interests of the taxpayers;

- Treasury does not intend to be involved in the day-to-day management of any company and its responsibility is to protect the taxpayers' investment; and

- Treasury will take a commercial approach to the exercise of its rights as a shareholder. Treasury will vote only on four core matters: board membership; amendments to the charter and by-laws; liquidations, mergers and other substantial transactions; and significant issuances of common shares.

i. Financial Statements

During the quarterly period, Treasury released the Office of Financial Stability Agency Financial Report for Fiscal Year 2009, which received unqualified audit opinions and describes the activities and financial results for the Troubled Asset Relief Program since its inception in October 2008 through the fiscal year ended September 30, 2009 (the "Financial Report FY2009").[21]

The Financial Report FY 2009 consists of Part I - Management's Discussion and Analysis (MD&A) and Part II – Financial Reporting. An explanation of the background and application of the budgetary, credit reform and market risk accounting concepts to the preparation of the financial statements is set forth in Section Seven of the MD&A and the notes to the financial statements. Under EESA, Treasury is required to determine the budgetary cost of TARP under the general framework of credit reform. Treasury also decided it was appropriate to use the credit reform framework for financial reporting purposes. In addition, EESA requires that the budgetary cost of TARP programs be determined using a methodology that incorporates market risk. This requirement means that TARP equity investments similar to those that are publicly traded are valued in a way that is analogous to the "fair value" standard that private sector firms are required to use. MD&A Section Eight: TARP Valuation Methodology describes the methodologies used by Treasury to estimate the value of the TARP investments.

During the quarterly period, Treasury continued an active dialogue with the Oversight Board on the progress of the Financial Report for FY 2009 and the results set forth therein. During the period ended September 30, 2009, Treasury disbursed $364 billion of the authorized $700 billion, most of it in the form of investments, and $73 billion of those TARP funds were repaid. During that same period, the investments generated $12.7 billion in cash received through interest, dividends, and the proceeds from the sale of warrants. With respect to net cost of operations for TARP's FY 2009 activities, Treasury reported $41.6 billion including administrative expenses reflecting a reduction of $110 billion in FY 2009 costs from when the TARP programs were originated last year.

[21] The Financial Report FY 2009, which includes the GAO Report on FY 2009 Financial Statements, is available at: http://www.FinancialStability.gov/latest/tg_12092009.html.

The Financial Report FY2009 provides estimates from Treasury with lower projected costs and higher projected returns of the TARP as compared to the August 2009 Mid-Session Review. After giving effect to projected losses on investments, for example AIG and the automotive companies, and anticipated additional disbursements, for example on the housing initiative, Treasury anticipates the total cost of TARP to be at least $200 billion less than the $341 billion estimate in the August 2009 Mid-Session Review.

The GAO audited the FY 2009 financial statements prepared by OFS for the TARP and stated that the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Additionally, the GAO also opined that the OFS maintained, in all material respects, effective internal control over financial reporting and found no material weaknesses in OFS internal controls.

j. Administrative Activities of the Office of Financial Stability

The Oversight Board has continued to review and monitor the progress made by OFS in ensuring that the necessary infrastructure is in place to design and implement all programs established under EESA. This infrastructure includes hiring staff and establishing the necessary internal controls and compliance and monitoring mechanisms for the programs Treasury has established under the TARP. The following outlines the progress that OFS has made in the areas of staffing, procurement, conflict of interest mitigation, internal controls, oversight, and reporting during the quarterly period.

i. Staffing

As of December 31, 2009, OFS had 217 full-time employees (109 career civil servants, 98 term appointments, and 10 detailees) who support the TARP. These employees include 20 employees who report through the Department of the Treasury's Office of the General Counsel, but exclude approximately 40 others outside of OFS who continue to provide support to the office on an as-needed basis. Treasury's organizational plans, as of December 31, 2009, call for a total of 298 full-time employees, indicating that OFS was 73 percent staffed as of December 31, 2009. However, OFS is not envisioned as a permanent organization, so to the maximum extent possible and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs.[22]

[22] A description of each of the divisions that comprise the OFS is provided in the Financial Report FY2009, available at: http://www.FinancialStability.gov/latest/tg_12092009.html.

ii. Procurement

Treasury continued to engage private sector firms to assist with the significant volume of work associated with the TARP. As of December 31, 2009, Fannie Mae and Freddie Mac accounted for almost 53 percent of the non-personnel services while assisting in the administration and compliance of the HAMP. Asset managers were hired to serve as financial agents in managing the portfolio of assets associated with several TARP programs. The balance of the non-personnel private sector firms were engaged to assist with the significant volume of work associated with the TARP in the areas of accounting and internal controls, administrative support, facilities, legal advisory, financial advisory, and information technology.

Treasury awarded one new contract during the quarterly period, retaining the firm of Hughes, Hubbard and Reed, LLP to provide document production services and litigation support. Treasury extended the contracts for legal services provided by the legal firms Anderson, McCoy & Orta, LLP and Simpson Thacher & Bartlett MNP LLP and extended the contract for financial advisory services related to the auto program with The Boston Consulting Group, Inc. Treasury also entered into a change of name (novation) agreement with McKee Nelson LLP to novate the contract to the new firm of Bingham McCutcheon LLP, and exercised an option with Colonial Parking, Inc. for continued use of parking facilities.

On April 22, 2009, Treasury announced the selection of three asset managers from the pool of applicants that had $2 billion or more in assets under management. In December 2009, following an extensive evaluation process, Treasury announced the designation of six additional firms to help manage the wind-down phase of the CPP and other programs under EESA from the pool of applicants with less than $2 billion in asset under management, including:

- Avondale Investments, LLC
- Bell Rock Capital, LLC
- Howe Barnes Hoefer & Arnett, Inc.
- KBW Asset Management, Inc.
- Lombardia Capital Partners, LLC
- Paradigm Asset Management, LLC

As part of Treasury's commitment to increase transparency and maintain accountability of taxpayer dollars, OFS has and continues to publish all contracts and financial agent agreements ("FAAs") on http://www.FinancialStability.gov/impact/procurement-contracts-agreements.html. During the quarterly period, this section of the website was re-designed to provide enhanced information on procurement contracts and agreements, and commitments to small business and to a fair and open competitive process. OFS added a table with key details on contracts and FAAs to include dollar value, performance period, and a category description.

iii. Conflicts of Interest Mitigation

The Office of Internal Review ("OIR"), for which most functions were previously conducted under the name Office of Compliance and Risk, is responsible for, in part, conflict issues that arise with new and existing contracts and FAAs. OIR takes a standard approach to evaluating potential conflicts of interest and the feasibility of mitigation measures and then documents and tracks all formal decisions on conflict of interest inquiries.

On January 21, 2009, Treasury published an interim final regulation designed to address actual or potential conflicts of interest among contractors and financial agents performing services in conjunction with the TARP (the "Interim COI Regulations"). These regulations describe, among other things, the formal steps for identifying, monitoring, and mitigating conflicts of interest during the procurement process and with respect to the terms of contracts and FAAs. The comment period for the Interim COI Regulations ended on March 23, 2009. Treasury has reviewed all public comments received on the Interim COI Regulations, and is in the process of drafting revisions to the existing regulation.

Treasury is actively renegotiating the contracts and FAAs in place before the Interim COI Regulations became effective and that remained active after April 30, 2009. As of December 31, 2009, Treasury has successfully renegotiated the conflicts of interest provisions and approved the conflicts mitigation plans for seven of the eight contracts and FAAs that required modifications. The remaining renegotiation is ongoing. The complex nature of these contracts and the complicated business structure of the contractors and financial agents require significant time to develop mitigation plans that appropriately meet the provisions of the regulation.

OIR works with the contractors or financial agents before entering into a contract or FAA to reasonably ensure conflicts of interest mitigation plans meet Treasury's requirements under the Interim COI Regulation to identify, disclose, and appropriately mitigate conflicts. In accordance with the regulation, the contractors and financial agents must also provide updated documentation related to conflicts of interest throughout the term of the contract or FAA. Contractors and financial agents self-report any actual or potential conflicts of interest and provide proposed mitigation plans. OIR reviews these disclosures and mitigation plans to ensure compliance with the Interim COI Regulations. In addition, Contracting Officer Technical Representatives and members of the Office of Financial Agents report any discussions with their contractors or financial agents regarding conflicts of interest as part of their systematic monitoring of assigned contracts and FAAs, and promptly raise any perceived or potential conflicts of interest to the attention of OIR for evaluation.

OIR also obtains and reviews various required certifications from contractors and financial agents at the initial award time as well as periodically to ensure they have properly accounted for and addressed all actual and potential conflicts of interest.

To facilitate execution of the Interim COI Regulations, Treasury has developed processes concerning the handling of conflicts of interest issues, including the creation of a dedicated TARP.COI mailbox and a database for data and document collection and retention.

iv. Governance and Internal Controls

Treasury has developed a framework and plan for internal controls over the TARP. The Internal Control Framework serves as a guide to the establishment and maintenance of internal controls for TARP programs. Treasury continues to work with program management to identify initial program objectives, risks, control objectives, and control activities. This work includes the preparation and maintenance of process flows and related controls documentation, as well as evidence of control execution. Treasury continues to monitor the operational controls related to program asset acquisition, asset management, and asset disposition activities where control maturity is at an initial stage of operating capability.

OFS completed its OMB Circular A-123 work for FY 2009 and received an unqualified opinion from GAO that OFS maintained, in all material respects, effective internal control over financial reporting with no related material weaknesses noted.

OFS continues to actively evaluate its management controls, internal controls over financial reporting and operations, and compliance with federal financial systems standards. Final policies and procedures covering a majority of OFS activities were completed as of September 30, 2009, and completion of the remainder is expected in 2010. The Senior Assessment Team continues to guide OFS' efforts to meet the statutory and regulatory requirements for a sound system of internal controls over the TARP.

v. Oversight

Treasury continues an active dialogue with the Oversight Board, as well as the other bodies with oversight responsibility over the TARP, including Congress, SIGTARP, GAO, and the Congressional Oversight Panel. Assistant Secretary Allison meets weekly with SIGTARP to discuss Treasury's current activities and to address any concerns of SIGTARP. During the quarterly period, at meetings of the Oversight Board and at regularly scheduled calls with liaisons of the Oversight Board's members, Treasury provided the Oversight Board with updates on the progress Treasury has made in implementing several of the recommendations contained in the reports of the oversight bodies. In the cases where Treasury has declined to implement a recommendation or sought to reach the recommendation's objectives by other means that Treasury considered to be more practical, effective or supportive of achieving financial stability, Treasury has explained its reasons to the relevant oversight body and to Congress.

vi. Reporting

Treasury is committed to transparency in all TARP programs and improving its external communications about those programs. Treasury makes all of its reports, which detail the objectives, structure, and terms of each TARP program and investment, available on its web site (*www.FinancialStability.gov*) and shares these reports with Congress. In addition, Treasury continues to make available information concerning the objectives and terms and results of programs established under the TARP through numerous press releases, testimonies, speeches, and briefings to Congressional staff.

As part of the Open Government Plan of the Obama Administration, in December 2009, Treasury made convenience copies of the Transactions Reports and Dividends and Interest Reports available in two additional formats to the official PDF version: XLSX (excel) and XML.

As of December 31, 2009, Treasury has filed—

- 115 transactions reports, in accordance with section 114 of the EESA, which include key details of the acquisition and, beginning March 31, 2009, the disposition of TARP investments;

- 13 monthly reports, in accordance with section 105(a) of the EESA, describing, among other things, financial data concerning administrative expenses, projected administrative expenses and a detailed financial statement with respect to TARP investments; and

- 8 tranche reports, in accordance with section 105(b) of the EESA, which outline the details of transactions that relate to each $50 billion incremental investment made under TARP, along with the pricing mechanism for each relevant transaction, a description of the challenges that remain in the financial system, and an estimate of the additional actions that may be necessary to address such challenges.

In addition to these reports, Treasury continues to make available information concerning the objectives and terms of programs established under the TARP and recent and upcoming initiatives through numerous press releases, testimonies, speeches, and briefings to Congressional staff.

APPENDIX A

Minutes of the Financial Stability Oversight Board Meetings
During the Quarterly Period

Minutes of the Financial Stability Oversight Board Meeting
October 28, 2009

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:45 p.m. (EDT) on Wednesday, October 28, 2009, at the offices of the Department of the Treasury ("Treasury").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Geithner
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. Wheeler, Senior Advisor to the Secretary, Department of the Treasury

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

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

Mr. Morse, Chief Risk and Compliance Officer, Office of Financial Stability, Department of the Treasury

Mr. Millstein, Senior Restructuring Officer, Office of 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. Herold, Deputy General Counsel, 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

Chairperson Bernanke called the meeting to order at approximately 4:45 p.m. (EDT).

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 Small Bank and Community Development Financial Institutions ("CDFI") initiative; the Small Business and Community Lending

Initiative; executive compensation; American International Group, Inc. ("AIG"); the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; and the Home Affordable Modification Program ("HAMP"). Also included in materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the Capital Purchase Program ("CPP"), the Term Asset-Backed Securities Loan Facility ("TALF"), and the Automotive Industry Financing Program ("AIFP"); the most recent data gathered as part of Treasury's Monthly Lending and Intermediation Snapshots and Report; and the aggregate level and distribution of commitments and disbursements under TARP, repayments of TARP funds, and the level of resources that remain available under TARP. During the meeting, Members raised and discussed various matters with respect to the development and ongoing implementation of the policies and programs under TARP.

Treasury officials provided the Members with an overview of the Small Bank and CDFI initiative announced on October 21, 2009, to help increase small business lending by providing lower-cost capital to small banks and regulated CDFIs. Officials and Members discussed, among other things, the terms under which capital would be provided to small banks and CDFIs under the initiative, including the requirement that participating banks develop and submit a plan indicating how the additional capital would help the bank increase its small business lending efforts. For example, Members discussed the amount of capital that would be available to institutions under the initiative (either in the form of preferred stock or, in the case of CDFI credit unions, subordinated debt), and the dividend or interest rate on such capital or debt. Members also discussed the steps being taken by Treasury to implement the initiative.

Members and officials then discussed the Small Business and Community Lending Initiative and the actions taken by Treasury under this initiative to help restore the flow of credit to small businesses. As part of this discussion, Treasury officials provided an update on Treasury's progress in establishing a pilot program under which Treasury would purchase securities backed by guaranteed portions of loans made under the 7(a) loan program established by the Small Business Administration. Members and officials discussed Treasury's recent selection of a pool assembler to participate in the pilot program and reviewed the potential timeline for the pilot program to become operational.

Using prepared materials, Treasury officials provided the Members with an update regarding the recent decisions made by the Special Master for Executive Compensation. As part of this discussion, Members and officials reviewed and discussed the determinations issued by the Special Master on October 22, 2009, regarding the compensation for the Senior Executive Officers and other highly-compensated employees of TARP recipients that have received exceptional assistance, and the general characteristics of the compensation structures approved by the Special Master. Members and officials also discussed the Special Master's ongoing review of the compensation structures for the remaining executive officers and other highly-compensated employees at these firms.

Using prepared materials, Treasury officials then provided the Members with an update on AIG, which included a review of AIG's capital position, earnings and major sources of risk, as well as the status of the supports provided by the U.S. government to help stabilize the company and facilitate its ongoing global divestiture program. As part of this discussion, Members and officials also reviewed the company's recent progress in selling several of its businesses and portfolios and in reducing risk exposures at AIG Financial Products.

Treasury officials then provided the Members with an update on the S-PPIP. As part of this discussion, Members and officials discussed the capital allocation amounts Treasury has issued in connection with the initial closings of the initial Public-Private Investment Funds ("PPIFs") established under the program and the potential timing of future closings. Members and officials also reviewed Treasury's progress in establishing internal controls and an external reporting framework for the program.

Using prepared materials, Treasury officials then provided the Members with an update regarding HAMP. As part of this discussion, Members and officials reviewed and discussed the rising number of trial modifications initiated under the program, the number of servicers participating in the program, and potential challenges to the conversion of trial modifications into permanent modifications and the steps being taken to address these challenges. Officials also discussed the meeting held by Treasury on October 8, 2009, with participating servicers in the program. During this discussion, Mr. Donovan provided an update on the Department of Housing and Urban Development's progress in implementing additional changes to the HOPE for Homeowners program, including the recent issuance of an updated and revised mortgage letter for the program. Mr. Donovan also discussed the ongoing actuarial review of the Federal Housing Administration's Mutual Mortgage Insurance Fund.

Members and officials then reviewed and discussed Treasury's investment in GMAC LLC ("GMAC"), including the $7.5 billion investment made on May 21, 2009, following release of the SCAP results, to help address the company's capital needs, stabilize the auto financing market, and contribute to the overall economic recovery of the automotive industry. As part of this discussion, Members also considered and discussed the potential for additional capital to be made available to GMAC consistent with the previously announced SCAP process.

Following these briefings, Members then engaged in a general discussion regarding the current status of and potential future actions under TARP. As part of this discussion, Members discussed the actions taken by Treasury under TARP to help relieve strains in the credit markets and support the housing market and responsible mortgage borrowers; the potential for additional actions that might be taken by Treasury to complement the policies and programs already in place; the authority of the Secretary of the Treasury to extend TARP in accordance with the Emergency Economic Stabilization Act of 2008; and potential exit strategies for TARP programs.

The meeting was adjourned at approximately 5:50 p.m. (EDT).

[Signed Electronically]

Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting November 23, 2009

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:30 p.m. (EST) on Monday, November 23, 2009, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan[1]
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, Chief Investment Officer, 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

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

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[1]

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

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

Chairperson Bernanke called the meeting to order at approximately 3:35 p.m. (EST).

The Board first considered draft minutes for the meeting of the Board on October 28, 2009, 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 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 Capital Purchase Program ("CPP"); the Small Bank and

[1] Due to unanticipated scheduling constraints, Mr. Donovan and Mr. Apgar only participated in a portion of the meeting.

Community Development Financial Institutions ("CDFI") initiative; 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 the aggregate level and distribution of commitments and disbursements under TARP, repayments of TARP funds, and the level of resources remaining available under TARP. During the meeting, Members raised and discussed various matters with respect to the development and ongoing implementation of the policies and programs under TARP.

Using prepared materials, Treasury officials then provided the Members with an update on the CPP. As part of this discussion, Treasury officials and Members reviewed and discussed the timing and format of the public auction process to be used by Treasury to sell the warrants issued by certain financial institutions to Treasury under the program. Treasury officials explained that Treasury intends to sell the warrants for these institutions through registered public offerings and described the principal terms and conditions under which these auctions would be conducted. Treasury officials noted that these terms and conditions were developed based on advice from the asset manager and auction agent hired by Treasury to facilitate the sales, as well as input from academic auction experts and market participants. Member and officials also reviewed and discussed the amount of funds requested, disbursed and repaid to Treasury under the CPP, dividends received and outstanding on CPP investments, the status and outlook for CPP investments in certain troubled institutions, including CIT, and Treasury's program for monitoring the credit quality of CPP participants.

Members and officials then reviewed and discussed recent developments involving GMAC LLC ("GMAC"), including the recent changes to GMAC's management team and the potential for additional capital to be made available to GMAC consistent with the previously announced Supervisory Capital Assessment Program.

Treasury officials then provided the Members with an overview and update on the Small Bank and CDFI initiative announced on October 21, 2009. As part of this discussion, Treasury officials briefed the Members on the terms under which capital would be made available to small banks and CDFIs under the initiative and the response of small banks and CDFIs to the initiative. Treasury officials and Members also discussed potential alternative ways of using TARP funds to increase lending to small businesses and the challenges to obtaining financial institution participation in such programs. Officials also briefed the Members concerning the input received by Treasury during the Small Business Financing Forum hosted on November 18, 2009, by Treasury and the Small Business Administration ("SBA"); Treasury's progress in establishing a pilot program under which Treasury would purchase securities backed by guaranteed portions of loans made under the 7(a) loan program established by SBA and the potential timeline for the pilot program to become operational.

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 capital 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 the potential for participating fund managers to begin offering products for retail investors in connection with the program, Treasury's progress in hiring a fund consultant to assist with the program, and the expected release date of a comprehensive public report on S-PPIP activities.

Members and officials then discussed the status of, and recent developments concerning, the TALF. For example, officials noted that the first newly-issued CMBS transaction was financed under the TALF during the November 2009 subscription.

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 rising number of trial modifications initiated under the program, the number of servicers participating in the program, and challenges to the conversion of trial modifications into permanent modifications and the steps being taken to address these challenges. For example, officials and Members discussed the estimated number of trial modifications eligible for conversion to permanent modifications by December 31, 2009, and the number of borrowers in the trial stage that have submitted to their servicers all of the documentation needed for conversion to a permanent modification. Members and official also discussed Treasury's effort to hold servicers accountable for making material progress in converting trial modification to permanent modifications. Treasury officials also provided an update on Treasury's progress in developing: additional programs under the HAMP to address second-lien mortgages and encourage short sales or deeds-in-lieu in cases where borrowers are not eligible for, or default on, a HAMP-modified loan; and guidelines to permit HAMP incentives to be paid to servicers under the HOPE for Homeowner's program established by the Department of Housing and Urban Development and the loan modification program established by the Federal Housing Administration.

Mr. DeMarco briefed the Members concerning the Deed for Lease program established by Fannie Mae under which qualifying homeowners facing foreclosure will be able to remain in their homes by signing a lease in connection with the voluntary transfer of the property deed back to the lender. Mr. DeMarco indicated that FHFA is working with Fannie Mae and Freddie Mac to develop and pursue loss mitigation strategies for borrowers that are unable to complete, or default on, a HAMP loan modification. Mr. Donovan provided the Members with an update concerning the HOPE for Homeowners Program, including efforts to encourage a secondary market for securities backed by loans issued under the program.

Treasury officials then provided the Members with an update on the preparation of the annual financial statement for the Office of Financial Stability, legislative developments related to TARP, and consideration related to the potential extension of TARP under section 120 of the Emergency Economic Stabilization Act of 2008.

The meeting was adjourned at approximately 4:05 p.m. (EST).

[Signed Electronically]

Jason A. Gonzalez
Secretary

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. Schapiro[1]
Mr. DeMarco[1]

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[1]

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 System[1]

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 Commission[1]

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