FINANCIAL STABILITY OVERSIGHT BOARD
QUARTERLY REPORT TO CONGRESS

For the quarter ending
June 30, 2010

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

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Board of Governors of the Federal Reserve System

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I. INTRODUCTION

This report constitutes the seventh 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 April 1, 2010, to June 30, 2010 (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.

II. OVERSIGHT ACTIVITIES OF THE FINANCIAL STABILITY OVERSIGHT BOARD

The Oversight Board met three times during the quarterly period, specifically on April 15, May 17, and June 29, 2010. As reflected in the minutes of the Oversight Board's meetings,[1] the Oversight Board received 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 TARP and the Administration's Financial Stability Plan.

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, subject to review and oversight by the Oversight Board.

Housing stabilization and foreclosure mitigation

- Making Home Affordable ("MHA") and Home Affordable Modification Program ("HAMP"). The Oversight Board continued to monitor the pace of Treasury's progress under HAMP in helping American homeowners who are delinquent or at risk of imminent default avoid preventable foreclosures. As of May 31, 2010, more than 340,000 borrowers had entered permanent modifications under the program, with growth in permanent modifications averaging more than 50,000 over the last four months.

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

- On May 11, 2010, Treasury issued Supplemental Directive ("SD") 10-04 - Home Affordable Unemployment Program ("UP"), to help homeowners struggling to make their monthly mortgage payments because of unemployment. The SD requires servicers to offer a forbearance plan to eligible borrowers during which the borrower's regular monthly mortgage payments are temporarily reduced or suspended while they seek re-employment. Borrowers will be evaluated for a HAMP loan modification at the earlier of re-employment or 30 days prior to the expiration of the UP forbearance plan.

- On June 21, 2010, Treasury and HUD introduced a new monthly scorecard on the nation's housing market. The scorecard incorporates key housing market indicators and highlights the impact of the Administration's housing recovery efforts, including the assistance provided to homeowners through HAMP and by the Federal Housing Administration ("FHA"). The housing scorecard now incorporates the monthly Making Home Affordable Program Servicer Performance Report, and includes newly reported servicer data on the disposition path of canceled trial modifications.

- Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Funds"). On June 23, Treasury announced the approval of specialized foreclosure prevention and mitigation proposals under the first $1.5 billion Hardest Hit Fund. The proposals were submitted by Housing Finance Agencies ("HFAs") in California, Florida, Arizona, Michigan, and Nevada–the five states eligible under the first Hardest Hit Fund because they had each experienced a 20 percent or greater decline in average house prices. The approved proposals include programs to assist struggling homeowners with negative equity through principal reduction; assist the unemployed or under-employed make their mortgage payments; facilitate the settlement of second liens; facilitate short sales and/or deeds-in-lieu of foreclosure; and assist in the payment of mortgage arrearages.

  On June 1, Treasury also received foreclosure prevention and mitigation proposals from HFAs in North Carolina, Ohio, Oregon, Rhode Island, and South Carolina— the five states eligible for the second $600 million Hardest Hit Fund because they had counties with average unemployment rates greater than 12 percent in 2009. Treasury expects to approve proposals for the second Hardest Hit Fund in August 2010.

Community Lending Initiatives

- On June 4, 2010, Treasury released the definitive form of agreement for the Community Development Capital Initiative ("CDCI"), which was announced in February 2010 to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs"). The application deadline to participate in the CDCI was April 30, 2010, and initial investments are expected to be made in the following months.

Initiatives to Increase Small Business Lending, Restore the Flow of Credit to Consumers and Businesses, and Stabilize Financial Markets

- Legacy Securities Public-Private Investment Program ("S-PPIP"). S-PPIP 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. During the quarterly period, Treasury released the second quarterly report on the S-PPIP, which includes a summary of PPIP capital activity, portfolio holdings and current pricing, and fund performance. As of March 31, 2010, the Public-Private Investment Funds ("PPIFs") had completed initial and subsequent closings on approximately $6.3 billion of private sector equity capital, which was matched 100 percent by Treasury, representing $12.5 billion of total equity capital. Treasury also has provided $12.5 billion of debt capital. As of March 31, 2010, PPIFs had drawn-down approximately $10.5 billion in capital, which has been invested in eligible legacy securities and cash equivalents pending investment in legacy securities.

- Term Asset-Backed Securities Loan Facility ("TALF"). The TALF was 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. During the quarterly period, three additional TALF subscriptions occurred for newly issued CMBS, though no TALF loans were requested as a result of these subscriptions. As previously announced, the TALF closed on June 30, 2010, and no new subscriptions will be conducted.

Wind-Down of Capital Purchase Program

- Capital Purchase Program ("CPP"). The CPP, which was established in the fall of 2008 to help stabilize the financial system, is now closed. Of the approximately $205 billion invested under the CPP, more than $146 billion had been repaid as of June 30, 2010. Treasury continues to work with federal banking regulators who must evaluate requests from CPP participants interested in repaying Treasury's investment.

    - As of June 30, Treasury had received $9.37 billion in cumulative dividends and interest from CPP investments; and Treasury had received a total of $7.03 billion in gross proceeds from the disposition of warrants

(including warrant preferred shares) received under the CPP from 56 banking organizations.

- Notable CPP transactions during the quarterly period included—

  - During the quarterly period, Treasury sold a total of 2.6 billion shares of common stock in Citigroup, approximately one-third of its common stock holdings, for proceeds of approximately $10.5 billion at an average price of $4.03 per share. Initially, Treasury provided Morgan Stanley & Co., Inc. ("Morgan Stanley") with discretionary authority to sell up to 1.5 billion shares under certain parameters. On May 26, 2009, Treasury entered into a second such plan under which Morgan Stanley has the discretionary authority to sell an additional 1.5 billion shares. As part of the disposition program, Morgan Stanley has agreed to provide opportunities for involvement to 12 small broker-dealers, including minority- and women-owned broker-dealers.

  - During the quarterly period, Treasury completed public auctions to dispose of warrant positions in Wells Fargo & Co., PNC Financial Services Group, Inc., Comerica Inc., Valley National Bancorp, Sterling Bancshares, Inc., and First Financial Bancorp, resulting in gross proceeds of more than $1.37 billion to Treasury.

- Special situations:

  - On May 18, 2010, Treasury entered into an agreement with The Toronto-Dominion Bank ("TD Bank") for the sale of all preferred stock and warrants issued by The South Financial Group, Inc. ("TSFG") to Treasury at a purchase price of $130.18 million for the preferred stock and $400,000 for the warrants. Completion of the sale is subject to the fulfillment of certain closing conditions. Treasury's original $347 million investment in TSFG was made in 2008.

  - During the quarterly period, the banking subsidiary of Midwest Banc Holdings Inc. ("Midwest"), in which Treasury had exchanged its CPP preferred stock ($84.8 million in initial investment plus $4.3 million in unpaid and accrued dividends) into $89.1 million of mandatorily convertible preferred stock ("MCP"), was placed in receivership. The failure of the bank to adequately recapitalize means that following receivership, it is unlikely that Treasury will receive any significant recovery on its CPP investment.

- As of June 30, some 97 institutions did not make scheduled payments on Treasury's CPP investments. The missed payments consisted of 72 cumulative dividends (approximately $43 million), 19 non-cumulative dividends (approximately $1.8 million), and six S-corporation interest payments (approximately $1.3 million). As of June 30, 2010, sixteen financial institutions have missed four quarterly payments, eight have missed five, and one has missed six.

Automotive Industry Financing Program ("AIFP").

- On June 10, Treasury provided guidance regarding its role in a possible initial public offering of the common stock of General Motors ("GM"). Treasury owns 60.8 percent of the common stock of GM, which was acquired under the TARP in connection with the restructuring of GM in mid-2009. The initial public offering is expected to include the sale of shares by Treasury, other shareholders who wish to participate, and GM. Treasury will participate in the preparations for a possible offering consistent with its obligations under EESA, its rights under the contracts entered into at the time of the restructuring of GM and its previously articulated principles for how Treasury acts as a shareholder. The overall size of the offering and relative amounts of primary and secondary shares will be determined at a later date. The exact timing of the offering will be determined by GM in light of markets conditions and other factors, but will not occur before the fourth quarter of this year. Treasury will retain the right, at all times, to decide whether and at what level to participate in the offering, should it occur.

- On May 14, 2010, Treasury received a $1.9 billion payment from CGI Holding LLC ("Chrysler Holding") as settlement of a loan made in January 2009 to Chrysler Holding, the parent company of Carco LLC ("Old Chrysler") and Chrysler Financial Services Americas LLC ("Chrysler Financial"), in the amount of $4 billion. This repayment, while less than face value, was significantly more than Treasury had previously estimated to recover and is greater than an independent valuation of the loan provided by Treasury's adviser for the transaction. Treasury's investments in New Chrysler were not affected by these events.

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

b. Coordination with Other Oversight Bodies

During the quarterly period, staff of the Oversight Board and of the agencies represented by each Member of the Oversight Board consulted with representatives of the Office of the Special Inspector General for the TARP ("SIGTARP"), the Government Accountability Office ("GAO") and the Congressional Oversight Panel ("COP") to discuss recent and upcoming activities of the oversight bodies, facilitate coordinated oversight, and minimize the potential for duplication. The Oversight Board has continued to monitor Treasury's responses to the recommendations made by the SIGTARP and GAO, including those regarding 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 has continued to monitor 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.

The expected fiscal cost of TARP and other forms of government intervention to address the financial crisis has declined significantly over the past year. EESA authorized a maximum of $700 billion for TARP. As recently as the Midsession Review released in August 2009, the Administration estimated the cost of TARP would be $341 billion. On May 21, 2010, Treasury notified Congress that the projected cost of the TARP had decreased to $105.4 billion, a decline of $11.4 billion compared to the figure included in the President's FY2011 Budget. The latest decreases in total costs are primarily a result of appreciation in the value of the 7.7 billion shares of Citigroup common stock held by Treasury. In addition, the estimated value of Treasury's investments under the AIFP increased as the outlook for the domestic automobile industry has improved. Lastly, the estimated cost related to the support of American International Group Inc. ("AIG") decreased by $2.9 billion as prospects for the company have improved.

The chart in Figure 1 summarizes TARP commitments, disbursements, and repayments as of June 30, 2010. After the close of the quarterly period, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which reduces the maximum amount available under the TARP and makes other changes to the TARP. These matters will be addressed in the Oversight Board's next quarterly report. The reduction of planned commitments after June 30 is described below in Section IVb.

Figure 1[2]

TARP/Financial Stability Plan Budget Table
(Status as of 07/01/10)
Figures reflected are as of COB 06/30/10

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)[2]	204.89	204.89	204.89
Targeted Investment Program (TIP)[3]	40.00	40.00	40.00
Asset Guarantee Program (Citigroup loss share agreement)[4]	5.00	0.00	0.00
Capital Assistance Program (CAP)[5]	0.00	0.00	0.00
Consumer & Business Lending Initiative (CBLI)[6]	52.00	20.18	0.19
Legacy Securities Public-Private Investment Program (S-PPIP)[7]	30.00	30.36	12.41
AIG Investment	69.84	69.84	47.54
Automotive Industry Financing Program (AIFP)	84.84	84.84	79.69
Home Affordable Modification Program (HAMP)[8]	50.00	42.58	1.51
PROGRAM TOTALS:	536.58	492.69	386.24
Remaining Available Funds:	163.42	207.31	313.76
Actual Redemptions / Repayments[9]:	183.27	183.27	183.27
Principal Repaid:	11.53	11.53	11.53
Remainder of $700 billion (total accessible):	358.22	402.11	508.56
Percentage of $700 billion (total accessible):	51%	57%	73%
Dividends and Other Income Received To Date:	14.70		
Interest and Other Income Received To Date:	0.88		
Proceeds from the Sale of Warrants (received as a result of Exercised Warrants) and Stock[9]:	8.34		
Proceeds from Additional Notes[10]:	0.12		

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

[2] No additional funding transactions exist. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[3] No additional funding transactions exist and all $40B has been repaid. Treasury still holds warrants that will result in additional proceeds to the UST at the time of settlement. Monies repaid are reflected on the "Actual Redemptions/Repayments" line.

[4] Termination of the Asset Guarantee Program (AGP) Master Agreement occured on 12/23/09. Treasury still holds trust preferred securities with warrants that will result in additional proceeds to the UST at the time of settlement.

[5] The Capital Assistance Program (CAP) closed on 11/09/09 with no investments having been made. Per the Federal Reserve, 18 of the 19 banks participating in the SCAP or "stress tests" were shown to have no additional need for capital or have now fulfilled their need in the private market.

[6] $52B has been reserved for the Consumer and Business Lending Initiative, of which $20B has been allocated to TALF. While $30B has been reserved for a small business lending program, the Treasury has proposed creating a $30B Small Business Lending Fund separate from TARP through legislation. Not more than $1 billion is planned for SBA 7(a) purchases and no: more than $1B is planned for the Community Development Capital Initiative (CDCI).

[7] $3.3B in total commitments for a previous S-PPIP fund manager, TCW, have been reallocated to the remaining eight (8) S-PPIP fund managers. While the $356M disbursed to TCW prior to the execution of the TCW Winding-Up and Liquidation Agreement (effective 01/04/10) will not be re-disbursed, these funds will remain a part of the S-PPIP obligation bringing the total S-PPIP obligation to $30.356B.

[8] TARP funds obligated include the total amount of funds that may be provided to servicers under existing agreements for the Home Affordable Modification Program (HAMP). In light of recent changes to HAMP as well as recent experience, Treasury expects to reestimate and revise these amounts in the next few months which will change this total. Treasury expects that the process will also result in there being sufficient funds to finance two recently announced TARP housing initiatves, consisting of $2.1B for the HFA Hardest Hit Fund and $14B for the FHA Refinance program. The $50B also includes $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) and $15M for administrative expenditures relating to the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

[9] On April 26, 2010, Treasury gave Morgan Stanley & Co. Incorporated (Morgan Stanley) discretionary authority, as its sales agent, to sell up to 1,500,000,000 shares of the common stock from time to time during the period ending on June 30, 2010 (or upon completion of the sale). Completion of the sale under this authority occurred on May 26, 2010. Final proceeds associated with this sale were received by Treasury on June 1, 2010. On May 26, 2010, Treasury again gave Morgan Stanley discretionary authority as its sales agent to sell up to 1,500,000,000 shares of the common stock from time to time during the period ending on June 30, 2010 (or upon completion of the sale). Treasury will set forth total proceeds to Treasury from such sales at the close of that period.

[10] Proceeds from Additional Notes reflect profits from loans repaid.

[2] Following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, planned commitments were revised. Additional details are provided in Section IVb. below.

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." 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 this point of the effects of Treasury's efforts under EESA, building on the assessments made in previous quarterly reports.[3]

The Oversight Board believes that the accumulated effects of Treasury's actions under TARP continued to contribute significantly and positively to conditions in many financial markets during the quarter, despite negative developments in some markets that related to fiscal strains in a number of European countries and reduced confidence about the strength of global economic recovery. Credit volumes for nonfinancial businesses and households continued to exhibit weakness, likely reflecting cyclical factors as well as uncertainty about the pace and shape of recovery. These influences appeared to be manifest in still-tight lending standards and evidence of subdued demand for credit among creditworthy borrowers. Risk spreads for large banking organizations also increased during the quarter, reflecting the negative developments noted above, but remained well below the levels seen during the fall of 2008.

The Oversight Board also believes that Treasury's accumulated actions under TARP, together with other federal programs, again helped to promote stable conditions for housing finance and to reduce avoidable foreclosures. Home price indexes remained stable, although mortgage delinquencies remained high. During the quarter, the number of permanent mortgage modifications under HAMP again grew significantly and new programs announced in the first

[3] In past quarterly reports, the Oversight Board has indicated that financial-market shocks from the crisis were lessened by Treasury's actions under EESA, and TARP and other government programs contributed to preventing the adverse effects of the crisis from becoming significantly more severe. In particular, TARP capital investments in banking organizations, in conjunction with TALF and other government programs contributed to the easing of liquidity pressures and increased market confidence in banking organizations. These factors allowed many organizations in 2009 to raise substantial amounts of common equity and to repay some or all of the capital investments made by Treasury in the organizations under TARP. While lending activity has exhibited significant weakness since the onset of the crisis, the actions of Treasury under TARP likely prevented a greater deterioration in the availability of credit to households, businesses, and communities. At the same time, emerging stability in home prices has built on the positive influences of TARP programs and other initiatives by Treasury, the Federal Reserve, HUD, and FHFA. Discussion of conditions and effects of TARP programs in past periods can be found in the Oversight Board's previous Quarterly Reports at: http://www.financialstability.gov/about/oversight.html.

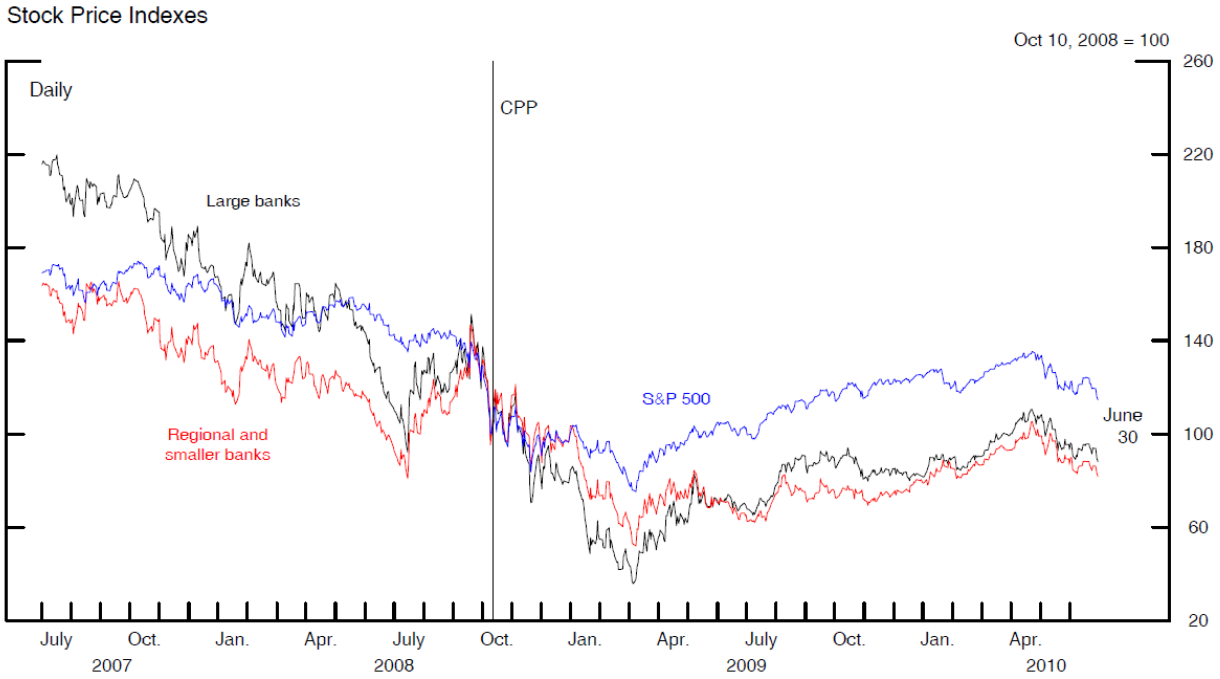
quarter moved toward implementation. Along with new trial modification offers extended under HAMP, and other loan modification and refinancing efforts undertaken by other government and non-government entities, HAMP modifications have reduced mortgage debt service obligations of struggling borrowers and created opportunities for participating households to achieve sustainable arrangements. Over the longer horizon, it remains too early to assess the extent to which borrowers with HAMP permanent modifications, or other loan modifications and refinancings, may subsequently default.

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

Conditions in many financial markets deteriorated in the second quarter of 2010, primarily in response to fiscal strains in a number of European countries and reduced confidence about the global economic recovery. For example, broad measures of equity prices fell, risk spreads on U.S. corporate bonds rose, and strains increased in some short-term funding markets. Against this backdrop, bank loans continued to decline in the second quarter. However, conditions in some asset-backed securities markets improved slightly in the second quarter, and gross issuance of corporate bonds remained fairly robust.

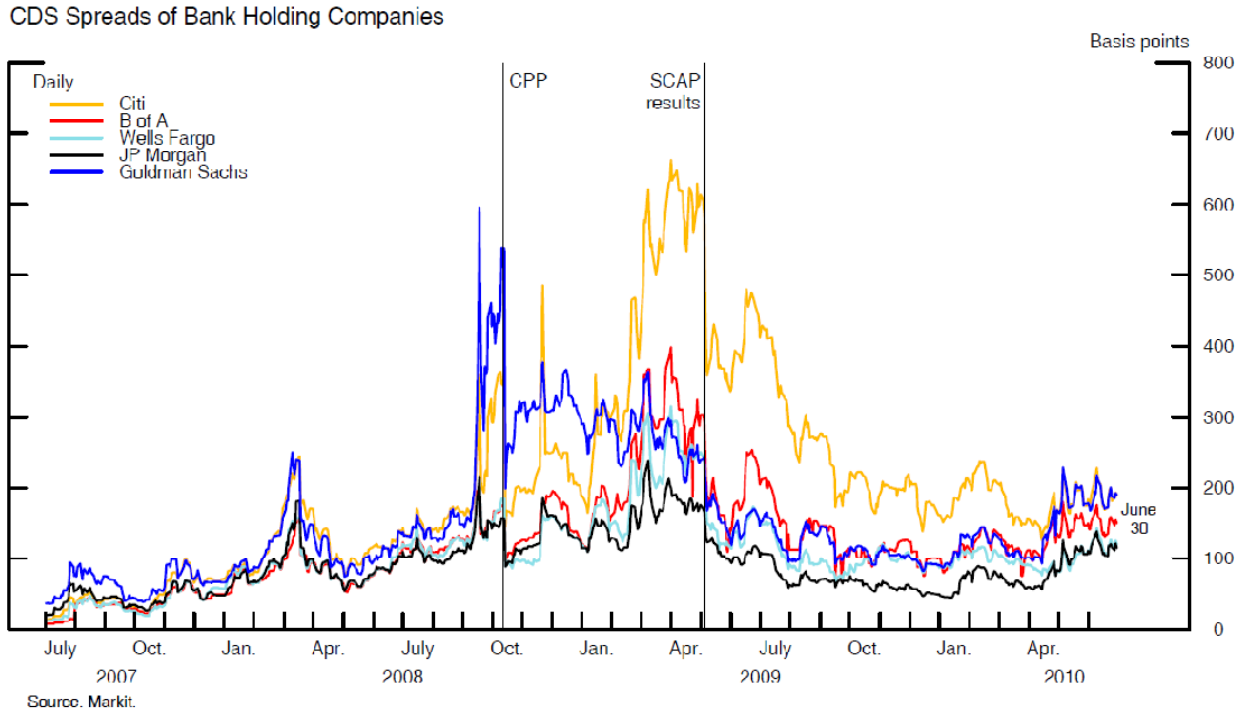
The S&P 500 stock price index fell 12 percent, on net, in the second quarter of 2010. Bank stocks moved down in line with the broader market (figure 2), and credit default swap ("CDS") spreads for large bank holding companies widened (figure 3). However, the CDS spreads, which are generally considered to be a key indicator of investors' views about the health and prospects of these institutions, are well below the levels seen in late 2008 and early 2009, prior to the release of the SCAP results.

Figure 2



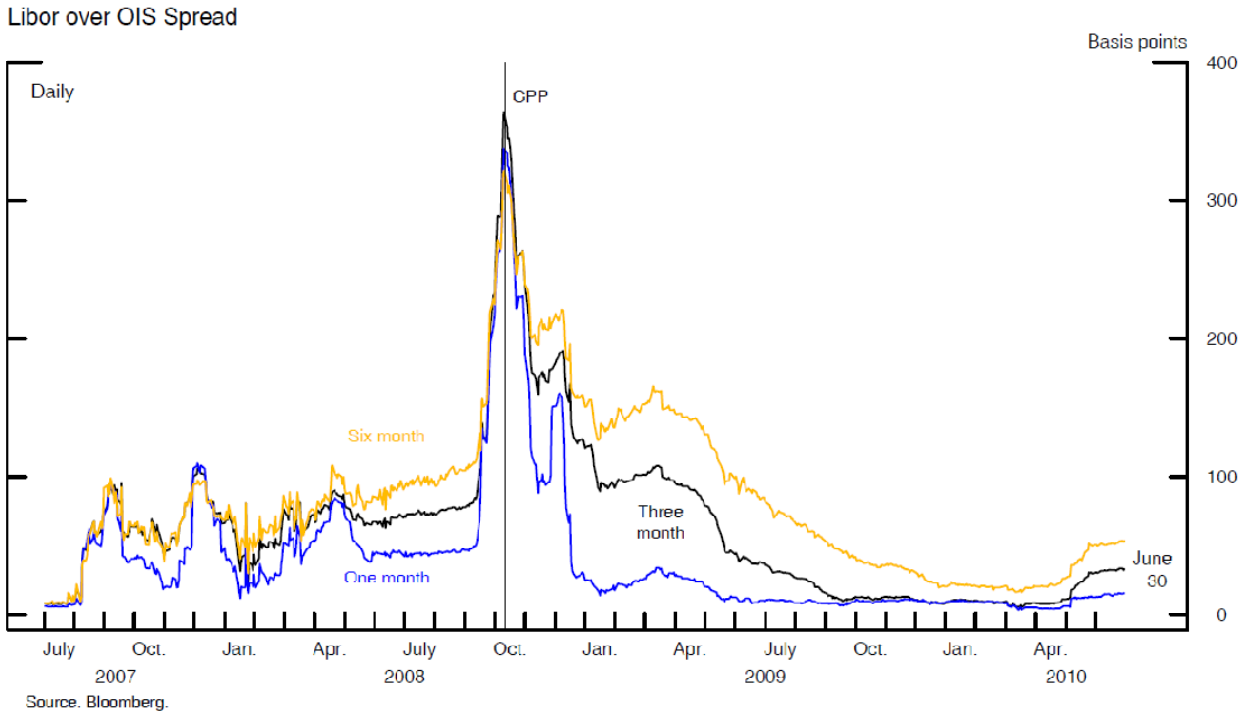
Note. Large bank ETF consists of 24 banks. Regional and smaller bank ETF consists of 51 banks.
Source. Keefe, Bruyette & Woods, Bloomberg, and Standard and Poor's.

Figure 3



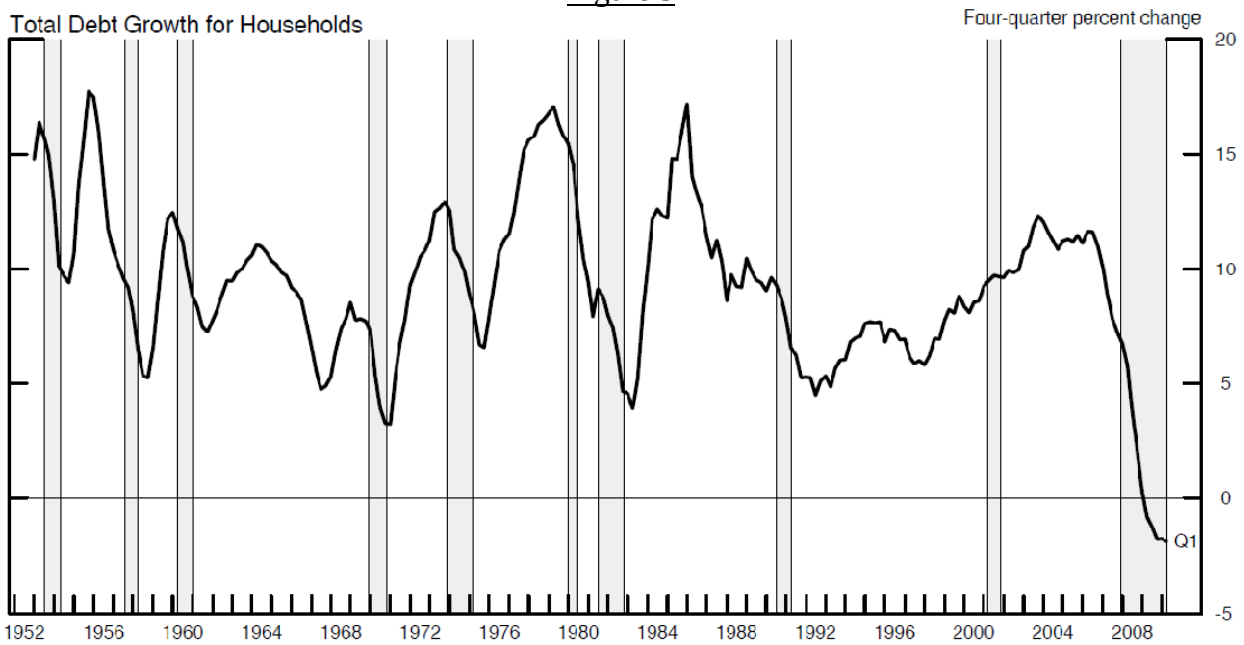
Conditions in interbank markets deteriorated somewhat in the second quarter, as indicated by the spreads of LIBOR rates to overnight index swap ("OIS") rates, a useful measure of banks' short-term borrowing costs (figure 4). However, the spreads of the one-, three-, and 6-month LIBOR over OIS remained well below the levels that prevailed during the fall of 2008.

Figure 4



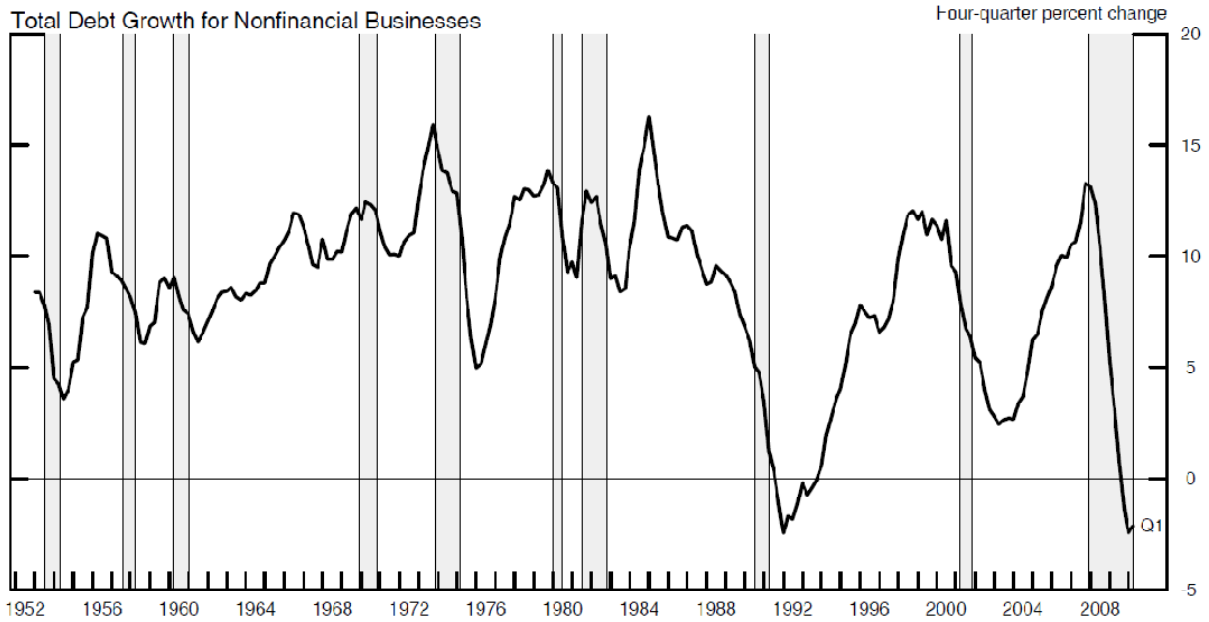
Data from the flow of funds accounts published by the Federal Reserve Board show that debt for nonfinancial businesses and households continued to decline through the end of the first quarter (the latest data available), although the rates of decline were generally smaller than in previous quarters (figures 5 and 6). In previous macroeconomic downturns, growth in borrowing by households and nonfinancial businesses has tended to slow significantly, and generally has not strengthened until well after the trough in economic activity. Data through the first quarter of 2010 indicate that year-over-year growth in borrowing by households and nonfinancial businesses has decelerated more sharply in the recent period than in previous recessions. It is once again worth noting that elevated charge-off rates for problem loans have been a significant contributor to the weakness in business and household debt aggregates over the past year.

Figure 5



Source. Federal Reserve Board, Flow of Funds Accounts.
Note. Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Figure 6



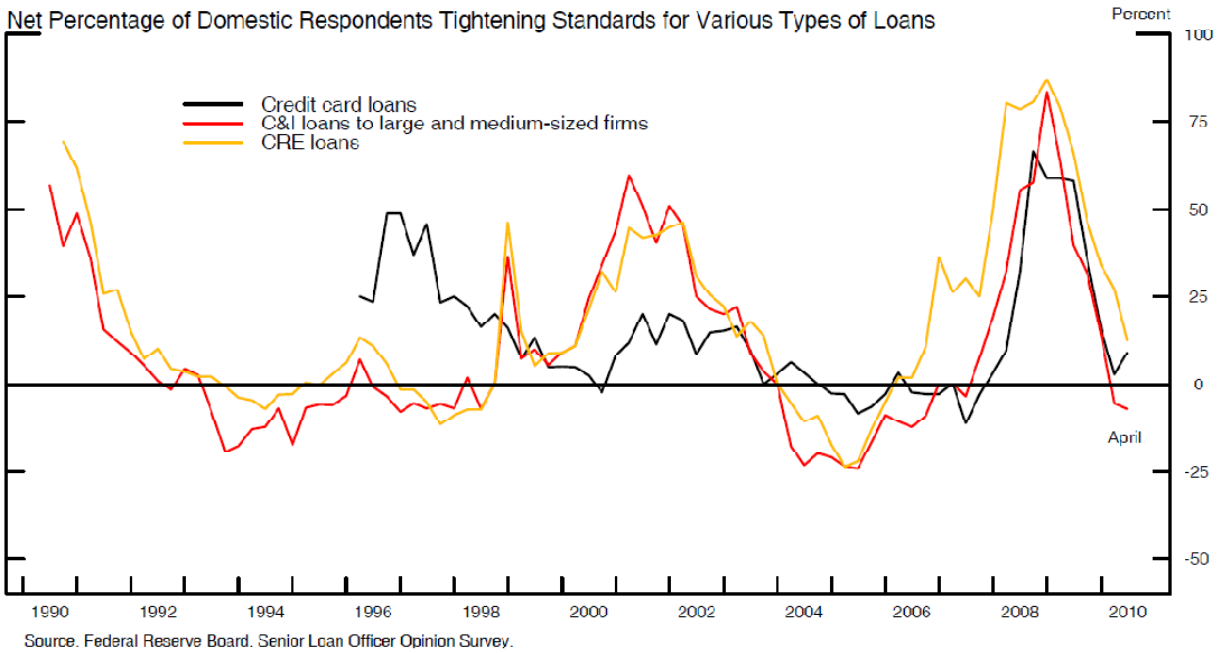
Source. Federal Reserve Board, Flow of Funds Accounts.
Note. Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Disentangling the sources of changes in debt continues to present significant conceptual and practical challenges. Foremost among these challenges are the inherent difficulties in distinguishing 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.

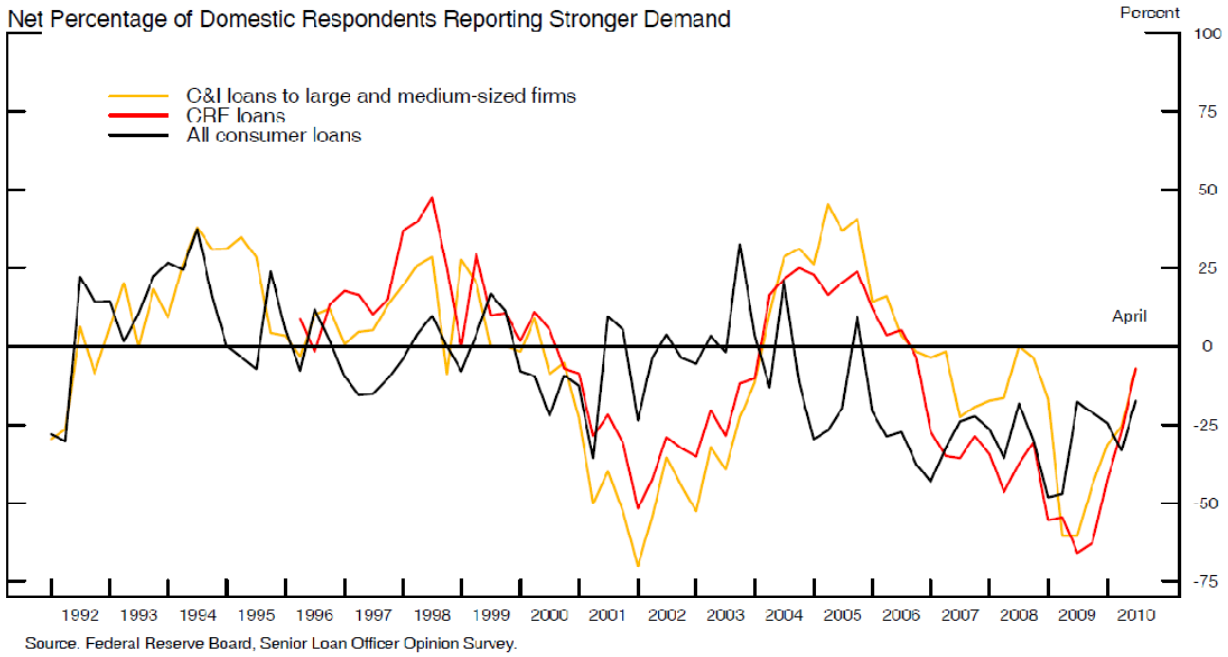
Results from the April Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve provide one useful tool for distinguishing these factors. These results show that the net percentage of banks that tightened standards and terms on various types of loans has declined sharply in recent months (figure 7). Survey responses also indicated weaker demand for loans across the credit card, commercial and industrial ("C&I") and commercial real estate ("CRE") loan categories (figure 8).[4]

Figure 7



[4] The answers to survey questions about loans to small firms, not shown in figures 6 and 7, closely parallel the data about loans to large and medium-sized firms reported in those figures.

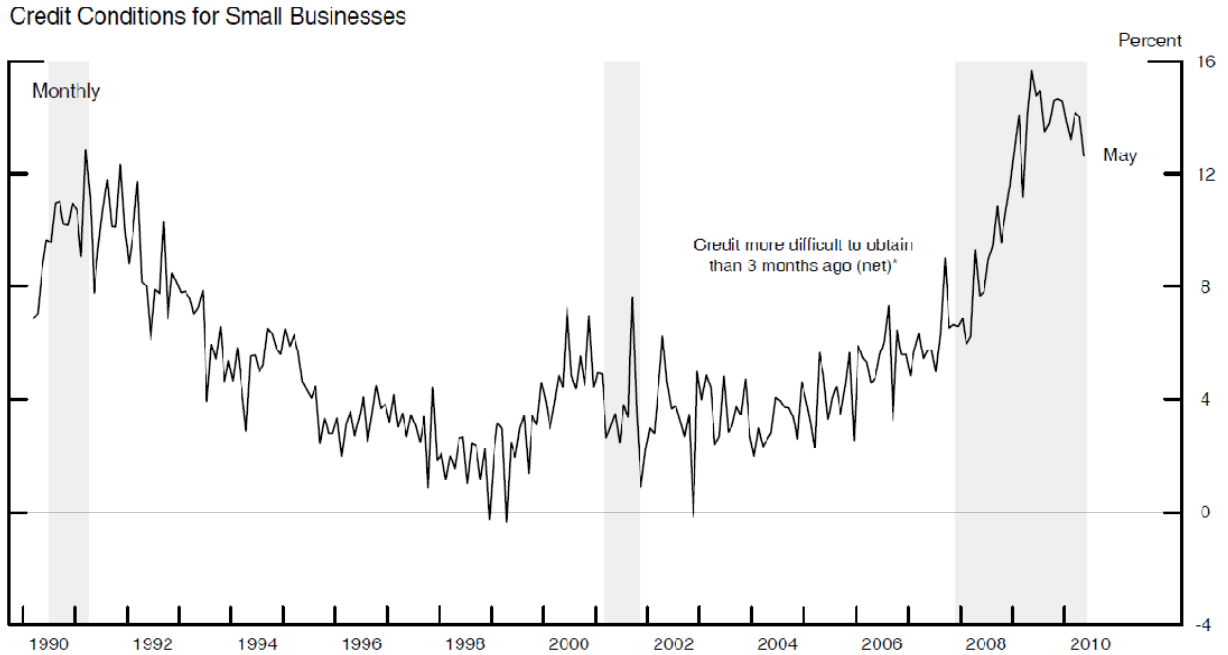
Figure 8



Similar evidence is provided by the monthly survey of small businesses conducted by the National Federation of Independent Businesses ("NFIB").[5] A significant portion of the survey respondents continued to report that credit was more difficult to obtain (figure 9), although the proportion has come down a bit in recent months. However, a large fraction of businesses identified weak customer demand as their most important business problem, while a much smaller percentage reported that financing conditions were their most significant business problem (figure 10). These responses suggest that weak demand for credit has played an important role in subduing the pace of debt growth at nonfinancial businesses.

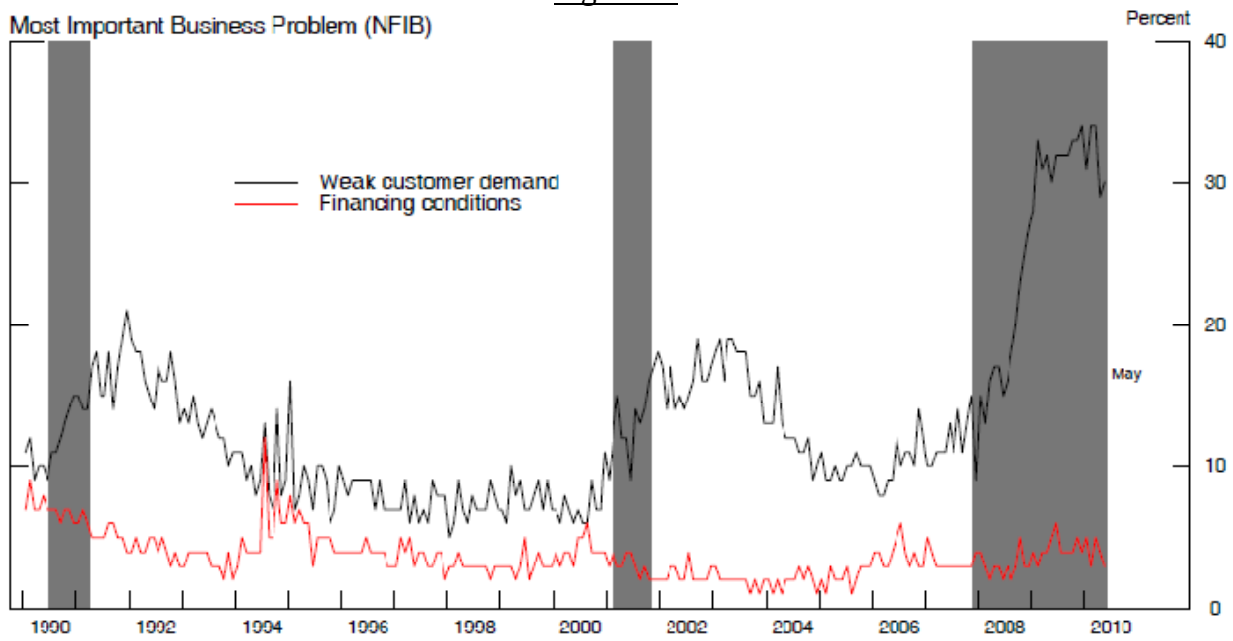
[5] See the NFIB *Small Business Economic Trends*, published monthly by the Research Foundation of the NFIB and available online at http://www.nfib.com/research-foundation/.

Figure 9



* Of borrowers who sought credit in the past three months, the proportion that reported more difficulty in obtaining credit less the proportion that reported more ease in obtaining credit. Seasonally adjusted.
Source. National Federation of Independent Business.

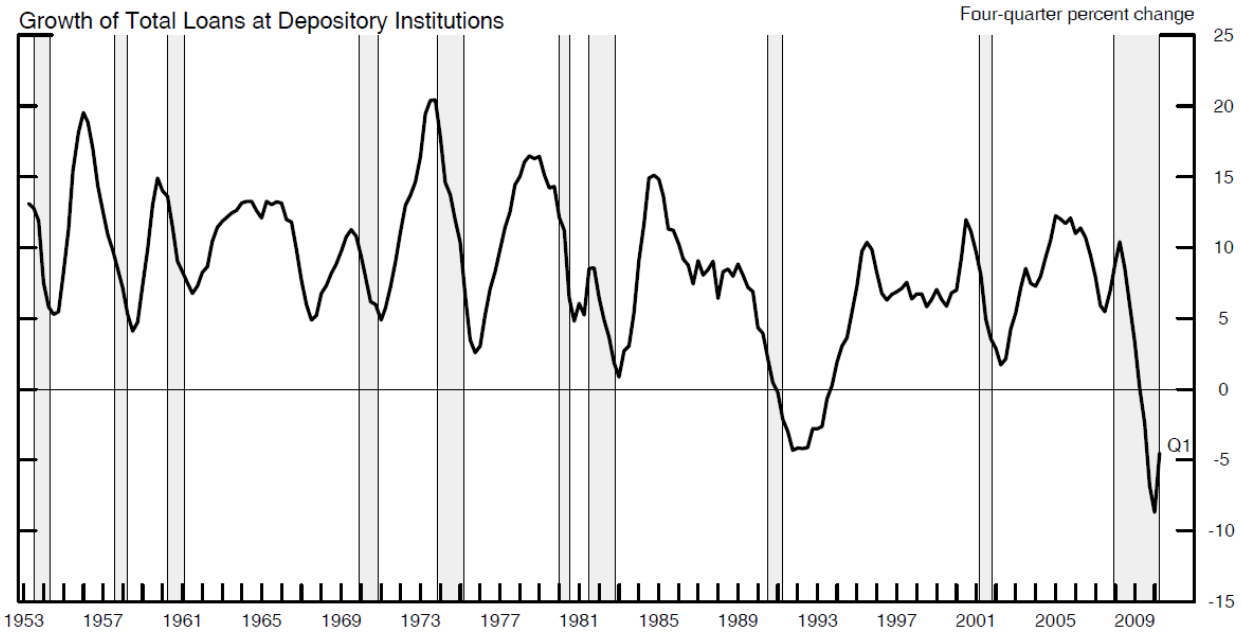
Figure 10



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

Consistent with these trends in supply and especially in demand for bank credit, flow of funds data show that total loans at depository institutions continued to contract in the first quarter of 2010 (figure 11). Data from the weekly survey of commercial banks summarized in the Federal Reserve's H.8 Statistical Release provides evidence that bank credit to households and to nonfinancial businesses remained weak during the second quarter[6] although for many categories of loans the rate of decline appear to have slowed.

Figure 11

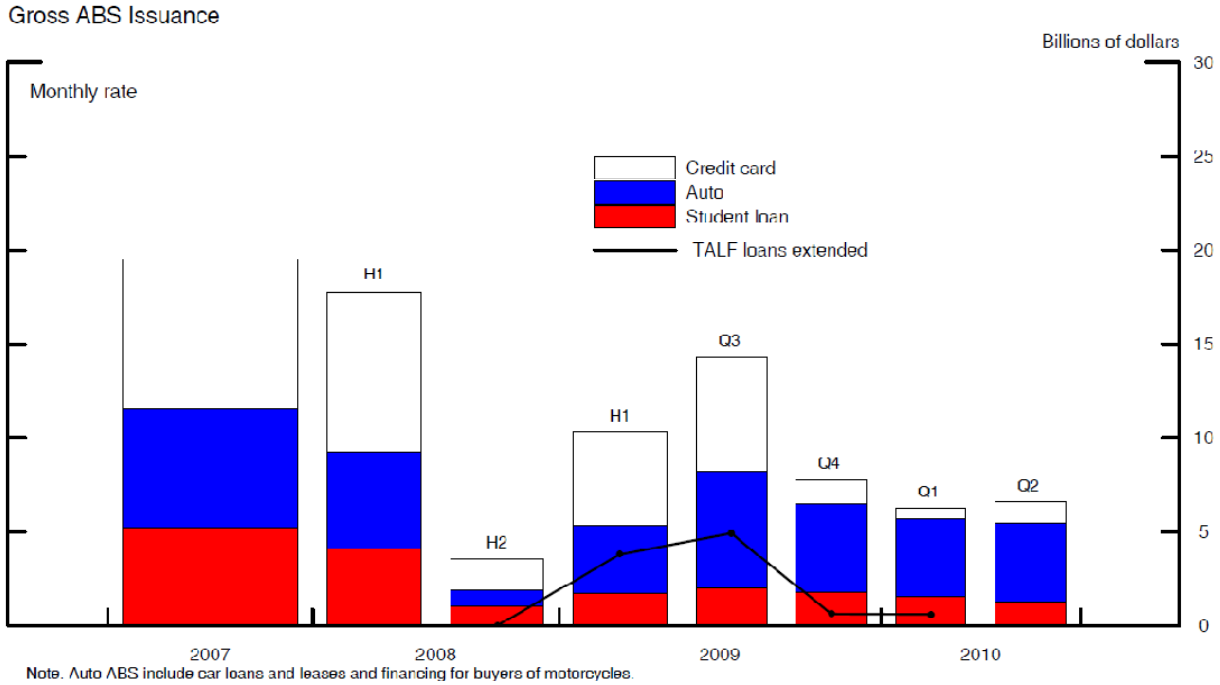


Source. Federal Reserve Board, Flow of Funds.
Note. Shaded areas denote NBER recession periods. The rightmost shaded period begins with the December 2007 business cycle peak identified by the NBER, and continues through the current period even though the NBER has not yet identified a subsequent trough date.

Securitization of household credit in the second quarter of 2010 continued at about the same pace seen in the previous quarter (figure 12), and secondary-market AAA spreads on auto-loans and credit-card asset-backed securities ("ABS") remained low, only a bit higher than before the crisis (figure 13). However, consumer credit continued to be weak in recent months (figure 14), held down by a combination of sluggish consumer spending, high charge-off rates, and limited credit availability. While conditions in the auto finance market have improved dramatically since last fall, conditions in the credit card market have remained tight. Call Report data show that unused commitments for credit cards at commercial banks fell again in the first quarter.

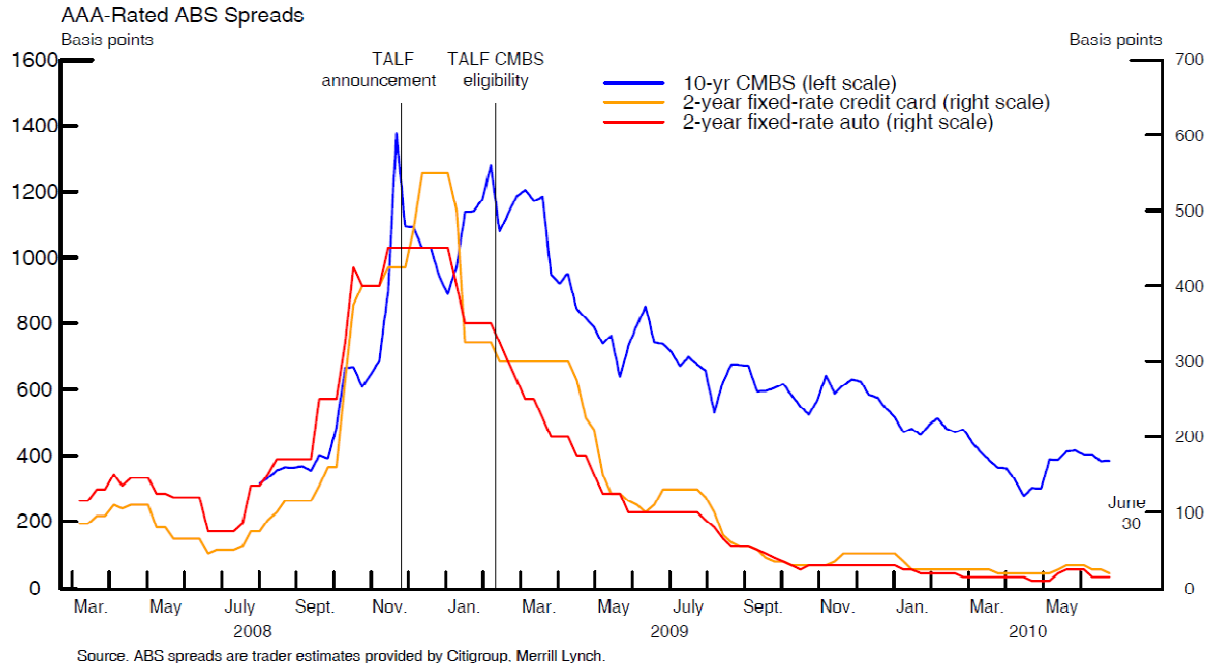
[6] One indicator sometimes cited in previous quarterly reports was the aggregate change in lending by the largest CPP recipient banks as reported in the Treasury's Monthly Lending and Intermediation Snapshot. As noted in the Oversight Board's report for the first quarter of 2010, the Office of Financial Stability ceased preparing this report after January 2010 data.

Figure 12



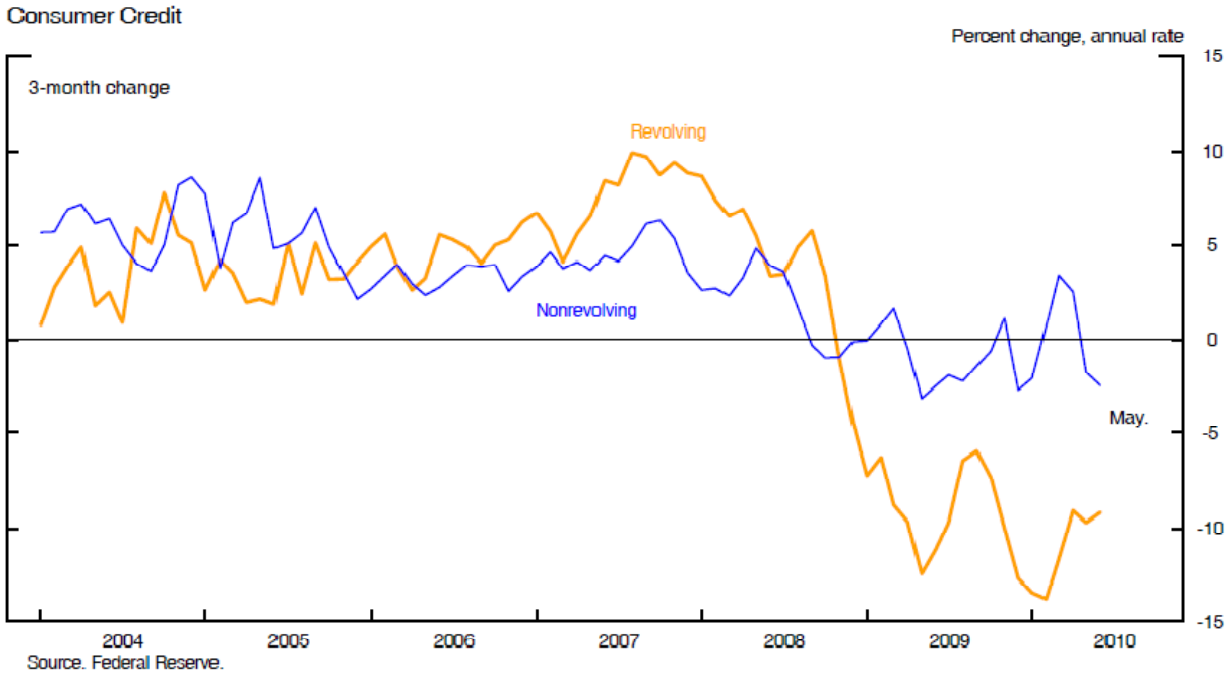
Note. Auto ABS include car loans and leases and financing for buyers of motorcycles.
Source. Inside MBS & ABS and Merrill Lynch.

Figure 13



Source. ABS spreads are trader estimates provided by Citigroup, Merrill Lynch.

Figure 14

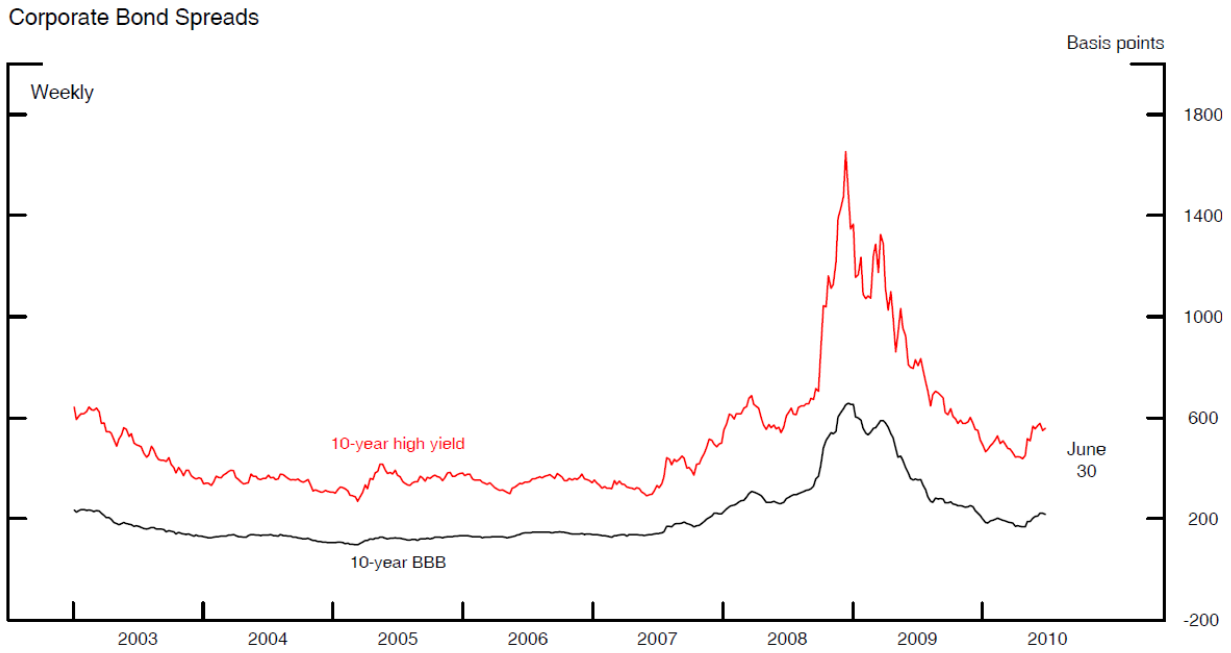


The TALF program has been an important factor in the CMBS market and spreads on 10-year AAA-rated CMBS have dropped dramatically since the announcement of the program (figure 13). Unlike auto or credit card ABS, however, spreads on CMBS remain substantially above pre-crisis levels, and issuance of new CMBS remains extremely low. That said, the CMBS market showed small signs of improvement, as one new multi-borrower deal came to market in June and other deals are reportedly being prepared.

Overall, commercial real estate markets continued to exhibit considerable stress. Property prices decreased, delinquency rates rose, and commercial mortgage debt outstanding declined at an annual rate of about 5 percent during the first quarter. Many of the construction loans maturing in 2010 were originated in 2006 and 2007, when real estate values were higher and sales and lease prospects better. Potential lenders may be less willing to maintain amounts and terms for refinancing properties whose values have fallen and for which cash flow is significantly uncertain. However, for other commercial real estate loans where property values have fallen significantly, but rental income is sufficient to cover debt service, many lenders have been modifying and extending loan terms.

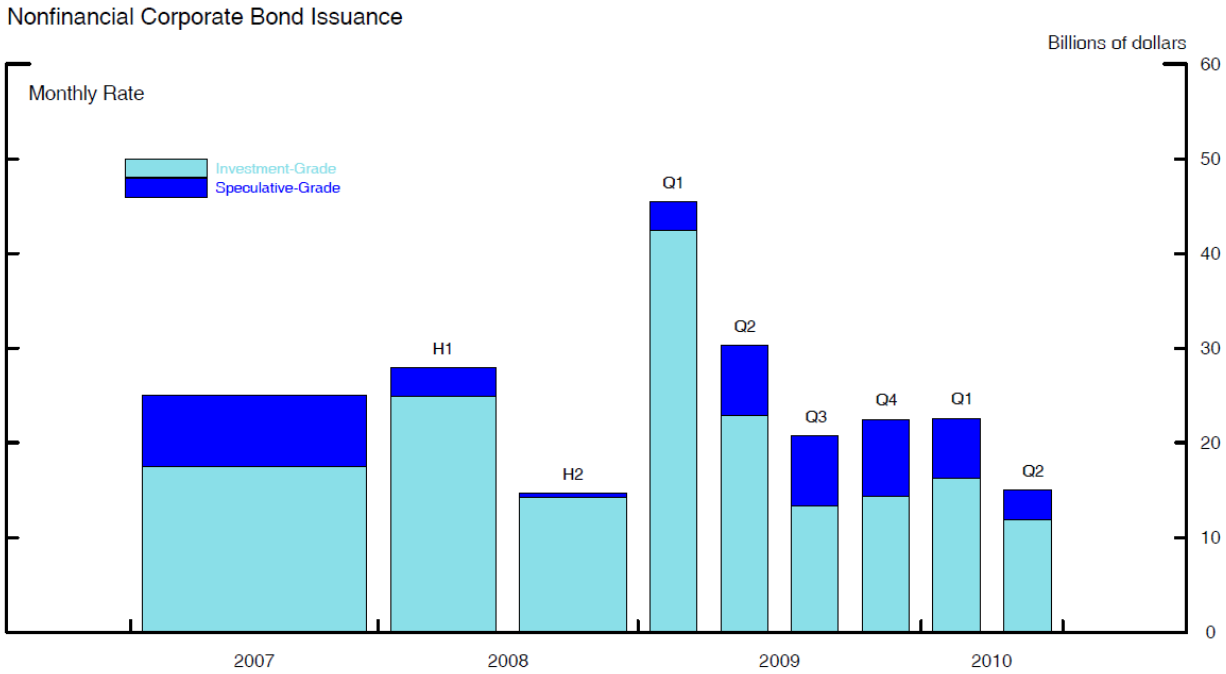
In credit markets for corporate borrowers, bond spreads increased in the second quarter amid concerns about European markets and global economic growth (figure 15), although bond yields for higher-rated borrowers decreased a bit. Gross bond issuance by investment grade nonfinancial corporations remained fairly robust in the second quarter (figure 16). Gross issuance of speculative-grade bonds, however, stepped down.

Figure 15



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

Figure 16

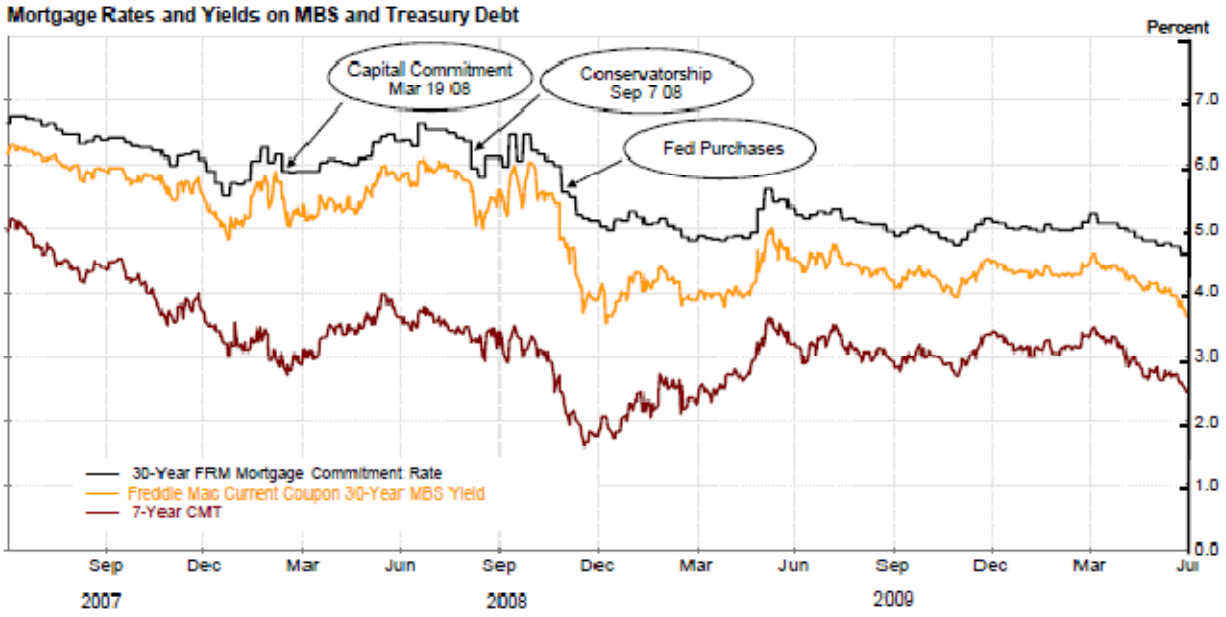


Source. Thomson Financial.

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

The Oversight Board believes that actions taken by the Treasury under TARP, together with the first-time homebuyer's tax credit (extended through April), Treasury actions taken under the Housing and Economic Recovery Act of 2008 ("HERA"), and actions taken by the Federal Reserve, HUD, and FHFA, continued to support the housing market and provide assistance to mortgage borrowers during the second quarter. These actions have helped to maintain stable conditions for housing finance and to reduce avoidable foreclosures. The extension of the first-time homebuyer tax credit through April helped maintain large volumes of FHA insurance activity in the second quarter, as first-time buyers represent around 80 percent of all FHA home-purchase insurance activity. While the end of the most recent round of tax credits has depressed some housing-related indicators, others are strengthening. The cessation of the Federal Reserve's and Treasury's purchases of agency mortgage-backed securities does not appear to have had a large impact on homeowner borrower costs. Spreads between mortgage rates and yields on reference Treasury securities widened by about a quarter percentage point over the second quarter. Lower Treasury yields, associated in part with developments in certain European countries, were not fully matched by lower mortgage rates, although mortgage rates for prime borrowers fell by a quarter percentage point to an historically low level of about 4.75 percent (figure 17).

Figure 17



Foreclosure mitigation efforts under TARP continued to expand during the quarter. During the three month period ending in May, more than 136,000 new trial modifications were started. Through May, more than 1.5 million trial offers had been extended and 1.2 million trial modifications started. The volume of loans with permanent HAMP modifications rose to more than 340,000 by the end of May, as the Mortgage Bankers Association reported 5 million borrowers were 90 days or more past due or in the foreclosure process. Loans remaining in active trial status amounted to roughly 468,000, but in the process of resolving long standing trial

modifications, the number of active trial modifications in place declined more than 40 percent during the three months ending in May. Accordingly, the combined total volume of active trial and permanent HAMP modifications—one measure of the overall breadth of HAMP's impact—fell by nearly 20 percent over the same three month period. New program features begun earlier this year have slowed the volume of new trials started, but greatly increase the likelihood that those trials will result in permanent modifications. In the meantime, proprietary modifications completed by servicers outside of HAMP for the past 17 months, through May 2010, totaled approximately 1.7 million. Over the longer horizon, it remains too early to assess the extent to which borrowers with HAMP permanent modifications, or other loan modifications and refinancings, may subsequently default.

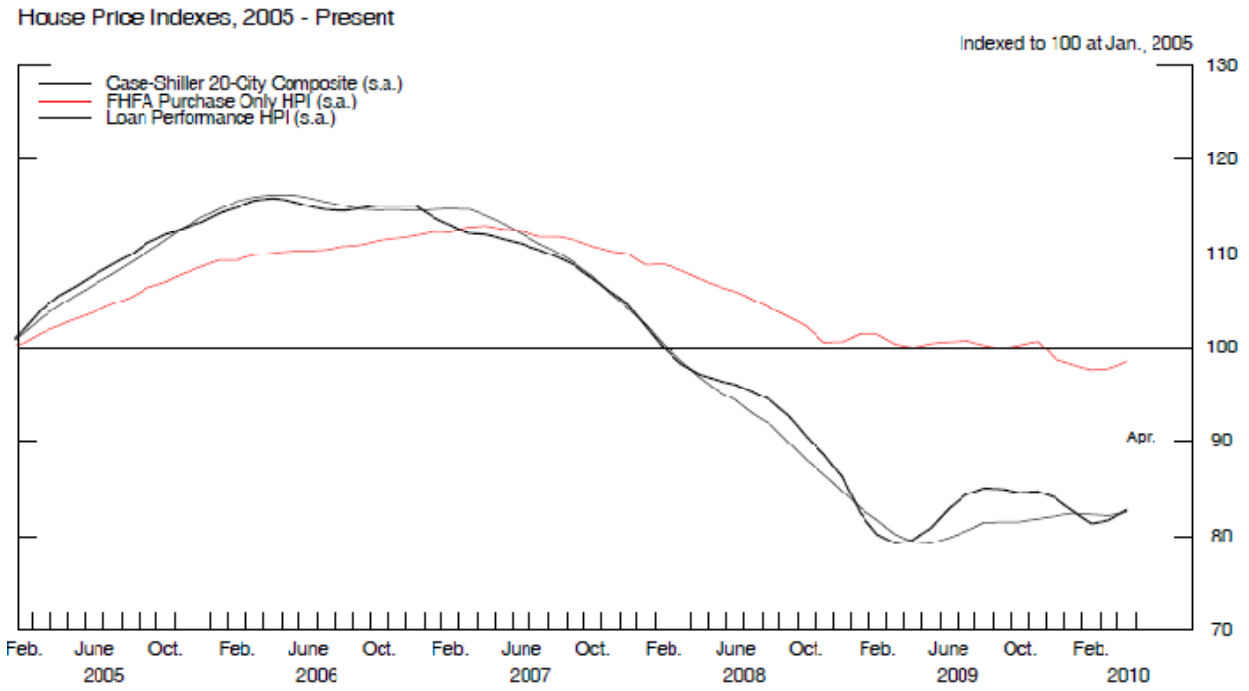
Volumes for the Home Affordable Refinance Program ("HARP"), a non-TARP program, have maintained their previous pace in recent months. HARP is designed for borrowers with mortgages that have been purchased or guaranteed by Fannie Mae and Freddie Mac and have mark-to-market loan-to-value ratios between 80 and 125 percent. Through March, some 292,000 borrowers have reduced monthly payments by refinancing under the program, and the share of refinance loans at those two institutions that were made under the program averaged 14 percent during the first quarter of this year.

At the same time, for FHA, high levels of purchase-loan volumes have been balanced by a steady decline in refinance activity. On a year-over-year basis, FHA refinance activity is down 65 percent (on a dollar basis), while home-purchase activity is up 28 percent. On net, aggregate insurance volumes in the second quarter of 2010 were off 25 percent from the same quarter of 2009, and down five percent from the first quarter of 2010. Much larger volumes of loans have been refinanced outside of HARP and FHA; the cumulative number of mortgage loans refinanced in the year through April totaled roughly 6 million.

The programs described above, continuing low mortgage interest rates, and the effects of the first-time homebuyer tax credit have helped support housing market conditions. House prices, as measured by FHFA, First American Loan Performance and Standard & Poor's/Case-Shiller indexes have held roughly steady over the past year, with some modest upward movement in April (figure 18). New and existing house sales, as measured by the National Association of Realtors and the Census Bureau, also showed gains in March and April. However, the direction reversed in May, after the end of the tax credit program, when total single family sales declined over 4 percent.

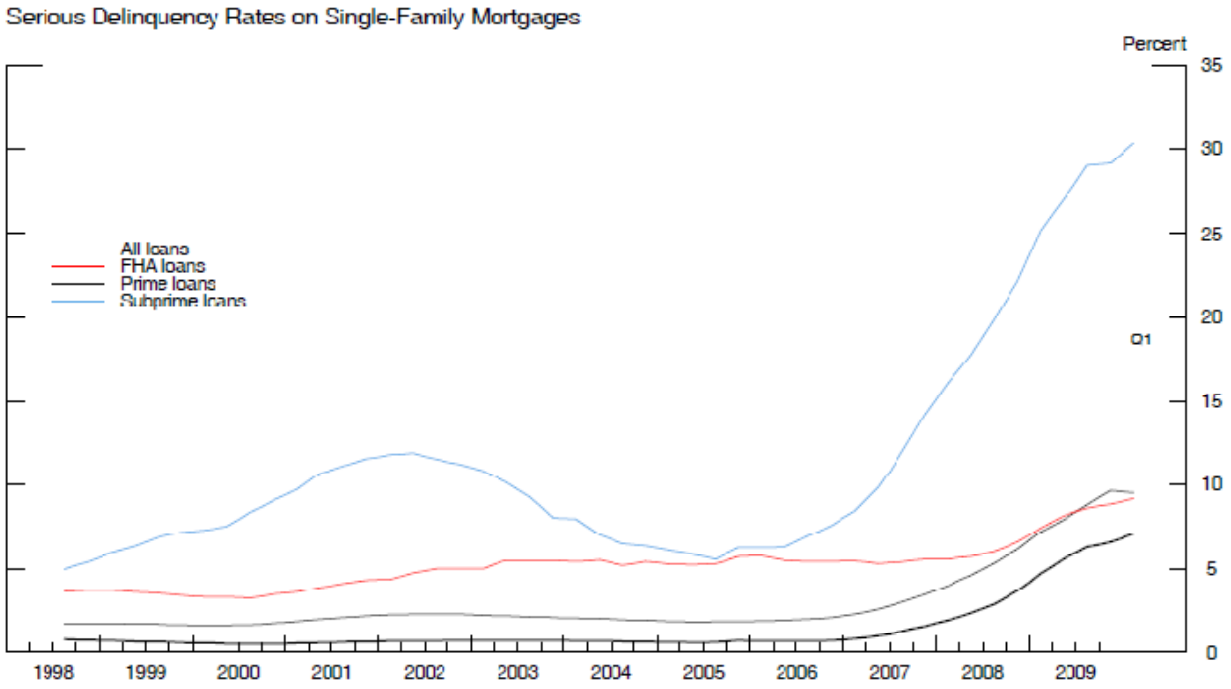
The outlook for future price developments continues to be clouded by the large volume of distressed properties potentially for sale over coming quarters, including those that become available for sale because of re-defaults on modified mortgages or mortgages in active trials. Data from the National Association of Realtors indicated that more than 3.6 million single existing family units were available for sale at the end of the first quarter. In addition, the Census Bureau reports that houses not on the market now but currently vacant year round continue to total more than 3.5 million–elevated from the 2.7 million average between 2000 and 2007. Homes that serve as collateral for seriously delinquent mortgages probably are not included in the Census Bureau total, and may ultimately be forced on the market.

Figure 18



The share of loans that were seriously delinquent — loans more than 90 days past due or in process of foreclosure — remained essentially unchanged for the first quarter of 2010 at 9.5 percent (figure 19). Mortgage delinquency rates are likely to remain high, influenced both by continuing stressful conditions in the housing market and a high unemployment rate that is unlikely to decline very quickly. Nonetheless, two modestly positive factors were evident. First, as described above, was the sharp increase in the number of permanent HAMP modifications. Second, there were initial indications that the pace of newly delinquent loans has slowed modestly. For example, recent data from Fannie Mae and Freddie Mac indicate a slowing rate of new loans becoming delinquent and decreases at those two institutions (not yet matched in broader market statistics) in the percentage of seriously delinquent loans. Similarly, the number of new 90-day delinquencies reported to HUD on the FHA-insured portfolio moderated in the latest quarter for which data are available (first quarter of 2010), from the peak levels seen over the previous four quarters. Prior to this quarter, the rate of growth had already been slowing. From the beginning of 2008 through the third quarter of 2009, year-over-year growth rates in 90-day delinquent loans were in the 45 to 60 percent range. The comparison year-over-year change for new 90-day delinquency reports in the first quarter of 2010 was just 11 percent, and data for April and May 2010 indicate a small decrease in the number of new 90-day delinquent loans. Projecting forward from these data, FHA analysis suggests that its peak foreclosure period could be expected in the fourth quarter of 2010 and the first quarter of 2011, with a gradual decline after that.

Figure 19



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

This section provides an update on the various programs, policies, financial commitments, and administrative actions taken by Treasury under the EESA during the quarterly period, from March 31, 2010 to June 30, 2010, subject to the review and oversight of the Oversight Board.[7]

a. Projected Cost of TARP Programs

Treasury periodically re-estimates the cost of TARP programs. Based on these estimates, the total cost of all TARP programs continues to be significantly less than had at one time been expected. On May 21, 2010, Treasury notified Congress that the projected cost of the TARP was $105.4 billion, which represents a decrease of $11.4 billion from the estimates in the FY 2011 President's Budget that was released in February 2010. A previous estimate, in the Midsession Review for the FY 2010 President's Budget released last August, had estimated the cost of TARP as $341 billion.[8]

[7] Data related to the HAMP and PPIP programs that became available after June 30, 2010, are not included in this Section IV.

[8] Represents deficit impact and includes offsetting interest collections.

As reported by Treasury,[9] the decreases in total costs, which are estimates as of March 31, 2010, are primarily (i) a result of appreciation in the value of the 7.7 billion shares of Citigroup common stock held by Treasury, (ii) the increase in estimated value of Treasury's AIFP investments as the outlook for the domestic automobile industry has improved, and (iii) the decrease in estimated cost related to AIG by $2.9 billion as prospects for the company improved. Remaining TARP costs are derived from homeowner relief programs as well as the assistance provided to the automotive industry and AIG. Treasury provides updated cost assessments for TARP programs four times per year.

As of June 30, 2010, actual planned commitments for TARP programs remained at $537 billion (figure 1).[10] Total capital repayments from TARP programs were more than $198 billion, an amount greater than disbursements outstanding as of June 30, 2010.

b. Legislative Changes to TARP Authority

On July 21, 2010, President Obama signed the Dodd-Frank Act. The Act includes provisions that amend EESA with three principal effects on the TARP authority: (i) total disbursements under TARP are capped at $475 billion; (ii) the amount of TARP investments that are repaid cannot be used to increase TARP spending; and (iii) obligations cannot be incurred for programs or initiatives that were not initiated as of June 25, 2010. Treasury will reduce the TARP planned commitments and otherwise alter its management of TARP to conform to these limitations. Following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, planned commitments were revised from $537 billion to $475 billion.

c. Housing Stabilization and Foreclosure Mitigation

Treasury has indicated that reducing foreclosures for responsible homeowners and further stabilizing the U.S. housing market are key areas to which committed TARP funds will be used going forward.

i. Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund Programs)

The previous report of the Oversight Board provided a summary description of the funding under TARP for innovative measures to help homeowners in the states that have been hardest hit by housing price declines and unemployment.

[9] More information is available at: http://www.FinancialStability.gov/ latest/pr_05212010b.html, which includes links to a summary of the cost estimates for TARP investments as of March 31, 2010, and a description of the methodology used for the estimates.

[10] As explained below, these commitments were revised after the close of the quarterly period.

a. First Hardest Hit Fund

Under the first Hardest Hit Fund, $1.5 billion of investment authority under EESA will be available for programs developed by state HFAs designed to tailor housing assistance to local needs. Arizona, California, Florida, Michigan and Nevada, which are the states where house prices have fallen more than 20 percent from their peak, are eligible for this funding. On June 23, 2010, Treasury approved state plans for use of the $1.5 billion in the first Hardest Hit Fund foreclosure-prevention programs in these five states.[11] The approved proposals include programs to assist struggling homeowners with negative equity through principal reduction; assist the unemployed or under-employed make their mortgage payments; facilitate the settlement of second liens; facilitate short sales and/or deeds-in-lieu of foreclosure; and assist in the payment of arrearages. The specific implementation and timing will depend on the types of programs offered, specific state-level procurement procedures, compliance readiness and other factors.

Below is a chart that highlights the types of programs each state plans to implement:

	1st Lien Principal Reduction	Unemployment Assistance	Arrearage Extinguishment	2nd Lien Principal Reduction	Short Sale Facilitation
Arizona	✓	✓		✓	
California	✓	✓	✓		✓
Florida	✓	✓		✓	
Michigan	✓	✓	✓		
Nevada	✓			✓	✓

b. Second Hardest Hit Fund

The second Hardest Hit Fund that will provide $600 million in funding for innovative measures to help families stay in their homes or otherwise avoid foreclosure in five states that have areas of concentrated economic distress. While the first Hardest Hit Fund targets areas affected by home price declines greater than 20 percent, the second Hardest Hit Fund targets states with high shares of their population living in economically distressed areas, defined as counties with average unemployment rates greater than 12 percent during 2009. States that were allocated funds under the first Hardest Hit Fund are not eligible for the second Hardest Hit Fund. The five states that will receive allocations based on these criteria are: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. Treasury expects to approve proposals for the second Hardest Hit Fund in August of 2010.

[11] State-by-state summaries of the Hardest Hit Fund proposals are available at: http://www.MakingHomeAffordable.gov/pr_06232010.html, and copies of the complete proposals are available at http://www.FinancialStability.gov/roadtostability/hardesthitfund.html.

ii. Making Home Affordable and the Home Affordable Modification Program

a. Overview

HAMP is a component of the Treasury's 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.[12] To facilitate and promote modifications, HAMP offers "pay-for-success" incentives to servicers, lenders, investors, and borrowers on permanent modifications, as long as borrowers stay current on their payments.[13]

As of June 30, 2010, HAMP had an allocation of $75 billion, of which $50 billion came from TARP. Servicers wishing to participate in HAMP must enter into a Servicer Participation Agreement with Fannie Mae, Treasury's financial agent, on or before October 3, 2010.[14] 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. Payment affordability under HAMP is achieved primarily through interest rate reduction, term extensions, and principal forbearance, although as discussed below, additional enhancements to HAMP announced during the quarter were designed to encourage principal write-downs on eligible loans. All loans

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[12] MHA also includes (i) a refinancing component (the Home Affordable Refinance Program, or "HARP"), a non-TARP program, that allows homeowners who have loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance at lower interest rates, (ii) the Second Lien Modification Program ("2MP"), and (iii) the Home Affordable Foreclosure Alternatives ("HAFA") program. 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 (the Home Price Decline Protection or "HPDP").

Treasury has two additional websites that provide information about HAMP specifically– www.hmpadmin.com and www.MakingHomeAffordable.gov. These websites contain comprehensive data, including lists of all participating servicers, copies of all contracts signed by servicers, the Supplemental Directives that establish additional requirements for HAMP, frequently asked questions, a white paper describing the Net Present Value ("NPV") test methodology and all of the borrower application documents.

[13] Eligible homeowners for modifications under HAMP must, among other things, live in an owner-occupied principal residence, have a mortgage balance no more than $729,750, owe monthly mortgage payments that are not affordable (greater than 31 percent of their income) and demonstrate a financial hardship.

[14] Servicers of GSE loans are required to enroll in HAMP.

permanently modified include an interest rate reduction. Under HAMP, the initial interest rate is set for five years.[15] (See (c)(3) below for "Report Highlights".)

While homeowners receive immediate assistance through lower monthly mortgage payments once the trial modification starts, Treasury pays incentives only once the permanent modification starts and over time as long as there is no re-default. As of June 30, 2010, Treasury had disbursed approximately $250 million of incentive payments and had total obligations in the amount of approximately $43 billion (figure 1).

b. Housing Reports

1. Introduction of Housing Scorecard

On June 21, 2010, Treasury and HUD introduced a monthly scorecard on the nation's housing market (the "Housing Scorecard"). Each month, the scorecard will incorporate key housing market indicators and highlight the impact of housing recovery efforts, including assistance to homeowners through FHA and HAMP. The Housing Scorecard now incorporates the HAMP Monthly Servicer Performance Report and is available at www.hud.gov/scorecard.

The initial Housing Scorecard contained key data on the health of the housing market and highlighted several positive impacts of the efforts to stabilize the housing market, including that servicers reported the number of homeowners receiving restructured mortgages since April 2009 has increased to 2.8 million. This figure included more than 1.2 million homeowners who have started HAMP trial modifications and nearly 400,000 who have benefitted from FHA loss mitigation activities. Of those in the HAMP program, 346,000 have entered a permanent modification saving a median of more than $500 per month. In addition, HUD-approved mortgage counselors have assisted 3.6 million families.[16]

2. Servicer Performance Reports

During the quarterly period, Treasury released three monthly Servicer Performance Reports covering March, April and May 2010.[17] Each month Treasury has expanded the amount of data included in the monthly report, to maximize servicer accountability and program transparency. For example—

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[15] 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 Freddie Mac survey rate at the time the trial period began. That rate continued to be near historic lows. The capped rate is fixed for the life of the loan.

[16] The scorecard noted that the housing initiatives were intended to help prevent avoidable foreclosures and stabilize the housing market. The foreclosure prevention initiatives were not designed to help every borrower and the housing market will continue to adjust for some time.

[17] Copies of the Monthly Servicer Performance Reports are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html.

(i) The report for April 2010 introduced conversion rates by servicer and aged trial modifications by servicer. This showed a wide variation between servicers in conversion rates as measured against trials eligible to convert. Servicers who started trials with verified documents generally posted higher conversion rates than servicers who allowed borrowers to enter trials with stated income. (All servicers are now required to verify borrower documents before a trial starts.)

(ii) The report for May 2010 for the first time included:

(A) Data on the disposition path of canceled trials, recording the extent to which homeowners who are unable to enter HAMP have alternative options to avoid foreclosure; and

(B) Data on the results of the MHA-Compliance ("MHA-C") "Second-Look Reviews" as well as an appendix that outlines a description of compliance activities and ongoing areas of compliance focus primarily borrower solicitation and document retention.

3. Report Highlights

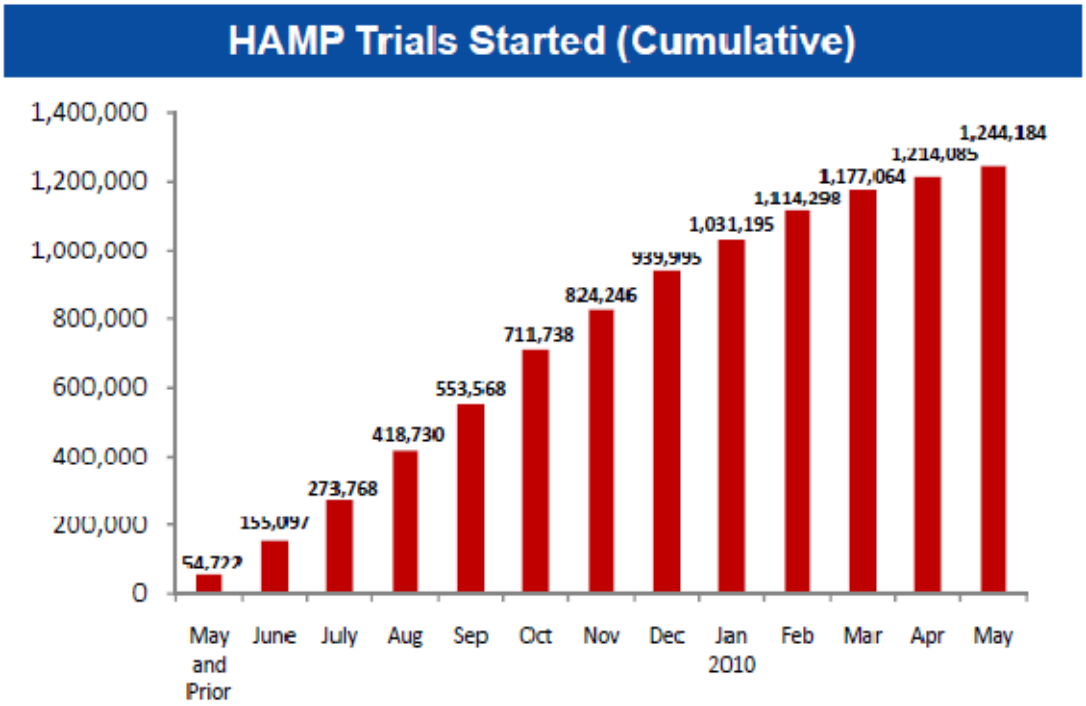
Key data reflected in the Servicer Performance Report through May 2010, include:

(i) A month-over-month increase in permanent modifications, with average growth of roughly 50,000 permanent modifications per month over the last four months. Permanent modifications have been completed for more than 346,000 homeowners, and over 47,000 trial modifications converted to permanent modifications in May, an increase of almost 15.6 percent from April (figure 20).

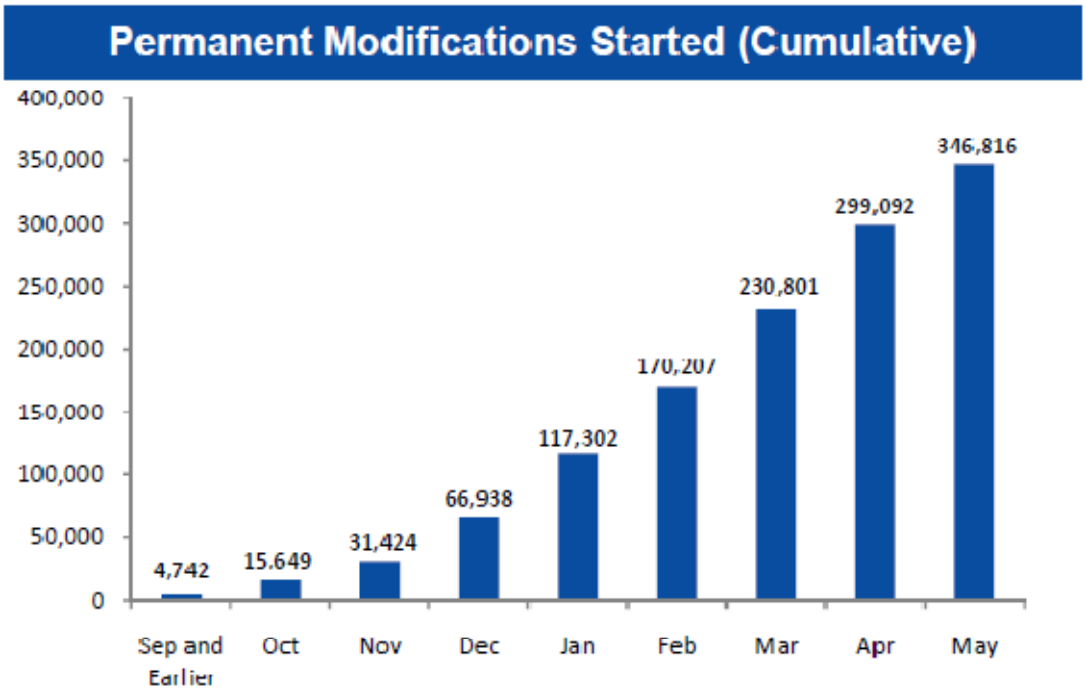
(ii) Borrowers in permanent modifications are experiencing a median payment reduction of 36 percent, more than $500 per month.

(iii) The newly reported servicer data on the Disposition Path of Canceled Trials, which indicates that nearly half of the homeowners unable to enter a HAMP permanent modification enter an alternative modification with their servicer, and that fewer than 10 percent of canceled trials move into the foreclosure process.

Figure 20



Note: Historical data is unchanged from previous report.
Source: HAMP system of record.



Source: HAMP system of record.

c. HAMP Update

During the quarterly period, Treasury continued to examine HAMP program parameters to improve operational efficiency and effectiveness, and continued efforts to improve servicer performance. For example:

(i) In May, the Administration hosted a summit with representatives from participating mortgage servicing companies to discuss ways to move qualified homeowners into permanent modifications, improve homeowners' HAMP experience, quickly implement the 2MP and HAFA programs, and maintain the pace of new trial modification starts.

(ii) Also in May, the Administration outlined plans for servicers to begin reporting more detailed performance measures. This reporting will include the eight largest servicers and will focus on servicer compliance, program execution, and homeowner experience as follows:

(A) *Servicer Compliance with Program Guidelines*, with results of servicer-level loan-file reviews assessing whether loan files were appropriately evaluated, and identification of all compliance activities performed for servicers and of areas for future compliance focus;

(B) *Program Executio*n, with average time from start of trial modification to start of permanent modification, servicer implementation timelines for program updates, information about alternatives made available to homeowners ineligible for HAMP, and information about alternatives made available to homeowners who fall out of HAMP trial modifications, such as non-HAMP modifications, payment plans, and short sales; and

(C) *Homeowner Experience*, with servicer handling of calls from homeowners (speed to answer, hang-up rates), time it takes to resolve homeowner problems that have been reported by third parties such as housing counselors, attorneys, and congressional and other government offices, and servicer share of homeowner complaints to the Homeowner's HOPE™ Hotline.

(iii) In June, Treasury made available a supplement to the *Base NPV Model Documentation Supplement* for use by servicers. The Supplement provides updated data on REO discount, home price history and projection of home prices in110 local housing markets, foreclosure/REO costs and timelines, and home price decline protection payment used in the base NPV model.

(iv) In June, Treasury also made available a new Base NPV Model Compliance Handbook, providing detailed information on proper use and, if applicable, implementation of the base NPV model consistent with HAMP guidance. The handbook also outlines MHA-C expectations for use of the base NPV model by participating servicers. The Base NPV Model Compliance Handbook is a compilation of HAMP-related guidance and policies, previously communicated to participating servicers, governing servicer participation in HAMP for all non-GSE mortgages.

With respect to HAMP compliance, the compliance activities of MHA-C include on-site reviews, file reviews and reviews of NPV model applications, and a description of these compliance activities were published as Appendix B of the *Servicer Performance Report* through May 2010. The HAMP Compliance Program is designed to ensure that servicers satisfy their obligations under HAMP requirements in order to provide a well-controlled program that assists as many deserving homeowners as possible to retain their homes while taking reasonable steps to prevent fraud, waste and abuse. Freddie Mac acts as Treasury's Compliance Agent for HAMP through MHA-C, which is a separate, independent division that conducts these compliance activities. Treasury works closely with MHA-C to design and refine the Compliance Program and conducts quality assessments of the activities performed by MHA-C. Following these reviews, MHA-C provides Treasury with assessments of each servicer's compliance with HAMP requirements. If appropriate, Treasury will implement remedies for non-compliance. These remedies may include withholding or reducing incentive payments to servicers, requiring repayments of prior incentive payments made to servicers with respect to affected loans, or requiring additional servicer oversight.

With respect to Servicers' Certifications, during the quarterly period, Treasury released *SD 10-06 - Guidance on Annual Servicer Certification Required by the Servicer Participation Agreement.*[18] Servicers are required to submit an initial certification, as well as subsequent certifications each year after, stating their continued compliance with the HAMP and related MHA programs, and SD 10-06 provides amended and restated the original certification requirements and outlines the delivery due dates for the initial and subsequent certifications.

d. HAMP Enhancements for Unemployed Homeowners and Principal Write-Downs

In March, enhancements to HAMP were announced to provide temporary mortgage assistance to some unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for modification through HAMP, and help borrowers move to more affordable housing when modification is not possible.[19] The enhancements are designed to address two principal areas: first, temporary assistance for unemployed homeowners; and second, requirements to consider alternative principal write-down approach and incentives.

[18] The supplemental directive is available at: https://www.hmpadmin.com/portal/docs/hamp_servicer/sd1006.pdf.

[19] Further information, including the HAMP Improvements Fact Sheet, is available at http://www.financialstability.gov/latest/pr_03262010.html.

1. *Temporary Assistance for Unemployed Homeowners While They Search for Re-Employment*

In May 2010, Treasury released *SD 10-04 - Home Affordable Unemployment Program* as implementation of a HAMP program enhancement announced in March.[20] The Unemployment Program requires servicers to grant qualified unemployed borrowers a forbearance period to have their mortgage payments temporarily reduced for a minimum of three months while they look for a new job. If a homeowner does not find a job before the temporary assistance period is over or if they find a job with a reduced income, they will be evaluated for a permanent HAMP modification or may be eligible for HAMP's alternatives to the foreclosure program.

Servicers are prohibited from initiating foreclosure action or conducting a foreclosure sale while the borrower is being evaluated for the Unemployment Program and HAMP, after a foreclosure plan notice is mailed, and during the Unemployment Program forbearance or extension period. The borrower must be considered for HAFA following the Unemployment Program forbearance period before the loan is referred to foreclosure or a pending foreclosure sale is conducted. Servicers will not be reimbursed by the TARP for any costs associated with the Unemployment Program.

2. *Requirement to Consider Alternative Principal Write-down Approach and Increased Principal Write-down Incentives*

In June 2010, Treasury released *SD 10-05 - Home Affordable Modification Program – Modification of Loans with Principal Reduction Alternative ("PRA")* to implement a HAMP program enhancement announced in March and designed to expand the use of principal write-downs.[21] Participating servicers in HAMP will be required to consider an alternative modification approach that emphasizes principal relief when assessing a borrower's eligibility for a HAMP modification. This alternative modification approach will include incentive payments from Treasury for each dollar of principal write-down by servicers and investors. The principal reduction and the incentives will be earned by the borrower and lender based on a pay-for-success structure.

SD 10-05 provided specific guidance to servicers on a PRA to give servicers additional flexibility to offer relief to borrowers whose homes are worth significantly less than the remaining amounts owed under their first lien mortgage loans (negative equity). Under PRA, servicers are required to evaluate the benefit of principal reduction for every HAMP eligible loan with high negative equity, and are encouraged to offer principal reduction whenever the NPV

[20] The supplemental directive is available at: https://www.hmpadmin.com/portal/docs/hamp_servicer/sd1004.pdf).

[21] The supplemental directive is available at: https://www.hmpadmin.com/portal/docs/hamp_servicer/sd1005.pdf.

result of a HAMP modification using PRA is greater than the NPV result without considering principal reduction.[22]

(i) Servicers are required to evaluate all HAMP-eligible loans with a mark-to-market loan-to-value ("MTMLTV") greater than 115 percent to determine if a principal reduction is beneficial. If the evaluation shows the NPV for a HAMP modification using PRA is positive, servicers are encouraged to offer the principal reduction to the borrower. An updated NPV model reflecting principal reduction will be available to use for this evaluation.

(ii) The PRA effective date (i.e., the date the principal reduction evaluation is required) will be either October 1, 2010, or the date of the updated HAMP NPV model release (whichever is later). However, servicers may immediately offer PRA for HAMP-eligible modifications as long as the reduction follows all PRA requirements.

(iii) Principal reductions under PRA are earned over a three-year period and are initially treated as principal forbearance. Each year (for three years) that the borrower is in good standing on the anniversary of the borrower's trial period effective date, one-third of the original PRA forbearance amount will be reduced. This reduced amount will be applied to their unpaid principal balance.

(iv) Servicers participating in 2MP will be required to provide a principal reduction on the borrower's second mortgage in proportion to any principal reduction offered on a corresponding HAMP modified first lien mortgage loan.

(v) Investors will receive an incentive from TARP based on loan delinquency, loan to value (LTV) ratio, and the amount of the principal reduction.

e. HAFA, 2MP and HAMP-FHA Updates

As noted in the prior quarterly report of the Oversight Board, in March 2010, Treasury released Supplemental Directives with guidance for the implementation of the HAFA, 2MP and HAMP-FHA programs: [23]

(i) *SD 0-09 Revised – Home Affordable Foreclosure Alternatives – Short Sale and Deed-in-Lieu of Foreclosure Update*, which replaced former SD 09-09 and is effective as of April 5, 2010, provides guidance to servicers for adoption and implementation of the HAFA

[22] In addition, SD 10-05 stated Treasury's position regarding the applicability of the servicer safe harbor (Servicer Safe Harbor) set forth in Section 129A of the Truth In Lending Act, 15 U.S.C. 1639a ("TILA"), to residential loan modifications under HAMP and 2MP, as well as to short sales and deeds-in-lieu of foreclosure under HAFA. SD 10-05 also stated Treasury's position regarding the accounting treatment to be employed by servicers and other transaction parties for HAMP modifications that include principal forbearance.

[23] A listing of all Supplemental Directives, and links to PDF versions of each Supplemental Directive, can be found at: https://www.hmpadmin.com/portal/programs/directives.html.

program for first lien mortgage loans that are not owned or guaranteed by Fannie Mae or Freddie Mac.

(ii) *SD 09-05 Revised – Updated to the Second Lien Modification Program*, which replaced former SD 09-05, provides guidance to servicers for adoption and implementation of 2MP for second liens, among other things, to further encourage principal write-downs by increasing the incentives provided for loans extinguished or partially extinguished in conjunction with the HAMP Second Lien Program.

(iii) *SD 10-03 – Home Affordable Modification Program – Modifications of Loans Insured by the Federal Housing Administration,* provides for the HAMP pay-for-performance compensation and pay-for-success compensation to be expanded to include borrowers and servicers of FHA loans. There are no investor incentives for mortgages associated with FHA loans.

f. FHA Program Adjustments to Support Refinancings for Underwater Homeowners

During the quarterly period, Treasury and HUD continued to develop the FHA Refinance Program for underwater borrowers, with the expectation that the program would be available by the fall of 2010. This FHA Refinance Program will permit participating lenders to provide additional sustainable refinancing options to homeowners who owe more than their home is worth. Current lenders must agree to write-down balances of outstanding mortgages both to meet FHA loan-to-value guidelines, and to provide affordable payments for homeowners. TARP funds will be made available up to a total of $12 billion to provide incentives for the write-downs of second liens on the property, to encourage participation by servicers, and to provide additional coverage for a share of potential losses by current first-lien lenders on these loans. HUD and Treasury expect to issue detailed guidelines for FHA Refinance Option, and Treasury will establish a contract for business services to manage its share of foreclosure costs.

g. Communication

While it is the responsibility of servicers participating in HAMP to reach out to borrowers and convey information about the program to the homeowners whose loans they service, Treasury has taken steps to guide and supplement the communication efforts of servicers. During the quarterly period, Treasury continued working on a two-part public service announcement campaign for HAMP in partnership with HUD and NeighborWorks America®, as described in the previous report of the Oversight Board, and the Monthly Servicer Performance Report continued to publish metrics on Selected Outreach Measures and Call Center Volume.

d. Legacy Securities Public-Private Investment Program

The S-PPIP is designed to support market functioning and facilitate price discovery in the mortgage-backed securities ("MBS") markets, allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. Under the program, Treasury has partnered with fund managers and private investors who invest in legacy securities through a PPIF.[24]

In January 2010, Treasury released the initial "Program Update – Quarter ended December 31, 2009" with information regarding the first quarter of S-PPIP operations, and the report for S-PPIP operations in the quarter ending March 31, 2010, was released on April 20, 2010.[25] S-PPIP activities during the quarterly period will be reviewed by Oversight Board in the subsequent report.

As of March 31, 2010, the PPIFs had drawn-down approximately $10.5 billion of total capital, which had been invested in eligible assets or cash equivalents pending investment under the S-PPIP program terms. The total market value of non-agency RMBS and commercial CMBS held by the PPIFs was approximately $10 billion, and approximately 88 percent of the portfolio holdings are non-agency RMBS and 12 percent are CMBS.

e. Capital and Guarantee Programs for Banking Organizations

As noted in prior reports of the Oversight Board, the Asset Guarantee Program ("AGP"), Capital Assistance Program, and Targeted Investment Program ("TIP") have been closed, and all investments made by Treasury under the respective programs have been repaid.

i. Repayments under the Capital Purchase Program

The CPP, which was the first and largest program established by Treasury under EESA, responded to severely deteriorated conditions in credit markets and acted to stabilize the financial system by providing capital to a broad range of viable U.S. financial institutions. Approximately $205 billion was disbursed to 707 institutions, with final investments occurring in December 2009. As of June 30, 2010, Treasury had received approximately $146 billion in total repayments under the CPP. Notable repayments during the quarterly period include Lincoln National Corporation for $950 million and the repayments associated with the sale of Citigroup common stock described below.

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[24] Details on the program terms for the S-PPIP are available at: http://www.FinancialStability.gov/roadtostability/publicprivatefund.html and the previous quarterly reports of the Financial Stability Oversight Board.

[25] The full report can be found at: http://www.financialstability.gov/docs/External%20Report%20-%2003-10%20Final.pdf. Data related to the S-PPIP programs that became available after June 30, 2010, are not included in this quarterly report.

ii. Update on Warrant Dispositions

As of June 30, 2010, Treasury had disposed of warrants from 61 banking organizations and had received more than $7 billion in gross proceeds.[26] During the quarterly period, eight banking organizations repurchased warrants for proceeds of approximately $28 million. In April, Treasury announced its intention to conduct public auctions to dispose of warrant positions in Wells Fargo & Co., PNC Financial Services Group, Inc., Comerica Inc., Valley National Bancorp, Sterling Bancshares, Inc. and First Financial Bancorp. During the quarterly period, Treasury completed the announced warrant auctions with approximately $1.37 billion in gross proceeds as follows: Wells Fargo & Co. - $849 million, PNC Financial Services Group, Inc. - $324 million, Comerica, Inc. - $183.7 million, Valley National Bancorp - $5.6 million, Sterling Bancshares, Inc. - $3 million and First Financial Bancorp - $3.1 million. All public auctions to date have been 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.

iii. Update on Citigroup

In March 2010, Treasury announced its intention to dispose of its shares of common stock in Citigroup in an orderly and measured fashion subject to market conditions. Treasury had received these shares of common stock pursuant to the June 2009 exchange agreement between Treasury and Citigroup, which provided for the exchange into common shares of the preferred stock that Treasury purchased in connection with Citigroup's participation in the CPP. Pursuant to the exchange, which was part of a series of exchange offers conducted by Citigroup to strengthen its capital base, Treasury exchanged the $25 billion in preferred stock for approximately 7.7 billion shares of common stock at a price of $3.25 per common share. Treasury has engaged Morgan Stanley as its capital markets advisor in connection with the Citigroup dispositions.

During the quarterly period, Treasury sold a total of 2.6 billion shares of common stock in Citigroup, approximately one-third of its common stock holdings, for proceeds of approximately $10.5 billion at an average price per share of $4.03.[27] Specifically, on April 26, 2010, Treasury entered into a pre-arranged written trading plan with Morgan Stanley as its sales agent and gave Morgan Stanley discretionary authority to sell up to 1.5 billion shares of Citigroup common stock subject to certain parameters during the period ending on June 30, 2010. On May 26, 2010, Treasury completed the sale of the 1.5 billion shares. Treasury then entered into a second pre-arranged written trading plan with Morgan Stanley, as its sales agent, that provides discretionary authority for the sale up to 1.5 billion additional shares subject to certain parameters. Because Treasury will not sell shares during the blackout period set by

[26] This amount includes warrant dispositions through auction, repurchase, and repurchase of exercised warrant preferred shares.

[27] Approximately $8.48 billion and $2.03 billion of the gross proceeds from the Citigroup common stock sales were applied as repayment and income, respectively.

Citigroup in advance of its second quarter earnings release, which period began on July 1, the plan terminated on June 30. Treasury completed the sale of 1.1 billion shares under this plan. Also in June, Treasury announced that 12 small broker-dealers will work with Morgan Stanley in connection with the sale of the Citigroup common stock.

To enable the sales described above, Citigroup filed a prospectus supplement with the SEC covering Treasury's common stock. These sales of common stock do not include Treasury's holdings of Citigroup trust preferred securities or warrants for common stock.

iv. Update on Dividends and Interest

As of June 30, 2010, Treasury had received approximately $9.5 billion in total dividends and interest from its CPP investments. During the quarterly period, Treasury received approximately $487 million in dividends and interest under the CPP program.[28]

In May 2010, a quarterly payment month for most financial institutions participating in the CPP, Treasury received approximately $359 million in dividend and interest payments from 532 financial institutions, and 97 institutions did not make scheduled payments on Treasury's CPP investments. The missed payments consisted of 72 cumulative dividends (approximately $43.02 million), 19 non-cumulative dividends (approximately $1.81 million), and six S-corporation interest payments (approximately $1.32 million).[29] As of June 30, 2010, sixteen financial institutions have missed four quarterly payments, eight have missed five, and one has missed six.

v. Update on Exchanges, Disposition and Receivership of Certain Institutions

a. Exchanges and Dispositions

In limited cases, Treasury may participate in exchanges of CPP preferred stock for other securities or Treasury may agree to participate in a direct disposition of a CPP investment to new investors who are able to provide fresh equity investment, conduct a capital restructuring or otherwise strengthen the capital position of the bank.[30] During the quarterly period, Treasury entered into the agreements described below:

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[28] Treasury's monthly Dividends and Interest Reports are available at: http://www.FinancialStability.gov/latest/reportsanddocs.html.

[29] References to missed payments exclude institutions that have entered bankruptcy or had a bank subsidiary placed in receivership.

[30] In the Agency Financial Report for Fiscal Year 2009, Treasury stated that its four portfolio management guiding principles for the TARP are: (i) protect taxpayer investments and maximize overall investment returns within competing constraints; (ii) promote stability for and prevent disruption of financial markets and the economy; (iii) bolster market confidence to increase private capital investment; and (iv) dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact.

(i) Independent Bank Corporation ("Independent"). In April, Treasury exchanged its initial $72 million investment in CPP preferred stock, plus approximately $2.4 million in unpaid and accrued dividends, for $74.4 million of mandatorily convertible preferred stock ("MCP"), and Independent issued to Treasury an amended and restated warrant (with a lower exercise price). The exchange is part of an overall capital plan under which Independent has the right to convert all or a portion of Treasury's MCP into common stock upon the satisfaction of certain conditions including: (i) Independent raising a minimum of $100 million new common stock, and (ii) at least $40 million of the institution's trust preferred securities being exchanged for common stock. Unless earlier converted, the MCP will convert into common stock on the seventh anniversary of its issuance, and will have substantially the same terms as the CPP preferred stock until conversion.

(ii) Sterling Financial Corporation. In April, Treasury agreed to exchange its initial $303 million investment in preferred stock for an equivalent amount of MCP, subject to the receipt of regulatory and stockholder approvals. The MCP may then be converted to common stock, subject to the fulfillment by Sterling Financial Corporation of the conditions related to its capital plan.

(iii) The South Financial Group, Inc. In May, Treasury entered into an agreement with The Toronto-Dominion Bank ("TD Bank") for the sale to TD Bank of all preferred stock and warrants issued by The South Financial Group, Inc. ("TSFG") to Treasury at a purchase price of $130.18 million for the preferred stock and $400,000 for the warrants. Completion of the sale is subject to the fulfillment of certain closing conditions. Treasury's original $347 million investment in TSFG was made in 2008.

(iv) First Merchants Corporation. In June, Treasury exchanged $46.4 million of its $116 million preferred stock in First Merchants Corporation for a like amount of non tax-deductible trust preferred securities issued by First Merchants Capital Trust III. Prior to the exchange, First Merchants had raised $24.1 million of common equity in a private placement of shares.

b. Receivership

Also during the quarterly period, the banking subsidiary of Midwest Banc Holdings Inc. was placed in receivership by its banking regulator. Treasury had previously exchanged its CPP preferred stock in the company ($84.8 million in initial investment plus $4.3 million in unpaid and accrued dividends) into $89.1 million of MCP as part of the financial institution's overall capital plan under which it had sought to exchange its existing preferred stock and debt for common stock as well as to raise new equity. Treasury's conversion to MCP did not affect its position in the capital structure of the company. The failure of the institution to adequately recapitalize means that following receivership it is unlikely that Treasury will receive any significant recovery.

vi. Update on Bank Lending Surveys

Each month, Treasury has asked banks that participate in the CPP to provide information about their lending activities and has published 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 assess the lending and intermediation activities of participating banks.[31] During the quarterly period, Treasury released three new Monthly Lending and Intermediation Snapshots and three Monthly Lending Reports covering the periods ending in February, March, and April 2010. In addition, Treasury released the Quarterly CPP Report, and continued implementation of the annual Use of Capital Survey described below.

A. Monthly Lending and Intermediation Snapshots

The *Monthly Lending and Intermediation Snapshot*, for the 22 largest recipients of CPP investments and which was first published in January 2009 with data from inception of the CPP, provides quantitative information on three major categories of lending – consumer, commercial, and other activities – based on banks' internal reporting, and commentary to explain changes in lending levels for each category. Beginning with the December 2009 Snapshot (released in February 2010), banks that that had repaid CPP funds in June 2009 no longer submitted data to Treasury. As the reporting group contracted with additional CPP repayments, Treasury has ceased to publish a summary analysis because the aggregate month to month changes are no longer meaningful. However, Treasury will continue to publish the individual bank submissions and the underlying data from the banks that continue to submit Snapshot data.[32]

B. CPP Monthly Lending Report

Treasury's *Monthly Lending Report* provides data on consumer lending, commercial lending, and total lending for all CPP participants and is published in addition to the Monthly Lending and Intermediation Snapshot.

C. The Quarterly CPP Report

An interagency group (consisting of representatives from Treasury, the Federal Reserve Board, and other Federal banking agencies) conducts periodic analysis of the effect of TARP programs on banking organizations and their activities, 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, and publishes the results in reports, known as the *Quarterly CPP Report*.[33]

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[31] The reports are available at: http://www.FinancialStability.gov/impact/surveys.htm.

[32] For complete information, including individual banks' reports, please visit http://www.FinancialStability.gov/impact/MonthlyLendingandIntermediationSnapshot.htm.

[33] The report is available at: available at: http://www.FinancialStability.gov/impact/CPPreport.html.

D. Use of Capital Survey

Treasury has also initiated an annual *Use of Capital Survey* to obtain insight into the lending, financial intermediation, and capital building activities of all recipients of TARP investment through CPP funds. Collection of the survey data began during March, with responses due in the second calendar quarter of 2010.[34] The *Use of Capital Survey* is designed to capture representative information of CPP fund usage without imposing excessive burdens on institutions, and will cover how each financial institution has employed the capital infusion of CPP funds from the date it initially received the funds until the end of 2009. Treasury will also publish summary balance sheet and income statement information from each institution's regulatory filings.[35]

f. Community and Small Business Lending Initiatives

i. Community Development Capital Initiative

During the quarterly period, Treasury released the final program terms and the definitive forms of agreements for the CDCI, which will invest lower-cost capital in eligible CDFIs that operate in markets underserved by traditional financial institutions. CDFIs are banks, thrifts, bank holding companies, savings and loan holding companies, and credit unions that target more than 60 percent of their small business lending and other economic development activities to low- and moderate-income communities. The application deadline to participate in the CDCI was April 30, 2010.[36] CDFIs participating in the Capital Purchase Program are eligible to exchange the CPP investment into the CDCI program.

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[34] Data and survey results will are available at: http://www.FinancialStability.gov/useofcapital.

[35] Treasury requested initial responses by April 15, 2010, from all past and present CPP participants. Treasury received 664 survey responses to the 2009 Use of Capital Survey (94 percent of institutions). Additional information is available at: http://www.financialstability.gov/useofcapital/Annual%20Use%20of%20Capital%20Survey%20Results,%202009%20-%20Capital%20Purchase%20Program.pdf.

Collection of the Use of Capital survey data was completed during the quarterly period, and published at: http://www.FinancialStability.gov/useofcapital.

[36] Program details are available at: http://www.FinancialStability.gov/roadtostability/comdev.html

ii. SBA 7(a) Securities Purchase Program

In March 2009, Treasury and the Small Business Administration announced several initiatives directed at enhancing credit for small businesses, including a Treasury program under TARP to purchase SBA guaranteed securities ("pooled certificates").[37] Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities from one pool assembler, and as of June 30, 2010, has agreed to purchase such securities with an aggregate purchase face amount of approximately $162 million.

g. Term Asset-Backed Securities Loan Facility

The TALF was established by Treasury and the Federal Reserve in November 2008 under the Consumer and Business Lending Initiative to help accommodate the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by certain consumer and business loans. As previously announced, on March 31, 2010, the Federal Reserve ceased extending loans under TALF, except for loans extended against newly issued CMBS. The extension of new credit under the TALF officially came to an end on June 18, 2010, with the final subscription for newly-issued CMBS. No TALF loans were extended under these newly issued CMBS subscriptions.

The TALF closed to new lending on June 30, 2010, and loans extended during the program will mature over the next several years, with all loans maturing no later than March 30, 2015. Of the $70 billion in TALF loans that were extended, approximately $43 billion remained outstanding on June 30, 2010. Virtually all the repayments that have been received have been borrower prepayments rather than scheduled payments of principal. Over the past 12 months, as financial conditions have improved and ABS spreads have narrowed, many TALF-financed investors have repaid their TALF loans either because they have obtained alternative, cheaper financing or have sold their ABS. No securities have been put to the TALF LLC, a facility formed to purchase and manage any ABS that might be surrendered by a TALF borrower or otherwise claimed by FRBNY in connection with its enforcement rights to the TALF collateral. As of June 30, 2010, the TALF LLC had $406 million of income from put option fees and interest on permitted investments, plus a $100 million TARP loan, for total net portfolio holdings of $506 million, $491 million of which may be used to fund collateral purchases before any additional TARP funds are utilized. On July 20, 2010, the Federal Reserve and Treasury agreed it was appropriate for Treasury to reduce the amount of credit protection provided to the TALF under TARP from $20 billion (with respect to the $200 billion in TALF lending the Federal Reserve initially authorized) to $4.3 billion (with respect to the 43 billion on TALF loans remaining outstanding).

Between the launch of the TALF in March 2009 and the end of TALF ABS lending in March 2010, there has been $109 billion of TALF-eligible ABS new issuance in capital markets. Of that total ABS issuance, approximately 53 percent, or $58 billion was financed using TALF loans. There was also approximately $12 billion lent against CMBS collateral. The total amount

[37] Program details are available at: http://www.FinancialStability.gov/roadtostability/smallbusinesscommunityinitiative.html

lent of $70 billion represents approximately 35 percent of the original facility amount. During the active lending period under the TALF, issuance of ABS backed by consumer and business loans averaged approximately $12 billion per month, compared with approximately $2 billion per month in the six months prior to the program's launch. Of the new-issue asset-backed securities, TALF has helped finance $8.9 billion auto loans, $8 billion student loans, more than $24.8 billion credit card loans, and $2.1 billion SBA loans. Additionally, $3.9 billion in loans to auto and equipment dealers to help finance their inventories were extended through TALF.

h. American International Group, Inc.

Beginning in September 2008, the Federal Reserve and Treasury have taken a series of actions related to American International Group, Inc. ("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, Treasury purchased $40 billion in Series D preferred stock from AIG in November 2008, which Treasury subsequently exchanged, in April 2009, for face value plus accrued dividends, into $41.6 billion of Series E preferred stock. In April 2009, Treasury also created an equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional shares of Series F preferred stock to Treasury. The Series E and Series F preferred stock pay non-cumulative dividends of 10 percent per year. As of June 30, 2010, AIG had drawn $7.5 billion from Treasury's equity capital facility.

On May 6, 2010, the maximum amount available to AIG under its revolving credit facility with the Federal Reserve Bank of New York was further reduced, from $34.1 billion to approximately $34.0 billion, in connection with the sale of HighStar Port Partners, L.P. On May 7, 2010, AIG reported net income of $1.5 billion for the first quarter of 2010, compared to a net loss of $4.4 billion for the first quarter of 2009. As of June 30, 2010, the balance outstanding on the AIG revolving credit facility with the Federal Reserve Bank of New York was $24.7 billion.

In March 2010, AIG announced the signing of separate definitive agreements for the sale of American Life Insurance Company ("ALICO") to MetLife, Inc. ("MetLife") for approximately $15 billion and the sale of AIA Group, Limited ("AIA") to Prudential plc for approximately $35.5 billion. On June 1, 2010, in response to efforts by Prudential plc to negotiate for a lower purchase price of $30.375 billion, AIG announced that it would not consider modification to the agreed-upon terms of the transaction for the sale of AIA. On June 3, 2010, Prudential and AIG confirmed that the parties had agreed to terminate the definitive agreement for the sale of AIA and, as provided for in the sale agreement, Prudential paid AIG a termination fee. AIG remains committed to separating AIA from the company and continues to explore other options, including an IPO of AIA. AIG and MetLife continue to expect the sale of ALICO to close by the end of the year.

After the close of the quarterly period, on July 14, 2010, AIG announced the resignation of Harvey Golub from its board of directors effective immediately. Robert S. (Steve) Miller, a current member of the AIG's board of directors, succeeded Mr. Golub as Chairman of the board

of directors of AIG. Mr. Miller recently served as the Executive Chairman of Delphi Corporation, and has served in a number of corporate restructuring situations, including as Chairman and Chief Executive Officer of Bethlehem Steel (2001-2003), and Waste Management (1997-1999).

i. 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 Corporation (now known as Motors Liquidation Company) and Chrysler Holding LLC (now known as CGI Holding LLC) become leaner and more efficient companies with substantially improved long-term viability prospects. Treasury also has provided financing under the AIFP to GMAC Financial Services Inc. (now known as Ally Financial Inc. ("Ally Financial")), an important source of automobile financing.

As of June 30, 2010, Treasury holds common stock in General Motors Company ("New GM"), Chrysler Group LLC ("New Chrysler"), and Ally Financial. Treasury also holds preferred stock in New GM and Ally Financial and trust preferred securities in Ally Financial. Treasury will periodically evaluate both public and private options to exit the equity investments under the AIFP. The New GM loan was repaid in full during the quarterly period, as described below. Treasury continues to hold debt in New Chrysler, a portion of which matures in December 2011 and the balance in June 2017.

i. Update on General Motors

During the quarterly period, New GM repaid the $4.7 billion outstanding under its loan from Treasury with cash New GM had held in an escrow account, over which Treasury had approval rights. The escrow account had been funded with proceeds of the debtor-in-possession financing provided to New GM during the bankruptcy sale from Motors Liquidation Company. The cash was the property of New GM to be used for extraordinary expenses. In making its loan repayment, New GM determined that it did not need to retain the escrowed funds for expenses. Consistent with Treasury's goal of recovering funds for the taxpayer and exiting TARP investments as soon as practicable, Treasury approved New GM's loan repayment. After repayment of the Treasury loan, the balance of the funds in the account is available for New GM's general use. As of June 30, 2010, Treasury's continuing investments in New GM consisted of a 60.8 percent common equity position and $2.1 billion in preferred stock.[38] In addition, Treasury's investment in Motors Liquidation Company, currently in bankruptcy

[38] The current shareholders of New GM are: Treasury (60.8 percent), GM Voluntary Employee Benefit Association ("VEBA") (17.5 percent), the Canadian Government (11.7 percent), and unsecured bondholders of Motors Liquidation Company ("Old GM") (10 percent). As part of the restructuring, New GM has issued warrants to acquire shares of common stock to Old GM (for eventual distribution to its creditors following liquidation) and to VEBA.

proceedings, consisted of approximately $1 billion in outstanding loans as of June 30, 2010, for which there was no change during the quarterly period.

Treasury has indicated the most likely exit strategy for the AIFP equity investments in New GM is a gradual sale beginning with an initial public offering of New GM. During the quarterly period, Treasury provided public guidance on its role in the exploration of a possible initial public offering by New GM.[39] The following are excerpts from the statement:

(i) The exact timing of an initial public offering will be determined by GM in light of market conditions and other factors, but will not occur before the fourth quarter of this year. Treasury will retain the right, at all times, to decide whether and at what level to participate in the offering, should it occur.

(ii) The initial public offering is expected to include the sale of shares by Treasury, other shareholders who wish to participate, and GM. The overall size of the offering and relative amounts of primary and secondary shares will be determined at a later date.

(iii) The selection of the lead underwriters will be made by GM, subject to Treasury's agreement that the selection is reasonable. Treasury will determine the fees to be paid to the underwriters.

(iv) Federal securities laws preclude Treasury from discussing certain other matters including any discussion of the identity of potential underwriters, prior to the filing of a registration statement with the SEC.

ii. Update on Chrysler

During the quarterly period, Treasury's outstanding loans to CGI Holding LLC ("Chrysler Holding") and Old Carco LLC ("Old Chrysler") were settled or extinguished as described below.

Treasury's investments in New Chrysler were not affected by these events. Those investments consist of 9.9 percent of the equity and $7.1 billion of loans (including undrawn commitments and the $500 million assumed from Chrysler Holding).

A. CGI Holding Settlement

On May 14, 2010, Treasury received a $1.9 billion payment from Chrysler Holding as settlement of a loan made in January 2009 to Chrysler Holding, the parent company of Old Chrysler and Chrysler Financial Services Americas LLC ("Chrysler Financial"), in the amount of $4 billion. This repayment, while less than face value, was significantly more than Treasury had previously estimated to recover and is greater than an independent valuation of the loan provided by Keefe, Bruyette and Woods, which was Treasury's adviser for the transaction.

[39] The full statement is available at http://www.FinancialStability.gov/latest/pr_06102010b.html.

The original loan went into default when Old Chrysler filed for bankruptcy in April 2009, and the loan was reduced by $500 million in June 2009, when New Chrysler acquired assets of Old Chrysler pursuant to a bankruptcy court proceeding and New Chrysler assumed that amount of the debt. The loan had also provided for potential recoveries from Chrysler Financial consisting of the greater of $1.375 billion or 40 percent of any distributions that Chrysler Financial made to Chrysler Holding. However, because of the uncertainty regarding the amount and timing of any income distributions by Chrysler Financial that would be applied to the loan, Treasury had not expected a material recovery on the loan.

B. Old Chrysler Bankruptcy

On April 30, 2010, the Plan of Liquidation for the debtors of Old Carco LLC that had been approved by the United States Bankruptcy Court for the Southern District of New York became effective (the "Liquidation Plan"). Under the Liquidation Plan, the approximately $1.9 billion debtor-in-possession loan that Treasury had provided to Old Chrysler during its bankruptcy was extinguished without repayment, and all assets of Old Chrysler were transferred to a liquidation trust. Treasury retains the right to proceeds from the sale of specified collateral attached to the loan, but does not expect a significant recovery. As of June 30, 2010, Treasury has received $30.5 million as result of the sale of specific collateral associated with the liquidation of Old Chrysler.

iii. Update on Ally Financial (GMAC)

As of June 30, 2010, Treasury's investment in Ally Financial Inc. consisted of a 56.3 percent common equity position, $11.4 billion of mandatorily convertible preferred stock and $2.7 billion of trust preferred securities. There was no change in Treasury's holdings during the quarterly period.

On May 26, 2010, Treasury announced the appointment of Marjorie Magner to the board of directors of Ally Financial, as the first of two additional directors that Treasury has the right to appoint following the increase in equity ownership by Treasury in December 2009 (as previously reported by the Oversight Board). Also in May, Treasury received a $310.38 million quarterly dividend payment from Ally Financial in respect of its preferred stock and trust preferred securities.

iv. Update on the Auto Supplier Support Program

During the quarterly period, the Automotive Supplier Support Program ("ASSP"), under which Treasury had provided loans to ensure that automotive suppliers receive compensation for their services and products, was closed. All loans made by Treasury under the program were repaid in full, together with interest and approximately $101 million in additional income to Treasury consisting of exit fees and residual in the collateral accounts.

j. Corporate Governance

i. Update on executive compensation

a. Rulings by the Special Master

In June 2009, Treasury published the Interim Final Rule on TARP Standards for Compensation and Corporate Governance (the "Rule"),[40] which, in addition to implementing the compensation standards set forth in the American Reinvestment and Recovery Act ("ARRA"), established the Office of the Special Master for TARP Executive Compensation (the "Office of the Special Master").[41] The Special Master's duties include reviewing and approving compensation payments to the five most senior executive officers and the next 20 most highly compensated employees (the "Top 25"), as well as compensation structures for all executive officers and the next 75 most highly compensated employees ("Covered Employees 26–100"), at companies that have received exceptional TARP assistance.

At the time the Rule was adopted there were seven recipients of exceptional TARP assistance: AIG, Bank of America, New Chrysler, Chrysler Financial, Citigroup, New GM and Ally Financial (formerly GMAC). As of June 30, 2010, the exceptional assistance recipients are: AIG, Ally Financial, New Chrysler, and New GM. Bank of America and Citigroup ceased to be exceptional assistance recipients upon their respective repayments of TARP obligations arising from exceptional assistance programs in December 2009.

Chrysler Financial had fully repaid its loan from Treasury in July 2009 (prior to the Special Master's initial determinations), but remained an exceptional assistance recipient because its affiliates still had outstanding TARP obligations. During the quarterly period, the affiliates' remaining obligations were extinguished for purposes of the Rule in May 2010, upon Treasury's acceptance of a settlement payment as satisfaction in full of all existing debt obligations of Chrysler Financial's parent, Chrysler Holding. As a result, Special Master approval is not required for future compensation structures and payments to Chrysler Financial executives. However, payments and compensation structures for Chrysler Financial's Top 25 and Covered Employees 26 – 100 relating to service prior to the settlement remain subject to the Special Master's previous determinations.

During the quarterly period, the Office of the Special Master completed its review of, and issued determinations[42] regarding the 2010 compensation structures for all executive officers and the Covered Employees 26–100 at each remaining recipient of exceptional assistance: AIG, New

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[40] The Interim Final Rule on TARP Standards for Compensation and Corporate Governance is available at http://www.FinancialStability.gov/docs/EC_IFR_FR_web60909.pdf.

[41] All TARP recipients are subject to the provisions on executive compensation and corporate governance set forth in the Rule.

[42] Copies of all determination letters are available at: http://www.FinancialStability.gov/about/executivecompensation.html.

Chrysler, Chrysler Financial, New GM, and Ally Financial. The Special Master's 2010 rulings for the Covered Employees 26 – 100 reaffirmed that the principles and requirements of the 2009 determinations for Covered Employees 26-100 must continue to apply in 2010. These principles include:

(i) Cash salaries are limited to $500,000 per year, other than in exceptional cases, and overall cash is limited in most cases to 45 percent of total compensation;

(ii) Compensation must emphasize long-term results: at least 50 percent of incentive payments must be delivered in long-term stock; and in most cases, half of total pay must not be transferable for at least three years; and

(iii) The restrictions described in the Special Master's 2009 determinations relating to perquisites, severance, hedging transactions, tax "gross-ups" and supplemental retirement plans must continue to apply.

In addition to determinations for the Top 25 Employees and Covered Employees 26-100 groups, the Special Master has issued supplemental determinations from time to time, including for example, determinations approving pay packages for the newly hired executive officers. The pay packages approved by the Special Master for the newly hired executives generally conform to the principles and structures of the regular determinations.

B "Lookback" provision

The Special Master also has responsibility for administering the "lookback" provision (i.e., 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 from the time the institution first received financial assistance under TARP until February 17, 2009. In March 2010, the Office of the Special Master issued a request for detailed compensation data to the 419 TARP recipients that received financial assistance prior to February 17, 2009. To reduce the burden on smaller institutions whose executives receive smaller amounts of compensation, compensation data were not required for those employees earning $500,000 or less on an annual basis during the review period. Instead, institutions were required to certify the number of employees, if any, for which compensation data was required. As of June 30, 2010, the Office of the Special Master had received responses to its data request from all 419 institutions contacted. Completion of the Special Master's review is expected in the following quarterly period.

b. Excessive or Luxury Expenditure Policy and Certifications

All TARP recipients were required to adopt an excessive or luxury expenditure policy consistent with the requirements of the Rule,[43] and the Compliance Office within the Office of Internal Review ("OIR – Compliance") is responsible for tracking and monitoring the

[43] A summary of the pertinent procedures and requirements under the Rule is contained in previous reports of the Oversight Board.

submission of the policies, determining that the necessary board of directors approval has been obtained and whether the policies are in compliance with the requirements of the Rule. As of June 30, 2010, OIR-Compliance has received 100 percent of the 668 required Excessive or Luxury Expenditure Policies. Copies of the most current Excessive or Luxury Expenditure Policies are available at each TARP recipient's website (if applicable). OIR-Compliance has reviewed all Excessive or Luxury Expenditure Policies received for adherence with the Rule. On May 27, 2010, OIR - Compliance requested enhancements to 356 of the 668 TARP recipients' policies for clarification and compliance with the Rule. As of June 30, 2010, OIR-Compliance had received 208 enhanced policies in response to the request for enhancements. Over the next quarter OIR – Compliance will be reviewing these enhanced policies and others received.

The Rule also requires that the Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO")[44] certify to actions to be taken by the compensation committee, board of directors and the company itself with regard to executive compensation. Further, the Rule requires that the compensation committee certify and provide a narrative discussion of the review of the compensation packages of SEOs and employees. OIR – Compliance tracks and monitors the required certifications and narrative discussions from recipients.

As of June 30, 2010, OIR-Compliance reviewed the current population of institutions and identified nine TARP recipients with a fiscal year end of September 30; 636 TARP recipients with the fiscal year end of December 31; six TARP recipients with a fiscal year end of March 31; and ten TARP recipients with a fiscal year end of June 30. The PEO/PFO certifications are required to be filed not later than 90 days after the TARP recipient's fiscal year-end. As of June 30, PEO/PFO certifications were received as follows: all nine TARP recipients filed with a fiscal year end of September 30; 595 TARP recipients with a fiscal year end of December 31, of the 636 required to have filed; five TARP Recipients with a fiscal year end of March 31, of the six required to have filed; and eight TARP recipients filed with a fiscal year end of June 30, which were received prior to the due date.

The Compensation Committee Certification is required to be filed not later than 120 days after the TARP recipient's fiscal year-end. As of June 30, 2010, Compensation Committee Certifications were received as follows: seven TARP recipients filed with a fiscal year end of September 30, of the nine required to have filed; 554 TARP recipients with a fiscal year end of December 31, of the 636 required to have filed; two TARP Recipients with a fiscal year end of March 31, which were received prior to the due date; and eight TARP recipients filed with a fiscal year end of June 30, which were prior to the due date.

The Compensation Committee narrative discussion is required to be filed not later than 120 days after the TARP recipient's fiscal year-end. As of June 30, Compensation Committee narratives were received as follows: seven TARP recipients filed with a fiscal year end of September 30, of the nine required to have filed; 521 TARP recipients with a fiscal year end of December 31, of the 636 required to have filed; two TARP Recipients with a fiscal year end of March 31, which were received prior to the due date; and six TARP recipients filed with a fiscal year end of June 30, which were received prior to the due date.

[44] Under the Rule, PEO and PFO are equivalent to CEO and CFO, respectively.

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 Citigroup, New GM and Ally Financial, and common equity in New Chrysler. In each case, Treasury maintains the goal of keeping the period of government ownership as short as practicable 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 participate in the day-to-day management of any company in which it has an investment, nor is any Treasury employee a director of any such company; and

- Treasury will exercise its right to vote only on certain core matters such as: board membership; amendments to the charter and by-laws; certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution; and issuances of equity securities where shareholders are entitled to vote.

k. 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 status and 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 June 21, 2010, OFS had 213 full-time employees (106 career civil servants, 107 term appointments, and 3 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 34 other reimbursables from outside of OFS who continue to provide support to the OFS on an as-needed basis. Treasury's organizational plans, as of June 21, 2010, call for a total of 275 full-time employees, indicating that OFS was 78 percent staffed as of June 21, 2010. 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.

ii. Procurement

Treasury continued to engage private sector firms to assist with the significant volume of work associated with the TARP. As of June 30, 2010, Fannie Mae and Freddie Mac accounted for almost 42 percent of the obligated dollars on non-personnel services contracts and agreements while assisting in the administration and compliance of the HAMP. Asset managers 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.

As part of Treasury's commitment to transparency and accountability of taxpayer dollars, OFS has and continues to publish all contracts and financial agent agreements ("FAAs").[45] The procurement section of the website provides information on procurement contracts and FAAs including dollar value, performance period, and a category description. This section of the website also describes the authority to enter into procurement contracts and FAAs, and OFS's commitments to small business and to a fair and open competitive process.

During the quarter ending June 30, 2010, Treasury awarded six new contracts to support the TARP and entered into two new FAAs: an FAA with Morgan Stanley & Co. Incorporated and an FAA with Lazard Frères & Co. LLC, to provide services related to capital markets and disposition of Treasury assets. Treasury awarded contracts to Squire Sanders & Dempsey LLP for legal services and Ennis Knupp & Associates Inc. for investment consulting services. Awards were also made to Digital Management Inc., Microlink LLC, and RDA Corporation for data and document management consulting services contracts. Reed Elsevier, Inc. (dba LexisNexis) was awarded a contract for four one-year user subscription services. In addition to the new contracts, Treasury awarded nine new task orders. A new task order was awarded to Anderson McCoy and Orta LLP under a contract for legal services in support of CDCI and other capital programs. Two task orders were awarded to Simpson Thacher & Bartlett LLP under its existing contract for legal services for equity and debt investment programs. Two task orders were awarded to Ennis Knupp for consulting services under its existing contract. Two task orders also were awarded to Hughes Hubbard & Reed LLP under their existing contract for document production services and litigation support. One task order was awarded for FOIA support services under the QualX Corporation contract, and one task order was awarded under the Microlink LLC contract for data and document management consulting services. Treasury also entered into modifications and extensions on several existing contracts. Treasury modified the Pricewaterhouse Coopers LLP-1 (travel expenses) and the NNA, Inc. contract (increased support for additional copies). Treasury extended the period of performance for contracts with

[45] These contracts and agreements are available at: http://www.FinancialStability.gov/impact/procurement-contracts-agreements.html.

Squire Sanders & Dempsey LLP and Hughes Hubbard & Reed LLP (legal services to support various TARP programs).

iii. Conflicts of Interest Mitigation

OIR – Compliance continues to manage conflict of interest issues that arise with both new and existing arrangements with contractors and financial agents, pursuant to the Interim COI Regulation, as previously reported by the Oversight Board.[46]

iv. Governance and Internal Controls

OFS's commitment to its internal controls was a critical factor in receiving a clean audit opinion from the GAO for the fiscal year 2009. Internal controls at OFS support investment programs, financial reporting, and other key operational areas so OFS can reduce the risk to the organization. This includes performing risk assessments, internal controls testing and development of OFS policies and procedures to support the program and business support functions. The Internal Control Program Office, Office of Internal Review, and the Senior Assessment Team are responsible for leading this effort. During the quarterly period, OFS developed and refined many sets of written policies and procedures that document the rules, activities and key controls of OFS, and will continue to develop additional policies and procedures as necessary.

v. Oversight

Treasury continued its active dialogue with the Oversight Board. 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.

[46] 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"). For further information, please visit: http://www.FinancialStability.gov/docs/COI-Rule.pdf.

vi. Reporting

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, Treasury makes copies of the Transactions and Dividends and Interest Reports available in two additional formats to the official PDF version: XLSX (excel) and XML.

As of June 30, 2010, Treasury had filed—

- 180 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;

- 19 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.

APPENDIX A

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

Minutes of the Financial Stability Oversight Board Meeting
April 15, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 4:00 p.m. (EDT) on Thursday, April 15, 2010, 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. Goldstein, Under Secretary of the Treasury for Domestic Finance, Department of the Treasury

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

Ms. Caldwell, Chief of Homeownership Preservation Office, 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

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

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

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

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

Chairperson Bernanke called the meeting to order at approximately 4:00 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on March 18, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the

Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Home Affordable Modification Program ("HAMP"); Treasury's funds to provide additional help in certain states that have been particularly affected by house price declines; the Consumer Business Lending Initiative ("CBLI"); and the Community Development Capital Initiative ("CDCI"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the recent dividends received under the Capital Purchase Program ("CPP"); proceeds received from recent public auctions held by Treasury to sell the warrants it had received under the CPP and Targeted Investment Program ("TIP"); the amount of equity capital and debt funding provided to and invested by fund managers under the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; aggregate information of allocated and disbursed amounts under TARP; and the most recent data gathered as part of Treasury's monthly HAMP report. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first provided the Members with an update on the HAMP. As part of this discussion, Treasury officials reviewed with Members recent data for HAMP, including data showing an increase in the number of permanent modifications under the program between February 28, 2010, and March 31, 2010. Treasury officials noted that, as of the March 31, 2010, more than 1.4 million homeowners received offers for temporary modifications; permanent modifications had been granted to more than 227,000 homeowners, and an additional 108,000 permanent modifications had been approved by servicers and were pending only borrower acceptance. Members and officials also reviewed and discussed the enhancements to HAMP announced by the Administration on March 26, 2010, which are designed to provide temporary mortgage assistance to unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for modification through HAMP, ensure that 60-day delinquent borrowers are screened for HAMP eligibility prior to the initiation of foreclosure action, and help borrowers move to more affordable housing when a modification under HAMP is not possible. Treasury officials noted that the enhancements to HAMP will be implemented in the coming months. Treasury officials then provided Members with an update on the Second Lien Modification Program under HAMP. Treasury officials noted that Bank of America Corporation, Citigroup, Inc., JPMorgan Chase & Co., and Wells Fargo Bank, N.A., had committed to participate in the program. Treasury officials indicated that modifications of second liens had already begun in cases where these servicers hold a first-lien mortgage modified under HAMP.

Treasury officials then provided the Members with an update on the initiative announced by Treasury on February 19, 2010 (the "HFA Hardest-Hit Fund"), to help address the housing problems facing those states that have suffered an average home price drop of more than 20 percent from their respective peak. The initiative will make available up to $1.5 billion of TARP funds to support pilot programs developed or

sponsored by Housing Finance Agencies ("HFAs") in the eligible states to foster innovative solutions to housing problems, such as those caused by unemployment, loan-to-value ratios in excess of 100 percent, or second mortgages. Treasury officials noted that funds had been allocated among eligible states based on a formula that takes account of home price declines and unemployment in the relevant state.

Treasury officials also reviewed and discussed the establishment of an additional HFA Hardest-Hit Fund, which the Administration had announced on March 29, 2010, that will target five additional states with high shares of their population living in local areas of concentrated economic distress. Officials noted that the second HFA Hardest-Hit Fund will include up to $600 million in funding for innovative measures to help families stay in their homes or otherwise avoid foreclosure. As with the first fund, money will be made available for programs sponsored or developed by HFAs in the targeted states.

Treasury officials then provided the Members with an update on Treasury's pilot program under the CBLI to purchase securities backed by guaranteed portions of loans made under the 7(a) loan program established by the Small Business Administration ("SBA"). During this discussion, Treasury officials noted that, as of March 31, 2010, Treasury had purchased an aggregate amount of $21.37 million in securities under the program.

Treasury officials then provided Members with an update on Treasury's plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI. As part of this discussion, Members and officials discussed the number of potentially eligible institutions that may participate in the program, and the number of CDFIs participating in the CPP that have sought to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program.

Members and officials then engaged in a discussion regarding 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 this discussion, Treasury officials noted that Treasury had entered into commitments to disburse approximately $491.1 billion and had disbursed approximately $381.54 billion under TARP, some of which has been repaid.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending March 31, 2010, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential contents of the report.

The meeting was adjourned at approximately 4:45 p.m. (EDT).

[Signed Electronically]

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Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
May 17, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 3:00 p.m. (EDT) on Monday, May 17, 2010, at the offices of the Federal Housing Finance Agency ("FHFA").

MEMBERS PRESENT:

Mr. Bernanke, Chairperson
Mr. Donovan
Ms. Schapiro[1]
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. Bloom, Senior Advisor, Department of the Treasury

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

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

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

Mr. Bass, Program Director, Public Private Investment Partnership, 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. 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

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

Chairperson Bernanke called the meeting to order at approximately 3:00 p.m. (EDT).

The Board first considered draft minutes for the meeting of the Board on April 15, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical

[1] Participated by telephone.

revisions as may be received from the Members.

Using prepared materials, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Legacy Securities Public-Private Investment Partnership ("S-PPIP") Program; the Community Development Capital Initiative ("CDCI"); the Automotive Industry Financing Program ("AIFP"); the Home Affordable Modification Program ("HAMP"); and the Housing Finance Agency Innovation Funds for the Hardest-Hit Housing Markets ("HFA Hardest-Hit Funds"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the recent dividends received under the Capital Purchase Program ("CPP"); proceeds received from recent public auctions held by Treasury to sell the warrants it had received under the TARP; aggregate information of allocated and disbursed amounts under TARP; information concerning actions taken by Treasury in response to recommendations by the Government Accountability Office ("GAO") and the Special Inspector General for the TARP; and the most recent data gathered as part of Treasury's monthly HAMP report. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first discussed recent developments under the AIFP. Treasury's officials described the outlook for the domestic automobile industry operating performance and financial position of General Motors ("GM") and Chrysler LLC ("Chrysler"), and discussed recent developments concerning Treasury's holdings in GM and Chrysler, including GM's recent $4.7 billion repayment of debt owed to Treasury, which was five years ahead of the loan maturity date and ahead of the accelerated repayment schedule the company announced last year. Treasury officials also discussed the expected $1.9 billion repayment by Chrysler Holding, the parent company of Chrysler, and the impact of this repayment on the financial statements of the Office of Financial Stability.

Treasury officials then reviewed 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 this discussion, Treasury officials and Members discussed the new valuations of TARP's investments and commitments as of March 31, 2010. Based on these valuations, the projected cost of the TARP had decreased by approximately $11.4 billion to $105.4 billion since the President's FY 2011 Budget was announced.

Treasury officials then reviewed and discussed actions taken by Treasury to sell additional shares of common stock of Citigroup Inc. Treasury also provided an update on other recent or expected public auctions to sell warrants. Treasury officials also informed Members that a bank subsidiary of Midwest Bank Holdings ("MBH"), a recipient of approximately $89 million in preferred stock under the CPP, had failed following

MBH's inability to secure additional capital.

Treasury officials then provided the Members with an update on Treasury's pilot program under the CBLI to purchase securities backed by guaranteed portions of loans made under the 7(a) loan program established by the Small Business Administration ("SBA"). During this discussion, Treasury officials reviewed the aggregate level of participation under the program.

Treasury officials then provided the Members with an update on the S-PPIP. As part of this discussion, Members and officials discussed the amount of equity capital and debt funding provided to, and invested by, fund managers under the S-PPIP, the progress by fund managers in raising private capital, and returns to date on S-PPIP investments. Officials noted that as of March 31, 2010, the PPIFs had completed initial and subsequent closings on approximately $6.3 billion of private sector equity capital, which was matched 100 percent by Treasury, representing $12.5 billion of total equity capital. Treasury also has provided $12.5 billion of debt capital. As of March 31, 2010, PPIFs had drawn-down approximately $10.5 billion in capital, which has been invested in eligible assets and cash equivalents pending investment.

Treasury officials then provided Members with an update on Treasury's plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI. As part of this discussion, Members and officials discussed the number of potentially eligible institutions that may participate in the program, the number of CDFIs participating in the CPP that have sought to exchange the capital received under the CPP for capital under the CDCI, subject to the maximum size limits established for the program, and the process established by Treasury for funding approved CDFIs under the program.

Treasury officials then provided the Members with an update on the HAMP. As part of this discussion, Treasury officials reviewed with Members recent data for HAMP, including data showing an increase in the number of permanent modifications under the program between March 31 and April 30, 2010. Treasury officials noted that, as of April 30, 2010, more than 1.48 million homeowners had received offers for temporary modifications and nearly 300,000 homeowners had been granted permanent modifications. Members and officials also reviewed and discussed the aggregate number of temporary modifications initiated at least six months ago, the pace of conversions from temporary to permanent modifications by servicers, the performance of borrowers under temporary and permanent modifications made under the program, and the utilization of foreclosure alternatives available under the Home Affordable Foreclosure Alternatives Program ("HAFA") to borrowers unable to complete or perform under a modification. As part of this discussion, Mr. Donovan provided an update on the recent summit meeting hosted by the Administration with representatives from participating mortgage servicing companies to discuss ways to move qualified homeowners into permanent modifications, improve homeowners' HAMP experience, quickly implement

the Second Lien Modification Program and HAFA, and continue progress on new trial modification starts. Treasury officials noted that the Administration recently outlined its plans to begin reporting more detailed performance measures for servicers by July 2010.

Treasury officials then provided the Members with an update on the HFA Hardest-Hit Funds to help address the housing problems facing those eligible states that have been particularly hard hit by house price declines or unemployment. As part of this discussion, Treasury officials provided an overview of the types of specialized foreclosure prevention and mitigation proposals submitted by Housing Finance Agencies ("HFAs") under the program, which include measures to address unemployment, loan-to-value ratios in excess of 100 percent, or second mortgages. Members and officials also discussed the potential for participating HFAs to achieve additional leverage through private investment.

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

[Signed Electronically]

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Jason A. Gonzalez
Secretary

Minutes of the Financial Stability Oversight Board Meeting
June 29, 2010

A meeting of the Financial Stability Oversight Board ("Board") was held at 2:30 p.m. (EDT) on Tuesday, June 29, 2010, 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. Massad, Chief Counsel, Office of Financial Stability, Department of the Treasury

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

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

Mr. Bass, Program Director, Public Private Investment Partnership, Office of Financial Stability, Department of the Treasury

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

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

Mr. Lawler, Chief Economist, Federal Housing Finance Agency

Mr. Gallin, Assistant Director, Division of Research & Statistics, Board of Governors of the Federal Reserve System

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

The Board first considered draft minutes for the meeting of the Board on May 17, 2010, which had been circulated in advance of the meeting. Upon a motion duly made and seconded, the Members voted to approve the minutes of the meeting, subject to such technical revisions as may be received from the Members.

Using prepared materials, officials from the Treasury then provided an update on the programs established or proposed to be established by Treasury under the Troubled Asset Relief Program ("TARP"). Discussion during the meeting focused on the Community

Development Capital Initiative ("CDCI"); the Term Asset-Backed Securities Loan Facility ("TALF"); the Automotive Industry Financing Program ("AIFP"); the Home Affordable Modification Program ("HAMP"); and the Housing Finance Agency Innovation Funds for the Hardest Hit Housing Markets ("Hardest-Hit Funds"). Also included in the materials prepared for the meeting were: updates concerning the other programs established by Treasury under TARP, including the recent dividends received under the Capital Purchase Program ("CPP"); proceeds received from recent public auctions held by Treasury to sell the warrants it had received under the TARP; aggregate information of allocated and disbursed amounts under TARP; information concerning actions taken by Treasury in response to recommendations by the Government Accountability Office ("GAO") and the Special Inspector General for the TARP; the most recent data gathered as part of Treasury's monthly HAMP report; and a new monthly scorecard on the nation's housing market. During the meeting, Members raised and discussed various matters with respect to the development, ongoing implementation, and effects of the policies and programs under TARP.

Treasury officials first provided Members with an update on Treasury's plan to provide lower-cost capital under TARP to qualified Community Development Financial Institutions ("CDFIs") under the CDCI. During this discussion, Treasury officials noted that the application deadline to participate in the CDCI was April 30, 2010, and initial investments are expected to be made in the following months. Members also discussed the characteristics of institutions applying under the CDCI and the review process for applications received.

Treasury officials then discussed recent developments under the TALF. The final subscription for newly-issued CMBS occurred on June 18, 2010. Treasury officials noted that no TALF loans were extended in connection with this subscription, and that the TALF was closed to all new lending (as the final subscription for loans supported by non-CMBS collateral occurred on March 31, 2010). Of the $70 billion in TALF loans that were requested or extended, approximately $43 billion remains outstanding. Treasury officials noted that virtually all the repayments that had been received were borrower prepayments rather than scheduled payments of principal. Officials also noted that no securities had been put to the TALF LLC, and reviewed recent private sector activity in the CMBS market.

Using prepared materials, Treasury officials then provided the Members with an update on the CPP. During this discussion, Treasury officials discussed the aggregate amount of quarterly dividend and interest payments Treasury received in May 2010, and the number of institutions that have accumulated, but not paid, dividends to Treasury under the program, including the number of institutions that had missed multiple dividend payments, as well as Treasury's approach to selecting directors to the board of institutions that have missed six dividends.

Treasury officials then discussed recent developments under the AIFP. On June 10, Treasury provided guidance on its role in a possible initial public offering

of the common stock of General Motors ("GM"). Treasury owns 60.8 percent of the common stock of GM, which was acquired under the TARP in connection with the restructuring of GM in mid-2009. As explained in the guidance issued by Treasury, the initial public offering is expected to include the sale of shares by Treasury, other shareholders who wish to participate, and GM. The overall size of the offering and relative amounts of primary and secondary shares will be determined at a later date. The exact timing of the offering will be determined by GM in light of market conditions and other factors, but is not expected to occur before the fourth quarter of this year. Treasury will retain the right, at all times, to decide whether and at what level to participate in the offering, should it occur, and will determine the fees paid to the underwriters selected by GM (subject to review by Treasury).

Using prepared materials, Treasury officials then provided the Members with an update on the HAMP. As part of this discussion, Treasury officials reviewed with Members the data for HAMP through May 31, 2010, including data showing an increase in the number of permanent modifications under the program between April 30 and May 31, 2010. As of May 31, 2010, more than 346,000 borrowers had entered permanent modifications under the program. Treasury officials noted that the survey data published by Treasury now includes the disposition of trial cancelations, which showed that nearly half of homeowners unable to enter a HAMP permanent modification entered an alternative modification with their servicer, and fewer than 10 percent of canceled trials resulted in foreclosure sales. Officials also noted that the principal reasons for trials being cancelled in May 2010 were incomplete documentation, the borrower's debt-to-income ratio was below the 31 percent eligibility threshold, or the borrower failed to make the trial period payments. As part of this discussion, officials reviewed the new monthly scorecard on the nation's housing market, which was released by Treasury and HUD on June 21, 2010. The scorecard incorporates key housing market indicators and highlights the impact of the Administration's housing recovery efforts, including the assistance provided to homeowners through HAMP and by the Federal Housing Administration ("FHA"), and includes newly reported servicer data on the disposition path of canceled trials. Mr. DeMarco also briefed members on the Home Affordable Refinance Program ("HARP") offered by Fannie Mae and Freddie Mac.

Treasury officials then provided the Members with an update on the Hardest Hit Funds to help address the housing problems facing those eligible states that have been particularly hard hit by house price declines or unemployment. Officials noted that, on June 23, Treasury announced the approval of specialized foreclosure prevention and mitigation proposals under the first $1.5 billion Hardest Hit Fund. The proposals were submitted by HFAs in California, Florida, Arizona, Michigan, and Nevada – the five states eligible under the first Hardest Hit Fund because they had each experienced a 20 percent or greater decline in average house prices. The approved proposals include programs to assist struggling homeowners with negative equity through principal reduction; assist the

unemployed or under-employed make their mortgage payments; facilitate the settlement of second liens; facilitate short sales and/or deeds-in-lieu of foreclosure; and assist in the payment of mortgage arrearages. As part of this discussion, Treasury officials also discussed the information that will be reported quarterly by the programs under the first Hardest Hit Fund, and noted that foreclosure prevention and mitigation proposals under the second $600 million Hardest Hit Fund were received from HFAs in North Carolina, Ohio, Oregon, Rhode Island, and South Carolina — the five states eligible for the second $600 million Hardest Hit Fund. Treasury expects to approve proposals for the second Hardest Hit Fund in August 2010.

Members and officials then engaged in a roundtable discussion regarding the current state of the U.S. housing and financial markets and the effect of the programs established under the TARP in stabilizing the financial system, promoting the flow of credit to households and businesses, and promoting homeownership. As part of this discussion, staff from the Federal Reserve briefed Members concerning recent financial market developments and officials from the Federal Housing Finance Agency ("FHFA") briefed members on developments in the housing and housing finance markets. The data reviewed included corporate stock prices, credit default swap spreads for bank holding companies, corporate bond spreads, debt growth among household and nonfinancial businesses, growth of loans at depository institutions, and data related to credit demand and standards drawn from the Federal Reserve's Senior Loan Officer Opinion Survey consumer credit. Members also reviewed data related to mortgage rates and delinquencies, Federal Home Loan Bank advances, mortgage originations, as well information on housing prices, sales, starts, and supply. During this discussion, FHFA officials also presented data related to the foreclosure prevention actions taken by the GSEs.

Members and officials then engaged in a discussion regarding the Board's quarterly report to Congress for the quarter ending June 30, 2010, that will be issued by the Board pursuant to section 104(g) of the EESA. Members and officials discussed, among other things, the timing and potential contents of the report.

The meeting was adjourned at approximately 3:40 p.m. (EDT).

[Signed Electronically]

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Jason A. Gonzalez
Secretary