THE DEPARTMENT OF THE TREASURY

OFFICE OF FINANCIAL STABILITY

Citizens' Report on the Troubled Asset Relief Program (TARP)

SUMMARY OF PERFORMANCE AND FINANCIAL INFORMATION

FISCAL YEAR 2010

WHERE READERS CAN LEARN MORE

Treasury's website that details financial stability programs in a simplified format:
http://www.FinancialStability.gov/

Comprehensive information on mortgage modification efforts aimed at stabilizing the housing market:
http://www.MakingHomeAffordable.gov

The Office of Financial Stability's Agency Financial Report (AFR), including the TARP financial statements, Management's Discussion and Analysis of the results and the Government Accountability Office audit opinion:
http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

Treasury's warrant sales provide additional returns beyond dividend payments:
http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/other/Pages/default.aspx

Housing Scorecard:
http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard

Housing Finance Agency Hardest Hit Fund:
http://www.treasury.gov/initiatives/financial-stability/housing-programs/hhf/Pages/default.aspx

Congressional Hearings and Testimony:
http://www.treasury.gov/initiatives/financial-stability/briefing-room/Pages/press-releases.aspx?tag=4f72d44d-aaa2-4823-9c14-c4ee84cd6091&tag=413e1670-7a51-423d-9f27-c44a2c1b6722

Four different government entities have oversight responsibilities over TARP and produce detailed reports available to the public (See page 10):

Government Accountability Office (GAO)
http://gao.gov/docsearch/featured/financialmarketsandhousing.html

Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)
http://www.sigtarp.gov/

Congressional Oversight Panel (COP)
http://cop.senate.gov/

Financial Stability Oversight Board (FSOB)
http://www.treasury.gov/initiatives/financial-stability/about/Oversight/FSOB/Pages/finsob.aspx

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MESSAGE FROM THE ACTING ASSISTANT SECRETARY FOR FINANCIAL STABILITY

I am pleased to present the Office of Financial Stability's (OFS) Citizens' Report on the Troubled Asset Relief Program (TARP) for FY 2010. This report describes the financial results of the TARP during its second year. The report provides audited financial statement results, expected lifetime cost information, and a discussion of future challenges.

The Department of the Treasury established the Troubled Asset Relief Program (TARP), pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), which was passed by Congress with bipartisan support in October 2008. In conjunction with other federal government actions, TARP enabled us to avoid a catastrophic collapse of our financial system. TARP helped to stabilize the system and unfreeze the markets for credit and capital, which brought down the cost of borrowing for businesses, individuals, and state and local governments. This in turn helped restore confidence in the financial system and restart economic growth. And, TARP did so faster and at a much lower cost than anyone anticipated.

The TARP was, and is, an enormous commitment of taxpayer money. And it has been unpopular for good reason – no one likes using taxpayer dollars to rescue financial institutions. However, by any objective measure, TARP worked. It helped stop the widespread financial panic we faced in the fall of 2008 and helped prevent what could have been a second Great Depression. Moreover, it did so at a cost that is far less than what most people expected at the time the law was passed.

EESA provided the Secretary of the Treasury with the authority to purchase or guarantee $700 billion in troubled assets, but it has been clear for some time that TARP will cost taxpayers substantially less than the $700 billion allocated for programs. In December 2009, the Secretary of the Treasury announced that no more than $550 billion of the authority would be used. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) reduced Treasury's cumulative spending authority to $475 billion, in line with expected investment amounts.

Our most recent analysis of the potential lifetime cost of TARP, based on November 30, 2010 data, suggests that the lifetime cost of TARP could be less than $50 billion, and less than $30 billion when considering the entire investment in AIG held by the Treasury. Many of the investments under the program, particularly those aimed at stabilizing banks, have thus far delivered positive returns for taxpayers. The costs of the program are expected to come primarily from the initiatives to help responsible homeowners avoid foreclosure. All other programs and investments, considered as a whole, are likely to result in little or no cost.

The authority to make new commitments under TARP expired on October 3, 2010. This means no new commitments to invest funds can be made. Treasury is moving quickly to recover the federal government's investments, consistent with the duty to promote financial stability and protect taxpayers' interests. Treasury is also continuing to implement the initiatives to help responsible homeowners avoid foreclosure.

Treasury continues to provide detailed information about TARP to insure that taxpayers know how their funds are being used and recouped. Audited financial statements are available for both 2009 and 2010. In addition, Treasury published a Two-Year Retrospective Report on the Troubled Asset Relief Program, which includes information on TARP programs and the effects of TARP and other federal government actions to address the financial crisis. Readers will find these documents and much more information on our website: *http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx*

Sincerely,

Timothy G. Massad
Acting Assistant Secretary
Office of Financial Stability

WHY TARP?

Origins of the Financial Crisis

In September 2008, the nation was in the midst of one of the worst financial crises in our history. Across the country, people were rapidly losing confidence in our financial system and in the federal government's ability to safeguard their economic future.

Over the two decades preceding the crisis, the financial system had grown rapidly in an environment of economic expansion and stability. Risks grew in the system without adequate transparency. Lax regulations and loopholes in supervision let firms become highly leveraged and take on too much risk. Ample credit around the world fueled an unsustainable housing boom in the first half of the last decade. When the housing market inevitably turned down, starting in 2006, the pace of mortgage defaults accelerated at an unprecedented rate.

The crisis began in the summer of 2007 and gradually increased in intensity and momentum over the course of the following year. A series of major financial institutions, including Countrywide Financial, Bear Stearns, and IndyMac, failed, and Fannie Mae and Freddie Mac, the largest purchasers and guarantors of home loans in the mortgage market, came under severe stress.

By September 2008, for the first time in 80 years, the U.S. financial system was at risk of collapse and we faced the very real threat of a second Great Depression. Peoples' trust and confidence in the stability of major institutions, and the capacity of the federal government to contain the damage, were vanishing.

Our system of regulation and supervision had failed to constrain the excessive use of leverage and the level of risk in the financial system, and the United States entered this crisis without adequate tools to manage it. The Treasury Department, the Federal Reserve, the FDIC, and other federal government bodies undertook an array of emergency actions to prevent a collapse and the dangers posed to consumers, businesses, and the broader economy. However, the severe conditions our nation faced required additional resources and authorities. Therefore, in late September the Bush Administration proposed the Emergency Economic Stabilization Act of 2008 (EESA), and with the support of Democrats and Republicans in Congress, it was enacted into law on October 3, 2008.

WHAT TREASURY DID

Mission & Organizational Goals

EESA provided the Secretary of the Treasury with the authorities and facilities necessary to restore liquidity and stability to the U.S. financial system. Treasury used this authority to create the Troubled Asset Relief Program (TARP) and established a number of programs to stabilize our financial system and the housing market. The goals for the TARP were to:

Goal 1: Ensure the overall stability and liquidity of the financial system by:

- Making capital available to viable institutions.
- Providing targeted assistance as needed.
- Increasing liquidity and volume in securitization markets.

Goal 2: Prevent avoidable foreclosures and help preserve homeownership

Goal 3: Protect taxpayer interests

TARP Programs

The Office of Financial Stability created the following programs under TARP to meet the goals listed above.

Programs to Invest in Banking Institutions

Treasury launched a series of programs to stabilize the nation's banking institutions. These consisted of the following:

Capital Purchase Program: Treasury launched the Capital Purchase Program (CPP), the largest and most significant program under EESA, on October 14, 2008. Through the CPP, Treasury made capital investments in over 700 banks and thrifts deemed viable by their regulators, including over 400 small community banks. The CPP was designed to bolster the capital position of viable institutions of all sizes and, in doing so, to build confidence in these institutions and the financial system as a whole. With the additional capital, CPP participants were better equipped to undertake new lending and continue to provide other services to consumers and businesses, while absorbing write-downs and charge-offs on loans that were not performing. Treasury closed this program to new investments in December 2009. As of January 31, 2011, of the $205 billion invested, $173 billion has already been recovered, and an additional $24 billion in income has been received. A total of 104 banks had fully repaid their investments. Treasury remains invested in 564 banks. Overall, it is expected that the American taxpayers will realize a profit on these investments.

Targeted Investment Program: Treasury established the Targeted Investment Program (TIP) to provide additional or new funding to financial institutions that were critical to the functioning of the financial system. Treasury invested $20 billion in each of Bank of America and Citigroup under the TIP. These investments were in addition to those that the banks received under the CPP. In December 2009, both participating institutions repaid their TIP investments in full, with dividends. Treasury also received warrants from each bank, which were subsequently sold and provided the taxpayer with additional gain on the investments. TIP was closed in December 2009 and has resulted in a profit to the taxpayer.

Asset Guarantee Program: Under the Asset Guarantee Program (AGP), Treasury acted to support the value of certain assets held by qualifying financial institutions, by agreeing to absorb a portion of the losses on those assets if necessary. Treasury, the Federal Reserve, and the FDIC conducted the program jointly. Like the Targeted Investment Program, it was designed for financial institutions whose failure could harm the financial system and reduce the potential for "spillover" to the broader financial system and economy. The Asset Guarantee Program is closed. No Treasury payments were made and taxpayers realized a profit of $3 billion from the premiums and the termination agreements with the participating institutions.

Community Development Capital Initiative: Treasury launched the Community Development Capital Initiative to help viable certified Community Development Financial Institutions (CDFIs) and the communities they serve cope with effects of the financial crisis.[1] Treasury provided a total of $570 million in funding to 84 small institutions under this program, which was closed in September 2010.

Credit Market Programs

Treasury also launched several programs designed to restart the markets on which businesses — especially small businesses — and consumers depend for financing. These included:

Term Asset-Backed Securities Loan Facility: The Term Asset-Backed Securities Loan Facility (TALF) was a joint Federal Reserve-Treasury program that was designed to restart the asset-backed securitization markets (ABS) that historically have helped to fund a substantial share of credit to consumers and businesses. Since TALF was launched in March 2009, new issuances of asset-backed securities have averaged $10.5 billion per month, compared to less than $2 billion per month during the height of the financial crisis. TALF closed to new lending in June 2010. Treasury does not currently expect to incur any losses on the program.

Public-Private Investment Program: The purpose of the Legacy Securities Public Private Investment Program (PPIP) was to draw new private capital into the market for legacy securities,[2] by matching TARP funds with private capital to purchase legacy mortgage-related securities (RMBS[3] and CMBS[4]). This program helped return liquidity to key markets for financial assets and clean up the balance sheets of major financial institutions. Since the announcement of PPIP in March 2009, prices for eligible residential and commercial mortgage-backed securities have increased by as much as 75 percent. And, while the funds are still in their early ramp-up phase, they have been successful in earning a positive return for taxpayers.

Small Business and Community Lending Initiatives: The Small Business Administration's (SBA) 7(a) Loan Guarantee Program assists start-up and existing small businesses that face difficulty in obtaining loans through traditional lending channels. To ensure that credit flows to entrepreneurs and small business owners, Treasury developed the SBA 7(a) Securities Purchase Program to purchase SBA guaranteed securities from pool assemblers. By purchasing in the open market, Treasury injected liquidity — providing cash to pool assemblers — enabling those entities to purchase additional loans from loan originators. Treasury provided a total of $370 million in funding under this program which was closed in September 2010.

Other Investment Programs

American International Group, Inc. (AIG) Investment Program: In September 2008, the Federal Reserve and Treasury concluded that the imminent failure of American International Group (AIG), then the largest provider of conventional insurance in the world, could have catastrophic implications for the financial system and the economy. Therefore, in the fall of 2008, the Federal Reserve and Treasury stepped in to prevent AIG's disorderly failure and the associated risks to the economy. After TARP was enacted, the Treasury and the Federal Reserve continued to work together to find a way to safely address the challenges posed by AIG. Over the last two years, AIG and federal officials have worked to restore the financial condition of the company, dispose of non-core assets, and focus the company on its core businesses. In addition, AIG, Treasury, and the Federal Reserve completed a restructuring plan in January 2011, which enabled AIG to repay the Federal Reserve $47 billion and provided Treasury with a pathway to recover its investment as well. Although ultimate recovery depends on market prices, at current prices, the government would recover every single dollar invested in AIG and may also realize a profit.

Automotive Industry Financing Program: The Automotive Industry Financing Program (AIFP) was launched in December 2008 to prevent a significant disruption of the U.S. automotive industry, because the potential for such a disruption posed a systemic risk to financial

1 A Community Development Financial Institution (CDFI) is a financial institution that focuses on providing financial services to low- and moderate-income, minority and other underserved communities, and is certified by the CDFI Fund, an office within Treasury that promotes economic revitalization and community development.

2 Legacy Securities are commercial mortgage-backed securities and non-agency RMBS issued prior to 2009 that were originally rated AAA or an equivalent rating by two or more ratings agencies without ratings enhancement and that are secured directly by actual mortgage loans, leases or other assets and not other securities.

3 Residential Mortgage-Backed Securities (RMBS) are a type of securities representing an interest in a pool of similar mortgages bundled together by a financial institution. The Non-Agency term means that the securities are not guaranteed or issued by Freddie Mac, Fannie Mae, any other GSE, Ginnie Mae, or a U.S. federal government agency.

4 Commercial Mortgage-Backed Securities (CMBS) are financial instruments representing an interest in a commercial real estate mortgage or a group of commercial real estate mortgages.

market stability and would have had a negative effect on the economy including millions of additional job losses. Recognizing that both GM and Chrysler were on the verge of collapse, the Bush Administration extended temporary loans to both companies and their financing entities in December 2008.

When the Obama Administration took office it conditioned additional investments on each company and its stakeholders developing viable restructuring plans. Both companies rose to meet the challenge and sacrifices were made by unions, dealers, creditors, and other stakeholders. The restructurings of GM and Chrysler were achieved through bankruptcy court proceedings in record time. As a result, General Motors Company and Chrysler Group LLC are now competitive and viable companies, supporting American jobs and the economy. Operating results have improved, the industry has added jobs, and the TARP investments have begun to be repaid.

Last November, GM completed an initial public offering in which Treasury sold part of its interest and recovered $13.5 billion for the taxpayer. Treasury has also received additional repayments from GM. Treasury has also converted nearly half of its interest in Ally Financial (formerly GMAC) to common stock, which will accelerate Treasury's ability to exit this investment.

To date, Treasury has received a total of $30 billion in repayments or income on the total of $82 billion invested in the industry. Although Treasury estimates that it will incur a slight loss on the investments in the automotive industry, the investments succeeded in stabilizing the industry and helping to restore it to health.

Treasury Housing Programs under TARP

To reduce the number of foreclosures and help preserve homeownership, in February 2009, Treasury committed up to $46 billion in TARP funds for housing programs. The TARP housing programs were not meant to prevent all foreclosures but to focus on helping responsible, but struggling, homeowners to keep their homes, and reduce the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. These programs fall into three initiatives: (1) the Making Home Affordable (MHA) program; (2) the Housing Finance Agency Hardest Hit Fund (HHF); and (3) the FHA Short Refinance option.

Making Home Affordable: The MHA program includes the Home Affordable Modification Program (HAMP) under which Treasury contracts with mortgage servicers to modify the mortgages of responsible homeowners at risk of foreclosure to an affordable level that is sustainable over time. Treasury makes incentive payments to the homeowners, servicers, and investors for those modifications. As the housing crisis has evolved, Treasury has responded to other problems such as underwater mortgages and unemployment by creating additional programs under MHA. These additional programs support the modification of second lien loans, encourage the reduction of principal so the home is more affordable, help provide temporary relief for unemployed borrowers, and support short sales or deeds-in-lieu of foreclosure for those eligible homeowners for whom staying in their homes is not an option.

To protect taxpayers, MHA housing initiatives have strict eligibility criteria to ensure that taxpayer resources are helping responsible but struggling homeowners and not those with million dollar houses or vacation homes or investment properties. We also use pay-for-success incentives, which means that funds are spent only when the modifications are made permanent and thereafter only as long as those contracts remain in place. Therefore, funds will be disbursed over many years.

Since the programs launched in April 2009, more than 1.4 million homeowners have entered into HAMP trials and experienced temporary reductions in their mortgage payments. Of these, almost 580,000 homeowners converted to permanent modifications. These homeowners are experiencing a 37 percent median reduction in their mortgage payments—averaging more than $500 per month.

Homeowners in HAMP permanent modifications continue to perform well over time, with re-default rates lower than industry norms. December 2010 data for the Making Home Affordable Program (MHA) shows that after 12 months, nearly 85 percent of homeowners remain in a permanent modification. Homeowners in HAMP permanent modifications have already reduced their mortgage obligations by more than $4.5 billion to date.

In addition, MHA has transformed the way the mortgage servicing industry deals with struggling homeowners. Because of MHA, servicers have developed constructive private-sector options to foreclosure. Where there was once no consensus among loan servicers about how to respond to borrowers in need of assistance, HAMP established a universal affordability standard as well as borrower protections that are now viewed as industry best practices. As a direct and indirect result, millions of families are still in their homes today because of these programs. They have avoided the intense pain, cost, and disruption of losing their homes. Their neighbors and their local communities have benefited as well.

The Housing Finance Agency Hardest Hit Fund: Treasury has also implemented the $7.6 billion HHF program to provide targeted aid to families in those states hit hardest by the housing market downturn and unemployment. The program provides state Housing Finance Agencies (HFAs) in 18 states and the District of Columbia with funding to design and implement programs that respond to their specific challenges and help prevent foreclosures and bring stability to their housing markets.

FHA Short Refinance Program: Finally, Treasury has worked jointly with the Department of Housing and Urban Development (HUD) to establish the FHA Short Refinance option. This program, which began in September 2010, allows eligible borrowers who are current on their mortgages but owe more than their homes are worth, to refinance into a FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan.

The total cost of the TARP-funded housing programs cannot exceed and may end up being less than $46 billion, which is the maximum amount committed to that purpose. Unlike other TARP programs, the funds allocated to the housing programs will not be repaid.

TABLE 1: TARP Summary — From TARP Inception through September 30, 2010
Dollars in billions

	Purchase Price or Guaranteed Amount Obligated	Total Disbursed	Investment Repayments	Outstanding Balance[1]	Income from Investments
Banking Programs					
Capital Purchase Program	$204.9	$204.9	$152.5	$ 49.8	$ 19.8
Targeted Investment Program	40.0	40.0	40.0	0.0	4.2
Asset Guarantee Program	5.0	0.0	0.0	0.0	0.7
Credit Market Programs					
Consumer and Business Lending Initiative	5.3	0.9	0.0	0.9	0.0
Public Private Investment Program	22.4	14.1	0.4	13.7	0.2
Other Investment Programs					
American International Group Investment Program	69.8	47.6	0.0	47.6	0.0
Automotive Industry Financing Program	81.8	79.7	11.2	67.2	2.9
Treasury Housing Programs Under TARP	45.6	0.5	N/A	N/A	N/A
Sub-Totals	$474.8	$387.7	$204.1	$179.2	$ 27.8
Additional AIG Common Stock	N/A	N/A	N/A	21.0	0.0
Total	**$474.8**	**$387.7**	**$204.1**	**$200.2**	**$27.8**

[1] Total disbursements less repayments do not equal the outstanding balance. The outstanding balance is affected by certain non-cash items including capitalized interest of $0.3 billion, write-offs totaling $3.9 billion, and losses on two preferred stock transactions of $0.2 billion.

Budgetary Resources

Treasury used the TARP authority to make equity investments, loans and asset guarantees in a range of financial institutions. In exchange for this assistance, Treasury, on behalf of the taxpayer, received financial instruments including equity (preferred and common stock), debt, warrants, and additional notes from these companies. As noted above, Treasury expects that most of this funding will be repaid.

The Dodd-Frank Wall Street Reform and Consumer Protection Act[5] (the Dodd-Frank Act) amended EESA, capping the total purchase and guarantee authority under TARP at a cumulative $475 billion. Treasury reduced the TARP program allocations to conform to these limitations. As of September 30, 2010, Treasury had cumulative commitments (as defined in the Dodd-Frank Act) amounting to $474.8 billion, as shown in Table 1.

Table 1 provides a financial summary for TARP programs since TARP inception on October 3, 2008, through September 30, 2010. For each program, the table gives the face value of the amount obligated for each program, the amount actually disbursed, repayments to Treasury from program participants, net outstanding balance as of September 30, 2010, and cash inflows on the investments for each program in the form of dividends, interest or other fees.

5 Pub. L. 111-203.

TABLE 2: Net Income (Cost) of TARP Operations
Dollars in millions

TARP Program	For the Year Ended September 30, 2010	For the Period Ended September 30, 2009	From TARP's Inception through September 30, 2010
Banking Programs			
Capital Purchase Program	$(3,861)	$15,033	$ 11,172
Targeted Investment Program	1,879	1,927	3,806
Asset Guarantee Program	1,505	2,201	3,706
Credit Market Programs			
Consumer and Business Lending Initiative	(306)	339	33
Public Private Investment Program	704	—	704
Other Investment Programs			
American International Group Investment Program	7,668	(30,427)	(22,759)
Automotive Industry Financing Program	16,614	(30,477)	(13,863)
Total Net Subsidy Income (Cost)	$ 24,203	$(41,404)	$(17,201)
Additional TARP (Costs)			
Treasury Housing Programs under TARP	(825)	(2)	(827)
Administrative Costs	(296)	(167)	(463)
Total Net (Cost of) Income from TARP Operations	$23,082	$(41,573)	$(18,491)

Financial Performance Snapshot

For FY 2010, Treasury's cumulative net costs for financial statement purposes are estimated at $18.5 billion based on the $387.7 billion in funds disbursed under TARP programs. This is a $23.1 billion decrease from FY 2009 estimates and represents significantly improved performance of investments and higher than anticipated repayments. While the housing program will result in a cost since the funds will not be repaid, investment programs, as a whole, are likely to provide positive returns to taxpayers. Table 2 reflects cost for disbursements through September 30, 2010 and 2009.

Please note that the costs reflected in this table are for the financial statements, only relate to disbursed funds through September 30, 2010 and 2009, and therefore are different than lifetime cost estimates made for budgetary purposes, which include assumptions about future disbursements.

Comparison of Estimated Lifetime TARP Costs over Time

Market conditions and the performance of specific financial institutions will be critical to determining the lifetime cost of TARP. Table 3 provides information on how Treasury's estimated lifetime cost of TARP has changed over time. This table assumes that all expected investments (e.g. AIG, PPIP) and disbursements for Treasury housing programs under TARP are completed, and adheres to government budgeting guidance. Table 3 is consistent with the estimated lifetime cost disclosures on the TARP web site at *www.financialstability.gov*.

TABLE 3: Estimated Lifetime TARP Costs (Income)
(Dollars in billions)

Program	Estimated Lifetime Cost on March 31, 2010	Estimated Lifetime Cost on May 31, 2010	Estimated Lifetime Cost on September 30, 2010	Pro-forma Lifetime Cost Assuming AIG Restructuring and October 1, 2010 Market Price	Estimated Lifetime Cost on November 30, 2010
Banking Programs					
Capital Purchase Program	$(9.8)	$(9.4)	$(11.2)	$(11.2)	$(12.4)
Targeted Investment Program	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)
Asset Guarantee Program	(3.1)	(3.0)	(3.7)	(3.7)	(3.7)
Credit Market Programs					
Consumer and Business Lending Initiative	3.0	(0.4)	(0.1)	(0.1)	(0.0)
Public Private Investment Program	0.5	0.5	(0.7)	(0.7)	(0.2)
Other Investment Programs					
AIG Investment Program	45.2	44.9	36.9	5.1	8.0
Auto Industry Financing Program	24.6	26.9	14.7	14.7	14.8
Subtotal	56.6	55.7	32.1	0.3	(2.6)
Treasury Housing Programs under TARP	48.8	45.6	45.6	45.6	45.6
Subtotal	105.4	101.3	77.7	45.9	48.3
Additional AIG Commom Stock	N/A	N/A	(21.0)	(21.0)	(20.1)
Total	**$105.4**	**$101.3**	**$56.7**	**$24.9**	**$28.2**

TREASURY'S PERFORMANCE

Financial Update

Since September 30, 2010, TARP has recovered even more in taxpayer funds and completed other actions that will reduce the ultimate cost of TARP.

American International Group Restructuring and Recapitalization

On September 30, 2010, AIG announced a restructuring plan designed to accelerate the timeline for its repayment of the government and put taxpayers in a considerably stronger position to recoup their investment in the company. The basic terms of the restructuring plan were straightforward in concept: sell sufficient assets to pay off AIG's obligations to the FRBNY, streamline AIG's business portfolio, and recapitalize AIG's balance sheet to support investment grade status without the need for ongoing government support.

On January 14, 2011, AIG completed the first part of this plan and repaid the Federal Reserve Bank of New York a total of $47 billion, including the outstanding balance on the original $85 billion credit facility provided to AIG in September 2008 at the height of the financial crisis. Treasury now owns 1.655 billion shares of AIG common stock (approximately 92 percent of the company) and approximately $20 billion of preferred equity interests in two AIG subsidiaries. Treasury's total cash investment in AIG is now $68 billion. Treasury expects to exit its investments in AIG over time, subject to market conditions, and remains optimistic that taxpayers will get back every dollar of their investment in AIG.

General Motors Successful Initial Public Offering and Repayments to Treasury

General Motors (GM) has completed the repurchase of all GM preferred stock issued under TARP, repaying taxpayers $2.1 billion, which came on the heels of a successful initial public offering that netted $13.5 billion for taxpayers.

Treasury invested $49.5 billion in General Motors. Taxpayers have now received a total of $23.1 billion in return from GM through repayments, interest, and dividends since the company emerged from bankruptcy in July 2009. Treasury's remaining stake in GM now consists of approximately 500 million shares of common stock. The GM IPO reduced Treasury's ownership of GM's outstanding common stock by nearly half, from 60.8 percent to 33.3 percent.

TARP Profit on Citigroup: $12.3 Billion

Treasury received a total of $10.5 billion in proceeds from the sale of its final 2.4 billion shares of Citigroup Inc. common stock in December 2010 and the sale of warrants in January 2011 — locking in a profit of $12.3 billion on its overall investment of $45 billion in Citigroup. With the completion of these offerings, Treasury has fully disposed of its investments in Citigroup (Treasury is entitled to receive up to $800 million in Citigroup securities from the FDIC, if certain events occur by December 31, 2012).

Conversion of Ally Preferred Shares to Common Stock

On December 30, 2010, Treasury converted $5.5 billion of preferred stock in Ally Financial into common stock – a move designed to accelerate Treasury's ability to exit its investment in the company. The conversion strengthens Ally's capital structure by increasing the proportion of equity in the form of common stock and should increase Ally's ability to raise equity in the capital markets in the future. Ally has made substantial progress in restructuring its operations and improving its financial performance during 2010, and this transaction will position Treasury to begin to exit the investment.

More Institutions Repaid TARP Funds

Between October 1, 2010 and January 31, 2011, Treasury received an additional $39 billion in proceeds for taxpayers, including repayment of investments, dividends and other income, principal and interest, and warrant repurchases.

Management Highlights

Less than two-and-a-half years after its creation, TARP has done its part to help stabilize the financial system and put the economy in a better position to confront the challenges that lie ahead. As of January 31, 2011, more than $235 billion of TARP funds have been repaid and the total estimated lifetime cost of TARP has been cut by more than three-fourths, to less than $50 bilion.

In its first year of operation, TARP's financial statements received an unqualified ("clean") audit opinion from its auditors, the Government Accountability Office (GAO), and a separate "clean" report on internal control over financial reporting found no material weaknesses — unprecedented achievements for a start-up operation with an extraordinary emergency mission. As a result of these efforts, Treasury received a Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants. TARP's FY 2010 financial statements likewise received an unqualified opinion from the GAO.

TARP has been subjected to unprecedented oversight since its inception. The Emergency Economic Stabilization Act of 2008 established four separate oversight avenues for TARP: the Financial Stability Oversight Board ("FinSOB"); specific responsibilities for the Government Accountability Office ("GAO"); the Special Inspector General for TARP ("SIGTARP"); and the Congressional Oversight Panel ("COP").

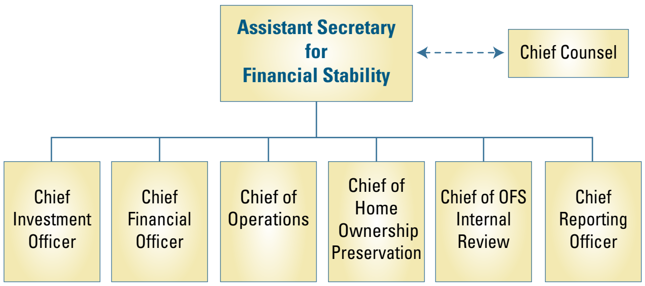
Treasury cooperates with each oversight body's efforts to review TARP programs and to produce periodic audits and reports. On average, Treasury responds to approximately 85 requests for information per month (more than 4 per business day) by these entities. To date, Treasury also has responded to 72 reports from GAO, COP, and SIGTARP; and Treasury has participated in at least 25 Congressional hearings on TARP. Individually and collectively, the work performed by TARP's oversight bodies has made and continues to make important contributions to the development, strengthening, and transparency of TARP programs.

In an ongoing effort to make the operations of TARP as transparent as possible, Treasury regularly provides comprehensive information to the public so that the American taxpayer can better understand the status of our programs. Treasury posts on our website every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program. Other reports include:

- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and periodic information on the estimated cost of TARP;
- A monthly housing report containing detailed metrics on the housing programs;
- A quarterly report on the PPIP program that provides detailed information on the funds, their investments, and returns;
- A report on each transaction (such as an investment in or repayment by an institution) within two business days of completing the transaction;
- A monthly report that details all dividend and interest payments;
- Periodic reports on the sale of warrants, which includes information on auctions as well as on how the sale price was determined in the case of any repurchase of warrants by a TARP recipient; and
- Monthly lending and use of capital surveys that contain detailed information on the lending and other activities of banks that have received TARP funds.

ABOUT THE OFFICE OF FINANCIAL STABILITY

The Office of Financial Stability (OFS) is headed by the Assistant Secretary for Financial Stability, appointed by the President with the advice and consent of the Senate. Reporting to the Assistant Secretary for Financial Stability are six major organizations: the Chief Investment Officer, the Chief Financial Officer, the Chief of Operations, the Chief of Homeownership Preservation, the Chief Reporting Officer, and the Chief of OFS Internal Review. A Chief Counsel's Office reports to the Assistant Secretary and to the Office of the General Counsel in the Department of Treasury. OFS is not envisioned as a permanent organization, so to the maximum extent possible when economically efficient and appropriate, OFS utilizes private sector expertise in support of the execution of TARP programs. The OFS organization chart is shown below.



- The Office of the Chief Investment Officer (CIO) develops programs and manages all investments made pursuant to EESA, other than TARP housing programs.
- The Office of the Chief Financial Officer (CFO) performs budget formulation and execution, cash management, accounting, financial systems, financial reporting, program and internal metrics analytics, modeling cash flows, and internal controls.
- The Office of the Chief of Operations develops the operating infrastructure and manages internal operations in Treasury.
- The Office of the Chief of Homeownership Preservation identifies opportunities to help homeowners and overseeing homeownership programs while also protecting taxpayers.
- The Office of Internal Review (OIR) identifies the most significant risks TARP faces, both internally and externally, and validates and monitors TARP recipient and external entity compliance with various statutory and regulatory requirements.
- The Office of the Chief Reporting Officer helps keep the public informed by preparing reports on TARP activities and is responsible for ensuring that OFS meets its statutory reporting obligations as required by EESA. The office is also responsible for correspondence from Member of Congress and their constituents.
- The Office of the Chief Counsel reports functionally to the Office of General Counsel at Treasury and provides legal advice to the Assistant Secretary. The Office is involved in the structuring of OFS programs and activities to ensure compliance with EESA and with other laws and regulations. The office also coordinates Treasury's work with its four external oversight entities including the GAO, the Special Inspector General for TARP, the Congressional Oversight Panel, and the Financial Stability Oversight Board.

CHALLENGES/EXPECTATIONS FOR 2011

Even though the most dangerous phase of the financial crisis is behind us, we still have substantial work to do. There is still work to be done in managing our remaining TARP commitments. Treasury's goal has always been to exit investments as soon as practicable to remove Treasury as a shareholder, eliminate or reduce Treasury exposure, return TARP funds to reduce the federal debt, and encourage private capital formation to replace federal government investment. But we must balance the desire to exit quickly with the obligation to be the best possible stewards of taxpayers' dollars.

While most of the largest banks have repaid their obligations to TARP, we still have investments in 564 CPP banks. We will work with these institutions, and their regulators, to recover our investments over time. We will also work to ensure that restructuring plans for our investments in AIG and the auto industry are executed successfully. And we will continue to be transparent in all of our efforts.

And while TARP programs have made a difference, the housing market is still weak. The TARP housing programs will continue to require substantial oversight of mortgage servicers to ensure that these initiatives are effectively implemented and reach as many eligible homeowners as possible in a manner that safeguards taxpayer resources.

The ultimate cost of TARP will depend on how financial markets and the economy perform in the future. Five TARP programs, the Capital Purchase Program, the AIG Investment Program, the Automotive Industry Financing Program, the Public-Private Investment Program and the Treasury Housing Programs under TARP each have $10 billion or more still committed. However, as previously mentioned, it is possible that when all is said and done the cost of TARP may be no greater than the amount spent on the program's housing initiatives while the remainder of the programs under TARP — the investments in banks, AIG, credit markets, and the auto industry — will likely result in very little or no cost to the American taxpayer.

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