THE DEPARTMENT OF THE TREASURY

Office of Financial Stability – Troubled Asset Relief Program

Citizen's Report

Fiscal Year 2011

AGA.

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Table of Contents

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Message From The Assistant Secretary For Financial Stability

February 15, 2012

I am pleased to present the Office of Financial Stability's (OFS) Citizen's Report on the Troubled Asset Relief Program (TARP) for fiscal year 2011. This report includes audited financial statement results, expected lifetime cost estimates, and a discussion of future challenges.

In 2008, the American economy faced the most severe challenges we have seen since the Great Depression. We faced the very real risk of a catastrophic collapse of our entire financial system. At the height of the crisis, credit was effectively frozen for households and businesses, including financial firms of all sizes.

In this challenging environment, Congress passed the Emergency Economic Stabilization Act (EESA) in October 2008 with bipartisan support, establishing the TARP as a central part of a series of emergency measures. The goal of TARP, along with other federal government actions, was to stop the panic and restore stability to the U.S. financial system.

By any reasonable objective standard, TARP has worked. It helped stop the widespread financial panic we faced in the fall of 2008 and helped prevent what could have been a devastating collapse of our financial system. Moreover, it has done so at a cost that is far less than what most people expected at the time the law was passed.

Several important milestones were achieved during TARP's third year. Our banking investments have resulted in a positive return for taxpayers, while also helping to keep institutions better capitalized to ensure the overall stability of our financial system. We saw a successful Initial Public Offering (IPO) for General Motors and exited our investment in Chrysler Group, six years earlier than expected. We also closed a major restructuring plan for American International Group, Inc. (AIG), marking a major milestone in the company's turnaround and putting taxpayers in a better position to recover their investment in the company. While the housing market remains fragile, TARP's initiatives to assist struggling borrowers have helped nearly a million families avoid foreclosure and set new standards for mortgage service providers that have indirectly benefitted millions more borrowers.

We have not yet fully repaired the damage from this terrible crisis and still face serious challenges to our economic recovery. Nevertheless, as a result of the actions taken under TARP and other emergency measures, as well as the financial regulatory reforms we have implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act, our financial system is in a better position to deal with these challenges and to promote economic growth.

As of October 3, 2010, Treasury's authority to make new commitments under TARP expired. Going forward, our focus is to manage the remaining investments prudently while working to recover as much of the taxpayers' funds as possible. We will also continue to help as many borrowers as we can while the housing market recovers. We will take these steps while maintaining comprehensive financial and performance accountability and transparency standards.

Sincerely,

Timothy G. Massad
Assistant Secretary
Office of Financial Stability

Why Was TARP Necessary?

The causes of the 2008 financial crisis will be studied for years. This report is not meant to provide a comprehensive analysis of why the crisis occurred, however, some reasons are clear. Over the two decades preceding the crisis, the financial system had grown rapidly in an environment of economic growth and perceived 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 dramatically. By mid-2007, rising mortgage defaults were undermining the performance of many investments held by major financial institutions.

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 were purchased under duress or 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, the U.S. financial system was at risk of collapse. Using authority granted in July 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship on September 7, 2008. A growing sense of panic was producing the classic signs of a generalized run on the banks. People's trust and confidence in the stability of major institutions, and the capacity of the federal government to contain the damage, were vanishing. The situation required an extraordinary, immediate, and forceful response.

The U.S. 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 Department of the Treasury, the Federal Reserve Board, the Federal Deposit Insurance Corporation (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, the Bush Administration proposed and Congress passed the Emergency Economic Stabilization Act (EESA) to create the Troubled Asset Relief Program (TARP), which was enacted into law on October 3, 2008.

TARP Goals and Programs

EESA called for the creation of the Troubled Asset Relief Program and provided the Secretary of the Treasury with the authorities and facilities to help restore liquidity and stability to the U.S. financial system. Treasury developed TARP operational goals, and established a number of programs to help stabilize the U.S. 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.
- Goal 2: Prevent avoidable foreclosures and help preserve homeownership.
- Goal 3: Protect taxpayer interests.
- Goal 4: Promote transparency.

Treasury created the following programs under TARP to meet these goals.

Goal One: Ensure the Overall Stability and Liquidity of the Financial System

Treasury Programs to Invest in Banking Institutions

Treasury's programs to stabilize banks have continued to strengthen the financial system as more institutions have repaid the government's investments, replacing public support with private capital. TARP banking programs are now winding down. Treasury has already recovered an amount that is greater than what was invested through TARP's banking programs and has begun to see a positive return for the taxpayers. A total of $245 billion was invested in banking institutions pursuant to several TARP initiatives. Since TARP's inception and through September 30, 2011, Treasury has collected approximately $258 billion through repayments, sales, dividends, interest, and other income -- approximately $13 billion more than disbursements -- under these initiatives.

Capital Purchase Program

On October 14, 2008 Treasury launched the Capital Purchase Program (CPP), the largest program under TARP. Through the CPP, Treasury provided capital infusions directly to banks and thrifts deemed viable by their regulators to bolster the capital position of institutions of all sizes and, in doing so, built 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, even while absorbing write-downs and charge-offs on loans that were not performing. Treasury received preferred stock or debt securities, as well as warrants to purchase common shares or other securities from the financial institutions in exchange for the CPP investments. The warrants provide an opportunity for taxpayers to reap additional returns on the CPP investments as CPP participants recover.

The program was successful in achieving its objective, and it will also generate a positive return to taxpayers. From inception of the program through September 30, 2011, Treasury has recovered $185 billion of the $205 billion invested, and received an additional $26 billion in income. The program has continued to strengthen the financial system as more banks have repaid the government's investments, replacing public support with private capital. Treasury holds only $17 billion in remaining investments in 390 institutions.

CPP Cumulative Investments	
Amount Invested:	$204.9 billion
Largest Investment:	$25 billion
Smallest Investment:	$301,000

CPP Institutions (Banks in 48 states, D.C and Puerto Rico)		CPP Income to Treasury	
Total Institutions Funded:	**707**	**Total Amount o Repayments[1]:**	**184.93 billion**
Full Repayments:	126		
SBLF Repayments:	137	Total Dividends, Interest, & Fee Income:	$11.2 billion
CDCI Conversions:	28	Dividends and Interest:	$7.78 million
Partial Repayments:	12	Citigroup Gain:	$6.85 billion
Sold Investments:	11		
In Bankruptcy/ Receivership:	13	Total Warrant Income[2]:	$7.64 billion
Merged Institutions:	2		
Total Remaining Institutions:	**390**	**Total CPP Income:**	**$210.63 billion**

1/ Includes repayment of $25 billion from completed Citigroup common stock conversion, $363,290,000 from CDCI conversions. and $2,206,699,000 from SBLF refinancings.
2/ Gross proceeds excluding commissions paid. Includes proceeds from exercised warrants.

Targeted Investment Program

Treasury established the Targeted Investment Program (TIP) in December 2008 to provide funding to financial institutions whose continued operation was critical to the functioning of the entire financial system. Under the TIP, Treasury invested $20 billion in Bank of America and $20 billion in Citigroup. 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. Total dividends received from the TIP investments were approximately $3 billion during the life of the program. Treasury also received warrants from each bank, which provided taxpayers with an additional gain on the investments when Treasury sold the Bank of America warrant in fiscal year 2010 for $1.2 billion and the Citigroup warrant in fiscal year 2011 for $190.4 million. The TIP was closed in December 2009 and resulted in a positive return for taxpayers of $4.43 billion on its total investment of $40 billion.

Asset Guarantee Program

Under the Asset Guarantee Program (AGP), Treasury agreed to absorb a portion of the losses on certain assets to support the value of those assets held by qualifying financial institutions. The program was conducted jointly by Treasury, the Federal Reserve Bank of New York (FRBNY) and the FDIC. Like TIP, 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 AGP was used to assist Bank of America and Citigroup in conjunction with the TIP and CPP investments in those institutions. No Treasury payments were made under this program to either institution. As of September 30, 2011, the AGP had generated a total return to taxpayers of approximately $3.04 billion. Treasury still expects to receive another $800 million of Citi trust preferred securities plus dividends being held by the FDIC pending termination of FDIC guarantees of Citi debt. These securities would provide taxpayers with an additional gain.

Community Development Capital Initiative

Community Development Financial Institutions (CDFIs) focus on providing financial services to communities underserved by traditional banks and financial services, such as low- and moderate-income, minority, and other underserved communities. Treasury launched the Community Development Capital Initiative (CDCI) to help viable certified CDFIs and the communities they serve cope with the effects of the financial crisis. Treasury completed funding under this program in September 2010. The total investment amount for the CDCI program under TARP was $570 million for 84 institutions, which remains outstanding as of September 30, 2011. Of this amount, $363.3 million from 28 banks was exchanged from investments under the CPP into the CDCI.

Treasury Programs to Restore Credit Markets

Public-Private Investment Program

During the financial crisis, many institutions and investors were under extreme pressure to reduce indebtedness. This deleveraging process pushed down the market prices for many financial assets, including troubled legacy securities (i.e., non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS)) below their fundamental value. Institutions and investors were trapped with these hard-to-value assets, marked at distressed prices on their balance sheets, which constrained liquidity and the availability of credit in these markets.

Now entering its third year, the Legacy Securities Public-Private Investment Program (PPIP) has helped to ensure that credit is available to households and businesses (large and small) and ultimately drive the U.S. toward economic recovery. The purpose of this program is to draw new private capital into the market for legacy RMBS and CMBS by providing equity co-investment and financing on attractive terms issued by Treasury. By restarting the market for these assets, PPIP helps financial institutions remove these assets from their books as well as increase the available credit in the economy.

The Public-Private Investment Funds that are within PPIP have completed their fundraising and closed on approximately $7.4 billion of private sector equity capital commitments, which were matched 100 percent by Treasury, representing $14.7 billion of total equity capital commitments. Treasury has also provided $14.7 billion of debt capital commitments, representing $29.4 billion of total purchasing power.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) is a joint Federal Reserve-Treasury program designed to restart the asset-backed securities (ABS) market providing credit to consumers and small businesses, which had ground to a virtual standstill during the early months of the financial crisis. OFS originally committed to provide $20 billion in the form of a subordinated loan commitment to TALF LLC to support up to $200 billion in non-recourse loans to borrowers. This commitment was later reduced to $4.3 billion after the program closed to new lending in June 2010, which represented 10 percent of the outstanding TALF loans at the time. Since June 2010, the program has been winding down. As of September 30, 2011, the TALF program has experienced no losses and all outstanding TALF loans are well collateralized. Treasury does not expect any cost to the taxpayers from this program.

Small Business Administration 7(a) Securities Purchase Program

Small businesses play an important role in generating new jobs and growth in our economy. The Small Business Administration (SBA's) 7(a) Loan Guarantee Program assists start-up and existing small businesses that face difficulty in obtaining loans through traditional lending channels.

To help 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. Purchasing securities from participating pool assemblers enabled them to purchase additional small business loans from loan originators. Since Treasury began purchasing SBA 7(a) securities, the SBA 7(a) market has stabilized, as exhibited by new pool issuance volumes returning to pre-crisis levels.

Under this program, Treasury invested in total in 31 SBA 7(a) security pools with a value of approximately $368 million during fiscal year 2010. Those securities were comprised of 1,001 loans from 17 different industries, including retail, food services, manufacturing, scientific and technical services, healthcare, educational services, and others. Treasury is now winding down this program. As of September 30, 2011, Treasury had sold a total of 16 securities for approximately $213.2 million.

Treasury's Other Investment Programs

Automotive Industry Financing Program (AIFP)

Three years ago, General Motors and Chrysler were on the verge of collapse. The uncontrolled liquidation of these two companies would have significantly disrupted the U.S. automotive industry and caused additional strain on an already weakened financial system and economy.

Recognizing both General Motors Corporation (Old GM) and Chrysler Holdings LLC (Old Chrysler) were on the verge of potentially disorderly liquidations, Treasury under President Bush extended temporary loans to Old GM and Old Chrysler in December 2008. When President Obama took office, he decided to provide additional investment only if the companies engaged in fundamental restructuring. Both companies were required to develop plans to achieve long-term viability, under which all stakeholders, including unions, dealers, creditors, and others, would make substantial sacrifices. As a result, General Motors Company (New GM) and Chrysler Group LLC (New Chrysler) are more 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.

> *"In Detroit, Chrysler added a second shift at its Jefferson North plant. GM is adding a third shift at its Hamtramck plant for the first time ever. In Indiana, Chrysler is investing more than $1.3 billion in its Kokomo facilities. And across the country, GM plans to hire back every single one of its laid-off workers by the end of the year -- every single one."*
>
> **President Barack Obama**
> Remarks to the Chrysler Group Toledo Supplier Park
> Toledo, Ohio, June 3, 2011

New GM's second quarter 2011 profit was its sixth consecutive profitable quarter. Since emerging from bankruptcy, New GM has added shifts at six of its plants to address growing demand. New GM is also on a path to repay the taxpayers for their assistance. In November 2010, New GM completed a successful IPO, one of the largest ever by a U.S. company. As part of the IPO, Treasury sold approximately 412.3 million shares of New GM common stock at $33.00 per share, and thereby recovered approximately $13.5 billion of the taxpayers' investment.

A similar story is playing out at New Chrysler as the company has lowered its structural costs, become more efficient, adopted new technologies, rejuvenated its product line, and rebuilt its brands. Today, its market share continues to recover. As of August 2011, the company had achieved six consecutive quarters of operating profit and on March 31, 2011, Chrysler realized its first quarter of positive net income since exiting bankruptcy. On May 24, 2011, New Chrysler repaid its outstanding TARP loans to Treasury, six years before the loans were scheduled to mature in 2017. In total, Treasury committed $12.4 billion to Chrysler under TARP. To date, more than $11.1 billion of that amount has been returned to taxpayers through principal repayments, interest, and canceled commitments. Treasury is unlikely to fully recover the difference of $1.3 billion owed by Old Chrysler, which is being liquidated. Secretary Geithner called Chrysler's early repayment, "an important step in the turnaround of this company and the resurgence of the auto industry."

Treasury also invested a total of $16.3 billion of TARP funds in Ally Financial (formerly GMAC). Ally provides financing to auto dealers and consumers. As a result of repayments, Treasury holds $5.9 billion of mandatory convertible preferred stock in Ally and 74 percent of the outstanding shares of Ally's common stock as of September 30, 2011. Treasury will focus on continuing to exit our remaining AIFP commitments, while recovering as much as possible for the taxpayers.

American International Group, Inc. (AIG) Investment Program

During September, October, and November 2008, the Federal Reserve and Treasury took a series of steps to prevent the disorderly failure of AIG and mitigate the impact that such a failure could have had on the U.S. financial system, as well as global financial and insurance markets. The initial assistance to AIG was provided by the FRBNY before the passage of EESA and the creation of TARP. After EESA was enacted, Treasury and the Federal Reserve continued to work together to address the challenges posed by AIG. The taxpayers' recovery of these funds has required a fundamental restructuring of AIG's balance sheet and its business operations. Treasury and the FRBNY have spent the past three years working in close coordination with AIG to achieve this. Complete details on the AIG investment are available in at the TARP Three-Year Anniversary Report and the TARP Two-Year Retrospective Report http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

AIG is now experiencing a turnaround. In January 2011, AIG, Treasury, the FRBNY and the AIG Credit Facility Trust (the Trust) completed a complex restructuring transaction that was part of a plan announced in September 2010. The restructuring plan was designed to accelerate the timeline for AIG's repayment of the government support and facilitate its transition from a majority government-owned and supported entity to a financially sound and independent entity. Following completion of this transaction, in May 2011, AIG and Treasury completed a public offering of AIG common stock. Having stabilized its operations, Treasury is now in a better position to recoup its investments in AIG. As a result, during fiscal year 2011, substantial progress was made in reducing Treasury's exposure to AIG.

At its peak, the FRBNY and Treasury committed approximately $180 billion in loans and commitments to AIG, with $70 billion of that committed by Treasury under TARP. As of September 30, 2011, the FRBNY's direct loans to AIG have been repaid and Treasury's total investment in AIG stood at $51 billion. In addition, $18.8 billion is owed to the FRBNY by Maiden Lane II and III – two limited liability corporations created to alleviate capital and liquidity pressures on AIG during the 2008 crisis.

Goal Two: Prevent Avoidable Foreclosures and Preserve Homeownership

Treasury established several programs under TARP to support the Administration's broader efforts to stabilize the housing market. Treasury, in partnership with other federal agencies, has taken a series of aggressive steps focused on providing stability to housing markets, and giving families who could afford to stay in their homes, a chance to do so.

A complete overview on the history of Treasury's housing programs under TARP can be accessed in the TARP Two Year Retrospective Report http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx.

Treasury is operating two central housing assistance programs under TARP:

- Making Home Affordable Program (MHA)
- The Hardest Hit Fund (HHF)

The primary purpose of MHA is to help struggling borrowers prevent avoidable foreclosure. As the mortgage crisis evolved, Treasury enhanced MHA and developed new programs designed to meet the changing landscape.

In February 2010, the Obama Administration announced the HFA Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund, or HHF). This program allows state Housing Finance Agencies (HFAs) in the nation's hardest hit housing markets and high unemployment markets to design innovative, locally targeted foreclosure prevention programs.

TARP's housing programs have also helped establish new standard practices for mortgage servicers that have indirectly helped millions more. These include:

- Establishing a single point of contact for borrowers seeking assistance,
- Limiting the practice of "dual tracking" – where servicers begin the foreclosure process while simultaneously evaluating borrowers for a modification, and
- Requiring servicers to provide qualified unemployed borrowers with a forbearance period during which their monthly payments are temporarily reduced while they look for a new job.

Home Affordable Modification Program

The Home Affordable Modification Program (HAMP), the principal component of MHA, is designed to reduce mortgage payments to affordable levels for qualifying borrowers. Under this program, Treasury pays the incentives for the modification of loans not held by government sponsored enterprises (GSEs) while the GSEs bear the cost of modifications of loans held by the GSEs. HAMP is the largest program within MHA and includes several additional components to complement first lien modifications.

As of September 30, 2011, more than 850,000 borrowers have permanently modified their mortgage payments under HAMP, saving a median of over $525 per month.

Borrowers entering the program today show a strong likelihood of long-term success in their modification. Data shows that mortgages modified under HAMP continue to perform well over time and outperform traditional industry modification. Based on data in the June 2011 Making Home Affordable Program Performance Report, at six months, more than 93 percent of borrowers had remained in permanent modifications, with just 10.5 percent of borrowers being more than 60 days delinquent.

Second Lien Modification Program

The Second Lien Modification Program (2MP) enables borrowers in a HAMP first lien permanent modification to modify eligible second lien mortgages held by a participating servicer. As of September 30, 2011, more than 45,000 borrowers in a HAMP first lien permanent modification had received assistance through 2MP.

Home Affordable Foreclosure Alternatives Program

The Home Affordable Foreclosure Alternatives Program (HAFA) helps borrowers exit their homes and transition to a more affordable living situation through a short sale or deed-in-lieu of foreclosure. As of September 30, 2011, approximately 32,000 borrowers had reached agreements with their servicer to exit their homes and transition to a more affordable living situation under this program.

HAFA provides $3,000 for relocation assistance after a borrower exits the home. As of September 30, 2011, almost 19,000 borrowers had completed a short sale or deed-in-lieu under HAFA.

Principal Reduction Alternative

The Principal Reduction Alternative (PRA) is designed to help borrowers whose homes are worth significantly less than what they owe on their mortgages. It requires participating servicers of non-GSE loans to evaluate the benefit of principal reduction for mortgages with a loan-to-value ratio of 115% or greater when evaluating a borrower for a HAMP first lien modification. As of September 30, 2011, over 47,000 modifications had been started through PRA, with approximately 29,000 of those permanently modified. The median principal amount reduced for those active permanent modifications is $65,200 or 31.4% of the existing principal balance.

Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets

As of September 30, 2011, there were 55 programs functioning across 19 HFAs with 70% of funds being targeted to help unemployed borrowers, primarily through reinstatement and programs that help borrowers pay their mortgage while looking for work.

Additional information on the funded programs, including the most recent quarterly report for each state can be accessed at: http://www.FinancialStability.gov/roadtostability/hardesthitfund.html.

Support for the FHA-Refinance Program

In March 2010, the Administration announced enhancements to an existing FHA program that permits lenders to provide additional refinancing options to borrowers who owe more than their homes are worth because of large declines in home prices in their local markets. This program, known as the FHA-Refinance program, provides more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans.

GOAL THREE: PROTECT TAXPAYERS' INTERESTS

Treasury manages TARP investments to minimize costs to taxpayers and receives income on its holdings of preferred equity and other TARP investments in the form of interest, dividends and fees. Treasury also takes steps to ensure that TARP recipients comply with any TARP-related statutory or contractual obligations such as executive compensation requirements and restrictions on dividend payments.

Consistent with the statutory requirements, Treasury's four overarching portfolio management guiding principles are as follows:

- Protect taxpayer investments and maximize overall investment returns within competing constraints,
- Promote stability for and prevent disruption of financial markets and the economy,
- Bolster market confidence to increase private capital investment, and
- Dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact.

GOAL FOUR: PROMOTE TRANSPARENCY

To protect taxpayers and help ensure that every dollar is directed toward promoting financial stability, Treasury established comprehensive accountability and transparency measures. Treasury publishes hundreds of reports and other information about TARP so that the public knows how the money was spent, who received it and on what terms. This includes all contracts governing any investment or expenditure of TARP funds and numerous reports over the three years of the TARP's existence. All of these reports and information are posted on the website, www.FinancialStability.gov, including:

- Lists of all the institutions participating in TARP programs, and all of the investments Treasury has made;
- All investment contracts defining the terms of those investments within five to ten business days of a transaction's closing;
- All contracts with Treasury service providers involved with TARP programs;

- A Daily TARP Update Report which includes program obligations, disbursements, repayments, and other collections;
- A TARP Tracker;
- A report of each transaction within two business days of completing the transaction;
- Monthly reports of dividend and interest received;
- Monthly reports to Congress, which present updates on Treasury investments and programs in a clear, concise manner and includes the latest estimates of the lifetime costs of each program;
- Monthly reports detailing the progress of modifications under the Making Home Affordable program;
- A monthly lending survey, and an annual use of capital survey, which contains detailed information on the lending and other activities of banks that have received TARP funds; and
- Quarterly assessments of the ten largest mortgage servicers.

Treasury now publishes quarterly assessments of servicer performance, which contain data on compliance with program guidelines as well as program results metrics. Going forward, Treasury hopes these assessments will set the standard for transparency about mortgage servicer efforts to assist borrowers and encourage servicers to correct identified instances of noncompliance. For the third quarter of fiscal year 2011, two servicers had been determined to need substantial improvement. These servicers were also in need of substantial improvement in the second quarter, and their servicer incentives have been withheld since June 1, 2011.

FY 2011 Performance and Management Highlights

As of September 30, 2011, Treasury reports several important achievements from inception through TARP's third year:

- The series of programs that Treasury launched to help stabilize the nation's banking institutions are now producing a profit to taxpayers. A total of $245 billion was invested in banking institutions pursuant to several TARP initiatives. Since TARP's inception and through September 30, 2011, Treasury has collected approximately $258 billion through repayments, sales, dividends, interest, and other income -- approximately $13 billion more than disbursements -- under these initiatives. Treasury continues to recover additional investments.
- Treasury is winding down its investments in the auto industry. It has exited its investment in Chrysler Group, as Chrysler Group repaid its loans six years earlier than the loan's maturity date. Treasury also reduced its stake in General Motors Company by 50 percent through General Motors' highly successful Initial Public Offering with Treasury receiving $13.5 billion from the sale of a portion of its General Motors common stock holdings. As of September 30, 2011, Treasury has collected more than $40 billion (including repayments, sales, dividends, interest and other income) of the $80 billion invested in companies related to the auto industry. As of September 30, 2011, Treasury expected the auto investments to cost the taxpayer just under $24 billion.
- Treasury, working with other federal entities, closed a major restructuring plan for AIG, marking a significant milestone in the company's turnaround and putting Treasury in a better position to recover its investment. In May 2011, Treasury completed the sale of 200 million shares of AIG common stock, reducing Treasury's percentage ownership of AIG's outstanding shares from approximately 92 percent to 77 percent.
- While the housing market remains fragile, Treasury initiatives to assist struggling borrowers have helped more than 850,000 families keep their homes and set new standard practices for mortgage servicers that have indirectly helped millions more.
- During fiscal year 2011, Treasury focused principally on (i) exiting remaining investments in a timely and orderly manner consistent with the duty to promote financial stability and protect taxpayers' interests that maximizes the return for taxpayers, and (ii) continuing to help borrowers avoid preventable foreclosures.

TARP Resources

EESA provided authority for the TARP to purchase or guarantee up to $700 billion in troubled assets.[1] In July 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act[2] amended EESA by capping total purchase and guarantee authority at a cumulative $475 billion and limiting any new obligations only to programs or initiatives that were initiated prior to June 25, 2010. Treasury reduced the TARP program allocations to conform to these limitations. As of October 3, 2010, OFS' authority to make new commitments under TARP expired.

Financial Performance Snapshot

As shown below in Table 1, the reported accounting cost of TARP activities (which differ from budgetary lifetime costs as described below) from inception, on October 3, 2008, through September 30, 2011, based on the Treasury financial statements, was $28.0 billion. The $28.0 billion cost consists of $9.5 billion of reported TARP net cost in the Treasury financial statements for fiscal year 2011; $23.1 billion of reported TARP net income for fiscal year 2010 and the $41.6 billion of reported TARP net cost for the period from inception through September 30, 2009. The change of $9.5 billion since fiscal year 2010 is primarily due to declines in the value of Treasury's investments in GM, Ally Financial, and AIG, and

[1] The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, amended the act and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.7 billion.

[2] Pub. L. 111-203.

continued funding of the Treasury Housing Programs under TARP.

Table 1 presents net income and net cost amounts as reported in TARP financial statements. Unlike the federal budget cost estimates presented below in Table 5, these figures reflect only transactions through September 30, 2011. The figures do not include the committed but undisbursed funds for housing programs as well as other programs all of which are included in the expected lifetime cost for budget purposes shown in Table 5.

Table 1: Net Income (Cost) of TARP Operations
(Dollars in billions)

TARP Program	For the Year Ended September 30, 2011	For the Year Ended September 30, 2010	From TARP's Inception through September 30, 2011[1]
Bank Support Programs			
Capital Purchase Program	$ 1.8	$ (3.9)	$ 13.0
Targeted Investment Program	0.2	1.9	4.0
Asset Guarantee Program	---	1.5	3.7
Community Development Capital Initiative	0.1	(0.3)	(0.2)
Credit Market Programs			
Public-Private Investment Program	1.8	0.7	2.5
Term Asset-Backed Securities Loan Facility	0.1	---	0.4
SBA 7(a) Securities Purchase Program	---	---	---
Other Programs			
Automotive Industry Financing Program	(9.7)	16.6	(23.6)
American International Group Investment Program	(1.6)	7.7	(24.3)
FHA-Refinance Program	---	N/A	---
Total Net Subsidy Income (Cost)	**$ (7.3)**	**$ 24.2**	**$ (24.5)**
Additional TARP (Costs)			
Treasury Housing Programs under TARP (excluding FHA-Refinance Program)	(1.9)	(0.8)	(2.7)
Administrative Costs	(0.3)	(0.3)	(0.8)
Total Net (Cost of) Income from TARP Operations	**$ (9.5)**	**$ 23.1**	**$ (28.0)**

[1] The Inception through September 30, 2011 column includes dollar amounts related to the $41.6 billion net cost of operations for the period from inception through September 30, 2009.

TARP Program Summary

Table 2 provides a financial summary for TARP programs since TARP inception on October 3, 2008, through September 30, 2011. For each program, the table provides the amount obligated for each TARP program, the amount actually disbursed, repayments to Treasury from program participants or from sales of the investments, write-offs and losses, net outstanding balance as of September 30, 2011, and cash inflows on the investments in the form of dividends, interest or other fees. As of fiscal year end 2011, $57 billion of the $470 billion in purchase and guarantee authority remained unused.[3]

[3] Treasury tracks costs in accordance with Federal budget procedures. First, Treasury enters into legally binding "obligations" to invest or spend the funds for TARP programs. Then, funds are disbursed over time pursuant to the obligations. In any given case, it is possible that the full amount obligated will not be disbursed.

Table 2: TARP Summary From TARP Inception through September 30, 2011 (Dollars in billions)						
	Purchase Price or Guarantee Amounts	Total $ Disbursed	Investment Repay-ments	Write-offs and Realized Losses	Out-standing Balance[1]	Received from Invest-ments
Bank Support Programs						
Capital Purchase Program	$ 204.9	$ 204.9	$ (185.0)	$ (2.6)	$ 17.3	$ 25.7
Targeted Investment Program	40.0	40.0	(40.0)	-	-	4.4
Asset Guarantee Program	5.0	-	-	-	-	3.0
Community Development Capital Initiative	0.6	0.6	-	-	0.6	-
Credit Market Programs						
Public Private Investment Program	21.9	17.6	(1.7)	-	15.9	0.7
Term Asset-Backed Securities Loan Facility	4.3	0.1	-	-	0.1	-
SBA 7(a) Securities Purchase Program	0.3	0.3	(0.2)	-	0.1	-
Other Programs						
Automotive Industry Financing Program	79.7	79.7	(35.0)	(7.4)	37.3	5.0
American International Group Investment Program	67.8	67.8	(15.0)	(1.9)	51.1	0.4
Sub-total for Investment Programs	424.5	411.0	(276.9)	(11.9)	122.4	39.2
Treasury Housing Programs Under TARP	45.6	2.4	N/A	N/A	N/A	N/A
Total for TARP Program	**$ 470.1**	**$ 413.4**	**$ (276.9)**	**$ (11.9)**	**$ 122.4**	**$ 39.2**

[1] Total disbursements less repayments, write-offs and losses do not equal the outstanding balance primarily because the disbursements for the Treasury Housing Programs under TARP do not require repayments, and because of certain capitalized interest relating to the AIG Investment Program.

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Most of the TARP funds have been used to make investments in preferred stock or to make loans. Treasury has generally received dividends on the preferred stock and interest payments on the loans from the institutions participating in TARP programs. These payments represent a return on Treasury's TARP investments. Table 3 shows the breakdown of receipts for the periods ended September 30, 2011 and 2010 for all TARP programs combined as well as totals for the period from inception through September 30, 2011

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Table 3: TARP Receipts and Repayments on Investments/Loans [1] (Dollars in billions)			
Dividends, Interest, Fees and Warrants Repurchases	For the Year Ended September 30, 2011	For the Year Ended September 30, 2010	From TARP's inception through September 30, 2011
Dividends and Fees	$ 2.8	$ 5.9	$ 18.3
Interest	0.9	1.0	2.1
Sales/Repurchases of Warrants and Warrant Preferred Stock and Additional Notes	1.0	5.2	9.1
Proceeds from Sales of Citigroup Common Stock in Excess of Cost	3.9	3.0	6.9
Other Proceeds in Excess of Cost	2.8	---	2.8
Subtotal	11.4	15.1	39.2
Investment/Loan Repayments			
Sales/Repurchases/Repayments on investments	66.5	122.0	259.2
Loan Principal Repaid	$ 6.3	$9.3	17.7
Subtotal	72.8	131.3	276.9
GRAND TOTAL	**$ 84.2**	**$ 146.4**	**$ 316.1**

[1] This table shows TARP activity on a cash basis.

[2] The total reported for the Inception through September 30, 2011 column includes the $85.5 billion in receipts and repayments related to the period from inception through September 30, 2009.

Treasury also received warrants in connection with most of its investments, which provides an opportunity for taxpayers to realize an upside on investments. Since the program's inception, Treasury has received $9.1 billion in gross proceeds from the disposition of warrants associated with 95 CPP investments and both TIP investments, consisting of (i) $3.7 billion from issuer repurchases at agreed upon values and (ii) $5.4 billion from auctions. TARP's Warrant Disposition Report is available at: http://www.financialstability.gov/latest/reportsanddocs.html.

Summary of TARP Direct Loans and Equity Investments

Table 4 provides information on the estimated values of the TARP direct loan and equity investments by program, as of the end of fiscal years 2011 and 2010. (Treasury Housing Programs under TARP are excluded from the table because no repayments are required). The Outstanding Balance column represents the amounts disbursed by Treasury relating to the loans and equity investments that were outstanding as of September 30, 2011 and 2010. The Estimated Value of the Investment column represents the present value of net cash inflows that Treasury estimates it will receive from the loans and equity investments. For equity securities, this amount represents fair value.

Table 4: Summary of TARP Direct Loans and Equity Investments (Dollars in billions)				
Program	Outstanding Balance as of September 30, 2011	Estimated Value of Investment as of September 30, 2011	Outstanding Balance as of September 30, 2010	Estimated Value of Investment as of September 30, 2010
Bank Support Programs				
Capital Purchase Program	$ 17.3	$ 12.4	$ 49.8	$ 48.2
Community Development Capital Initiative	0.6	0.4	0.6	0.4
Credit Market Programs				
Public-Private Investment Program	15.9	18.4	13.7	14.4
Term Asset-Backed Securities Lending Facility	0.1	0.6	0.1	0.4
SBA 7(a) Securities Purchase Program	0.1	0.1	0.2	0.2
Other Programs				
Automotive Industry Financing Program	37.3	17.8	67.2	52.7
American International Group Investment Program	51.1	30.4	47.6	26.1
Total	$ 122.4	$ 80.1	$ 179.2	$ 142.4

Comparison of Estimated Lifetime TARP Costs Over Time

Market conditions and the performance of specific financial institutions will be critical determinants of TARP's lifetime cost. Table 5 provides information on how Treasury's estimated lifetime cost of TARP has changed over time. These costs fluctuate in large part due to changes in the market prices of common stock for AIG and GM and the estimated value of the Ally stock. This table assumes that all expected investments (e.g. PPIP) and disbursements for Treasury Housing Programs under TARP are completed, and adhere to government budgeting guidance. Table 5 is consistent with the estimated lifetime cost disclosures on the OFS website at: www.financialstability.gov.

The most recent estimates as of September 30, 2011, reflect a lifetime cost of $70.2 billion, based on utilizing $470 billion of the TARP authority. The estimated lifetime cost of TARP reflects several factors, including the cost of the initiatives to help borrowers stay in their homes, for which $45.6 billion has been committed, and $2.4 billion of which has been disbursed. Treasury's housing program disbursements were never intended to be recovered and Treasury does not expect them to result in any repayments. The estimated lifetime cost also reflects costs related to investments in the auto companies and AIG. These costs fluctuate in large part due to market prices of common stock, and declines in market prices largely account for the increase in the estimated lifetime cost of TARP. These costs are offset in part by income on TARP investments in banks and other programs. Note that the lifetime cost of TARP, based on budget scoring conventions, differs from the cost included in the Treasury financial statements which are presented in Table 1. Estimates of lifetime costs assume that all planned expenditures are made. By contrast, the TARP financial statement costs are based on transactions through September 30, 2011.

Treasury received additional shares of AIG common stock from the FRBNY in May 2011. Treasury's cost including these shares is $54 billion.

Table 5: Estimated Lifetime TARP Costs (Income) (Dollars in billions)				
Program	Estimated Lifetime Cost (Income) on March 31, 2010	Estimated Lifetime Cost (Income) on September 30, 2010	Estimated Lifetime Cost (Income) on March 31, 2011	Estimated Lifetime Cost (Income) on September 30, 2011
Bank Support Programs				
Capital Purchase Program	$(9.8)	$(11.2)	$(13.6)	$(13.0)
Targeted Investment Program	(3.8)	(3.8)	(4.0)	(4.0)
Asset Guarantee Program	(3.1)	(3.7)	(3.8)	(3.7)
Community Development Capital Initiative	0.4	0.3	0.2	0.2
Credit Market Programs				
Public Private Investment Program	0.5	(0.7)	0.4	(2.4)
Term Asset-Backed Securities Lending Facility	(0.3)	(0.4)	(0.3)	(0.4)
SBA 7(a) Securities Purchase Program	0.0	0.0	0.0	(0.0)
Other	3.0	N/A	N/A	N/A
Other Programs				
Automotive Industry Financing Program	24.6	14.7	13.9	23.6
American International Group Investment Program	45.2	36.9	10.9	24.3
Subtotal	56.6	32.1	3.7	24.5
Treasury Housing Programs under TARP	48.8	45.6	45.6	45.6
Total	$ 105.4	$ 77.7	$ 49.3	$ 70.2
Additional AIG Common Shares Held by Treasury[1]	n/a	n/a	n/a	(12.8)
Total for TARP Programs and Additional AIG Shares	$ 105.4	$ 77.7	$ 49.3	$ 57.3

[1]Represents additional 563 million shares of AIG common stock that was received from the trust created by the Federal Reserve Bank of New York for the benefit of the Treasury, including $1.97 billion received from a sale of stock in May 2011.

Challenges/Expectations for 2012

Final purchase authority to make new commitments under TARP expired on October 3, 2010. There is, however, still significant work to be done to implement commitments made prior to the October 3 deadline but not yet fully funded. The tasks ahead for Treasury are to recover the outstanding investments in the financial sector and auto industry in a manner that maximizes the return for taxpayers while continuing to assist borrowers seeking to avoid foreclosure.

Treasury manages TARP investments to minimize costs to taxpayers while it seeks 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.

While the TARP programs have made a difference, the housing market remains fragile. The TARP housing programs were not meant to prevent all foreclosures. Rather, they are intended to support economic stability and help struggling borrowers grappling with a verifiable financial hardship that has put them at risk of foreclosure. As a result, borrowers today, have far more options to cope with the worst housing crisis in generations. Treasury will continue to reach and engage struggling borrowers, hold servicers accountable for their performance, and ensure borrowers are appropriately evaluated for the modification and foreclosure avoidance programs for which they are eligible.

Over time, the cost of the TARP programs will change and the ultimate cost of the TARP will not be known for some time. Estimates of TARP costs are based in part on currently projected economic factors. These economic factors will likely change, either increasing or decreasing the lifetime cost of the TARP. The recoveries or costs from CPP, AIG, AIFP, and PPIP and the expenditures for Treasury Housing programs going forward will most significantly affect the lifetime cost of the TARP.

About The Office of Financial Stability

The Assistant Secretary for Financial Stability, appointed by the President with the advice and consent of the Senate, heads the OFS. Six major organizations report to the Assistant Secretary for Financial Stability.

The Office of the Chief Investment Officer (CIO) is responsible for program development and the execution and management of all investments made by either purchasing or insuring "troubled assets" pursuant to EESA, other than TARP housing programs.

The Office of the Chief Financial Officer (CFO) has lead responsibility within OFS for 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 is responsible for developing the operating infrastructure and managing internal operations in OFS.

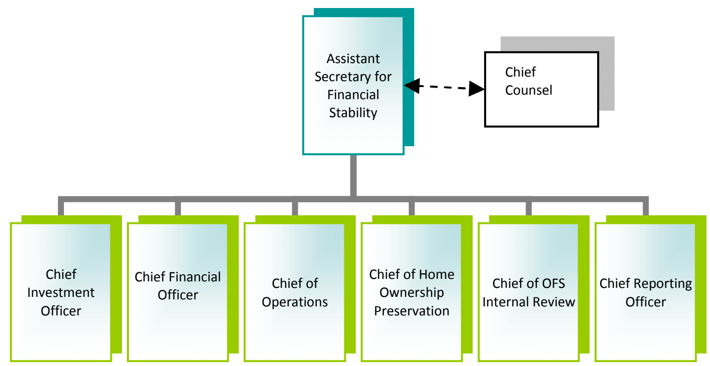
The Office of the Chief of Homeownership Preservation is responsible for identifying opportunities to help borrowers and overseeing homeownership programs while also protecting taxpayers.

The Office of Internal Review (OIR) is responsible for identifying the most significant risks that the TARP faces, both internally and externally. In addition, OIR is responsible for program compliance verification.

The Office of the Chief Reporting Officer is responsible for periodic reports to the Congress as required by EESA.

The Office of the Chief Counsel reports functionally to the Office of General Counsel at the Department of the 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 and coordinates OFS' work with the external oversight entities including the Government Accountability Office (GAO), the Special Inspector General for TARP (SIGTARP), the Financial Stability Oversight Board and the Congressional Oversight Panel (COP) through the end of its existence on April 3, 2011.

The OFS organization chart is shown below:



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. Private sector firms were also engaged to assist with the significant volume of work associated with TARP in the areas of custodial services, accounting and internal controls, modeling, administrative support, facilities, legal advisory, financial advisory, and information technology.

Where Readers Can Learn More

TARP Retrospective Reports

In October 2011, Treasury published the TARP Three-Year Anniversary Report, an update to Treasury's comprehensive TARP Two-Year Retrospective report issued in October 2010. These reports include information on TARP programs and the effects of TARP and additional emergency measures taken by the federal government to stabilize the financial system following the 2008 crisis.

http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

Audited Financial Statements:

Treasury prepares separate financial statements for TARP on an annual basis. Each period since its inception, TARP's financial statements have received unqualified ("clean") audit opinions from its auditors, the GAO. Treasury also received Certificates of Excellence in Accountability Reporting (CEAR), awarded each May for the preceding fiscal year to select government entities, from the Association of Government Accountants for both fiscal year 2010 and the period ending September 30, 2009.

http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/agency_reports/Pages/default.aspx

Housing Scorecard:

http://portal.hud.gov/hudportal/documents/huddoc?id=Sept2011NatlScorecard.pdf

Warrant Disposition Report:

www.treasury.gov/initiatives/financial-stability/briefing-room/reports/other/Pages/default.aspx

Housing Finance Agency Hardest Hit Fund:

www.financialstability.gov/roadtostability/hardesthitfund.html

PPIP Quarterly Reports:

http://www.treasury.gov/initiatives/financial-stability/programs/Credit%20Market%20Programs/ppip/Documents/PPIP%20Report%2009-2011.pdf

Making Home Affordable Monthly Reports:

http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Pages/default.aspx

CPP Quarterly Report:

http://www.treasury.gov/initiatives/financial-stability/results/cpp/Pages/default.aspx

TARP Oversight:

Four different government entities have oversight responsibilities over TARP and produce detailed reports available to the public:

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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