SIGTARP

Office of the Special Inspector General for the Troubled Asset Relief Program

Advancing Economic Stability Through Transparency, Coordinated Oversight and Robust Enforcement

Quarterly Report to Congress
October 21, 2009

MISSION

SIGTARP's mission is to advance economic stability by promoting the efficiency and effectiveness of TARP management, through transparency, through coordinated oversight, and through robust enforcement against those, whether inside or outside of government, who waste, steal or abuse TARP funds.

STATUTORY AUTHORITY

SIGTARP was established by Section 121 of the Emergency Economic Stabilization Act of 2008 (EESA). Under EESA, the Special Inspector General has the duty, among other things, to conduct, supervise and coordinate audits and investigations of the purchase, management and sale of assets under the Troubled Asset Relief Program (TARP). In carrying out those duties, SIGTARP has the authority set forth in Section 6 of the Inspector General Act of 1978, including the power to issue subpoenas.

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EXECUTIVE SUMMARY

More than a year has now passed since the Emergency Economic Stabilization Act of 2008 ("EESA") authorized creation of the Troubled Asset Relief Program ("TARP"), and preliminary assessments of TARP — both its effectiveness and its costs — can begin to be made. As to effectiveness, there are significant signs of improvement in the stability of the financial system. Although the causes for such improvement are many and complex, it appears that the dramatic steps taken by the U.S. Department of the Treasury ("Treasury") and other agencies through TARP and related programs played a significant role in bringing the system back from the brink of collapse. On the other hand, the risk of foreclosure continues to affect too many Americans, unemployment continues its rise, and the stresses on the commercial real estate market threaten to increase the pressure on banks and small businesses alike yet again.

On the cost side of the ledger, although it will take many years to assess all of the costs associated with TARP, financial and otherwise, this report begins to categorize them. It is useful to analyze any Governmental intervention in the market like TARP against three distinct types of cost: the financial cost to the taxpayers; the "moral hazard" damage to market incentives created by Government intervention; and a cost that has received scant attention thus far — the impact on Government credibility due to the failure to explain what is being done with billions of taxpayer dollars transparently and forthrightly. The past year has demonstrated that TARP's costs, in each category, could prove to be substantial.

- **Financial Cost:** Although several TARP recipients have repaid funds for what has widely been reported as a 17% profit, it is extremely unlikely that the taxpayers will see a full return on their TARP investments. Certain TARP programs, such as the mortgage modification component of the Making Home Affordable ("MHA") program, which is scheduled to use $50 billion of TARP funds, will yield no direct return; for others, including the extraordinary assistance to American International Group, Inc. ("AIG") and the auto companies, full recovery is far from certain. Some of these potential costs are discussed in Section 2 of this report, including a discussion of financial cost that is rarely considered — the cost associated with borrowing the money used to fund TARP.
- **Moral Hazard:** Market behavior is bound to be impacted by the massive infusions of Government capital into the very institutions that caused the crisis; by the modifications of mortgages for homeowners who may have borrowed irresponsibly; and by the provision of cheap, non-recourse loans to incentivize the purchase of the same volatile and over-valued asset-backed securities ("ABS") that were a major cause of the current crisis. The firms that were "too big to fail" last October are in many cases bigger still, many as a result of Government-supported and -sponsored mergers and acquisitions; the inherently conflicted rating agencies that failed to warn of the risks leading up to the financial crisis are still just as conflicted; and the recent rebound in big bank stock prices

Moral Hazard: A term used in economics and insurance to describe the lack of incentive individuals have to guard against a risk when they are protected against that risk (for example, through an insurance policy). In the context of TARP, it refers to the danger that private-sector executives/investors/lenders may behave more recklessly believing that the Government has insulated them from the risks of their actions.

risks removing the urgency of dealing with the system's fundamental problems. Absent meaningful regulatory reform, TARP runs the risk of merely re-animating markets that had collapsed under the weight of reckless behavior. Section 3 of this report addresses the role of rating agencies in particular, their crucial role in the financial system, and their impact on the current financial crisis.

- **Government Credibility:** The Government's capacity to address financial crises depends in no small measure on its credibility, both with market participants whose confidence is essential to stabilize the financial system and with the American public whose confidence is essential to underpin the political support required to take the difficult (and often expensive) steps that are needed. Unfortunately, several decisions by Treasury — including Treasury's refusal to require TARP recipients to report on their use of TARP funds, its less-than-accurate statements concerning TARP's first investments in nine large financial institutions, and its initial defense of those inaccurate statements — have served only to damage the Government's credibility and thus the long-term effectiveness of TARP. Notwithstanding TARP's role in bringing the financial system back from the brink of collapse, it has been widely reported that the American people view TARP with anger, cynicism, and distrust. These views are fueled by the lack of transparency in the program. The beliefs of some, for example, that TARP funds went into a "black hole"; that TARP was created in secrecy to transfer wealth from taxpayers to Wall Street insiders (exacerbated by the announcement of billions of dollars of profits and record-setting bonus pools at TARP recipients while unemployment and foreclosures continue to rise); or that Treasury is just too closely aligned with the interests of Wall Street are only reinforced by Treasury's failures of transparency. Despite the aspects of TARP that could reasonably be viewed as a substantial success, Treasury's actions in this regard have contributed to damage the credibility of the program and of the Government itself, and the anger, cynicism, and distrust created must be chalked up as one of the substantial, albeit unnecessary, costs of TARP. Section 5 of this report reviews some of the unadopted recommendations of the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"), the adoption of which could help bring greater transparency to TARP and answer some of the criticisms of the program.

In this report, SIGTARP endeavors to (i) explain the various TARP programs and how Treasury has used those programs through September 30, 2009; (ii) provide a description of what ratings agencies do and their role in the market, in Governmental decisions, and in TARP; (iii) describe what SIGTARP has done to oversee the various TARP programs since its Quarterly Report to Congress dated July 21, 2009 (the "July Quarterly Report"); and (iv) set forth new recommendations, and provide updates on past recommendations, relating to the operation of TARP.

PROGRAM UPDATES AND FINANCIAL OVERVIEW OF TARP

TARP consists of 12 announced programs, of which 10 have been implemented. As of September 30, 2009, Treasury had announced commitments to spend $636.9 billion of the $699 billion maximum available for the purchase of troubled assets under TARP as authorized by Congress in EESA. Of this amount, approximately $454.3 billion had been expended through the 10 implemented programs to provide support for U.S. financial institutions, the automobile industry, the markets in certain types of ABS, and homeowners. As of September 30, 2009, 47 TARP recipients have paid back all or a portion of their principal or repurchased shares for an aggregate total of $72.9 billion of repayments, leaving $317.3 billion, or 45.4%, of TARP's allocated $699 billion available for distribution.

In addition to the principal repayments, Treasury has received interest and dividend payments on its investments, as well as revenue from the sale of its warrants. As of September 30, 2009, $9.5 billion in interest, dividends, and other income had been received by the Government, and $2.9 billion in sales proceeds had been received from the sale of warrants and preferred stock received as a result of exercised warrants. At the same time, some TARP participants have missed dividend payments: among Capital Purchase Program ("CPP") participants, 46 have missed dividend payments to the Government, some of which made the payments on a later date. As of September 30, 2009, there was $75.7 million in outstanding unpaid CPP dividends.

THE ROLE OF RATING AGENCIES IN TARP AND BEYOND

Credit rating agencies play critically important roles in the financial markets, in Government decision making, and in several areas of TARP operations. Section 3 of this report describes these various roles so that the reader can understand the effects that the agencies have on TARP — and on the system in general — and so that the various proposals for reform of the ratings system can be evaluated in proper context.

Among other things, Section 3 describes the background of the credit rating agencies, the basics of how they provide ratings for securities at issuance, and how they monitor the securities after issuance. The report goes on to discuss how ratings are used in the marketplace, the effect that ratings of securities have on the financial institutions that hold such securities, and the various ways that the Government uses ratings in the regulation of the financial markets and, in several ways, in the operation of TARP. Section 3 also addresses the role of rating agencies in the financial crisis, examining in particular the inherent conflicts of interest that the "issuer-pay" model poses; the agencies' failure to assess properly the risk of

subprime mortgages and exotic financial products; and the extreme volatility posed by the effects of rating downgrades on the liquidity of financial institutions, with AIG as a prime example. Finally, Section 3 describes the outlines of various proposals that have been introduced to reform the credit rating system.

OVERSIGHT ACTIVITIES OF SIGTARP

Since the July Quarterly Report, SIGTARP has been actively engaged in fulfilling its vital investigative and audit functions as well as in building its staff and organization.

SIGTARP's Investigations Division has developed into a sophisticated white-collar investigative agency. Through September 30, 2009, SIGTARP has opened 61 and has 54 ongoing criminal and civil investigations. These investigations include complex issues concerning suspected TARP fraud, accounting fraud, securities fraud, insider trading, bank fraud, mortgage fraud, mortgage servicer misconduct, fraudulent advance-fee schemes, public corruption, false statements, obstruction of justice, money laundering, and tax-related investigations. While the vast majority of SIGTARP's investigative activity remains confidential, developments in several of SIGTARP's investigations have become public over the past quarter, as discussed more fully in Section 1 of this report.

- **Federal Trade Commission v. Federal Housing Modification Administration, Inc.:** On September 16, 2009, the Federal Trade Commission ("FTC") filed a complaint against Federal Housing Modification Administration, Inc. ("FHMA") and its principals in the U.S. District Court for the District of Columbia. With investigative support from SIGTARP, FTC alleged violations of the FTC Act and telemarketing sales rules by FHMA by misrepresenting itself as a Federal Government agency and falsely claiming that it would obtain mortgage modifications for consumers for a $3,000 fee. SIGTARP's investigation of FHMA, in coordination with the U.S. Postal Inspection Service, is ongoing.
- **Gordon Grigg Sentenced to 10 Years' Imprisonment:** On August 6, 2009, Gordon B. Grigg, a financial advisor and owner of ProTrust Management, Inc., formerly based in Franklin, Tennessee, was sentenced to serve a 10-year prison term after pleading guilty to four counts of mail fraud and four counts of wire fraud in the U.S. District Court for the Middle District of Tennessee. The charges stemmed from a SIGTARP-assisted investigation into Grigg's role in a Ponzi scheme which he promoted, in part, by marketing fictional TARP-guaranteed debt.
- **Search Warrants Executed at Taylor, Bean & Whitaker Mortgage Corporation and Colonial Bancgroup:** On August 3, 2009, SIGTARP, along with its Federal law enforcement partners, executed search warrants at

Ponzi Scheme: An illegal pyramid scheme in which money from new investors is used to pay off earlier investors.

the offices of Colonial Bancgroup ("Colonial") and Taylor, Bean & Whitaker Mortgage Corporation, formerly the nation's 12th-largest loan originator and servicer. Prior to the execution of these warrants, SIGTARP had served subpoenas on Colonial after it had announced that it had received preliminary contingent approval from Treasury to receive $553 million in TARP funding. The funding was never made. On August 7, 2009, Colonial reported that it is the target of a criminal probe. This investigation is ongoing.

- **Bank of America Investigations:** SIGTARP continues to play a significant role in the investigations by the New York State Attorney General's Office, the Securities and Exchange Commission ("SEC"), and the Department of Justice ("DOJ") into the circumstances of Bank of America's merger with Merrill Lynch and its receipt of additional TARP funds under the Targeted Investment Program ("TIP").

Nearly 50% of SIGTARP's ongoing investigations were developed in whole or in part through tips or leads provided on SIGTARP's Hotline (877-SIG-2009 or accessible at www.SIGTARP.gov). Since its inception, the SIGTARP Hotline received and analyzed more than 7,000 contacts, running the gamut from expressions of concern over the economy to serious allegations of fraud.

On the audit side, as of the initial drafting of this report, SIGTARP had issued its first four audit reports, which are addressed in greater detail in Sections 1 and 5. A fifth audit on AIG bonuses was subsequently issued and will be described in greater detail in SIGTARP's next quarterly report.

- **Use of Funds:** In July 2009, SIGTARP issued its first formal audit report concerning how recipients of CPP funds reported their use of such funds based upon a February 2009 survey that SIGTARP sent to 364 financial and other institutions that had completed TARP funding agreements through January 2009. For some respondents the infusion of TARP funds helped to increase lending; others were able to avoid a "managed" reduction of their activities; others reported that their lending activities would have come to a standstill without TARP funds; and others explained that they used TARP funds to acquire other institutions, invest in securities, pay off debts, or that they retained the funds to serve as a cushion against future losses.
- **External Influences:** In August, SIGTARP issued an audit that examined undue external influences over the CPP decision-making process. SIGTARP found no information indicating that external inquiries on CPP applications had affected the decision-making process, but gaps in the internal controls by the Government agencies conducting the CPP application process made it impossible to determine if all attempts to influence TARP decisions were captured

by the audit. In connection with the audit, SIGTARP made recommendations regarding the improvement of internal controls and record keeping, which Treasury has adopted.

- **Executive Compensation:** SIGTARP also issued in August an audit examining executive compensation restriction compliance. This audit examined the efforts of TARP recipients to comply with executive compensation restrictions in place at the time of SIGTARP's survey of banks' use of funds.
- **Original CPP and Bank of America Investments:** Finally, SIGTARP recently released an audit examining the review and approval process associated with TARP assistance to the first nine CPP recipients, with emphasis on additional assistance to Bank of America subsequently authorized under TIP and the Asset Guarantee Program ("AGP"). The audit concludes that Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation ("FDIC") implemented programs designed to help prevent a further deterioration of the economy and a significant risk of financial market collapse. The audit also finds that Treasury and other regulators' descriptions of the financial conditions of the first nine institutions as "healthy" were inconsistent with the private beliefs of decision makers at Treasury and the Federal Reserve, and later proved to be inaccurate. In addition to the basic transparency concern that this inconsistency raises, by stating expressly that the "healthy" institutions would be able to increase overall lending, Treasury created unrealistic expectations about the institutions' conditions and their ability to increase lending. Treasury lost credibility when lending at those institutions did not in fact increase and when subsequent events — the further assistance needed by Citigroup and Bank of America being the most significant examples — demonstrated that at least some of those institutions were not in fact healthy.

SIGTARP is continuing work on audits described in the July Quarterly Report examining AIG counterparty payments, the CPP warrant valuation and disposition process, a use of funds follow-up assessment, governance issues where the Government holds large ownership interests, the status of Citigroup asset guarantees, and compliance procedures relating to the MHA mortgage modification program. SIGTARP anticipates that several of these audits will be released over the next quarter.

In addition, SIGTARP has announced two new audits, as follows:

- **Automobile Dealership Closures:** This audit, undertaken at the requests of Senator Jay Rockefeller and Congressman David Obey, examines the process used by GM and Chrysler to identify the more than 2,000 automobile dealerships that will be terminated in connection with the recent GM and Chrysler bankruptcies. The objectives of the audit will be to determine whether GM and

Chrysler developed and followed a fair, consistent, and reasonable documented approach; to understand the role of the Government in these decisions; and to establish to what extent the terminations will lead to cost savings or other benefits to GM and Chrysler.

- **Review of CPP Applications Receiving Conditional Approval:** This audit will examine those CPP applications that received preliminary approval from the Treasury Investment Committee conditioned upon the institutions meeting certain requirements before funds were disbursed. One example was Colonial, which received CPP approval conditioned on Colonial raising $300 million in private capital. The audit will assess the basis for the decision to grant such conditional approvals and the bank regulators' role in such decisions; whether and how timeframes are established for meeting such conditions; and whether internal controls are in place to ensure that the conditions are met before funds are disbursed.

SIGTARP RECOMMENDATIONS ON THE OPERATION OF TARP

One of SIGTARP's oversight responsibilities is to provide recommendations to Treasury so that TARP programs can be designed or modified to facilitate effective oversight and transparency and to prevent fraud, waste, and abuse. In Section 5 of this report, SIGTARP provides updates on recommendations and a summary of the implementation of recommendations made in previous reports and in SIGTARP's audits. In particular, Section 5 recounts: progress made by the Federal Reserve with respect to decreasing the influence of credit rating agencies in the operation of the Term Asset-Backed Securities Loan Facility ("TALF"); developments, both positive and negative, in Treasury's operation of MHA's mortgage modification program; and two new recommendations concerning PPIP to address Treasury actions that, if unaddressed, would limit SIGTARP's ability to review changes to the PPIP compliance regime and to access certain documents that may be necessary to undertake oversight of this important program.

REPORT ORGANIZATION

The report is organized as follows:

- **Section 1** describes the activities of SIGTARP.
- **Section 2** describes how Treasury has spent TARP funds thus far and contains an explanation or update of each program, both implemented and recently announced.

- **Section 3** discusses the role of rating agencies in the market, in Government decision making, and in the operation of TARP, and examines the agencies' part in the financial crisis and the proposals for reforming the rating system.
- **Section 4** describes the operations and administration of the Office of Financial Stability, the office within Treasury that manages TARP.
- **Section 5** lays out SIGTARP's recommendations to Treasury with respect to the operation of TARP.
- The report also includes numerous appendices containing, among other things, figures and tables detailing all TARP investments through September 30, 2009.

The goal is to make this report a ready reference on what TARP is and how it has been used to date. In the interest of making this report as understandable as possible, and thereby furthering general transparency of the program itself, certain technical terms are highlighted in the text and defined in the adjacent margin. In addition, portions of Sections 2 and 3 are devoted to tutorials explaining the financial terms and concepts necessary to obtain a basic understanding of the programs' operations.

SECTION 1

THE OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

SIGTARP CREATION AND STATUTORY AUTHORITY

The Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") was created by section 121 of the Emergency Economic Stabilization Act of 2008 ("EESA"). Under EESA, SIGTARP has the responsibility, among other things, to conduct, supervise, and coordinate audits and investigations of the purchase, management, and sale of assets under the Troubled Asset Relief Program ("TARP") and, with certain limitations, any other action taken under EESA. SIGTARP is required to report quarterly to Congress to describe SIGTARP's activities and to provide certain information about TARP over that preceding quarter. EESA gives SIGTARP the authorities listed in section 6 of the Inspector General Act of 1978, including the power to obtain documents and other information from Federal agencies and to subpoena reports, documents, and other information from persons or entities outside of Government.

The Special Inspector General, Neil M. Barofsky, was confirmed by the Senate on December 8, 2008, and sworn into office on December 15, 2008.

SIGTARP OVERSIGHT ACTIVITIES SINCE THE JULY QUARTERLY REPORT

SIGTARP has continued to fulfill its oversight role in multiple parallel tracks: from making recommendations relating to preventing fraud and abuse prospectively; to auditing aspects of TARP both inside and outside of Government; to investigating allegations of fraud, waste, and abuse in TARP programs; to coordinating closely with other oversight bodies; all while trying to promote transparency in TARP programs.

Providing Advice on Compliance and Fraud Prevention

To further its goal of improving prospectively the compliance and fraud prevention aspects of TARP programs, SIGTARP has attempted to establish and maintain regular lines of communications with the personnel primarily responsible for running TARP, including those working within the U.S. Department of the Treasury's Office of Financial Stability ("OFS") and within other agencies who manage TARP-related programs or activities, including the bank regulators, the Federal Reserve Board, and the Federal Reserve Bank of New York ("FRBNY"), as follows:

- SIGTARP personnel generally receive briefings concerning each new TARP initiative and developments in implemented programs when necessary.
- The Special Inspector General and Deputy Special Inspector General typically meet weekly with the head of OFS, OFS's Chief Compliance Officer, and OFS's General Counsel to discuss ongoing issues and new developments.

- SIGTARP has established regular communication with officials from the Federal Reserve System (staff from the Federal Reserve Board of Governors and FRBNY) in connection with the Federal Reserve's TARP-related programs.

Generally, the U.S. Department of the Treasury ("Treasury") and the other agencies have been cooperative in making their personnel available to SIGTARP and have responded to SIGTARP's requests for documents and information.

SIGTARP has endeavored, to the extent it has had an opportunity, to examine the planned framework for TARP initiatives before their terms are finalized and to make recommendations designed to advance oversight and internal controls and to prevent fraud, waste, and abuse within the programs. Since SIGTARP's Quarterly Report to Congress dated July 21, 2009 (the "July Quarterly Report"), and in addition to recommendations made in formal audit reports, SIGTARP has made follow-up recommendations with regard to the Public-Private Investment Program ("PPIP") final fund manager agreements within the Legacy Securities Program as well as modifications to the Home Affordable Modification Program ("HAMP"), which is part of the Making Home Affordable ("MHA") program. These recommendations are discussed in Section 5 of this report.

SIGTARP Audit Activity

SIGTARP has initiated a total of 13 audit projects since its inception: 4 that were released as of the initial drafting of this report; 1 that has been subsequently released; 2 that are nearing completion; and 6 others on which work has commenced.

Completed SIGTARP Audits

As of the initial drafting of this report, SIGTARP had released its first four audit reports. Its fifth audit report, on American International Group ("AIG") bonuses, was subsequently issued and will be described in detail in the next quarterly report.

Use of Funds Audit

SIGTARP's first audit report, issued on July 20, 2009, examined how recipients of Capital Purchase Program ("CPP") investments reported their use of such funds. In February 2009, SIGTARP sent survey letters to 364 financial and other institutions that had completed TARP funding agreements through January 2009. In response to those surveys, although most banks reported that they did not segregate or track TARP fund usage on a dollar-for-dollar basis, they were able to provide insights into their actual or planned future use of TARP funds. The details of this audit and its findings are described in SIGTARP's July Quarterly Report, page 17.

Copies of the responses to SIGTARP's February 2009 survey are posted on the Internet at www.sigtarp.gov/audit_useoffunds.shtml.

External Influence Audit

This audit report, issued on August 6, 2009, examined whether or to what extent external parties may have unduly influenced decision making by Treasury or bank regulators in approving bank applications for funding under CPP. In October 2008, Treasury established CPP to inject capital into healthy, viable U.S. financial institutions in order to stabilize financial markets and increase lending. OFS and each of the four Federal banking regulators — the Office of the Comptroller of the Currency ("OCC"), the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC"), and the Federal Reserve — implemented a standardized process to review applications from institutions. As of July 30, 2009, more than 2,700 institutions had submitted applications to regulators for CPP funding, regulators had submitted approximately 1,300 applications to Treasury for review, and Treasury had funded 660 applications. Within Treasury, an Investment Committee is responsible for making the final recommendation on whether an application should be approved.

This audit examined the extent to which Treasury and the banking regulators have controls in place to safeguard against external influence over the CPP decision-making process and whether there were any indications of external parties having unduly influenced CPP decision making. SIGTARP auditors reviewed Treasury and regulatory policies, collected documents that recorded external communications, and interviewed officials to identify the controls over external communications. To determine possible indications of external influence, auditors reviewed the CPP applications and supporting documents for all institutions in which SIGTARP found an external inquiry.

SIGTARP found limitations and inconsistencies in the logging of telephone and meeting conversations regarding individual CPP applicants, making it impossible to examine the impact of all potential external inquiries on the CPP process. Available information, however, gave little indication that external inquiries on CPP applications had affected the decision-making process. Of the 56 institutions SIGTARP identified as subjects of external inquiries, the analysis showed that, as of June 17, 2009, only 16 applications (29%) had been funded, 12 (21%) were still pending within Treasury or a banking agency, and 26 (47%) did not receive CPP funds because the institutions either withdrew or were recommended to withdraw their applications, failed, or were acquired during the application review process. Two institutions did not formally submit applications for funds.

SIGTARP's analysis of the funded applications showed that 13 of the 16 clearly met all of the criteria established by Treasury. The remaining three institutions did

For a description of regulatory capitalization standards, see SIGTARP's July Quarterly Report, page 55.

not meet all of the CPP quantitative criteria but were approved based on mitigating factors considered by Treasury and banking agency officials. For example, one application's approval was contingent on the institution raising additional capital to bring it to a well-capitalized position, and another application's approval focused on the bank's management plan to address a weak performance ratio. These mitigating factors were not unique to institutions that were the subject of an external inquiry. SIGTARP did find unique mitigating factors affecting one institution, however. With respect to that institution, SIGTARP's analysis indicated that discretion afforded this applicant in its approval was greater than that accorded other applications but was still consistent with applicable statutory requirements.

In light of these findings, and to improve transparency and further guard against outside influence, SIGTARP made two recommendations:

- Treasury should record the vote count for Investment Committee decisions.
- Treasury and each individual participating Federal banking agency should improve existing control systems to document the occurrence and nature of external oral communication about actual and potential recipients of funding under CPP and other similar TARP-assistance programs to which they may be part of the decision making.

Treasury concurred with these recommendations and stated that it has implemented them.

Executive Compensation Audit

SIGTARP's third audit report, issued on August 19, 2009, is the first in a series of audits on executive compensation. The audit examined TARP recipients' efforts to comply with evolving executive compensation restrictions. EESA placed restrictions on executive compensation for all TARP recipients, and, in February 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") amended the EESA executive compensation requirements. Neither EESA nor ARRA directly limits the annual base pay of senior executive officers; rather, executive compensation restrictions placed thus far on CPP recipients have more specifically targeted incentive compensation and severance payments.

In February 2009, SIGTARP sent survey letters to 364 financial and other institutions that had completed TARP funding agreements through January 2009. The survey asked about the institutions' efforts to comply with executive compensation restrictions in place at the time of the survey and plans to comply with subsequently enacted changes in requirements. In light of the timing of the survey, many of the responses reflected uncertainty and a wait-and-see attitude about the emerging guidelines and restrictions on executive compensation. Nevertheless, many respondents provided insights regarding their efforts to comply with the requirements as

they understood them. Survey responses regarding compliance with EESA bonus and severance pay restrictions varied from simple statements of compliance to detailed answers about efforts to assess compensation practices relative to the restrictions. Although some recipients expressed frustration with changing compensation guidance and legislation, many respondents noted actions they were taking at the time of the survey based on known requirements and with the understanding that final guidelines were pending. These actions included taking steps to assess risks and procure expert compensation consultants.

The responses to this SIGTARP survey provide necessary context for examining the evolution of executive compensation requirements, adding clarity to what was required, and highlighting some relevant issues that could impact implementation of requirements going forward. As the executive compensation picture becomes clearer in the future, SIGTARP plans to conduct follow-up audits on this important topic to build on these initial findings.

Original CPP and Bank of America Investments Audit

SIGTARP's fourth audit report, issued on October 5, 2009, examined the review and approval process associated with TARP assistance to the first nine CPP recipients, with emphasis on additional assistance to Bank of America subsequently authorized under the Targeted Investment Program ("TIP") and the Asset Guarantee Program ("AGP"). The audit also examined selected issues and interactions among Treasury, Federal Reserve, and Bank of America officials in connection with Bank of America's acquisition of Merrill Lynch and the timing of Government assistance under TIP and AGP following the acquisition.

On October 13, 2008, Treasury made the first use of its authority granted under EESA by making capital injections into nine financial institutions, including Bank of America, under CPP. Merrill Lynch, which was facing severe financial problems and was in the process of being acquired by Bank of America, was also included in the initial nine banks. Following the completion of the acquisition of Merrill Lynch in January 2009, Bank of America received additional assistance under TIP and announced loss protections under AGP.

This report addressed three issues:

- the significant economic events in September 2008 that led Treasury to inject capital into the financial system
- the rationale and criteria used to select these institutions compared to those used to select subsequent institutions for CPP participation
- the basis for the decision by Treasury and Federal regulators to provide Bank of America with additional assistance following the acquisition of Merrill Lynch, and Federal efforts to forestall Bank of America from terminating the planned acquisition

The audit concluded that Treasury, the Federal Reserve, and FDIC implemented programs designed to help prevent further deterioration of the economy and significant risk of financial market collapse. Although it may be difficult in the near term to assess fully the impact of Treasury's initial injections of capital to the first nine institutions on preventing an economic collapse, what is clear is that key Federal officials and senior industry leaders believed that the risks to the financial stability and economic growth of the United States and the rest of the world were too great for inaction.

The audit also concluded that Treasury's public description of the investments in the first nine institutions provided an important lesson for Treasury on using greater care and accuracy in describing its actions and rationales in future programs. In an October 14, 2008, statement announcing the investment in the original nine institutions, then-Secretary of the Treasury Henry Paulson stated: "These are healthy institutions, and they have taken this step for the good of the U.S. economy. As these healthy institutions increase their capital base, they will be able to increase their funding to U.S. consumers and businesses." The nine institutions were similarly described as healthy in a joint statement released that same day by Treasury, the Federal Reserve, and FDIC, and in a separate statement released by Treasury.

It is apparent, however, that senior Government officials had concerns, at the time the nine institutions were selected, about the health of at least some of those institutions. The Federal Reserve had concerns over the financial condition of several of these institutions individually and for all of them collectively absent some Governmental action; and Secretary Paulson noted concerns about the potential of an outright failure of one of the institutions. In addition to the basic transparency concern that this inconsistency raises, by stating expressly that the "healthy" institutions would be able to increase overall lending, Treasury may have created unrealistic expectations about the institutions' conditions and their ability to increase lending. Treasury lost credibility when lending at those institutions did not in fact increase and when subsequent events — the further assistance needed by Citigroup and Bank of America being the most significant examples — demonstrated that at least some of those institutions were not healthy.

Audits Nearing Completion

Several additional audits are nearing completion, and SIGTARP plans to issue reports on at least the two following audits over the next quarter:

- **AIG Counterparty Payments:** This audit, conducted at the request of Representative Elijah Cummings and 26 other Members of Congress, examines payments made to AIG counterparties on behalf of AIG, which has received the largest amount of financial assistance from the Government during the current

financial crisis. FRBNY reportedly made counterparty payments at 100% of face value to other financial institutions, including some foreign institutions and other financial institutions that had received financial assistance under TARP. Among other things, this audit will explore whether any efforts were made to negotiate a reduction in those payments. This report is expected to be issued in November 2009.

- **Follow-up Assessments of Use of Funds by TARP Recipients:** This audit follows up on SIGTARP's earlier use of funds audit. It focuses on use of TARP funds by recipients receiving extraordinary assistance under the Automotive Industry Financing Program ("AIFP") as well as insurance companies receiving assistance under CPP. This review seeks to provide a more complete picture of use of funds across a broader category of TARP recipients. This report is expected to be issued by the end of 2009.

Audits Underway

SIGTARP has a number of other audits that have been announced and on which work has begun, including:

- **CPP Warrant Valuation and Disposition Process:** This audit, which is being conducted in response to requests by Senator Jack Reed and Representative Maurice Hinchey, seeks to determine (i) the extent to which financial institutions have repaid Treasury's investment under CPP and which warrants associated with that process were repurchased or sold; and (ii) what process and procedures Treasury has established to ensure that the Government receives fair market value for the warrants and the extent to which Treasury follows a clear, consistent, and objective process in reaching decisions where differing valuations of warrants exist. This audit complements a Congressional Oversight Panel ("COP") report released on July 10, 2009, that examined the warrant valuation process.
- **Home Affordable Modification Program:** According to Treasury, approximately three to four million homeowners could benefit from TARP's HAMP, part of the broader MHA program. SIGTARP has launched an audit examining (i) the status of HAMP; (ii) the extent to which Treasury is measuring the program's effectiveness; (iii) the extent to which lenders and loan servicers have developed capabilities to provide services under HAMP; and (iv) the challenges associated with HAMP implementation, execution, and assessment.
- **Governance Issues Where U.S. Holds Large Ownership Interest:** SIGTARP received a request from Senator Max Baucus to undertake a body of work examining U.S. Government oversight of, and interaction with, the management of institutions such as AIG, General Motors ("GM"), Chrysler, and Citigroup, where the Government has or is approaching majority owner status. The audit,

which will be conducted jointly with the Government Accountability Office ("GAO"), will also examine the two mortgage giants Freddie Mac and Fannie Mae, which are under Government conservatorship.

- **Status of the Government's Asset Guarantee Program with Citigroup:** This review, requested by Representative Alan Grayson, addresses a series of questions about the Government's guarantee of certain Citigroup assets through AGP such as (i) the basis on which the decision was made to provide asset guarantees to Citigroup and the process for selecting the loans and securities to be guaranteed; (ii) the characteristics of the assets deemed acceptable for inclusion in the program and how those assets differ from other Citigroup assets; (iii) whether adequate risk management controls are in place to mitigate the risks to the taxpayer; and (iv) what safeguards exist to protect taxpayer interests and what the losses on the portfolio have been thus far.
- **Automobile Dealership Closures:** This audit, undertaken at the requests of Senator Jay Rockefeller and Representative David Obey, examines the process used by GM and Chrysler to identify the more than 2,000 automobile dealerships that will be terminated in connection with the recent GM and Chrysler bankruptcies. The objectives of the audit will be to determine whether GM and Chrysler developed and followed a fair, consistent, and reasonable documented approach; to understand the role of Government in these decisions; and to establish to what extent the terminations will lead to cost savings or other benefits to GM and Chrysler.
- **Review of CPP Applications Receiving Conditional Approval:** This audit will examine those CPP applications that received preliminary approval from the Treasury Investment Committee conditioned upon the institutions meeting certain requirements before funds were disbursed. One example was Colonial Bancgroup ("Colonial"), which received CPP approval conditioned on Colonial raising $300 million in private capital. (As discussed later in this section, SIGTARP's Investigations Division undertook a search warrant of Colonial offices in Florida, and Colonial has announced that it is the subject of a criminal investigation.) The audit will assess the basis for the decision to grant such conditional approvals and the bank regulators' role in such decisions; whether and how timeframes are established for meeting such conditions; and whether internal controls are in place to ensure that the conditions are met before funds are disbursed.

Materials related to SIGTARP's audits, including the engagement letters describing the audits at the outset and the final audit reports themselves, can be found on SIGTARP's website, www.SIGTARP.gov. Specific recommendations from audits released over the last quarter are discussed more fully in Section 5 of this report.

SIGTARP's Investigations Activity

SIGTARP's Investigations Division has developed into a sophisticated white-collar investigative agency. Through September 30, 2009, SIGTARP has opened 61 and has 54 ongoing criminal and civil investigations. These investigations include complex issues concerning suspected TARP fraud, accounting fraud, securities fraud, insider trading, bank fraud, mortgage fraud, mortgage servicer misconduct, fraudulent advance-fee schemes, public corruption, false statements, obstruction of justice, money laundering, and tax-related investigations. While the vast majority of SIGTARP's investigative activity remains confidential, developments in several of SIGTARP's investigations have become public over the past quarter.

- **Federal Trade Commission v. Federal Housing Modification Administration, Inc.:** On September 16, 2009, the Federal Trade Commission ("FTC") filed a complaint against Federal Housing Modification Administration, Inc. ("FHMA") and its principals in the U.S. District Court for the District of Columbia. With investigative support from SIGTARP, in partnership with the U.S. Postal Inspection Service ("USPIS"), FTC alleged violations of the FTC Act and telemarketing sales rules by FHMA by misrepresenting itself as a Federal Government agency or affiliate and falsely claiming that it would obtain mortgage modifications for consumers for a $3,000 fee. SIGTARP's investigation of FHMA, in coordination with USPIS, is ongoing.
- **Gordon Grigg Sentenced to 10 Years' Imprisonment:** On August 6, 2009, Gordon B. Grigg, a financial advisor and owner of ProTrust Management, Inc., formerly based in Franklin, Tennessee, was sentenced to serve a 10-year prison term after pleading guilty to four counts of mail fraud and four counts of wire fraud in the U.S. District Court for the Middle District of Tennessee. The charges stemmed from Grigg's role in embezzling nearly $11 million from his investor clients through false statements, including claims that Grigg was making investments in fictional "TARP-guaranteed debt." SIGTARP participated in the investigation of Grigg and supported the prosecution along with its law enforcement partners, the Securities and Exchange Commission ("SEC"), the Federal Bureau of Investigation ("FBI"), USPIS, the Tennessee Department of Commerce and Insurance, and the Franklin, Tennessee, Police Department. The prosecution was handled by the United States Attorney's Office for the Middle District of Tennessee.
- **Search Warrants Executed at Taylor, Bean & Whitaker Mortgage Corporation and Colonial Bancgroup:** On August 3, 2009, SIGTARP, along with agents of the FBI, the Office of Inspector General of the Department of Housing and Urban Development ("HUD OIG"), and the FDIC Office of Inspector General ("FDIC OIG"), executed search warrants at Colonial and at the offices of Taylor, Bean & Whitaker Mortgage Corporation, formerly the

nation's 12th-largest loan originator and servicer. Prior to the execution of these warrants, SIGTARP had served subpoenas on Colonial after Colonial had announced that it had received preliminary contingent approval from Treasury to receive $553 million in TARP funding. The funding was never made. On August 7, 2009, Colonial reported that it is the target of a criminal probe. This investigation is ongoing.

- **Bank of America Investigations:** SIGTARP continues to play a significant role in the investigations by the New York State Attorney General's Office, the SEC, and the Department of Justice ("DOJ") into the circumstances of Bank of America's merger with Merrill Lynch and its receipt of additional TARP funds under TIP.

SIGTARP Hotline

One of SIGTARP's primary investigative priorities is to operate the SIGTARP Hotline and thus provide an interface with the American public to facilitate the reporting of concerns, allegations, information, and evidence of violations of criminal and civil laws in connection with TARP. Since its inception in February, the SIGTARP Hotline has received and analyzed more than 7,000 Hotline contacts. These contacts run the gamut from expressions of concern over the economy to serious allegations of fraud involving TARP, and almost half of SIGTARP's investigations were generated in connection with Hotline tips. The SIGTARP Hotline is capable of receiving information anonymously, and confidentiality can and will be provided to the fullest extent possible. The American public can provide information by telephone, mail, fax, or online. SIGTARP has established a Hotline connection on its website at www.SIGTARP.gov. SIGTARP honors all applicable whistleblower protections.

The SIGTARP Hotline has received and processed thousands of calls and faxes intended for Treasury's MHA hotline. As a result of issues identified in these calls and faxes, the Investigations Division staff developed a series of recommendations intended to improve implementation of MHA. These recommendations were delivered as a Management Alert to OFS. OFS responded favorably to the alert, making several policy changes to the MHA program. For example, OFS added SIGTARP's Hotline number to its MHA materials so that homeowners can report any MHA-related fraud allegations to SIGTARP for further review and investigation. Additionally, at the staff's suggestion, OFS is considering the addition of contact numbers for both the mortgage servicing operators and the Homeowner's HOPE Hotline. A copy of the Management Alert is included in Appendix H: "Correspondence."

Coordination with Other Law Enforcement Agencies

As part of its coordination role, SIGTARP has been active in forging partnerships with other criminal and civil law enforcement agencies. These relationships are designed to benefit both investigations originated by other agencies, when SIGTARP expertise can be brought to bear, and SIGTARP's own investigations, which can be improved by tapping into additional resources. In this regard:

- SIGTARP has continued to develop close working relationships with the FBI, the Internal Revenue Service Criminal Investigation Division ("IRS-CI"), USPIS, the United States Secret Service, U.S. Immigration and Customs Enforcement ("ICE"), the SEC, FTC, the investigations divisions of several offices within the Inspector General ("IG") community, DOJ, and numerous United States Attorney's Offices.
- SIGTARP continues to organize the activities of the TALF-PPIP Task Force, a multi-agency working group consisting of SIGTARP, FBI, the SEC, IRS-CI, ICE, Treasury's Financial Crimes Enforcement Network ("FinCEN"), USPIS, and the Office of the Inspector General of the Board of Governors of the Federal Reserve System.
- The Special Inspector General is in regular contact with the SEC's Director of the Enforcement Division, and SIGTARP has several ongoing investigations with the SEC.
- SIGTARP has brought on board a detailee from the SEC to assist in SIGTARP investigations and to serve as a liaison with the SEC.
- SIGTARP continues to coordinate with more than a dozen States Attorneys General.
- SIGTARP continues to work closely with the New York High Intensity Financial Crime Area ("NY HIFCA"). NY HIFCA provides SIGTARP with two dedicated financial analysts, supervised by a Senior Special Agent from ICE, to provide database search and analytical support. This relationship has generated several complex ongoing investigations.
- SIGTARP obtains access to Bank Secrecy Act (31 U.S.C. § 5311 *et seq.*) database services through FinCEN. SIGTARP is working with FinCEN to develop an advisory regarding TARP programs that will be sent to thousands of financial institutions.
- SIGTARP organized and hosted securitization and hedge fund training for numerous law enforcement partners; the training was provided by subject matter experts from the SEC.

Coordination with Other EESA Oversight Bodies

EESA, as amended, is explicit in mandating that SIGTARP coordinate audits and investigations into TARP with the other primary oversight bodies: the Financial Stability Oversight Board ("FSOB"), COP, and GAO. Numerous other agencies, both in the IG community and among criminal and civil law enforcement agencies, potentially have responsibilities that touch on TARP as well. SIGTARP takes seriously its mandate to coordinate these overlapping oversight responsibilities, both to ensure maximum coverage and to minimize duplicative requests of TARP managers.

SIGTARP and its partners have continued to have significant success on this front since the July Quarterly Report. These coordination efforts include:

- bi-weekly conference calls with staff from FSOB
- regular meetings with staff from COP, with whom SIGTARP is conducting a coordinated audit project concerning the warrant valuation and repurchase process
- frequent interactions with GAO to coordinate ongoing and planned work, including an overarching joint audit examining the Government's role in the management of companies in which the Government holds a large ownership stake

TARP-IG Council

Due to the scope of the various programs under TARP, numerous Federal agencies have some role in administering or overseeing TARP programs. To further facilitate SIGTARP's coordination role, the Special Inspector General founded and chairs the TARP Inspector General Council ("TARP-IG Council"), made up of the Comptroller General and those IGs whose oversight functions are most likely to touch on TARP issues. The Council meets regularly to discuss developments in TARP and to coordinate overlapping audit and investigative issues. The TARP-IG Council currently consists of:

- The Special Inspector General
- Inspector General of the Department of the Treasury
- Inspector General of the Board of Governors of the Federal Reserve System
- Inspector General of the Federal Deposit Insurance Corporation
- Inspector General of the Securities and Exchange Commission
- Inspector General of the Federal Housing Finance Agency
- Inspector General of the Department of Housing and Urban Development
- Treasury Inspector General for Tax Administration
- Inspector General for the Small Business Administration
- Comptroller General of the United States (head of GAO) or designee

Communications with Congress

One of the primary functions of SIGTARP is to ensure that Members of Congress are kept adequately and promptly informed of developments in TARP initiatives and of SIGTARP's oversight activities. To fulfill that role, the Special Inspector General and SIGTARP staff regularly brief Members and staff. More formally, during the quarter covered by this report, the Special Inspector General testified three times before Congressional committees.

- On July 21, 2009, Special Inspector General Barofsky testified before the House Committee on Oversight and Government Reform, during a hearing entitled "Following the Money: Report of the Special Inspector General for the Troubled Asset Relief Program." The hearing focused on SIGTARP's July Quarterly Report, and Special Inspector General Barofsky discussed his recommendations to enhance the success of TARP and highlighted the major themes of his report.
- The next day, July 22, 2009, Special Inspector General Barofsky testified before the Oversight Subcommittee of the House Committee on Financial Services, during a hearing entitled "TARP Oversight: Warrant Repurchases and Protecting Taxpayers." The hearing examined warrants issued in connection with TARP. These warrants give Treasury the right to buy shares of TARP recipient stock at a set price at some point in the future and thus provide an opportunity for taxpayers to share in the upside for their TARP investments.
- On September 24, 2009, Special Inspector General Barofsky testified before the Senate Committee on Banking, Housing and Urban Affairs, during a hearing entitled "Emergency Economic Stabilization Act: One Year Later." In light of the first anniversary of EESA, the hearing examined how TARP is working.

Copies of all of the Special Inspector General's written testimony, hearing transcripts, and a variety of other materials associated with Congressional hearings since SIGTARP's inception are posted at www.SIGTARP.gov/reports.

BUILDING THE SIGTARP ORGANIZATION

From the day that the Special Inspector General was confirmed by the Senate, SIGTARP has worked to build its organization through various complementary strategies, including hiring experienced senior executives who can play multiple roles during the early stages of the organization, leveraging the resources of other agencies, and, where appropriate and cost-effective, obtaining services through SIGTARP's authority to contract. Since the July Quarterly Report, SIGTARP has continued to make substantial progress in building its operation.

For information on the Ensign-Boxer Amendment, see SIGTARP's July Quarterly Report, page 14.

Hiring

Each of SIGTARP's divisions has continued the process of filling out its ranks. As of September 30, 2009, SIGTARP had more than 90 personnel, including detailees from other agencies, with several new hires to begin over the coming weeks.

SIGTARP's employees hail from many Federal agencies, including DOJ, FBI, IRS-CI, Air Force Office of Special Investigations, GAO, Department of Transportation, Department of Energy, the SEC, DOJ, U.S. Secret Service, United States Postal Service, U.S. Army Criminal Investigation Command, Naval Criminal Investigative Service, Treasury-Office of the Inspector General, Department of Energy-Office of the Inspector General, Department of Transportation-Office of the Inspector General, Department of Homeland Security-Office of the Inspector General, FDIC OIG, Office of the Special Inspector General for Iraq Reconstruction, and the HUD OIG. Hiring is actively ongoing, building to SIGTARP's current goal of approximately 160 full-time employees. The SIGTARP organizational chart, as of September 30, 2009, is included in Appendix I: "Organizational Chart."

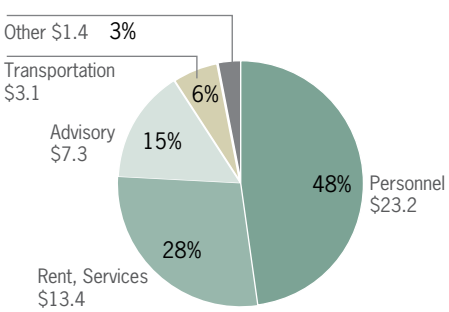
SIGTARP Budget

Section 121(j) of EESA provided $50 million in initial operating funds to SIGTARP. When SIGTARP was established and its initial operating resources were allocated, TARP was envisioned as a $700 billion asset purchase and guarantee program. In the months that followed, however, TARP evolved into 12 separate programs that could involve far more than $700 billion, significantly expanding the necessary scope of SIGTARP's oversight operations and resource needs. SIGTARP anticipates that its total budget for FY 2010 will be $48.4 million, based on the assumption that it will reach its target of 160 staff by early 2010. Approximately 50% of SIGTARP's non-personnel costs will be payments to other Government agencies for services provided. For a detailed breakdown of SIGTARP's FY 2010 budget, see Figure 1.1.

As noted in the July Quarterly Report, SIGTARP estimates that its initial operating funds will be expended by approximately the second quarter of FY 2010 and that an additional $28.3 million will be needed to fully fund operations through the fiscal year. Taking into account a portion of the $15 million in additional funds made available by the Ensign-Boxer Amendment, which SIGTARP expects to spend over three years (*i.e.*, $5 million per year), SIGTARP has submitted a request to Treasury for a $23.3 million amendment to the FY 2010 budget submission. Although SIGTARP has been informed repeatedly by Treasury that it is taking steps to meet this budgetary need, as of the drafting of this report, SIGTARP's budgetary needs for FY 2010 have not been met.

FIGURE 1.1

SIGTARP FY 2010 PROPOSED BUDGET
$ Millions, % of $48.4 Million



SIGTARP Independence and Position within Treasury

On April 15, 2009, Treasury asked the Office of Legal Counsel of the Department of Justice ("OLC") for an opinion on the following issues pertaining to SIGTARP:

- whether SIGTARP is located within Treasury
- whether the Special Inspector General was subject to the Secretary of the Treasury's ("Treasury Secretary's") general supervision
- whether Treasury's compliance with SIGTARP's document requests waives privileges applicable to the subject documents

In response, SIGTARP made clear its position that the language and legislative history of section 121 of EESA unambiguously provides that SIGTARP is an independent entity within Treasury, that the Special Inspector General is not subject to the Treasury Secretary's supervision, and that privileges are not bars to SIGTARP's access to Treasury's records and information. On August 7, 2009, Treasury withdrew its request for an OLC opinion. SIGTARP views such withdrawal as Treasury's acknowledgement that SIGTARP is an independent entity within Treasury and that the Special Inspector General is not subject to the supervision of the Treasury Secretary. SIGTARP commends Treasury's decision to bring to a close this needless distraction.

Physical and Technical SIGTARP Infrastructure

SIGTARP occupies office space at 1801 L Street, NW, in Washington, D.C., the same office building in which most Treasury officials managing TARP are located. SIGTARP is already occupying temporary quarters in that building while its two permanent floors are being renovated. SIGTARP anticipates occupying its permanent space by early 2010.

SIGTARP has a website, www.SIGTARP.gov, on which it posts all of its reports, testimony, audits, contracts, and more. The website prominently features SIGTARP's Hotline, which can also be accessed by phone at 877-SIG-2009 (877-744-2009).

From the website's inception through September 30, 2009, more than 26.5 million visitors have accessed SIGTARP's website, and SIGTARP's first three reports to Congress have been downloaded, collectively, almost 1.5 million times.

SECTION 2

TARP OVERVIEW

This section summarizes the activities of the U.S. Department of the Treasury ("Treasury") in its management of the Troubled Asset Relief Program ("TARP"). It includes a financial overview and provides updates on established TARP programs, including the status of TARP executive compensation restrictions.

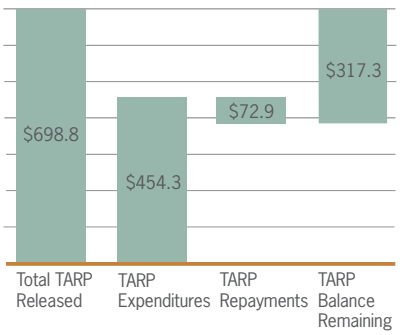
FINANCIAL OVERVIEW OF TARP

As of September 30, 2009, Treasury had announced plans to spend up to $636.9 billion of the $699 billion maximum available under TARP as authorized by Congress in the Emergency Economic Stabilization Act of 2008 ("EESA").[1] Of this amount, approximately $454.3 billion had been expended through 10 implemented programs to provide support for U.S. financial institutions, companies, and individual mortgage borrowers.[2] Treasury has indicated that it is operating TARP as essentially a "revolving fund" — as recipients of TARP funds repay the original principal that they received from Treasury, the TARP funds available to Treasury increase by that amount and are available for further investment in other TARP activities subject to the overall limit established by EESA. As of September 30, 2009, 47 TARP recipients have paid back all or a portion of their principal or repurchased shares for an aggregate total of $72.9 billion of repayments, leaving $317.3 billion, or 45.4% of TARP's allocated $699 billion, available for distribution.[3] Figure 2.1 provides a snapshot of the cumulative expenditures and repayments as of September 30, 2009.

FIGURE 2.1

CUMULATIVE EXPENDITURES AND REPAYMENTS, AS OF 9/30/2009

$ Billions



Notes: Numbers affected by rounding. From a budgetary perspective, expenditures are what Treasury has committed to spend (*e.g.*, signed agreements with TARP fund recipients).

Source: Treasury, *Transactions Report*, 10/2/2009.

Warrant: The right, but not the obligation, to purchase a certain number of shares of common stock at a fixed price.

Common Stock: Equity ownership that entitles an individual to share in the corporate earnings and voting rights.

Preferred Stock: Equity ownership that usually pays a fixed dividend, gives the holder a claim on corporate earnings superior to common stock owners, and has no voting rights. Preferred stock also has priority in the distribution of assets in the case of liquidation of a bankrupt company.

Senior Subordinated Debenture: A subordinated debenture is a loan or security that is junior to other loans or securities with regards to the debt holders' claims on assets or earnings. Senior debt holders get paid in full before subordinated debt holders get paid. There are additional levels of priority among subordinated debt holders. CPP invests in senior subordinated debt.

In addition to the principal repayments, Treasury has received interest and dividend payments on its investments, as well as revenue from the sale of its warrants. These payments are deposited into Treasury's general fund for the reduction of public debt and are not available to be re-issued by Treasury.[4] As of September 30, 2009, $9.5 billion in interest, dividends, and other income had been received by the Government, and $2.9 billion in sales proceeds had been received from the sale of warrants and preferred stock received as a result of exercised warrants.[5]

Of the $454.3 billion expended through TARP, $381.4 billion remains outstanding (*i.e.*, has not been paid back or repurchased) as of September 30, 2009, largely in the form of equity ownership. For those companies from which Treasury received equity and which have not yet repaid their TARP funds, Treasury, and therefore the American taxpayer, is a shareholder. Treasury received equity ownership interest in exchange for the overwhelming majority of its TARP investments. Treasury's equity ownership came primarily in two forms: common stock and preferred stock, with the bulk of Treasury's investments in preferred stock. In addition to its equity investment, Treasury also received senior subordinated debentures under various TARP programs.

On September 24, 2009, the Assistant Secretary for Financial Stability testified before Congress that Treasury's Office of Financial Stability ("OFS") is audited by the Government Accountability Office ("GAO") and "will publish its first set of annual financial statements on November 16th," although Treasury has informed SIGTARP that this may be pushed back 30 days.[6] The financial statements will include estimates of the value of Treasury's TARP investments. As noted in the Office of the Special Inspector General for the Troubled Asset Relief Program's ("SIGTARP's") Quarterly Report to Congress dated July 21, 2009 (the "July Quarterly Report"), Treasury also receives monthly valuations of its portfolio from its asset managers but has not shared them with the public.

TARP consists of 12 announced programs, of which 10 have been implemented. The programs can be categorized in four general groups depending on the type of support each was designed to provide:

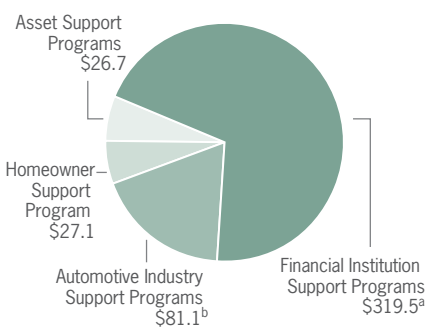
- **Financial Institution Support Programs** — These programs share a common, stated goal of stabilizing the financial market to avoid disruption and provide for a healthy economy.
- **Asset Support Programs** — These programs attempt to support asset values and liquidity in the market by providing funding to certain holders or purchasers of assets.
- **Automotive Industry Support Programs** — These programs were intended by Treasury to stabilize the American automotive industry.
- **Homeowner Support Program** — This program and its initiatives were designed to help homeowners facing difficulty paying their mortgages by subsidizing loan modifications, loan servicer costs, and potential equity declines in bank holdings.

Figure 2.2 provides a breakdown of how TARP funding is distributed between the four categories of programs.

FIGURE 2.2

TARP EXPENDITURES BY SUPPORT CATEGORY, AS OF 9/30/2009

$ Billions, % of $454.3



Notes: Numbers affected by rounding. From a budgetary perspective, expenditures are what Treasury committed to spend (*e.g.*, signed agreements with TARP fund recipients).
[a] CPP funding of $70.7 billion had been repaid.
[b] AIFP loan principal payments of $2.1 billion had been repaid. (Of the $2.1 billion, $0.6 billion was from AWCP.)

Source: Treasury, *Transactions Report*, 10/2/2009.

TARP TUTORIAL: WHERE DOES TARP MONEY COME FROM?

TARP expenditures to date have been funded largely by increases in the national debt.[7] EESA, the Act of Congress that created TARP, did not contain significant new taxes or other revenue-raising measures — making it necessary to fund TARP with debt. This is not unusual for emergency spending bills like EESA; because emergency spending bills are created outside of the annual budget cycle, they often do not have dedicated sources of funds.[8] EESA, in section 118, authorized Treasury to fund TARP through public debt, and, in section 122, authorized an increase of the national debt to $11.315 trillion, up from $10.615 trillion.[9] Subsequently, the American Recovery and Reinvestment Act ("ARRA") authorized the increase of the national debt limit to its current level of $12.104 trillion.

Taking on new debt is an action that has implications for the true cost of the U.S. Government's financial rescue initiatives. This tutorial explains the mechanics of how TARP is funded and describes the factors that contribute to the true cost of TARP to the taxpayer.

TARP Congressional Appropriations Process

SIGTARP's Initial Report to Congress dated February 6, 2009 (the "Initial Report") provides an overview of EESA's legislative background and the process by which it became law.[10] Emergency appropriations, like the one provided for in EESA, have often been used by the Government to fund activities such as wartime operations, natural disaster recovery efforts, and, now, the financial crisis bailout. In order to understand the appropriations process for emergency spending bills, it is helpful to discuss briefly the Government's annual budget process.

Appropriation: Authority provided by law for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.

The U.S. annual budget process is conceptually simple. In February of each year, the President submits the Administration's budget to Congress. By April or May, the budget committees in the Senate and House will have reviewed the budget and will pass a concurrent budget resolution setting the overall spending limits. Within those limits, the appropriations committees then develop individual appropriations bills (each covering a particular department or group of agencies) that generally must be passed by the end of the Federal fiscal year (September 30). There are almost eight months between the President's submission of the initial budget request and the end of the fiscal year.[11] Special appropriations rarely have that much time for approval.

As outlined in SIGTARP's Initial Report, the process of arriving at EESA was a complicated, but short, process. A request by the Executive Branch was submitted on September 20, 2008, and a formal version of the request was introduced as a bill in

Congress. The bill was rejected initially, re-written, approved by the Senate on October 1, 2008, and approved by the House and signed into law by President George W. Bush on October 3, 2008. In total, just two weeks had elapsed for a $700 billion appropriations bill. Furthermore, given the urgency of the situation, EESA granted Treasury a great deal of discretion, which allowed for a streamlined approach to spending.

Creating Funds for TARP

The portion of Government spending funded with debt has been rising. In fiscal year 2009, the year that TARP was funded, the Federal Government paid for approximately 46% of its expenditures by issuing new debt.[12] This contrasts with a 10-year average of 9% as seen in Figure 2.3.[13] This does not include the accumulation of other future liabilities such as Social Security and Medicare.[14]

TARP Cash Flow Management

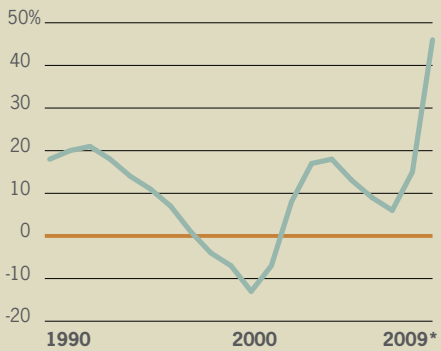
The ultimate mix of tax revenues and debt proceeds used to fund TARP will be determined by the actual cash needs of the program. To meet cash outlay requirements, TARP will draw from the same general public debt operations that Treasury uses to fund other programs. Thus, it may be difficult to disaggregate specifically TARP-related borrowing from other Treasury borrowing.

Periodically, Treasury estimates how many debt securities it will need to sell to meet all of its cash management goals and obligations, which may include the redemption of maturing securities. If it does not have sufficient funds on hand, it schedules a sale of U.S. Treasury securities to raise the funds. The Bureau of Public Debt ("BPD") is the agency within Treasury that issues the securities and manages interest payments and redemptions. For the monthly U.S. debt issuances and TARP outlays since September 2008, see Figure 2.4.

FIGURE 2.3

PERCENTAGE OF U.S. GOVERNMENT EXPENDITURES FUNDED THROUGH DEBT, 1990 – 2009

Percent of Total Expenditures



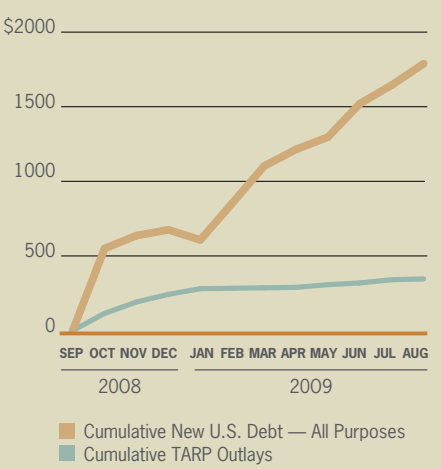
Note: Numbers affected by rounding. 2009 figures are estimated.

Sources: White House, FY2010 President's Budget, Historical Tables, http://www.whitehouse.gov/omb/budget/fy2010/assets/hist0121.xls, accessed 10/7/2009.

FIGURE 2.4

MONTHLY TARP OUTLAYS AGAINST MONTHLY TREASURY BORROWING, CUMULATIVE, 9/2008 – 8/2009

$ Billions



Note: Numbers affected by rounding.

Sources: Treasury Financial Management Service, *Monthly Treasury Statement*, various, http://www.fms.treas.gov/mts/backissues.html, accessed 9/30/2009; Treasury, *Monthly Statement of the Public Debt of the United States*, various, www.treasurydirect.gov/govt/reports/pd/ mspd/mspd.htm, accessed 9/30/2009.

Treasury Bill: A short-term debt obligation of the U.S. Government with a maturity of up to one year. Sold in denominations of $100 with maturities of 4 weeks, 13 weeks, 26 weeks, and 52 weeks. Sold at auction, with the price below face value (discount to par) determining the yield.

Treasury Note: A marketable U.S. Government debt security with a fixed interest rate and a maturity between 1 and 10 years. Notes pay interest semi-annually.

Treasury Bond: A marketable, fixed-interest U.S. Government debt security with a maturity of between 10 and 30 years; paying interest semi-annually.

Treasury Inflation-Protected Securities ("TIPS"): A special type of Treasury note or bond that offers protection from inflation. TIPS pay interest semi-annually, but the coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the consumer price index ("CPI").

Primary Dealers: Banks and securities broker-dealers that trade in U.S. Government securities with FRBNY for the purpose of carrying out open market operations.

Treasury Security Issuance Process

To finance the public debt, Treasury sells a range of instruments, including bills, notes, bonds, and Treasury Inflation-Protected Securities ("TIPS") to institutional and individual investors through public auctions. The auctions occur regularly and have a set schedule, occurring more frequently for the shorter-duration instruments and less frequently for the longer-duration instruments.

There are a number of steps to a Treasury auction. The schedule for Treasury auctions is usually set and announced at least six months in advance. The details of each specific auction are publicly disclosed within a week of the actual auction.

Typically, investors who wish to purchase the new Treasury securities in the auction send their orders to their brokers or to one of 18 primary dealers of Treasury securities.[15] The primary dealers are then required to bid in the auctions. When BPD holds an auction, bids are submitted electronically and monitored by three sites simultaneously, including the Federal Reserve Bank of New York ("FRBNY"). Bids are arranged from lowest to highest yield (highest to lowest price) until the desired amount of the offering has been reached. The yield refers to the effective interest rate that a security pays — the lower the yield, the cheaper it is for Treasury. Since auctions are conducted in a single price (or "Dutch auction") format, all winning bidders pay the same price for the securities. On issue day, Treasury delivers the securities to all auction winners, and the corresponding proceeds are deposited into the Treasury General Account at FRBNY. Individual investors may also bid in the auctions through Treasury's auction website, *TreasuryDirect*. Most individuals who want to buy Treasuries at auction use *TreasuryDirect* rather than going through a broker, and most institutional investors do so by contacting the institutional sales desk of a broker-dealer.

Treasury bonds, notes, and TIPS are issued with a stated interest rate on the face amount and they pay out interest to the holder at a regular interval (every six months). The price is determined at auction; the price can be less than, greater than, or equal to the face amount of the security. Alternatively, Treasury bills are issued at a discount from their face value ($100) and are paid at their par (face amount) at maturity. Unlike investors in bonds, notes, and TIPS, investors in Treasury bills will not receive regular interest payments; rather they will receive the full face value of the bill — in this case $100 — at its maturity. A $100 one-year bill, which sold for $95, would effectively mean an interest rate of 5.3% for investors (calculated as ($100 – $95)/$95). The purchase prices of the bills at auction are listed on Treasury's auction results press release and are expressed as a price per hundred dollars.[16] It is difficult to ascertain the identities of the investors who bought

the Treasury debt used to pay for TARP. However, in the aggregate, the dominant investors in U.S. Government debt are Federal agencies. As seen in Figure 2.5, the Federal Government, including the Federal Reserve, owned a total of approximately 41.3% of the outstanding debt as of March 31, 2009.

Cost of Capital Implications

Because the source of funding for TARP was an increase in the national debt (EESA raised the statutory limit of U.S. debt to $11.315 trillion from $10.615 trillion), there is a long-term cost to taxpayers in terms of the interest that they must pay for the duration that any TARP funds remain outstanding.[17] Fortunately, Treasury bonds are considered a relatively risk-free investment, and their interest rate is one of the lowest in the world. Yet, Treasury still must pay an interest rate that is sufficiently high enough to provide a positive real return to investors (the interest paid is greater than annual inflation). Although interest rates are currently low, the added debt and associated stimulus could eventually lead to the possibility of inflation, and the Federal Reserve might eventually have to raise interest rates in response.

Also potentially affecting the Government's cost of capital for TARP is the duration of the securities it issued to fund the program. Treasury has the ability to borrow short-term, medium-term, and long-term funds, and the duration of Treasury's debt instruments directly affects the cost of Treasury's borrowing. Typically, the cost of borrowing is higher for longer-duration debt; the assumption is that shorter-term investments are less risky (the change in interest rates is more predictable over a short period of time) and require a lower effective interest rate. For instance, a one-month Treasury bill issued on October 28, 2008 (the date of the first CPP investments), carried a 0.4% interest rate, while a Treasury security with 20 years to maturity carried a 4.5% interest rate.[18] Although shorter-term debt is generally less expensive, it provides less certainty about future borrowing costs. When the Government goes back to the market to issue new debt to replace its maturing debt, the market may have changed and rates may have increased. Longer-term debt, on the other hand, allows the Government to know what its interest cost will be for a longer period of time.

Methods for Calculating Interest Costs

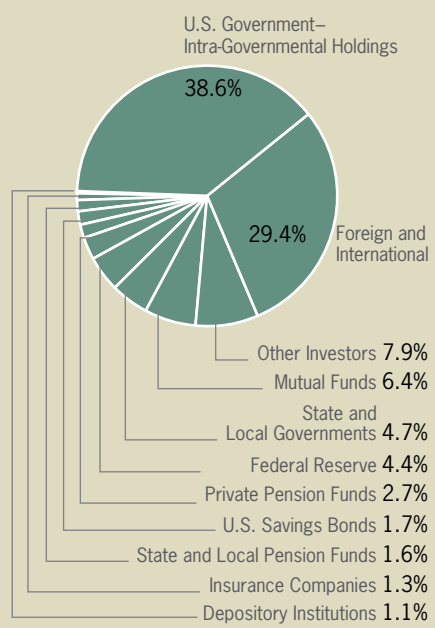
Determining the actual interest costs for Treasury's TARP funds is difficult because, as the GAO observed in its recent report ("Troubled Asset Relief Program: One Year Later,

Dutch Auction: Auction technique used for selling Treasury securities where investors bid different prices (yields) for different quantities of the offered security. Treasury selects the highest group of bids that sells the full offering, and all winning bidders pay the same price — the lowest bid within that winning group. For instance, three investors place bids for $500 million each worth of securities (on a $1 billion offering by Treasury). Treasury selects the two highest bidders (totaling $1 billion) and they both pay the price bid by the lower of the two winners.

FIGURE 2.5

OWNERSHIP OF TREASURY SECURITIES, AS OF 3/31/2009

% of $11.1 trillion



Notes: Numbers affected by rounding. March 2009 is the most recent month with complete data available.

Sources: Treasury Financial Management Service, *Ownership of Federal Securities*, www.fms.treas.gov/bulletin/b2009-3ofs.doc, accessed 9/30/2009; Treasury, *Monthly Statement of the Public Debt of the United States*, 3/31/2009, www.treasurydirect.gov/govt/reports/pd/mspd/2009/opds032009.pdf, accessed 10/7/2009.

Actions Are Needed to Address Remaining Transparency and Accountability Challenges"), "Treasury manages its cash position and debt issuances from a government-wide perspective, therefore it is generally not possible to match TARP disbursements with specific debt securities issued by Treasury and the related borrowing costs."[19] Thus, any interest cost calculation would require an estimate based on certain assumptions. Potential approaches to estimating interest rates include:

- **Short-term cost of borrowing**. This method assumes that the entire program is funded by short-term borrowings (maturing between 91 and 270 days) that are rolled over into new short-term borrowings as they come due. Using an average of short-term interest rates produces a much lower cost of borrowing than other methods but has the potential for higher volatility due to fluctuations in interest rates over time. Potentially useful in such short-term estimates is the "Economic Assumptions" section of the President's annual budget submission, which provides a projected average 91-day Treasury bill rate across several years to calculate projected short-term interest costs for a range of Government programs. The document provides short-term borrowing cost estimates of 0.2% for fiscal year 2009 and 1.6% for fiscal year 2010.[20]
- **Average blended cost of Treasury funds.** A more medium-term approach is to attempt to use an index of short- and medium-term Treasury securities, since the duration of Treasury's TARP investments has ranged from a few months to nearly a year. Freddie Mac maintains an index called the Federal Cost of Funds Index ("COFI") — an average of short- and medium-term Treasury interest rates. According to COFI, the blended interest rates of U.S. Treasury securities issued at the time of TARP's inception was approximately 2.7% and has dropped below 2% in the second half of fiscal year 2009.[21]
- **"All-In" cost of Treasury borrowing.** This method is used by many Federal credit agencies and reflects the blended cost of all Treasury borrowings, including long-term maturities. This rate has the lowest risk of future interest rate increases but is also generally more expensive. Potentially useful in such conservative estimates is the "Economic Assumptions" section of the President's annual budget submission, which uses a projected average 10-year Treasury note rate to calculate projected interest costs for a variety of programs. The document provides long-term borrowing cost estimates of 2.8% for fiscal year 2009 and 4.0% for 2010.[22]

Treasury's TARP Interest Cost Estimates

As cited in GAO's report, Treasury used a short-term borrowing method for its estimates of TARP interest costs.[23] To do so, Treasury's Office of Fiscal Projections attempted to identify the actual debt offerings used to fund TARP expenditures. Treasury was able to identify three specific cash management bills ("CMBs") used to fund the majority of the initial $115 billion of TARP disbursements in late October 2008. These CMBs averaged 221 days' maturity at an average interest rate of 1.4%.[24] Based on these calculations, Treasury "estimated TARP borrowing costs as a proportion of total monthly borrowing costs on a rolling basis since program inception. These borrowing costs include refinancing TARP when initial financing matured as well as the reduction of financing costs due to repayments."[25] Using this method, Treasury estimates that approximately 90% of the securities used to fund TARP were short-term bills, with interest rates between 0 and 1%. Treasury estimates that the dollar-weighted average cost of funding was below 0.9% for its TARP borrowings for a total interest cost of $2.3 billion, as of September 30, 2009.[26] Calculations using an average blended cost of Treasury funds would indicate a cost of at least twice this amount, and an "all-in" estimate would yield an amount 3 to 4 times the $2.3 billion estimate.[27]

Other Factors Affecting Return on TARP Investments

The $699 billion in potential TARP expenditures would account for approximately 6% of the national debt limit as specified in EESA section 122 (and 5% of the 2008 Gross Domestic Product ("GDP")), or approximately $5,000 per U.S. taxpayer.[28] Given the magnitude of this potential investment, it is important to pay close attention to the costs that affect the return on TARP investments.

There has been considerable discussion of the potential return on investment ("ROI") for TARP. Considering the size of the dividend payments from many TARP recipients and the value from exercising or selling warrants for shares of participating institutions, some observers have even posited that TARP may ultimately be deficit neutral, or even net positive, to Treasury and taxpayers. However, these estimates of return can be misleading. Each TARP program has different characteristics and potential for returns. HAMP, for example, is a pure incentive-payout program and results in no repayment of funds to Treasury; it is designed to produce benefits to the market, but not a direct monetary return to the taxpayers. On the other hand, there will be returns for CPP; but these returns will depend on Treasury's ability to collect dividends, convert warrants into cash, and recover

Cash Management Bill ("CMB"): A type of short-term Treasury bill sold by Treasury to meet temporary funding shortfalls. CMB maturities can range from a few days to more than six months, and auctions can be announced with less than one week's notice.

Return on Investment ("ROI"): A measure of the efficiency of one investment option versus other options. Calculated as a percentage: (the gain from an investment minus the cost of the investment) divided by the cost of that investment.

Crowding Out: A term historically used to describe the impact on the private sector of heavy Government debt issuance. This drives up interest rates, forcing the private sector to pay more, and edging it out of the market. Just as private-sector issuances have to compete with the lending Treasury did for TARP, so too will other Treasury issuances be forced to pay the higher interest rates resulting from the TARP borrowing.

Moral Hazard: A term used in economics and insurance to describe the lack of incentive individuals have to guard against a risk when they are protected against that risk (for example, through an insurance policy). In the context of TARP, it refers to the danger that private-sector executives/investors/lenders may behave more recklessly believing that the Government has insulated them from the risks of their actions.

invested principal. In particular, failures to recover significant amounts of principal could entirely wipe out some of the early TARP returns.

In addition to program-specific return characteristics, there are a wide range of costs that must be applied against any calculation of TARP ROI, foremost of which is the cost of capital that Treasury pays on the debt it uses to fund TARP investments, as previously discussed. This cost may have significant refinancing risk if, as Treasury asserted, TARP has been funded predominantly with short-term instruments. These short-term obligations must be refinanced continually, through subsequent Treasury auctions, or repaid. This cycle will continue until all TARP funds are repaid, and the interest rates of instruments from subsequent debt auctions may be heavily influenced by inflationary pressure which could drive up interest rates and result in a significant increase in the cost of financing TARP-related debt.

The ultimate cost of TARP to U.S. taxpayers will not be known for some time, and in fact a true net cost may never be known with precision. Many factors have yet to be determined: the net recovery value of investments made by Treasury; the cost to the Federal Reserve, the Federal Deposit Insurance Corporation ("FDIC"), and other agencies acting in concert with TARP; the administrative costs of setting up OFS and the various oversight agencies, including SIGTARP; and other administrative expenses. However, the Congressional Budget Office ("CBO") estimated the net cost of TARP as $356 billion (as of March 2009), which it later reduced to $159 billion (as of June 2009).[29] The methodology used by CBO, however, does not include indirect costs or other externalities that will impact the costs of the program, both tangible and intangible, possibly including:

- higher borrowing costs in the future as a result of increased Treasury borrowing levels
- a potential 'crowding out effect' on prospective private-sector borrowers, potentially driving private-sector borrowers out of the market
- moral hazard, or unnecessary risk-taking in the private sector due to the bailout
- costs incurred by the other financial-rescue-related Federal agencies that have not yet been quantified

Financial Institution Support Programs

The primary tool of TARP for assisting financial institutions thus far has been a direct investment of capital. Financial institutions, for TARP purposes, include banks, bank holding companies and, if deemed critical to the financial system, certain systemically significant institutions.

Systemically Significant: A financial institution whose failure would impose significant losses on creditors and counterparties, call into question the financial strength of other similarly situated financial institutions, disrupt financial markets, raise borrowing costs for households and businesses, and reduce household wealth.

- **Capital Purchase Program ("CPP").** Under CPP, TARP funds are used to purchase directly preferred stock or subordinated debentures in qualified financial institutions. Treasury created CPP to provide funds to "stabilize and strengthen the U.S. financial system by increasing the capital base of an array of healthy, viable institutions, enabling them [to] lend to consumers and business[es]."[30] As of September 30, 2009, Treasury had invested $204.6 billion in institutions through CPP.[31] This represents 94% of the maximum projected funding total of $218 billion under the program, of which $70.7 billion had been repaid as of September 30, 2009.[32] See the "Capital Purchase Program" discussion in this section for more detailed information.
- **Capital Assistance Program ("CAP").** Similar to CPP, the goal of CAP is to "ensure the continued ability of U.S. financial institutions to lend to creditworthy borrowers in the face of a weaker than expected economic environment and larger than expected potential losses."[33] As of September 30, 2009, no transactions had occurred under this program. See the "Capital Assistance Program" part of this section for a more detailed discussion on this program.
- **Systemically Significant Failing Institutions ("SSFI") Program.** Under the stated terms of the SSFI program, Treasury invests in systemically significant institutions to prevent their failure and the market disruption that would follow.[34] As of September 30, 2009, Treasury, through SSFI, had made and is committed to make further investments in one institution — American International Group, Inc. ("AIG"). This support was provided through two transactions — $40 billion for the purchase of preferred stock from AIG to repay debt owed to the Federal Reserve and approximately $29.8 billion for an equity capital facility that AIG can draw on as needed.[35] As of September 30, 2009, AIG had drawn down $3.2 billion in equity from the capital facility.[36] See the "Systemically Significant Failing Institutions" portion of this section for a more detailed discussion of the AIG transactions.
- **Targeted Investment Program ("TIP").** The stated objective of TIP is to make targeted investments in financial institutions "to avoid significant market disruptions resulting from the deterioration of one financial institution that can threaten other financial institutions and impair broader financial markets and pose a threat to the overall economy."[37] As of September 30, 2009, Treasury had made two expenditures under this program totaling $40 billion — purchasing $20 billion of senior preferred stock from each of Citigroup and Bank

Senior Preferred Stock: Shares that give the stockholder priority dividend and liquidation claims over junior preferred and common stockholders.

of America.[38] In addition to the senior preferred stock, Treasury also received warrants of common stock for its investment in these financial institutions. See the "Targeted Investment Program" portion of this section for a more detailed discussion on these two transactions.

- **Asset Guarantee Program ("AGP").** Through AGP, Treasury's stated goal is to use insurance-like protections to help stabilize at-risk financial institutions. AGP provides certain loss protections on a select pool of mortgage-related or similar assets held by participants whose portfolios of distressed or illiquid assets pose a risk to market confidence.[39] Treasury, FDIC, and the Federal Reserve agreed to provide certain loss protections with respect to $301 billion in troubled assets held by Citigroup.[40] Should Citigroup's losses rise above $39.5 billion, Treasury is obligated to pay up to $5 billion in protection toward additional losses; as of September 30, 2009, Citigroup had not received any funds from AGP.[41] A similar arrangement with Bank of America was announced on January 16, 2009; Bank of America, however, chose not to go through with the program. On September 21, 2009, Bank of America agreed to compensate the Government $425 million for the economic benefit it received while the market believed that the Government would be backing its assets. See the "Asset Guarantee Program" discussion in this section for more information on this program.

Illiquid Assets: Assets that cannot be quickly converted to cash. CPP invests in senior subordinated debt.

Commercial Mortgage-Backed Securities ("CMBS"): A financial instrument that is backed by a commercial real estate mortgage or a group of commercial real estate mortgages that are packaged together.

Asset Support Programs

The purpose of these programs is to support the liquidity and market value of assets owned by financial institutions. These assets may include various classes of asset-backed securities ("ABS") and several types of loans. These programs seek to bolster the balance sheets of the financial firms and help free up capital so that financial institutions can extend more credit to support the U.S. economy.

- **Term Asset-Backed Securities Loan Facility ("TALF").** TALF was originally designed to increase the credit available for consumer and small-business loans through a Federal Reserve loan program backed by TARP funds. TALF provides non-recourse loans to investors secured by certain types of ABS including credit card loans, student loans, floorplan loans, insurance premium finance loans, loans guaranteed by the Small Business Administration ("SBA"), residential mortgage servicing advances, and commercial mortgage-backed securities ("CMBS"). According to Treasury, it will provide up to $80 billion[42] of TARP funds to support this program (Treasury's current TALF commitment is $20 billion, but should TALF exceed a total of $200 billion in loans extended by FRBNY, then Treasury will commit additional TARP funds). As of September 30, 2009, FRBNY had facilitated seven TALF subscriptions of non-mortgage-related ABS, totaling approximately $47.3 billion of TALF borrowings.[43] In addition, as of September 30, 2009, FRBNY had conducted four subscriptions for

CMBS for which $4.2 billion in loans were issued.[44] An overview of TALF, later in this section, provides more information on these activities.

- **Public-Private Investment Program ("PPIP").** As originally announced, Treasury, in coordination with FDIC and the Federal Reserve, intended PPIP to improve the health of financial institutions and restart frozen credit markets through the purchase of legacy assets (*e.g.*, legacy loans, CMBS, residential mortgage-backed securities ("RMBS")).[45] PPIP was intended to involve investments made through multiple Public-Private Investment Funds ("PPIFs") in two subprograms — one to purchase real estate-related loans ("legacy loans") and the other to purchase real estate-related securities ("legacy securities") from financial institutions. FDIC launched a pilot Legacy Loans Program on July 31, 2009, with assets it had seized from bankrupt institutions. FDIC did not use TARP funds for this pilot program and is considering an expansion of this program without TARP funding.[46] The Legacy Securities Program continues to develop, and on July 8, 2009, Treasury announced the selection of nine PPIF managers that will receive debt and equity financing of up to $30 billion in TARP funds during the initial capital-raising efforts for the PPIFs.[47] Treasury has stated that PPIP, originally intended to involve up to $1 trillion in total funds, may involve up to $75 billion of TARP funds.[48] See the "Public-Private Investment Program" discussion later in this section for details about the program structure and fund manager terms.
- **Unlocking Credit for Small Businesses ("UCSB").** Under UCSB, Treasury announced that it will begin purchasing up to $15 billion in securities backed by SBA loans.[49] As of September 30, 2009, no transactions had occurred under this program. See the discussion of "Small Business Administration Loan Support" in this section for more information on the program.

Legacy Assets: Also commonly referred to as troubled or toxic assets, legacy assets are real estate-related loans and securities (legacy loans and legacy securities) that remain on banks' balance sheets that have lost value but are difficult to price due to the recent market disruption.

Legacy Loans: Underperforming real estate-related loans held by a bank that it wishes to sell, but recent market disruptions have made difficult to price.

Legacy Securities: Troubled real estate-related securities (RMBS, CMBS), and other asset-backed securities ("ABS") lingering on institutions' balance sheets because their value could not be determined.

Automotive Industry Support Programs

The stated objective of TARP's automotive industry support programs is to "prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States."[50]

- **Automotive Industry Financing Program ("AIFP").** Under this program, Treasury made emergency loans to Chrysler Holding LLC ("Chrysler"), Chrysler Financial Services Americas LLC ("Chrysler Financial"), and General Motors Corporation ("GM"). In addition to these investments, Treasury purchased senior preferred stock from GMAC LLC ("GMAC"). Treasury also provided financing to Chrysler and GM to assist in their restructuring process. As of September 30, 2009, Treasury had expended or committed $76.9 billion in AIFP investments, of which $1.5 billion had been repaid.[51] Treasury received an

Pro Forma: In finance, refers to the presentation of hypothetical financial information assuming that certain assumptions will happen.

8% *pro forma* equity stake in Chrysler and a 61% equity stake in General Motors as partial repayment of TARP funds.[52] See the discussion of "Automotive Industry Financing Program" later in this section for a detailed discussion on these companies.

- **Auto Supplier Support Program ("ASSP").** The stated purpose of ASSP is to provide Government-backed financing to break the adverse credit cycle affecting the auto suppliers and the manufacturers by "providing suppliers with the confidence they need to continue shipping their parts and the support they need to help access loans to pay their employees and continue their operations."[53] Treasury's original commitment under this program was $5 billion, but as of September 30, 2009, it had been reduced to $3.5 billion — $1.0 billion for Chrysler and $2.5 billion for GM.[54] After emerging from bankruptcy, the new, non-bankrupt GM and Chrysler assumed the debts associated with ASSP.[55] See the discussion of "Auto Supplier Support Program" in this section for more information.
- **Auto Warranty Commitment Program ("AWCP").** The Auto Warranty Commitment Program was designed by the Administration with the intention of bolstering consumer confidence in automobile warranties on Chrysler- and GM-built vehicles. Under this program, Government-backed financing was to be provided for the warranties of cars sold during the Chrysler and GM restructuring periods. As reported in SIGTARP's July Quarterly Report, Treasury funded $640.7 million toward this program — $280.1 million was made available to Chrysler and $360.6 million was made available to GM.[56] As of September 30, 2009, the entire $640.7 million had been repaid with interest, and the program was terminated in July 2009.[57] See the discussion of "Auto Warranty Commitment Program" in this section for more information.

Homeowner Support Program

The homeowner support program and its initiatives are aimed at assisting troubled homeowners and financial institutions holding the affected assets.

- **Making Home Affordable ("MHA") Program.** According to Treasury, MHA is a foreclosure mitigation plan intended to "help bring relief to responsible homeowners struggling to make their mortgage payments while preventing neighborhoods and communities from suffering the negative spillover effects of foreclosure, such as lower housing prices, increased crime, and higher taxes."[58] Within MHA, there are three major initiatives, only one of which involves TARP

funds — the Home Affordable Modification Program ("HAMP"). Under HAMP, Treasury announced that up to $50 billion of TARP funds could be expended for this $75 billion program.[59] As of September 30, 2009, $27.1 billion in TARP funds had been allocated to the program. See the "Making Home Affordable" discussion in this section for more detailed information.

The following figures and tables provide a status summary of the implemented and announced TARP and TARP-related initiatives:

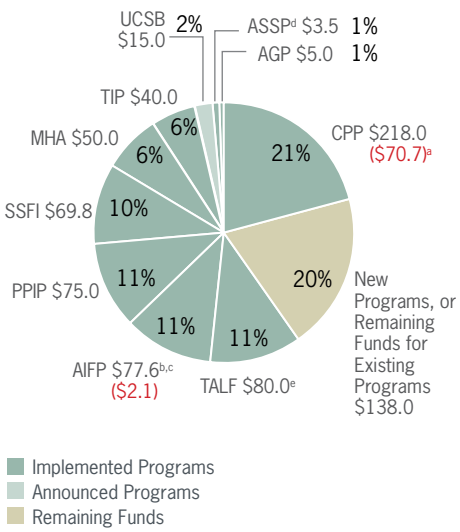
- projected TARP funding by program (Figure 2.6)
- expenditure levels by program as of September 30, 2009 (Table 2.1)
- total potential funds subject to SIGTARP oversight as of September 30, 2009 (Table 2.2)
- cumulative expenditures over time for implemented programs (Figure 2.7)
- summary of dividend and interest payments received by program (Table 2.3)
- expenditures by program snapshot as of September 30, 2009 (Figure 2.8)
- summary of terms of TARP agreements (Table 2.4 and Table 2.5)
- summary of largest warrant positions held by Treasury by program as of September 30, 2009 (Table 2.6)

For a reporting of all purchase, obligations, expenditures, and revenues of TARP, see Appendix C: "Reporting Requirements."

FIGURE 2.6

PROJECTED TARP FUNDING, BY PROGRAM

$ Billions, % of $699 Billion



Notes: Numbers affected by rounding. Data as of 9/30/2009. Funding for Capital Assistance Program ("CAP") to be determined.

[a] CPP funding of $70.7 billion had been repaid.
[b] AIFP loan principal payments of $2.1 billion had been repaid. (Repayment of $0.6 billion was from AWCP.)
[c] For the purpose of this chart, AIFP includes the $641 million for AWCP, which was fully repaid as of 7/10/2009.
[d] Treasury's original commitment under this program was $5 billion, but was subsequently reduced to $3.5 billion effective 7/1/2009.
[e] Treasury's current TALF commitment is $20 billion but should TALF exceed a total of $200 billion in loans extended by FRBNY, then Treasury's commitment could reach $80 billion.

Sources: See final endnote.

TABLE 2.1

EXPENDITURE LEVELS BY PROGRAM, AS OF 9/30/2009 ($ BILLIONS)

		Amount	Percent (%)	Section Reference
Authorized Under EESA		$700.0		
Released Immediately		$250.0	35.8%	
Released Under Presidential Certificate of Need		100.0	14.3%	
Released Under Presidential Certificate of Need & Resolution to Disapprove Failed		350.0	50.1%	
Helping Families Save Their Homes Act of 2009		(1.2)	(0.2%)	
Total Released		**$698.8**	**100.0%**	
Less: Expenditures by Treasury Under TARP[a]				
Capital Purchase Program ("CPP"):				
Bank of America[b]	$25.0		3.6%	
Citigroup	25.0		3.6%	
JPMorgan[c]	25.0		3.6%	"Financial Institution Support Programs"
Wells Fargo	25.0		3.6%	
The Goldman Sachs[c]	10.0		1.4%	
Morgan Stanley[c]	10.0		1.4%	
Other Qualifying Financial Institutions[d]	84.6		12.1%	
CPP Total		**$204.6**	**29.3%**	
Systemically Significant Failing Institutions ("SSFI") Program:				"Financial Institution Support Programs"
American International Group, Inc. ("AIG")	$69.8		10.0%	
SSFI Total		**$69.8**	**10.0%**	
Targeted Investment Program ("TIP"):				
Bank of America Corporation	$20.0		2.9%	"Financial Institution Support Programs"
Citigroup, Inc.	20.0		2.9%	
TIP Total		**$40.0**	**5.7%**	
Asset Guarantee Program ("AGP"):				"Financial Institution Support Programs"
Citigroup[e]	$5.0		0.7%	
AGP Total		**$5.0**	**0.7%**	
Term Asset-Backed Securities Loan Facility ("TALF"):				"Asset Support Programs"
TALF LLC[f]	$20.0		2.9%	
TALF Total		**$20.0**	**2.9%**	
Automotive Industry Financing Program ("AIFP"):				
GM	$49.5		7.0%	"Automotive Industry Support Programs"
GMAC	13.4		1.9%	
Chrysler[g]	12.5		1.8%	
Chrysler Financial[h]	1.5		0.2%	
AIFP Total		**$76.9**	**11.0%**	
Automotive Supplier Support Program ("ASSP"):				
GM Suppliers Receivables LLC[i]	$2.5		0.4%	"Automotive Industry Support Programs"
Chrysler Holding LLC[i]	1.0		0.1%	
ASSP Total		**$3.5**	**0.5%**	
Automotive Warranty Commitment Program ("AWCP"):				
GM	$0.4		0.1%	"Automotive Industry Support Programs"
Chrysler	0.3		0.0%	
AWCP Total		**$0.6**	**0.1%**	

EXPENDITURE LEVELS BY PROGRAM, AS OF 9/30/2009 ($ BILLIONS)

		Amount		Percent (%)	Section Reference
Legacy Securities Public-Private Investment Program ("PPIP")					
TCW Senior Mortgage Securities Fund, L.P.	$3.3			0.5%	"Asset Support Programs"
Invesco Legacy Securities Master Fund, L.P.	3.3			0.5%	
PPIP Total		**$6.7**		**1.0%**	
Making Home Affordable ("MHA"):					
Countrywide Home Loans Servicing LP	$4.5			0.6%	
Wells Fargo Bank, NA	2.5			0.4%	
CitiMortgage	2.1			0.3%	
GMAC Mortgage	3.6			0.5%	
Wachovia Mortgage	1.4			0.2%	"Homeowner Support Program"
American Home Mortgage Servicing	1.2			0.2%	
J.P. Morgan Chase Bank	2.7			0.4%	
Litton Loan Servicing	1.1			0.2%	
Other Financial Institutions[j]	8.1			1.2%	
MHA Total		**$27.1**		**3.9%**	
Subtotal - TARP Expenditures			**$454.3**	**65.0%**	
TARP Repayments[k]			**$(72.9)**	**(10.4%)**	
Balance Remaining of Total Funds Made Available as of 9/30/2009			**$317.3**	**45.4%**	

Notes: Numbers affected by rounding. Expenditures do not reflect any repayments received.
[a] From a budgetary perspective, expenditures are what Treasury has committed to spend (*e.g.*, signed agreements with TARP fund recipients).
[b] Bank of America's share is equal to two CPP investments totaling $25 billion, which is the sum of $15 billion received on 10/28/2008 and $10 billion received on 1/9/2009.
[c] These institutions repaid their CPP funds pursuant to Title VII, section 7001(g) of the American Recovery and Reinvestment Act of 2009.
[d] Other Qualifying Financial Institutions ("QFIs") include all QFIs that have received less than $10 billion through CPP.
[e] Treasury committed $5 billion to Citigroup under AGP; however, this funding is conditional based on losses realized and may potentially never be expended. This amount is not an actual outlay of cash.
[f] Treasury committed $20 billion to TALF; however only $100 million had been funded as of 9/30/2009.
[g] According to Treasury, the 4/29/2009 $500 million expansion of the 1/2/2009 $4 million loan was de-obligated before being funded. Treasury de-obligated a further $1.9 billion in debtor-in-possession financing to Chrysler on 6/30/2009.
[h] Treasury's $1.5 billion loan to Chrysler Financial represents the maximum loan amount. The loan was incrementally funded until it reached the maximum amount of $1.5 billion on 4/9/2009.
[i] Represents a special purpose vehicle ("SPV") created by the manufacturer. Balance represents the maximum loan amount, which will be funded incrementally. Treasury's original commitment under this program was $5 billion, but was subsequently reduced to $3.5 billion effective 7/1/2009.
[j] Other Financial Institutions that have received less than $1 billion through MHA.
[k] As of 9/30/2009, CPP repayments total $70.7 billion and AIFP loan repayments total $2.1 billion.

Sources:
Emergency Economic Stabilization Act, P.L. 110-343, 10/3/2008; Library of Congress, "A Joint Resolution Relating to the Disapproval of Obligations under the Emergency Economic Stabilization Act of 2008," 1/15/2009, www.thomas.loc.gov, accessed 1/25/2009; Helping Families Save Their Homes Act of 2009, P.L. 111-22, 5/20/2009; Treasury, *Transactions Report*, 10/2/2009.

TABLE 2.2

TOTAL POTENTIAL FUNDS SUBJECT TO SIGTARP OVERSIGHT, AS OF 9/30/2009 ($ BILLIONS)

Program	Brief Description or Participant	Total Projected Funding at Risk ($)	Projected TARP Funding ($)
Capital Purchase Program ("CPP")	Investments in 685 banks to date; 8 institutions total $134 billion; received $70.7 billion in capital repayments	$218.0 ($70.7)	$218.0 ($70.7)
Automotive Industry Financing Program ("AIFP")	GM, Chrysler, GMAC, Chrysler Financial; received $1.5 billion in loan repayments	76.9 ($1.5)	76.9 ($1.5)
Auto Supplier Support Program ("ASSP")	Government-backed protection for auto parts suppliers	3.5[a]	3.5[a]
Auto Warranty Commitment Program ("AWCP")	Government-backed protection for warranties of cars sold during the GM and Chrysler bankruptcy restructuring periods; fully repaid on 7/10/2009	0.6 ($0.6)	0.6 ($0.6)
Unlocking Credit for Small Businesses ("UCSB")	Purchase of securities backed by SBA loans	15.0[b]	15.0
Systemically Significant Failing Institutions ("SSFI")	AIG investment	69.8[c]	69.8[c]
Targeted Investment Program ("TIP")	Citigroup, Bank of America investments	40.0	40.0
Asset Guarantee Program ("AGP")	Citigroup, ring-fence asset guarantee	301.0	5.0
Term Asset-Backed Securities Loan Facility ("TALF")	FRBNY non-recourse loans for purchase of asset-backed securities	1,000.0	80.0[d]
Making Home Affordable ("MHA") Program	Modification of mortgage loans	75.0[e]	50.0
Public-Private Investment Program ("PPIP")	Disposition of legacy assets; Legacy Loans Program, Legacy Securities Program (expansion of TALF)	500.0 – 1,000.0	75.0
Capital Assistance Program ("CAP")	Capital to qualified financial institutions; includes stress test	TBD	TBD
New Programs, or Funds Remaining for Existing Programs	Potential additional funding related to CAP; other programs	138.0	138.0
Total		**$2,365.0 – $2,865.0**	**$698.8**

Notes: Numbers affected by rounding.
[a] Treasury's original commitment under this program was $5 billion, but subsequently reduced to $3.5 billion effective 7/1/2009.
[b] Treasury announced that it would purchase up to $15 billion in securities under the Unlocking Credit for Small Businesses program.
[c] Actual TARP expenditures as of 9/30/2009.
[d] Treasury's current TALF commitment is $20 billion but should TALF exceed a total of $200 billion in loans extended by FRBNY, then Treasury's commitment could reach $80 billion.
[e] $75 billion is for mortgage modification.

Sources: Treasury, Office of Financial Stability, Chief of Compliance and CFO, SIGTARP interview, 3/30/2009; Treasury, *Transactions Report*, 10/2/2009; Treasury, "Auto Supplier Support Program: Stabilizing the Auto Industry in a Time of Crisis," 3/19/2009, http://www.treas.gov/press/releases/docs/supplier_support_program_3_18.pdf, accessed 3/19/2009; Treasury, "Unlocking Credit for Small Businesses Fact Sheet," 3/17/2009, http://www.financialstability.gov/roadtostability/unlockingCreditforSmallBusinesses.html, accessed 6/10/2009; Treasury, "Treasury, Federal Reserve, and FDIC Provide Assistance to Bank of America," 1/16/2009, http://www.treas.gov/press/releases/hp1356.htm, accessed 1/16/2009; Treasury Press Release, "U.S. Government Finalizes Terms of Citi Guarantee Announced in November," 1/16/2009, http://www.financialstability.gov/latest/hp1358.html, accessed 6/8/2009; Treasury, "Financial Stability Plan Fact Sheet," 2/10/2009, http://www.financialstability.gov/docs/fact-sheet.pdf, accessed 6/8/2009; Treasury, "Making Home Affordable: Updated Detailed Program Description," 3/4/2009, http://www.treas.gov/press/releases/reports/housing_fact_sheet.pdf, accessed 6/10/2009; Treasury, "Public-Private Investment Program," 4/6/2009, http://www.financialstability.gov/roadtostability/publicprivatefund.html, accessed 6/9/2009.

TABLE 2.3

DIVIDEND AND INTEREST PAYMENTS, BY PROGRAM ($ MILLIONS)

Program	Amount
CPP[a]	$6,789.7
SSFI	—
TIP	1,862.2
AIFP[b]	670.9
AGP	174.8
ASSP	5.9
Total	**$9,503.5**

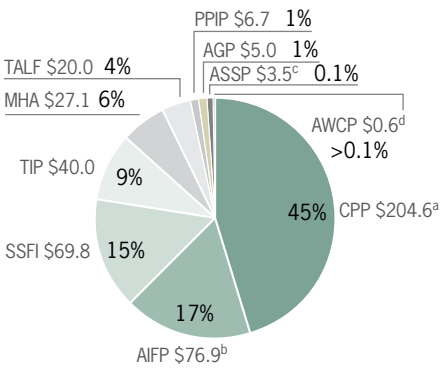
Notes: Numbers affected by rounding. Data as of 9/30/2009.
[a] Includes $13 million fee received as part of the Banco Popular exchange.
[b] Includes AWCP.

Source: Treasury, response to SIGTARP data call, 10/7/2009.

FIGURE 2.8

EXPENDITURES BY PROGRAM, SNAPSHOT

$ Billions, % of $454.3 Billion



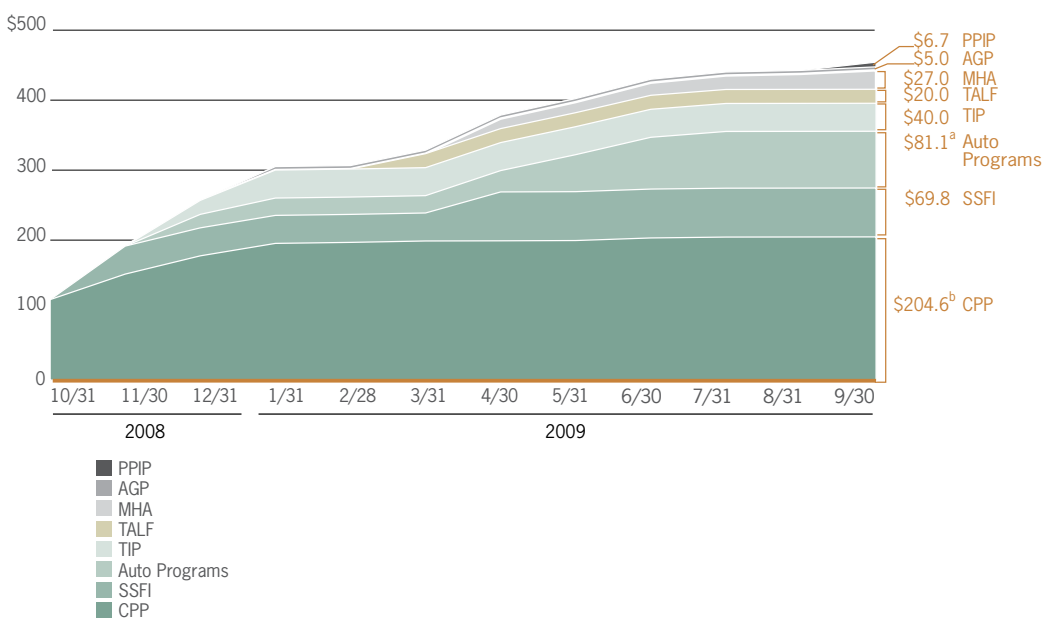
Notes: Numbers affected by rounding. Data as of 9/30/2009. From a budgetary perspective, expenditures are what Treasury committed to spend (e.g., signed agreements with TARP fund recipients). Expenditures do not reflect any repayments received.
[a] $70.72 billion of CPP funding had been repaid.
[b] $1.5 billion of principal payments related to AIFP loans had been repaid.
[c] Treasury's original commitment under this program was $5 billion, but subsequently reduced to $3.5 billion effective 7/1/2009.
[d] The $0.6 billion expended for AWCP was repaid on 7/10/2009.

Source: Treasury, *Transactions Report*, 10/2/2009.

FIGURE 2.7

EXPENDITURES, BY PROGRAM, CUMULATIVE, 10/2008 – 9/2009

$ Billions



Notes: Numbers affected by rounding.
[a] Auto Programs include AIFP, ASSP, and AWCP. AIFP loan principal of $2.1 billion has been repaid. (Repayment of $0.6 billion was from AWCP.) AIFP commitment amount reduced through $2.4 billion de-obligation. (Not reflected on the *Transactions Report.*)
[b] CPP funding of $70.7 billion has been repaid.

Source: Treasury, *Transactions Report*, 10/2/2009.

TABLE 2.4

EQUITY AGREEMENTS

TARP Program	Company	Date of Agreement	Cost Assigned ($ Billions)	Description of Investment
CPP – Public	284 QFIs	10/14/2008[a] and later	$200.1	Senior Preferred Equity
				Common Stock Purchase Warrants
CPP – Private	352 QFIs	11/17/2008[b] and later	$ 4.0	Preferred Equity
				Preferred Stock Purchase Warrants that are exercised immediately
SSFI	AIG	4/17/2009	$41.6[c]	Non-Cumulative Preferred Equity
				Common Stock Purchase Warrants
SSFI	AIG	4/17/2009	$29.8[d]	Non-Cumulative Preferred Equity
				Common Stock Purchase Warrants
TIP	Citigroup	12/31/2008	$20.0[e]	Trust Preferred Securities
				Warrants
TIP	Bank of America	1/16/2009[f]	$20.0	Senior Preferred Equity
				Warrants
AIFP	GMAC LLC	12/29/2008	$5.0	Senior Preferred Membership Interests
				Preferred Stock Purchase Warrants that are exercised immediately
AIFP	GMAC LLC	5/21/2009	$7.5	Mandatorily Convertible Preferred Stock
				Preferred Stock Purchase Warrants that are exercised immediately
AIFP	GMAC LLC	5/29/2009	$0.9	Common Equity Interest

Notes: Numbers affected by rounding.
[a] Announcement date of CPP Public Term Sheet.
[b] Announcement date of CPP Private Term Sheet.
[c] AIG exchanged Treasury's $40 billion investment in cumulative preferred stock (obtained on 11/25/2008) for non-cumulative preferred stock, effectively cancelling the original $40 billion investment.
[d] The Equity Capital Facility was announced as a $30 billion commitment, but Treasury reduced this amount by the value of the AIGFP Retention Payment amount of $165 million.
[e] Citigroup exchanged its $20 billion senior preferred equity (obtained on 12/31/2008) for trust preferred securities.
[f] Date as of the Treasury's 1/27/2009 *Transactions Report*. The Security Purchase Agreement has a date of 1/15/2009.

Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, "TARP Capital Purchase Program Agreement, Senior Preferred Stock and Warrants, Summary of Senior Preferred Terms," 10/14/2008; Treasury, "TARP Capital Purchase Program Agreement, (Non-Public QFIs, excluding S Corps and Mutual Organizations) Preferred Securities, Summary of Warrant Terms," 11/17/2008; Treasury, "Securities Purchase Agreement dated as of November 25, 2008 between American International Group, Inc. and United States Department of Treasury," 11/25/2008; Treasury, "TARP AIG SSFI Investment, Senior Preferred Stock and Warrant, Summary of Senior Preferred Terms," 11/25/2008; Treasury, "Securities Purchase Agreement dated as of January 15, 2009 between Citigroup, Inc. and United States Department of Treasury," 1/15/2009; Treasury, "Citigroup, Inc. Summary of Terms, Eligible Asset Guarantee," 11/23/2008; "Securities Purchase Agreement dated as of January 15, 2009 between Bank of America Corporation and United States Department of Treasury," 1/15/2009; Treasury, "Bank of America Summary of Terms, Preferred Securities," 1/16/2009; Treasury, "GMAC LLC Automotive Industry Financing Program, Preferred Membership Interests, Summary of Preferred Terms," 12/29/2008; Treasury, response to SIGTARP data call, 10/7/2009.

Investment Information	Dividends	Term of Agreement
1 – 3% of risk weighted assets, not to exceed $25 billion for each QFI	5% for first 5 years, 9% thereafter	Perpetual
15% of senior preferred amount	—	Up to 10 years
1 – 3% of risk weighted assets, not to exceed $25 billion for each QFI	5% for first 5 years, 9% thereafter	Perpetual
5% of preferred amount	9%	Perpetual
$41.6 billion aggregate liquidation preference	10%	Perpetual
2% of issued and outstanding common stock on investment date of 11/25/2008; warrant originally for 53,798,766 shares with a $2.50 exercise price; after 6/30/2009 split, it is for 2,689,938.30 shares with a $50 exercise price.	—	Up to 10 years
Up to $29.8 billion aggregate liquidation preference. As of 9/30/2009, aggregate liquidation preference of $3.2 billion.	10%	Perpetual (life of the facility is 5 years)
150 common stock warrants outstanding; $0.00002 exercise price	—	Up to 10 years
$20 billion	8%	Perpetual
10% of total preferred stock issued; $10.61 exercise price	—	Up to 10 years
$20 billion	8%	Perpetual
10% of total preferred stock issued; $13.30 exercise price	—	Up to 10 years
$5 billion	8%	Perpetual
5% of preferred amount	9%	Perpetual
$7.5 billion	9%	Converts to common equity interest after 7 years
5% of preferred amount	9%	Converts to common equity interest after 7 years
This equity interest was obtained by exchanging a prior debt obligation with General Motors. See “Debt Agreements” table for more information.	—	Perpetual

TABLE 2.5

DEBT AGREEMENTS

TARP Program	Company	Date of Agreement	Cost Assigned ($ Billions)	Description of Investment
CPP - S-Corps	49 QFIs	1/14/2009[a]	$0.5	Senior Subordinated Securities
				Senior Subordinated Security Warrants that are exercised immediately
AIFP	General Motors	12/31/2008	$19.8[b]	Debt Obligation with Warrants and Additional Note
AIFP	General Motors	1/16/2009	$0.9	Debt Obligation
AIFP	Chrysler	1/2/2009	$4.8	Debt Obligation with Additional Note
AIFP	Chrysler Financial	1/16/2009	$1.5	Debt Obligation with Additional Note
AIFP	Chrysler	5/1/2009	$3.8	Debt Obligation with Additional Note
AIFP	Chrysler	5/27/2009	$6.6	Debt Obligation with Additional Note, Equity Interest
AIFP	General Motors	6/3/2009, amended 7/10/2009	$30.1	Debt Obligation with Additional Note
ASSP	GM Supplier Receivables LLC	4/9/2009	$2.5	Debt Obligation with Additional Note
ASSP	Chrsyler Receivables SPV LLC	4/9/2009	$1.0	Debt Obligation with Additional Note

Notes: Numbers affected by rounding.
[a] Announcement date of CPP S-Corporation Term Sheet.
[b] Amount includes AWCP commitments.

Investment Information	Interest / Dividends	Term of Agreement
Each QFI may issue senior securities with an aggregate principal amount of 1% - 3% of its risk-weighted assets, but not to exceed $25 billion.	7.7% for first 5 years; 13.8% thereafter	30 years
Treasury will receive warrants to purchase an amount equal to 5% of the senior securities purchased on the date of investment.	13.8%	30 years
This loan was funded incrementally; $4 billion funded on 12/31/2008, $5.4 billion funded on 1/21/2009, $4 billion funded on 2/17/2009. Subsequently, this loan was then amended; $2 billion on 4/22/2009 and $4 billion on 5/20/2009 (General Advances). In addition, on 5/27/2009, $361 million was set aside in an SPV for the AWCP (Warranty Advances).	For General Advances - (i) the greater of (a) 3 Month LIBOR or (b) 2% plus (ii) 3%; For Warrant Advances (i) the greater of (a) 3 Month LIBOR for the related Interest Period or (b) 2% plus (ii) 3.5%	12/29/2011
This loan was exchanged for a portion of GM's common equity interest in GMAC LLC on 5/29/2009. See "Equity Agreement" table for more information.	3 Month LIBOR + 3%	1/16/2012
Loan of $4 billion; Additional note of $267 million (6.67% of the maximum loan amount). Subsequently, this loan was then amended; $500 million on 4/29/2009, this amount was never drawn and subsequently de-obligated (General Advances). In addition, on 4/29/2009, $280 million was set aside in an SPV for the AWCP; this advance was repaid (Warrant Advances).	For General Advances - (i) the greater of (a) 3 Month LIBOR or (b) 2% plus (ii) 3%; For Warrant Advances (i) the greater of (a) 3 Month LIBOR for the related Interest Period or (b) 2% plus (ii) 3.5%	1/2/2012
Loan was funded incrementally at $100 million per week until it reached the maximum amount of $1.5 billion on 4/9/2009. Additional note is $75 million (5% of total loan size), which vests 20% on closing and 20% on each anniversary of closing.	LIBOR + 1% for first year LIBOR + 1.5% for remaining years	1/16/2014
Loan of $3.0 billion committed to Chrysler for its bankruptcy period. Subsequently, this loan was amended; $757 million was added on 5/20/2009. Treasury funded $1.9 billion during bankruptcy period. The remaining amount will be de-obligated.	(i) the greater of (a) 3 Month Eurodollar or (b) 2% plus (ii) 3.0%	9/30/2009, subject to certain conditions
Commitment to New CarCo Acquisition LLC (renamed Chrysler Group LLC on or about 6/10/2009) of up to $6.642 billion. The total loan amount is up to $7.142 billion including $500 million of debt assumed from Treasury's 1/2/2009 credit agreement with Chrysler Holding LLC. The debt obligations are secured by a first priority lien on the assets of New CarCo Acquisition LLC (the company that purchased Chrysler LLC's assets in a sale pursuant to section 363 of the Bankruptcy Code).	For $2 billion: (i) The 3 Month Eurodollar Rate, plus (ii) (a) 5% or, on loans extended past the original maturity date, (b) 6.5%. For $5.142 billion note: (i) The 3 Month Eurodollar Rate plus 7.91% and (ii) an additional $17 million in PIK interest per quarter. For other notes: 3 Month Eurodollar Rate plus 7.91%	For $2 billion note: 12/10/2011; provided that issuer may extend maturity for up to $400 million of principal to 6/10/2017. For other notes: 6/10/2017
Original $30.1 billion funded. Amended loan documents provided that $986 million of the original DIP loan was left for the old GM. In addition $7.1 billion was assumed by New GM of which $0.4 billion was repaid resulting in $6.7 billion remaining outstanding.	Originally, (i) the greater of (a) 3 Month Eurodollar or (b) 2% plus (ii) 3.0%. For amounts assumed by New GM, the interest rates became (i) the greater of (a) 3 Month Eurodollar or (b) 2% plus (ii) 5%	Originally 10/31/2009. For amounts assumed by New GM, June 10, 2015, subject to acceleration
The original amount was $3.5 billion, but it was decreased permanently to $2.5 billion effective 7/1/2009.	(i) the greater of (a) LIBOR for the related interest period or (b) two percent (2%) plus (ii) three and five-tenths percent (3.5%)	4/9/2010
The original amount was $1.5 billion, but it was decreased permanently to $1.0 billion effective 7/1/2009.	(i) the greater of (a) LIBOR for the related interest period or (b) two percent (2%) plus (ii) three and five-tenths percent (3.5%)	4/9/2010

Sources: Treasury, "Loan and Security Agreement By and Between General Motors Corporation as Borrower and The United States Department of Treasury as Lender Dated as of December 31, 2008," 12/31/2008. Treasury, "General Motors Corporation, Indicative Summary of Terms for Secured Term Loan Facility," 12/19/2008; Treasury, "General Motors Promissory Note," 1/16/2009; Treasury, "Loan and Security Agreement By and Between Chrysler Holding LLC as Borrower and The United States Department of Treasury as Lender Dated as of December 31, 2008," 12/31/2008; Treasury, "Chrysler, Indicative Summary of Terms for Secured Term Loan Facility," 12/19/2008; Treasury, "Chrysler LB Receivables Trust Automotive Industry Financing Program, Secured Term Loan, Summary of Terms," 1/16/2009; OFS, response to SIGTARP draft report, 1/30/2009; Treasury, *Transactions Report*, 10/2/2009; Treasury, response to SIGTARP data call, 10/7/2009.

TABLE 2.6

LARGEST POSITIONS IN WARRANTS HELD BY TREASURY, BY PROGRAM, AS OF 9/30/2009

Participant	Transaction Date	Current Number of Outstanding Warrants	Current Strike Price	Stock Price as of 9/30/2009	In or Out of the Money?	Amount "In the Money" or "Out of the Money" as of 9/30/2009
Capital Purchase Program ("CPP"):						
Bank of America Corporation[a]	10/28/2008	121,792,790	$30.79	$16.92	OUT	($13.87)
Bank of America Corporation[a]	1/9/2009		$30.79	$16.92	OUT	($13.87)
Citigroup Inc.[b]	10/28/2008	210,084,034	$17.85	$4.84	N/A	—
JPMorgan Chase & Co.[c]	10/28/2008	88,401,697	$42.42	$43.82	IN	$1.40
Wells Fargo & Company	10/28/2008	110,261,688	$34.01	$28.18	OUT	($5.83)
Systemically Significant Failing Institutions ("SSFI") Program:						
AIG[d]	11/25/2008	2,689,938	$50.00	$44.11	OUT	($5.89)
AIG[d]	4/17/2009	150	$0.00002	$44.11	IN	$44.11
Targeted Investment Program ("TIP"):						
Citigroup Inc.	12/31/2008	188,501,414	$10.61	$4.84	OUT	($5.77)
Bank of America Corporation	1/16/2009	150,375,940	$13.30	$16.92	IN	$3.62
Asset Guarantee Program ("AGP"):						
Citigroup Inc.	1/16/2009	66,531,728	$10.61	$4.84	OUT	($5.77)

Notes:
Numbers affected by rounding.
[a] According to Treasury, the Bank of America warrants were replaced with one warrant certificate for 121,792,790 total warrant shares.
[b] According to Treasury, on 9/11/2009, an "extinguishment" transaction "made [warrants] worthless upon execution of Citi [Series M Common Stock Equivalent] to Common Exchange."
[c] This institution repaid its CPP funds pursuant to Title VII, section 7001(g) of the American Recovery and Reinvestment Act of 2009. Treasury still holds these warrants in its portfolio.
[d] All warrant and stock data for AIG are based on the 6/30/2009 reverse stock split of 1 for 20.

Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, response to SIGTARP data call, 10/7/2009; Capital IQ, Inc. (a division of Standard & Poor's), www.capitaliq.com; Treasury, response to SIGTARP draft, 10/16/2009.

FINANCIAL INSTITUTION SUPPORT PROGRAMS

Treasury created five TARP programs that involve investment of capital or guarantee of assets in return for equity in financial institutions. Two investment programs, the Capital Purchase Program ("CPP") and the Capital Assistance Program ("CAP"), are open to all qualifying financial institutions ("QFIs"). The other three programs, the Systemically Significant Failing Institutions ("SSFI") program, Targeted Investment Program ("TIP"), and Asset Guarantee Program ("AGP") are made available on a case-by-case basis to specific institutions needing exceptional assistance above that of CPP and CAP.

Capital Purchase Program

Treasury currently anticipates that $218 billion of TARP funds will eventually be invested in QFIs under CPP.[60] According to Treasury, the intention of CPP is to invest in healthy, viable banks to promote financial stability, maintain confidence in the financial system, and permit institutions to continue meeting the credit needs of American consumers and businesses.[61] For a summary of the distribution of CPP funding by participant — not including any repayment — see Figure 2.9.

For more information on the Capital Purchase Program, see SIGTARP's July Quarterly Report, page 45.

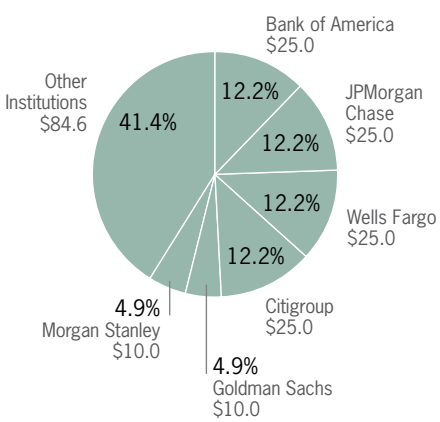
Status of Funds

As of September 30, 2009, Treasury had purchased $204.6 billion in preferred stock and subordinated debentures from 685 different QFIs in 48 states, the District of Columbia, and Puerto Rico. See Figure 2.10 on the following page for the geographical distribution of all the QFIs that have received funding. For a full listing of CPP recipients, see Appendix D: "Transaction Detail."

FIGURE 2.9

CPP EXPENDITURES, BY PARTICIPANT, CUMULATIVE[a]

$ Billions, % of $204.6 Billion



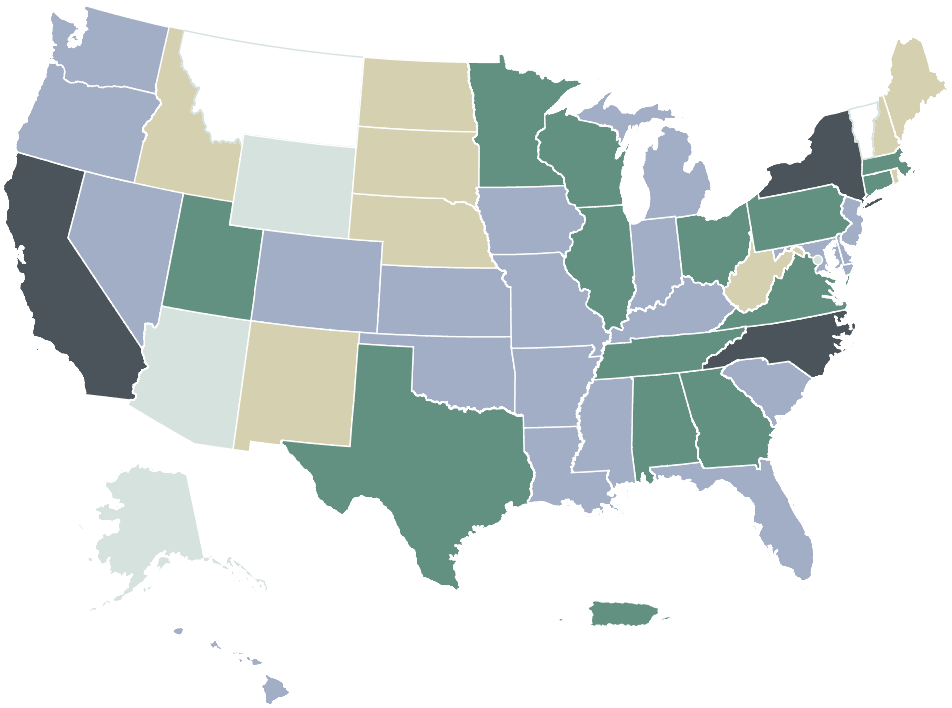
Notes: Numbers affected by rounding. Data as of 9/30/2009. Bank of America = Bank of America Corporation; JPMorgan Chase = JPMorgan Chase & Co.; Wells Fargo = Wells Fargo and Company; Citigroup = Citigroup Inc.; Goldman Sachs = The Goldman Sachs Group, Inc.

[a] $204.6 billion represents total CPP funds expended before any CPP repayments. JPMorgan, Goldman Sachs, Morgan Stanley, and some other institutions have repaid their TARP funds under CPP.

Source: Treasury, *Transactions Report*, 10/2/2009.

FIGURE 2.10

TRACKING CAPITAL PURCHASE PROGRAM INVESTMENTS ACROSS THE COUNTRY



Note: Banks in Montana and Vermont had not received any funds as of 9/30/2009.

Source: Treasury, "Local Impact of the Capital Purchase Program," 10/1/2009, www.financialstability.gov, accessed 10/5/2009.

TABLE 2.7

CPP ORIGINAL INVESTMENT SUMMARY	
Largest Capital Investment	$25 Billion
Smallest Capital Investment	$301,000
Average Capital Investment	$298.7 Million
Median Capital Investment	$11.3 Million

Notes: Numbers affected by rounding. Data as of 9/30/2009. These numbers are based on total Treasury CPP investment since 10/28/2008. Bank of America Corporation, SunTrust Banks, Inc., and Yadkin Valley Financial Corporation each received investments in two separate transactions.

Source: Treasury, *Transactions Report*, 10/2/2009.

TABLE 2.8

CPP ORIGINAL INVESTMENT SIZE	
$10 Billion or More	6
$1 Billion to $10 Billion	19
$100 Million to $1 Billion	57
Less than $100 Million	603
Total	**685**

Notes: Data as of 9/30/2009. These numbers are based on total Treasury CPP investment since 10/28/2008. Bank of America Corporation, SunTrust Banks, Inc., and Yadkin Valley Financial Corporation each received investments in two separate transactions.

Source: Treasury, *Transactions Report*, 10/2/2009.

Although the 8 largest investments accounted for $134.2 billion of the program, CPP has also had many more modest investments: 322 of the 685 recipients received $10 million or less. Table 2.7 and Table 2.8 show the distribution of the investments by size.

Repayment of Funds

As of September 30, 2009, 42 banks had repurchased some or all of their shares from Treasury, with Treasury receiving $70.7 billion in principal repayments. Figure 2.11 shows the amount of CPP funds outstanding, adjusted for repayments. Table 2.9 shows the share repurchases conducted as of September 30, 2009. In addition, Treasury had received $6.8 billion in dividends and interest from its CPP investments. Among CPP recipients, 46 QFIs have missed CPP dividend payments to the Government; some of these institutions made the payments on a later date. As of September 30, 2009, there were $75.7 million in outstanding CPP dividends. If a QFI misses six quarterly dividend payments, Treasury retains the right to elect two directors to sit on the QFI's board. As of September 30, 2009, there were no participants subject to this penalty.[62]

TABLE 2.9

CPP SHARE REPURCHASES, AS OF 9/30/2009

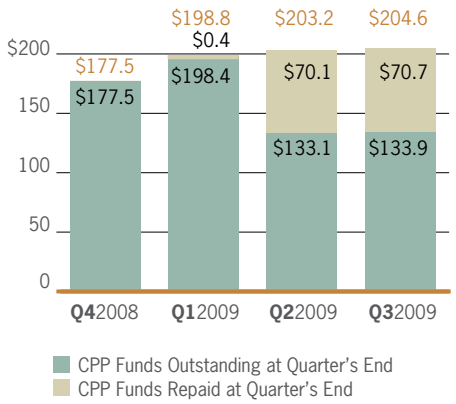
Repurchase Date	Institution	Amount of Repurchase ($ Millions)
3/31/2009	Centra Financial Holdings, Inc.	$15.0
3/31/2009	Old National Bancorp	100.0
3/31/2009	Iberiabank Corporation	90.0
3/31/2009	Bank of Marin Bancorp	28.0
3/31/2009	Signature Bank	120.0
4/8/2009	Sun Bancorp, Inc.	89.3
4/15/2009	Shore Bancshares, Inc.	25.0
4/22/2009	First ULB Corp.	4.9
4/22/2009	FirstMerit Corporation	125.0
4/22/2009	Independent Bank Corp.	78.2
4/22/2009	TCF Financial Corporation	361.2
5/5/2009	Sterling Bancshares, Inc.	125.2
5/13/2009	Alliance Financial Corporation	26.9
5/13/2009	Texas Capital Bancshares, Inc.	75.0
5/20/2009	Somerset Hills Bancorp	7.4
5/20/2009	SCBT Financial Corporation	64.8
5/27/2009	First Manitowoc Bancorp, Inc.	12.0
5/27/2009	First Niagara Financial Group	184.0
5/27/2009	Berkshire Hills Bancorp, Inc.	40.0
5/27/2009	Washington Federal Inc.	200.0
6/3/2009	HF Financial Corp.	25.0
6/3/2009	Valley National Bancorp[a]	200.0
6/17/2009	State Street Corporation	2,000.0
6/17/2009	U.S. Bancorp	6,599.0
6/17/2009	The Goldman Sachs Group, Inc.	10,000.0
6/17/2009	BB&T Corp.	3,133.6
6/17/2009	American Express Company	3,388.9
6/17/2009	The Bank of New York Mellon Corporation	3,000.0
6/17/2009	Morgan Stanley	10,000.0
6/17/2009	Northern Trust Corporation	1,576.0
6/17/2009	JPMorgan Chase & Co.	25,000.0
6/17/2009	Capital One Financial Corporation	3,555.2
7/8/2009	First Community Bankshares Inc.	41.5
7/15/2009	Old Line Bancshares, Inc.	7.0
8/5/2009	Bancorp Rhode Island, Inc.	30.0
8/12/2009	State Bankshares, Inc.[b]	12.5
8/26/2009	CVB Financial Corp.[c]	130.0
9/2/2009	Westamerica Bancorporation[d]	41.9
9/9/2009	Wesbanco Bank Inc.	75.0
9/9/2009	F.N.B. Corporation	100.0
9/16/2009	Manhattan Bancorp	1.7
9/30/2009	Centerstate Banks of Florida Inc.	27.9
Total		**$70,717.0**

Notes: Numbers affected by rounding.
[a] Valley National Bancorp repaid $75.0 million on 6/3/2009 and $125.0 million on 9/23/2009.
[b] State Bankshares, Inc. repaid $12.5 million on 8/12/2009. It has a balance of $37.5 million still outstanding.
[c] CVB Financial Corp. repaid $97.5 million on 8/26/2009 and $32.5 million on 9/2/2009.
[d] Westamerica Bancorporation repaid $41.9 million on 9/2/2009. It has a balance of $41.9 million still outstanding.

Source: Treasury, *Transactions Report*, 10/2/2009.

FIGURE 2.11

SNAPSHOT OF CPP FUNDS OUTSTANDING AND REPAID, BY QUARTER
$ Billions



Notes: Numbers affected by rounding. Data as of 9/30/2009.

Source: Treasury, *Transactions Report*, 10/2/2009.

Table 2.10 lists the banks that have one or more outstanding dividend payments as of September 30, 2009. For a complete listing of CPP recipients and the institutions that have paid dividends or interest, see Appendix D: "Transaction Detail."

TABLE 2.10

UNPAID DIVIDEND PAYMENTS UNDER CPP, AS OF 9/30/2009

Institution	Value of Unpaid Dividends
CIT Group Inc.	$29,125,000
Popular, Inc.	11,687,500
First BanCorp	5,000,000
Pacific Capital Bancorp	4,515,850
First Banks, Inc.	4,024,825
Sterling Financial Corporation/Sterling Savings Bank	3,787,500
UCBH Holdings, Inc.	3,734,213
Anchor BanCorp Wisconsin, Inc.	2,979,167
Midwest Banc Holdings, Inc.	2,119,600
Dickinson Financial Corporation II	1,989,980
Central Pacific Financial Corp.	1,687,500
Seacoast Banking Corporation of Florida/Seacoast National Bank	1,250,000
Blue Valley Ban Corp	543,750
Centrue Financial Corporation	408,350
Royal Bancshares of Pennsylvania, Inc.	380,088
One United Bank	301,575
United American Bank	230,490
Pacific City Financial Corporation/Pacific City Bank	220,725
Commonwealth Business Bank	209,850
The Connecticut Bank and Trust Company	178,573
Peninsula Bank Holding Co.	162,500
Commerce National Bank	150,000
Citizens Bancorp	141,700
Pacific Coast National Bancorp	112,270
Premier Service Bank	105,972
Idaho Bancorp	94,013
Lone Star Bank	87,917
Pacific International Bancorp Inc	81,250
One Georgia Bank	80,766
Georgia Primary Bank	70,850
Saigon National Bank	54,378
Patterson Bancshares, Inc.	50,288
Grand Mountain Bancshares, Inc.	35,395
Fresno First Bank	33,357
Citizens Bank & Trust Company	32,700
Pacific Commerce Bank	31,961
Community Bank of the Bay	28,874
Community First Bank	11,199
Total	**$75,739,924**

Source: Treasury, response to SIGTARP data call, 10/7/2009.

Repurchase of Warrants by Financial Institutions

To maximize the benefit to the taxpayer, EESA mandated that Treasury receive warrants or senior debt instruments when it invests in troubled assets.[63] The warrants provide Treasury the right to purchase shares of common stock in the case of publicly traded institutions, or, in the case of non-publicly traded institutions, preferred stock or debt at a fixed price.[64] As of September 30, 2009, 21 public institutions had repurchased their warrants for a total of $2.9 billion, and 3 private institutions whose warrants were immediately exercised into preferred shares repurchased those shares for a total of $1.6 million. Some CPP recipients have announced that they will not be negotiating to repurchase their warrants; Treasury intends to auction these warrants on the public market before the end of 2009.[65]

For a list of private institutions that have repaid their TARP funds and repurchased their preferred shares as of September 30, 2009, see Table 2.11.

For more information on Treasury's valuation methodologies for warrants, see SIGTARP's July Quarterly Report, page 48.

TABLE 2.11

CPP REPURCHASES OF PREFERRED SHARES RESULTING FROM IMMEDIATE EXERCISE OF WARRANTS (PRIVATE), AS OF 9/30/2009

Repurchase Date	Institution	Number of Preferred Shares	Amount of Repurchase ($ Millions)
4/15/2009	Centra Financial Holdings, Inc.	750	$0.8
4/22/2009	First ULB Corp.	245	0.2
5/27/2009	First Manitowoc Bancorp, Inc.	600	0.6
Total		**1,595**	**$1.6**

Note: Numbers affected by rounding.

Sources: Treasury, *Transactions Report*, 10/2/2009; OFS, response to SIGTARP data call, 9/30/2009.

For a list of public institutions that have repaid their TARP funds and repurchased their warrants as of September 30, 2009, see Table 2.12. SIGTARP has announced a pending audit that examines the procedures used by Treasury to ensure that the Government receives a fair market value for the warrants.

TABLE 2.12

CPP WARRANT REPURCHASES (PUBLIC), AS OF 9/30/2009

Repurchase Date	Institution	Number of Warrants Repurchased	Amount of Repurchase ($ Millions)
5/8/2009	Old National Bancorp	813,008	$1.2
5/20/2009	Iberiabank Corporation[a]	138,490	1.2
5/27/2009	FirstMerit Corporation	952,260	5.0
5/27/2009	Sun Bancorp, Inc.	1,543,376	2.1
5/27/2009	Independent Bank Corp.	481,664	2.2
6/17/2009	Alliance Financial Corporation	173,069	0.9
6/24/2009	First Niagara Financial Group[a]	953,096	2.7
6/24/2009	Berkshire Hills Bancorp, Inc.	226,330	1.0
6/24/2009	Somerset Hills Bancorp	163,065	0.3
6/24/2009	SCBT Financial Corporation	303,083	1.4
6/30/2009	HF Financial Corp.	302,419	0.7
7/8/2009	State Street Corporation[a]	2,788,104	60.0
7/15/2009	U.S. Bancorp	32,679,102	139.0
7/22/2009	The Goldman Sachs Group, Inc.	12,205,045	1,100.0
7/22/2009	BB&T Corp.	13,902,573	67.0
7/29/2009	American Express Company	24,264,129	340.0
8/5/2009	The Bank of New York Mellon Corporation	14,516,129	136.0
8/12/2009	Morgan Stanley	65,245,759	950.0
8/26/2009	Northern Trust Corporation	3,824,624	87.0
9/2/2009	Old Line Bancshares, Inc.	141,892	0.2
9/30/2009	Bancorp Rhode Island, Inc.	192,967	1.4
Total		**175,810,184**	**$2,899.3**

Notes: Numbers affected by rounding.
[a] These institutions reduced the original amount of warrants issued through a qualified equity offering.

Sources: Treasury, *Transactions Report*, 10/2/2009; OFS, response to SIGTARP data call, 9/30/2009.

Banco Popular Exchange Offering

To improve the composition of its regulatory capital, on June 12, 2009, Popular, Inc. ("Banco Popular") proposed that Treasury participate in a securities exchange, in which Treasury would exchange its Series C preferred shares in Banco Popular, which it acquired through CPP, for a new series of Banco Popular trust preferred securities (the "TARP Exchange"). In conjunction with this transaction, Banco Popular initiated an exchange with its other, non-TARP preferred shareholders through which those shareholders would receive common stock (the "non-TARP Exchange"). The non-TARP Exchange was completed on August 21, 2009, and the TARP Exchange was completed on August 24, 2009.[66] Both exchanges bolstered Banco Popular's regulatory capital position by increasing the amount of its tier one common equity ("T1 Common"). In the TARP exchange, Treasury exchanged $935 million in face value of preferred shares and received $935 million in face value of trust preferred securities.[67]

Prior to the TARP Exchange, Banco Popular announced that it was planning to suspend all dividend payments to its preferred shareholders. As a trust preferred shareholder, however, Treasury's dividend payment will be protected. TARP's new trust preferred securities will pay the same dividend rate as the previously held preferred shares. The TARP Exchange allowed Treasury's cash flow from Banco Popular to remain unchanged. The TARP Exchange also placed Treasury in what is effectively a more senior capital position, meaning that, in the event of liquidation, Treasury's trust preferred securities now have a higher-priority claim on Banco Popular's assets. In connection with this transaction, Banco Popular paid a $13 million exchange fee to Treasury.[68] The non-TARP and TARP Exchange benefitted Banco Popular by improving its regulatory capital levels. According to Banco Popular, the non-TARP Exchange generated approximately $900 million of T1 Common, and the TARP Exchange generated approximately $500 million in T1 Common. The $500 million represents "the difference between the book value of Series C Preferred Stock and the estimated fair value of the New Trust Preferred Securities."[69] Both exchange offerings raised Banco Popular's tier one common risk-based ratio ("T1 Common Ratio").

The non-TARP Exchange initially raised Banco Popular's T1 Common Ratio from 2.45% to 5.7%. Subsequently the TARP Exchange raised the ratio from 5.7% to 7.5%.[70] In assessing the level of capital necessary for an institution to absorb losses, the Federal Reserve, in the Supervisory Capital Assessment Program ("SCAP") stress test, used the T1 Common Ratio as one measure of capital adequacy.[71] According to the Federal Reserve, to be considered "well-capitalized," an institution generally must maintain a T1 Common Ratio of 4%.[72]

Tier One Common Risk-Based Ratio ("T1 Common Ratio"): Determines what percentage of a bank's total assets is categorized as T1 Common. Under traditional Federal regulations, a bank with a T1 Common Ratio of 4% or greater is considered adequately capitalized. = T1 Common / Risk-weighted assets

For more information on a bank's capital structure, see SIGTARP's April Quarterly Report, page 58, and SIGTARP's July Quarterly Report, page 55.

Securities Exchange: An agreement between a firm and investors, permitting the investors to exchange one class of securities for another.

Trust Preferred Securities: A security that has both equity and debt characteristics created by establishing a trust and issuing debt to it. A company would create a trust preferred security to realize tax benefits, since the trust is tax deductible.

Tier One Common Equity ("T1 Common"): Also known as tangible common equity ("TCE"), is calculated by removing all non-common elements from T1, *e.g.*, preferred equity, minority interests, and trust preferred securities. It can be thought of as the amount that would be left over if the bank were dissolved and all creditors and higher levels of stock, such as preferred stock, were paid off. T1 Common is the highest "quality" of capital in the sense of providing a buffer against loss by claimants on the bank. T1 Common is used in calculating the tier one common risk-based ratio ("T1 Common Ratio") which determines what percentage of a bank's total assets is categorized as T1 Common. The higher the percentage, the better capitalized the bank. Preferred stock is an example of capital that is counted in T1, but not in T1 Common.

Treasury Lending Reports

Treasury snapshots were instituted in January 2009 as a means to track progress toward the stated goal of CPP: "building a capital base of viable U.S. financial institutions, enabling them to continue lending to businesses and consumers during the unprecedented financial crisis and economic downturn."[73] The monthly intermediation snapshots focus on tracking the 22 largest CPP recipients. Acting on a recommendation from GAO, Treasury later announced that it would require all CPP participants to submit data for a new monthly lending report that would complement the original monthly intermediation snapshot. The initial report was released on June 1, 2009, and subsequent reports have been released on a monthly basis.

July 2009 Monthly Intermediation Snapshot

The most recent monthly intermediation snapshot for the 22 largest CPP recipients was released on September 15, 2009, reporting data for the period of July 1, 2009, to July 31, 2009. Treasury reviewed and analyzed the data and came to the following conclusions:[74]

- The 22 institutions originated a total of $282 billion in new loans — a 10% decrease from June to July.
- Overall outstanding loan balances fell 1% due mainly to a decrease in demand from borrowers, payment of outstanding debt, and charge-offs by banks.
- Banks continued to report that demand was well below normal market levels in the Commercial Real Estate ("CRE") market and the Commercial & Industrial ("C&I") market.
- Total small business originations decreased by 14% from June to July. Because most small business originations are CRE or C&I originations, this decrease is in-line with overall declining trends.

CPP Monthly Lending Report

The CPP Monthly Lending Report requires banks to report to Treasury on three data points each month: average consumer loans outstanding, average commercial loans outstanding, and total loans outstanding. The aggregate totals from the July report are listed in Table 2.13. There were 56 banks that did not report by the August 31, 2009, deadline.[75]

TABLE 2.13

JULY MONTHLY LENDING REPORT
($ TRILLIONS)

Average Consumer Loans Outstanding	$2.8
Average Commercial Loans Outstanding	2.3
Total Average Loans Outstanding	**$5.0**

Notes: Numbers affected by rounding. Data as of 7/31/2009.

Source: Treasury, "Summary of CPP Monthly Lending Report Data," no date, http://www.financialstability.gov/docs/surveys/SummaryTable_Feb-July_2009.pdf, accessed 10/8/2009.

Quarterly Analysis of Institutions in CPP

Treasury recently released its first Quarterly Capital Purchase Program Report. This report provides data from the quarterly call reports that financial institutions are required to file with FDIC. For this analysis, institutions were divided into four groups, and Treasury analyzed the aggregate changes in each group from the fourth quarter of 2008 to the first quarter of 2009. The four different groups are summarized in Table 2.14.[76] For all banks with more than $500 million in assets, Treasury reported that additional analysis was performed using reports filed with the Federal Reserve.

According to the report, banks in all groups experienced positive overall asset growth in the fourth quarter of 2008. This growth either slowed or turned negative for all banks other than those in Group III (the banks that received CPP funds in the first quarter of 2009). Treasury acknowledges that "it is difficult to draw specific conclusions about the effectiveness of the CPP program from solely these ratios." Treasury expects the effects will be better understood once there is data from a more significant number of quarters to compare.[77]

On September 16, 2009, Treasury sent a letter to SIGTARP explaining how subsequent quarterly reports will be expanded to address SIGTARP recommendations concerning use of funds reporting. Future reports will include data such as the institutions' repayments of outstanding debt obligations and total investments. The next report is expected to be released in October 2009.[78] Further discussion of Treasury's actions in this regard is contained in Section 5: "SIGTARP Recommendations" in this report.

Call Report: Quarterly report of financial condition commercial banks file with their Federal and state regulatory agencies.

For further discussion on Treasury's quarterly CPP analysis and lending reports, see Section 5: "SIGTARP Recommendations" in this report.

TABLE 2.14

QUARTERLY ANALYSIS GROUPS

Group	Description	Number of CPP Participants	Number of Insured Institutions	Average Asset Size of Insured Institutions ($ Billions)
Group I	Subsidiaries of the 21 largest CPP participants (as of March 31, 2009)	21	67	$125.6
Group II	Subsidiaries of CPP participants that were funded in Q4 2008	193	295	3.0
Group III	Subsidiaries of CPP participants that were funded in Q1 2009	318	368	1.0
Group IV	Non-CPP participants (as of March 31, 2009)	NA	7,516	0.5

Source: Treasury, "Quarterly Analysis of Institutions in the Capital Purchase Program 2009 Q1," no date, http://www.financialstability.gov/docs/CPP/Report/Quarterly%20Analysis%20-%20Data%20Section%2007%2030%2009.pdf, accessed 9/30/2009.

For more information on CPP for Small Banks, see SIGTARP's July Quarterly Report, page 45.

Bank Holding Company ("BHC"): A company that controls a bank. Typically, a company controls a bank through the ownership of 25% or more of its voting securities.

Mandatorily Convertible Preferred ("MCP") Share: A type of preferred share (ownership in a company that generally entitles the owner of the share to collect dividend payments) that can be converted to common stock under certain parameters at the discretion of the company — and must be converted to common stock by a certain time.

Tier One Risk-Based Capital Ratio ("T1 Ratio"): A ratio which determines what percentage of a bank's total assets is categorized as tier one capital ("T1"). T1 Ratio = T1 divided by risk-weighted assets.

Tier One Capital ("T1"): Consists primarily of common equity (including retained earnings), limited types and amounts of preferred equity, certain minority interests, and limited types and amounts of trust preferred securities. T1 does not include goodwill and certain other intangibles. Certain other assets are also excluded from T1. It can be described as a measure of the bank's ability to sustain future losses and still meet depositor's demands.

CPP for Small Banks

On May 13, 2009, Treasury announced an expansion of CPP for Small Banks.[79] As of September 30, 2009, 35 banks have applied to this program and 24 banks have been funded a total of $187.7 million.[80]

Capital Assistance Program

The Capital Assistance Program ("CAP") was created to "ensure the continued ability of U.S. financial institutions to lend to creditworthy borrowers in the face of a weaker-than-expected economic environment and larger-than-expected potential losses."[81] CAP consists of two parts:

- a "stress test" (also known as the Supervisory Capital Assessment Program ("SCAP")) to evaluate the 19 largest bank holding companies' ("BHCs'") capital levels for their ability to withstand an adverse economic scenario
- an application to Treasury for funding in the form of additional capital infusions or as a means to convert CPP investments to CAP mandatorily convertible preferred ("MCP") shares (available to all QFIs)

Supervisory Capital Assessment Program

On May 7, 2009, the Federal Reserve released the results of the SCAP process, revealing that 9 out of 19 BHCs had sufficient capital to withstand the adverse scenario while maintaining a tier one risk-based capital ratio ("T1 Ratio") in excess of 6% and a T1 Common Ratio in excess of 4%.[82] As of September 30, 2009, six of the eight participating institutions had repaid their CPP funds in full and purchased their outstanding warrants from the Government, thus fully completing their CPP and CAP participation. The other two participating institutions repaid their principal capital investment but did not repurchase the outstanding warrants. The ninth BHC, MetLife, is not a TARP recipient.[83]

The Federal Reserve determined that 10 of the SCAP participants needed an approximate total of $75 billion in additional capital in order to meet the capital level deemed necessary to withstand the more adverse economic scenario. Should a BHC not meet its required SCAP buffer by November 9, 2009, it will have to take additional capital assistance through CAP. This may include either Treasury-approved conversion of the BHCs' CPP investment to CAP MCP shares or the issuance of new CAP MCP shares.[84]

Status of CAP

According to Treasury, the funding deadline for CAP applicants is November 9, 2009. Applications initially go to the bank's primary regulator, which will then forward the application to Treasury. In order to ensure compliance with this deadline, those institutions that were not subject to SCAP are encouraged to apply for CAP funding by October 15, 2009.[85] QFIs can either apply directly for additional TARP

funding in the form of CAP MCP shares or apply to convert their CPP preferred shares in exchange for CAP MCP shares.[86] As of September 30, 2009, Treasury had informed SIGTARP that there had not been any CAP applications forwarded to Treasury from the primary Federal banking regulators.[87]

For more information on CAP, see SIGTARP's July Quarterly Report, page 52.

Systemically Significant Failing Institutions Program

According to Treasury, the Systemically Significant Failing Institutions ("SSFI") program was established to "provide stability and prevent disruptions to financial markets from the failure of institutions that are critical to the functioning of the nation's financial system."[88] As of September 30, 2009, $69.8 billion had been allocated through the SSFI program to American International Group, Inc. ("AIG"), the sole participant.[89]

Status of SSFI Funds

Treasury purchased $40 billion of preferred stock from AIG on November 25, 2008. On April 17, 2009, Treasury and AIG signed a securities exchange agreement in which Treasury exchanged its cumulative preferred stock ("Series D stock") for non-cumulative preferred stock ("Series E stock"). As a result of this exchange, AIG has an additional obligation to Treasury of $1.6 billion in unpaid dividends from the Series D shares.[90]

As part of the April 17, 2009, agreement, Treasury also committed to fund a $29.8 billion equity capital facility. As of September 30, 2009, AIG had drawn down a total of $3.2 billion in equity from this facility.[91]

Cumulative Preferred Stock: A type of stock that requires a defined dividend payment. If the company does not pay the dividend, it still owes the missed dividend to the owner of the stock.

Non-Cumulative Preferred Stock: A type of stock in which unpaid dividends do not accrue when a company fails to make a dividend payment.

Equity Capital Facility: A commitment to invest equity capital in a firm under certain future conditions.

For more information on AIG's preferred stock purchase, the AIG exchange, or its equity capital facility, see SIGTARP's July Quarterly Report, page 60.

AIG Update

Subsequent to SIGTARP's July Quarterly Report, AIG, FRBNY, and Treasury have continued to work together to improve AIG's overall health and viability through the use of the Government's assistance package and AIG's continued efforts at restructuring through asset dispositions and sales. AIG reported improved operational performance for the second quarter of 2009, in which the company turned its first quarterly profit since the third quarter of 2007.[92] In addition, AIG stated that it expects to meet all of its maturing debt obligations primarily though the Treasury facility, the FRBNY facility, and the disposition of assets.[93] Other recent AIG updates include the following items:

- **Borrowing Capacity:** As of July 29, 2009, under its FRBNY credit facility, AIG had $40 billion in outstanding borrowings, $20 billion in remaining borrowing capacity, and accrued compounding interest and fees totaling $4.8 billion.[94]
- **Dividend Payments:** As of September 30, 2009, AIG had missed three dividend payments to Treasury. If AIG misses its fourth dividend payment on November 1, 2009, Treasury will have the right to elect directors to the AIG board.[95] As of September 30, 2009, neither Treasury nor FRBNY had selected members of AIG's board of directors.

- **Management Change:** On August 10, 2009, Robert H. Benmosche assumed the role of President and Chief Executive Officer ("CEO"), and Harvey Golub became the new Non-Executive Chairman of the Board.[96] The former Chairman and CEO, Edward M. Liddy, retired.[97]
- **Management Compensation Approval in Principle:** Mr. Benmosche's annual salary will consist of $3 million cash and $4 million in common stock that is generally not transferable until 2014. He will be eligible to receive an annual bonus of up to $3.5 million based on the achievement of objective performance goals. This common stock will generally not vest for two years and will not be transferable until a certain amount of AIG's TARP assistance is repaid to Treasury. Kenneth Feinberg, the Special Master for TARP Executive Compensation, approved this contract in principle in August and gave his formal approval in a determination letter released by Treasury on October 2, 2009.[98]

AIG is the subject of three SIGTARP audits. The first examines the large bonus payments to employees in its Financial Products unit in March 2009. The second examines payments made to AIG's counterparties by FRBNY. The third is part of a broader audit on Treasury's governance of financial institutions in which it has acquired ownership interests. For more information on SIGTARP's AIG audits, see Section 1: "SIGTARP's Creation and Statutory Authority" in this report.

Use of Funds Report

As part of its equity capital facility agreement, AIG is required to submit a use of funds report describing its expected use of proceeds received under the transaction.[99] According to AIG, the funds will be used to meet capital solvency requirements resulting from declines in the value of investments. Additional funds will be used to purchase shares of United Guaranty Corporation ("UGC"), an AIG subsidiary, provide capital support for UGC, and settle a payment with a UGC subsidiary.[100]

Targeted Investment Program and Asset Guarantee Program

As of September 30, 2009, Treasury had invested a total of $40 billion of TARP funds in Citigroup and Bank of America through the Targeted Investment Program ("TIP").[101] The stated goal of TIP is to "strengthen the economy and protect American jobs, savings, and retirement security," where "the loss of confidence in a financial institution could result in significant market disruptions that threaten the financial strength of similarly situated financial institutions."[102]

Additionally, should Citigroup's losses rise above $39.5 billion, Treasury is obligated to pay up to $5 billion in protection as part of its Asset Guarantee Program ("AGP") toward additional losses in a $301 billion group of Citigroup's assets. In consideration for this commitment, Treasury received $4.03 billion of preferred

stock.[103] The stated goal of AGP is to use insurance protections to help stabilize at-risk financial institutions. Treasury insures a select pool of troubled assets and collects premiums in return.[104] This program differs from other financial institution support programs in that Treasury does not invest TARP funds in the institution directly; rather, TARP funds are reserved to cover a portion of the possible losses in the selected assets. As of September 30, 2009, no payment had been made to Citigroup for AGP.[105]

Citigroup, Inc.

As of September 30, 2009, Citigroup had received a total of $45 billion in investments and $5 billion in loss protection through three separate TARP programs. Table 2.15 shows the timing of these investments as well as the related dividend payments that Treasury received.

TABLE 2.15

TREASURY'S INVESTMENTS IN CITIGROUP, AS OF 9/30/2009
($ BILLIONS)

Date	Program	Amount Invested/ Committed	Dividends Paid
10/28/2008	CPP	$25.00	$0.93
12/31/2008	TIP	20.00	0.93
1/16/2009	AGP	5.00	0.17
Total		**$50.00**	**$2.04**

Note: Numbers affected by rounding.

Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, response to SIGTARP data call, 10/7/2009.

For more information on the Citigroup exchange offering, see SIGTARP's July Quarterly Report, page 66.

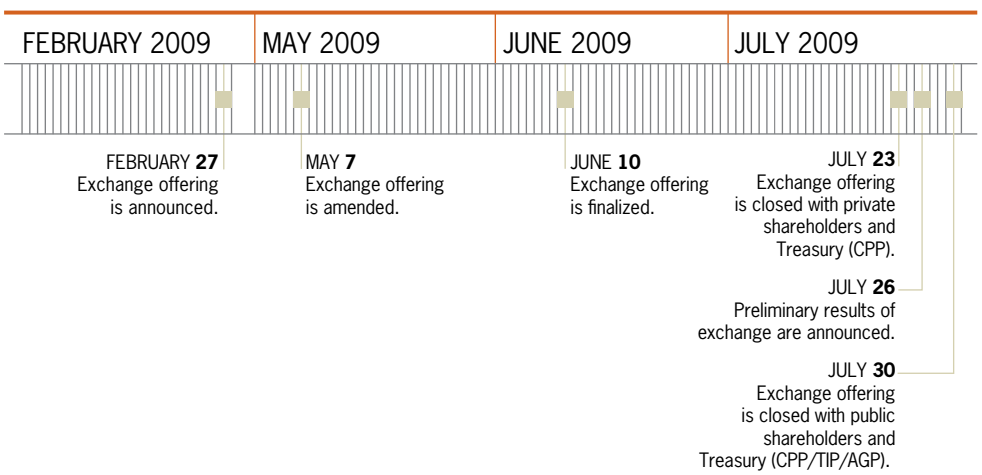
Citigroup Exchange

Treasury has not made any additional TARP investments in Citigroup since January 2009; however the initial investments have been modified through a series of securities exchange offerings. Figure 2.12 presents a timeline of key events.

Through private, public, and Treasury CPP exchanges, Citigroup exchanged a total of approximately $58 billion of preferred and trust preferred securities into common stock. As a result, Treasury now holds 33.6% of Citigroup's outstanding common stock.[106] Additionally, on July 30, 2009, Treasury exchanged its TIP and AGP preferred shares for trust preferred shares. Details of the exchanges for private shareholders, public shareholders, and Treasury can be found in Table 2.16. The impact of the exchange on Citigroup's capital structure can be seen in Table 2.17.

FIGURE 2.12

CITIGROUP EXCHANGE OFFERING TIMELINE



Sources: Announced: Citigroup Inc, 8-K, 2/27/2009, http://www.sec.gov/Archives/edgar/data/831001/000095010309000421/dp12698_8k.htm, accessed 10/7/2009; Amended: Citigroup Inc, 8-K, 5/11/2009, http://www.sec.gov/Archives/edgar/data/831001/000119312509106618/d8k.htm, accessed 10/7/2009; Finalized: Citigroup Inc, 8-K, 6/10/2009, http://www.sec.gov/Archives/edgar/data/831001/000095010309001394/dp13784_8k.htm, accessed 10/7/2009; Closed with private shareholders: Citigroup Inc, 8-K, 7/23/2009, http://www.sec.gov/Archives/edgar/data/831001/000095012309024819/y78424e8vk.htm, accessed 10/7/2009; Preliminary results announced: Citigroup Inc, 8-K, 7/27/2009, http://www.sec.gov/Archives/edgar/data/831001/000119312509155289/d8k.htm, accessed 10/7/2009; Closed with public shareholders: Citigroup Inc, 8-K, 7/30/2009, http://www.sec.gov/Archives/edgar/data/831001/000095012309027722/y78559e8vk.htm, accessed 10/7/2009.

TABLE 2.16

CITIGROUP EXCHANGE OFFERINGS ($ BILLIONS)

	Private Exchange		Public Exchange		Treasury Exchange	
	Pre-Exchange	**Post-Exchange**	**Pre-Exchange**	**Post-Exchange**	**Pre-Exchange**	**Post-Exchange**
Private Shareholders	$12.5 Convertible Preferred Securities	$12.5 Common Stock	—	—	—	—
Public Shareholders	—	—	$20.3 Convertible and Non-convertible Preferred and Trust Preferred Securities	$20.3 Common Stock	—	—
Treasury	$12.5 CPP Non-convertible Preferred Securities	$12.5 Common Stock	$12.5 CPP Preferred Stock	$12.5 Common Stock	$20 Billion TIP Preferred Stock and $5 Billion AGP Preferred Stock	$25 Billion Trust Preferred Securities

Sources: Citigroup, Inc, 10-Q, 8/7/2009, http://www.sec.gov/Archives/edgar/data/831001/000104746909007400/a2193853z10-q.htm, accessed 9/14/2009; Treasury, *Transactions Report*, 10/2/2009.

TABLE 2.17

CITIGROUP'S CAPITAL STRUCTURE ($ BILLIONS)

Equity Type	Pre-Exchange	Post-Exchange
Tier 1 Common Equity ("T1 Common")	$27	$91
Tangible Common Equity ("TCE")	$40	$100

Source: Citigroup, Inc, 10-Q, 8/7/2009, http://www.sec.gov/Archives/edgar/data/831001/000104746909007400/a2193853z10-q.htm, accessed 9/14/2009.

Ring-Fence Update

As of September 30, 2009, the list of Citigroup assets to be included in the AGP ring-fence had not yet been finalized. According to Treasury, the list is expected to be finalized by October 31, 2009.[107]

SIGTARP has announced an audit of AGP as it pertains to Citigroup. The audit will examine the basis for the decision to provide the guarantees, the process of selecting the assets in the ring-fence, the risk management controls in place, and the safeguards available to protect taxpayers' interest.

Use of Funds Report

Under its TIP agreement, based on SIGTARP's recommendations, Citigroup is required to submit a quarterly use of funds report. The report must include the following information:

- how TARP funds were used
- the implementation of internal controls for TARP funds
- compliance or non-compliance with restrictions on use of TARP funds

On August 11, 2009, Citigroup released its "TARP Progress Report for Second Quarter 2009." According to the report, Citigroup's Special TARP Committee approved $6 billion in new initiatives during the second quarter. Of this $6 billion, $4 billion was allocated to support municipal letters of credit, and the remaining $2 billion was allocated to support lending facilities for mortgage originators. As of June 30, 2009, Citigroup had authorized $50.8 billion in initiatives supported by TARP capital.[108]

The report also describes Citigroup's participation in the MHA program, detailing its efforts to modify mortgages and increase mortgage lending. In the second quarter of 2009, Citigroup reported that it worked to avoid foreclosures through various loss mitigation activities on more than $16 billion of mortgages it owns or services and funded approximately $31 billion in new mortgage loans.[109]

For more information on Bank of America's participation in AGP, see SIGTARP's April Quarterly Report, page 76.

Bank of America

As of September 30, 2009, Bank of America had received a total of $45 billion in three separate infusions of TARP funds. Table 2.18 shows the timing of these investments as well as the related dividend payments that Treasury had received.

Bank of America originally sought protection under AGP but, on May 7, 2009, announced that it was no longer seeking such assistance.[110] On September 21, 2009, in exchange for Treasury's previous public commitment to provide additional funds, Bank of America agreed to pay $425 million to the Government.[111] Of this $425 million, $276 million was paid to Treasury, $92 million was paid to FDIC, and $57 million was paid to the Federal Reserve. According to Treasury, the $276 million will be deposited into Treasury's general fund for the reduction of public debt and will not be re-issued by Treasury for TARP.[112]

TABLE 2.18

TREASURY'S INVESTMENTS IN BANK OF AMERICA, AS OF 9/30/2009
($ BILLIONS)

Date	Program	Amount Invested	Dividends Paid
10/28/2008	CPP	$15.00	$0.90
1/9/2009	CPP[a]	10.00	
1/16/2009	TIP	20.00	0.93
Total		**$45.00**	**$1.83**

Notes: Numbers affected by rounding.
[a] Bank of America received $10 billion on 1/9/2009 related to the Merrill Lynch acquisition.

Source: Treasury, *Transactions Report*, 10/2/2009.

Use of Funds Report

Under its TIP agreement, based on SIGTARP's recommendations, Bank of America is required to submit a quarterly use of funds report. The report must include the following information:

- how TARP funds were used
- the implementation of internal controls for TARP funds
- compliance or non-compliance with restrictions on use of TARP funds

According to the second edition of Bank of America's "Quarterly Impact Report," Bank of America lent more than $211 billion during the second quarter, some of which is presumably supported by TARP capital; however Bank of America's report does not provide any details about the amount of lending that has occurred as a result of the increased capital provided by TARP.[113]

ASSET SUPPORT PROGRAMS

Treasury, either on its own or in conjunction with the Federal Reserve, has announced three programs intended to support demand in financial markets for hard-to-value assets and to restart the credit markets by supporting new loans: the Term Asset-Backed Securities Loan Facility ("TALF"), the Public-Private Investment Program ("PPIP"), and the Unlocking Credit for Small Businesses ("UCSB") program.

The Federal Reserve's TALF program has been announced to provide up to $1 trillion in funding to institutions pledging asset-backed securities ("ABS") as collateral. According to Treasury, it will provide up to $80 billion[114] of TARP funds to support this program (Treasury's current TALF commitment is $20 billion, but should TALF lending exceed $200 billion, then Treasury will commit additional TARP funds up to a total of $80 billion). On August 17, 2009, the Federal Reserve and Treasury announced the extension of TALF, beyond the originally contemplated termination date of December 31, 2009, to March 2010 for non-mortgage-backed ABS and legacy commercial mortgage-backed securities ("CMBS"), and June 2010 for newly issued CMBS.[115] Through September 30, 2009, the Federal Reserve had facilitated 11 TALF subscriptions for a total of $51.5 billion in TALF loans: 7 subscriptions related to non-mortgage-backed ABS totaling approximately $47.3 billion in TALF loans, and 4 CMBS subscriptions resulting in $4.2 billion in TALF loans. As of September 30, 2009, $42.7 billion of the $51.5 billion in TALF loans settled remains outstanding.[116] According to the Federal Reserve "the aggregated amount outstanding can vary from the aggregate amount requested or funded at subscription for reasons including prepayments and principal pay downs."[117]

In addition to the expansion of TALF, PPIP, as announced, included two subprograms, the Legacy Loans Program and the Legacy Securities Program. The Legacy Loans Program was intended to utilize equity provided by Treasury and debt guarantees provided by FDIC to facilitate purchases of legacy mortgage loans held by banks. On July 31, 2009, FDIC launched a pilot sale of assets as a proposed funding mechanism for the Legacy Loans Program. No TARP funds were used in the sale.[118] The Legacy Securities Program, on the other hand, utilizes equity provided by Treasury and debt potentially provided by Treasury, through TARP, and/or the Federal Reserve, through TALF, to facilitate purchases of legacy mortgage-backed securities ("MBS") held by various financial institutions.

Through the UCSB program, Treasury announced plans to purchase up to $15 billion in securities backed by Small Business Administration ("SBA")-guaranteed loans.

Commercial Mortgage-Backed Securities ("CMBS"): A financial instrument that is backed by a commercial real estate mortgage or a group of commercial real estate mortgages that are packaged together.

Legacy CMBS: CMBS issued before January 1, 2009.

Term Asset-Backed Securities Loan Facility

In November 2008, the Federal Reserve and Treasury announced TALF, under which FRBNY would issue up to $200 billion in loans to make credit available to consumers and small businesses; up to $20 billion in TARP funds would be used to purchase surrendered collateral of TALF loans.[119] Subsequently, in February 2009, Treasury and the Federal Reserve announced that they were prepared to expand TALF to up to $1 trillion, which, according to Treasury, would include up to $80 billion of TARP funds.[120] TALF has been divided into two parts:

- **lending program:** originates loans to eligible borrowers
- **asset disposition facility ("TALF LLC"):** a special purpose vehicle ("SPV") used by FRBNY to purchase and manage any collateral surrendered by borrowers from the TALF lending program

FRBNY manages both the lending program and TALF LLC. The funding for the lending program comes in the form of non-recourse loans issued by FRBNY. According to Treasury, the funding for TALF LLC will first come from a portion of interest payments made by borrowers from the lending program, then from Treasury's use of up to $20 billion in TARP funds (should TALF lending exceed $200 billion then Treasury will commit additional TARP funds up to a total of $80 billion) to purchase subordinated debt from TALF LLC, and finally, from FRBNY. Because TALF loans are non-recourse, TALF borrowers may, at any time, walk away from their loans, surrendering their collateral to FRBNY, which would sell it to TALF LLC. That is, upon surrender, the TALF borrower would owe no more on their TALF loan, and TALF LLC would recover only whatever the collateral is worth. As of September 30, 2009, the Federal Reserve had not announced the surrender of any collateral to TALF LLC.

For more information on the mechanics of TALF, see SIGTARP's April Quarterly Report, page 96 and SIGTARP's July Quarterly Report, page 73.

Non-Recourse Loan: A secured loan whereby the borrower is relieved of the obligation to repay the loan upon the surrender of the collateral.

Program Developments

Subsequent to SIGTARP's July Quarterly Report, a number of TALF program updates have been announced that, according to the Federal Reserve, promote the flow of credit to businesses and households, and facilitate the financing of some commercial properties.[121] The following program-related developments occurred and are discussed in greater detail in this section:

- The TALF deadline was extended, based on the type of collateral provided, to March 2010 (for newly issued ABS and legacy CMBS) and June 2010 (for newly issued CMBS).

- Updates to legacy CMBS eligibility guidance were introduced.
- Additional guidance was issued on eligible non-mortgage-backed ABS collateral.
- Two changes were made to the procedures for evaluating non-mortgage-backed ABS collateral: a proposed rule related to eligible nationally recognized statistical rating organizations ("NRSROs") and the implementation of a formal risk assessment for proposed collateral.
- An additional collateral monitor that will be responsible for assessing the entire TALF portfolio was announced (Pacific Investment Management Company LLC ("PIMCO")).
- Three listings of accepted and rejected CUSIPs for legacy CMBS have been released.
- TALF dealers were re-designated as TALF Agents, and four non-primary dealers were added to the list of eligible agents.
- Six additional TALF subscriptions (for a total of 11 since the inception of the program) were conducted by FRBNY.
- Program mechanics concerning TALF interaction with PPIP were updated, effectively limiting the amount of TALF debt that PPIP funds are eligible to receive.

CUSIP: Unique identifying number assigned to all registered securities (similar to a social security number).

TALF Deadline Extension

On August 17, 2009, the Federal Reserve and Treasury announced the extension of TALF beyond the originally contemplated termination date of December 31, 2009. For TALF loans collateralized by newly issued ABS and legacy CMBS, availability has been extended by FRBNY through March 2010 due to the continuing impairment of the markets. Additionally, TALF loans collateralized by newly issued CMBS will be made by FRBNY through June 2010 in order to provide the market enough time to arrange newly issued CMBS transactions.[122]

New Eligibility Rules for Commercial Mortgage-Backed Securities

As discussed in SIGTARP's July Quarterly Report, TALF collateral includes newly issued and legacy CMBS. For purposes of TALF, eligible CMBS collateral has been divided into two classes: newly issued (after January 1, 2009), and legacy CMBS (issued before January 1, 2009). According to the Federal Reserve, "the inclusion of CMBS as eligible collateral for TALF loans will help prevent defaults on economically viable commercial properties, increase the capacity of current holders of maturing mortgages to make additional loans, and facilitate the sale of distressed properties."[123]

CMBS Criteria as of SIGTARP's July Quarterly Report

In May 2009, the Federal Reserve announced the inclusion of newly issued and legacy CMBS as eligible collateral for TALF loans. The Federal Reserve issued the

initial eligibility requirements for both newly issued and legacy CMBS; they include the following:[124]

- Eligible CMBS must evidence an interest in a trust fund consisting of fully funded mortgage loans and not other CMBS, other securities, interest rate swap or cap instruments, or other hedging instruments.
- Eligible CMBS must have a credit rating in the highest long-term investment-grade rating category from at least two TALF CMBS-eligible rating agencies and must not have a credit rating below the highest investment-grade rating category from any TALF CMBS-eligible rating agency.
- Eligible CMBS must entitle its holders to payments of principal and interest.
- Eligible CMBS must not be issued by an agency or instrumentality of the United States or a Government-sponsored enterprise.
- Eligible CMBS must include a mortgage or similar instrument on a fee or leasehold interest in one or more income-generating commercial properties.

For more information on the differences in eligibility criteria for newly issued and legacy CMBS, see SIGTARP's July Quarterly Report, page 76.

Updated CMBS Criteria as of September 30, 2009

In August 2009, FRBNY updated the eligibility requirements regarding CMBS. FRBNY stated that it will not fund a TALF loan if, during the risk assessment period, it finds that the potential borrower has a direct or indirect economic interest in the loans supporting the ABS collateral, or products or services relating to such collateral.[125] Such a conflict of interest would make the application ineligible for a TALF loan.

Additional Guidance on Eligibility of Existing ABS Collateral

Subsequent to SIGTARP's July Quarterly Report, FRBNY issued additional guidance related to specific loan classes for non-mortgage-backed securities. In particular, it will allow borrowers to pledge more than one security as collateral for a single loan in the case of Small Business Administration ("SBA") 7(a) Pool Certificates ("pool certificates").[126] SBA 7(a) loans, which collateralize the pool certificates, are those made by participating lenders in the 7(a) program in which the Government guarantees a percentage of loans for small businesses that cannot otherwise obtain conventional loans at reasonable terms.

In the revised guidance, each certificate must have a similar weighted average life so that together they fall under the same haircut percentage. For example, if two SBA 7(a) pool certificates have weighted average lives of two and four years, respectively, they are eligible to be pledged together with a haircut percentage of 5%. Should the weighted average life of two SBA 7(a) pool certificates be two and

Small Business Administration ("SBA") 7(a) Pool Certificates ("pool certificates"): 7(a) loans grouped together to form one security eligible as collateral against a TALF loan.

Weighted Average Life: The average number of years for which each dollar of unpaid principal on a mortgage or loan remains outstanding.

TABLE 2.19

SBA HAIRCUT PERCENTAGES

Average Life (years)						
0 - < 1	1 - < 2	2 - < 3	3 - < 4	4 - < 5	5 - < 6	6 - < 7
5%	5%	5%	5%	5%	6%	6%

Source: FRBNY, "Term Asset-Backed Securities Loan Facility: FAQs," 9/1/2009, http://www.newyorkfed.org/markets/talf_faq.html, accessed 9/14/2009.

six years, however, they do not share the same haircut percentage and therefore are not eligible to be pledged together as collateral for a single TALF loan.[127] See Table 2.19 for details on the relationship between average life of SBA pool certificates and their respective TALF haircuts.

Floorplan: Revolving lines of credit used to finance inventories of items.

Additionally, the Federal Reserve clarified what sorts of receivables were eligible in auto and non-auto floorplan ABS. Floorplan loans will include revolving lines of credit to finance dealer inventories of certain items. Table 2.20 shows a breakdown of what type of inventories are eligible under auto and non-auto floorplans.

Changes to Procedures for Evaluating Non-Mortgage-Backed ABS Collateral

Subsequent to SIGTARP's July Quarterly Report, FRBNY announced two potential changes to its evaluation procedures for securities pledged as TALF collateral.[128] The first is a new proposed rule that would provide a process by which FRBNY may determine the eligibility of credit rating agencies and their ratings for use in TALF.[129] This new rule would apply to non-mortgage-backed ABS and would likely increase the number of TALF-eligible NRSROs. According to the Federal Reserve, the new rule "is intended to promote competition among NRSROs and ensure appropriate protection against credit risk for the U.S. taxpayer."[130]

TABLE 2.20

FLOORPLAN ELIGIBILITY

Inventory Category	Auto	Non-Auto
Cars	X	
Light Trucks	X	
Motorcycles	X	X
Boats/Sports Vehicles		X
Appliances/Electronics		X
Construction/Manufacturing Equipment		X

Notes: Up to 5% of the receivables of an auto or non-auto ABS may be any type of floorplan receivable. Up to 5% of the receivables of a non-auto ABS may be receivables arising under asset-based lending facilities or loans secured by accounts receivable.

Sources: FRBNY, "Term Asset-Backed Securities Loan Facility: FAQs," 9/1/2009, http://www.newyorkfed.org/markets/talf_faq.html, accessed 9/1/2009; Federal Reserve, response to SIGTARP draft report, 10/8/2009.

The second change to FRBNY's collateral-evaluation procedures is the implementation of a formal risk assessment process for all non-mortgage-backed securities pledged as collateral for a TALF loan beginning with the November subscription date. This practice is similar to the existing risk assessment process for CMBS collateral. The formal process gives FRBNY the right to reject any ABS as collateral based on this risk assessment. According to the Federal Reserve, the change will enhance its "ability to ensure that TALF collateral complies with its existing high standards for credit quality, transparency, and simplicity of structure."[131]

Proposed Rule for Evaluating NRSROs

The Federal Reserve proposed a new rule governing FRBNY's acceptance of credit ratings for non-mortgage-backed ABS proposed as TALF collateral. The rule is currently open for public comment until early November 2009. The new rule would require FRBNY to accept only credit ratings issued by a credit rating agency that is registered with the Securities and Exchange Commission ("SEC") as an NRSRO for issuers of ABS that meet certain experience-based criteria and other requirements. Currently there are only three NRSROs that can rate all proposed TALF collateral, and five that can rate CMBS collateral. According to the Federal Reserve, limiting acceptable ratings to certain NRSROs would provide risk mitigation due to the higher standards such rating agencies must meet — such as "disclosure provisions and conflict of interest prohibitions that are prudent and relevant to the evaluation of credit ratings agencies with respect to TALF."[132] For more information on the NRSRO designation and SEC regulations on NRSROs established by the Credit Rating Agency Reform Act of 2006 ("CRARA"), see Section 3: "The Impact of Credit Rating Agencies on TARP and Beyond" of this report.

Under the rule, FRBNY would review and accept a particular NRSRO and its credit ratings on proposed ABS collateral by using certain experience-based criteria. The proposed rule would require that, in order for an NRSRO to be accepted by TALF as a rating agency for securities based on a particular asset category, the NRSRO must have issued ratings on at least 10 transactions in that specific asset category within a three-year period. FRBNY divides the assets underlying the non-mortgage-backed ABS into four categories:[133]

- **Category 1:** auto loans, floorplan loans, and equipment loans
- **Category 2:** credit card receivables and insurance premium finance loans
- **Category 3:** mortgage servicing advance receivables
- **Category 4:** student loans

TALF's current evaluation process for CMBS collateral, including its credit rating requirement, will remain unchanged and is outlined in SIGTARP's July Quarterly Report, page 76.

Risk Assessment

FRBNY announced the addition of a formal risk assessment process for non-mortgage-backed ABS pledged as collateral for a TALF loan. The TALF evaluation process for CMBS collateral already includes a risk assessment process that determines whether potential collateral meets certain criteria. For example, the securities must meet FRBNY's TALF terms and conditions. In addition, the securities must satisfy the following general standards for TALF collateral:[134]

- **Credit Quality:** The ABS has the highest credit rating quality with minimal risk of default and low probability of deterioration in credit quality.
- **Transparency:** Sufficient information is available for investors to make informed decisions about the collateral's credit risk and the due diligence on the collateral completed by the issuer of the ABS.
- **Simplicity of Structure:** Relationships between performance of the collateral of the ABS and the payments of the ABS are clear and uncomplicated.

In order for FRBNY and the appropriate collateral monitor to have sufficient time to conduct the risk assessment, issuers of the proposed TALF-eligible ABS must provide to FRBNY all data on the ABS and its underlying collateral that it provided to any NRSRO when the ABS was rated. The information must be provided at least three weeks in advance of the applicable TALF subscription date. The issuer must also provide a written waiver to all NRSROs with which it has shared data regarding the proposed ABS. The written waiver permits the NRSRO to share its view of the securities' credit quality with FRBNY. FRBNY will communicate the status of the risk assessment process, at a minimum, within two weeks of receipt of the required information.[135]

Additionally, FRBNY will be performing this risk assessment process on non-mortgage-backed ABS that have previously been accepted as TALF-eligible collateral. Issuers will not be required to provide information on the ABS as is required for newly proposed ABS. According to FRBNY, the results of this risk assessment process will not impact the eligibility of the previously accepted non-mortgage-backed ABS as long as the ABS continue to meet the collateral eligibility requirements.[136] Collateral eligibility requirements for TALF collateral are outlined in SIGTARP's April Quarterly Report, page 96.

Role of the Collateral Monitors

As discussed in SIGTARP's July Quarterly Report, the Federal Reserve had retained the services of a collateral monitor, Trepp LLC, to evaluate TALF-eligible CMBS to ensure that specific risks to the Federal Reserve and Treasury are mitigated. On

August 4, 2009, FRBNY announced the hiring of PIMCO as an additional collateral monitor. According to FRBNY, both collateral monitors "will assist the New York Fed by providing valuation, modeling, analytics and reporting, as well as advising on these matters."[137]

According to FRBNY, Trepp LLC will only be responsible for monitoring the CMBS collateral, while PIMCO will focus on the entire TALF portfolio (both mortgage-backed and non-mortgage-backed securities). With input from the collateral monitors on the valuations and analytics, FRBNY will make decisions regarding the eligibility of collateral — subsequently accepting or rejecting it for a TALF loan. After each subscription date, a listing of all CUSIPs for accepted and rejected collateral is then posted by FRBNY on its website.[138] According to FRBNY, "the collateral monitors will not establish policies or make decisions for FRBNY, including decisions whether to reject a CMBS as collateral for a TALF loan or exclude loans from mortgage pools."[139]

For more information on collateral monitoring, see SIGTARP's July Quarterly Report, page 80.

Other Roles of PIMCO in TARP and the CMBS Market

As discussed in SIGTARP's July Quarterly Report, PIMCO has held different roles in several programs. These roles include:

- Asset Manager for FRBNY's Agency MBS Purchase Program (left program as of 8/17/2009)
- Asset Manager for FRBNY's Commercial Paper Funding Facility
- TALF Collateral Monitor

In addition to being selected as a collateral monitor for the entire TALF portfolio, PIMCO plays a significant role in the MBS marketplace, which includes CMBS. MBS make up 61% of PIMCO's $161 billion Total Return Fund, or approximately $98 billion of that portfolio.[140] PIMCO also manages approximately $983 million of assets in its Mortgage-Backed Securities Fund.[141]

Under PIMCO's TALF Collateral Monitor Agreement with FRBNY, certain PIMCO employees and independent contractors engaged by PIMCO are required to follow outlined procedures in order to establish an ethical wall to "protect the confidentiality" of the TALF collateral-related information and "mitigate any conflicts of interest by implementing measures designed to restrict access to such information."[142] The community of PIMCO employees and PIMCO-employed independent contractors engaged by PIMCO and working on the TALF contract are considered "Restricted Persons." Any employee or contractor who has a

"substantive role" in developing and providing guidance to FRBNY is considered a "Special Restricted Person."[143] PIMCO's conflict wall provisions include, but are not limited to, the following:[144]

- **Identification of Restricted Persons:** Restricted Persons shall be identified and listed — with all pertinent information — with the compliance department, subject to approval by FRBNY.
- **Physical Separation of Restricted Persons:** Restricted Persons will all work in an environment physically segregated from the general trading, brokerage, and sales activities of PIMCO that may conflict with FRBNY and TALF. This separate location must be secure and limited to Restricted Persons and FRBNY.
- **Special Restricted Persons:** Special Restricted Persons shall be prohibited from trading or valuing restricted ABS on behalf of anyone other than FRBNY.
- **Personal Trading of Restricted Persons:** PIMCO's code of ethics applies to all employees. Each Restricted Person may not purchase or sell any stock or debt securities of ABS, a bank or BHC, and any financial institution that is a recipient of TARP or any U.S. Government economic stabilization program.
- **Compliance Training and Monitoring:** All Restricted Persons must complete compliance training specifically designed for the TALF program. Additionally, PIMCO will hire staff on a full-time basis to provide ongoing monitoring of its compliance policies and procedures and to assess its compliance program on an annual basis.
- **Incident Reporting:** Employees and Restricted Persons of PIMCO will be required to immediately report any violation or suspected violation of the conflict wall provisions to the compliance department for review. Additionally, PIMCO will report the occurrence of any risk event to FRBNY.

Additionally, FRBNY has the right to monitor PIMCO at any time during the term of their agreement. This includes, but is not limited to, inspections of records in PIMCO's possession, an audit of PIMCO's performance, and access to PIMCO property. PIMCO shall provide internal reporting to FRBNY of internal audit reviews, Sarbanes-Oxley certifications, and other types of reviews and audits.[145]

CMBS Acceptances and Rejections

Each security potentially pledged as collateral for a TALF loan can be identified by its unique CUSIP number. As of September 30, 2009, FRBNY posts those CMBS CUSIPs accepted as collateral, but only lists those CMBS CUSIPs that have been rejected for reasons relating to the security itself. According to FRBNY, "rejections due to the failure to properly complete a TALF loan request form, the failure to provide a sales confirmation that meets the requirements of the [Master Loan and Security Agreement], borrower ineligibility, or the FRBNY's assessment of the

reasonableness of the secondary market transaction price are not published."[146] FRBNY is currently considering whether it will publish accepted and rejected CUSIPs for the non-mortgage-backed ABS.[147] As of September 30, 2009, FRBNY had accepted 177 legacy CMBS CUSIPs and rejected 4 legacy CMBS CUSIPs. According to FRBNY, it reserves the right to reject any CMBS as collateral based on the terms and conditions of the TALF program.[148]

According to FRBNY, the rejection of four CMBS was based on either a failure to meet the terms and conditions of the TALF program or the inability of the CMBS to pass a risk assessment requiring that the valuation of the proposed collateral perform to certain standards using adverse economic assumptions. This risk assessment assists FRBNY in the determination of whether the total amount of money lent to the borrower would exceed the total value of the CMBS should the market deteriorate.[149]

TALF Agents

TALF borrowers must work through an agent dealer in interactions with FRBNY in order to participate in TALF. Originally, only primary dealers were eligible to serve in this agent role. On September 1, 2009, however, FRBNY announced that four non-primary dealers would also be allowed to function as TALF Agents. This is a designation that FRBNY now uses to describe both primary and non-primary dealers that play the role of representing borrowers participating in TALF. FRBNY President William C. Dudley stated that "establishing a wider network of TALF Agents as a distribution mechanism for TALF financing is an important step that should enable a broader range of investors to access the facility, leading up to a further improvement in the securitization market."[150]

Under the FRBNY Terms and Conditions, the TALF Agents' primary role is to act as an agent on behalf of a TALF borrower, which is no different from the role of a primary dealer. The TALF Agents' duties include collecting information related to the borrower's loan requests such as the amount, CUSIPs, and related prospectus documentation. The TALF Agent will also submit the requested loan amount with a package containing all information relative to the ABS collateral.[151] According to FRBNY, a TALF Agent is required to apply its internal customer identification program and due diligence procedures ("Know Your Customer" program) to each borrower and represent that each borrower is eligible. A TALF Agent is required to provide FRBNY with information sufficient to describe the Agent's customer risk assessment methodology prior to participation in the program.[152]

TALF Loan Activity

As of September 30, 2009, FRBNY had conducted 11 subscriptions for TALF: 7 related to non-mortgage backed ABS and 4 related to CMBS. The 11 TALF subscriptions have resulted in $51.5 billion in TALF loans made to 160 TALF borrowers,

Primary Dealer: Banks and securities broker-dealers that trade in U.S. Government securities with FRBNY for the purpose of carrying out open market operations.

Non-Primary Dealer: Banks and securities broker-dealers that are not approved by FRBNY to trade in U.S. Government securities.

TALF Agent: Financial institution that is a party to the Master Loan and Security Agreement and from time to time acts as an agent to the borrower. TALF Agents include primary and non-primary broker-dealers.

Primary Dealer List:
BNP Paribas Securities Corp
Banc of America Securities LLC
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Securities America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
RBC Capital Markets Corporation
RBS Securities Inc.
UBS Securities LLC

TALF-Eligible Non-Primary Dealer List:
CastleOak Securities, LP
Loop Capital Markets, LLC
Wells Fargo Securities, LLC
The Williams Capital Group, LP

of which 132 pledged non-mortgage-backed ABS collateral and 57 pledged CMBS collateral.[153] Of the $51.5 billion in TALF loans settled, there are currently $42.7 billion of TALF loans outstanding.[154] According to the Federal Reserve "the aggregated amount outstanding can vary from the aggregate amount requested or funded at subscription for reasons including prepayments and principal pay downs."[155] As of September 30, 2009, the subscriptions for newly issued CMBS had not resulted in any loan activity.

Subscriptions Using Non-Mortgage-Backed Collateral

As of September 30, 2009, FRBNY had facilitated seven TALF non-mortgage-backed ABS subscriptions, totaling approximately $47.3 billion in TALF loans. Table 2.21 includes all non-mortgage-backed ABS subscriptions since the inception of TALF.

Subscriptions Using Commercial Mortgage-Backed Collateral

As of September 30, 2009, FRBNY had facilitated four TALF CMBS subscriptions totaling approximately $4.2 billion in TALF loans. One subscription allowed the posting of newly issued CMBS as collateral, while the other three subscriptions

TABLE 2.21

TALF LOANS ORIGINATED BY ABS SECTOR (NON-MORTGAGE-BACKED COLLATERAL) ($ BILLIONS)

ABS Sector	March 2009	April 2009	May 2009	June 2009	July 2009	August 2009	September 2009	Total
Auto Loans	$1.9	$0.8	$2.2	$3.3	$2.8	$0.6	$1.2	$12.7
Student Loans	—	—	2.4	0.2	1.0	2.5	0.2	6.2
Credit Card Receivables	2.8	0.9	5.5	6.2	1.5	2.6	4.4	23.9
Equipment Loans	—	—	0.5	0.6	—	—	0.1	1.2
Floorplan Loans	—	—	—	—	—	1.0	—	1.0
Small-Business Loans	—	—	0.1	0.1	0.1	0.2	0.2	0.6
Servicing Advance Receivables	—	—	—	0.5	0.0[a]	0.1	—	0.6
Premium Finance	—	—	—	0.5	—	—	0.5	1.1
Total	**$4.7**	**$1.7**	**$10.6**	**$11.5**	**$5.4**	**$6.9**	**$6.5**	**$47.3**

Notes: Numbers affected by rounding. Data as of 9/30/2009. As of 9/30/2009, $38.6 billion in TALF loans collateralized by non-mortgage-backed ABS were outstanding. The 10/2/2009 subscription was for approximately $2.5 billion in TALF loans.
[a] The July 2009 servicing receivables TALF subscription was for approximately $34 million. For purposes of this table it rounds to $0.0 billion.

Sources: FRBNY, "TALF non-CMBS Operations," no date, http://www.newyorkfed.org/markets/talf_operations.html, accessed 9/24/2009; Federal Reserve, response to SIGTARP draft, 10/8/2009.

allowed both newly issued and legacy CMBS. The four newly issued CMBS subscriptions have not yet resulted in any TALF loan activity. For a summary of TALF CMBS loans by date and collateral asset category, see Table 2.22.

TABLE 2.22

TALF LOANS ORIGINATED (CMBS COLLATERAL) ($ BILLIONS)

Type of Collateral Assets	May 2009	July 2009	August 2009	September 2009	Total
Newly Issued CMBS	$—	$—	$—	$—	$—
Legacy CMBS	—	0.7	2.2	1.4	4.2
Total	**$—**	**$0.7**	**$2.2**	**$1.4**	**$4.2**

Notes: Numbers affected by rounding. Data as of 9/30/2009. Of the $4.2 billion in TALF loans collateralized by CMBS, $4.1 billion were outstanding.

Sources: FRBNY, "TALF non-CMBS Operations," no date, http://www.newyorkfed.org/markets/talf_operations.html, accessed 9/24/2009; Federal Reserve, response to SIGTARP draft, 10/8/2009.

Updated Program Mechanics Related to the Public-Private Investment Program

As reported in SIGTARP's July Quarterly Report, following a SIGTARP recommendation, OFS had stated that, "haircuts will be increased so that the combination of Treasury- and TALF-supplied debt will not exceed the total amount of TALF debt that would be available leveraging the PPIF equity alone."[156] On August 18, 2009, FRBNY announced that a Public-Private Investment Fund ("PPIF") will be eligible to borrow from TALF if it has received Treasury debt financing equal to or less than 50% of the PPIF's total equity (including private and Treasury-supplied equity). In addition, the PPIF will be required to satisfy all TALF borrower eligibility requirements.[157] In order to make sure that the combination of Treasury- and TALF-supplied debt does not exceed the total amount of debt leveraging that could be achieved with only the PPIF equity, TALF haircuts for PPIFs will be adjusted 50% higher than they are for other borrowers.[158]

PPIF Managers:

- AllianceBernstein, L.P. and its sub-advisors Greenfield Partners, LLC, and Rialto Capital Management, LLC*
- Angelo, Gordon & Co. and GE Capital Real Estate
- BlackRock, Inc.*
- Invesco Ltd.*
- Marathon Asset Management, L.P.
- Oaktree Capital Management, L.P.
- RLJ Western Asset Management, L.P.
- The TCW Group, Inc.*
- Wellington Management Company, LLP*

**Have signed final PPIP agreements as of the drafting of this report*

Purchasing Power: The total amount of goods or services that can be purchased by a unit of currency. For the purpose of PPIP, purchasing power refers to the combined buying power of the PPIFs' private capital, Treasury equity, and Treasury debt.

Receivership Assets: When an FDIC-insured institution fails, FDIC is ordinarily appointed as receiver. In that capacity, it assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets and the pursuit of the receivership's claims. Funds collected from the sale of assets and the disposition of valid claims are distributed to the receivership's creditors in accordance with the priorities set by law. For more information on bankruptcy procedures, see SIGTARP's July Quarterly Report, "TARP Tutorial: Bankruptcy," page 97.

Public-Private Investment Program

On March 23, 2009, Treasury, along with FDIC and the Federal Reserve, announced the Public-Private Investment Program ("PPIP"), intended to "repair the balance sheet of financial institutions and ensure that credit is available for households and businesses."[159] PPIP is designed to purchase legacy assets from institutions through various Public-Private Investment Funds ("PPIFs"), which are capitalized with private investment, public investment, and advantageous non-recourse debt financing. As of September 30, 2009, Treasury had committed $30 billion of equity and debt financing to PPIP.[160] As of October 6, 2009, five PPIF managers, Invesco Ltd. ("Invesco"); The TCW Group, Inc. ("TCW"); AllianceBernstein, L.P. and its sub-advisors Greenfield Partners, LLC and Rialto Capital Management, LLC ("AllianceBernstein"); BlackRock, Inc. ("BlackRock"); and Wellington Management Company, LLP ("Wellington"), signed final PPIP agreements, each having raised at least $500 million in committed equity capital from private investors. The remaining four PPIFs are still in the capital-raising portion of the process.[161]According to Treasury, PPIP, as originally envisioned, could generate $500 billion to $1 trillion in legacy-asset purchasing power through three programs:[162]

- **Legacy Loans Program:** PPIFs purchase legacy loans with TARP funds, private equity capital, and FDIC-guaranteed debt.
- **Legacy Securities Program:** PPIFs purchase legacy securities using TARP funds and private investment capital combined with TARP-issued debt.
- **Expanded TALF:** The Federal Reserve expanded the eligible asset classes for TALF to include legacy CMBS.

Legacy Loans Program

As announced, the Legacy Loans Program was designed to purchase legacy loans — hard-to-value real estate-related loans — from financial institutions. In the Legacy Loans Program as originally announced, Treasury would form PPIFs with private investors and would match the private investment dollar-for-dollar (*i.e.*, for every $1 invested by the private investor, Treasury would invest $1). FDIC would provide a debt guarantee of either a 4-to-1 or 6-to-1 leverage ratio (*i.e.*, debt-to-equity ratio) on the pool of loans.[163] The permissible amount of leverage would be predetermined by FDIC after an independent, third-party analysis of the loans.

On July 31, 2009, FDIC launched the pilot sale of receivership assets, which did not use any TARP funds.[164] Under the proposed funding mechanism, FDIC transferred a portfolio of residential mortgage loans it had seized through bank failures to a newly created limited liability company (the "LLC") in exchange for a partial ownership interest in the LLC. FDIC then conducted a sale of an equity stake in the LLC.[165]

On September 16, 2009, FDIC announced that Residential Credit Solutions, Inc. ("RCS") was the winning bidder in the pilot sale. RCS paid $64 million for a 50% equity stake in the LLC (FDIC will maintain 50% ownership in the LLC). The LLC then borrowed $728 million from FDIC which received a note.[166] FDIC guaranteed the note and plans to sell it at a later date. FDIC plans to analyze the results of this test sale to determine whether this mechanism can be used to remove troubled assets from the balance sheets of operational banks.[167] As more information on the Legacy Loans Program becomes available, SIGTARP will provide updates through its future quarterly reports to Congress.

Note: A short-term debt security, usually with a maturity of less than five years.

Legacy Securities Program

According to Treasury, "the goal of the Legacy Securities Program is to restart the market for legacy securities, allowing banks and other financial institutions to free up capital and stimulate the extension of new credit."[168] For the purposes of PPIP, legacy securities are ABS supported by real estate-related loans issued before January 1, 2009, and originally rated AAA (or an equivalent rating) by two or more NRSROs.[169] Private investors and Treasury will co-invest in PPIFs to purchase these assets from financial institutions. Furthermore, Treasury will offer debt financing to the PPIF equal to or double the total private equity investment. Treasury, the PPIF manager (which is required to invest at least $20 million of its own money in the PPIF), and the private investors will share in PPIF profits on a *pro rata* basis. PPIF losses will be shared on a *pro rata* basis up to each participant's investment amount. As of September 30, 2009, there were no asset purchases.

For information on the Legacy Securities Program process, refer to SIGTARP's July Quarterly Report, page 86.

Pro Rata: Refers to dividing something among a group according to the proportionate share that each participant holds as a part of the whole.

Legacy Securities Program Updates

On July 8, 2009, Treasury announced the selection of nine pre-qualified PPIF managers. Though Treasury did not approve any specific arrangements, it encouraged these PPIF managers to establish partnerships with small- , veteran- , minority- , and women-owned businesses that would provide a variety of services to PPIFs.[170] The maximum matching by Treasury is $1.1 billion in equity and $2.2 billion in debt for each PPIF. As illustrated in Table 2.23, if all PPIF managers raise the maximum matched private capital, the program would create approximately $40 billion in purchasing power for legacy securities.

As of September 30, 2009, two PPIF managers had signed final PPIP agreements. Subsequently, on October 5, 2009, three other PPIF managers executed their final PPIP agreements. These legal agreements define the terms and scope of the limited partnership, the PPIF's financing options, investment restrictions, reporting requirements, solvency testing, and compliance rules. All five PPIF managers have each raised a minimum of $500 million in private-sector equity capital. Treasury anticipates that the remaining fund managers will each raise a minimum of $500 million in private-sector capital and sign final agreements in October 2009.

For information on the manager selection process for PPIP, refer to SIGTARP's July Quarterly Report, page 87.

TABLE 2.23

PPIP PURCHASING POWER ($ BILLIONS)

Capital Source	Individual PPIF	Total Program
Private Investor Equity and PPIF Manager Equity	$1.11	$10
Treasury Matching Equity	1.11	10
Treasury Debt	2.22	20
Total	**$4.44**	**$40**

Notes: Numbers affected by rounding. Funds illustrate the maximum equity matching and debt issuance by Treasury under PPIP.

Source: Treasury Press Release, "Treasury Department Announces Additional Initial Closings of Legacy Securities Public-Private Investment Funds," 10/6/2009, http://www.financialstability.gov/latest/tg_10052009.html, accessed 10/6/2009.

Derivative: A financial instrument whose value is based on ("derived from") a different underlying asset, indicator, or financial instrument.

Credit Default Swap ("CDS"): A contract where the seller receives a series of payments from the buyer in return for agreeing to make a payment to the buyer when a particular credit event outlined in the contract occurs (for example, if the credit rating on a particular bond or loan is downgraded or goes into default). It is commonly referred to as an insurance-like product where the seller is providing the buyer insurance-like protection against the failure of a bond. The buyer, however, does not need to own the asset covered by the contract, which means it can serve essentially as a "bet" against the underlying bond.

Capital Call Notice: A capital call, or draw down, is an investment firm's legal right to demand a portion of the money promised to it by an investor.

In the final agreements, Treasury added three important provisions to the original term sheets including reporting of trades in derivatives, adopting a luxury-expense policy, and providing quarterly compliance certifications. First, Treasury, pursuant to SIGTARP's recommendations, is requiring PPIF managers to disclose (to both Treasury and SIGTARP) any trades in derivative instruments in the manager's or the manager's affiliates' non-PPIF funds where the value is connected to a PPIP-eligible asset held in the PPIF.[171] This is in addition to the requirement in the original term sheet that all PPIF managers report any trades in eligible assets in the manager's PPIF and non-PPIF funds. This is potentially a significant provision because there are many asset types or liability exposures, such as credit default swaps ("CDS"), that could be held in a manager's non-PPIF fund and the value of which is predictably tied to eligible assets. Second, Treasury is requiring all PPIF managers to adopt a luxury expense policy within 90 days of signing the final agreement and to post the policy on the PPIF managers' websites.[172] Finally, Treasury is requiring fund managers to certify on a quarterly basis that they have materially complied with PPIF Compliance Rules that are part of the final agreement.

Despite the addition of these important provisions to the final agreements and despite SIGTARP's ongoing recommendation, Treasury did not impose strict information barriers, or "walls," between the PPIF managers making investment decisions on behalf of the PPIF and those employees of the fund manager who manage non-PPIF funds.

Although Treasury commits to match capital raised by the PPIF managers ranging from $500 million to $1.1 billion in equity, Treasury does not fund the PPIF immediately upon signing the final agreements with each fund manager.[173] Treasury will instead fund the equity capital a minimum of 10 calendar days after receipt of a capital call notice from the PPIF to its private investors and Treasury, requesting the physical transference of capital to the PPIF account. On the tenth day, if Treasury verifies that the private investor money has come into the PPIF, Treasury will disburse its matching equity funds to the PPIF.[174]

As of October 6, 2009, PPIF managers Invesco, TCW, AllianceBernstein, BlackRock, and Wellington had collectively raised $3.07 billion of private-sector capital commitments, which Treasury matched dollar-for-dollar, for a total program equity capital commitment of $6.14 billion.[175] In addition, Treasury announced it will provide debt financing of 100% of the total capital commitments for the PPIFs, bringing the total capitalization of the program to approximately $12.27 billion — of which Treasury is providing 75% ($9.20 billion).[176] Table 2.24 provides a breakdown of the available PPIP debt and equity.

TABLE 2.24

PPIP FUNDS RAISED ($ BILLIONS)

Funding Source	Total
Private Investor Equity and PPIF Manager Equity	$3.07
Treasury Matching Equity	3.07
Treasury Debt	6.13
Total	**$12.27**

Notes: Numbers affected by rounding. Data as of 10/6/2009.

Source: Treasury Press Release, "Treasury Department Announces Additional Initial Closing of Legacy Securities Public-Private Investment Funds," 10/6/2009, http://www.financialstability.gov/latest/tg_10052009.html, accessed 10/8/2009.

Legacy Securities Contractors

PricewaterhouseCoopers ("PWC") and Bank of New York Mellon are assisting in the compliance and operating activities of PPIP, respectively.

Treasury has hired PWC to assist in compliance activities. According to Treasury, some of the expected responsibilities of the compliance consultant include:[177]

- testing the PPIFs' compliance with certain material aspects of PPIP rules as well as identifying fraud and potentially fraudulent behavior
- reviewing allocation decisions and determining if the decisions are in compliance with PPIP policy
- reporting on allocation decisions that were not in accordance with the compliance rules
- determining the reasonableness of the valuation of the eligible assets in the fund managers' individual PPIFs and non-PPIF funds
- screening for illegal transactions such as system gaming which includes: asset flipping, proprietary front-running of trades for proprietary accounts, asset crossing between PPIFs, and asset round tripping

The compliance consultant may also provide Treasury technical advice on matters needing attention after Treasury conducts regular reviews of the PPIFs and their activities.[178]

In addition, according to Treasury, all of the PPIF managers will utilize Bank of New York Mellon as the administrative agent, custodian, and valuation agent. In its capacity as administrative agent, Bank of New York Mellon collects PPIF documents such as: the loan documents, evidence of custodial and interest reserve accounts, financial statements, reports, and notices of material events (default, litigation, waste, fraud, and abuse). As custodian, it is responsible for providing "agreed-upon periodic reports" to Treasury on the PPIFs, determining and monitoring the deposit amount of the interest reserve account, and verification of applicable tests. As valuation agent, Bank of New York Mellon is also responsible for calculating the market value of eligible assets and temporary investments held by the PPIFs on a daily and monthly basis.

System Gaming: Using the rules, policies, and procedures of a system against itself for purposes other than those originally intended by the system designers.

Asset Flipping: Buying assets with the intention of reselling those assets in the short term.

Front-Running: Entering into a trade while taking advantage of advance knowledge of pending orders from other investors.

Asset Crossing: Buying or selling assets from other PPIFs or affiliates, either directly or through third parties.

Round Tripping: Buying an asset from an entity and reselling the asset back to the entity or its affiliates.

Temporary Investments: For the purposes of PPIP, they are cash, Treasuries, money market mutual funds, and interest rate hedges.

7(a) Program: SBA loan program guaranteeing a percentage of loans for small businesses that cannot otherwise obtain conventional loans at reasonable terms.

504 Community Development Loan Program: SBA program combining Government-guaranteed loans with private-sector mortgage loans to provide loans of up to $10 million for community development.

Small Business Administration Loan Support (formerly Unlocking Credit for Small Businesses)

On March 16, 2009, Treasury announced the Unlocking Credit for Small Businesses ("UCSB") program to encourage banks to extend more credit to small businesses.[179] Under the UCSB program, Treasury stated that it would purchase up to $15 billion in securities backed by pools of Small Business Administration ("SBA") loans from two SBA participating programs: the 7(a) Program and the 504 Community Development Loan Program. According to Treasury, the UCSB program is designed to provide banks the liquidity necessary to start writing new small-business loans again.[180]

On September 24, 2009, during Congressional testimony, Assistant Treasury Secretary for Financial Stability, Herbert Allison, noted that Treasury would soon announce further program details.[181] As of September 30, 2009, no TARP funds had been expended under this program.

AUTOMOTIVE INDUSTRY SUPPORT PROGRAMS

During the current financial crisis, Treasury, through TARP, has launched three automotive programs: the Automotive Industry Financing Program ("AIFP"), the Auto Supplier Support Program ("ASSP"), and the Auto Warranty Commitment Program ("AWCP"). According to Treasury, these programs were established "to prevent a significant disruption of the American automotive industry that poses systemic risk to financial market stability and will have a negative effect on the real economy of the United States."[182]

No new TARP funds have been committed to the automotive sector this quarter. As of September 30, 2009, Treasury's commitments through these programs totaled $81.1 billion and were distributed to GM, Chrysler, GMAC, and Chrysler Financial. Treasury's investments also provided some of the financing for GM and Chrysler during their recent restructuring periods. Both firms recently emerged from bankruptcy — Chrysler on June 10, 2009, and GM on July 10, 2009. According to a Congressional Oversight Panel ("COP") report, then Senior Advisor on Auto Issues at Treasury, Ron Bloom, stated that "it was possible, but unlikely that taxpayers would recover all of the money they had invested in Chrysler and General Motors." Mr. Bloom further stated that there is a "reasonable probability" that the money given to the post-bankruptcy entities ("New Chrysler" and "New GM") would be recovered, but that there would be "much lower recoveries" for the "initial loans" provided to GM and Chrysler.[183] According to the Auto Task Force, "initial loans" refer to pre-bankruptcy loans of $4 billion to Chrysler and $19.4 billion to GM. Treasury investments in the three TARP automotive industry support programs and any repayments of principal are summarized in Table 2.26 on the following page, categorized by the timing of the investment in relation to the firm's progress through the bankruptcy process.

For a timeline of the Chrysler and GM bankruptcy proceedings, see SIGTARP's July Quarterly Report, pages 106 and 108, respectively.

Automotive Industry Financing Program

As of September 30, 2009, Treasury had invested $76.9 billion through the Automotive Industry Financing Program ("AIFP") to support the automotive manufacturing companies and their financing arms to "avoid a disorderly bankruptcy of one or more auto companies."[184] As of September 30, 2009, Treasury had received approximately $465 million in dividends and approximately $206 million in interest payments on these investments, and Chrysler Financial had paid back $1.5 billion in AIFP funds. Treasury's AIFP investments, as well as the interest and dividends earned on the investments, are listed in Table 2.25.

TABLE 2.25

AIFP STATUS OF FUNDS, AS OF 9/30/2009 ($ MILLIONS)

Financial Institution	TARP Commitment	Total Interest and Dividends Received
GM[a]	$49,500	$178
Chrysler[a]	12,542	55
GMAC	13,384	431
Chrysler Financial	1,500[b]	7
Total	**$76,926**	**$671**

Notes: Numbers affected by rounding.
[a] Post-bankruptcy, interest accrues in the note for GM and Chrysler.
[b] Has been repaid.

Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, response to SIGTARP draft report, 10/8/2009.

Auto Supplier Support Program

On March 19, 2009, Treasury announced the $5 billion Auto Supplier Support Program ("ASSP") in an effort to "help stabilize the auto supply base and restore credit flows in a critical sector of the American economy."[185] Because of the

TABLE 2.26

TARP AUTOMOTIVE PROGRAMS COMMITMENTS AND REPAYMENTS, AS OF 9/30/2009 ($ BILLIONS)

	Chrysler	GM	Chrysler Financial	GMAC	Total
Pre-Bankruptcy					
AIFP	$4.0[a]	$19.4	$1.5[b]	$13.4	$38.3
ASSP	1.0[c]	2.5[d]			3.5
AWCP[e]	0.3	0.4			0.6
Subtotal	$5.3	$22.3	$1.5	$13.4	$42.4
In-Bankruptcy (DIP Financing)					
AIFP	$1.9[f]	$30.1			$32.0
Subtotal	$1.9	$30.1			$32.0
Post-Bankruptcy (Working Capital)					
AIFP	$6.6[g]				$6.6
Subtotal	$6.6				$6.6
Subtotals by Program:					
AIFP					$76.9
ASSP					3.5
AWCP[e]					0.6
Total Commitments	**$13.8**	**$52.4**	**$1.5**	**$13.4**	**$81.1**
Principal Repaid to Treasury	($0.3)	($0.4)	($1.5)	$ —	($2.1)
Net Commitments	**$13.5**	**$52.0**	**$ —**	**$13.4**	**$79.0**

Notes: Numbers affected by rounding.
[a] According to Treasury, the 4/29/2009 $500 million expansion of the 1/2/2009 $4 billion loan was de-obligated before being funded.
[b] Has been repaid.
[c] Announced as $1.5 billion, but was reduced to $1 billion on 7/8/2009.
[d] Announced as $3.5 billion, but was reduced to $2.5 billion on 7/8/2009.
[e] AWCP has been repaid in full and was terminated in July 2009.
[f] According to Treasury, $1.9 billion of the original $3.8 billion of announced funding was de-obligated before being funded.
[g] Approximately $4.7 billion of this commitment was provided in working capital; approximately $2 billion was used to pay senior secured lenders.

Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, responses to SIGTARP draft reports, 7/13/2009 and 10/8/2009; Treasury Press Release, "Ron Bloom, Senior Advisor at the U.S. Treasury Department Written Testimony House Judiciary Commercial and Administrative Law Subcommittee 'Ramifications of Auto Industry Bankruptcies, Part II,'" 7/21/2009, http://treas.gov/press/releases/tg222.htm, accessed 9/9/2009.

current credit crisis, suppliers had not been able to borrow from banks using their receivables as collateral. ASSP allowed auto parts suppliers to access Government-backed protection for money owed to them for the products they had shipped to manufacturers. The suppliers sold their receivables into the program at a discount, providing heavily relied upon operating capital for the suppliers. Treasury intended for this program to provide confidence to suppliers so they would continue to ship parts, pay employees, and continue operations.[186] The program was available to all American auto companies; Chrysler and GM were the only two that decided to take advantage of the program.[187] Each company created an SPV to hold the funding: Chrysler Receivable LLC and GM Supplier Receivable LLC.[188]

TABLE 2.27

ASSP STATUS OF FUNDS, AS OF 9/30/2009 ($ MILLIONS)

Financial Institution	TARP Commitments	Principal Reductions[a]	Principal Outstanding	Total Interest Received
GM Supplier Receivable LLC	$3,500	($1,000)	$2,500	$3.6
Chrysler Receivable LLC	1,500	(500)	1,000	2.3
Total	**$5,000**	**($1,500)**	**$3,500**	**$5.9**

Notes: Numbers affected by rounding.
[a] At the request of Chrysler and GM, on July 8, 2009, the original commitments were reduced to $1.0 billion and $2.5 billion, respectively.
Sources: Treasury, *Transactions Report*, 10/2/2009; Treasury, response to SIGTARP data call, 10/8/2009.

Under the original loan agreements for each SPV, the Treasury commitments could be decreased if the outstanding amounts did not exceed the commitments made on June 30, 2009. On July 8, 2009, the original commitments were reduced to $1.0 billion for Chrysler Receivable LLC and $2.5 billion for GM Supplier Receivable LLC.[189] After emerging from bankruptcy, the new, non-bankrupt Chrysler and GM assumed the debts of the pre-bankruptcy SPVs.[190] ASSP is continuing to operate and is scheduled to terminate in April 2010; New GM and New Chrysler can add receivables at their discretion. Table 2.27 summarizes the status of the ASSP investments.

Auto Warranty Commitment Program

On March 30, 2009, Treasury announced the creation of the Auto Warranty Commitment Program ("AWCP"), under AIFP, as a means to provide assurance to vehicle buyers that the warranties on any purchases made during the restructuring of Chrysler and GM would be guaranteed by the Government.[191] Treasury made $641 million available to Chrysler and GM through two SPVs — Chrysler Warranty SPV LLC and GM Warranty LLC — to backstop warranties on new car sales. Both Chrysler and GM were able to honor their warranties during their restructuring periods and, according to Treasury, all $641 million in principal has been repaid with $5.5 million in interest.[192] In July 2009, the AWCP was terminated.

Automotive Companies Today

As discussed in SIGTARP's July Quarterly Report, Chrysler and GM went through bankruptcies in which each sold substantially all of their assets into newly created companies — New Chrysler and New GM. The corporate structure and ownership of these new companies changed dramatically, with Treasury now owning an 8% *pro forma* equity stake in New Chrysler and a 61% equity stake in New GM.[193] Treasury's investments in Chrysler and GM were initially debt obligations for the companies; as part of the bankruptcy proceedings, these investments were

Pro Forma: In finance, refers to the presentation of hypothetical financial information assuming that certain assumptions will happen. For example, Table 2.28 sets forth the ownership interests in New Chrysler based on the assumption that Fiat will meet its performance goals and obtain an additional 15% of equity from the other equity holders. If the new equity stakes were not reported *pro forma*, the equity interest of the other equity participants would be higher to account for Fiat's additional 15%.

restructured as common equity, preferred equity, and new debt. See the following discussion for details on the post-bankruptcy composition of Treasury's investments in New Chrysler and New GM.

Debtor-in-Possession ("DIP"): A company which is operating under Chapter 11 bankruptcy protection, which still technically owns its assets but is operating them to maximize the benefit to its creditors.

Reorganization: Agreements between a company, its creditors, and the courts that allow the company to emerge from bankruptcy with an altered debt structure.

Chrysler

Treasury has committed a total of $13.8 billion in financing to Chrysler, including $1.3 billion in funding for ASSP and AWCP. The $12.5 billion committed directly to Chrysler was contributed in three stages: $4 billion was provided before bankruptcy, $1.9 billion was provided as debtor-in-possession ("DIP") financing during bankruptcy, and $6.6 billion was provided as working capital after bankruptcy. Under the terms of the bankruptcy reorganization, Treasury's investment was restructured into debt assumed and common equity. Of Treasury's $12.5 billion commitment to Chrysler, $2.0 billion has not been drawn down and the remainder has been restructured in the following manner:[194]

- an 8% *pro forma* common equity interest in New Chrysler
- $5.1 billion in debt owed by New Chrysler

The owners of New Chrysler include Fiat, the United Auto Workers ("UAW"), Treasury, and the Canadian Government, as described in Table 2.28.[195]

TABLE 2.28

NEW CHRYSLER

Stakeholder	Equity Stake
Fiat	20% 15% additional equity based on performance[a]
UAW (VEBA[b])	55%
Treasury	8%
Canadian Government	2%

Notes: Numbers affected by rounding. Data as of 9/30/2009. The listed ownership percentages are based on the assumption that Fiat will achieve all three performance metrics.
[a] Fiat can earn this 15% equity by achieving certain performance metrics. It would receive 5% for meeting each of three performance goals: produce a vehicle in a U.S. based Chrysler factory that performs 40 mpg or better; provide Chrysler with a distribution network in numerous foreign jurisdictions; and manufacture state-of-the-art, next generation engines at a U.S. Chrysler facility.
[b] Voluntary Employee Beneficiary Association ("VEBA").

Sources: Treasury, "Obama Administration Auto Restructuring Initiative: Chrysler-Fiat Alliance," 4/30/2009, www.financialstability.gov/docs/AIFP/Chrysler-restructuring-factsheet_043009.pdf, accessed 6/9/2009; Treasury, responses to SIGTARP draft reports, 7/9/2009 and 7/13/2009.

Chrysler Financial

In January 2009, Treasury loaned $1.5 billion to a bankruptcy-remote SPV to support Chrysler Financial retail loan originations. In July 2009, Chrysler Financial repaid the entire loan and $7.4 million in interest to Treasury.[196] Chrysler Financial is no longer originating loans.[197]

GM

Treasury has committed $52.4 billion of assistance to GM since December 2008, including $2.9 billion in commitments for ASSP and AWCP. Of the $49.5 billion committed directly to GM, $19.4 billion was provided pre-bankruptcy, and $30.1 billion was provided during bankruptcy. Unlike Chrysler, where some of Treasury's investment has not been converted into New Chrysler equity and debt, all of Treasury's investment in GM was either converted into New GM common stock, preferred stock, or debt assumed by New GM. Treasury's $49.5 billion investment in GM is now a 61% common equity stake in New GM, $2.1 billion in preferred stock in New GM, and $7.1 billion of debt assumed by New GM (of which $360 million has been repaid as part of the wind-down of the warranty program).[198] Under the terms of the bankruptcy reorganization, UAW, bondholders, Treasury, and the Governments of Canada and Ontario are the owners of New GM as listed in Table 2.29.[199]

TABLE 2.29

NEW GM ($ BILLIONS)

Stakeholder	Equity Stake	Debt Assumed by New GM	Preferred Stock in New GM
UAW (VEBA)[a]	17.5% Warrants to purchase 2.5%	$2.5	$6.5
Bondholders	10% Warrants to purchase 15%	—	—
Treasury	61%	$7.1	$2.1
Governments of Canada and Ontario	12%	$1.3	$1.7

Notes: Numbers affected by rounding. Data as of 9/30/2009. Treasury did not publish *pro forma* data on equity ownership that would capture the dilutive effect of the exercise of warrants.
[a] Voluntary Employee Beneficiary Association ("VEBA").

Sources: Treasury, "Obama Administration Auto Restructuring Initiative: General Motors Restructuring," 6/1/2009, www.financialstability.gov/latest/05312009_gm-factsheet.html, accessed 6/10/2009; Treasury, responses to SIGTARP draft reports, 7/9/2009 and 7/13/2009.

GMAC

As reported in SIGTARP's July Quarterly Report, Treasury invested $13.4 billion in GMAC and owns a 35.4% common equity stake. As of September 30, 2009, there have not been any updates to Treasury's investment in GMAC. Treasury's outstanding investment amount was $13.4 billion and it had received $431 million in dividend payments from GMAC.

For more information on Treasury's GMAC investment, see SIGTARP's July Quarterly Report, page 112.

HOMEOWNER SUPPORT PROGRAM

Making Home Affordable Program

The Making Home Affordable ("MHA") Program was introduced by the Administration on February 18, 2009, and was intended to assist homeowners who are struggling to make their monthly mortgage payments. MHA comprises three major initiatives: a loan modification program, a loan refinancing program, and additional support to lower mortgage interest rates. Only the loan modification program, known as the Home Affordable Modification Program ("HAMP"), currently involves TARP funds.[200] According to Treasury, HAMP is a $75 billion program that will lower monthly mortgage payments for homeowners by providing loan modification incentive payments to the servicers and loan holders (lenders or investors — referred to as investors in this section), and by protecting against further loss of collateral value.[201] Of the $75 billion reserved for HAMP, $50 billion will be from TARP and will be used to modify private-label mortgages. Of the $50 billion for private-label mortgage modifications, $10 billion will be used to provide recently announced incentives through the Home Price Decline Protection ("HPDP") program, which is intended to protect investors from potential price declines on modified mortgage properties.[202] Treasury estimates that $4.6 billion of the $50 billion will be used for the Short Sale / Deeds-In-Lieu of Foreclosure ("SS/DIL") program. This program, previously announced but not yet launched, will be discussed later in this section.[203] The additional $25 billion in HAMP funding is provided under the Housing and Economic Recovery Act of 2008 ("HERA") and will be used to modify mortgages that are owned or guaranteed by Government-sponsored enterprises ("GSEs"), particularly Fannie Mae and Freddie Mac.[204]

Private-Label Mortgages: Loans that are not owned or guaranteed by Fannie Mae, Freddie Mac, or another Federal agency.

Government-Sponsored Enterprises ("GSEs"): Private corporations created by the Government to reduce borrowing costs. They are chartered by the U.S. Government but are not considered to be direct obligations.

For more information regarding HAMP eligibility, modifications, and incentive payments, see SIGTARP's July Quarterly Report, page 114.

Status of Funds

As of September 30, 2009, Treasury had signed agreements with 63 loan servicers allocating up to $27.1 billion under HAMP.[205] Funds are not actually spent at the time they are allocated but only upon successful completion of certain loan modification milestones. Of the $27.1 billion that had been allocated, $950,000 had been spent on actual modifications as of September 30, 2009.[206] To date, the largest allocation of incentive payments has been made to Countrywide Home Loans Servicing, LP, which will receive up to $4.5 billion in TARP funds. The average allocation to each servicer through HAMP is $429.6 million.[207] Table 2.30 provides a detailed list of allocations made under HAMP as of September 30, 2009.

TABLE 2.30

HOME AFFORDABLE MODIFICATION PROGRAM FUNDING ALLOCATIONS, AS OF 9/30/2009

Institution	Ultimate Parent Company	Adjusted Funding Cap[a]
Countrywide Home Loans Servicing LP	Bank of America Corporation	$ 4,465,420,000
GMAC Mortgage, Inc.	GMAC	3,554,890,000
J.P. Morgan Chase Bank, NA	JPMorgan Chase & Co.	2,684,870,000
Wells Fargo Bank, NA	Wells Fargo & Company	2,475,080,000
CitiMortgage, Inc.	Citigroup, Inc.	2,089,600,000
Wachovia Mortgage, FSB	Wells Fargo & Company	1,357,890,000
American Home Mortgage Servicing, Inc	N/A	1,218,820,000
Litton Loan Servicing LP	Goldman Sachs Group, Inc.	1,087,950,000
Bank of America, N.A.	Bank of America Corporation	967,120,000
Saxon Mortgage Services, Inc.	Morgan Stanley	886,420,000
Select Portfolio Servicing	Credit Suisse Group AG	782,500,000
EMC Mortgage Corporation	JPMorgan Chase & Co.	707,370,000
OneWest Bank	OneWest Bank Group, LLC	668,440,000
Ocwen Financial Corporation, Inc.	N/A	655,960,000
National City Bank	PNC Financial Services Group, Inc.	610,150,000
HomEq Servicing	Barclays Bank PLC	552,810,000
Home Loan Services, Inc.	Bank of America Corporation	494,030,000
Aurora Loan Services, LLC	Aurora Bank, FSB	447,690,000
Nationstar Mortgage LLC	N/A	251,700,000
Carrington Mortgage Services, LLC	N/A	222,010,000
Green Tree Servicing LLC	N/A	221,790,000
Wilshire Credit Corporation	Bank of America Corporation	203,460,000
U.S. Bank National Association	U.S. Bancorp	114,220,000
Bayview Loan Servicing, LLC	Bayview Financial Holdings, L.P.	68,110,000
Wachovia Bank, N.A.	Wells Fargo & Company	47,320,000
RG Mortgage Corporation	R&G Financial Corporation	45,700,000
MorEquity, Inc.	American International Group, Inc.	42,010,000
CCO Mortgage	The Royal Bank of Scotland, PLC	29,590,000
Franklin Credit Management Corporation	Franklin Credit Holding Corp.	27,510,000
PNC Bank, National Association	PNC Financial Services Group, Inc.	18,230,000
Residential Credit Solutions	Residential Credit Holdings, LLC	17,540,000
Vantium Capital, Inc.	N/A	6,000,000
Mortgage Center, LLC	N/A	5,990,000
PennyMac Loan Services, LLC	N/A	5,010,000
First Bank	First Banks Inc.	4,930,000
AMS Servicing, LLC	N/A	4,390,000
CUC Mortgage Corporation	Credit Union Association of New York, Inc.	4,350,000
Servis One, Inc.	N/A	4,220,000

Continued on next page.

HOME AFFORDABLE MODIFICATION PROGRAM FUNDING ALLOCATIONS, AS OF 9/30/2009 (CONTINUED)

Institution	Ultimate Parent Company	Adjusted Funding Cap[a]
ShoreBank	N/A	2,300,000
ORNL Federal Credit Union	N/A	2,070,000
Central Florida Educators Federal Credit Union	N/A	1,250,000
Purdue Employees Federal Credit Union	N/A	1,030,000
Wescom Central Credit Union	N/A	870,000
IBM Southeast Employees' Federal Credit Union	N/A	860,000
First Federal Savings and Loan	N/A	770,000
Lake City Bank	Lakeland Financial Corp.	600,000
RoundPoint Mortgage Servicing Corporation	N/A	570,000
Horicon Bank	Sword Financial Corporation	560,000
SEFCU	N/A	440,000
Oakland Municipal Credit Union	N/A	430,000
Bay Federal Credit Union	N/A	410,000
Schools Financial Credit Union	N/A	390,000
Mission Federal Credit Union	N/A	370,000
Stanford Federal Credit Union	Cardtronics, Inc.	300,000
Metropolitan National Bank	Rogers Bancshares, Inc.	280,000
Lake National Bank	N/A	250,000
Allstate Mortgage Loans & Investments, Inc.	N/A	250,000
Yadkin Valley Bank	Yadkin Valley Financial Corp.	240,000
Glass City Federal Credit Union	N/A	230,000
Farmers State Bank	Community Independent Bancorp, Inc.	80,000
Technology Credit Union	N/A	70,000
Central Jersey Federal Credit Union	N/A	30,000
Citizens First Wholesale Mortgage Company	N/A	20,000
Chase Home Finance, LLC[b]	JPMorgan Chase & Co.	—
Total		**$27,065,760,000**

Notes: Numbers affected by rounding.
[a] Funding cap amounts represent the funding allocated to each institution. Funds are not spent until successful completion of certain loan modifications milestones.
[b] Chase Home Finance, LLC was allocated $3.5 billion on 4/13/2009. On 7/31/2009, the agreement was terminated and superseded by new agreements with J.P. Morgan Chase Bank, NA and EMC Mortgage Corporation.

Sources: Treasury, *Transactions Report*, 10/2/2009; Factiva website, http://fce.factiva.com/pcs/default.aspx, accessed 6/24/2009; Capital IQ, Inc. (a division of Standard & Poor's), www.capitaliq.com, accessed 7/6/2009; "Saxon, Who We Are," https://www.saxononline.com/common/about/, accessed 10/6/2009; "Litton Loan Servicing LP–Overview," http://www.fins.com/Finance/Recruiter/companies/1789/Litton-Loan-Servicing-LP, accessed 10/19/2009.

Home Price Decline Protection ("HPDP") Program

On July 31, 2009, Treasury released a Supplemental Directive for HAMP outlining its Home Price Decline Protection ("HPDP") program. The stated goal of the program is to "encourage additional investor participation and HAMP modifications in areas with recent price declines by helping to offset any incremental collateral loss on modifications that do not succeed."[208] The program is designed to provide incentives to mortgage-backed securities ("MBS") investors to participate in HAMP. Through their ownership of MBS, these investors have an interest in the performance of the mortgages underlying the MBS. According to Treasury, HPDP is designed to address the fears of investors that may withhold their consent to a loan modification due to the potential future decrease in the value of the homes that secure the mortgages. In such a circumstance, the investor would suffer greater losses than it would under an immediate foreclosure. By providing incentive payments to mitigate that potential loss for a 24-month period, Treasury hopes to encourage more lenders and investors to modify loans.

Under HPDP, Treasury has published a standard formula, based on the unpaid principal balance ("UPB") of the mortgage, the projected decline in area home prices, and the loan-to-value ("LTV") ratio, that will determine the size of the incentive payment. The projected home price decline is expressed in percentage terms and is based on recent trends in local home prices. The projection is determined by the percentage change in surrounding area home prices during the six months prior to the start of the HAMP modification.[209] The Home Price Index Table is available on the Federal Housing Finance Agency website.[210]

The HPDP incentive payments will accrue monthly over a 24-month period and are paid out annually on the first and second anniversary of the initial HAMP trial period mortgage payment. Accruals are discontinued if the borrower loses good standing under HAMP by missing three mortgage payments (three mortgage payments are considered due and unpaid on the last day of the third month) or if the mortgage loan is paid in full. If mortgage payments are discontinued, investors will be entitled to receive all previously accrued incentive payments.[211]

Mortgage-Backed Securities ("MBS"): A pool of mortgages bundled together by a financial institution and sold as securities — a type of asset-backed security.

Unpaid Principal Balance ("UPB"): Amount of a loan that is unpaid. This does not include additional charges.

Loan-to-Value ("LTV") Ratio: In real estate lending, the outstanding principal amount of the loan divided by the appraised value of the property.

HAMP Trial Period: A 90-day trial period of reduced mortgage payments for the borrower. If all payments are successful, then the mortgage modification will be accepted into the MHA program and HAMP incentive payments will begin.

For more information on HAMP trial modification incentives, see SIGTARP's April Quarterly Report, page 113.

HPDP PROGRAM EXAMPLE

Players:
Mr. Smith — homeowner, mortgage loan borrower

Servicer — the firm that "services" Mr. Smith's mortgage — collecting payments and generating reports. The servicer receives a fee for its services but does not have an ownership interest in Mr. Smith's mortgage.

Mr. Jones — the investor who holds the MBS, a part of which is based on Mr. Smith's mortgage

Step 1: Servicer Signs Up for HAMP and HPDP. Mr. Smith owns a single-family home in Santa Rosa, California, that he purchased for $250,000 and he has fallen behind on his payments. The UPB on the loan is currently $230,000. Mr. Smith approaches his loan servicer and asks if he can get a loan modification through HAMP. The servicer is at first reluctant, noting that the home's current market value has declined to $215,000 and is thus now less than the UPB. After reviewing the terms of the program, the servicer decides to enter the loan into a HAMP modification, which will automatically apply HPDP incentives based on market conditions. There is no servicer incentive payment under HPDP; however, the servicer stands to receive an incentive payment through HAMP.

Step 2: Servicer Rewrites the Mortgage. By enrolling in HPDP, the servicer is protecting the value of the MBS that funded the loan. The beneficiary of this protection is Mr. Jones, who invested in the MBS. As part of the loan modification, the servicer rewrites the mortgage downward by 6.5% from $230,000 to $215,000, the current market value of the home. HPDP incentives for the investor are partially "insuring" the mortgage collateral (the home) against future loss in value.

Step 3: Servicer Calculates Incentive Payment. Suppose that, in the six months prior to the loan modification date, the Home Price Index for the Santa Rosa area decreased by 14%. This rate, calculated at the start of the loan modification, will be effective for the entire 24-month period of the HPDP incentive payments.[212]

Under Treasury's standard HPDP formula, Mr. Jones can collect $500 for each 1% drop in the value of the average home price in Santa Rosa. The HPDP payment is determined on a sliding scale based on certain characteristics of the loan adjustment. In this case, Mr. Jones would be entitled to collect the maximum amount for a 14% price decline — up to $7,000.

Notice that the HPDP payment is not related to the lost value of Mr. Smith's specific house, but rather is based on the average area home price decline for the six months prior to HAMP modification. These payments will not be affected if the home price subsequently increased during the modification period.

Step 4: Servicer Collects HPDP Incentive Payment. Suppose Mr. Smith's first HAMP trial period payment on his reduced mortgage is due October 2009 and that the total potential HPDP incentive award will accrue at $292 per month for 24 months totaling $7,000. If Mr. Smith loses good standing in December 2010, 14 months after the first trial payment, then Mr. Jones is eligible to receive 14 months worth of accrued incentive payments. In this case, he receives payment for 14 out of a possible 24 months, which is $4,083 of a possible $7,000 ((14/24)*$7,000). Payment for the first 12 months of good standing will be paid to Mr. Jones on October 1, 2010 (the first anniversary of the due date of the first mortgage trial period payment), and the additional $583 for months 13 and 14 of good standing will be paid to Mr. Jones on October 1, 2011 (the second anniversary of the due date of the first mortgage trial period payment). Table 2.31 shows how his incentive payment would be calculated.

TABLE 2.31

HPDP PAYMENT EXAMPLE		
Potential Incentive Payment to Mr. Jones	$7,000	
Mr. Smith remains in Good Standing during first 12 months	$3,500	Paid 10/1/2010
Mr. Smith loses Good Standing after 2 more months	$583	Paid 10/1/2011
Total Payment Received by Mr. Jones	**$4,083**	

Source: Treasury, "Supplemental Directive 09-04: Home Affordable Modification Program – Home Price Decline Protection Incentives," 7/31/2009, http://www.financialstability.gov/docs/press/SupplementalDirective7-31-09.pdf, accessed 9/1/2009.

Eligibility

Each of the following criteria must be met in order for a loan to be eligible for HPDP incentive payments:[213]

- Trial modification under HAMP must begin on or after September 1, 2009.[214]
- Servicer must execute a Servicer Participation Agreement.
- Borrower must successfully complete the trial period and execute a HAMP modification agreement.
- HAMP modification must reduce the borrower's monthly mortgage payment by at least 6%.

Short-Sale / Deeds-In-Lieu of Foreclosure Program

In May 2009, Treasury announced the outline of a program designed to provide alternatives to foreclosure entitled the Short-Sale / Deeds-In-Lieu of Foreclosure ("SS/DIL") program. These alternatives to foreclosure are intended to provide a more orderly resolution for troubled properties — helping the borrowers, the investors, and the communities.

A short sale is a sale that is conducted jointly by a borrower facing foreclosure and the holder of the mortgage. The goal is to sell the home before a foreclosure is finalized using the proceeds to satisfy a portion of the loan, with the agreement that the owner of the mortgage will forgive the balance. The borrower will still lose his home, and the mortgage holder will lose the difference between the outstanding mortgage amount and the short sale price, but a short sale can provide the following benefits over a traditional foreclosure:

- A potentially better sales price on the house may be achieved because it is occupied and sold in an orderly fashion and is not an abandoned home sold at a distressed price in deteriorating condition.
- The borrower has control over the timing of a move.
- The borrower has the opportunity to negotiate better terms including lessened impact on his credit rating.
- Investors can avoid the risks and costs of a lengthy foreclosure.

A deed-in-lieu of foreclosure ("DIL") is the method by which borrowers voluntarily give their deed to the bank rather than subject the bank to the formal legal process of foreclosure. The bank still has to dispose of the property, but many of the advantages of a short sale still accrue, such as the ability to control the timing and nature of the transaction.

Both foreclosure alternatives also benefit the communities, as they lessen the potential for vacant and vandalized homes and reduce the number of discounted sales that can drive down all home equity values in the neighborhood.

According to Treasury's program guidance, the SS/DIL program is expected to include a series of incentive payments for program participants. For each SS or DIL that is successfully completed, servicers and borrowers may each receive up to $1,000 and $1,500, respectively. In addition, for every three dollars an investor pays to a junior lender to get its assent to the transaction, Treasury will reimburse the investor for one dollar up to a maximum payment reimbursement of $1,000.[215]

Improving MHA Effectiveness and Efficiency

Frustrated with the pace of program implementation, representatives of the Administration met with executives from MHA servicers on July 28, 2009, to discuss ways to improve the effectiveness and efficiency of the MHA program. They agreed on three steps to improve performance and reach the Administration's established goal of initiating 500,000 trial modifications by November 1, 2009.[216] According to Treasury, this milestone was reached on October 8, 2009.[217] The first step agreed upon is to publicly report servicer-specific performance metrics on a monthly basis. These metrics include:[218]

For more information regarding the Servicer Performance Report, see the "Servicer Performance Report" discussion later in this section.

- the number of trial modification offers each servicer has extended
- the number of trial plans that are underway
- the number of final modifications
- the long-term success of those modifications

The Administration and the servicers agreed to work together to develop better metrics that measure processing performance. These metrics may include:[219]

- average borrower wait time for inbound borrower inquiries
- completeness and accuracy of information provided to applicants
- document handling
- response time for completed applications

The final part of the plan requires Freddie Mac, the HAMP compliance agent, to develop a "second look" process. As part of this process, Freddie Mac will audit a sample of declined applications. For individual errors found during the audit, Freddie Mac will coordinate with the respective servicers. When errors prove more systemic, Freddie Mac will address general operational weaknesses. The stated goal of this process is to minimize the likelihood that applications are overlooked or inadvertently denied.[220]

HAMP Compliance

The compliance department within OFS has the primary responsibility to oversee and monitor Freddie Mac, the compliance agent for HAMP. OFS observed that Freddie Mac, since the inception of the program, was having difficulty meeting the deadlines of its planned audits and delivering key compliance reports as expected. More specifically, in late August, OFS assessed the first Servicer Performance Reviews that were completed by Freddie Mac. Based on this review, OFS had several specific areas of concern, including: unqualified staff to perform audits; trouble using extensions from statistical sampling to reach general results; inability to take a "risk-based" approach; inconsistent and incomplete audit workpapers; difficulty adapting to an "ever-evolving" HAMP; and too much reliance on contractors to perform the audits.

Due to these concerns, OFS met with Freddie Mac senior officials to review these problem areas, to suggest several remediation steps, and to inform Freddie Mac that a new OFS compliance officer would be placed at Freddie Mac on a full-time basis. Freddie Mac developed a detailed remediation plan with which OFS concurs. Steps include:

- hiring a new program executive to lead Freddie Mac's compliance efforts
- restructuring Freddie Mac's organization to better align with the goals of HAMP, including repositioning leaders and hiring new staff with the right skill sets
- creating a quality assurance function at Freddie Mac that will report directly to Treasury
- instituting a risk-based testing approach, as well as random audits
- performing independent verification of controls and corrective actions
- improving the timeliness of reporting to Treasury
- developing one audit team to focus on the top-10 servicers, with quarterly audits being performed on such servicers
- developing a second audit team to deal with all other servicers

SIGTARP commends OFS compliance for recognizing the deficiencies at Freddie Mac and taking steps to remedy the situation. SIGTARP will monitor progress made on these issues.

Servicer Performance Report

The Administration released its first Servicer Performance Report on August 4, 2009.[221] Subsequent reports have been released on a monthly basis. The stated purpose of this report is to "document the number of struggling homeowners already helped under the [MHA] program, provide information on servicer performance and expand transparency around the initiative."[222]

Overall Performance Metrics

As of September 30, 2009, 63 servicers have signed Servicer Participation Agreements to modify loans under HAMP. A snapshot of HAMP modifications is shown in Table 2.32.

Figure 2.13 shows the monthly increases in HAMP trial modifications started and HAMP trial plans extended to borrowers.

TABLE 2.32

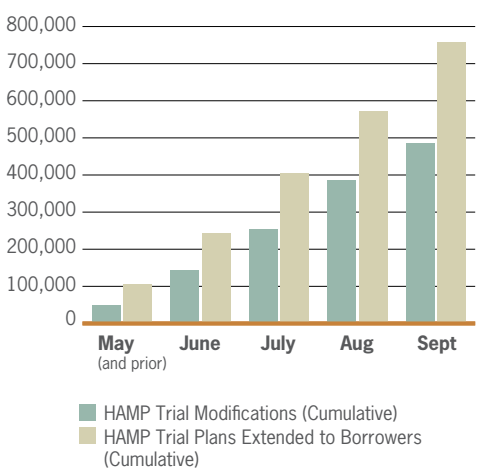
HAMP SNAPSHOT	
Number of Trial Modifications[a]	487,081
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)[b]	797,955
Number of Requests for Financial Information Sent to Borrowers (Cumulative)[b]	2,484,783

Notes: Survey data provided by servicers.
[a] Trial and permanent modifications as of 9/30/2009; based on numbers reported by servicers to the HAMP system of record.
[b] Survey data provided by servicers as of 10/1/2009.

Source: Treasury, "Making Home Affordable Program Servicer Report through September 2009," 10/8/2009, http://www.treas.gov/press/releases/docs/MHA%20Public%20100809%20Final.pdf, accessed 10/8/2009.

FIGURE 2.13

HAMP TRIAL MODIFICATIONS STARTED AND TRIAL PLANS EXTENDED 5/2009 – 9/2009



Source: Treasury, "Making Home Affordable Program Servicer Performance Report Through September 2009," 10/8/2009, www.treas.gov/press/releases/docs/MHA%20Public%20100809%20final.pdf, accessed 10/8/2009.

TABLE 2.33

HAMP MODIFICATION ACTIVITY BY SERVICER

Servicer	Participation Date	Estimated Eligible Mortgages[a]	Total Plan Offers Extended[b]	Trial Plan Offers as Share of Estimated Eligible Mortgages	Trial Modifications Started[b]	Trial Modifications as Share of Estimated Eligible Mortgages
J.P. Morgan Chase Bank, NA[c]	4/13/2009	437,652	163,617	37%	117,196	27%
Wells Fargo Bank, NA	4/13/2009	310,716	106,427	34%	62,989	20%
CitiMortgage, Inc	4/13/2009	208,427	88,472	42%	68,248	33%
Saxon Mortgages Services, Inc	4/13/2009	79,921	38,332	48%	32,931	41%
Select Portfolio Servicing	4/13/2009	60,848	32,024	53%	15,706	26%
GMAC Mortgage, Inc	4/13/2009	73,498	31,720	43%	19,331	26%
Ocwen Financial Corporation, Inc	4/16/2009	68,088	10,650	16%	5,193	8%
Bank of America, NA[d]	4/17/2009	875,917	156,120	18%	94,918	11%
Wilshire Credit Corporation	4/20/2009	29,153	6,412	22%	2,929	10%
Home Loan Services, Inc.	4/20/2009	45,822	279	1%	26	0%
Green Tree Servicing LLC	4/24/2009	4,114	810	20%	474	12%
Carrington Mortgage Services, LLC	4/27/2009	17,149	1,584	9%	584	3%
Aurora Loan Services, LLC	5/1/2009	72,912	37,831	52%	23,889	33%
Nationstar Mortgage LLC	5/28/2009	29,846	16,974	57%	8,413	28%
Residential Credit Solutions	6/12/2009	1,831	364	20%	313	17%
CCO Mortgage	6/17/2009	4,648	879	19%	158	3%
RG Mortgage Corporation	6/17/2009	3,473	173	5%	64	2%
National City Bank	6/26/2009	40,582	9,267	23%	3,845	9%
Wachovia Mortgage, FSB[e]	7/1/2009	75,074	2,896	4%	2,019	3%
Bayview Loan Servicing, LLC	7/1/2009	8,987	2,158	24%	196	2%
MorEquity, Inc	7/17/2009	2,244	11	—	—	—
American Home Mortgage Servicing Inc	7/22/2009	114,272	6,817	6%	440	0%
HomeEq Servicing	8/5/2009	39,934	444	1%	—	—
Litton Loan Servicing LP	8/12/2009	107,341	13,567	13%	2,229	2%
OneWest Bank	8/28/2009	109,222	23,017	21%	5,217	5%
U.S. Bank NA	9/9/2009	28,356	6,925	24%	863	3%
Franklin Credit Management	9/11/2009	2,635	—	—	N/A[f]	N/A
Other SPA servicers[g]	—	4,684	185	4%	102	2%
Other GSE servicers[h]	—	242,959	N/A	N/A	18,808	8%
Total		**3,100,305**	**757,955**	**24%**	**487,081**	**16%**

Notes:
[a] Estimated eligible mortgages with 60+ day delinquencies are as of 8/31/2009.
[b] Trial plans offered and trial modifications started are as of 9/30/2009.
[c] J.P. Morgan Chase Bank, NA includes EMC Mortgage Corporation.
[d] Bank of America, NA includes Countrywide Home Loans Servicing LP.
[e] Wachovia Mortgage FSB includes Wachovia Bank NA.
[f] N/A denotes a newly signed servicer not yet fully reporting into the program.
[g] Other SPA servicers are entities with less than 1,000 estimated eligible 60+ day delinquencies that have signed participation agreements with Treasury and Fannie Mae.
[h] Other GSE servicers includes approximately 2,300 participants that service loans owned or guaranteed by Fannie Mae and Freddie Mac.

Source: Treasury, "Making Home Affordable Program Servicer Report through September 2009," 10/8/2009, http://www.treas.gov/press/releases/docs/MHA%20Public%20100809%20Final.pdf, accessed 10/8/2009.

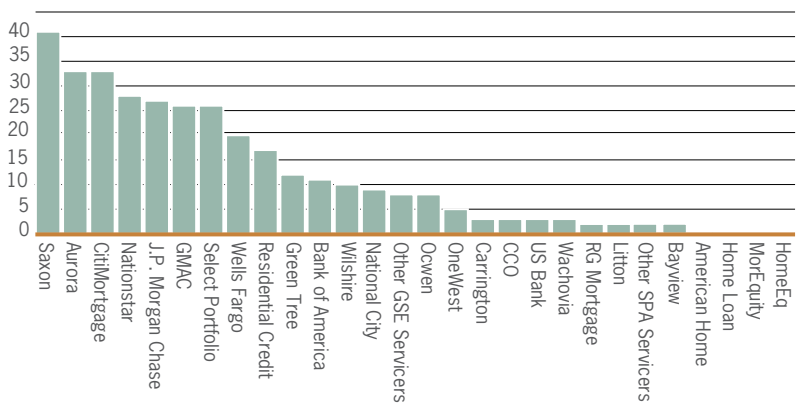
Servicer Metrics

Table 2.33 shows the HAMP modification activity by each servicer.

Figure 2.14 shows the trial modifications started by each servicer as a percent of that respective servicer's estimated number of eligible mortgages.

FIGURE 2.14

TRIAL MODIFICATION TRACKER: TRIAL MODIFICATION STARTS AS A SHARE OF ESTIMATED ELIGIBLE MORTGAGES



Notes: Numbers may be affected by rounding. Data as of 9/30/2009. September trials as a share of mortgages with 60+ day delinquencies on August 31, 2009.

Source: Treasury, "Making Home Affordable Program Servicer Performance Report Through September 2009," 10/8/2009, www.treas.gov/press/releases/docs/MHA%20Public%20100809%20final.pdf, accessed 10/8/2009.

EXECUTIVE COMPENSATION

For more information on the Rule and a summary of the timeline on TARP executive compensation restrictions, see SIGTARP's July Quarterly Report, page 118.

Restrictions on executive compensation have applied to TARP recipients since the program's inception; section 111 of EESA detailed the original restrictions, which have been changed over time by statutory amendment, Treasury regulations, and notices. On February 17, 2009, section 111 of EESA was amended by section 7001 of the American Recovery and Reinvestment Act of 2009 ("ARRA"), which further required that Treasury publish regulations to implement ARRA amendments.[223] On June 10, 2009, Treasury released its Interim Final Rule on TARP Standards for Compensation and Corporate Governance (the "Rule").[224] Following the release of the Rule, Treasury provided a 60-day period for public comment; the 60-day comment period concluded on August 14, 2009. Treasury is currently considering the public comments it received before issuing a Final Rule. The Rule "implement[s] ARRA provisions, consolidates all of the executive-compensation-related provisions that are specifically directed at TARP recipients into a single rule (superseding all prior rules and guidance), and utilizes the discretion granted to the [Treasury] Secretary under the ARRA to adopt additional standards, some of which are adapted from principles set forth" in guidance previously provided by Treasury in February 2009.[225] The Rule applies to entities that meet the Rule's definition of a "TARP recipient," *i.e.*, "any entity that has received or holds a commitment to receive financial assistance" under TARP, or to an entity that owns 50% or more, or is 50% or more owned by the TARP recipient.[226] As long as the TARP recipient has an outstanding "obligation" to the Federal Government (as defined in the Rule; this does not include warrants to purchase common stock), it must adhere to the guidelines set forth under the Rule.[227] Several TARP programs, however, are exempt from the executive compensation restrictions outlined in the Rule as a result of certain program characteristics:[228]

- TALF participants are exempt from the Rule because they are not directly receiving TARP assistance. The TARP funds are used to purchase surrendered collateral in the program.
- PPIP participants are exempt because no participant will own more than 9.9% of any PPIF (therefore, no participant will own 50% or more of TARP recipient, as required by the Rule).
- MHA participants are exempt from the Rule by virtue of statutory language included in the ARRA amendments.

For a summary of the Rule's executive compensation guidelines, see Table 2.34.

TABLE 2.34

EXECUTIVE COMPENSATION: INTERIM FINAL RULE

Standard	Details
Limits executive compensation for certain executives and highly compensated employees at companies receiving TARP funds	Limits bonus payments to protect taxpayer investment
	Curtails the payment of golden parachutes
	Imposes clawback for any bonus based on materially inaccurate performance criteria
Appoints a Special Master to review compensation plans at firms receiving exceptional assistance	Responsible for reviewing any compensation for senior executive officers and most highly paid employees at firms receiving exceptional assistance — with authority to disapprove plans where salary or other compensation is inappropriate, unsound or excessive
	Reviews and approves compensation structure for any executive officers and the 100 most highly paid employees at those firms
	Possesses authority to negotiate for reimbursements on payments to senior executive officers and certain highly compensated employees prior to February 17, 2009
	Makes determinations based on a clear set of principles
Implements and expands upon key ARRA provisions consistent with February 4th proposals	Extends required risk analysis of compensation to all employees of TARP firms
	Requires luxury expenditure policies for all TARP firms
	Institutes "Say on Pay" requirements for all TARP firms
Sets additional compensation and governance standards to improve accountability and disclosure	Prohibits tax gross-ups
	Requires additional perk disclosure
	Mandates disclosure of compensation consultants

Note: Table taken verbatim from source document with Treasury edits as per SIGTARP draft, 10/7/2009.

Source: Treasury Press Release, "Interim Final Rule on TARP Standards for Compensation and Corporate Governance," 6/10/2009, http://www.treas.gov/press/releases/tg165.htm, accessed 9/8/2009.

Golden Parachute: Any payment to an employee for departure for any reason, or any payment due to a change in control.

Clawback: Recovery by the company of amounts paid to an employee based on materially inaccurate performance criteria.

Exceptional Assistance: Companies receiving assistance under SSFI, TIP, AGP, and AIFP, and any future Treasury program designated by the Treasury Secretary as providing exceptional assistance. Currently includes AIG, Citigroup, Bank of America, GM, GMAC, and Chrysler.

Tax Gross-up: A reimbursement of taxes owed with respect to any compensation.

Perk: Personal benefit, including a privilege, or profit incidental to regular salary or wages.

For more information on executive compensation issues and findings, refer to SIGTARP's August 19, 2009, audit, "Despite Evolving Rules on Executive Compensation, SIGTARP Survey Provides Insights on Compliance."

Luxury Expenditures

The Rule requires that the board of directors of each TARP recipient adopt an excessive or luxury expenditure policy (the "Policy"). The Policy must be posted to each TARP recipient's website within 90 days of the publication of the Rule, which was published on June 15, 2009. Under the Rule, excessive or luxury expenditures may include excessive expenditures in the following categories:[229]

- entertainment or events
- office and facility renovations
- aviation or other transportation services
- other activities or events that are not reasonable expenditures for staff development or performance incentives

The Rule requires that the Policy include the following elements:[230]

- categories of expenses prohibited or requiring prior approval
- reasonable approval procedures for those expenses
- certification process whereby the principal executive officer and principal financial officer certify that proper approval was obtained for any expenditures needing approval by a senior executive officer, any executive officer of a similar level of responsibility, or the board of directors
- a requirement that violations be promptly reported internally
- mandated accountability for adherence to the Policy

Comparison of Luxury Expenditure Policies

The luxury expenditure policies for five of the institutions designated by Treasury as receiving "exceptional assistance" under TARP (AIG, Bank of America, Citigroup, Chrysler, and GM) are illustrated in Table 2.35. All five of these institutions directly address luxury expenditures, reporting, and compliance with the Policy; however, certain institutions provide more detailed guidance than others. For example, Bank of America provides vague guidelines for luxury expenses, stating that "reasonable expenditures occur when the costs of entertainment or events do not exceed the expected benefit to the corporation."[231] Chrysler, by comparison, includes a detailed "Personal and Unallowable Expenses" chart in its policy outlining specific expenses such as spa services, country club dues, and tuxedos that are prohibited.[232] The five institutions also have notable differences in their aircraft and transportation policy ranging from GM's policy of "generally prohibiting" private aircraft travel, to Bank of America's policy "encouraging" senior management to use corporate aircraft for "safety and efficiency purposes."[233]

TABLE 2.35

EXCEPTIONAL ASSISTANCE RECIPIENTS' LUXURY EXPENDITURE POLICIES

	Entertainment or Events	Office and Facility Renovations	Aviation or Other Transportation
AIG	Required to have a clear business purpose, and not be excessive, and are otherwise consistent with the policy and guidelines and applicable laws. Celebratory events are prohibited, unless acknowledging key AIG career milestones or for holiday parties, and must be approved.	Must be reasonable on a cost/benefit basis and advance AIG's business objectives. Business unit managers are responsible for implementing appropriate monitoring and reviewing and escalating exceptions to the Chief Administrative Officer.	Commercial travel must be pre-approved. Corporate aircraft is available solely for business purposes and is only permitted with written approval.
Bank of America	Based on: 1) revenue-generating potential of event 2) if it is an appropriate use of company resources 3) whether alternatives are available that would maximize cost savings and benefits	• Based on industry standard. • Any variation requires senior management approval.	Senior management is encouraged to use corporate aircraft when traveling on business for the corporation for safety and efficiency purposes. Any use of corporate aircraft outside "reasonable business development" or emergencies is considered excessive and is not allowed. All usage of the aircraft is controlled and scheduled centrally with periodic reporting of usage to senior management, thereby eliminating the likelihood of a violation of the policy.
Citigroup	• Must support a legitimate business purpose. • Limited to daily maximum per employee.[a]	• Managed for efficiency and cost control. • Renovations of offices used by members of the Citigroup Executive Committee must be reviewed by the board of directors.	• Corporate aircraft use requires written approval by a member of Citigroup's Executive Committee and the Director of Citi Aviation. • Personal use by the Citigroup CEO must be subject to a written reimbursement agreement.[b]
Chrysler	• Expenses cannot be incurred exclusively or primarily for the benefit of employees unless such expenses are reasonable in amount and customary in nature. • Must be approved by a Senior Vice President or higher.	Request must be submitted for proper approval. All renovations exceeding $5 million must go through the CFO or a committee designated by the CFO.	Arrange for reasonably priced travel, when available, through the internal travel department.
GM	Must be part of prudent and appropriate business activities; demonstrate cost efficiency and avoiding impropriety in the use of funds.	Appropriation requests are required for acquisition or leasing of real estate or for the renovation or relocation of entire or significant portions of facilities.	Private aircraft travel is generally prohibited. Prior approval is required in all instances.

Notes:
[a] Citigroup's daily maximum for entertainment and events is not publicly available.
[b] Citigroup's CEO has notified the board of directors that he will not use the corporate aircraft for personal use.

Sources: AIG, "AIG Luxury Expenditure Policy," 9/14/2009, http://www.aigcorporate.com/corpgovernance/AIG%20Luxury%20Expenditure%20Policy.pdf, accessed 9/24/2009; Bank of America, "Excessive or Luxury Expenditure Policy," 9/2009, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTUxNjN8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1, accessed 9/24/2009; Citigroup, "Luxury Expenditure Policy," 9/14/2009, http://www.citigroup.com/citi/corporategovernance/data/lux_exp_policy.pdf, accessed 9/24/2009; Citigroup, Governance Documents, no date, http://www.citigroup.com/citi/corporategovernance/docs.htm, accessed 9/24/2009, Chrysler, "Chrysler Group LLC Policy," 9/14/2009, http://www.chryslergroupllc.com/pdf/expense_policy_07082009.pdf, accessed 9/24/2009; GM, "General Motors Expense Policy," 9/14/2009, http://www.gm.com/corporate/investor_information/docs/corp_gov/GM_ExpensePolicy.pdf, accessed 9/24/2009.

Special Master

Under the Rule, Treasury has created a new Office of the Special Master for TARP Executive Compensation (the "Special Master") to review executive compensation at TARP recipients and ensure that compensation plans for certain employees of financial institutions receiving exceptional assistance are aligned with shareholder and taxpayer interests. TARP participants receiving exceptional assistance delivered their proposed executive compensation structures, and payments pursuant to those structures, for the senior executive officers and the 20 next most highly compensated employees to the Special Master in mid-August 2009.[234] The Special Master concluded that the submissions with respect to these employees at all seven recipients of exceptional assistance were "substantially complete" for purposes of the Rule on August 31, 2009. The Rule requires that the Special Master issue an initial determination with respect to these proposals within 60 days of the receipt of a substantially complete submission.[235] The responsibilities of the Special Master include:[236]

- **Review of Payments**: review and approve any payments of compensation at TARP recipients that have received exceptional assistance for their 5 senior executive officers ("SEOs") and 20 next most highly paid employees
- **Review of Structures**: review and approve the structure of compensation at TARP recipients that have received exceptional assistance for their SEOs, executive officers, and 100 most highly compensated employees
- **Review of Prior Payments**: review bonuses, retention awards, and other compensation paid to the SEOs and 20 next most highly compensated employees before February 17, 2009, by all TARP recipients and, where appropriate, negotiate reimbursements
- **Interpretation**: provide advisory opinions with respect to the application of the Rule and whether compensation payments and plans are consistent with EESA, TARP, and the public interest

Senior Executive Officers ("SEOs"): A "named executive officer" of a TARP recipient as defined under Federal securities law, which generally includes the principal executive officer ("PEO"), principal financial officer ("PFO"), and the next three most highly compensated employees.

Since taking office, the Special Master has made an initial ruling, approving "in principle" the pay package of the new AIG President and CEO, Robert Benmosche.[237] The Special Master formally approved the proposed compensation structure for Mr. Benmosche in a letter released on October 2, 2009.[238]

Executive Compensation Reform beyond TARP

On March 26, 2009, Treasury outlined its framework for regulatory reform to try to close the "gaps and weaknesses in [the U.S.] financial regulatory system."[239] As part of the overall regulatory reform agenda, Treasury proposed regulatory standards that would apply to all public companies and not just TARP recipients. On July 16, 2009, Treasury delivered draft legislation addressing executive compensation at all

public companies — "Say on Pay" and compensation committee independence. The "Say on Pay" legislation is intended to "encourage greater accountability … in setting compensation."[240] The compensation committee independence legislation is intended to further ensure that public companies' compensation committees can accomplish their job of "negotiating executive compensation arrangements that protect long-term shareholder value."[241]

Say on Pay

The "Say on Pay" legislation would require all publicly traded companies to give shareholders a non-binding vote on the pay packages described in executive compensation disclosures.[242] The vote would be based on disclosures detailing the forms of compensation paid — salary, bonuses, stock, and option awards — as well as the total compensation amounts. This bill would also mandate a separate vote on golden parachutes in the case of a merger or acquisition.[243] The bill is designed to make the board of directors at every public company more accountable to the owners of the company and help align compensation plans with long-term value creation.[244]

Compensation Committees

According to Treasury, the independence of directors on public companies' compensation committees can be compromised in the following circumstances: when there are directors on the committee who may benefit from executives' decisions; when the compensation committee is unable to bargain effectively with executives over complex compensation decisions; and when the committee relies on advice from possibly conflicted consultants or legal counsel.[245] The compensation committee independence legislation would require that these committees be "independent in fact, and not just in name," from outside influences.[246]

The Treasury-proposed legislation would ensure compensation committee independence through three standards:[247]

- by requiring "[m]embers of the compensation committee [to] meet exacting new standards for independence" (including standards that would, among other things, limit relationships with company management and prohibit independent directors from receiving payments from the company other than directors' fees)
- by requiring that any compensation consultants and legal consultants that compensation committees hire be independent from management
- by giving compensation committees "the authority and funding to hire independent compensation consultants, outside counsel, and other advisors who can help ensure that the committee bargains for pay packages in the best interests of shareholders," while, at the same time, requiring that "if the committee decides not to use its own compensation consultant, it explain that decision to shareholders"

SECTION 3

THE IMPACT OF CREDIT RATING AGENCIES ON TARP AND BEYOND

INTRODUCTION

Credit rating agencies enjoy a position of significant influence in the U.S. and world financial system. There are three dominant agencies within the market: Moody's Investor Services ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch"). Financial market players, including broker-dealers, investment advisors, and investors, rely on credit rating agencies' ratings of a security or issuer as an independent evaluation of credit risk; thus rating agencies play an important role in how financial institutions allocate their capital. Further, rating agencies have a direct impact on companies' and governments' cost of capital — the lower the credit rating, the more the debt issuer will have to pay in terms of interest. The power and influence of the rating agencies can often be seen in the marketplace, especially when they downgrade a security or issuer, as was the case with American International Group, Inc. ("AIG") in 2008. This can serve as the death knell of a company, especially a financial institution whose livelihood revolves around raising capital at a cheaper rate than it earns on its investments. The U.S. Government reinforces the power of rating agencies by including in certain laws and regulations a reliance on high ratings.

Cost of Capital: The "price" a company must pay to finance an investment or project. For debt financing, this is the interest rate on any loans or bonds. For equity financing, it is the "opportunity cost" of using its capital elsewhere (*i.e.*, what the company could have reasonably expected to earn from using its cash in a low-risk investment such as Government bonds).

Since the onset of the financial crisis and the Government's efforts to restore financial stability through the Troubled Asset Relief Program ("TARP") and other measures, there has been considerable discussion of the extent to which rating agencies contributed to the crisis, particularly with regard to ratings they provided on securities based on subprime mortgages, and the prominent role they play in Government programs designed to address the crisis, including TARP. Rating agencies are often mentioned in the debate around reforming financial sector regulation — with many observers calling for substantial changes in the regulation of rating agencies, particularly changes designed to address the inherent conflicts of interest that rating agencies face in their business model. In fact, the European Union recently unveiled new rating agency regulations of its own stemming from the global financial crisis.[248]

The U.S. Government, however, while proposing some increased regulation of rating agencies, has not called for the type of significant overhaul of rating agencies that others have called for as part of its broad regulatory reform proposals. On October 5, 2009, the Securities and Exchange Commission ("SEC") adopted several new final rules relating to rating agency regulation but re-opened others to further discussion, deferring final decision until a future date.[249] These reform efforts have focused largely on disclosure and managing conflicts of interest, rather than on Government regulation of ratings substance and methodologies. Indeed, in Congressional testimony, Treasury's Assistant Secretary for Financial Institutions stated that such efforts would be counterproductive: "The government should not be in the business of regulating or evaluating the methodologies themselves, or the

performance of ratings. To do so would put the government in the position of validating private sector actors and would likely exacerbate over-reliance on ratings."[250]

In this section, the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") intends to provide an overview of rating agencies, their operations, and their prevailing role in the financial crisis (specifically their impact on TARP recipients and on TARP-related programs such as the Term Asset-Backed Securities Loan Facility ("TALF") and the Public-Private Investment Program ("PPIP")) in order to put into context the role of rating agencies.

BACKGROUND ON CREDIT RATING AGENCIES

What Credit Rating Agencies Do

When a company requires funds for investment or to pay expenses, it often seeks to borrow money through debt financing. Debt financing can come in several forms — with the most common being loans, bonds, and commercial paper (unsecured short-term debt issued by a company). When a company approaches a bank for a loan, the bank might conduct a thorough analysis of the prospective borrower's creditworthiness. This process of evaluation is called due diligence, and the bank often takes a close look at a wide range of financial information from the prospective borrower — much as it might examine an individual's financial health who has applied for a mortgage. The bank will look at the borrowers' income to determine if they have the means to repay the debt over time and their debts to determine whether the prospective borrowers have other obligations that may interfere with their ability to repay, as well as a number of other factors. The process requires a great deal of disclosure and effort from both parties, which makes for a high transaction cost for the particular loan.

A similar due diligence process must also be conducted when a company issues securities (such as asset-backed securities ("ABS")). An ABS issuance is a security that packages together a number of underlying assets — such as mortgages, car loans, or student loans with similar characteristics — and makes regular interest payments to investors. The higher the risk level of the underlying assets, the higher the interest rate the securities will typically pay to investors. An investor in a corporate debt issuance must conduct due diligence to understand the risk of the issuing company, while the ABS investor must understand the risk of each underlying asset and the ABS structure. For a typical investor to properly understand the composition of the security and the inherent risk of the underlying assets, the transaction costs associated with conducting the due diligence could be significant. In the case of both debt and securities issuance, there are dozens or hundreds of prospective investors that would be subject to such transaction costs.

Due Diligence: The appropriate level of attention or care a reasonable person should take before entering into an agreement or a transaction with another party. In finance, often refers to the process of conducting an audit or review of documents and information prior to initiating a transaction.

Transaction Cost: The tangible and intangible costs associated with buying or selling an asset. Tangible costs can include fees paid (such as to a broker when selling bonds or to lawyers for drafting documents), while intangible costs can include the time or effort spent reviewing documents and traveling to visit a client, for instance.

This is where rating agencies become involved in the process. A rating agency researches the risks of a prospective new security and of the security issuer and issues its opinion, or rating, to the universe of prospective investors. The issuer can be any number of organizations from a company (public or private), to a government (state, municipal, or national), to a special purpose vehicle ("SPV") as is often the case in an ABS issuance. The rating agency conducts its research and assigns a rating, or score, to both the security and the issuer. A higher rating means lower risk and consequently a lower interest rate that the issuer will have to pay to investors.

The rating given by a rating agency has significant implications for a company's cost of capital. Prospective investors look at the score given by the rating agency and use it to help determine the interest rate they expect from the issuer. For instance, two companies issue bonds with a par value of $1,000. One has a top credit rating (AAA) and one has a significantly lower rating (BB). The relative riskiness of the company with the lower rating means that investors will demand that the company pay a higher interest rate to compensate for the higher risk that the bond will default.

Rating agencies also monitor the ongoing creditworthiness of entities or securities. If, for instance, a company experiences a significant deterioration in its business that has the potential to impair the company's ability to honor its debt obligations, a rating agency is likely to initiate a rating action — potentially changing the rating. First, it may put the company on "ratings watch," meaning the rating agency is conducting a review of the current rating to determine if it should be maintained. If the rating agency determines that conditions no longer merit the current rating, the rating agency may downgrade the company and/or its securities to a lower rating. Conversely, a company or security can also be upgraded. Typically these rating actions are done gradually in notches or steps.

The ratings issued by rating agencies are also often used by Government regulators to monitor the health of financial institutions. Financial companies such as money market mutual funds and insurance companies may be required by law to invest a certain portion of their assets in securities of a certain credit rating. Because money market mutual funds have an obligation to be among the safest (lowest risk) investments, regulators review the composition of their portfolios to determine whether they are sufficiently safe and, in so doing, place a premium on holding the highest-rated securities. Likewise, insurance companies have a range of available investment options but also have a responsibility to maintain sufficiently low-risk, liquid investments on hand to make good on any claims. Accordingly, by regulation, these financial institutions are required to hold some percentage of AAA-rated (the highest rating available) securities or cash. There can be regulatory consequences — such as penalties, suspension of license, or closure — should an institution not meet these requirements. Rating agencies are thus the arbiters of

Special Purpose Vehicle ("SPV"): An off-balance-sheet legal entity that holds the transferred assets presumptively beyond the reach of the entities providing the assets (*e.g.*, legally isolated).

Par Value: The face value of a bond or security (for instance $1,000 or $100). When a bond trades on the market, the price can be above or below par. A price above par means the purchaser is paying a premium; a price below par means the purchaser is buying at a discount.

Ratings Watch: A formal announcement by a rating agency informing investors that the issue or issuer rating is being reviewed to determine if the current rating is appropriate.

Government Regulators: Government agencies responsible for overseeing the health and stability of a sector of the economy — in this case, the financial sector, through supervision and enforcement of regulations.

what securities qualify to be held for regulatory purposes, and any changes to ratings of securities can directly impact a financial institution's regulatory compliance. Further, because regulators rely so heavily on credit ratings in carrying out their duties to ensure the solvency of regulated entities, errors by the rating agencies can have profound effects on those institutions.

Historically, the credit rating agencies made their money by selling subscriptions to their ratings publications to the community of investors. Today, however, rating agencies make the vast majority of their income from the fees charged to issuers of the securities that they rate — the issuers pay the rating agency to assign a rating (commonly referred to as the "issuer-pay" model). This model is frequently cited as the principal conflict of interest for the rating agencies because of the tension between attracting new issuers and providing accurate ratings. Critics allege that, in order to maintain or increase revenues, rating agencies must lower their rating standards in order to provide more favorable ratings for clients (issuers). Rating agencies also receive fees from those same issuers for ongoing monitoring of the securities they rate. In addition to credit ratings, many rating agencies make a portion of their income from consulting services — advising companies, including prospective issuers, on how to structure securities issuances in a way to attract the highest possible rating and reduce their cost of capital. Some rating agencies refuse to issue credit ratings on companies for which they provide consulting services.

Investment Grade: A quality classification for bond or debt securities (rated BBB/Baa or higher) that suggests the debt is likely to be repaid.

Yield: The effective interest rate paid by a security.

Background on Credit Ratings and Process

Each rating agency provides a scale of ratings ranging from the highest rating (lowest likelihood of default), to the lowest (the highest likelihood of default). The term "investment grade" refers to debt securities that are judged by the rating agency as highly likely to repay and suitable for institutional investors. Conversely, the euphemism "junk" (sometimes called "speculative grade") has come to mean anything that is not investment grade, and the risk of the issuer not meeting its payment obligations is high enough that an investor that must meet regulatory thresholds of conservatism and prudence (such as a pension fund) should avoid them.

Table 3.1 provides an illustrative comparison of the ratings scales of the three largest rating agencies, Moody's, S&P, and Fitch. As the table suggests, each has a different scale for long-term and short-term issues, and although the scoring used appears to be similar, there are subtle differences among the three. The ratings contained in the table are the most basic ratings for long- or short-term debt securities. The three rating agencies also provide ratings for the issuers themselves, as well as ratings for different types of structured finance products.

The lower the rating, the greater the perceived risk and the more yield an investor will demand. Obviously, the effect on the issuer is the opposite: the lower the rating, the more it must pay or the lower the price it will get for its securities. For

instance, according to data available from the Federal Reserve Bank of St. Louis, the average rate paid by the highest-rated 30-year corporate bonds (AAA/Aaa) was 5.04% on September 30, 2009, compared to a rate of 6.17% for bonds rated BBB/Baa — a full 1% difference for securities within the investment-grade category.[251]

TABLE 3.1

CREDIT RATING SCALES OF 3 LARGEST AGENCIES

		Moody's Investor Services		Standard & Poor's		Fitch Ratings	
Band	**Rating**	**Long Term**	**Short Term**	**Long Term**	**Short Term**	**Long Term**	**Short Term**
Investment Grade	Prime	Aaa	Prime-1	AAA	A-1+	AAA	F1+
	High grade	Aa1		AA+		AA+	
		Aa2		AA		AA	
		Aa3		AA-		AA-	
	Upper medium grade	A1		A+	A-1	A+	F1
		A2		A		A	
		A3	Prime-2	A-	A-2	A-	F2
	Lower medium grade	Baa1		BBB+		BBB+	
		Baa2	Prime-3	BBB	A-3	BBB	F3
		Baa3		BBB-		BBB-	
Speculative Grade or "junk"	Speculative, but likely to repay	Ba1	Not Prime	BB+	B	BB+	B
		Ba2		BB		BB	
		Ba3		BB-		BB-	
	Speculative, deterioration expected	B1		B+		B+	
		B2		B		B	
		B3		B-		B-	
	Substantial risk of business interruption	Caa1		CCC+	C		C
	Substantial risk of default	Caa2		CCC		CCC	
	Highly vulnerable	Caa3		CCC-		CCC-	
	Near default	Ca		CC		CC	
				C		C	
	In default	C		D		D	D

Sources: Moody's (http://v3.moodys.com/ratings-process/Ratings-Definitions/002), S&P (http://www2.standardandpoors.com/spf/pdf/fixedincome/Ratings_Definitons_Update.pdf), Fitch Ratings (http://www.fitchratings.com/web_content/ratings/fitch_ratings_definitions_and_scales.pdf), accessed 10/5/2009.

Issuance

Credit ratings are issued or edited at two key points: at security issuance and when an event or change in business conditions could affect the issuer or security creditworthiness and trigger an upgrade or downgrade. The issuance of a rating for a security, especially a structured finance security, is often an iterative process. Because the major rating agencies all publish their stated methodologies for determining a rating, it is routine for the investment bankers who structure the products to review these documents and attempt to structure the security in such a way as to receive the highest possible rating. If the issuer has questions about how to improve its rating (or methods for minimizing the perception of default risk), it will often ask rating agencies for comments or advice. In certain instances, an issuer will pay for consulting services to receive assistance in structuring the product and achieving a target credit rating. Securities Exchange Act Rule 17g-5(c), instituted in early 2009, expressly prohibits a rating agency from providing consulting services on issuances that it rates.[252] Rating agencies can still provide consulting services, however, on issuances rated by another rating agency.[253]

Each of the major rating agencies publicly discloses its stated methodology and criteria for the instruments and institutions that it rates,[254] however, an SEC study of the three largest rating agencies has found that none of the rating agencies had specific, comprehensive, written procedures for rating mortgage-backed securities ("MBS") and collateralized debt obligations ("CDOs").[255]

Collateralized Debt Obligations ("CDOs"): A financial instrument that entitles the purchaser to some portion of the cash flows from a portfolio of assets, which may include bonds, loans, mortgage-backed securities, or other CDOs.

Rating Outlook: Guidance published by a rating agency indicating the medium- or long-term outlook for a company's or security's creditworthiness.

Surveillance (Ongoing Monitoring)

The vast majority of ratings are monitored by analysts at the rating agency for the duration of the security term. This process is called surveillance. Surveillance is typically paid for by the issuer, with an annual surveillance fee negotiated at the time of original rating.

As the business model for rating agencies shifted from subscriptions to issuer-pay, the cost of maintaining and monitoring ratings has also shifted to the issuers. Issuers pay for surveillance because investors demand it as a requirement for purchasing the security. Just as a downgrade of an entity's securities can affect its cost of raising capital on future issues, a lapse in ratings can also signify uncertainty about the entity's creditworthiness. Additionally, an unrated security requires very high levels of regulatory capital making it undesirable for companies.

One element of a rating agency's surveillance services is a rating outlook which assesses the potential direction of an issuer's long-term debt rating over the medium term (a two- to three-year credit horizon). Rating outlooks reflect the rating agency's evaluation of trends or risks, including developments in the economy or the fundamental business conditions, that are weighed against their potential impact on the direction of the issuer's credit rating. Rating agencies typically assign a rating outlook to all issuers for whom they provide long-term credit ratings. A rating

outlook can be "positive," "negative," "stable," or "developing," depending on the rating agency, and is not necessarily a precursor of a rating change or future credit watch action.[256]

Over the course of the security's term, any number of events and developments could change the creditworthiness outlook of the security, or more generally the issuer itself. These events, such as an "operational or fiscal deterioration, an acquisition, a divestiture, or the announcement of a major share repurchase"[257] would likely trigger a rating review and could ultimately lead to a rating action. A rating review by the rating agency analysts monitoring the security or issuer is the first step in the process of initiating a rating action (an upgrade, downgrade, or affirmation). If the analysts decide that a change to a rating may be merited, the rating agency may announce that the issue or issuer is being put on either "credit watch" for short-term changes or rating outlook for long-term changes.

Credit watch is a list maintained by a rating agency highlighting rated entities that are experiencing an emerging situation which could materially affect their credit profile in the short term.[258] Credit watch can be designated as "credit watch positive," "credit watch developing," or "credit watch negative." These designations are intended to signal to investors that further analysis is being performed, although it does not necessarily mean that a rating change is inevitable.

Credit Watch: Announcement by a rating agency of developments that may have a material impact on the creditworthiness (either positive, negative, or developing) of a company or security in the short term.

Rating Review: A formal action by a rating agency to re-assess the creditworthiness of a company or security. Could lead to a change in rating outlook, initiation of credit watch, or a rating action.

Rating Action: A modification (upgrade or downgrade) or confirmation of a company's or security's credit rating.

Rating Actions

A rating action (downgrade or upgrade) can have a material impact on the cost of capital for a company or issuer. A downgrade of the issuer's rating means that further issuances would be at a lower rating and the issuer would be required to pay a higher interest rate compared to other less-risky opportunities in the market. A change in rating can also have broader effects on the issuer's business.

A security's upgrade or downgrade can have a direct impact on the finances of those companies holding the security on their books. For instance, if a bond is downgraded from AAA to AA, it could require all of the institutions that hold those bonds as reserves (low-risk, high-liquidity securities) to put aside additional capital per regulators' requirements. As an example, consider a money market mutual fund that must invest 95% of its assets in securities with ratings in the top four long-term investment grades.[259] A downgrade in one of its holdings can drive down the value of that fund (suddenly one of its holdings that was selected because of its low risk and volatility is no longer worth what it was before) and force the fund to sell the downgraded asset at a loss and replace it with other AAA-rated securities. Furthermore, some debt agreements have "ratings triggers" embedded in their contracts that can force a company to accelerate repayment of debt if its rating falls below a specified level (such as being downgraded to speculative grade or junk).[260]

There is considerable controversy surrounding the area of ratings surveillance in that a ratings action, especially a downgrade, can have a dramatic effect on the

Margin Call: A broker's demand on an investor using borrowed money (margin) to deposit additional cash or securities in its account if the value of its capital drops below a set percent of the total investment.

SEC Net Capital Rule: A requirement that broker-dealers maintain a sufficient cushion of highly liquid assets (easily convertible to cash) in excess of liabilities to cover potential market, credit, and other risks if they should be required to liquidate.

Capital Requirement: The amount of cash and easily liquidated assets that a financial institution needs to meet Government regulations and provide a cushion against losses.

Liquidity: The ability to easily convert an asset to cash, without any significant loss in value or transaction cost.

For more information on bank capital structure, see SIGTARP's April Quarterly Report, "TARP Tutorial: Capital Structure," page 58.

viability of a company or the value of a security. Downgrades can trigger a domino effect of margin calls and collateral devaluations — the "death spiral" — that can force corporate failure.

Nationally Recognized Statistical Rating Organizations

An important development in the history of credit ratings occurred in 1975 with the creation of the nationally recognized statistical rating organizations ("NRSROs") designator for certain rating agencies. The SEC made explicit reference to NRSROs for the first time in a 1975 amendment to Securities Exchange Act Rule 15c3-1 (the net capital rule).[261] The net capital rule, which has been in use since the 1940s, sets minimum capital requirements for broker-dealers and links the determination of what assets can be considered capital to an evaluation of the riskiness of the assets.[262] Capital requirements for a broker-dealer function similarly to the bank capital requirements discussed in SIGTARP's Quarterly Report dated April 21, 2009 (the "April Quarterly Report") — they are set by regulators to establish a minimum "cushion" against potential losses in the firm's assets. Rather than allowing the securities firms to determine for themselves the riskiness of their assets, or allow them to receive inflated ratings from dubious organizations, the SEC decided to rely on the dominant three rating agencies, dubbing them NRSROs.[263]

The SEC would rely on the ratings assigned by NRSROs "solely for determining capital charges on different grades of debt securities under the Commission's net capital rule for broker-dealers."[264] The rule requires broker-dealers to deduct a percentage of the value of their securities investments from their net worth (a capital charge, or haircut) because of the risk of loss in the investments. With the advent of the NRSRO designation, however, a broker-dealer could take a smaller haircut on securities that had received an investment-grade rating by one or more of the NRSROs because such a rating was deemed to correlate with liquidity (a greater liquidity implied lower potential losses if a firm needed to convert the assets to cash). According to former SEC Commissioner Isaac Hunt, securities with an investment-grade rating from an NRSRO "typically were more liquid and less volatile in price than those securities that were not so highly rated."[265]

The three initial NRSROs were Moody's, S&P, and Fitch.[266] After the 2006 passage of the Credit Rating Agency Reform Act ("CRARA"), the number of NRSROs grew. As of September 30, 2009, there were 10 NRSROs; for a complete list of NRSROs, see Table 3.2.

Since 1975, the NRSRO concept was incorporated into a number of additional SEC rules and regulations. Congress also began using the term in legislation as did U.S. and international financial sector regulators.[267] Certain Federal regulators (as discussed in the "How the Federal Government Uses Ratings in Regulating the Financial Sector" portion of this section) use NRSRO ratings in their rules for

TABLE 3.2

CREDIT RATING AGENCIES DESIGNATED AS NRSRO

Rating Agency	Parent Company	Notes
Moody's Investors Service, Inc.	Moody's Corporation	Rating TALF issues
Standard & Poor's Ratings Services	The McGraw-Hill Companies, Inc.	Rating TALF issues
Fitch, Inc.	Fimalac S.A.	Rating TALF issues
Egan-Jones Ratings Co.		
A.M. Best Company, Inc.		Insurance companies only
DBRS Limited		Rating TALF CMBS issues
Rating and Investment Information, Inc.		
Realpoint LLC		Rating TALF CMBS issues
Japan Credit Rating Agency, Ltd.		
LACE Financial Corporation		

Sources: Capital IQ, www.capitaliq.com, accessed 9/15/2009; FRBNY Press Release "New York Fed Names Four Non-Primary Dealer Broker-Dealers as TALF Agents," 9/1/2009, www.newyorkfed.org/newsevents/news/markets/2009/an090901.html, accessed 9/15/2009.

calculating the risk-based capital of institutions, ultimately affecting how much capital the institutions have on hand to lend or invest. The increased regulatory reliance on ratings drove an increased demand for rating services by investors and securities issuers, that, combined with increased regulatory oversight of the securities industry, led to growth in the credit ratings industry. In other words, the expansion of, and reliance on, credit rating agencies was heavily influenced by the U.S. Government.

Rating Agency Impact on Financial Institutions

The financial services industry uses rating agencies to reduce the cost and effort of evaluating investments. Rather than each firm or investor exhaustively researching each potential investment and securities issuer, investors instead often rely on the judgments of rating agencies. The rating agencies centralize the work and perform analysis that would otherwise be done by the numerous investors in the market. Many of the most important effects of ratings on financial institutions come as the result of Government regulation; ratings play a critical role, for example, in how banks and other institutions value assets for regulatory capital.

Beyond the regulators, many market participants have come to depend on rating agencies for a range of needs. First, ratings are used widely in permitted investments lists found in many investment firms' policies. The largest investors in the capital markets are institutional investors — such as pension funds, insurance companies, mutual funds, trusts, and corporate or government treasury departments. Some of these institutions are concerned primarily with the preservation of capital — meaning that they generally value safety and predictability in their investments so they can reliably meet their obligations rather than risk eroding

Permitted Investments List: A statement in the charter or policies of an organization (for instance, the prospectus of a mutual fund) detailing to stakeholders the nature or types of assets in which the institution is allowed to invest. To invest in assets not on the list could mean a breach in the fiduciary responsibility of the organization.

their capital through the pursuit of higher returns. In their charters, the trustees of such institutions draw up investment policies that typically include a permitted investments clause. In the case of a risk-averse institution, such as certain pension funds or museum trust funds, it is common for the permitted investments clause to restrict fund investments to securities rated AAA or AA, the highest and second-highest ratings available. Because so many sectors of the investment world operate under similar requirements, these provisions create strong demand for the higher-rated securities. This means that higher-rated securities will be able to borrow at much lower rates, and lower-rated securities may have trouble finding a market at all.

Second, ratings are often used to re-balance institutional investors' portfolios. Many investors, particularly institutional investors, set their strategies to optimize a certain mix of safe and speculative assets. These investors buy and sell securities on a daily, weekly, or monthly basis to maintain certain balances and ratios of ratings in their overall holdings. Thus, these investors constantly monitor any movements in securities' or issuers' ratings, and adjust their portfolio holdings accordingly.

Third, ratings have an effect on the structure of new securities. The rating agencies effectively set the structures and the rules for credit programs, particularly structured financings (such as ABS, residential mortgage-backed securities ("RMBS"), and commercial mortgage-backed securities ("CMBS")), and the issuers and their advisors structure their products accordingly in order to gain the highest possible rating. Through this process, the rating agencies implicitly define what transaction structures can receive inexpensive financing and what cannot.

These are just a few of the ways in which rating agencies can influence the financial markets; their decisions may create new markets and can mean the end of others.

CREDIT RATING MARKET

In 2007, the credit rating industry had total revenues of approximately $6 billion.[268] As cited in Congressional testimony, the three main NRSROs — Moody's, S&P, and Fitch — currently account for 95% of the global market for credit ratings.[269] Historically, rating agencies have focused on providing ratings on several primary market segments:

- Sovereigns (countries' or governments' debts)
- Municipalities and their issues (state or local governments or public authorities may issue debt to finance operations for specific projects such as infrastructure investments)
- Corporate Issuers (the companies that issue securities to finance their operations)
- Corporate Issues (the specific securities issued by companies to finance their operations)

- Financial Institutions (deposit-taking banks)
- Insurance Companies

Since the 1970s, however, structured finance, which includes asset-backed securitization and a range of other financial innovations, has become an increasingly prominent portion of the rating market. The asset-backed securitization ratings market experienced enormous growth since the late 1990s with the booms in telecommunications, the Internet, and especially housing. For example, total residential mortgage production in the United States grew from $639 billion in 1995 to $3.3 trillion in 2005, leading to approximately $6.5 trillion of securitized mortgages by year-end 2006.[270] During this time period, Wall Street developed a range of new products that helped institutions package up debt or other obligations and resell streams of income from the new products to other investors. These products included CDOs and ABS — which included RMBS and CMBS. In fact, CDOs often comprised bundles of different ABS, and sometimes other CDOs. The growth of CDOs corresponded to a simultaneous growth of another product — an insurance-like contract against the default of a company or security called a credit default swap ("CDS"). Rating agencies provided ratings on all types of ABS and CDOs.

Coinciding with the growth of the structured finance market, the combined revenues for Moody's, S&P, and Fitch increased from $3 billion in 2002 to approximately $6 billion in 2007.[271]

Rating-Agency Fees

The major rating agencies earn their income primarily through fees related to the process of issuing ratings under the issuer-pay model. Prior to the 1970s, rating agencies made the majority of their income from selling their ratings to investors who subscribed for regular reports — a method called "investor pay."[272] Now, although rating agencies continue to charge fees for other services, such as subscriptions, research reports, and consulting, such services provide a smaller portion of their rating revenues.

The fees charged to issuers can be structured several ways:[273]

- a fixed-rate recurring fee for an issuer rating or for the surveillance of a rating
- a one-time transaction fee based on a percentage (typically several hundredths of 1%) of the nominal value of a transaction-related offering
- a combination of the two (such as a recurring or one-time fee covering both issuer and transaction/offering ratings)

Furthermore, fees can differ across types of offerings — with structured

Credit Default Swap ("CDS"): A contract where the seller receives a series of payments from the buyer in return for agreeing to make a payment to the buyer when a particular credit event outlined in the contract occurs (for example, if the credit rating on a particular bond or loan is downgraded or goes into default). It is commonly referred to as an insurance-like product where the seller is providing the buyer insurance-like protection against the failure of a bond. The buyer, however, does not need to own the asset covered by the contract, which means it can serve essentially as a bet against the underlying bond.

TABLE 3.3

INDICATIVE RATING FEES (ISSUANCE)

Rating Agency	Fee (corporate issuance)	Fee (structured finance)	Example issuance fee: $1 billion RMBS
Fitch Ratings	3 – 7 basis points (0.03 – 0.07%)	3 – 3.5 basis points (0.03 – 0.03%)	$160,000 (@ 3.5 basis points) w/ fee cap
Standard & Poor's Ratings Services	3.25 – 4.25 basis points (0.0325 – 0.0425%)	Up to 12 basis points (up to 0.12%)	$1,200,000 (@ 12 basis points)

Source: FRBNY, "Understanding the Securitization of Subprime Mortgage Credit," 3/2008, www/newyorkfed.org/research/staff_reports/sr318.pdf, accessed 9/22/2009. Fitch Ratings Ltd., Response to SIGTARP October 2009 Quarterly Report, 10/26/2009.

product offerings typically having a higher fee than corporate issuances.[274] Table 3.3, derived from a report by the Federal Reserve Bank of New York ("FRBNY"), illustrates the fees charged by S&P and Fitch (the report noted that Moody's does not publish its fees).

Many rating agencies make a portion of their income from sources other than issuing ratings and surveillance. These sources include their traditional source of revenue — subscriptions to ratings information services — but have also grown to incorporate specialized credit risk management software and the provision of consulting services around debt or structured finance issuances. In 2003, the SEC noted that "these businesses include ratings assessment services where, for an additional fee, issuers present hypothetical scenarios to the rating agencies to determine how their ratings would be affected by a proposed corporation action (*e.g.*, a merger, asset sale, or stock repurchase)."[275] Thus the rating agencies, for a fee, advise the companies on how they can structure their transactions to get the best ratings; since the enactment of Securities Exchange Act Rule 17g-5(c) in 2009, however, they can no longer do so for an issue they are rating.[276]

Even when no official consulting services were provided, the process of receiving fees for ratings has been cited as having inherent conflicts of interest. Due to the competition among the rating agencies, issuers often approach more than one rating agency to pursue the most favorable rating for a security issuance ("ratings shopping"). The issuer might approach several rating agencies to receive preliminary ratings on its prospective offering and then walk away from the ratings it does not like.[277] As a result, an agency that consistently provides more conservative ratings may find itself losing market share.

Ratings Shopping: Also known as "forum shopping"; the process where an issuer approaches a rating agency to receive a "preliminary rating" before it seeks an official rating. If it does not get the desired rating, the issuer proceeds to another rating agency until it receives the desired rating.

The potential conflicts of interest are even higher for situations where a rating agency receives consulting fees directly associated with helping an issuer to structure a security in order to maximize its credit rating while at the same time also being paid to assign a rating to a different security issued by that same issuer. Although some rating agencies claim that they have sufficient controls in place to prevent the provision of such services from affecting their ratings, others have made it a policy not to issue ratings for firms or securities for which they have

provided structuring advice. One of the smaller rating agencies, DBRS Limited ("DBRS"), explicitly prohibits its staff "from making recommendations to an obligator, issuer, underwriter or sponsor of a security about the corporate or legal structure, assets, liabilities, or activities of the obligator or issuer of the security for which DBRS intends to assign, or has assigned, a rating."[278]

Credit Rating Agency Reform Act

Following the various accounting scandals of the early 2000s involving companies that had been assigned top credit ratings despite their imminent downfall (such as Enron and WorldCom),[279] Congress began to reexamine the role of NRSROs. Congress attempted to tighten oversight of the NRSROs with the 2006 passage of the Credit Rating Agency Reform Act ("CRARA").

One of the primary issues that CRARA tried to address was the concentrated nature of the credit rating industry. One of the principal barriers to entry for new competitors, prior to CRARA, was the requirement for a rating agency to be nationally recognized in order to achieve NRSRO status — a chicken-or-egg dilemma for many smaller rating agencies. Under CRARA, designation as an NRSRO is determined by an application process and an SEC vote.[280] Although this change resulted in an increase in the number of NRSROs, the market share of the large three rating agencies remains largely unaffected.

CRARA also attempted to address challenges to the independence and reliability of credit ratings, principally around information disclosure and the conflicts of interest inherent in the issuer-pay business model. Changes made under CRARA included:[281]

- authorizing the SEC to designate certain conflicts as "disclose-and-manage," meaning the NRSRO must disclose conflicts of interest in its business and issue policies and procedures to mitigate against these conflicts
- authorizing the SEC to prohibit certain conflicts outright, such as an NRSRO issuing ratings for an entity from which it receives more than 10% of its net revenue or an NRSRO downgrading or threatening to downgrade an existing security if it does not receive the issuer's business on another issue

Additionally, CRARA authorized the SEC to conduct "reasonable periodic, special, or other examination by representatives of the Commission."[282] To facilitate such oversight, CRARA required NRSROs to create and maintain a set of documents, which includes documenting their ratings methodologies as well as retaining any external and internal communications related to any ratings action.[283]

While CRARA sought to promote more competition in the credit rating market, reduce potential conflicts of interest, and promote more disclosure, its reforms were insufficient to prevent the damage of the 2007–2008 financial crisis.[284] At

the time CRARA was passed, the subprime market had not yet imploded and the general reforms of CRARA were focused on problems identified in the post-Enron years. These reforms, when codified into rules in 2007 and 2008, did little to affect the dominance of the three largest NRSROs in the field of structured finance (where subprime risks were most highly concentrated).[285] As a 2009 working paper from the International Monetary Fund ("IMF") observed, "in the U.S., implementation of the 2006 Rating Act lagged the current crisis."[286] CRARA also explicitly prohibited the SEC from regulating the substance of ratings and did not address the quality and timeliness of monitoring activities.[287]

HOW THE FEDERAL GOVERNMENT USES RATINGS IN REGULATING THE FINANCIAL SECTOR

The U.S. Government institutions that regulate the financial sector are responsible for ensuring its soundness and safety. These regulators oversee certain institutions, such as deposit-taking banks, pension funds, and insurance companies, that have a fiduciary responsibility to their customers because, in many ways, peoples' savings and future livelihoods are dependent on the stability of these entities. For certain types of institutions, these fiduciary restrictions clearly dictate that the institutions must invest a certain portion of their assets in relatively "risk-free" or AAA-rated securities.

Illustrative Regulations

Financial sector regulators that rely heavily on ratings include the SEC, the U.S. Commodity Futures Trading Commission ("CFTC"), Federal Deposit Insurance Corporation ("FDIC"), the Federal Reserve, the National Association of Insurance Commissioners ("NAIC"), the National Credit Union Association ("NCUA"), Office of the Comptroller of the Currency ("OCC"), Office of Thrift Supervision ("OTS"), Department of Housing and Urban Development ("HUD"), and the Federal Housing Financing Agency ("FHFA"). Since the introduction of NRSROs in 1975, the Federal Government and its regulatory institutions have issued a number of regulations that specify how credit ratings are to be used for regulatory purposes. Some examples of Federal regulatory references to credit ratings include those outlined in Table 3.4.

TABLE 3.4

KEY REGULATIONS INVOLVING NRSRO CREDIT RATINGS

Pertains To	Regulator	Rule	Description
Banks	Banking regulators: Fed, OCC, FDIC, OTS	Standardized Approach to Risk-Based Capital	The proposed "standardized approach" permits banks to use NRSRO ratings to determine risk weights for a broad range of exposures, including sovereign risk, corporate exposures, and securitization exposures, including exposures related to MBS. Employed by all banking regulators.
Banks	FDIC	Code of Federal Regulations, Title 12, Banks & Banking § 325	FDIC's incorporation of risk-based capital regulations from standardized approach states appropriate risk weightings for assets rated by NRSROs.
Banks	FDIC	Code of Federal Regulations, Title 12, Banks & Banking § 346.19	Establishes risk-based premiums payable by insured banks to FDIC, depending on their level of capitalization. Relies on NRSROs to calculate risk-based capital determination of "adequately capitalized" versus "well capitalized" as determinant for premium payment.
Banks	Federal Reserve Board	"Regulation H" (Code of Federal Regulations, Title 12, Banks & Banking § 208)	Per the standardized approach — refers extensively to ratings, relying on the NRSRO designation for risk-based capital calculations, and other securities-related regulations for member banks in the Federal Reserve System.
Banks	Federal Reserve Board	"Regulation F" (Code of Federal Regulations, Title 12, Banks & Banking §§ 206.3, 206.5)	Regarding prudential standards for limiting liability in inter-bank relationships — a "bank rating agency" can be relied upon to assess the financial condition of a correspondent (whether or not the correspondent is adequately capitalized) or to select a correspondent.
Banks	Federal Reserve Board	"Regulation Y" (Code of Federal Regulations, Title 12, Banks & Banking § 225)	Per the standardized approach — establishes risk-based capital calculations for bank holding companies; refers extensively to ratings of NRSROs.
Banks	OCC	Code of Federal Regulations, Title 12, Banks & Banking §§ 1.2, 1.5	Defines the term "investment grade" as being rated in one of the four highest rating categories by two or more NRSROs, or one NRSRO (if it has only been rated by one); establishes that "Investment Securities" must be investment grade to not be considered predominantly speculative. Requires banks to conduct proper due diligence on investment securities, if not rated by an NRSRO.
Banks	OCC	Code of Federal Regulations, Title 12, Banks & Banking § 3	Establishes risk-based capital ratings for banks regulated by OCC, per the standardized approach. Relies extensively on NRSRO ratings for capital requirements.
Banks (Credit Unions)	NCUA	Code of Federal Regulations, Title 12, Banks & Banking § 703	Federal credit unions. Relies on NRSROs in setting permissible investments. Allows Federal Credit Unions to invest in certain securities (such as municipal bonds, mortgage notes, European financial option contracts) provided the securities or counterparties have a high enough credit rating as determined by an NRSRO.
Banks (Credit Unions)	NCUA	Code of Federal Regulations, Title 12, Banks & Banking § 704.2, 704 App. A	Corporate credit unions. Relies on NRSROs in setting permissible investments for purposes of measuring minimum capital. All investments, other than in corporate credit unions or in products of Government-Sponsored Enterprises (GSEs), must have long-term ratings no lower than AA- or short-term ratings no lower than A-1 (or equivalent). Additionally sets requirements for corporate credit unions to make additional investments such as derivatives and lower-rated securities.
Banks (Foreign)	FDIC	Code of Federal Regulations, Title 12, Banks & Banking § 347	Whenever a foreign bank has an FDIC-insured U.S. branch, it must pledge assets to FDIC or its designee to protect the Deposit Insurance Fund in the event that FDIC is called on to pay for insured deposits of the branch. Ratings by NRSROs are relied upon in determining what types of assets may be pledged by the bank.
Banks (Thrifts)	OTS	Code of Federal Regulations, Title 12, Banks & Banking § 567	Establishes risk-based capital ratings for banks regulated by OCC, per the standardized approach. Relies extensively on NRSRO ratings for capital requirements.
Broker-Dealers	SEC	Rule 15c3-1 (Net Capital Rule) under the Securities Exchange Act of 1934 ("Exchange Act")	Under the Net Capital Rule, which requires broker-dealers to deduct from their net worth certain percentages of the market value of their proprietary securities positions in calculating their net capital, broker-dealers may apply smaller deductions, or "haircuts," against the market value of commercial paper rated in one of the three highest rating categories by at least two NRSROs and to nonconvertible debt securities and preferred stock rated in one of the four highest rating categories by at least two NRSROs. *(Commission has proposed removing the references to NRSRO ratings.)*

Continued on next page.

KEY REGULATIONS INVOLVING NRSRO CREDIT RATINGS (CONTINUED)

Pertains To	Regulator	Rule	Description
Broker-Dealers	SEC	Rule 10b-10 under the Exchange Act	Requires broker-dealers providing transaction confirmations to inform customers if a non-Government debt security is unrated by an NRSRO, if applicable. *(Commission has proposed rescinding requirement.)*
Broker-Dealers	SEC	Form X-17A-5 Part IIB, under section 17 of the Exchange Act	A financial and operational report that must be completed by all broker-dealers that are registered with the SEC. Allows OTC derivatives dealers to employ NRSRO ratings to calculate credit risk weights of counterparties. *(Commission has proposed removing references to NRSROs as well as the related substantive provisions of Net Capital Rule.)*
Corporate Debt	SEC	Rule 3a1-1 under the Exchange Act	Distinguishes between investment-grade corporate debt and non-investment-grade corporate debt based on NRSRO rating. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Corporate Debt	SEC	Regulation ATS under the Exchange Act	Establishes different trading system access and compliance requirements for investment-grade and non-investment-grade corporate debt securities. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Corporate Debt	SEC	Form ATS-R and Form Pilot under the Exchange Act	Registration forms delineating reporting requirements for investment-grade and non-investment-grade corporate debt securities. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Debt Issuers	SEC	Form S-3, under Securities Act of 1933 (the "Securities Act")	Issuers of certain debt securities that receive an investment-grade rating (typically, within an NRSRO's top four rating categories) from an NRSRO are entitled to a streamlined registration process (short-form registration) under Form S-3. *(Commission has proposed new guidelines for eligibility, not based on NRSRO ratings.)*
Debt Issuers	SEC	Form F-3, under the Securities Act	A form used by foreign private issuers to register offerings of securities with the SEC. To be considered "investment grade," primary offerings of non-convertible securities must be rated investment grade (typically, within an NRSRO's top four rating categories) by at least one NRSRO. *(Commission has proposed new guidelines for eligibility, not based on NRSRO ratings.)*
Debt Issuers	SEC	Rule 415, under the Securities Act	Allows "mortgage-related securities" (rated in one of the two highest rating categories by at least one NRSRO), to be eligible for shelf registration. *(Commission has proposed new guidelines for eligibility, not based on NRSRO ratings.)*
Debt Issuers	SEC	Rule 3a-7 under the Investment Company Act of 1940 (the "1940 Act")	Requires that structured financings offered to the general public are rated by at least one NRSRO in one of the four highest ratings categories. *(Commission has proposed removal of references to NRSRO ratings.)*
Debt Issuers	SEC	Regulation FD - (Code of Federal Regulations, Title 17, Commodity & Security Exchanges § 243.100)	Exempts issuers from public disclosure requirements for material non-public information provided to rating agencies (provided the rating agency's ratings are publicly available).
Debt Issuers	SEC	Rule 134 under the Securities Act	Permits issuers to disclose certain ratings from NRSROs in "tombstone" advertisements and other non-prospectus information. *(Commission has proposed amending rule to include all credit ratings agencies rather than only NRSROs.)*
Debt Issuers	SEC	Rule 436(g) under the Securities Act	Issuers with credit rating from an NRSRO do not need to submit rating agency consent form along with issue registration. Exempts NRSROs from expert liability under section 11 of the Securities Act. *(Commission has solicited comment on whether rule should be rescinded.)*
Housing Finance	FHFA	Code of Federal Regulations, Title 12, Banks & Banking § 1750	Establishes risk-based capital requirements for the GSEs, relying extensively on credit ratings from NRSROs in "stress tests" used for calculating risk-based capital requirements.
Housing Finance	FHFA	Code of Federal Regulations, Title 12, Banks & Banking §§ 930, 932	Establishes risk-based capital requirements for Federal Homeloan Banks, relying extensively on credit ratings from NRSROs for determination of investment-grade rating and capital requirements related to securities and off-balance-sheet items.
Housing Finance	FHFA	Code of Federal Regulations, Title 12, Banks & Banking § 955	Sets asset-quality requirements for participation in the Acquired Member Asset ("AMA") program, which gives mortgage lenders an alternative to selling mortgages in the secondary market. Uses NRSRO designations in determining credit-risk-sharing structure and risk-based capital requirements for acquired assets.

Continued on next page.

KEY REGULATIONS INVOLVING NRSRO CREDIT RATINGS (CONTINUED)

Pertains To	Regulator	Rule	Description
Housing Finance	FHFA	Code of Federal Regulations, Title 12, Banks & Banking § 956	Sets permissible investment list for Federal Homeloan Banks, prohibiting them from investing in debt instruments that are not investment-grade, as determined by NRSROs (with certain exceptions). Establishes risk-based capital requirements for investments (based on NRSRO ratings).
Housing Finance	FHFA	Code of Federal Regulations, Title 12, Banks & Banking § 966	Requires the Federal Homeloan Banks to acquire, and at all times maintain, the highest rating from an NRSRO rating on their consolidated obligations. Further requires each individual bank to maintain at least the second-highest rating from an NRSRO.
Housing Finance	HUD	Code of Federal Regulations, Title 24, Housing and Urban Development § 266.100	To participate in a Federal Housing Administration ("FHA") risk-sharing program for insured, affordable multifamily project loans, a potential housing finance agency must be rated "top-tier" by an NRSRO, and must maintain an overall A rating for its bonds.
Insurance	NAIC	The FE Rule	Securities rated and monitored by one or more NRSRO are automatically assigned an equivalent Securities Valuation Office ("SVO") rating, rather than requiring the SVO to conduct its own valuation.
Insurance	NAIC	Purposes & Procedures Manual	Establishes guidelines enabling an NRSRO to be considered an Acceptable Rating Organization ("ARO") for NAIC regulatory purposes.
Insurance	NAIC	Policy Statement on Financial Regulation Standards ("SFRS")	Identifies laws and regulations that must be adopted by state insurance regulators, specifying the use of NAIC designations (which are interchangeable with those of NRSROs).
Insurance	NAIC	Authorized Control Level Risk Based Capital Rule	Establishes levels of regulatory intervention linked to defined risk-based capital ("RBC") ratios of the assets of insurers. NAIC ratings (interchangeable with NRSROs) are used to set the reserve factor that an insurer must use to calculate the appropriate RBC charges a purchased asset should make against an insurer's total RBC.
Insurance	NAIC	Asset Valuation and Interest Maintenance Reserve ("AVR") and Interest Maintenance Reserve ("IMR")	Certain insurance companies must reserve against potential credit-related and interest-related investment losses on all invested asset categories. AVR and IMR rely on the extent to which a debt security or MBS asset is upgraded/downgraded during the holding period — with losses being attributable to credit (more than one change in NAIC ratings classification — interchangeable with NRSROs), or interest (one or no change in rating category).
Insurance	NAIC	Investment Law — The Medium Grade and Lower Grade Obligations Model Regulation	Uses NAIC designations (interchangeable with NRSRO ratings) to set percentage limitations by credit quality — sets a maximum investment of 20% in medium-grade securities designated NAIC 3, 4, 5, 6.
Insurance	NAIC	Investment Law — The Investment of Insurer's Model Act Defined Limits Version	Classifies investments in categories with percentage limitations for each. Criteria include a general diversification percentage and also a credit quality percentage, many of which rely on NAIC designations (interchangeable with NRSRO ratings).
Insurance	NAIC	Investment Law — Investment of Insurer's Model Act Defined Standards Version	Requires an insurer to establish a minimum financial security benchmark, after which it may invest in any lawful investments. Limits the percentage of admitted assets that can be invested by reference to their NAIC designation (interchangeable with NRSRO ratings).
Insurance	NAIC	Valuation of Securities — Statement of Statutory Accounting Principle ("SSAP")	NAIC's accounting rules establish valuation guidance, driven by NAIC designations (interchangeable with NRSRO ratings) assigned to particular securities.
Investment Advisors	SEC	Rule 206(3)-3T under the Investment Advisers Act of 1940	Provides a temporary means for investment advisors that are also registered broker-dealers to satisfy notice and consent requirements. Certain exclusions are based on NRSRO ratings. *(Commission has proposed removal of references to NRSRO ratings.)*
Money Market Mutual Funds (MMF)	SEC	Rule 2a-7 under the 1940 Act	Uses NRSRO credit ratings to determine permissible investments for MMFs (*e.g.*, portfolio investments limited to securities that have received credit ratings from at least one NRSRO in one of the two highest short-term rating categories or, if unrated, are of comparable quality). *(Commission has proposed amending rule to remove references to NRSRO ratings.)*

Continued on next page.

KEY REGULATIONS INVOLVING NRSRO CREDIT RATINGS (CONTINUED)

Pertains To	Regulator	Rule	Description
NRSRO	SEC	Rule 17g-1 under the Exchange Act	Prescribes how an NRSRO must apply to be registered with the Commission and keep its registration up-to-date, including mandating disclosure regarding ratings performance statistics, methodologies to determine and monitor credit ratings, organizational structure, code of ethics, policies for preventing misuse of material non-public information, and the firm's conflicts of interest as well as its policies for managing conflicts of interest.
NRSRO	SEC	Rule 17g-2 under the Exchange Act	Requires an NRSRO to maintain certain financial and other records, document methodologies, and track communications with regard to a firm's rating.
NRSRO	SEC	Rule 17g-3 under the Exchange Act	Requires an NRSRO to provide the SEC with audited financial statements and a variety of unaudited reports.
NRSRO	SEC	Rule 17g-4 under the Exchange Act	Requires an NRSRO to have procedures in place regarding material non-public information that it has received during the ratings process.
NRSRO	SEC	Rule 17g-5 under the Exchange Act	Prohibits an NRSRO from having any of a number of different types of conflicts. Also, requires an NRSRO to disclose and manage other conflicts of interest.
NRSRO	SEC	Rule 17g-6 under the Exchange Act	Prohibits an NRSRO from certain unfair, coercive, or abusive practices.
Repurchase Agreements	SEC	Rule 5b-3 under the 1940 Act	Allows a fund to treat the acquisition of a repurchase agreement as the acquisition of the securities collateralizing the repurchase agreement, based in part on the NRSRO rating of the securities. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Repurchase Agreements	SEC	Rule 5b-3 under the 1940 Act	Requires the approval of an independent CPA for certain treatment on a refunded bond, unless the bond has the highest rating by an NRSRO. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Securities (Derivatives / Futures)	CFTC	Code of Federal Regulations, Title 17, Commodity & Security Exchanges § 30.7	Requires foreign FCMs that accept money, securities or property from U.S. customers to maintain, in a separate depository account, sufficient assets to cover current obligations to those customers. If depository is outside the United States and below a certain size, it may require a commercial paper rating of the two highest tiers from an NRSRO.
Securities (Derivatives / Futures)	CFTC	Rule 4d(a) 2 under the Commodity Exchange Act (Code of Federal Regulations, Title 17, Commodity & Security Exchanges § 1.25)	Establishes permissible investments for derivatives clearing organizations and future commission merchants ("FCMs") holding customer segregated funds, in order to minimize exposure to credit, liquidity, and market risks. Relies on NRSRO ratings to determine allowable commercial paper, debt, and CD investments.
Securities (Municipal)	SEC	Rule 10f-3 under the 1940 Act	Permits funds to purchase municipal securities that have received a certain NRSRO rating. *(Commission has removed references to NRSROs in this rule as of 10/9/2009.)*
Securities (Non-convertible securities (debt & preferred), ABS)	SEC	Rule 101(c)(2), Rule 102(d)(2) of Regulation M under the Exchange Act	Exempts from rule certain securities that are rated by an NRSRO in one of its categories signifying investment grade. *(Commission has proposed removing the references to NRSRO ratings.)*

Sources: SEC, Rules and Regulations for the Securities and Exchange Commission and Major Securities Laws, http://www.sec.gov/about/laws/secrulesregs.htm, accessed 10/5/2009; SEC, response to SIGTARP draft report, 10/14/2009; Electronic Code of Federal Regulations, http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl, accessed 10/5/2009; NAIC, "Staff Report: NAIC Use of NRSRO Ratings in Regulation," 3/10/2009, http://www.naic.org/documents/committees_e_rating_agency_comdoc_naic_staff_report_use_of_ratings.doc, accessed 10/5/2009.

Regulatory Capital

SIGTARP's April Quarterly Report discussed the concept of regulatory capital and the effects that a bank's financial situation can have on meeting its regulatory capital requirements. Banking regulators are concerned about safety and soundness, and one of the prime metrics they use to determine safety and soundness is the level of a bank's net regulatory capital — a calculation that relies heavily on credit ratings. To calculate a net capital number, regulators divide a bank's core capital (such as stock or retained earnings) by the value of its risk-weighted assets. Credit ratings provided by the rating agencies are frequently relied on by market participants to determine the risk weightings and the values of the assets.

Regulators require banks to hold capital equal to 4 – 6% of their risk-weighted assets.[288] FDIC uses risk weightings in the denominator of the formula that calculates the amount of regulatory capital a bank must hold to be considered adequately (4%) or well (6%) capitalized. Risk-weighted assets are calculated as the value of assets held by the bank, multiplied by the relevant risk weighting factor, as determined by the credit rating of the asset. In the numerator is the bank's net capital. So, the formula (Net Capital / Risk-Weighted Assets) must equal 6% if the bank is to be considered well-capitalized. In short, the higher the risk category, the more capital a bank must hold for the formula to produce the 6% requirement. Table 3.5 captures FDIC's risk weightings of assets by credit rating category. In short, the lower the credit rating of its assets, the more the bank must reserve (removing more funds from active use). Thus, downgrades of securities by rating agencies have a real effect on banks — forcing them into urgent action to either raise capital or shed the downgraded assets from their balance sheets.

These requirements also have implications for a bank's profitability — the higher the capital reserve required to meet regulatory standards, the lower the return on equity ("ROE") for a fixed income investment. The bank must set aside capital that it would otherwise have free for making other investments or lending money to its customers — underscoring the clear link between the actions of rating agencies and the financial institutions' profitability and ability to lend.

When conducting a review of the soundness of a bank, the regulators typically check to make sure the regulatory capital calculations are done correctly. They do not, however, review the accuracy of the credit ratings, relying instead on the rating agencies.

TABLE 3.5

COMPARISON OF RISK-WEIGHTING FACTORS, ACROSS DIFFERENT RATINGS ($100 BOND)

Long-Term Risk Weightings	
Long-Term Rating Category	**Risk Weight**
AAA, AA	20%
A	50%
BBB	100%
BB (and lower)	200%
Short-Term Risk Weightings	
Short-Term Rating Category	**Risk Weight**
A-1, P-1	20%
A-2, P-2	50%
A-3, P-3	100%

Source: Bank Holding Company Act of 1956, P.L. 511: Appendix A — Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure, http://www.fdic.gov/regulations/laws/rules/6000-1900.html, accessed 10/7/2009.

Net Regulatory Capital: A regulatory metric that requires a bank to take into consideration the relative riskiness of its assets. Calculated as common equity minus intangibles.

Core Capital: Also known as T1, refers to the common stock, perpetual non-cumulative preferred stock, paid-in capital, and retained earnings of a bank.

Risk-Weighted Assets: The amount of a bank's total assets after applying an appropriate risk factor to each asset.

Return on Equity ("ROE"): A measurement of how much profit a company generates with the money shareholders have invested. Calculated showing net income as a percentage of shareholders' equity. If a bank must hold capital (equity) aside for regulatory purposes, it can make fewer investments, with implications for ROE.

TABLE 3.6

EXAMPLE: IMPACT OF DOWNGRADED ASSET ON CAPITAL REQUIREMENTS
($ MILLIONS)

	Before Downgrade	After Downgrade
Rating	Aaa	B3
Face Value of Holding	$100.0	$100.0
Risk Weighting	20%	200%
Risk-Weighted Assets	$20.0	$200.0
Net Capital Required	$1.2	$12.0
Capital Raise Needed to Stay at 6% Risk-Weighted Capital	—	$10.8

Sources: FDIC, Part 325 — Capital Maintenance, Appendix A: Statement of Policy on Risk-Based Capital, http://www.fdic.gov/regulations/laws/rules/2000-4600/html#fdic2000appendixatopart325, accessed 10/5/2009.

Fallen Angel: In finance, can refer to a bond which held an investment-grade rating when issued, but has subsequently fallen to a much lower rating, or a once-popular investment that has fallen out of favor with investors and declined in value.

Example: Rating Downgrade and the Effect on a Bank's Balance Sheet

In 2007, the rating agencies began to downgrade rapidly a large number of securities whose collateral was underperforming — especially ABS and CDOs. Subsequently, the rating agencies downgraded approximately $1.9 trillion in RMBS,[289] with certain "fallen angels" being downgraded from AAA to junk over a short period, or even, in some cases, a single action. These downgrades had material effects on the viability of certain banks because of Federal capital requirement regulations. Table 3.6 illustrates how a downgraded RMBS might impact a bank's ability to meet its capital requirements.

The example in Table 3.6 shows a bank that had $100 million invested in a top-rated RMBS, such as the Impac Secured Assets Corp. Mortgage Pass-through Certificates, Series IMSA 2005-2 A1 ("Impac RMBS"), which had a Aaa rating from Moody's as of March 12, 2008.[290] Because of the securities' Aaa rating, the bank's investment in Impac RMBS was classified in FDIC's 20% risk category, meaning that the bank must multiply its $100 million holding by 0.2 and further multiply that product by 0.06 (the desired capitalization level) to determine the amount of capital the bank must hold to satisfy regulatory requirements and be considered "well capitalized." Thus, pursuant to the FDIC formula, to be considered well capitalized (net capital at 6% of risk-weighted assets), the bank must set aside $1.2 million net capital against that $100 million investment.

By February 20, 2009, Moody's had cut the rating of the Impac RMBS to B3 (15 notches) — moving it from prime to junk in less than a year. Consequently, the asset would be moved to the 200% risk category on the FDIC scale, and the bank would be required to reserve $12 million (or 10 times more than initially required

when the security was rated Aaa approximately one year before). This meant that the bank would have to raise an additional $10.8 million in capital if it wanted to continue holding the security.

In order to increase regulatory capital from $1.2 million to $12 million, the bank would have to make some hard choices about how to raise that additional money. The bank's options include:

- Sell the RMBS (most likely at a loss because of the downgrade and the changed expectations for yield in the now-riskier securities) and acquire higher-quality, investment-grade assets of the same nominal amount. This would result in a reduction of cash or another asset due to the likely loss in value of the RMBS portfolio.
- Retain the RMBS, but raise regulatory capital through issuing new equity, in the process diluting the value of existing shareholders' holdings (and likely driving down the bank's stock price).
- Retain the RMBS, but raise cash by calling in $10.8 million of loans, reducing shareholders' equity and profitability in the process, and harming its customers.

In the current crisis, institutions responded to the widespread downgrades using various combinations of these options, which led to an overall reduction in lending, the crashing of prices in the MBS markets, and the large equity-raising efforts that occurred earlier this year.

ROLE OF RATING AGENCIES IN THE FINANCIAL CRISIS

Any assessment of the role of rating agencies in the creation or exacerbation of the financial crisis necessarily depends on an understanding of what factors caused the crisis. A Government Accountability Office ("GAO") study in July 2009, entitled "Financial Crisis Highlights Need to Improve Oversight of Leverage at Financial Institutions and Across System," places a large part of the blame on rising levels of leverage.[291] Leverage enables a small amount of capital to control a much larger investment. This leverage was facilitated by the dramatic increase in availability of innovative financial products such as CDOs and MBS that allowed banks and institutions to remove loans and other assets from their balance sheets and issue new loans. The structured finance market grew dramatically over the years immediately preceding the crisis, corresponding with a similar growth in revenues among the dominant rating agencies. Later, it was discovered that a great portion of the products given high ratings by the rating agencies were not deserving of those high ratings, calling into question the credibility of the rating agencies' work. Through

Leverage: The ratio of a company's debt to its equity.

a series of hearings in Congress, reports by the Federal Reserve, and studies by the SEC, it is clear that Federal regulators and overseers are focusing on the following ways in which the rating agencies contributed to the financial crisis:

- **Conflicts of Interest.** Credit ratings have been portrayed as effectively being marketing devices for a company's securities (AAA being the brand that sells the best), and that the rating agencies are paid by the promoters of the securities being sold. This contributed to issuers shopping among the credit rating agencies to determine which agency would offer the better ratings. In Congressional testimony, a former executive at Moody's stated "a large part of the blame can be placed on the inherent conflicts of interest found in the issuer-pay business model and on rating shopping by issuers of structured securities. A drive to maintain or expand market share made the rating agencies willing participants in this shopping spree."[292] There has been anecdotal evidence that in the lead-up to the crisis, these conflicts of interest yielded highly suspect ratings as ratings shopping fed into a phenomenon referred to in the same testimony as a "race to the bottom." The Moody's executive stated that "originators of structured securities typically chose the agency with the lowest standards, engendering a race to the bottom in terms of rating quality."[293] An SEC study produced internal communications between two analysts at an NRSRO in which one analyst expressed concern that the firm's "model did not capture 'half' of the deal's risk, but that 'it could be structured by cows and we would rate it.'"[294]
- **Failure to Assess Subprime Risk Accurately.** The financial crisis first reached critical proportion in the subprime mortgage markets, where ratings at times appeared to be lagging, not leading, the changes in valuation. Ratings of a corporate bond rely heavily on analysts' experience and judgment, whereas ratings for MBS rely almost exclusively on financial models.[295] If those models are flawed, it renders the ratings unreliable. A primary flaw was that these models relied on historical data (typically, 1992–2000) of mortgage default and foreclosure frequency rates, whereas loans made during 2001–2007 were very different and often much riskier. In Congressional testimony, the head of a small rating agency pointed to a second flaw in the models used by credit rating agencies in predicting housing markets — "the assumption was that the housing prices would increase. In fact, they embedded an acronym — the house appreciation rate,"[296] sometimes also called the Home Price Appreciation ("HPA"). In Congressional testimony, a subprime fund manager commented that "at least one of the NRSROs was using HPA assumptions of +6% to +8% for 2006, 2007, and 2008 in their models for securitizations underwritten in 2006 and the first quarter of 2007."[297] Obviously, this assumption that housing prices would only go up has been proven to be inaccurate. Another shortcoming in the

models was that the rating agencies did not factor in the risk associated with the mortgage originators and their questionable practices on the overall risk of the underlying mortgage pool.[298]

- **Overlooked Concentration of Risk in CDO Market.** Rating agencies have been faulted for not correctly incorporating in their ratings the imbalances in the CDO market, and the concentrations of risk that were developing. A December 2006 email communication from an S&P analyst stated, as disclosed in a Congressional hearing, that "rating agencies continue to create an even bigger monster, the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters."[299]
- **Poor Market Surveillance Contributed to Market Instability and Volatility.** A downgrade to the rating of a particular security or institution can have enormous ripple effects throughout the economy, acting as a transmission mechanism for financial stresses. It has been observed that ratings often lagged the broader capital markets, which could be attributable to underinvestment and poor protocols in the area of surveillance. In its study, the SEC observed that "the surveillance processes used by the rating agencies appear to have been less robust than the processes used for initial ratings."[300] In the case of the structured finance securities, when downgrades happened they often came in a flood. As mentioned previously, approximately $1.9 trillion of securities lost their AAA status between mid-2007 and mid-2008 — with some being downgraded to junk in one action.[301] For CDOs rated by Moody's, the average downgrade was roughly seven notches (for example, Aaa to Baa1) as compared to a previous average of three to four notches prior to 2007.[302]
- **Government-Endorsed Oligopoly.** There is a perception that the NRSRO designation that helped established the prominence of the three large rating agencies in the 1970s continues to help them build an effective oligopoly, fueled by the Government's reliance on NRSRO ratings through regulation, as described above. Similarly, the Connecticut Attorney General is investigating the requirements that the TALF program be limited to securities with AAA ratings from one of a subset of NRSROs. The Attorney General noted that the rating agencies stood to receive revenues of approximately $400 million from TALF transactions, despite being involved in the faulty ratings of the securities in the past. He likens the decision to "steering them cash to rebuild what they destroyed."[303]

TARP Reliance on Credit Ratings

The ratings issued by credit rating agencies, whether corporate or securities, impact a number of TARP programs, the TARP recipients, and ultimately the U.S. taxpayers. In particular, the following TARP-related programs have explicit provisions that rely on ratings issued by NRSROs:

- **Term Asset-Backed Securities Loan Facility ("TALF")**: Rating agencies play an integral role in TALF. TALF's risk mitigation mechanism requires that the collateral pledged for TALF loans must achieve ratings of the highest long-term investment-grade rating category (*i.e.*, AAA) from two or more of the TALF-eligible NRSROs. Additionally, the collateral must have the highest rating from any TALF-eligible NRSRO and cannot be on review or on watch for downgrade by any of the approved NRSROs. The requirement that TALF can only involve AAA-rated securities has had a significant effect on the CMBS market, potentially enhancing the AAA market at the expense of others. For more detail on the structure of TALF, see Section 2: "TARP Overview" in this report.
- **Capital Assistance Program ("CAP")**: In the Supervisory Capital Assessment Program ("SCAP") stress test, credit ratings were among the factors considered in setting capital values. Lower credit ratings for the securities held in an institution's investment portfolio meant that the institution would be required to raise more capital.
- **Public-Private Investment Program ("PPIP")**: Assets eligible for inclusion in PPIP investments must have originally received a AAA rating (or equivalent) from two or more NRSROs. Eligible assets are CMBS and non-agency RMBS issued prior to January 1, 2009, that were originally rated AAA or an equivalent rating by two or more NRSROs without external credit enhancement and that are secured directly by the actual mortgage loans, leases, or other assets and not other securities.[304]

Non-Agency RMBS: RMBS that are not guaranteed by a Government-Sponsored Enterprise ("GSE") such as Fannie Mae, Freddie Mac, or the Federal Home Loan Banks.

Credit Ratings Influence on TARP Recipients

Beyond the TARP programs that explicitly rely on credit ratings from the NRSROs, a number of TARP programs were designed to address the needs of financial institutions that were directly and indirectly affected by ratings and ratings actions. These include:

- **Capital Purchase Program ("CPP"):** Ratings downgrades affected many of the financial institutions that ultimately sought Government assistance through CPP. Ratings downgrades on banks' portfolios of securities forced them to hold more regulatory capital, which most banks had difficulty raising privately, especially at the height of the financial crisis.
- **Systemically Significant Failing Institutions ("SSFI"):** AIG's credit rating decline was instrumental in its need for a taxpayer-funded rescue, as discussed below in the AIG case study.

Example: The Downfall of AIG

Prior to the crisis, AIG had a solid reputation, reliable earnings, and was generally perceived to be one of the stronger companies in the United States. Prior to March

2005, AIG had a AAA rating and was considered likely to honor its obligations and contracts. Through its insurance policies, it was able to extend its good credit rating to products that were unable to achieve an investment-grade rating on their own. Since the 1990s, AIG had become a central figure in the fixed-income securities market, underwriting the risk on a number of structured finance products, including volatile RMBS.

As discussed in previous SIGTARP quarterly reports, RMBS and CMBS are financial instruments backed by mortgage loans (residential and commercial, respectively). The underlying loans, in turn, had been issued by mortgage lenders and banks. Most of these loans had been sold to Freddie Mac and Fannie Mae or Wall Street investment banks that would package them into bundles of loans sharing similar characteristics, turning them into a mortgage-backed security. This process, called securitization, would allow the mortgage lenders and banks to sell these loans, removing them from their balance sheet and use the cash from the sales to issue new loans. The MBS would then be sold to investors (other banks, pension funds, insurance funds) that were interested in the particular streams of income the products offered. A considerable challenge to this process was that many of these investors had a low risk tolerance and sought AAA-rated or comparable investment-grade securities. AIG, along with other Wall Street firms, developed a structuring approach that appeared to meet the desires of these prospective investors for high yields with low risks. The product AIG sold for this purpose, called a credit default swap ("CDS"), was essentially an insurance-like contract that provided protection to third-party investors against losses from the securities.

For more information on the securitization process, see SIGTARP's April Quarterly Report, page 92.

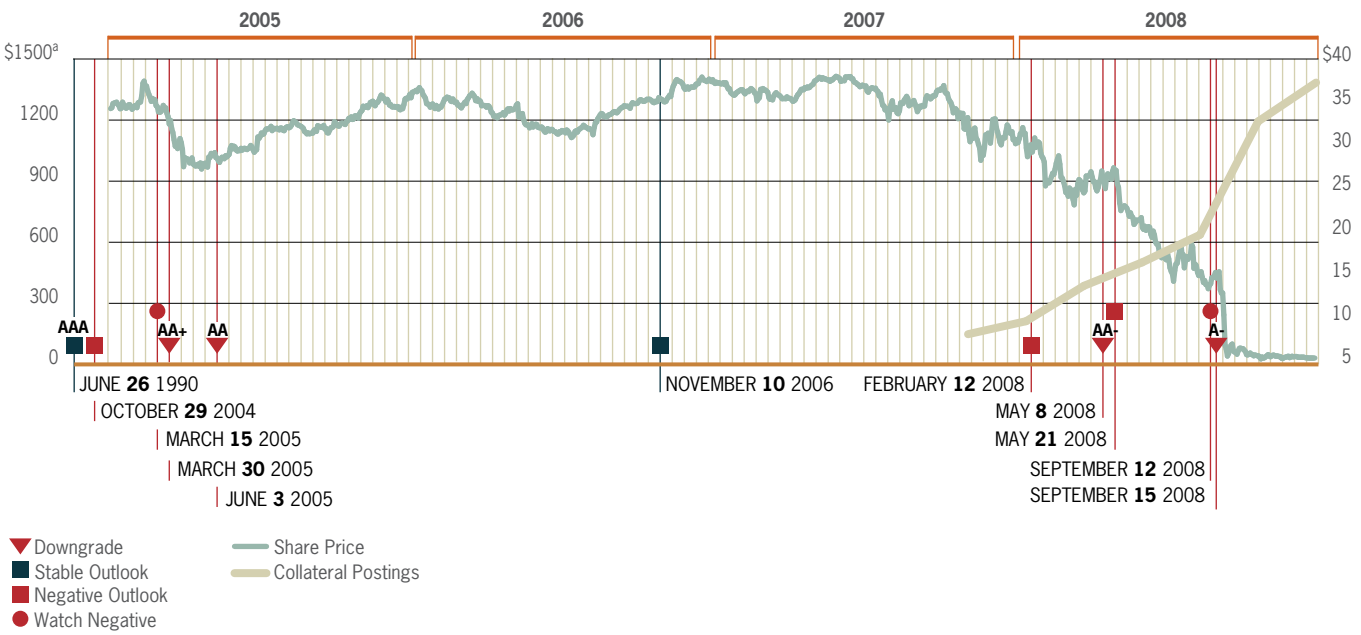
AIG Financial Products Corp. ("AIGFP"), a subsidiary of AIG, sold the CDSs to investors who were buying the MBS, firms issuing the MBS, and unrelated investors. The MBS were often further bundled into CDOs. The underlying assets upon which AIGFP's CDS contracts were written were generally CDOs. The firm purchasing the CDS (the "counterparty") would pay AIG regular insurance premiums; if the security upon which the CDS contract was written, generally a CDO, should default, AIG would be obligated to make a payout to the counterparty. Due to its corporate AAA rating, AIG was able to enter into these insurance contracts without posting any collateral, a benefit that was not available to lower-rated firms. Included in these contracts was a provision that, should AIG's credit rating be downgraded, AIG would be required to post collateral to ensure payment on these contracts. As of June 2008, AIG was counterparty to more than $400 billion of CDS, the majority of which it sold to banking institutions that used the instruments to manage their regulatory capital requirements.[305]

As reported in Congressional testimony, by 2005, the majority of CDS contracts issued by AIG were based on underlying securities, such as CDOs that were, in turn, backed by ABS, some of which were collateralized by subprime loans.[306] In early 2005, some credit rating agencies began to question certain transactions and

FIGURE 3.1

AIG SHARE PRICE AND S&P RATINGS
$ per share

AIG REPORTED COLLATERAL POSTINGS
(12/1/2007 – 11/1/2009) $ Billions



Notes: Numbers affected by rounding. Collateral postings are presented above on the date provided in AIG's SEC filings rather than on the filing date.
[a]AIG conducted a reverse stock split of 1 for 20 on 6/30/2009.

Sources: *Reported Collateral*: AIG, 10K and 10 Q filings, http://www.aigcorporate.com/investors/sec_filings.html, accessed 10/5/2009. *Share Price and Ratings Information*: S&P, "Testimony of Rodney Clark Managing Director, Ratings Services, Standard & Poor's Financial Services LLC Before the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises United States House of Representatives," 3/18/2009, http://www.house.gov/apps/list/hearing/financialsvcs_dem/rodney031809.pdf, accessed 9/28/2009; share price data from Google Finance.

AIG's creditworthiness in general. Although AIG still had a AAA rating, the firm was now closer to losing its AAA status.

In addition, if the value of the securities that AIG was insuring fell, AIG was contractually obligated to produce quickly the collateral to its counterparty to make up for the difference in the drop in price of the security. That collateral could be either cash or AAA-rated securities. The more the value of the "insured" securities fell, the more collateral would be required. In the fourth quarter of 2007, the value of subprime RMBS fell so quickly that the market could no longer effectively price the securities, and counterparties began making significant collateral calls to AIG. Figure 3.1 shows a summary of AIG's ratings changes by one rating agency, S&P, and the movement of AIG's stock price and reported collateral calls.

SELECT AIG TIMELINE HIGHLIGHTS:

- **March 30, 2005:** S&P downgraded AIG from AAA to AA+, largely due, according to Congressional testimony of an S&P executive, to "the company's involvement in a number of questionable financial transactions."[307]

- **June 3, 2005:** S&P lowered AIG's rating to AA "based on significant accounting adjustments that had just been announced by the company."[308] For the next three years, S&P held AIG's rating essentially stable.
- **February 12, 2008:** S&P placed a negative outlook on AIG based on "concerns about the way AIG was determining the fair value of CDS it had entered into."[309] Of particular concern were the CDS guaranteeing "an array of structured finance securities, including securities backed by subprime residential mortgages."[310]
- **February 28, 2008:** AIG announced that it had posted $5.3 billion in collateral "based on exposures, calculated in respect of super senior credit default swaps."[311]
- **May 8, 2008:** AIG announced that it had posted an aggregate of $9.7 billion in collateral over the previous two years.[312] A negative outlook on AIG was maintained throughout the summer of 2008. S&P lowered its rating on AIG further to AA-, in reaction to "the company's announcement of an after-tax loss of $7.8 billion, including $5.9 billion in losses related to its CDS portfolio."[313]
- **August 2008:** S&P announced that AIG's actual credit-related losses in its CDS and investment portfolios would likely amount to approximately $8 billion. It would be considerably more if AIG were forced to mark its investments to market, or list its assets on its balance sheet at their current market value.[314]
- **August 6, 2008:** AIG announced that it had posted an aggregate of $16.5 billion in collateral.[315]
- **September 2008:** Following the Government takeovers of Freddie Mac and Fannie Mae, and the bankruptcy of Lehman Brothers, among other market disruptions, AIG's financial condition deteriorated rapidly, exacerbated by "a sudden drop in the market value of AIG's investments and, more importantly, the investments of third parties that had purchased CDS guarantees from AIG."[316]
- **September 12, 2008:** S&P warned the market that it had placed AIG and its subsidiaries on credit watch negative.
- **September 15, 2008:** S&P lowered its rating further to A-, based "primarily on a combination of AIG's reduced flexibility in meeting collateral needs and its increasing CDS-related losses."[317] Following the S&P downgrade, AIG estimated that it would need "in excess of $20 billion in order to fund additional collateral demands and transaction termination payments."[318]
- **September 16, 2008:** FRBNY extended an $85 billion borrowing facility to AIG.[319]
- As of **September 30, 2009**, $69.8 billion in TARP funds was committed to be made available to AIG, of which $43.2 billion has been drawn down.[320]

Much of the Federal Reserve and TARP support for AIG stemmed from AIG's liquidity crisis related to the collateral AIG was contractually obligated to post

to counterparties. Indeed, it was largely fear of further AIG downgrades and the resulting systemic effect on the financial markets and the American retirement system that led Treasury to commit to make $70 billion of TARP funding available to AIG. In Congressional testimony, an S&P executive asserted that Government intervention was critical in stopping the decline of AIG ratings: "were it not for this government assistance, we believe that AIG's creditworthiness would have continued to deteriorate."[321] Should that creditworthiness have been allowed to deteriorate further, financial institutions, companies, and individuals would have potentially been exposed to hundreds of billions of dollars in losses from AIG's wide range of insurance and financial contracts.[322] For instance, AIG's corporate paper was widely held by money market mutual funds who maintain a net asset value of $1 per share; a default on that debt could have caused many funds to "break the buck," potentially triggering a run on those funds and other financial institutions.[323]

Net Asset Value: A fund's per-share value. Calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

Break the Buck: A decline below $1 in the net asset value ("NAV") of a money market mutual fund.

EVOLVING REGULATORY ENVIRONMENT

The SEC has implemented a number of regulatory initiatives aimed at increasing transparency within the credit rating market. Following the initial implementation of CRARA, the SEC promulgated two additional rounds of regulations, and continues to modify those regulations to require more robust disclosure with respect to ratings methodologies and further refine policies addressing potential conflicts of interest.[324] Furthermore, Treasury has recently proposed legislation aimed at enhancing supervision of the rating agencies, including provisions to require all rating agencies to register as NRSROs.

SEC Rule Changes — Round 1

Following the enactment of CRARA, in June 2007, the SEC initiated a registration program for NRSROs, implemented an application and ongoing disclosure form ("Form NRSRO"), and adopted six new rules. The newly adopted rules focused on the following issues: disclosure of information related to internal processes; retention of financial and compliance records; submission of audited financial statements to the SEC; the handling of non-public information; conflicts of interest; and prohibited practices.[325]

Following the intense scrutiny that began to fall on rating agencies in light of their role in the financial crisis, the SEC developed additional regulations. In February 2009, CRARA regulations were further expanded by the SEC when it adopted requirements related to three discrete areas: disclosure, records maintenance, and conflicts of interest. Specifically, the SEC required that rating agencies implement the following recommendations and adhere to the new restrictions:[326]

Disclosure

- provide greater specificity regarding how performance metrics are generated (Form NRSRO)
- report whether and to what extent verification of underlying assets and an assessment of the quality of the originator are considered when determining a rating for a structured product
- report the frequency of credit rating reviews (Form NRSRO)
- report whether different models are used for surveillance (Form NRSRO)
- provide the SEC an unaudited annual report of the number of ratings actions taken in the last fiscal year
- publicly disclose, when an NRSRO has more than 500 ratings in a particular rating class, the credit rating histories for a random sample of 10% of their issuer-paid ratings

Records Maintenance

- record those instances when a quantitative model produced a different rating than was ultimately assigned to a structured product and provide rationale for the discrepancy
- record all ratings actions by date from the initial credit rating to the current credit rating for all outstanding ratings

Conflicts of Interest

- prohibits NRSROs from issuing ratings for securities in which the NRSRO has consulted as to the structure of the transaction
- prohibits fee discussions between rating agency credit analysts and issuers
- prohibits credit analysts from accepting certain gifts from issuers

Additionally, on July 14, 2009, the SEC announced plans to establish a branch of examiners specifically dedicated to conducting examination oversight of the NRSROs, per the authorities given the SEC under CRARA.[327]

Treasury Proposal

On July 21, 2009, Treasury submitted recommendations to Congress with a number of provisions to strengthen oversight of credit rating agencies. Many of Treasury's proposals were reflected in the actions later addressed by the SEC during its open meeting on September 17, 2009. Treasury's proposal focused on mitigating potential conflicts of interest; increasing transparency and disclosure; strengthening SEC supervision; and reducing reliance on credit rating agencies. As announced by Treasury, the proposal would force rating agencies to take the following actions:

Originator: The lead bank or underwriter for a structured finance product.

- forgo consulting services for companies they rate
- improve disclosure of conflicts of interest
- disclose fees associated with each rating report
- designate a compliance officer
- perform a look-back for any rating issued to a company if the analyst assigned to rate the security subsequently goes to work for the company
- require disclosure of preliminary ratings to discourage ratings shopping
- develop symbols to distinguish clearly risks of structured products
- disclose qualitative and quantitative risk measured in a rating
- provide full ratings history for issuer-paid credit ratings

Treasury's proposed legislation is intended to strengthen supervision of rating agencies through the establishment of an office within the SEC dedicated solely to supervision of the rating agencies. The Treasury proposal would require registration with the SEC and submission of documented rating methodologies. Additionally, Treasury and the SEC would work with The President's Working Group on Financial Markets to eliminate references to ratings from existing regulations.

SEC Rule Changes — Round 2

On September 17, 2009, the SEC held an open meeting to discuss strengthening oversight of credit rating agencies. During the meeting, the SEC voted unanimously to implement final rules, that, similar to the Treasury recommendations, were intended to further strengthen the regulatory framework for credit rating agencies.[328] These actions will become law 30 days after the SEC publishes the rules in the Federal Register. The actions approved in the meeting:

- enabled unsolicited ratings for structured finance products by ensuring access to information for all NRSROs
- required annual compliance reports related to potential conflicts of interest
- amended SEC rules and regulations to remove certain reference to NRSROs' credit ratings
- required additional disclosure regarding whether "ratings shopping" occurred
- required NRSROs to disclose publicly, online, their history of ratings actions for any rating that the NRSRO initially made as of June 26, 2007 (no later than two years after the action is taken for subscriber-paid ratings, and within one year for issuer-paid ratings)

As noted previously, September 17, 2009, final rules would eliminate references to NRSRO credit ratings in a number of SEC rules and forms. Table 3.7 captures those rules that were amended.

Additionally, the SEC extended the period for public comment regarding the elimination of certain Federal regulatory references to NRSRO credit ratings before eliminating them from regulations. The SEC will revisit the issue after the 60-day comment period. Table 3.8 captures those rules in which references to credit ratings might be eliminated.

TABLE 3.7

PROPOSED ELIMINATED REFERENCES TO NRSRO CREDIT RATINGS

Regulation	Form/Rule
Securities Exchange Act of 1934	Rule 3a-1
Securities Exchange Act of 1934	Regulation ATS
Securities Exchange Act of 1934	ATS-R and Form Pilot
Investment Company Act of 1940	Rule 5b-3
Investment Company Act of 1940	Rule 10f-3

Source: SEC, "Rules and Forms at Issue in Removal of References to NRSRO Credit Ratings," 9/17/2009, www.sec.gov/news/press/2009-200-rulesformsaffected.htm, accessed 9/21/2009.

Alternative Regulatory Reform

The rating agencies have been under an increasingly bright spotlight ever since the financial scandals of the early 2000s called the quality and independence of their ratings into question. The president of Moody's commented in a House Oversight and Government Reform Committee hearing that "it turns out that ratings quality has surprisingly few friends: issuers want high ratings; investors don't want ratings downgrades; short-sighted bankers labor short-sightedly to game the ratings agencies."[329] The SEC and other regulators, such as NAIC, have been reviewing their regulations to assess the impact of removing reference to NRSROs. In addition, regulators are looking for ways to improve rating agency transparency and disclosure and better manage conflicts of interest. There are a number of options for reforming the current system, however, that go further than the proposed SEC reforms. Many of these can be found in the wide range of recommendations made in Congressional testimony and other forums. SIGTARP does not endorse any particular proposed reform. Examples of these proposed reforms include:

- **Eliminate all reference to NRSROs in both securities and banking regulations:** The SEC, in its September 17, 2009, actions, has initiated steps to reduce reliance on NRSRO ratings. SEC Commissioner Kathleen Casey, in a September 17, 2009, speech, commented that the SEC needs to "eliminate the government imprimatur given to certain debt analysts by removing NRSRO references in *all* of our rules."[330] At the same time, however, the banking regulators (the Federal Reserve, FDIC, OCC, and OTS) continue to move forward

TABLE 3.8

OPEN FOR COMMENT: REMOVAL OF REFERENCES TO NRSRO CREDIT RATINGS

Regulation	Form/Rule	Reference to NRSRO Removed
Securities Exchange Act of 1934	Regulation M	Determination of exception based on investment-grade rating
Securities Exchange Act of 1934	Rule 10b-10	Requirement that broker-dealers inform customers if security is unrated
Securities Exchange Act of 1934	Net Capital Rule	All references related to the "haircut"
Investment Company Act of 1940	Rule 3a-7	Definition of "investment company" structured finance vehicles
Investment Company Act of 1940	Rule 5b-3	Repurchase Agreement for securities
Investment Company Act of 1940	Rule 206(3)-3T	Excludes securities from coverage

Source: SEC, "Rules and Forms at Issue in Removal of References to NRSRO Credit Ratings," 9/17/2009, www.sec.gov/news/press/2009-200-rulesformsaffected.htm, accessed 9/21/2009.

with risk-weighted capital regulations that explicitly rely on NRSRO ratings. The Mortgage Bankers' Association, in a letter commenting on the SEC's proposed changes of June and July 2008, observed that "these contradictory approaches, create the potential for the SEC and the banking regulatory agencies to promulgate final rules that are inconsistent or even contradictory in their approaches regarding reliance on ratings."[331] In Congressional testimony on September 30, 2009, Professor Lawrence White from New York University stated that the Administration's proposals to reduce regulatory reliance on ratings seem to be largely lip service and do not go far enough.[332] His advice is to eliminate references to NRSROs wherever they occur whether in securities regulations or in bank capital requirements: "Eliminate all regulatory reliance on ratings, by the SEC and by all other financial regulatory agencies — eliminate the force of law that has been accorded to these third-party judgments."[333]

- **Establish an "FASB" to set standards for credit ratings:** In Congressional testimony on September 29, 2009, Eric Kolchinsky, former managing director for the business line responsible for rating subprime CDOs at Moody's, suggested that the Government must finally acknowledge the quasi-regulatory role of NRSROs and regulate them in a similar way to the accounting profession, which also plays such a role. He suggests establishing an independent body, based on the model of the Financial Accounting Standards Board ("FASB"), to set public standards for "regulatory ratings" — "the agencies would still be free to publish their own ratings but would have to follow the public standards for any rating used in a regulatory manner."[334] Examples include simple fixes, such as standarizing, for regulatory purposes, the definition of the term "AAA," which is used extensively but can have different definitions at different rating agencies. Mr. Kolchinsky suggested that "the public body could also determine what kinds of products are 'rate-able' and what kind of information is required of issuers for rating purposes."[335]
- **Promote a transition away from the issuer-pay model:** Many observers focus on the issuer-pay model as the crux of the regulatory problem for credit rating agencies. That the rating agencies are paid by the corporations for whose securities they are supposed to provide an independent, unbiased evaluation is a fundamental conflict of interest. In the words of one subprime fund manager, "it would be like cattle ranchers paying the Department of Agriculture to rate the quality and safety of their beef."[336] In its examination of the three largest NRSROs, the SEC made several observations about this conflict. First, it noted that rating agency "analysts appeared to be aware, when rating an issuer, of the rating agency's business interest in securing the rating of the deal."[337] Further, the SEC observed that "rating agencies do not appear to take steps to prevent considerations of market share and other business interests from the possibility

that they could influence ratings or ratings criteria."[338] The SEC has noted that "NRSROs that are compensated by subscribers appear less likely to be susceptible to 'ratings shopping' or reducing quality for initial ratings to induce revenues."[339]

One resolution would be to prohibit expressly the issuer-pay model. However, this would be controversial for many market participants; in Congressional testimony, one industry expert describes the investor-pay model as one "that issuers and underwriters may fear (because a more independent rating agency may be more critical of issuers)."[340] As a means of gradually imposing business model independence, Sean Egan (managing director at Egan-Jones, a smaller NRSRO) suggested in Congressional testimony that "one way to do this would be to phase in a requirement that any rating agency, in order to maintain its NRSRO designation, derive a given percentage of its annual revenues from investors rather than relying almost exclusively on issuers."[341] Another option was advanced in Congressional testimony by Eric Baggesen of the California Public Employees Retirement System ("CALPERS"). Mr. Baggesen suggested that, since "there is a fundamental conflict of interest when the issuer pays the fees of the [rating agency]," the fees earned by the rating agencies might be made to "vest over a period of time equal to the average duration of the bonds rated. Fees should vest based on the performance of the original ratings and changes to those ratings over time relative to the credit performance of those bonds."[342]

- **Enforce better surveillance:** Credit rating agencies have significant power in terms of their surveillance, related to the effect of a downgrade, but there is limited regulation on agencies' surveillance. One observer, in Congressional testimony, asserts that "from a transparency perspective, the gravest problem today may be the staleness of debt ratings. As noted earlier, issuer-paid rating agencies earn no revenues from downgrades and may jeopardize their relationships with both issuers, investment banks, and many institutional investors (who must today typically write down the value of downgraded debt)."[343] An SEC report in July 2008 found that rating agencies' surveillance processes appear to have been less robust than their initial rating process.[344] Many believe that enhanced standards for surveillance should be an integral part of any effort to restore the reliability of credit ratings.
- **Equal access to information:** A fundamental advantage enjoyed by NRSROs over other rating agencies (and individual investors) is that NRSROs are exempt from the SEC Fair Disclosure rules (Regulation FD). In Congressional testimony, Mr. Egan stated that this exemption "can allow them special access to material non-public information from issuers of corporate debt."[345] Mr. Egan suggests that "this special treatment should be ended in order to ensure the uniform release of credit information to all market participants" — a move that

could help end the perception that NRSROs' judgments are better informed and inherently more valuable than others.[346]

- **Impose civil liability for negligence or fraud:** Some observers have recommended the imposition of strict rules on rating agencies similar to those imposed on accounting firms by Sarbanes-Oxley, wherein both the senior management of a company and of its accounting firm must personally attest to the veracity of information contained in financial audits, opening themselves to personal civil liability. In Congressional testimony, Gregory Smith of the Colorado Public Employees' Retirement Association noted that rating agencies are, similar to auditors, "financial gatekeepers." He states that "financial gatekeepers are less likely to engage in negligent, reckless or fraudulent behavior if they are subject to a risk of liability for these behaviors. Ratings agencies, however, are currently immune from such checks."[347] Representative Paul Kanjorski, in a Congressional hearing, stated "by considering proposals aimed at better disclosure, real accountability, and perhaps even civil liability, we can advance that debate today and ultimately figure out how to get the regulatory fit just right." On September 25, 2009, Representative Kanjorski introduced legislation to this effect — including the possible imposition of industry-wide liability for the actions of all rating agencies as a means of stimulating self-regulation.[348]

SECTION 4

TARP OPERATIONS AND ADMINISTRATION

Under the Emergency Economic Stabilization Act of 2008 ("EESA"), Congress authorized the Secretary of the Treasury ("Treasury Secretary") to build the operational and administrative infrastructure to support the Troubled Asset Relief Program ("TARP") activities. EESA established an Office of Financial Stability ("OFS") within the Department of Treasury ("Treasury"), which is responsible for the administration of TARP.[349] Treasury has the authority to establish program vehicles, issue regulations, directly hire or appoint employees, enter into contracts, and designate financial institutions as financial agents of the Federal Government.[350] In addition to permanent and interim staff, OFS relies on contractors and financial agents in legal, investment consulting, accounting, and other key service areas.[351]

TARP ADMINISTRATIVE AND PROGRAM EXPENDITURES

Treasury stated that it had incurred $50.8 million in TARP-related administrative expenditures and $115.6 million in programmatic costs to hire financial agents and legal firms through September 30, 2009.[352] Table 4.1 summarizes the administrative expenditures.[353] The majority of these costs are allocated to "personnel services" and "non-personnel services."

TABLE 4.1

TARP ADMINISTRATIVE EXPENDITURES AND OBLIGATIONS

Budget Object Class Title	Obligations for Period Ending 9/30/2009	Expenditures for Period Ending 9/30/2009
Personnel Services		
Personnel Compensation & Services	$14,173,433	$13,625,364
Total Personnel Services	**$14,173,433**	**$13,625,364**
Non-Personnel Services		
Travel & Transportation of Persons	$268,128	$230,257
Transportation of Things	11,934	11,934
Rents, Communications, Utilities & Misc. Charges	112,965	41,531
Printing & Reproduction	395	395
Other Services	68,060,362	36,497,220
Supplies & Materials	257,418	147,418
Equipment	232,054	222,675
Land & Structures	—	—
Interest & Dividends	8	8
Total Non-Personnel Services	**$68,943,264**	**$37,151,439**
Grand Total	**$83,116,697**	**$50,776,803**

Note: Numbers affected by rounding.

Source: Treasury, response to SIGTARP data call, 10/7/2009.

TARP operations are projected to cost a total of approximately $175 million for fiscal year 2009.[354] Operational costs are not factored into any gains or losses on the TARP-related transactions and are not included in the $699 billion limit on asset purchases. Therefore, these expenditures will add to the Federal budget deficit regardless of whether the TARP transactions result in a gain or a loss for the Government.[355]

CURRENT CONTRACTORS AND FINANCIAL AGENTS

As of September 30, 2009, Treasury had retained 66 outside contractors and financial agents, including 4 asset managers, to help administer TARP. As permitted under EESA, Treasury streamlined solicitation procedures and structured several agreements and contracts to allow for flexibility in obtaining the required services expeditiously. Table 4.2 lists outside vendors as of September 30, 2009.[356]

As required by EESA, the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") provides biographical information for each person or entity hired to manage the Government's troubled assets acquired through TARP.[357] Subsequent to SIGTARP's Quarterly Report to Congress, dated July 21, 2009 ("July Quarterly Report"), OFS has not hired any additional asset managers. OFS, however, is in the process of selecting a group of smaller firms to function as asset managers and will notify SIGTARP when a final decision has been made.[358]

CONFLICTS OF INTEREST

Within the framework of TARP procurement and contracting, actual or potential conflicts of interest can exist at the organizational level or pertain to an individual employee. Under EESA, the Treasury Secretary can issue regulations or guidelines to address and manage, or to prohibit, conflicts of interest that can arise in connection with the administration and execution of TARP.[359] TARP-related conflicts of interest can arise under various circumstances, such as when retained entities (financial agents or contractors) perform similar work for Treasury and other clients. In these situations, retained entities may find that their duty to certain clients may impair their objectivity when advising Treasury or may affect their judgment about the proper use of non-public information. Conflicts may also arise from the personal interests of individuals employed by retained entities. Accordingly, Treasury has issued interim conflict-of-interest guidelines.[360] These interim rules require interested contractors to provide sufficient information to evaluate the potential for organizational conflicts of interest and mitigation plans.[361] The mitigation plan then becomes a binding term of the contract arrangement. On potential personal

conflicts of interest, the provisions require that managers and employees of a hired entity disclose any financial holdings or personal and familial relationships that could impair their objectivity.[362] Retained entities are also required to take steps to protect non-public information and prevent its inappropriate use; this effort may include the use of non-disclosure agreements.

TABLE 4.2

OUTSIDE VENDORS

Date	Vendor	Purpose	Type of Transaction*
10/10/2008	Simpson, Thacher & Bartlett	Legal Services	BPA
10/11/2008	EnnisKnupp	Investment and Advisory Services	BPA
10/14/2008	Bank of New York Mellon	Custodian and Cash Management	Financial Agent
10/16/2008	PricewaterhouseCoopers	Internal Control Services	BPA
10/18/2008	Ernst & Young	Accounting Services	BPA
10/23/2008	GSA – Turner Consulting**	Archiving Services	IAA
10/29/2008	Hughes Hubbard & Reed	Legal Services	BPA
10/29/2008	Squire Sanders & Dempsey	Legal Services	BPA
10/31/2008	Lindholm & Associates**	Human Resources Services	Contract
11/7/2008	Thacher Proffitt & Wood***	Legal Services	BPA
11/14/2008	Securities and Exchange Commission	Detailees	IAA
11/14/2008	CSC Systems and Solutions	IT Services	Procurement
12/3/2008	Trade and Tax Bureau – Treasury	IT Services	IAA
12/5/2008	Department of Housing and Urban Development	Detailees	IAA
12/5/2008	Washington Post	Vacancy Announcement	Procurement
12/10/2008	Thacher Proffitt & Wood***	Legal Services	BPA
12/12/2008	Pension Benefit Guaranty Corporation	Legal Services	IAA
12/15/2008	Office of Thrift Supervision	Detailees	IAA
12/24/2008	Cushman and Wakefield of VA, Inc.	Painting	Procurement
1/6/2009	Office of the Controller of the Currency	Detailees	IAA
1/6/2009	State Department	Detailees	IAA
1/7/2009	Colonial Parking	Parking	Procurement
1/9/2009	Internal Revenue Service	Detailees	IAA
1/27/2009	Cadwalader Wickersham & Taft, LLP	Legal Services	BPA
1/27/2009	Whitaker Brothers Bus. Machines	Office Machines	Procurement
2/2/2009	Government Accountability Office	Oversight	IAA
2/9/2009	Pat Taylor and Associates, Inc.**	Temporary Employee Services	Contract

Continued on next page.

OUTSIDE VENDORS (CONTINUED)			
2/12/2009	Locke Lord Bissell & Lidell LLP	Legal Services	Contract
2/18/2009	Freddie Mac	Homeownership Program	Financial Agent
2/18/2009	Fannie Mae	Homeownership Program	Financial Agent
2/20/2009	Congressional Oversight Panel	Oversight	IAA
2/20/2009	Simpson, Thacher & Bartlett	Legal Services	Contract
2/22/2009	Venable LLP	Legal Services	Contract
3/6/2009	Boston Consulting Group	Management Consulting Support	Contract
3/16/2009	EARNEST Partners	Asset Management Services	Financial Agent
3/23/2009	Heery International Inc.	Architects	Procurement
3/30/2009	McKee Nelson, LLP	Legal Services	Contract
3/30/2009	Sonnenschein Nath & Rosenthal	Legal Services	Contract
3/30/2009	Cadwalader Wickersham & Taft, LLP	Legal Services	Contract
3/30/2009	Haynes and Boone LLP	Legal Services	Contract
3/31/2009	FI Consulting**	Modeling and Analysis	BPA
4/3/2009	American Furniture Rentals**	Office Furniture	Procurement
4/17/2009	Herman Miller	Office Furniture	Procurement
4/17/2009	Bureau of Printing and Engraving	Detailee	IAA
4/21/2009	AllianceBernstein	Asset Management Services	Financial Agent
4/21/2009	FSI Group	Asset Management Services	Financial Agent
4/21/2009	Piedmont Investment Advisors	Asset Management Services	Financial Agent
5/4/2009	Federal Reserve	Detailee	IAA
5/14/2009	Phacil Inc.**	FOIA Services	Contract
5/14/2009	Department of Treasury – U.S. Mint	Administrative Support	IAA
5/22/2009	Department of Justice – ATF	Detailee	IAA
5/26/2009	Anderson, McCoy & Orta, LLP**	Legal Services	Contract
5/26/2009	Simpson, Thacher & Bartlett	Legal Services	Contract
6/5/2009	Internal Revenue Services	Administrative Services	Contract
6/8/2009	Department of Treasury – Financial Management Services	IT Services	IAA
6/29/2009	Department of Interior	Website Testing	IAA
7/15/2009	Judicial Watch	Legal Advisory	Contract
7/17/2009	Korn Ferry International	Administrative Support	Contract
7/30/2009	Cadwalader Wickersham & Taft, LLP	Legal Advisory	Contract
7/30/2009	Debevoise & Plimpton, LLF	Legal Advisory	Contract
7/30/2009	Fox Hefter Swibel Levin & Carol, LLF	Legal Advisory	Contract
8/11/2009	NASA	Detailee	IAA
9/2/2009	Knowledge Mosaic Inc**	Administrative Services	Contract
9/10/2009	Equilar, Inc.**	Administrative Services	Contract
9/14/2009	PricewaterhouseCoopers	Asset Management Services	Contract
9/30/2009	SNL Financial LC	Administrative Services	Contract

Notes:
*IAA= Inter-Agency Agreement, BPA = Blanket Purchase Agreement.
**Small- or Women-, or Minority-Owned Small Business.
***Contract responsibilities assumed by Sonnenschein Nath & Rosenthal via novation

Source: Treasury, response to SIGTARP data call, 10/7/2009.

SECTION 5

SIGTARP RECOMMENDATIONS

One of the responsibilities of the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") is to provide recommendations to the U.S. Department of the Treasury ("Treasury") and those other Federal agencies managing Troubled Asset Relief Program ("TARP") initiatives so that the various TARP programs can be designed or modified to facilitate transparency and effective oversight and to prevent fraud, waste, and abuse. SIGTARP has made such recommendations in each of its quarterly reports to Congress and in several of its audit reports. This section discusses developments with respect to SIGTARP's prior recommendations, sets forth several new recommendations, and, in the table at the end of this section, summarizes all past SIGTARP recommendations and notes the extent of their implementation. Appendix H: "Correspondence" sets forth Treasury's written responses to these and prior SIGTARP recommendations.

PROGRESS ON LESSENING THE TERM ASSET-BACKED SECURITIES LOAN FACILITY'S RELIANCE ON RATING AGENCIES

Beginning with SIGTARP's Quarterly Report to Congress dated February 6, 2009 (the "Initial Report"), SIGTARP has been urging Treasury and the Federal Reserve Board, in their design of the Term Asset-Backed Securities Loan Facility ("TALF"), to rely less on the ratings of rating agencies and to use instead alternative underwriting analysis such as security-by-security screening of the asset-backed securities ("ABS") posted as collateral. The Federal Reserve Board and the Federal Reserve Bank of New York ("FRBNY"), which operate TALF, had previously taken various steps to improve the credit protection and fraud prevention aspects of the program and had adopted this recommendation fully with respect to commercial mortgage-backed securities ("CMBS") posted as collateral. With respect to other ABS, however, Treasury and the Federal Reserve had maintained that TALF's anti-fraud and credit protection structures were sufficient and that security-by-security screening of ABS was unnecessary. While recognizing that the Federal Reserve, in adopting other SIGTARP recommendations, had greatly improved TALF, SIGTARP repeatedly sounded the alarm in subsequent reports regarding TALF's continued reliance on credit rating agencies.

The Federal Reserve recently modified the program to extend the security-by-security review to all ABS pledged as collateral, consistent with SIGTARP's previous recommendations. Beginning with the November subscription, FRBNY, working with its collateral monitor, will engage in a formal risk-assessment process for all proposed collateral. Among other things, the formal process gives FRBNY the right to reject any ABS based on this risk assessment. Moreover, as part of the review process, the issuer of the ABS will be required to provide FRBNY with all data

provided to any rating agency along with a written waiver to all rating agencies with which it had shared data regarding the proposed ABS. The waiver will permit the rating agency to provide FRBNY any view it has of the credit quality of the ABS, irrespective of whether the rating agency ever issued a formal rating for the ABS. These provisions will mitigate the possibility of "ratings shopping," *i.e.*, jumping to another rating agency if the first one approached seems inclined to give an unfavorable rating.

Although any reliance on rating agency determinations is problematic in light of the inherent conflicts presented by the rating agency system, as discussed more fully in Section 3 of this report, with these changes and the changes previously made, the role of the rating agencies in TALF is, appropriately, becoming one more of a backstop than a primary protection. These modifications represent further adoption of several SIGTARP recommendations and reflect the efforts of the Federal Reserve Board and FRBNY to continue monitoring and improving the compliance, risk management, and fraud prevention for TALF over time.

DEVELOPMENTS RELATING TO HAMP STREAMLINING

In its earlier quarterly reports to Congress, SIGTARP reported on a series of recommendations with respect to the anti-fraud aspects of the Home Affordable Modification Program ("HAMP"), including that Treasury obtain verifiable, third-party information confirming a homeowner's residence and income and that it conduct a closing-like procedure to ensure, among other things, that the homeowner is aware of the homeowner's rights and obligations before the modification is completed. Treasury had adopted these recommendations in part as described in SIGTARP's prior reports. Treasury has recently notified SIGTARP of certain changes to the administration of HAMP that affect these recommendations. Following consultation and an exchange of letters, included in Appendix H: "Correspondence," SIGTARP can provide updates on three issues.

First, on the positive side, Treasury has stated that its program administrator, Fannie Mae, will be developing processes to verify residence prior to funding. This is consistent with SIGTARP's recommendation, and SIGTARP will monitor the implementation of these processes.

The second and third changes relate to Treasury's attempts to streamline the HAMP application process. As initially rolled out, HAMP required a homeowner to:

1. submit an application for a modification
2. then, if eligible, send in a signed Trial Plan Notice agreeing to the terms of the trial modification

3. upon successful completion of the trial period, sign and return the formal modification plan agreement documents

In an effort to streamline this process, Treasury has decided to eliminate the requirement that the homeowner execute and return the Trial Plan Notice. SIGTARP acknowledges the need to improve the customer service aspects of HAMP (an issue about which SIGTARP has previously warned Treasury — SIGTARP sent Treasury a Management Alert in light of numerous complaints received on SIGTARP's Hotline about HAMP customer service, included herein in Appendix H: "Correspondence"), but SIGTARP's concern here is that reasonable steps be taken to ensure that homeowners are fully aware of their rights and obligations under HAMP. Although Treasury has rejected SIGTARP's recommendation regarding the best practice to effect such warnings — a closing-like procedure — Treasury's previous requirement for a signed acknowledgement from the homeowner on the Trial Plan Notice that he or she had received such information was a workable alternative. After SIGTARP expressed concerns about the removal of this safeguard, Treasury suggested that it could instead require the servicer to retain proof of mailing of the program details to the homeowner; this action, when coupled with homeowner's signature on the final documents upon closing of the modification, may also prove to be a reasonable alternative, although SIGTARP encourages Treasury to monitor closely its effectiveness.

Treasury also notified SIGTARP that it intended to do away with third-party income verification for most HAMP applicants. In light of the incentive to misstate income inherent in the program, SIGTARP objected to this modification. Treasury subsequently informed SIGTARP that, while it will be making some modifications to its processes, it will continue to require third-party income verification through the Internal Revenue Service.

DEVELOPMENTS IN THE IMPLEMENTATION OF THE PUBLIC-PRIVATE INVESTMENT PROGRAM

In previous quarterly reports to Congress, SIGTARP made a series of recommendations related to the design of the Public-Private Investment Program ("PPIP"). Treasury adopted some of those recommendations and has rejected others, as summarized in Table 5.1 at the end of this section. This report does not discuss those recommendations further. Over the past quarter, however, Treasury has developed and begun executing the final agreements with the managers of the Public-Private Investment Funds ("PPIFs"), and the finalization of the documents has raised several new issues.

On the positive side, Treasury has changed its position on one issue, adopting, in part, one of SIGTARP's recommendations that Treasury had previously indicated it would reject. SIGTARP previously recommended that Treasury should require PPIF managers to disclose to Treasury, as part of the Eligible Assets Watch List process, not only information about holdings in eligible assets (*i.e.*, the mortgage-backed securities ("MBS") being traded in the funds) across all of its and its affiliates' funds and holdings, but also holdings and trades in related assets or exposures to related liabilities (such as derivative products like credit default swaps ("CDS") or collateralized debt obligations ("CDOs") tied to MBS). Treasury had previously indicated that it would require reporting on the eligible assets, but not on related assets. In the final agreements, however, Treasury has required the fund managers to include, in their reporting, trades and positions of any derivative instruments where the value is connected to an eligible asset held by the PPIF. This adoption of SIGTARP's recommendation is an improvement in the program design.

The final agreements also raise two issues that require follow-up recommendations. The first relates to potential future modification of the compliance rules. As detailed in SIGTARP's Quarterly Report to Congress dated July 21, 2009 (the "July Quarterly Report"), pursuant to section 402 of the Helping Families Save Their Homes Act of 2009 (the "Ensign-Boxer Amendment"), Treasury was required by law to consult with SIGTARP in developing certain aspects of the PPIP compliance and conflict-of-interest regime, which it did. In the final PPIP agreements, however, Treasury has left open its ability to change those rules without consulting with or even giving notice to SIGTARP before such change occurs. Although Treasury's stated rationale is that SIGTARP is not a party to the final agreements, it is not clear why that fact should affect whether SIGTARP is consulted or why the contract issue would trump Treasury's statutory obligations. Although Treasury told SIGTARP that it is likely to discuss significant proposed amendments with SIGTARP, such consultation is, in SIGTARP's view, best practice and may be legally required. Accordingly, SIGTARP makes the following recommendation:

- **PPIP Recommendation #1** — SIGTARP recommends that Treasury unambiguously commit to give SIGTARP notice of and an opportunity to comment upon any change to the PPIP compliance rules.

In response to this recommendation, Treasury informed SIGTARP that it "will consult with [SIGTARP] before making any material changes in the compliance rules."

The second problematic issue relates to the final agreements' provisions concerning access to the books and records of PPIF managers' affiliates. In the final agreement, Treasury provides SIGTARP with access to the books and records of each PPIF, as is required by the Ensign-Boxer Amendment. Treasury, however, has

made the decision to deny SIGTARP access to the books and records that the PPIF managers' affiliates are required to keep for activities that are conducted in connection with the PPIF as well as the acquisition or disposition of PPIP-eligible assets. This decision is particularly surprising given that Treasury itself has the contractual right to these same books and records. Treasury has stated that it will only provide SIGTARP access "in cases where Treasury has a disclosure or review right with respect to Reports and Financial Information." SIGTARP does not fully understand why the fund manager's affiliates' books do not fall within this category in all cases; more fundamentally, access to the books and records of the PPIF manager's affiliates' transactions in connection with the PPIF and for PPIP-eligible assets may prove to be critical for oversight and enforcement. These are books and records that relate directly to the American taxpayer's investment in the PPIF and could provide compelling evidence of a fund manager violating the conflict-of-interest provisions set forth in the PPIF agreements. SIGTARP will conduct oversight over all of the activities in connection with the PPIF whether it is given contractual rights or not. If Treasury refuses to give SIGTARP contractual access to books and records that are critical to identifying conflicts of interest, SIGTARP will not hesitate to obtain these same books and records using all of its tools, including SIGTARP's subpoena authority, which may be necessary if such documents are material to a PPIF audit or investigation. To avoid this unnecessary complication, however:

- **PPIP Recommendation #2** — SIGTARP recommends that Treasury give SIGTARP explicit contractual access to all of the fund manager and affiliate information to which Treasury has access, including books and records for the fund managers' affiliates.

In response to this recommendation, Treasury cited SIGTARP's access to other materials but did not directly address this recommendation.

UPDATE ON RECOMMENDATIONS AND LESSONS LEARNED FROM SIGTARP AUDIT REPORTS

As noted in Section 1 of this report, as of the initial drafting of this report, SIGTARP had released four audit reports. Its fifth audit report, on American International Group ("AIG") bonuses, was subsequently issued and will be described in detail in SIGTARP's next quarterly report. Of the four audit reports detailed in Section 1, three contained formal recommendations or lessons learned. Those recommendations and lessons learned are summarized below, along with a description of the responses of Treasury and the other agencies involved.

For more information on PPIP safeguards and conflict mitigation, see SIGTARP's July Quarterly Report, page 89.

Use of Funds Audit

As discussed in detail in the July Quarterly Report, as a result of Treasury's refusal to require reporting more broadly on actual TARP funds use, SIGTARP decided to undertake the task itself by conducting a survey of the more than 360 institutions that had received TARP funds through the end of January 2009. The results of the survey demonstrated that, despite the inherent fungibility of money, financial institutions are capable of providing descriptions of how they used TARP funds. Accordingly, in the July Quarterly Report, SIGTARP renewed its prior recommendation that Treasury require TARP recipients to submit periodic reports to Treasury on their use of funds, including what they were able to do with their TARP funds, such as lending, investments, acquisitions, and other activities, that they could not have conducted without TARP funding.

In response to SIGTARP's recommendation, on September 16, 2009, Treasury informed SIGTARP that it was expanding its Quarterly Capital Purchase Program ("CPP") Report to include two additional use of funds categories that TARP recipients had mentioned in SIGTARP survey responses. Treasury said this expansion will begin with the next Quarterly CPP Report, scheduled to be released during October 2009. Although this expansion should provide some additional information on an aggregate basis, it falls short of meeting the goal of basic transparency regarding the use of TARP funds. Most importantly, it will only include aggregate data for all CPP institutions and will not report on this information for each individual institution. It will also not reflect the financial institution's view of what steps it was able to take that it otherwise would not have been able to take absent its receipt of TARP funds. Although SIGTARP is encouraged that Treasury has apparently abandoned its prior position that it is impossible to measure and report on TARP recipients' use of funds, SIGTARP remains puzzled as to why Treasury refuses to adopt the recommendation to report on each TARP recipient's use of funds. While Treasury has indicated that it considers this recommendation "closed," SIGTARP continues to urge Treasury's full adoption of this recommendation.

External Influence Audit

As discussed in more detail in Section 1 of this report, this audit, the report of which was issued on August 6, 2009, examined whether or to what extent external parties may have influenced decision making by Treasury or bank regulators in approving bank applications for funding under CPP. SIGTARP found limitations and inconsistencies in the logging of telephone and meeting conversations regarding individual CPP applicants, making it impossible to examine the impact of all potential external inquiries on the CPP process. Available information, however, gave little indication that external inquiries on

CPP applications had affected the decision-making process.

In light of these findings, and to improve transparency and further guard against outside influence, SIGTARP made two recommendations:

- Treasury should record the vote count for the decisions of Treasury's Investment Committee, which makes the final recommendation of whether or not to approve a CPP application.
- Treasury and each individual participating Federal banking agency should improve existing control systems to document the occurrence and nature of external oral communication about actual and potential recipients of funding under CPP and other similar TARP-assistance programs to which they may be part of the decision making.

Treasury concurred with SIGTARP's recommendations and adopted them, announcing that it has implemented policies on external contacts similar to those that it has adopted with respect to applications for stimulus funds.

Original CPP and Bank of America Investments Audit

As discussed in more detail in Section 1 of this report, this audit, which was issued on October 5, 2009, examined the review and approval process associated with TARP assistance to the first nine CPP recipients, with emphasis on additional assistance to Bank of America subsequently authorized under the Targeted Investment Program ("TIP") and the Asset Guarantee Program ("AGP"). The audit also examined selected issues and interactions among Treasury, Federal Reserve, and Bank of America officials in connection with Bank of America's acquisition of Merrill Lynch and the timing of Government assistance under TIP and AGP following the acquisition.

The audit concluded that Treasury, the Federal Reserve, and FDIC implemented programs designed to help prevent a further deterioration of the economy and a significant risk of financial market collapse. The audit also concluded that Treasury's description of the investments in the first nine institutions in October 2008 highlights an important lesson for Treasury on using greater care and accuracy in describing its actions and rationales in future programs. In an October 14, 2008, statement announcing the investment in the original nine institutions, then-Secretary of the Treasury Henry Paulson stated: "These are healthy institutions, and they have taken this step for the good of the U.S. economy. As these healthy institutions increase their capital base, they will be able to increase their funding to U.S. consumers and businesses." The nine institutions were similarly described as healthy in a joint statement released that same day by Treasury, the Federal Reserve, and FDIC, and in a separate statement released by Treasury.

Notwithstanding these assertions, senior Government officials had concerns,

at the time the nine institutions were selected, about the health of at least some of those institutions. The Federal Reserve had concerns over the financial condition of several of these institutions individually and for all of them collectively absent some Governmental action; and Secretary Paulson noted concerns about the potential of an outright failure of one of the institutions. In addition to the basic transparency concern that this inconsistency raises, by stating expressly that the "healthy" institutions would be able to increase overall lending, Treasury may have created unrealistic expectations about the institutions' conditions and their ability to increase lending. Treasury lost credibility when lending at those institutions did not increase and when subsequent events — the further assistance needed by Citigroup and Bank of America being the most significant examples — demonstrated that at least some of those institutions were not healthy.

SIGTARP received official written responses to this audit report from both Treasury and the Federal Reserve. In a letter from its General Counsel, the Federal Reserve concurred with the report's findings and expressly agreed "that an important lesson illustrated by the events that shocked the financial systems over the past two years is that transparency and effective communication are important to restoring and maintaining public confidence, *especially during a financial crisis*." (emphasis added)

Treasury, on the other hand, did not initially express as positive a position on SIGTARP's findings. Although Treasury characterized the report as "a useful contribution," it did not expressly state whether it concurred with the lesson learned that SIGTARP identified in the report. Indeed, Treasury's response appears to take issue with SIGTARP's call for careful consideration of public statements in a time of crisis, stating that "[w]hile people may differ today on how the contemporaneous announcements about the reasons for selecting the initial nine recipients should have been phrased, any review of such announcement must be considered in light of the unprecedented circumstances in which they were made." In a subsequent statement, Treasury described such a review as a "second guess" of the statements made last fall.

Although SIGTARP acknowledges the unprecedented circumstances that Treasury was operating under last fall, the lesson to be learned here is that it is precisely during such extraordinary times, as the Federal Reserve correctly noted, that the Government must exercise increased vigilance about accuracy and transparency in its statements to the public. It is axiomatic that the Government's capacity to address financial crises depends in no small measure on its credibility, both with market participants whose confidence is essential to stabilize the financial system and with the American public whose confidence is essential to underpin the political support necessary to take the difficult (and often expensive) steps that are needed. Accuracy and transparency can enhance the public's understanding of and

support for Government programs, whereas statements that are less-than-careful or forthright — like those made in this case — may ultimately undermine the public's understanding and support for these same programs. This loss of public support could damage the Government's credibility and have long-term, unintended consequences that actually hamper the Government's ability to respond to crises.

In response to this report, Treasury indicated that, not withstanding its earlier statements, it now concurs with the lesson learned from the audit, repeating verbatim the Federal Reserve's response.

TRACKING THE IMPLEMENTATION OF RECOMMENDATIONS IN PREVIOUS REPORTS

SIGTARP has now made dozens of individual recommendations, and updating compliance of each one in narrative form would be impractical. The following table, Table 5.1, summarizes SIGTARP's prior recommendations, gives an indication of SIGTARP's view of the level of implementation to date, and provides a brief explanation for that view where necessary. For more details on the recommendations, readers are directed to SIGTARP's earlier quarterly reports to Congress. Treasury's views on the level of implementation of the recommendations are set forth in Appendix H: "Correspondence."

TABLE 5.1

SIGTARP RECOMMENDATIONS TABLE

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
1	* Treasury should include language in the automobile industry transaction term sheet acknowledging SIGTARP's oversight role and expressly giving SIGTARP access to relevant documents and personnel.	X					
2	Treasury should include language in new TARP agreements to facilitate compliance and oversight. Specifically, SIGTARP recommends that each program participant should (1) acknowledge explicitly the jurisdiction and authority of SIGTARP and other oversight bodies, as relevant, to oversee compliance of the conditions contained in the agreement in question, (2) establish internal controls with respect to that condition, (3) report periodically to the Compliance department of the Office of Financial Stability ("OFS-Compliance") regarding the implementation of those controls and its compliance with the condition, and (4) provide a signed certification from an appropriate senior official to OFS-Compliance that such report is accurate.		X				Although Treasury has made substantial efforts to comply with this recommendation in many of its agreements, there have been exceptions, including in its agreements with servicers in MHA. Treasury has further stated that it will only implement this recommendation in circumstances that it deems "appropriate."
3	All existing TARP agreements, as well as those governing new transactions, should be posted on the Treasury website as soon as possible.		X				Treasury agreed to do so in late January, but as of the July Quarterly Report, hundreds of agreements had not yet been posted, and Treasury assured SIGTARP that all agreements would be posted by August 15, 2009. As of the drafting of this report, it still has not posted 78 CPP agreements on its website, but has promised that it will finally fulfill this commitment by November 1, 2009. SIGTARP will continue to monitor Treasury's progress.
4	Treasury requires all TARP recipients to report on the actual use of TARP funds.		X				Treasury has failed to adopt this recommendation for all but three TARP recipients. See discussion in this section.
5	* Treasury quickly determines its going-forward valuation methodology.	X					
6	* Treasury begins to develop an overall investment strategy to address its portfolio of stocks and decide whether it intends to exercise warrants of common stock.	X					Treasury has begun implementing this recommendation. Treasury has made a determination that it does not intend at this time to exercise warrants except under certain circumstances related to mergers and acquisitions.
7	* In formulating the structure of TALF, Treasury should consider requiring, before committing TARP funds to the program, that certain minimum underwriting standards and/or other fraud prevention mechanisms be put in place with respect to the ABS and/or the assets underlying the ABS used for collateral.	X					The Federal Reserve recently adopted mechanisms that address this recommendation. See discussion in this section.

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

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SIGTARP RECOMMENDATIONS TABLE (CONTINUED)

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
8	* Agreements with TALF participants should include an acknowledgement that: (1) they are subject to the oversight of OFS-Compliance and SIGTARP, (2) with respect to any condition imposed as part of TALF, that the party on which the condition is imposed is required to establish internal controls with respect to each condition, report periodically on such compliance, and provide a certification with respect to such compliance.				X		
9	* Treasury should give careful consideration before agreeing to the expansion of TALF to include MBS without a full review of risks that may be involved and without considering certain minimum fraud protections.	X					This recommendation has been implemented with respect to CMBS, and the Federal Reserve has announced that it will not be expanding TALF to RMBS.
10	* Treasury should oppose any expansion of TALF to legacy MBS without significant modifications to the program to ensure a full assessment of risks associated with such an expansion.	X					This recommendation has been implemented with respect to CMBS, and the Federal Reserve has announced that it will not be expanding TALF to RMBS.
11	Treasury should formalize its valuation strategy and begin providing values of the TARP investments to the public.		X				Although Treasury will provide a valuation in its annual financial statement using methodology governed by Federal accounting policies, it has not committed to making its estimate of the value of its investments public on a sufficient, more frequent basis — even though it is receiving monthly valuation summaries from its asset managers.
12	* Treasury and the Federal Reserve should provide to SIGTARP, for public disclosure, the identity of the borrowers who surrender collateral in TALF.				X		The Federal Reserve and Treasury continue to oppose this basic aspect of transparency in the TALF program. SIGTARP intends to revisit this issue with the Federal Reserve once a collateral surrender takes place.
13	* In TALF, Treasury should dispense with rating agency determinations and require a security-by-security screening for each legacy RMBS. Treasury should refuse to participate if the program is not designed so that RMBS, whether new or legacy, will be rejected as collateral if the loans backing particular RMBS do not meet certain baseline underwriting criteria or are in categories that have been proven to be riddled with fraud, including certain undocumented subprime residential mortgages.				X		The Federal Reserve has announced that RMBS will not be eligible for TALF loans, rendering this recommendation moot.
14	* In TALF, Treasury should require significantly higher haircuts for all MBS, with particularly high haircuts for legacy RMBS, or other equally effective mitigation efforts.	X					This recommendation has been implemented with respect to CMBS, and the Federal Reserve has announced that it will not be expanding TALF to RMBS.

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

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SIGTARP RECOMMENDATIONS TABLE (CONTINUED)

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
15	* Treasury should require additional anti-fraud and credit protection provisions, specific to all MBS, before participating in an expanded TALF, including minimum underwriting standards and other fraud prevention measures.	X					The Federal Reserve has adopted mechanisms that address this recommendation with respect to CMBS, and has announced that it will not be expanding TALF to RMBS.
16	* Treasury should design a robust compliance protocol with complete access rights to all TALF transaction participants for itself, SIGTARP, and other relevant oversight bodies.				X		
17	* Treasury should not allow Legacy Securities PPIFs to invest in TALF unless significant mitigating measures are included to address these dangers.	X					
18	* All TALF modeling and decisions, whether on haircuts or any other credit or fraud loss mechanisms, should account for potential losses to Government interests broadly, including TARP funds, and not just potential losses to the Federal Reserve.	X					
19	* Treasury should address the confusion and uncertainty on executive compensation by immediately issuing the required regulations.	X					Although not immediate or final, Treasury did issue regulations on June 15, 2009.
20	Treasury should significantly increase the staffing levels of OFS-Compliance and ensure the timely development and implementation of an integrated risk management and compliance program.			X			
21	* Treasury should require CAP participants to (1) establish an internal control to monitor their actual use of TARP funds, (2) provide periodic reporting on their actual use of TARP funds, (3) certify to OFS-Compliance, under the penalty of criminal sanction, that the report is accurate, that the same criteria of internal controls and regular certified reports should be applied to all conditions imposed on CAP participants, and (4) acknowledge explicitly the jurisdiction and authority of SIGTARP and other oversight bodies, as appropriate, to oversee conditions contained in the agreement.					X	Treasury has reported that in its draft documents it is including "most of the suggestions of SIGTARP," but is refusing to adopt a use of funds reporting requirement.
22	* Treasury should impose strict conflict-of-interest rules upon PPIF managers across all programs that specifically address whether and to what extent the managers can (1) invest PPIF funds in legacy assets that they hold or manage on behalf of themselves or their clients or (2) conduct PPIF transactions with entities in which they have invested on behalf of themselves or others.		X				Treasury has adopted some significant conflict-of-interest rules related to this recommendation, but has failed to impose other significant safeguards.

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

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SIGTARP RECOMMENDATIONS TABLE (CONTINUED)

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
23	* Treasury should require that all PPIF fund managers (1) have stringent investor-screening procedures, including comprehensive "Know Your Customer" requirements at least as rigorous as that of a commercial bank or retail brokerage operation to prevent money laundering and the participation of actors prone to abusing the system, and (2) be required to provide Treasury with the identities of all of the beneficial owners of the private interests in the fund so that Treasury can do appropriate diligence to ensure that investors in the funds are legitimate.		X				Treasury's agreements with PPIF managers include investor-screening procedures such as "Know Your Customer" requirements. Treasury has agreed that it will have access to any information in a fund manager's possession relating to beneficial owners. However, Treasury is not making an affirmative requirement that managers obtain and maintain beneficial owner information.
24	* Treasury should require most-favored-nation clauses, PPIF managers to acknowledge that they owe Treasury a fiduciary duty, and that each manager adopt a robust ethics policy and compliance apparatus.	X					
25	Treasury should require servicers in MHA to submit third-party verified evidence that the applicant is residing in the subject property before funding a mortgage modification.			X			See discussion in this section.
26	* In MHA, Treasury should require a closing-like procedure be conducted that would include (1) a closing warning sheet that would warn the applicant of the consequences of fraud; (2) the notarized signature and thumbprint of each participant; (3) mandatory collection, copying, and retention of copies of identification documents of all participants in the transaction; (4) verbal and written warnings regarding hidden fees and payments so that applicants are made fully aware of them; (5) the benefits to which they are entitled under the program (to prevent a corrupt servicer from collecting payments from the Government and not passing the full amount of the subsidies to the homeowners); and (6) the fact that no fee should be charged for the modification.		X				See discussion in this section.
27	Additional anti-fraud protections should be adopted in MHA to verify the identity of the participants in the transaction and to address the potential for servicers to steal from individuals receiving Government subsidies without applying them for the benefit of the homeowner.			X			Treasury stated that its compliance agent Freddie Mac is refining its procedures to verify that incentive payments to servicers are applied to borrowers.
28	* In MHA, Treasury should require the servicer to compare the income reported on a mortgage modification application with the income reported on the original loan application.				X		

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

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SIGTARP RECOMMENDATIONS TABLE (CONTINUED)

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
29	* In MHA, Treasury should require that verifiable, third-party information be obtained to confirm an applicant's income before any modification payments are made.	X					See discussion in this section.
30	* In MHA, Treasury should defer payment of the $1,000 incentive to the servicer until after the homeowner has verifiably made a minimum number of payments under the mortgage modification program.				X		Treasury continues to rely on servicer representations that the homeowner has made three trial payments before entering the program, but does not require any minimum payments after a mortgage enters the program.
31	* In MHA, Treasury should proactively educate homeowners about the nature of the program, warn them about modification rescue fraudsters, and publicize that no fee is necessary to participate in the program.	X					
32	* In MHA, Treasury should require its agents to keep track of the names and identifying information for each participant in each mortgage modification transaction and to maintain a database of such information.				X		Treasury has refused to adopt this significant anti-fraud measure designed to detect insiders who are committing large-scale fraud. This represents a material deficiency in the MHA anti-fraud regime.
33	Treasury should require the imposition of strict information barriers or "walls" between the PPIF managers making investment decisions on behalf of the PPIF and those employees of the fund management company who manage non-PPIF funds.				X		Treasury has refused to adopt this significant anti-fraud measure designed to prevent conflicts of interest. This represents a material deficiency in the program.
34	Treasury should periodically disclose PPIF trading activity and require PPIF managers to disclose to SIGTARP, within seven days of the close of the quarter, all trading activity, holdings, and valuations so that SIGTARP may disclose such information, subject to reasonable protections, in its quarterly reports.					X	Although Treasury is developing a template for periodic reporting, those reports will only provide aggregated information on eligible asset investments in the PPIF. Treasury has not committed to providing full transparency to show where public dollars are invested by requiring periodic disclosure of every trade in the PPIF.

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

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SIGTARP RECOMMENDATIONS TABLE (CONTINUED)

	Recommendation	Implemented	Partially Implemented	In Process	Not Implemented	TBD	Comments
35	Appropriate metrics be defined and an evaluation system be put in place to monitor the effectiveness of the PPIF managers, both to ensure they are fulfilling the terms of their agreements and to measure performance.			X			Treasury has indicated that it will substantively adopt this recommendation and is developing appropriate metrics.
36	The conditions that give Treasury "cause" to remove a PPIF manager should be expanded to include a manager's performance below a certain standard benchmark, or if Treasury concludes that the manager has materially violated compliance or ethical rules.				X		Treasury has refused to adopt this recommendation relying solely on Treasury's right to end the investment period after 12 months, during which time the PPIF manager's performance may continue to fall below a standard benchmark potentially putting significant Government funds at risk.
37	* Treasury should require PPIF managers to disclose to Treasury, as part of the Watch List process, not only information about holdings in eligible assets but also holding in related assets or exposures to related liabilities.	X					See discussion in this section.
38	Treasury should require PPIF managers to obtain and maintain information about the beneficial ownership of all of the private equity interests, and Treasury should have the unilateral ability to prohibit participation of private equity investors.				X		Treasury has agreed that it can have access to any information in a fund manager's possession relating to beneficial owners. However, Treasury is not making an affirmative requirement that managers obtain and maintain beneficial owner information. Treasury will not adopt the recommendation to give itself unilateral ability to deny access to or remove an investor, stating that such a right would deter participation.
39	* Treasury and FRBNY should (1) examine Moody's assertions that some credit rating agencies are using lower standards to give a potential TALF security the necessary AAA rating and (2) develop mechanisms to ensure that acceptance of collateral in TALF is not unduly influenced by the improper incentives to overrate that exist among the credit agencies.	X					See discussion in this section.
40	* Treasury should more explicitly document the vote of each Investment Committee member for all decisions related to the investment of TARP funds.	X					See discussion in this section.
41	* Treasury should improve existing control systems to document the occurrence and nature of external phone calls and in-person meetings about actual and potential recipients of funding under the CPP and other similar TARP-assistance programs to which they may be part of the decision-making.	X					See discussion in this section.

Note: * Indicates that Treasury considers the recommendation closed and will take no further action.

ENDNOTES

1. Commitment source: Treasury, response to SIGTARP data call, 10/7/2009. The $699 billion represents the $700 billion authorized for TARP by EESA less the $1.2 billion reduction as a result of the Helping Families Save Their Homes Act of 2009 (Public Law 111-22).
2. From a budgetary perspective, what Treasury has committed to spend (*e.g.*, signed agreements with TARP fund recipients). Treasury, *Transactions Report*, 10/2/2009, http://financialstability.gov/docs/transaction-reports/Transactions_Report_09-30-09.pdf, accessed 10/5/2009.
3. As of September 30, 2009, 47 TARP recipients in various programs had repaid their TARP funds. Under the Capital Purchase Program ("CPP") 44 TARP recipients had repaid a total $70.7 billion. Chrysler Financial, LLC had repaid its TARP funds under the Automotive Industry Financing Program ("AIFP") totaling $1.5 billion, and the two participants under the Auto Warranty Commitment Program ("AWCP") had repaid a total $641 million.
4. Emergency Economic Stabilization Act of 2008, P.L. 110-343, 10/3/2008.
5. Treasury, response to SIGTARP data call, 10/7/2009.
6. Treasury, "Press Release: Assistant Secretary for Financial Stability Herbert M. Allison, Jr. Written Testimony Senate Committee on Banking, Housing and Urban Affairs," 9/24/2009, http://www.financialstability.gov/latest/09242009_testimony.html, accessed 10/12/2009.
7. Emergency Economic Stabilization Act of 2008, P.L. 110-343, section 122, 10/3/2008.
8. Emergency Economic Stabilization Act of 2008, P.L. 110-343, section 204, 10/3/2008.
9. EESA related information: Emergency Economic Stabilization Act of 2008, P.L. 110-343, 10/3/2008. Debt limit: Treasury, *Monthly Statement of the Public Debt of the United States*, 9/30/2008, http://www.treasurydirect.gov/govt/reports/pd/mspd/2008/opds092008.pdf, accessed 9/10/2009; Treasury, *Monthly Statement of the Public Debt of the United States*, 10/31/2008, http://www.treasurydirect.gov/govt/reports/pd/mspd/2008/opds102008.pdf, accessed 9/10/2009.
10. SIGTARP Initial Report to Congress, 2/6/2009, pp. 29-31.
11. Budget and Accounting Act of 1921 (31 U.S.C. 1105(1)), 1/8/2008, http://uscode.house.gov/download/pls/31C11.txt, accessed 9/27/2009.
12. White House, OMB, http://www.gpoaccess.gov/usbudget/fy10/pdf/hist.pdf, accessed 9/25/2009.
13. Office of Management and Budget, *Historical Tables, Budget of the United States Government, FY 2009*, "Summary of Receipts, Outlays, and Surpluses or Deficits," p. 22, http://www.gpoaccess.gov/USbudget/fy09/pdf/hist.pdf, accessed 10/2/2009.
14. White House, OMB, http://www.gpoaccess.gov/usbudget/fy10/pdf/hist.pdf, accessed 9/25/2009.
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16. Treasury, "How Treasury Auctions Work," http://www.treasurydirect.gov/instit/auctfund/work/work.htm, accessed 8/31/2009.
17. Treasury, *Monthly Statement of the Public Debt of the United States*, 9/30/2008, http://www.treasurydirect.gov/govt/reports/pd/mspd/2008/opds092008.pdf, accessed 9/10/2009; Treasury, *Monthly Statement of the Public Debt of the United States*, 10/31/2008, http://www.treasurydirect.gov/govt/reports/pd/mspd/2008/opds102008.pdf, accessed 9/10/2009.
18. Treasury, Historical Long Term Rates, http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/ltcompositeindex_historical.shtml, accessed 9/15/2009; Treasury, Daily Treasury Bill Rates, http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/daily_treas_bill_rates_historical_2008.shtml, accessed 9/15/2009.
19. GAO, "Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges," 10/8/2009, http://www.gao.gov/new.items/d1016.pdf, accessed 10/9/2009.
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21. Freddie Mac, COFI index, http://www.freddiemac.com/news/finance/cof_index.htm, accessed 10/8/2009.
22. White House, OMB, FY 2010 Presidential Budget, May 7, 2009, http://www.whitehouse.gov/omb/budget/fy2010/assets/assumptions.pdf, accessed 10/9/2009.
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APPENDICES

***Visit www.sigtarp.gov to view Appendix F: Public Announcement of Audits and Appendix G: Key Oversight Reports and Testimonies, for further reference material.**

GLOSSARY

This appendix provides a glossary of terms that are used throughout the context of this report.

504 Community Development Loan Program: Small Business Administration ("SBA") program combining Government-guaranteed loans with private-sector mortgage loans to provide loans of up to $10 million for community development.

7(a) Program: SBA loan program guaranteeing a percentage of loans for small businesses that cannot otherwise obtain conventional loans at reasonable terms.

Appropriation: Authority provided by law for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.

Asset Crossing: Buying or selling assets from affiliates, either directly or through third parties.

Asset Flipping: Buying assets with the intention of reselling those assets in the short term.

Bank Holding Company: A company that controls a bank. Typically, a company controls a bank through the ownership of 25% or more of its voting securities.

Break the Buck: A decline below $1 in the net asset value ("NAV") of a money market mutual fund.

Call Report: Quarterly report of financial condition commercial banks file with their Federal and state regulatory agencies.

Capital Call Notice: A capital call, or draw down, is an investment firm's legal right to demand a portion of the money promised to it by an investor.

Capital Requirement: The amount of cash and easily liquidated assets that a financial institution needs to meet Government regulations and provide a cushion against losses.

Cash Management Bill ("CMB"): A type of short-term Treasury bill sold by the Treasury to meet temporary funding shortfalls. CMB maturities can range from a few days to more than six months, and auctions can be announced with less than one-week notice.

Clawback: Recovery by the company of amounts paid to an employee based on materially inaccurate performance criteria.

Collateralized Debt Obligations ("CDOs"): A financial instrument that entitles the purchaser to some portion of the cash flows from a portfolio of assets, which may include bonds, loans, mortgage-backed securities, or other CDOs.

Commercial Mortgage-Backed Securities ("CMBS"): A financial instrument that is backed by a commercial real estate mortgage or a group of commercial real estate mortgages that are packaged together.

Common Stock: Equity ownership that entitles an individual to share in the corporate earnings and voting rights.

Core Capital: Also known as T1, refers to the common stock, perpetual noncumulative, preferred stock, paid-in capital, and retained earnings of a bank.

Cost of Capital: The "price" a company must pay to finance an investment or project. For debt financing, this is the interest rate on any loans or bonds. For equity financing, it is the "opportunity cost" of using its capital elsewhere (i.e., what the company could have reasonably expected to earn from using its cash in a low-risk investment such as Government bonds).

Credit Default Swap ("CDS"): A contract where the seller receives a series of payments from the buyer in return for agreeing to make a payment to the buyer when a particular credit event outlined in the contract occurs (for example, if the credit rating on a particular bond or loan is downgraded or goes into default). It is commonly referred to as an insurance-like product where the seller is providing the buyer insurance-like protection against the failure of a bond. The buyer, however, does not need to own the asset covered by the contract, which means it can serve essentially as a "bet" against the underlying bond.

Credit Watch: Announcement by a rating agency of developments that may have a material impact on the creditworthiness (either positive, negative, or developing) of a company or security in the short term.

Crowding Out: A term historically used to describe the impact on the private sector of heavy Government debt issuance. This drives up interest rates, forcing the private sector to pay more, and edging it out of the market. Just as private-sector issuances have to compete with the lending Treasury did for TARP, so too will other Treasury issuances be forced to pay the higher interest rates resulting from the TARP borrowing.

Cumulative Preferred Stock: A type of stock that requires a defined dividend payment. If the company does not pay the dividend, it still owes the missed dividend to the owner of the stock.

CUSIP: Unique identifying number assigned to all registered securities (similar to a social security number).

Debtor-in-Possession ("DIP"): A company which is operating under Chapter 11 bankruptcy protection, which still technically owns its assets but is operating them to maximize the benefit to its creditors.

Derivative: A financial instrument whose value is based on ("derived from") a different underlying asset, indicator, or financial instrument.

Due Diligence: The appropriate level of attention or care a reasonable person should take before entering into an agreement or a transaction with another party. In finance, often refers to the process of conducting an audit or review of documents/information prior to initiating a transaction.

Dutch Auction: Auction technique used for selling Treasury securities where investors bid different prices (yields) for different quantities of the offered security. Treasury selects the highest group of bids that sells the full offering and all winning bidders pay the same price — the lowest bid within that winning group. For instance, three investors place bids for $500 million each worth of securities (on a $1 billion offering by Treasury). Treasury selects the two highest bidders (totaling $1 billion) and they both pay the price bid by the lower of the two winners.

Equity Capital Facility: A commitment to invest equity capital in a firm under certain future conditions.

Exceptional Assistance: Companies receiving assistance under the programs for SSFI, TIP, AGP, and AIFP, and any future Treasury program designed by the Treasury Secretary as providing exceptional assistance. Currently includes AIG, Citigroup, Bank of America, GM, GMAC, Chrysler, and Chrysler Financial.

Fallen Angel: In finance, can refer to a bond which held an investment grade rating when issued, but has subsequently fallen to a much lower rating, or a once-popular investment that has fallen out of favor with investors and declined in value.

Floorplan: Revolving lines of credit used to finance inventories of items.

Front Running: Entering into a trade while taking advantage of advance knowledge of pending orders from other investors.

Golden Parachute: Any payment to an employee for departure for any reason, or any payment due to a change in control.

Government Regulators: Government agencies responsible for overseeing the health and stability of a sector of the economy, in this case, the financial sector, through supervision and enforcement of regulations.

Government-Sponsored Enterprises ("GSEs"): Private corporations created by the Government to reduce borrowing costs. They are chartered by the U.S. Government but are not considered to be direct obligations.

HAMP Trial Period: A 90-day trial period of reduced mortgage payments for the borrower. If all payments are successful, then the mortgage modification will be accepted into the MHA program and HAMP incentive payments will begin.

Illiquid Assets: Assets that cannot be quickly converted to cash.

Investment Grade: A quality classification for bond or debt securities (rated BBB/Baa or higher) that suggests the debt is likely to be repaid.

Legacy Assets: Also commonly referred to as troubled or toxic assets, legacy assets are real estate-related loans and securities (legacy loans and legacy securities) that remain on banks' balance sheets that have lost value but are difficult to price due to the recent market disruption.

Legacy Commercial Mortgage-Backed Securities ("CMBS"): CMBS issued before January 1, 2009.

Legacy Loans: Underperforming real estate-related loans held by a bank that it wishes to sell, but recent market disruptions have made difficult to price.

Legacy Securities: Troubled real estate-related securities (residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), and other asset-backed securities ("ABS")) lingering on institutions' balance sheets because their value could not be determined.

Leverage: The ratio of a company's debt to its equity.

Liquidity: The ability to easily convert an asset to cash, without any significant loss in value or transaction cost.

Loan-to-Value ("LTV") Ratio: In real estate lending, the outstanding principal amount of the loan divided by the appraised value of the property.

London Interbank Offered Rate ("LIBOR"): The interest rate that large banks in London charge each other for dollar-denominated funds.

Mandatorily Convertible Preferred ("MCP") Share: A type of preferred share (ownership in a company that generally entitles the owner of the share to collect dividend payments) that can be converted to common stock under certain parameters at the discretion of the company—and must be converted to common stock by a certain time.

Margin Call: A broker's demand on an investor using borrowed money (margin) to deposit additional cash or securities in its account if the value of its capital drops below a set percent of the total investment.

Moral Hazard: A term used in economics and insurance to describe the lack of incentive individuals have to guard against a risk when they are protected against that risk (for example, through an insurance policy). In the context of TARP, it refers to the danger that private-sector executives/investors/lenders may behave more recklessly knowing that the Government has insulated them from the risks of their actions.

Mortgage-Backed Securities ("MBS"): A pool of mortgages bundled together by a financial institution and sold as securities — a type of asset-backed security.

Net Asset Value: A fund's per-share value. Calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

Net Regulatory Capital: A regulatory metric that requires a bank to take into consideration the relative riskiness of its assets. Calculated as common equity minus intangibles.

Non-Agency Residential Mortgage-Backed Securities ("RMBS"): RMBS that are not guaranteed by a Government-Sponsored Enterprise ("GSE") such as Fannie Mae, Freddie Mac, or the Federal Home Loan Banks.

Non-cumulative Preferred Stock: A type of stock in which unpaid dividends do not accrue when a company fails to make a dividend payment.

Non-Primary Dealer: Banks and securities broker-dealers that are not approved by FRBNY to trade in U.S. Government securities.

Non-Recourse Loan: A secured loan whereby the borrower is relieved of the obligation to repay the loan upon the surrender of the collateral.

Note: A short-term debt security, usually with a maturity of less than five years.

Originator: The lead bank or underwriter for a structured finance product.

Par Value: The face value of a bond or security (for instance $1,000 or $100). When a bond trades on the market, the price can be above or below par. A price above par means the purchaser is paying a premium; a price below par means the purchaser is buying at a discount.

Perk: Personal benefit, including a privilege, or profit incidental to regular salary or wages.

Permitted Investments List: A statement in the charter or policies of an organization (for instance, the prospectus of a mutual fund) detailing to stakeholders the nature or types of assets in which the institution is allowed to invest. To invest in assets not on the list could mean a breach in the fiduciary responsibility of the organization.

Ponzi Scheme: An illegal pyramid scheme in which money from new investors is used to pay off earlier investors.

Preferred Stock: "Equity ownership that usually pays a fixed dividend, gives the holder a claim on corporate earnings superior to common stock owners, and has no voting rights. Preferred stock also has priority in the distribution of assets in the case of liquidation of a bankrupt company."

Primary Dealer: Banks and securities broker-dealers that trade in U.S. Government securities with FRBNY for the purpose of carrying out open market operations.

Private-Label Mortgages: Loans that are not owned or guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae, or another Federal agency.

Pro Forma: In finance, refers to the presentation of hypothetical financial information assuming that certain assumptions will happen.

Pro Rata: Refers to dividing something among a group according to the proportionate share that each participant holds as a part of the whole.

Purchasing Power: The total amount of goods or services that can be purchased by a unit of currency. For the purpose of PPIP, purchasing power refers to the combined buying power of the PPIFs' private capital, Treasury equity, and Treasury debt.

Rating Action: A modification (upgrade or downgrade) or confirmation of a company's or security's credit rating.

Rating Outlook: Guidance published by a rating agency indicating the medium- or long-term outlook for a company's or security's creditworthiness.

Rating Review: A formal action by a rating agency to re-assess the creditworthiness of a company or security. Could lead to a change in rating outlook, initiation of Credit Watch, or a rating action.

Ratings Shopping: Also known as "forum shopping;" the process where an issuer approaches a rating agency to receive a "preliminary rating" before it seeks an official rating. If it does not get the desired rating, the issuer proceeds to another rating agency until it receives the desired rating.

Ratings Watch: A formal announcement by a rating agency informing investors that the issue or issuer rating is being reviewed to determine if the current rating is appropriate.

Receivership Assets: When an FDIC-insured institution fails, FDIC is ordinarily appointed as receiver. In that capacity, it assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets and the pursuit of the receivership's claims. Funds collected from the sale of assets and the disposition of valid claims are distributed to the receivership's creditors in accordance with the priorities set by law.

Reorganization: Agreements between a company, its creditors, and the courts that allow the company to emerge from bankruptcy with an altered debt structure.

Return on Equity ("ROE"): A measurement of how much profit a company generates with the money shareholders have invested. Calculated showing net income as a percentage of shareholders equity. If a bank must hold capital (equity) aside for regulatory purposes, it can make fewer investments, with implications for ROE.

Return on Investment ("ROI"): A measure of the efficiency of one investment option versus other options. Calculated as a percentage: profit divided by the cost of the investment.

Risk-Weighted Assets: The amount of a bank's total assets after applying an appropriate risk factor to each asset.

Round Tripping: Buying an asset from an entity and reselling the asset back to the entity or its affiliates.

Secondary Market: The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stocks, bonds, options, and futures are bought and sold.

SEC Net Capital Rule: A requirement that broker-dealers maintain a sufficient cushion of highly liquid assets (easily convertible to cash) in excess of liabilities to cover potential market, credit, and other risks if they should be required to liquidate.

Securities Exchange: An agreement between a firm and investors, permitting the investors to exchange one class of securities for another.

Senior Executive Officers ("SEOs"): A "named executive officer" of a TARP recipient as defined under Federal securities law, which generally includes the principal executive officer ("PEO"), principal financial officer ("PFO"), and the next three most highly compensated employees.

Senior Preferred Stock: Shares that give the stockholder priority dividend and liquidation claims over junior preferred and common stockholders.

Senior Subordinated Debenture: A subordinated debenture is a loan or security that is junior to other loans or securities with regards to the debt holders' claims on assets or earnings. Senior debt holders get paid in full before subordinated debt holders get paid. There are additional levels of priority among subordinated debt holders. CPP invests in senior subordinated debt.

Small Business Administration ("SBA") 7(a) Pool Certificates: 7(a) loans grouped together to form one security eligible as collateral against a TALF loan.

Special Purpose Vehicle ("SPV"): An off-balance-sheet legal entity that holds the transferred assets presumptively beyond the reach of the entities providing the assets (e.g., legally isolated).

System Gaming: Using the rules, policies, and procedures of a system against itself for purposes other than those originally intended by the system designers.

Systemically Significant: A financial institution whose failure would impose significant losses on creditors and counterparties, call into question the financial strength of other similarly situated financial institutions, disrupt financial markets, raise borrowing costs for households and businesses, and reduce household wealth.

T1: See the definition of Core Capital.

TALF Agent: Financial institution that is a party to the Master Loan and Security Agreement and from time to time acts as an agent to the borrower. TALF Agents include primary and non-primary broker-dealers.

Tax Gross-Up: A reimbursement of taxes owed with respect to any compensation.

Temporary Investments: For the purposes of PPIP, they are cash, Treasuries, money market mutual funds, and interest rate hedges.

Tier One Capital: Consists primarily of common equity (including retained earnings), limited types and amounts of preferred equity, certain minority interests, and limited types and amounts of trust preferred securities. T1 does not include goodwill and certain other intangibles. Certain other assets are also excluded from T1. It can be described as a measure of the bank's ability to sustain future losses and still meet depositor's demands.

Tier One Common Equity ("T1 Common"): Also known as tangible common equity ("TCE"), is calculated by removing all non-common elements from T1, *e.g.*, preferred equity, minority interests, and trust preferred securities. It can be thought of as the amount that would be left over if the bank were dissolved and all creditors and higher levels of stock, such as preferred stock, were paid off. T1 Common is the highest "quality" of capital in the sense of providing a buffer against loss by claimants on the bank. T1 Common is used in calculating the tier-one common risk-based ratio ("T1 Common Ratio") which determines what percentage of a bank's total assets is categorized as T1 Common. The higher the percentage, the better capitalized the bank. Preferred stock is an example of capital that is counted in T1, but not in T1 Common.

Tier One Common Risk-Based Ratio ("T1 Common Ratio"): Determines what percentage of a bank's total assets is categorized as T1 Common. Under traditional Federal regulations, a bank with a T1 Common Ratio of 4% or greater is considered adequately capitalized.
= T1 Common / Risk-weighted assets

Tier One Risk-based Capital Ratio ("T1 Ratio"): A ratio which determines what percentage of a bank's total assets is categorized as tier one capital ("T1").
= T1 / Risk-weighted assets

Transaction Cost: The tangible and intangible costs associated with buying or selling an asset. Tangible costs can include fees paid (such as to a broker when selling bonds or to lawyers for drafting documents), while intangible

costs can include the time or effort spent reviewing documents, traveling to visit a client, for instance.

Treasury Bill: A short-term debt obligation of the U.S. Government with a maturity of up to one year. Sold in denominations of $100 with maturities of 4 weeks, 13 weeks, 26 weeks, and 52 weeks. Sold at auction, with the price below face value (discount to par) determining the yield.

Treasury Bond: A marketable, fixed-interest U.S. Government debt security with a maturity of between 10 and 30 years; paying interest semi-annually.

Treasury Inflation-Protected Securities ("TIPS"): A special type of Treasury note or bond that offers protection from inflation. TIPS pay interest semi-annually, but the coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the consumer price index ("CPI").

Treasury Note: A marketable U.S. Government debt security with a fixed interest rate and a maturity between 1 and 10 years. Purchasable directly from Treasury through an auction process or from a bank.

Trust Preferred Securities: A security that has both equity and debt characteristics created by establishing a trust and issuing debt to it. A company would create a trust preferred security to realize tax benefits, since the trust is tax deductible.

Unpaid Principal Balance ("UPB"): Amount of a loan that is unpaid. This does not include additional charges.

Warrant: "The right, but not the obligation, to purchase a certain number of shares of common stock at a fixed price."

Weighted Average Life: The average number of years for which each dollar of unpaid principal on a mortgage or loan remains outstanding.

Yield: The effective interest rate paid by a security.

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ACRONYMS AND ABBREVIATIONS

ABS	Asset-Backed Securities
AGP	Asset Guarantee Program
AIFP	Automotive Industry Financing Program
AIG	American International Group, Inc.
AIGFP	AIG Financial Products Corp.
AMA	Acquired Member Assets
ARO	Acceptable Rating Organization
ARRA	American Recovery and Reinvestment Act of 2009
ASSP	Auto Supplier Support Program
AVR	Asset Valuation Reserve
AWCP	Auto Warranty Commitment Program
BHC	Bank Holding Company
BPD	Bureau of Public Debt
CAP	Capital Assistance Program
CBO	Congressional Budget Office
CD	Certificate of Deposit
CDO	Collateralized Debt Obligation
CDS	Credit Default Swaps
CEO	Chief Executive Officer
CFTC	Commodity Futures Trading Commission
CMB	Cash Management Bills
CMBS	Commercial Mortgage-Backed Securities
COFI	Cost of Funds Index
COP	Congressional Oversight Panel
CP	Commercial Paper
CPA	Certified Public Accountant
CPP	Capital Purchase Program
CRARA	Credit Rating Agency Reform Act
CRE	Commercial Real Estate
CUSIP	Credit Union System Investment Program
C&I	Commercial and Industrial
DBRS	DBRS Limited
DIL	Deed-In-Lieu of Foreclosure
DIP	Debtor in Possession
DOJ	Department of Justice
EESA	Emergency Economic Stabilization Act of 2008
FASB	Financial Accounting Standards Board
FBI	Federal Bureau of Investigation
FCM	Futures Commission Merchant
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHMA	Federal Housing Modification Administration, Inc.
FinCEN	Financial Crimes Enforcement Network
Fitch	Fitch Ratings
FOIA	Freedom of Information Act
FRBNY	Federal Reserve Bank of New York
FSOB	Financial Stability Oversight Board
FTC	Federal Trade Commission
GAO	Government Accountability Office
GDP	Gross Domestic Product
GM	General Motors Corporation
GMAC	GMAC LLC
GSE	Government–Sponsored Enterprise
HAMP	Home Affordable Modification Program
HERA	Housing and Economic Recovery Act
HPA	Home Price Appreciation
HPDP	Home Price Decline Protection
HUD	Department of Housing and Urban Development
HUD OIG	Office of the Inspector General of the Department of Housing and Urban Development
IAA	Inter-Agency Agreement
ICE	U.S. Immigration and Customs Enforcement
IG	Inspector General
IMF	International Monetary Fund
IMR	Interest Maintenance Reserve
Initial Report	SIGTARP's Initial Report to Congress
IRS-CI	Internal Revenue Service Criminal Investigation
LIBOR	London Interbank Offered Rate
LLC	Limited Liability Company
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MCP	Mandatorily Convertible Preferred Shares
MHA	Making Home Affordable
MMF	Money Market Mutual Fund
Moody's	Moody's Investors Services
NAIC	National Association of Insurance Commissioners
NAV	Net Asset Value

NCUA	National Credit Union Administration
NPV	Net Present Value
NRSRO	Nationally Recognized Statistical Rating Organization
NY HIFCA	New York High Intensity Financial Crime Area
OLC	Office of Legal Counsel
OMB	Office of Management and Budget
OTC	Over the Counter
OTS	Office of Thrift Supervision
OCC	Office of the Comptroller of the Currency
OFS	Office of Financial Stability
PIMCO	Pacific Investment Management Company LLC
PPIF	Public-Private Investment Fund
PPIP	Public-Private Investment Program
QFI	Qualifying Financial Institution
RBC	Risk-Based Capital
RMBS	Residential Mortgage-Backed Securities
ROE	Return on Equity
ROI	Return on Investment
S&P	Standard & Poor's
SBA	Small Business Administration
SCAP	Supervisory Capital Assessment Program
SEC	Securities and Exchange Commission
SEO	Senior Executive Officer
SFRS	Statement on Financial Regulations Standard
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
Special Master	Office of the Special Master
SPV	Special Purpose Vehicle
SS	Short Sale
SSAP	Statement of Statutory Accounting Principles
SSFI	Systemically Significant Failing Institutions
SVO	Securities Valuation Office
T1	Tier One Capital
T1 Common	Tier One Common Equity
T1 Common Ratio	Tier One Common Risk-Based Ratio
T1 Ratio	Tier One Risk-Based Capital Ratio
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TARP-IG Council	TARP Inspector General Council
TCE	Tangible Common Equity
the Committee	Board Compensation Committee
the Rule	Interim Final Rule on TARP Standards for Compensation and Corporate Governance
TIP	Targeted Investment Program
TIPS	Treasury Inflation-Protected Securities
Treasury	U.S. Department of the Treasury
UCSB	Unlocking Credit for Small Businesses
UGC	United Guaranty Corporation
UPB	Unpaid Principal Balance
USPIS	U.S. Postal Inspection Service
VEBA	Voluntary Employees Association Beneficiary
WFO	FBI's Washington Field Office

REPORTING REQUIREMENTS

This appendix provides Treasury's responses to data call questions regarding the reporting requirements of the Special Inspector General for the Troubled Asset Relief Program outlined in EESA section 121, as well as a cross-reference to related data presented in this report and prior reports. Italics style indicates relevant narrative taken verbatim from source documents.

#	EESA Section	EESA Reporting Requirement	Treasury Response to SIGTARP Data Call	SIGTARP Report Section
1	Section 121(c)(A)	A description of the categories of troubled assets purchased or otherwise procured by the Secretary.	*Treasury posts several documents on its public website that are responsive to this question, available at http://www.financialstability.gov/latest/reportsanddocs.html. Specifically, tranche reports and reports required under section 105(a) of the Emergency Economic Stabilization Act of 2008 (EESA) describe, at a high level, Treasury's programs and troubled asset purchases. The transaction reports describe these purchases in detail, including the type of asset purchased, the identity of the institution selling the asset, and the price Treasury paid for the asset. Other sources for this information are the determinations signed by the Secretary of the Treasury, designating certain financial instruments as "troubled assets" under section 3(9)(B) of EESA. Troubled asset determinations signed by the Treasury Secretary since June 30, 2009* [were provided to SIGTARP]. Below are program descriptions from Treasury's FinancialStability.gov website, as of 9/30/2009: CPP: *Treasury created the Capital Purchase Program (CPP) in October 2008 to stabilize the financial system by providing capital to viable financial institutions of all sizes throughout the nation. With a strengthened capital base, financial institutions have an increased capacity to lend to U.S. businesses and consumers and to support the U.S. economy.* CAP: *The purpose of the CAP is to restore confidence throughout the financial system that the nation's largest banking institutions have a sufficient capital cushion against larger than expected future losses, should they occur due to a more severe economic environment, and to support lending to creditworthy borrowers.* SSFI: *Systemically Significant Failing Institution Program (SSFI) was established to provide stability and prevent disruptions to financial markets from the failure of institutions that are critical to the functioning of the nation's financial system.* AGP: *The Asset Guarantee Program (AGP) provides government assurances for assets held by financial institutions that are critical to the functioning of the nation's financial system, which face a risk of losing the critical confidence that is needed for them to continue to lend to other banks.* TIP: *Treasury created the Targeted Investment Program (TIP) to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. This program focuses on the complex relationships and reliance of institutions within the financial system. Investments made through the TIP seek to avoid significant market disruptions resulting from the deterioration of one financial institution that can threaten other financial institutions and impair broader financial markets and pose a threat to the overall economy.* TALF: *The TALF is designed to increase credit availability and support economic activity by facilitating renewed issuance of consumer and small business ABS at more normal interest rate spreads… Under the TALF, the Federal Reserve Bank of New York (FRBNY) will provide non-recourse funding to any eligible borrower owning eligible collateral... The U.S. Treasury's Troubled Assets Relief Program (TARP) will purchase $20 billion of subordinated debt in an SPV created by the FRBNY. The SPV will purchase and manage any assets received by the FRBNY in connection with any TALF loans. Residual returns from the SPV will be shared between the FRBNY and the U.S. Treasury.*	Section 2: "TARP Overview" Appendix D: "Transaction Detail"

#	EESA Section	EESA Reporting Requirement	Treasury Response to SIGTARP Data Call	SIGTARP Report Section
			PPIP: *To address the challenge of legacy assets, Treasury – in conjunction with the Federal Deposit Insurance Corporation and the Federal Reserve – has announced the Public-Private Investment Program as part of its efforts to repair balance sheets throughout our financial system and ensure that credit is available to the households and businesses, large and small, that will help drive us toward recovery... Using $75 to $100 billion in TARP capital and capital from private investors, the Public-Private Investment Program will generate $500 billion in purchasing power to buy legacy assets – with the potential to expand to $1 trillion over time.* UCSB: *The Treasury Department will begin making direct purchases of securities backed by SBA loans to get the credit market moving again, and it will stand ready to purchase new securities to ensure that community banks and credit unions feel confident in extending new loans to local businesses.* *AIFP: The objective of* [AIFP] *is to prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States...* [Through AIFP, Treasury has provided] *loans or equity investments to General Motors, GMAC, Chrysler, and Chrysler Financial in order to avoid a disorderly bankruptcy of one or more auto companies; such an event would pose a systemic risk to the country's financial system. Treasury's loans to the automobile industry forged a path for these companies to go through orderly restructurings and achieve viability.* ASSP: [ASSP] *will provide up to $5 billion in financing, giving suppliers the confidence they need to continue shipping parts, pay their employees and continue their operations.* AWCP: *The Treasury Department announced an innovative new program to give consumers who are considering new car purchases the confidence that even in this difficult economic period, their warrantees will be honored. This program is part of the Administration's broader program to stabilize the auto industry and stand behind a restructuring effort that will result in stronger, more competitive and viable American car companies.* HAMP (a program under MHA): *The Home Affordable Modification Program has a simple goal: reduce the amount homeowners owe per month to sustainable levels to stabilize communities. This program will bring together lenders, investors, servicers, borrowers, and the government, so that all stakeholders share in the cost of ensuring that responsible homeowners can afford their monthly mortgage payments – helping to reach up to 3 to 4 million at-risk borrowers in all segments of the mortgage market, reducing foreclosures, and helping to avoid further downward pressures on overall home prices.*	
2	Section 121(c)(B)	A listing of the troubled assets purchased in each such category described under [section 121(c)(A)].	*Treasury posts transaction reports for all the troubled asset purchases on its public website within two business days after each transaction. Information on all transactions is available at http://www.financialstability.gov/impact/transactions.htm. Since the publication of the SIGTARP Report in July, Treasury has continued to invest funds in financial institutions across the United States through the Capital Purchase Program (CPP). Guidelines for all TARP programs, which explain each program's scope and purpose are also posted on Treasury's website at http://www.financialstability.gov/roadtostability/programs.htm. Additional information about these programs and related purchases is available in tranche reports and Section 105(a) reports, which are posted on Treasury's website. Information is also available in the troubled asset determinations* [provided by Treasury to SIGTARP]. [Treasury also provided SIGTARP with] *the latest transaction report dated* September 30, 2009.	Appendix D: "Transaction Detail"
3	Section 121(c)(C)	An explanation of the reasons the Secretary deemed it necessary to purchase each such troubled asset.	*Pursuant to Section (3)(9)(B) of EESA, the Secretary of the Treasury periodically designates financial instruments as "troubled assets" and submits written determinations to appropriate committees of Congress.* [Treasury provided SIGTARP with] *all troubled asset determinations signed by the Secretary of the Treasury since Treasury responded to SIGTARP's previous data call on June 30, 2009. Additional information on the TARP programs associated with these "troubled assets," including each program's scope and purpose, can be found online at http://www.financialstability.gov/roadtostability/programs.htm.*	Section 2: "TARP Overview"
4	Section 121(c)(D)	A listing of each financial institution that such troubled assets were purchased from.	See #2 above	See #2

#	EESA Section	EESA Reporting Requirement	Treasury Response to SIGTARP Data Call	SIGTARP Report Section
5	Section 121(c)(E)	A listing of and detailed biographical information on each person or entity hired to manage such troubled assets.	*There have been no additional asset managers hired during the third quarter 2009 (from July 1, 2009 through September 30, 2009). OFS is in the process of selecting additional asset managers consistent with Treasury's intentions and announcement to select a group of smaller asset managers to serve as Financial Agents in managing the portfolio of assets issued by banks and institutions participating in the Capital Purchase Program and other similar programs under EESA, and will inform SIGTARP once OFS selects the additional asset managers.*	Section 4: "TARP Operations and Administration" Appendix C: "Reporting Requirements" of SIGTARP's April 21, 2009 and July 21, 2009 Quarterly Reports to Congress
6	Section 121(c)(F)	A current estimate of the total amount of troubled assets purchased pursuant to any program established under section 101, the amount of troubled assets on the books of the Treasury, the amount of troubled assets sold, and the profit and loss incurred on each sale or disposition of each such troubled asset.	*Treasury received payments in connection with the repayment by financial institutions of Treasury's investment through the Capital Purchase Program. As of September 30, 2009, Treasury received a total of $70.7 billion in CPP repayments. Treasury incurred neither a profit nor a loss on the repayment of preferred shares since Treasury both purchased and sold the preferred shares at par. As of September 30, 2009, Treasury received a total of $2.9 billion from institutions repurchasing their warrants. Treasury also received $13 million in fees for the [Banco Popular] Exchange, and $276 million from Bank of America as AGP termination payment. Additional information on the repayments of Treasury's investments under the CPP and proceeds from the sale of warrants are available in* [the transaction report and FSP Budget report provided to SIGTARP].	Obligations by Program provided in Table C.1 below Section 2: "TARP Overview" Appendix D: "Transaction Detail"
7	Section 121(c)(G)	A listing of the insurance contracts issued under section 102.	No new insurance contracts this quarter.	Section 2: "TARP Overview" Appendix C: "Reporting Requirements" of SIGTARP's April 21, 2009 and July 21, 2009 Quarterly Reports to Congress
8	Section 121(f)	A detailed statement of all purchases, obligations, expenditures, and revenues associated with any program established by the Secretary of the Treasury under sections 101 and 102.	*Treasury provides information about TARP purchases, obligations, expenditures, and revenues on Treasury's public website at www.financialstability.gov. Treasury posts a transaction report for each purchase of troubled assets two business days after the transaction. Treasury also posts a detailed financial statement as part of its monthly Congressional report under section 105(a) of EESA. The next section 105(a) report will be posted on the Financial Stability web site on October 9, 2009.* [Treasury provided] *the most recent TARP/Financial Stability Plan Budget report (as of October 6, 2009) and TARP transactions report (as of October 2, 2009), which capture detailed information about TARP purchases, obligations, expenditures, and revenues.*	Obligations by Program provided in Table C.1 below Section 2: "TARP Overview" Section 4: "TARP Operations and Administration" Appendix D: "Transaction Detail"

Note: Treasury's current TALF committment is $20 billion but should TALF exceed a total of $200 billion in loans extended by FRBNY, then Treasury's committment could reach $80 billion.

Sources: Treasury, responses to SIGTARP data call, 9/30/2009 and 10/7/2009; Program Descriptions: Treasury, "Programs" webpage, http://www.financialstability.gov/roadtostability/programs.htm, accessed 10/5/2009; ASSP: "Treasury Announces Auto Suppliers Support Program," 3/19/2009, http://www.financialstability.gov/latest/auto3_18.html, accessed 6/30/2009; AWCP, "Obama Administration's New Warrantee Commitment Program," no date, http://www.financialstability.gov/docs/WarranteeCommitmentProgram.pdf, accessed 6/30/2009; TALF: Federal Reserve, "Term Asset-Backed Securities Loan Facility (TALF) Frequently Asked Questions," no date, http://www.federalreserve.gov/newsevents/press/monetary/monetary20090303a2.pdf, accessed 6/30/2009; MHA: "Making Home Affordable Updated Detailed Description Update," 3/4/2009, http://www.treas.gov/press/releases/reports/housing_fact_sheet.pdf, accessed 10/5/2009.

TABLE C.1

TOTAL AMOUNT OF TROUBLED ASSETS PURCHASED AND HELD ON TREASURY'S BOOKS, AS OF 10/6/2009 ($ BILLIONS)

	Obligations[a]	Expended[b]	On Treasury's Books[c]
Capital Purchase Program ("CPP")	$204.6	$204.6	$204.6
Systemically Significant Failing Institutions ("SSFI")	69.8	43.2	43.2
Home Affordable Modification Program ("HAMP")	27.3	—	—
Targeted Investment Program ("TIP")	40.0	40.0	40.0
Automotive Industry Financing Program ("AIFP")	81.1	75.9	75.9
Asset Guarantee Program ("AGP")[d]	5.0	—	—
Term Asset-Backed Securities Loan Facility ("TALF")[e]	20.0	0.1	0.2
Legacy Securities Public-Private Investment Program (PPIP)	16.7	—	16.7
Total[f]	**$464.5**	**$363.8**	**$380.6**

Notes:
Numbers affected by rounding.
[a] Based on "Face Value obligations" from Treasury souce document (TARP/Financial Stability Plan Budget Table dated 10/6/2009).
[b] According to Treasury, "Represents TARP cash that has left the Treasury." Based on "Face Value Disbursed/Outlays" from Treasury source document (TARP/Financial Stability Plan Tracking Report).
[c] According to Treasury, "All assets are currently carried at par value." On Treasury's Books indicates "totals obligated," and therefore "on the books."
[d] According to Treasury, "Reflects negative subsidy of $-750 million off of the total $301 billion Citigroup guarantee not just the $5 billion portion guaranteed by Treasury via the TARP (Breakdown of $301B: $39.5B from Citi, $5B from the UST, $10B from the FDIC and $246.5B from the Federal Reserve)."
[e] According to Treasury, "Up to $20B may be disbursed as credit protection for the $200B Federal Reserve Loan Facility. Treasury will only provide funding to cover assets put to the TALF SPV and will receive 90% of funds accumulated in the SPV (from Interest spreads on the $200B Federal Reserve Loan Facility) over a 3-5 year period. Expected receipts exceed the expected disbursements, resulting in a significant negative subsidy rate. Initial funding of $100M on 3/25/09."
[f] This table may not align with numbers contained in the Overview section because the Overview is as of 9/30/2009 and the data in this table provided by Treasury is as of 10/6/2009.

Source: Treasury, response to SIGTARP data call, 10/8/2009; Treasury, response to SIGTARP draft, 10/14/2009.

Table D.1

CPP TRANSACTION DETAIL, AS OF 9/30/2009

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
12/23/08	1st Constitution Bancorp–Cranbury, NJ	Pref. Stock w/ Warr.	$12,000,000								$7.52	$32	$8.56	200,222	210,233	$(1.04)	Out	$386,667
2/13/09	1st Enterprise Bank–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$4,400,000															$121,232
11/14/08	1st FS Corporation–Hendersonville, NC	Pref. Stock w/ Warr.	$16,369,000								$3.76	$19	$8.59	276,815	276,815	$(4.83)	Out	$616,111
1/23/09	1st Source Corporation–South Bend, IN	Pref. Stock w/ Warr.	$111,000,000								$16.30	$394	$19.87	837,947	837,947	$(3.57)	Out	$3,114,167
3/13/09	1st United Bancorp, Inc.–Boca Raton, FL[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$230,111
1/23/09	AB&T Financial Corporation–Gastonia, NC	Pref. Stock w/ Warr.	$3,500,000								$4.90	$13	$6.55	80,153	80,153	$(1.65)	Out	$98,194
1/30/09	Adbanc, Inc–Ogallala, NE[2]	Pref. Stock w/ Ex. Warr.	$12,720,000															$375,505
1/23/09	Alarion Financial Services, Inc.–Ocala, FL[2]	Pref. Stock w/ Ex. Warr.	$6,514,000															$199,217
2/6/09	Alaska Pacific Bancshares, Inc.–Juneau, AK	Pref. Stock w/ Warr.	$4,781,000								$5.80	$4	$4.08	175,772	175,772	$1.72	In	$125,502
6/26/09	Alliance Bancshares, Inc.–Dalton, GA[2]	Pref. Stock w/ Ex. Warr.	$2,986,000															$22,147
12/19/08	Alliance Financial Corporation–Syracuse, NY[4]	Pref. Stock w/ Warr.	$26,918,000	5/13/2009	$26,918,000	$0	Warrants	6/17/2009	Warrants	$900,000	$27.05	$125	–	173,069	–	–	–	$538,360
6/26/09	Alliance Financial Services Inc.–Saint Paul, MN[8]	Sub. Debent. w/ Ex. Warr.	$12,000,000															
4/24/09	Allied First Bancorp, Inc.–Oswego, IL[2]	Pref. Stock w/ Ex. Warr.	$3,652,000															$61,381
3/27/09	Alpine Banks of Colorado–Glenwood Springs, CO[2]	Pref. Stock w/ Ex. Warr.	$70,000,000															$1,462,416
1/30/09	AMB Financial Corp.–Munster, IN[2]	Pref. Stock w/ Ex. Warr.	$3,674,000															$108,474
3/6/09	AmeriBank Holding Company–Collinsville, OK[2]	Pref. Stock w/ Ex. Warr.	$2,492,000															$60,001
1/9/09	American Express Company–New York, NY[4]	Pref. Stock w/ Warr.	$3,388,890,000	6/17/2009	$3,388,890,000	$0	Warrants	7/29/2009	Warrants	$340,000,000	$33.90	$40,314	–	24,264,129	–	–	–	$74,367,308
5/29/09	American Premier Bancorp–Arcadia, CA[2]	Pref. Stock w/ Ex. Warr.	$1,800,000															$20,710
1/9/09	American State Bancshares, Inc.–Great Bend, KS[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$196,200
11/21/08	Ameris Bancorp–Moultrie, GA	Pref. Stock w/ Warr.	$52,000,000								$7.15	$98	$11.48	679,443	679,443	$(4.33)	Out	$1,906,667
12/19/08	AmeriServ Financial, Inc–Johnstown, PA	Pref. Stock w/ Warr.	$21,000,000								$1.80	$38	$2.40	1,312,500	1,312,500	$(0.60)	Out	$688,333
8/21/09	AmFirst Financial Services, Inc.–McCook, NE[8]	Sub. Debent. w/ Ex. Warr.	$5,000,000															
1/30/09	Anchor BanCorp Wisconsin Inc.–Madison, WI	Pref. Stock w/ Warr.	$110,000,000								$1.30	$28	$2.23	7,399,103	7,399,103	$(0.93)	Out	
1/30/09	Annapolis Bancorp, Inc.–Annapolis, MD	Pref. Stock w/ Warr.	$8,152,000								$3.00	$12	$4.08	299,706	299,706	$(1.08)	Out	$220,783
11/21/08	Associated Banc–Corp–Green Bay, WI	Pref. Stock w/ Warr.	$525,000,000								$11.42	$1,460	$19.77	3,983,308	3,983,308	$(8.35)	Out	$19,250,000
2/27/09	Avenue Financial Holdings, Inc.–Nashville, TN[2]	Pref. Stock w/ Ex. Warr.	$7,400,000															$188,207
3/13/09	BancIndependent, Inc.–Sheffield, AL[2]	Pref. Stock w/ Ex. Warr.	$21,100,000															$485,535
7/10/09	Bancorp Financial, Inc.–Oak Brook, IL[2,10]	Pref. Stock w/ Ex. Warr.	$13,669,000															$70,034
12/19/08	Bancorp Rhode Island, Inc.–Providence, RI[4]	Pref. Stock w/ Warr.	$30,000,000	8/5/2009	$30,000,000	$0	Warrants	9/30/2009	Warrants	$1,400,000	$24.98	$115	–	192,967	–	–	–	$941,667
2/20/09	BancPlus Corporation–Ridgeland, MS[2]	Pref. Stock w/ Ex. Warr.	$48,000,000															$1,271,666
4/3/09	BancStar, Inc.–Festus, MO[2]	Pref. Stock w/ Ex. Warr.	$8,600,000															$171,857
12/19/08	BancTrust Financial Group, Inc.–Mobile, AL	Pref. Stock w/ Warr.	$50,000,000								$3.57	$63	$10.26	730,994	730,994	$(6.69)	Out	$1,638,889
8/14/09	Bank Financial Services, Inc.–Eden Prarie, MN[2]	Pref. Stock w/ Ex. Warr.	$1,004,000															
10/28/08	Bank of America Corporation–Charlotte, NC[g]	Pref. Stock w/ Warr.	$15,000,000,000								$16.92	$146,385	$30.79	73,075,674	121,792,790	$(13.87)	Out	$897,916,667
1/9/09	Bank of America Corporation–Charlotte, NC[1,g]	Pref. Stock w/ Warr.	$10,000,000,000								$16.92	$146,385		48,717,116				
1/16/09	Bank of Commerce– Charlotte, NC[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$94,921
11/14/08	Bank of Commerce Holdings–Redding, CA	Pref. Stock w/ Warr.	$17,000,000								$5.50	$48	$6.29	405,405	405,405	$(0.79)	Out	$639,861
3/13/09	Bank of George– Las Vegas, NV[2]	Pref. Stock w/ Ex. Warr.	$2,672,000															$61,501
12/5/08	Bank of Marin Bancorp–Novato, CA[4]	Pref. Stock w/ Warr.	$28,000,000	3/31/2009	$28,000,000	$0	Warrants				$31.33	$163	$27.23	154,242	154,242	$4.10	In	$451,111
12/5/08	Bank of North Carolina–Thomasville, NC	Pref. Stock w/ Warr.	$31,260,000								$7.70	$57	$8.63	543,337	543,337	$(0.93)	Out	$1,085,417
4/17/09	Bank of the Carolinas Corporation–Mocksville, NC	Pref. Stock w/ Warr.	$13,179,000								$4.43	$17	$4.16	475,204	475,204	$0.27	Out	$215,990
12/12/08	Bank of the Ozarks, Inc.–Little Rock, AR	Pref. Stock w/ Warr.	$75,000,000								$26.53	$448	$29.62	379,811	379,811	$(3.09)	Out	$2,531,250

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly-Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[g]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[b]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
1/30/09	Bankers' Bank of the West Bancorp, Inc.–Denver, CO[2]	Pref. Stock w/ Ex. Warr.	$12,639,000															$373,117
1/23/09	BankFirst Capital Corporation–Macon, MS[2]	Pref. Stock w/ Ex. Warr.	$15,500,000															$473,999
2/13/09	BankGreenville–Greenville, SC[2]	Pref. Stock w/ Ex. Warr.	$1,000,000															$27,553
11/21/08	Banner Corporation–Walla Walla, WA	Pref. Stock w/ Warr.	$124,000,000								$2.73	$52	$10.89	1,707,989	1,707,989	$(8.16)	Out	$4,546,667
2/6/09	Banner County Ban Corporation–Harrisburg, NE[2]	Pref. Stock w/ Ex. Warr.	$795,000															$22,759
1/16/09	Bar Harbor Bankshares–Bar Harbor, ME	Pref. Stock w/ Warr.	$18,751,000								$34.00	$98	$26.81	104,910	104,910	$7.19	In	$544,300
11/14/08	BB&T Corp.–Winston-Salem, NC[4]	Pref. Stock w/ Warr.	$3,133,640,000	6/17/2009	$3,133,640,000	$0	Warrants	7/22/2009	Warrants	$67,010,402	$27.24	$18,566	–	13,902,573	–	–	–	$92,703,517
4/3/09	BCB Holding Company, Inc.–Theodore, AL[2]	Pref. Stock w/ Ex. Warr.	$1,706,000															$34,083
12/23/08	BCSB Bancorp, Inc.–Baltimore, MD	Pref. Stock w/ Warr.	$10,800,000								$8.56	$27	$8.83	183,465	183,465	$(0.27)	Out	$348,000
1/30/09	Beach Business Bank–Manhattan Beach, CA[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$177,125
6/12/09	Berkshire Bancorp, Inc.–Wyomissing, PA[2]	Pref. Stock w/ Ex. Warr.	$2,892,000															$27,589
12/19/08	Berkshire Hills Bancorp, Inc.–Pittsfield, MA[4]	Pref. Stock w/ Warr.	$40,000,000	5/27/2009	$40,000,000	$0	Warrants	6/24/2009	Warrants	$1,040,000	$21.94	$305	–	226,330	–	–	–	$877,778
2/13/09	Bern Bancshares, Inc.–Bern, KS[2]	Pref. Stock w/ Ex. Warr.	$985,000															$27,174
4/24/09	Birmingham Bloomfield Bancshares, Inc–Birmingham, MI[2]	Pref. Stock w/ Ex. Warr.	$1,635,000															$27,483
6/19/09	Biscayne Bancshares, Inc.–Coconut Grove, FL[8,10]	Sub. Debent. w/ Ex. Warr.	$6,400,000															$81,038
3/13/09	Blackhawk Bancorp, Inc.–Beloit, WI[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$230,111
5/22/09	Blackridge Financial, Inc.–Fargo, ND[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$62,826
3/6/09	Blue Ridge Bancshares, Inc.–Independence, MO[2]	Pref. Stock w/ Ex. Warr.	$12,000,000															$288,850
3/6/09	Blue River Bancshares, Inc.–Shelbyville, IN[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$120,355
12/5/08	Blue Valley Ban Corp–Overland Park, KS	Pref. Stock w/ Warr.	$21,750,000								$9.50	$26	$29.37	111,083	111,083	$(19.87)	Out	$211,458
4/17/09	BNB Financial Services Corporation–New York, NY[2]	Pref. Stock w/ Ex. Warr.	$7,500,000															$133,980
2/27/09	BNC Financial Group, Inc.–New Canaan, CT[2]	Pref. Stock w/ Ex. Warr.	$4,797,000															$122,010
1/16/09	BNCCORP, Inc.–Bismarck, ND[2]	Pref. Stock w/ Ex. Warr.	$20,093,000															$635,767
3/6/09	BOH Holdings, Inc.–Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$240,708
5/15/09	Boscobel Bancorp, Inc–Boscobel, WI[8]	Sub. Debent. w/ Ex. Warr.	$5,586,000															$117,156
11/21/08	Boston Private Financial Holdings, Inc.–Boston, MA	Pref. Stock w/ Warr.	$154,000,000								$6.47	$444	$8.00	2,887,500	2,887,500	$(1.53)	Out	$5,646,667
12/23/08	Bridge Capital Holdings–San Jose, CA	Pref. Stock w/ Warr.	$23,864,000								$7.00	$49	$9.03	396,412	396,412	$(2.03)	Out	$768,951
12/19/08	Bridgeview Bancorp, Inc.–Bridgeview, IL[2]	Pref. Stock w/ Ex. Warr.	$38,000,000															$1,357,656
11/14/08	Broadway Financial Corporation–Los Angeles, CA	Pref. Stock w/ Warr.	$9,000,000								$5.45	$9	$7.37	183,175	183,175	$(1.92)	Out	$338,750
5/15/09	Brogan Bankshares, Inc.– Kaukauna, WI[8]	Sub. Debent. w/ Ex. Warr.	$2,400,000															$50,340
7/17/09	Brotherhood Bancshares, Inc.–Kansas City, KS[2]	Pref. Stock w/ Ex. Warr.	$11,000,000															$46,628
4/24/09	Business Bancshares, Inc.–Clayton, MO[2]	Pref. Stock w/ Ex. Warr.	$15,000,000															$252,063
3/13/09	Butler Point, Inc.–Catlin, IL[2]	Pref. Stock w/ Ex. Warr.	$607,000															$13,955
1/9/09	C&F Financial Corporation–West Point, VA	Pref. Stock w/ Warr.	$20,000,000								$17.00	$52	$17.91	167,504	167,504	$(0.91)	Out	$600,000
12/23/08	Cache Valley Banking Company–Logan, UT[2]	Pref. Stock w/ Ex. Warr.	$4,767,000															$167,407
1/9/09	Cadence Financial Corporation–Starkville, MS	Pref. Stock w/ Warr.	$44,000,000								$1.80	$21	$5.76	1,145,833	1,145,833	$(3.96)	Out	$1,320,000
2/27/09	California Bank of Commerce–Lafayette, CA[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$101,733
1/23/09	California Oaks State Bank–Thousand Oaks, CA[2]	Pref. Stock w/ Ex. Warr.	$3,300,000															$100,916
1/23/09	Calvert Financial Corporation–Ashland, MO[2]	Pref. Stock w/ Ex. Warr.	$1,037,000															$31,720

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
1/23/09	CalWest Bancorp–Rancho Santa Margarita, CA[2]	Pref. Stock w/ Ex. Warr.	$4,656,000															$142,394
12/23/08	Capital Bancorp, Inc.–Rockville, MD[2]	Pref. Stock w/ Ex. Warr.	$4,700,000															$165,075
12/12/08	Capital Bank Corporation–Raleigh, NC	Pref. Stock w/ Warr.	$41,279,000								$4.98	$56	$8.26	749,619	749,619	$(3.28)	Out	$1,393,167
4/10/09	Capital Commerce Bancorp, Inc.–Milwaukee, WI[2]	Pref. Stock w/ Ex. Warr.	$5,100,000															$96,511
11/14/08	Capital One Financial Corporation–McLean, VA[4]	Pref. Stock w/ Warr.	$3,555,199,000	6/17/2009	$3,555,199,000	$0	Warrants				$35.73	$16,256	$42.13	12,657,960	12,657,960	$(6.40)	Out	$105,174,638
12/23/08	Capital Pacific Bancorp–Portland, OR[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$140,489
1/9/09	Carolina Bank Holdings, Inc.–Greensboro, NC	Pref. Stock w/ Warr.	$16,000,000								$4.00	$14	$6.71	357,675	357,675	$(2.71)	Out	$480,000
2/6/09	Carolina Trust Bank–Lincolnton, NC	Pref. Stock w/ Warr.	$4,000,000								$5.90	$9	$6.90	86,957	86,957		Out	$105,000
2/13/09	Carrollton Bancorp–Baltimore, MD	Pref. Stock w/ Warr.	$9,201,000								$5.50	$14	$6.72	205,379	205,379	$(1.22)	Out	$232,581
1/16/09	Carver Bancorp, Inc–New York, NY[3]	Pref. Stock	$18,980,000															$550,947
11/21/08	Cascade Financial Corporation–Everett, WA	Pref. Stock w/ Warr.	$38,970,000								$1.70	$21	$6.77	863,442	863,442	$(5.07)	Out	$1,428,900
12/5/08	Cathay General Bancorp–Los Angeles, CA	Pref. Stock w/ Warr.	$258,000,000								$8.09	$401	$20.96	1,846,374	1,846,374	$(12.87)	Out	$8,958,333
2/27/09	Catskill Hudson Bancorp, Inc–Rock Hil, NY[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$76,300
5/29/09	CB Holding Corp.–Aledo, IL[2]	Pref. Stock w/ Ex. Warr.	$4,114,000															$47,340
2/20/09	CBB Bancorp–Cartersville, GA[2]	Pref. Stock w/ Ex. Warr.	$2,644,000															$70,039
3/27/09	CBS Banc-Corp.–Russellville, AL[2]	Pref. Stock w/ Ex. Warr.	$24,300,000															$507,668
12/23/08	Cecil Bancorp, Inc.–Elkton, MD	Pref. Stock w/ Warr.	$11,560,000								$4.50	$17	$6.63	261,538	261,538	$(2.13)	Out	$372,489
2/6/09	CedarStone Bank– Lebanon, TN[2]	Pref. Stock w/ Ex. Warr.	$3,564,000															$101,966
1/9/09	Center Bancorp, Inc.–Union, NJ	Pref. Stock w/ Warr.	$10,000,000								$7.53	$110	$8.65	173,410	173,410	$(1.12)	Out	$300,000
12/12/08	Center Financial Corporation–Los Angeles, CA	Pref. Stock w/ Warr.	$55,000,000								$3.82	$64	$9.54	864,780	864,780	$(5.72)	Out	$1,856,250
5/1/09	CenterBank–Milford, OH[2]	Pref. Stock w/ Ex. Warr.	$2,250,000															$35,438
11/21/08	Centerstate Banks of Florida Inc.–Davenport, FL[b,5]	Pref. Stock w/ Warr.	$27,875,000	9/30/2009	$27,875,000	$0	Warrants				$7.89	$190	$16.67	250,825	125,413	$(8.78)	Out	$1,196,303
1/16/09	Centra Financial Holdings, Inc.–Morgantown, WV[2,4,7]	Pref. Stock w/ Ex. Warr.	$15,000,000	3/31/2009	$15,000,000	$0	Preferred Stock [2]	4/15/2009	Preferred Stock	$750,000								$172,938
12/5/08	Central Bancorp, Inc.–Somerville, MA	Pref. Stock w/ Warr.	$10,000,000								$8.70	$14	$6.39	234,742	234,742	$2.31	In	$347,222
2/27/09	Central Bancorp, Inc.–Garland, TX[2]	Pref. Stock w/ Ex. Warr.	$22,500,000															$572,250
1/30/09	Central Bancshares, Inc.– Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$5,800,000															$171,221
2/20/09	Central Community Corporation–Temple, TX2	Pref. Stock w/ Ex. Warr.	$22,000,000															$582,847
12/5/08	Central Federal Corporation–Fairlawn, OH	Pref. Stock w/ Warr.	$7,225,000								$2.65	$11	$3.22	336,568	336,568	$(0.57)	Out	$250,868
12/23/08	Central Jersey Bancorp–Oakhurst, NJ	Pref. Stock w/ Warr.	$11,300,000								$6.00	$55	$6.31	268,621	268,621	$(0.31)	Out	$364,111
1/9/09	Central Pacific Financial Corp.–Honolulu, HI	Pref. Stock w/ Warr.	$135,000,000								$2.52	$72	$12.77	1,585,748	1,585,748	$(10.25)	Out	$2,362,500
1/30/09	Central Valley Community Bancorp–Fresno, CA	Pref. Stock w/ Warr.	$7,000,000								$5.27	$41	$6.64	158,133	158,133	$(1.37)	Out	$189,583
1/30/09	Central Virginia Bankshares, Inc.–Powhatan, VA	Pref. Stock w/ Warr.	$11,385,000								$3.76	$10	$6.48	263,542	263,542	$(2.72)	Out	$308,344
2/6/09	Centrix Bank & Trust– Bedford, NH[2]	Pref. Stock w/ Ex. Warr.	$7,500,000															$214,594
1/9/09	Centrue Financial Corporation–St. Louis, MO	Pref. Stock w/ Warr.	$32,668,000								$3.79	NA	$9.64	508,320	508,320	$(5.85)	Out	$571,690
6/19/09	Century Financial Services Corporation–Santa Fe, NM[8]	Sub. Debent. w/ Ex. Warr.	$10,000,000															$130,511
5/29/09	Chambers Bancshares, Inc.– Danville, AR[8]	Sub. Debent. w/ Ex. Warr.	$19,817,000															$351,007
7/31/09	Chicago Shore Corporation–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$7,000,000															
12/31/08	CIT Group Inc.–New York, NY	Pref. Stock w/ Warr.	$2,330,000,000								$1.21	$474	$3.94	88,705,584	88,705,584	$(2.73)	Out	$43,687,500
10/28/08	Citigroup Inc.–New York, NY[11, h]	Pref. Stock w/ Warr.	$25,000,000,000								$4.84	$110,741	see note h	210,084,034		see note h		$932,291,667
1/16/09	Citizens & Northern Corporation–Wellsboro, PA	Pref. Stock w/ Warr.	$26,440,000								$14.79	$133	$20.36	194,794	194,794	$(5.57)	Out	$767,494
12/23/08	Citizens Bancorp–Nevada City, CA[2]	Pref. Stock w/ Ex. Warr.	$10,400,000															$223,571
5/29/09	Citizens Bancshares Co.–Chillicothe, MO[2]	Pref. Stock w/ Ex. Warr.	$24,990,000															$287,533
3/6/09	Citizens Bancshares Corporation–Atlanta, GA[3]	Pref. Stock	$7,462,000															$164,786

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
3/20/09	Citizens Bank & Trust Company–Covington, LA[2]	Pref. Stock w/ Ex. Warr.	$2,400,000															$19,983
2/6/09	Citizens Commerce Bancshares, Inc.–Versailles, KY[2]	Pref. Stock w/ Ex. Warr.	$6,300,000															$180,259
12/23/08	Citizens Community Bank–South Hill, VA[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$105,367
12/19/08	Citizens First Corporation–Bowling Green, KY	Pref. Stock w/ Warr.	$8,779,000								$4.15	$8	$5.18	254,218	254,218	$(1.03)	Out	$287,757
12/12/08	Citizens Republic Bancorp, Inc.–Flint, MI	Pref. Stock w/ Warr.	$300,000,000								$0.76	$96	$2.56	17,578,125	17,578,125	$(1.80)	Out	$10,125,000
12/12/08	Citizens South Banking Corporation–Gastonia, NC	Pref. Stock w/ Warr.	$20,500,000								$6.10	$46	$7.17	428,870	428,870	$(1.07)	Out	$691,875
4/10/09	City National Bancshares Corporation–Newark, NJ[3]	Pref. Stock	$9,439,000															$163,872
11/21/08	City National Corporation–Beverly Hills, CA	Pref. Stock w/ Warr.	$400,000,000								$38.93	$2,004	$53.16	1,128,668	1,128,668	$(14.23)	Out	$14,666,667
3/27/09	Clover Community Bankshares, Inc.–Clover, SC[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$62,675
12/5/08	Coastal Banking Company, Inc.–Fernandina Beach, FL	Pref. Stock w/ Warr.	$9,950,000								$3.45	$9	$7.26	205,579	205,579	$(3.81)	Out	$345,486
8/28/09	CoastalSouth Bancshares, Inc.–Hilton Head Island, SC[2,10]	Pref. Stock w/ Ex. Warr.	$16,015,000															
12/19/08	CoBiz Financial Inc.–Denver, CO	Pref. Stock w/ Warr.	$64,450,000								$4.98	$180	$10.79	895,968	895,968	$(5.81)	Out	$2,112,528
1/9/09	Codorus Valley Bancorp, Inc.–York, PA	Pref. Stock w/ Warr.	$16,500,000								$5.75	$23	$9.38	263,859	263,859	$(3.63)	Out	$495,000
2/13/09	ColoEast Bankshares, Inc.–Lamar, CO[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$275,528
3/27/09	Colonial American Bank–West Conshohocken, PA[2]	Pref. Stock w/ Ex. Warr.	$574,000															$12,003
1/9/09	Colony Bankcorp, Inc.–Fitzgerald, GA	Pref. Stock w/ Warr.	$28,000,000								$6.69	$48	$8.40	500,000	500,000	$(1.71)	Out	$840,000
11/21/08	Columbia Banking System, Inc.–Tacoma, WA	Pref. Stock w/ Warr.	$76,898,000								$16.55	$444	$14.49	796,046	796,046	$2.06	In	$2,819,593
2/27/09	Columbine Capital Corp.–Buena Vista, CO[2]	Pref. Stock w/ Ex. Warr.	$2,260,000															$57,480
11/14/08	Comerica Inc.–Dallas, TX	Pref. Stock w/ Warr.	$2,250,000,000								$29.67	$4,484	$29.40	11,479,592	11,479,592	$0.27	Out	$84,687,500
1/9/09	Commerce National Bank–Newport Beach, CA	Pref. Stock w/ Warr.	$5,000,000								$5.00	$13	$8.60	87,209	87,209	$(3.60)	Out	
5/22/09	Commonwealth Bancshares, Inc.–Louisville, KY[8]	Sub. Debent. w/ Ex. Warr.	$20,400,000															$394,615
1/23/09	Commonwealth Business Bank–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$7,701,000															$25,648
1/16/09	Community 1st Bank– Roseville, CA[2]	Pref. Stock w/ Ex. Warr.	$2,550,000															$69,510
3/6/09	Community Bancshares of Kansas, Inc.–Goff, KS[2]	Pref. Stock w/ Ex. Warr.	$500,000															$12,036
9/11/09	Community Bancshares of Mississippi, Inc.–Brandon, MS[2]	Pref. Stock w/ Ex. Warr.	$52,000,000															
7/24/09	Community Bancshares, Inc.–Kingman, AZ[2,10]	Pref. Stock w/ Ex. Warr.	$3,872,000															$11,902
1/16/09	Community Bank of the Bay–Oakland, CA[3]	Pref. Stock	$1,747,000															$21,838
5/29/09	Community Bank Shares of Indiana, Inc.–New Albany, IN	Pref. Stock w/ Warr.	$19,468,000								$7.50	$24	$7.56	386,270	386,270	$(0.06)	Out	$205,495
12/19/08	Community Bankers Trust Corporation–Glen Allen, VA	Pref. Stock w/ Warr.	$17,680,000								$3.44	$74	$3.40	780,000	780,000	$0.04	Out	$579,511
2/27/09	Community Business Bank–West Sacramento, CA[2]	Pref. Stock w/ Ex. Warr.	$3,976,000															$101,131
12/19/08	Community Financial Corporation–Staunton, VA	Pref. Stock w/ Warr.	$12,643,000								$4.16	$18	$5.40	351,194	351,194	$(1.24)	Out	$414,410
5/15/09	Community Financial Shares, Inc.–Glen Ellyn, IL[2]	Pref. Stock w/ Ex. Warr.	$6,970,000															$94,978
3/20/09	Community First Bancshares Inc.–Union City, TN[2]	Pref. Stock w/ Ex. Warr.	$20,000,000															$439,028
4/3/09	Community First Bancshares, Inc.–Harrison, AR[2]	Pref. Stock w/ Ex. Warr.	$12,725,000															$254,280
2/27/09	Community First Inc.–Columbia, TN[2]	Pref. Stock w/ Ex. Warr.	$17,806,000															$452,853
2/6/09	Community Holding Company of Florida, Inc.–Miramar Beach, FL[2]	Pref. Stock w/ Ex. Warr.	$1,050,000															$29,926

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
12/23/08	Community Investors Bancorp, Inc.–Bucyrus, OH[2]	Pref. Stock w/ Ex. Warr.	$2,600,000															$91,318
1/30/09	Community Partners Bancorp–Middletown, NJ	Pref. Stock w/ Warr.	$9,000,000								$4.18	$30	$4.68	288,462	288,462	$(0.50)	Out	$243,750
1/9/09	Community Trust Financial Corporation–Ruston, LA[2]	Pref. Stock w/ Ex. Warr.	$24,000,000															$784,800
12/19/08	Community West Bancshares–Goleta, CA	Pref. Stock w/ Warr.	$15,600,000								$2.27	$13	$4.49	521,158	521,158	$(2.22)	Out	$511,333
1/9/09	Congaree Bancshares, Inc.–Cayce, SC[2]	Pref. Stock w/ Ex. Warr.	$3,285,000															$107,407
2/13/09	Corning Savings and Loan Association–Corning, AR[2]	Pref. Stock w/ Ex. Warr.	$638,000															$17,583
1/30/09	Country Bank Shares, Inc.–Milford, NE[2]	Pref. Stock w/ Ex. Warr.	$7,525,000															$222,133
6/5/09	Covenant Financial Corporation–Clarksdale, MS[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$52,986
2/20/09	Crazy Woman Creek Bancorp, Inc.–Buffalo, WY[2]	Pref. Stock w/ Ex. Warr.	$3,100,000															$82,128
1/9/09	Crescent Financial Corporation–Cary, NC	Pref. Stock w/ Warr.	$24,900,000								$4.80	$46	$4.48	833,705	833,705	$0.32	Out	$747,000
1/23/09	Crosstown Holding Company–Blaine, MN[2]	Pref. Stock w/ Ex. Warr.	$10,650,000															$325,709
3/27/09	CSRA Bank Corp.–Wrens, GA[2]	Pref. Stock w/ Ex. Warr.	$2,400,000															$50,140
12/5/08	CVB Financial Corp–Ontario, CA[b,4]	Pref. Stock w/ Warr.	$130,000,000	8/26/2009	$97,500,000	$32,500,000	Preferred Stock w/ Warrants				$7.59	$804	$11.68	1,669,521	834,761	$(4.09)	Out	$4,739,583
12/5/08	CVB Financial Corp–Ontario, CAb,[4]			9/2/2009	$32,500,000	$0	Warrants											
2/27/09	D.L. Evans Bancorp–Burley, ID[2]	Pref. Stock w/ Ex. Warr.	$19,891,000															$505,914
5/15/09	Deerfield Financial Corporation–Deerfield, WI[8]	Sub. Debent. w/ Ex. Warr.	$2,639,000															$55,355
2/13/09	DeSoto County Bank–Horn Lake, MS[2]	Pref. Stock w/ Ex. Warr.	$1,173,000															$32,335
5/22/09	Diamond Bancorp, Inc.–Washington, MO[8]	Sub. Debent. w/ Ex. Warr.	$20,445,000															$395,477
1/16/09	Dickinson Financial Corporation II–Kansas City, MO[2]	Pref. Stock w/ Ex. Warr.	$146,053,000															$2,631,197
3/13/09	Discover Financial Services–Riverwoods, IL	Pref. Stock w/ Warr.	$1,224,558,000								$16.23	$8,809	$8.96	20,500,413	20,500,413	$7.27	In	$25,851,779
1/30/09	DNB Financial Corporation–Downingtown, PA	Pref. Stock w/ Warr.	$11,750,000								$6.50	$17	$9.46	186,311	186,311	$(2.96)	Out	$318,229
6/19/09	Duke Financial Group, Inc.–Minneapolis, MN[8]	Sub. Debent. w/ Ex. Warr.	$12,000,000															$156,616
12/5/08	Eagle Bancorp, Inc.–Bethesda, MD	Pref. Stock w/ Warr.	$38,235,000								$9.58	$178	$7.44	770,867	770,867	$2.14	In	$1,327,605
12/5/08	East West Bancorp–Pasadena, CA	Pref. Stock w/ Warr.	$306,546,000								$8.30	$761	$15.15	3,035,109	3,035,109	$(6.85)	Out	$10,643,958
1/9/09	Eastern Virginia Bankshares, Inc.–Tappahannock, VA	Pref. Stock w/ Warr.	$24,000,000								$8.08	$48	$9.63	373,832	373,832	$(1.55)	Out	$720,000
1/16/09	ECB Bancorp, Inc.–Engelhard, NC	Pref. Stock w/ Warr.	$17,949,000								$16.50	$47	$18.57	144,984	144,984	$(2.07)	Out	$521,020
12/23/08	Emclaire Financial Corp.–Emlenton, PA	Pref. Stock w/ Warr.	$7,500,000								$17.10	$24	$22.45	50,111	50,111	$(5.35)	Out	$241,667
12/5/08	Encore Bancshares Inc.–Houston, TX	Pref. Stock w/ Warr.	$34,000,000								$8.91	$92	$14.01	364,026	364,026	$(5.10)	Out	$1,180,556
12/19/08	Enterprise Financial Services Corp.–St. Louis, MO	Pref. Stock w/ Warr.	$35,000,000								$9.25	$119	$16.20	324,074	324,074	$(6.95)	Out	$1,147,222
6/12/09	Enterprise Financial Services Group, Inc.–Allison Park, PA[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$38,150
1/30/09	Equity Bancshares, Inc.–Wichita, KS[2]	Pref. Stock w/ Ex. Warr.	$8,750,000															$258,332
12/19/08	Exchange Bank–Santa Rosa, CA[2]	Pref. Stock w/ Ex. Warr.	$43,000,000															$1,536,294
5/22/09	F & C Bancorp, Inc.– Holden, MO[8]	Sub. Debent. w/ Ex. Warr.	$2,993,000															$57,907
1/30/09	F & M Bancshares, Inc.–Trezevant, TN[2]	Pref. Stock w/ Ex. Warr.	$4,609,000															$136,040
2/6/09	F & M Financial Corporation–Salisbury, NC[2]	Pref. Stock w/ Ex. Warr.	$17,000,000															$486,413
2/13/09	F&M Financial Corporation–Clarksville, TN[2]	Pref. Stock w/ Ex. Warr.	$17,243,000															$475,086
1/9/09	F.N.B. Corporation–Hermitage, PA[b,4]	Pref. Stock w/ Warr.	$100,000,000	9/9/2009	$100,000,000	$0	Warrants				$7.11	$810	$11.52	1,302,083	651,042	$(4.41)	Out	$3,333,333
3/6/09	Farmers & Merchants Bancshares, Inc.–Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$11,000,000															$264,780
3/20/09	Farmers & Merchants Financial Corporation–Argonia, KS[2]	Pref. Stock w/ Ex. Warr.	$442,000															$9,699
1/23/09	Farmers Bank–Windsor, VA[2]	Pref. Stock w/ Ex. Warr.	$8,752,000															$267,661

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[a]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[a]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
1/9/09	Farmers Capital Bank Corporation–Frankfort, KY	Pref. Stock w/ Warr.	$30,000,000								$17.88	$132	$20.09	223,992	223,992	$(2.21)	Out	$900,000
6/19/09	Farmers Enterprises, Inc.–Great Bend, KS[8]	Sub. Debent. w/ Ex. Warr.	$12,000,000															$156,616
3/20/09	Farmers State Bankshares, Inc.–Holton, KS[2]	Pref. Stock w/ Ex. Warr.	$700,000															$15,547
6/26/09	FC Holdings, Inc.–Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$21,042,000															$156,090
12/19/08	FCB Bancorp, Inc.–Louisville, KY[2]	Pref. Stock w/ Ex. Warr.	$9,294,000															$332,072
12/19/08	FFW Corporation–Wabash, IN[2]	Pref. Stock w/ Ex. Warr.	$7,289,000															$260,394
5/29/09	Fidelity Bancorp, Inc–Baton Rouge, LA[8]	Sub. Debent. w/ Ex. Warr.	$3,942,000															
12/12/08	Fidelity Bancorp, Inc.–Pittsburgh, PA	Pref. Stock w/ Warr.	$7,000,000								$6.37	$19	$8.65	121,387	121,387	$(2.28)	Out	$236,250
12/19/08	Fidelity Financial Corporation–Wichita, KS[2]	Pref. Stock w/ Ex. Warr.	$36,282,000															$1,296,269
6/26/09	Fidelity Resources Company–Plano, TX[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$22,254
12/19/08	Fidelity Southern Corporation–Atlanta, GA	Pref. Stock w/ Warr.	$48,200,000								$3.06	$30	$3.14	2,266,458	4,589,804	$(0.08)	Out	$1,579,889
12/31/08	Fifth Third Bancorp–Cincinnati, OH	Pref. Stock w/ Warr.	$3,408,000,000								$10.13	$8,057	$11.72	43,617,747	43,617,747	$(1.59)	Out	$127,800,000
12/23/08	Financial Institutions, Inc.–Warsaw, NY	Pref. Stock w/ Warr.	$37,515,000								$9.97	$108	$14.88	378,175	378,175	$(4.91)	Out	$1,208,817
2/13/09	Financial Security Corporation–Basin, WY[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$137,764
7/31/09	Financial Services of Winger, Inc.–Winger, MN[8,10]	Sub. Debent. w/ Ex. Warr.	$3,742,000															$12,650
5/22/09	First Advantage Bancshares Inc.–Coon Rapids, MN[2]	Pref. Stock w/ Ex. Warr.	$1,177,000															$14,792
6/26/09	First Alliance Bancshares, Inc.–Cordova, TN[2]	Pref. Stock w/ Ex. Warr.	$3,422,000															$25,383
7/24/09	First American Bank Corporation–Elk Grove Village, IL[8]	Sub. Debent. w/ Ex. Warr.	$50,000,000															$244,725
3/13/09	First American International Corp.–Brooklyn, NY[3]	Pref. Stock	$17,000,000															$358,889
1/9/09	First Bancorp–Troy, NC	Pref. Stock w/ Warr.	$65,000,000								$18.05	$301	$15.82	616,308	616,308	$2.23	In	$1,950,000
1/16/09	First BanCorp–San Juan, PR	Pref. Stock w/ Warr.	$400,000,000								$3.05	$282	$10.27	5,842,259	5,842,259	$(7.22)	Out	$6,611,111
2/20/09	First BancTrust Corporation–Paris, IL[2]	Pref. Stock w/ Ex. Warr.	$7,350,000															$194,746
2/6/09	First Bank of Charleston, Inc.–Charleston, WV[2]	Pref. Stock w/ Ex. Warr.	$3,345,000															$95,697
1/16/09	First Bankers Trustshares, Inc.–Quincy, IL[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$316,403
12/31/08	First Banks, Inc.–Clayton, MO[2]	Pref. Stock w/ Ex. Warr.	$295,400,000															$6,037,238
3/6/09	First Busey Corporation– Urbana, IL	Pref. Stock w/ Warr.	$100,000,000								$4.70	$266	$13.07	1,147,666	1,147,666	$(8.37)	Out	$2,208,333
4/10/09	First Business Bank, N.A.–San Diego, CA[2]	Pref. Stock w/ Ex. Warr.	$2,211,000															$41,854
12/19/08	First California Financial Group, Inc–Westlake Village, CA	Pref. Stock w/ Warr.	$25,000,000								$4.80	$56	$6.26	599,042	599,042	$(1.46)	Out	$819,444
4/3/09	First Capital Bancorp, Inc.–Glen Ellen, VA	Pref. Stock w/ Warr.	$10,958,000								$7.55	$22	$6.55	250,947	250,947	$1.00	Out	$200,897
2/13/09	First Choice Bank– Cerritos, CA[2]	Pref. Stock w/ Ex. Warr.	$2,200,000															$60,616
1/23/09	First Citizens Banc Corp– Sandusky, OH	Pref. Stock w/ Warr.	$23,184,000								$5.24	$40	$7.41	469,312	469,312	$(2.17)	Out	$650,440
3/20/09	First Colebrook Bancorp, Inc.–Colebrook, NH[2]	Pref. Stock w/ Ex. Warr.	$4,500,000															$98,782
5/15/09	First Community Bancshares, Inc–Overland Park, KS[2]	Pref. Stock w/ Ex. Warr.	$14,800,000															$201,650
12/23/08	First Community Bank Corporation of America–Pinellas Park, FL	Pref. Stock w/ Warr.	$10,685,000								$4.00	$17	$7.02	228,312	228,312	$(3.02)	Out	$344,295
11/21/08	First Community Bankshares Inc.–Bluefield, VA[5, b]	Pref. Stock w/ Warr.	$41,500,000	7/8/2009	$41,500,000	$0	Warrants				$12.62	$223	$35.26	176,546	88,273	$(22.64)	Out	$1,308,403
11/21/08	First Community Corporation–Lexington, SC	Pref. Stock w/ Warr.	$11,350,000								$6.20	$20	$8.69	195,915	195,915	$(2.49)	Out	$416,167
12/5/08	First Defiance Financial Corp.–Defiance, OH	Pref. Stock w/ Warr.	$37,000,000								$14.91	$121	$10.08	550,595	550,595	$4.83	In	$1,284,722
9/11/09	First Eagle Bancshares, Inc.–Hanover Park, IL[8]	Sub. Debent. w/ Ex. Warr.	$7,500,000															
2/6/09	First Express of Nebraska, Inc.–Gering, NE[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$143,063

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
3/6/09	First Federal Bancshares of Arkansas, Inc.–Harrison, AR	Pref. Stock w/ Warr.	$16,500,000								$4.09	$20	$7.69	321,847	321,847	$(3.60)	Out	$364,375
12/23/08	First Financial Bancorp–Cincinnati, OH	Pref. Stock w/ Warr.	$80,000,000								$12.05	$620	$12.90	930,233	930,233	$(0.85)	Out	$2,577,778
6/12/09	First Financial Bancshares, Inc.–Lawrence, KS[8,10]	Sub. Debent. w/ Ex. Warr.	$3,756,000															$53,341
12/5/08	First Financial Holdings Inc.–Charleston, SC	Pref. Stock w/ Warr.	$65,000,000								$15.97	$254	$20.17	483,391	483,391	$(4.20)	Out	$2,256,944
1/9/09	First Financial Service Corporation–Elizabethtown, KY	Pref. Stock w/ Warr.	$20,000,000								$13.47	$63	$13.89	215,983	215,983	$(0.42)	Out	$600,000
2/27/09	First Gothenburg Bancshares, Inc.–Gothenburg, NE[2]	Pref. Stock w/ Ex. Warr.	$7,570,000															$192,552
8/28/09	First Guaranty Bancshares, Inc.–Hammond, LA[2]	Pref. Stock w/ Ex. Warr.	$20,699,000															
11/14/08	First Horizon National Corporation–Memphis, TN	Pref. Stock w/ Warr.	$866,540,000								$13.23	$2,892	$9.60	12,743,235	26,857,216	$3.63	In	$32,615,603
8/28/09	First Independence Corporation–Detroit, MI[2,3]	Pref. Stock	$3,223,000															
3/13/09	First Intercontinental Bank–Doraville, GA[2]	Pref. Stock w/ Ex. Warr.	$6,398,000															$147,229
12/12/08	First Litchfield Financial Corporation–Litchfield, CT	Pref. Stock w/ Warr.	$10,000,000								$6.50	$15	$7.53	199,203	199,203	$(1.03)	Out	$337,500
2/27/09	First M&F Corporation–Kosciusko, MS	Pref. Stock w/ Warr.	$30,000,000								$2.75	$25	$8.77	513,113	513,113	$(6.02)	Out	$700,000
1/16/09	First Manitowoc Bancorp, Inc.–Manitowoc, WI[2,4,7]	Pref. Stock w/ Ex. Warr.	$12,000,000	5/27/2009	$12,000,000	$0	Preferred Stock [2]	5/27/2009	Preferred Stock	$600,000								$237,983
2/6/09	First Market Bank, FSB– Richmond, VA[2]	Pref. Stock w/ Ex. Warr.	$33,900,000															$969,964
2/13/09	First Menasha Bancshares, Inc.–Neenah, WI[2]	Pref. Stock w/ Ex. Warr.	$4,797,000															$132,178
2/20/09	First Merchants Corporation–Muncie, IN	Pref. Stock w/ Warr.	$116,000,000								$6.97	$148	$17.55	991,453	991,453	$(10.58)	Out	$2,819,444
12/5/08	First Midwest Bancorp, Inc.–Itasca, IL	Pref. Stock w/ Warr.	$193,000,000								$11.27	$554	$22.18	1,305,230	1,305,230	$(10.91)	Out	$6,701,389
3/13/09	First National Corporation– Strasburg, VA[2]	Pref. Stock w/ Ex. Warr.	$13,900,000															$319,855
3/20/09	First NBC Bank Holding Company–New Orleans, LA[2]	Pref. Stock w/ Ex. Warr.	$17,836,000															$391,532
11/21/08	First Niagara Financial Group–Lockport, NY[6,5,9]	Pref. Stock w/ Warr.	$184,011,000	5/27/2009	$184,011,000	$0	Warrants	6/24/2009	Warrants	$2,700,000	$12.33	$2,258	–	1,906,191	–	–	–	$4,753,618
3/13/09	First Northern Community Bancorp–Dixon, CA	Pref. Stock w/ Warr.	$17,390,000								$6.00	$54	$7.39	352,977	352,977	$(1.39)	Out	$367,122
11/21/08	First PacTrust Bancorp, Inc.–Chula Vista, CA	Pref. Stock w/ Warr.	$19,300,000								$6.40	$27	$10.31	280,795	280,795	$(3.91)	Out	$707,667
3/13/09	First Place Financial Corp.–Warren, OH	Pref. Stock w/ Warr.	$72,927,000								$2.95	$50	$2.98	3,670,822	3,670,822	$(0.03)	Out	$1,539,570
2/20/09	First Priority Financial Corp.–Malvern, PA[2]	Pref. Stock w/ Ex. Warr.	$4,579,000															$121,314
3/6/09	First Reliance Bancshares, Inc.–Florence, SC[2]	Pref. Stock w/ Ex. Warr.	$15,349,000															$369,446
1/30/09	First Resource Bank–Exton, PA[2]	Pref. Stock w/ Ex. Warr.	$2,600,000															$76,755
1/9/09	First Security Group, Inc.–Chattanooga, TN	Pref. Stock w/ Warr.	$33,000,000								$3.85	$63	$6.01	823,627	823,627	$(2.16)	Out	$990,000
12/23/08	First Sound Bank–Seattle, WA	Pref. Stock w/ Warr.	$7,400,000								$0.65	$1	$9.73	114,080	114,080	$(9.08)	Out	$238,444
7/17/09	First South Bancorp, Inc.–Lexington, TN[8]	Sub. Debent. w/ Ex. Warr.	$50,000,000															$326,277
1/30/09	First Southern Bancorp, Inc.–Boca Raton, FL[2]	Pref. Stock w/ Ex. Warr.	$10,900,000															$321,777
3/6/09	First Southwest Bancorporation, Inc.–Alamosa, CO[2]	Pref. Stock w/ Ex. Warr.	$5,500,000															$132,390
2/27/09	First State Bank of Mobeetie–Mobeetie, TX[2]	Pref. Stock w/ Ex. Warr.	$731,000															$18,611
3/6/09	First Texas BHC, Inc.–Fort Worth, TX[2]	Pref. Stock w/ Ex. Warr.	$13,533,000															$325,764
6/5/09	First Trust Corporation–New Orleans, LA[8]	Sub. Debent. w/ Ex. Warr.	$17,969,000															$293,128
1/23/09	First ULB Corp.–Oakland, CA[2,4,7]	Pref. Stock w/ Ex. Warr.	$4,900,000	4/22/2009	$4,900,000	$0	Preferred Stock [2]	4/22/2009	Preferred Stock	$245,000								$66,021
1/30/09	First United Corporation–Oakland, MD	Pref. Stock w/ Warr.	$30,000,000								$10.57	$65	$13.79	326,323	326,323	$(3.22)	Out	$812,500
6/12/09	First Vernon Bancshares, Inc.–Vernon, AL[2,10]	Pref. Stock w/ Ex. Warr.	$6,000,000															$56,359
2/6/09	First Western Financial, Inc.–Denver, CO[2]	Pref. Stock w/ Ex. Warr.	$8,559,000															$244,897

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
1/30/09	Firstbank Corporation–Alma, MI	Pref. Stock w/ Warr.	$33,000,000								$5.50	$42	$8.55	578,947	578,947	$(3.05)	Out	$893,750
1/9/09	FirstMerit Corporation–Akron, OH[4]	Pref. Stock w/ Warr.	$125,000,000	4/22/2009	$125,000,000	$0	Warrants	5/27/2009	Warrants	$5,025,000	$19.03	$1,634	–	952,260	–	–	–	$1,788,194
1/30/09	Flagstar Bancorp, Inc.–Troy, MI	Pref. Stock w/ Warr.	$266,657,000								$1.03	$483	$0.62	64,513,790	64,513,790	$0.41	Out	$7,221,960
7/24/09	Florida Bank Group, Inc.–Tampa, FL[2]	Pref. Stock w/ Ex. Warr.	$20,471,000															$65,083
2/20/09	Florida Business BancGroup, Inc.–Tampa, FL[2]	Pref. Stock w/ Ex. Warr.	$9,495,000															$251,563
12/19/08	Flushing Financial Corporation–Lake Success, NY	Pref. Stock w/ Warr.	$70,000,000								$11.40	$343	$13.97	751,611	751,611	$(2.57)	Out	$2,294,444
2/27/09	FNB Bancorp–South San Francisco, CA[2]	Pref. Stock w/ Ex. Warr.	$12,000,000															$305,200
2/13/09	FNB United Corp.–Asheboro, NC	Pref. Stock w/ Warr.	$51,500,000								$2.62	$30	$3.50	2,207,143	2,207,143	$(0.88)	Out	$1,301,805
5/15/09	Foresight Financial Group, Inc.–Rockford, IL[2]	Pref. Stock w/ Ex. Warr.	$15,000,000															$204,375
5/22/09	Fort Lee Federal Savings Bank–Fort Lee, NJ[2]	Pref. Stock w/ Ex. Warr.	$1,300,000															$16,335
4/3/09	Fortune Financial Corporation–Arnold, MO[2]	Pref. Stock w/ Ex. Warr.	$3,100,000															$61,949
12/5/08	FPB Bancorp, Inc.–Port St. Lucie, FL	Pref. Stock w/ Warr.	$5,800,000								$3.10	$6	$4.75	183,158	183,158	$(1.65)	Out	$201,389
1/23/09	FPB Financial Corp.–Hammond, LA[2]	Pref. Stock w/ Ex. Warr.	$3,240,000															$99,081
5/22/09	Franklin Bancorp, Inc.–Washington, MO[2]	Pref. Stock w/ Ex. Warr.	$5,097,000															$64,048
5/8/09	Freeport Bancshares, Inc.–Freeport, IL[8]	Sub. Debent. w/ Ex. Warr.	$3,000,000															$67,818
6/26/09	Fremont Bancorporation–Fremont, CA[8]	Sub. Debent. w/ Ex. Warr.	$35,000,000															$399,705
1/23/09	Fresno First Bank–Fresno, CA[2]	Pref. Stock w/ Ex. Warr.	$1,968,000															$26,805
4/24/09	Frontier Bancshares, Inc.–Austin, TX[8]	Sub. Debent. w/ Ex. Warr.	$3,000,000															$77,607
12/23/08	Fulton Financial Corporation–Lancaster, PA	Pref. Stock w/ Warr.	$376,500,000								$7.40	$1,303	$10.25	5,509,756	5,509,756	$(2.85)	Out	$12,131,667
5/8/09	Gateway Bancshares, Inc.–Ringgold, GA[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$88,108
2/6/09	Georgia Commerce Bancshares, Inc.–Atlanta, GA[2]	Pref. Stock w/ Ex. Warr.	$8,700,000															$248,929
5/1/09	Georgia Primary Bank– Atlanta, GA[2]	Pref. Stock w/ Ex. Warr.	$4,500,000															
3/6/09	Germantown Capital Corporation, Inc.–Germantown, TN[2]	Pref. Stock w/ Ex. Warr.	$4,967,000															$119,546
6/26/09	Gold Canyon Bank–Gold Canyon, AZ[2,10]	Pref. Stock w/ Ex. Warr.	$1,607,000															$11,525
1/30/09	Goldwater Bank, N.A.–Scottsdale, AZ[2]	Pref. Stock w/ Ex. Warr.	$2,568,000															$75,790
4/24/09	Grand Capital Corporation–Tulsa, OK[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$67,217
9/25/09	Grand Financial Corporation–Hattiesburg, MS[8]	Sub. Debent. w/ Ex. Warr.	$2,443,320															
5/29/09	Grand Mountain Bancshares, Inc.–Granby, CO[2]	Pref. Stock w/ Ex. Warr.	$3,076,000															
1/9/09	GrandSouth Bancorporation–Greenville, SC[2]	Pref. Stock w/ Ex. Warr.	$9,000,000															$294,300
7/17/09	Great River Holding Company–Baxter, MN[8]	Sub. Debent. w/ Ex. Warr.	$8,400,000															$54,815
12/5/08	Great Southern Bancorp–Springfield, MO	Pref. Stock w/ Warr.	$58,000,000								$23.71	$317	$9.57	909,091	909,091	$14.14	In	$2,013,889
12/23/08	Green Bankshares, Inc.–Greeneville, TN	Pref. Stock w/ Warr.	$72,278,000								$5.00	$66	$17.06	635,504	635,504	$(12.06)	Out	$2,328,958
2/27/09	Green Circle Investments, Inc.–Clive, IA[2]	Pref. Stock w/ Ex. Warr.	$2,400,000															$61,040
2/27/09	Green City Bancshares, Inc.–Green City, MO[2]	Pref. Stock w/ Ex. Warr.	$651,000															$16,576
1/30/09	Greer Bancshares Incorporated–Greer, SC[2]	Pref. Stock w/ Ex. Warr.	$9,993,000															$295,019
2/13/09	Gregg Bancshares, Inc.–Ozark, MO[2]	Pref. Stock w/ Ex. Warr.	$825,000															$22,720
2/20/09	Guaranty Bancorp, Inc.– Woodsville, NH[2]	Pref. Stock w/ Ex. Warr.	$6,920,000															$183,332
9/25/09	Guaranty Capital Corporation–Belzoni, MS[3,8]	Sub. Debent.	$14,000,000															
1/30/09	Guaranty Federal Bancshares, Inc.–Springfield, MO	Pref. Stock w/ Warr.	$17,000,000								$5.90	$15	$5.55	459,459	459,459	$0.35	Out	$460,417
9/25/09	GulfSouth Private Bank– Destin, FL[8,10]	Sub. Debent. w/ Ex. Warr.	$7,500,000															
6/26/09	Gulfstream Bancshares, Inc.–Stuart, FL[2]	Pref. Stock w/ Ex. Warr.	$7,500,000															$55,635

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
2/20/09	Hamilton State Bancshares–Hoschton, GA[2]	Pref. Stock w/ Ex. Warr.	$7,000,000															$185,452
12/31/08	Hampton Roads Bankshares, Inc.–Norfolk, VA	Pref. Stock w/ Warr.	$80,347,000								$2.88	$63	$9.09	1,325,858	1,325,858	$(6.21)	Out	$2,510,844
7/17/09	Harbor Bankshares Corporation–Baltimore, MD[2,3]	Pref. Stock	$6,800,000															$26,444
6/26/09	Hartford Financial Services Group, Inc.–Hartford, CT	Pref. Stock w/ Warr.	$3,400,000,000								$26.50	$8,696	$9.79	52,093,973	52,093,973	$16.71	In	$23,138,889
3/13/09	Haviland Bancshares, Inc.–Haviland, KS[2]	Pref. Stock w/ Ex. Warr.	$425,000															$9,771
12/19/08	Hawthorn Bancshares, Inc.–Lee's Summit, MO	Pref. Stock w/ Warr.	$30,255,000								$9.75	$42	$17.78	245,443	500,704	$(8.03)	Out	$991,692
3/6/09	HCSB Financial Corporation–Loris, SC	Pref. Stock w/ Warr.	$12,895,000								$15.00	$57	$21.09	91,714	91,714	$(6.09)	Out	$284,765
9/11/09	Heartland Bancshares, Inc.–Franklin, IN[2,10]	Pref. Stock w/ Ex. Warr.	$7,000,000															
12/19/08	Heartland Financial USA, Inc.–Dubuque, IA	Pref. Stock w/ Warr.	$81,698,000								$14.75	$241	$20.10	609,687	609,687	$(5.35)	Out	$2,677,879
9/25/09	Heritage Bankshares, Inc.–Norfolk, VA[2,10]	Pref. Stock w/ Ex. Warr.	$10,103,000															
11/21/08	Heritage Commerce Corp.–San Jose, CA	Pref. Stock w/ Warr.	$40,000,000								$4.71	$56	$12.96	462,963	462,963	$(8.25)	Out	$1,466,667
11/21/08	Heritage Financial Corporation–Olympia, WA	Pref. Stock w/ Warr.	$24,000,000								$13.15	$138	$13.04	276,074	276,074	$0.11	Out	$880,000
3/20/09	Heritage Oaks Bancorp–Paso Robles, CA	Pref. Stock w/ Warr.	$21,000,000								$7.35	$57	$5.15	611,650	611,650	$2.20	In	$422,916
11/21/08	HF Financial Corp.–Sioux Falls, SD[4]	Pref. Stock w/ Warr.	$25,000,000	6/3/2009	$25,000,000	$0	Warrants	6/30/2009	Warrants	$650,000	$10.96	$44	–	302,419	–	–	–	$666,667
3/6/09	Highlands Independent Bancshares, Inc.–Sebring, FL[2]	Pref. Stock w/ Ex. Warr.	$6,700,000															$161,275
5/8/09	Highlands State Bank–Vernon, NJ[2]	Pref. Stock w/ Ex. Warr.	$3,091,000															$45,401
1/30/09	Hilltop Community Bancorp, Inc.–Summit, NJ[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$118,083
12/23/08	HMN Financial, Inc.–Rochester, MN	Pref. Stock w/ Warr.	$26,000,000								$3.75	$16	$4.68	833,333	833,333	$(0.93)	Out	$837,778
1/16/09	Home Bancshares, Inc.–Conway, AR	Pref. Stock w/ Warr.	$50,000,000								$21.92	$546	$26.03	288,129	288,129	$(4.11)	Out	$1,451,389
2/20/09	Hometown Bancorp of Alabama, Inc.–Oneonta, AL[2]	Pref. Stock w/ Ex. Warr.	$3,250,000															$86,125
2/13/09	Hometown Bancshares, Inc.–Corbin, KY[2]	Pref. Stock w/ Ex. Warr.	$1,900,000															$52,350
9/18/09	HomeTown Bankshares Corporation–Roanoke, VA[2,10]	Pref. Stock w/ Ex. Warr.	$10,000,000															
12/12/08	HopFed Bancorp–Hopkinsville, KY	Pref. Stock w/ Warr.	$18,400,000								$10.05	$36	$11.32	243,816	243,816	$(1.27)	Out	$621,000
12/19/08	Horizon Bancorp–Michigan City, IN	Pref. Stock w/ Warr.	$25,000,000								$17.10	$56	$17.68	212,104	212,104	$(0.58)	Out	$819,444
2/27/09	Howard Bancorp, Inc.–Ellicott City, MD[2]	Pref. Stock w/ Ex. Warr.	$5,983,000															$152,161
5/1/09	HPK Financial Corporation–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$62,978
11/14/08	Huntington Bancshares–Columbus, OH	Pref. Stock w/ Warr.	$1,398,071,000								$4.71	$3,297	$8.90	23,562,994	23,562,994	$(4.19)	Out	$52,621,840
2/6/09	Hyperion Bank– Philadelphia, PA[2]	Pref. Stock w/ Ex. Warr.	$1,552,000															$44,426
9/18/09	IA Bancorp, Inc.–Iselin, NJ[2,10]	Pref. Stock w/ Ex. Warr.	$5,976,000															
5/15/09	IBC Bancorp, Inc.–Chicago, IL[3,8]	Sub. Debent.	$4,205,000															$80,946
12/5/08	Iberiabank Corporation–Lafayette, LA[b,5,9]	Pref. Stock w/ Warr.	$90,000,000	3/31/2009	$90,000,000	$0	Warrants	5/20/2009	Warrants	$1,200,000	$45.56	$937	–	276,980	–	–	–	$1,450,000
3/27/09	IBT Bancorp, Inc.–Irving, TX[2]	Pref. Stock w/ Ex. Warr.	$2,295,000															$47,955
3/13/09	IBW Financial Corporation–Washington, DC[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$138,067
3/6/09	ICB Financial–Ontario, CA[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$144,425
1/16/09	Idaho Bancorp–Boise, ID[2]	Pref. Stock w/ Ex. Warr.	$6,900,000															$124,306
5/22/09	Illinois State Bancorp, Inc.–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$6,272,000															$78,818
1/9/09	Independence Bank–East Greenwich, RI[2]	Pref. Stock w/ Ex. Warr.	$1,065,000															$34,812
1/9/09	Independent Bank Corp.–Rockland, MA[4]	Pref. Stock w/ Warr.	$78,158,000	4/22/2009	$78,158,000	$0	Warrants	5/27/2009	Warrants	$2,200,000	$22.13	$463	–	481,664	–	–	–	$1,118,094
12/12/08	Independent Bank Corporation–Ionia, MI	Pref. Stock w/ Warr.	$72,000,000								$1.90	$46	$3.12	3,461,538	3,461,538	$(1.22)	Out	$2,430,000
4/24/09	Indiana Bank Corp.–Dana, IN[2]	Pref. Stock w/ Ex. Warr.	$1,312,000															$22,059
12/12/08	Indiana Community Bancorp–Columbus, IN	Pref. Stock w/ Warr.	$21,500,000								$8.50	$29	$17.09	188,707	188,707	$(8.59)	Out	$725,625
2/27/09	Integra Bank Corporation–Evansville, IN	Pref. Stock w/ Warr.	$83,586,000								$1.11	$23	$1.69	7,418,876	7,418,876	$(0.58)	Out	$1,950,340
12/19/08	Intermountain Community Bancorp–Sandpoint, ID	Pref. Stock w/ Warr.	$27,000,000								$2.60	$22	$6.20	653,226	653,226	$(3.60)	Out	$885,000
12/23/08	International Bancshares Corporation–Laredo, TX	Pref. Stock w/ Warr.	$216,000,000								$16.31	$1,112	$24.43	1,326,238	1,326,238	$(8.12)	Out	$6,960,000
12/23/08	Intervest Bancshares Corporation–New York, NY	Pref. Stock w/ Warr.	$25,000,000								$3.53	$29	$5.42	691,882	691,882	$(1.89)	Out	$805,556

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[a]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
5/8/09	Investors Financial Corporation of Pettis County, Inc.–Sedalia, MO[8]	Sub. Debent. w/ Ex. Warr.	$4,000,000															$90,425
10/28/08	JPMorgan Chase & Co.–New York, NY[4]	Pref. Stock w/ Warr.	$25,000,000,000	6/17/2009	$25,000,000,000	$0	Warrants				$43.82	$172,325	$42.42	88,401,697	88,401,697	$1.40	In	$795,138,889
1/30/09	Katahdin Bankshares Corp.–Houlton, ME[2]	Pref. Stock w/ Ex. Warr.	$10,449,000															$308,442
11/14/08	KeyCorp–Cleveland, OH	Pref. Stock w/ Warr.	$2,500,000,000								$6.50	$5,711	$10.64	35,244,361	35,244,361	$(4.14)	Out	$94,097,222
3/20/09	Kirksville Bancorp, Inc.–Kirksville, MO[2]	Pref. Stock w/ Ex. Warr.	$470,000															$10,335
8/21/09	KS Bancorp, Inc.–Smithfield, NC[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															
2/20/09	Lafayette Bancorp, Inc.–Oxford, MS2	Pref. Stock w/ Ex. Warr.	$1,998,000															$52,937
2/6/09	Lakeland Bancorp, Inc.–Oak Ridge, NJ	Pref. Stock w/ Warr.	$59,000,000								$7.50	$179	$9.32	949,571	949,571	$(1.82)	Out	$1,548,750
2/27/09	Lakeland Financial Corporation–Warsaw, IN	Pref. Stock w/ Warr.	$56,044,000								$20.65	$257	$21.20	396,538	396,538	$(0.55)	Out	$1,307,693
1/9/09	LCNB Corp.– Lebanon, OH	Pref. Stock w/ Warr.	$13,400,000								$10.99	$73	$9.26	217,063	217,063	$1.73	In	$402,000
12/23/08	Leader Bancorp, Inc.–Arlington, MA[2]	Pref. Stock w/ Ex. Warr.	$5,830,000															$204,792
1/30/09	Legacy Bancorp, Inc.–Milwaukee, WI[3]	Pref. Stock	$5,498,000															$148,904
1/23/09	Liberty Bancshares, Inc.–Jonesboro, AR[2]	Pref. Stock w/ Ex. Warr.	$57,500,000															$1,758,382
2/13/09	Liberty Bancshares, Inc.–Springfield, MO[2]	Pref. Stock w/ Ex. Warr.	$21,900,000															$603,406
2/6/09	Liberty Financial Services, Inc.–New Orleans, LA[3]	Pref. Stock	$5,645,000															$148,182
2/20/09	Liberty Shares, Inc.–Hinesville, GA[2]	Pref. Stock w/ Ex. Warr.	$17,280,000															$457,800
7/10/09	Lincoln National Corporation– Radnor, PA	Pref. Stock w/ Warr.	$950,000,000								$25.91	$7,827	$10.92	13,049,451		$14.99	In	$4,618,055
12/12/08	LNB Bancorp Inc.–Lorain, OH	Pref. Stock w/ Warr.	$25,223,000								$6.69	$49	$6.74	561,343	561,343	$(0.05)	Out	$851,277
2/6/09	Lone Star Bank–Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$3,072,000															
12/12/08	LSB Corporation–North Andover, MA	Pref. Stock w/ Warr.	$15,000,000								$10.30	$46	$10.74	209,497	209,497	$(0.44)	Out	$506,250
6/26/09	M&F Bancorp, Inc.–Durham, NC[2,3,10]	Pref. Stock	$11,735,000															$79,863
12/23/08	M&T Bank Corporation–Buffalo, NY	Pref. Stock w/ Warr.	$600,000,000								$62.32	$7,351	$73.86	1,218,522	1,218,522	$(11.54)	Out	$19,333,333
4/24/09	Mackinac Financial Corporation–Manistique, MI	Pref. Stock w/ Warr.	$11,000,000								$4.10	$14	$4.35	379,310	379,310	$(0.25)	Out	$169,583
3/13/09	Madison Financial Corporation–Richmond, KY	Pref. Stock w/ Ex. Warr.	$3,370,000															$77,567
12/23/08	Magna Bank–Memphis, TN[2]	Pref. Stock w/ Ex. Warr.	$13,795,000															$484,526
1/16/09	MainSource Financial Group, Inc.–Greensburg, IN	Pref. Stock w/ Warr.	$57,000,000								$6.80	$137	$14.95	571,906	571,906	$(8.15)	Out	$1,654,583
12/5/08	Manhattan Bancorp–El Segundo, CA[4]	Pref. Stock w/ Warr.	$1,700,000	9/16/2009	$1,700,000	$0	Warrants				$6.50	$26	$8.65	29,480	29,480	$(2.15)	Out	$66,347
6/19/09	Manhattan Bancshares, Inc.–Manhattan, IL[8]	Sub. Debent. w/ Ex. Warr.	$2,639,000															$34,443
3/6/09	Marine Bank & Trust Company–Vero Beach, FL[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$72,213
2/20/09	Market Bancorporation, Inc.–New Market, MN[2]	Pref. Stock w/ Ex. Warr.	$2,060,000															$54,576
5/15/09	Market Street Bancshares, Inc.–Mt. Vernon, IL[8]	Sub. Debent. w/ Ex. Warr.	$20,300,000															$425,793
12/19/08	Marquette National Corporation–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$35,500,000															$1,268,337
11/14/08	Marshall & Ilsley Corporation–Milwaukee, WI	Pref. Stock w/ Warr.	$1,715,000,000								$8.07	$2,971	$18.62	13,815,789	13,815,789	$(10.55)	Out	$64,550,694
3/27/09	Maryland Financial Bank–Towson, MD[2]	Pref. Stock w/ Ex. Warr.	$1,700,000															$35,516
12/5/08	MB Financial Inc.–Chicago, IL[b]	Pref. Stock w/ Warr.	$196,000,000								$20.97	$1,053	$29.05	1,012,048	506,024	$(8.08)	Out	$6,805,556
2/27/09	Medallion Bank–Salt Lake City, UT[2]	Pref. Stock w/ Ex. Warr.	$11,800,000															$300,113
5/15/09	Mercantile Bank Corporation–Grand Rapids, MI	Pref. Stock w/ Warr.	$21,000,000								$4.20	$36	$5.11	616,438	616,438	$(0.91)	Out	$262,500
2/6/09	Mercantile Capital Corp.– Boston, MA[2]	Pref. Stock w/ Ex. Warr.	$3,500,000															$100,144
6/19/09	Merchants and Manufacturers Bank Corporation–Joliet, IL[2]	Pref. Stock w/ Ex. Warr.	$3,510,000															$29,764
3/6/09	Merchants and Planters Bancshares, Inc.–Toone, TN[2]	Pref. Stock w/ Ex. Warr.	$1,881,000															$45,276
2/13/09	Meridian Bank– Devon, PA[2]	Pref. Stock w/ Ex. Warr.	$6,200,000															$170,827
1/30/09	Metro City Bank– Doraville, GA[2]	Pref. Stock w/ Ex. Warr.	$7,700,000															$227,311
1/16/09	MetroCorp Bancshares, Inc.–Houston, TX	Pref. Stock w/ Warr.	$45,000,000								$3.61	$39	$8.75	771,429	771,429	$(5.14)	Out	$1,306,250
6/26/09	Metropolitan Bank Group, Inc.–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$71,526,000															$530,580

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
4/10/09	Metropolitan Capital Bancorp, Inc.–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$2,040,000															$38,605
12/19/08	Mid Penn Bancorp, Inc.–Millersburg , PA	Pref. Stock w/ Warr.	$10,000,000								$15.50	$54	$20.52	73,099	73,099	$(5.02)	Out	$327,778
1/30/09	Middleburg Financial Corporation–Middleburg, VA	Pref. Stock w/ Warr.	$22,000,000								$13.05	$87	$15.85	208,202	208,202	$(2.80)	Out	$595,833
1/23/09	Midland States Bancorp, Inc.–Effingham, IL[2]	Pref. Stock w/ Ex. Warr.	$10,189,000															$311,564
1/9/09	MidSouth Bancorp, Inc.–Lafayette , LA	Pref. Stock w/ Warr.	$20,000,000								$13.20	$90	$14.32	208,768	208,768	$(1.12)	Out	$600,000
2/27/09	Midtown Bank & Trust Company–Atlanta, GA[2]	Pref. Stock w/ Ex. Warr.	$5,222,000															$132,810
12/5/08	Midwest Banc Holdings, Inc.–Melrose Park , IL	Pref. Stock w/ Warr.	$84,784,000								$0.71	$20	$2.97	4,282,020	4,282,020	$(2.26)	Out	$824,289
2/13/09	Midwest Regional Bancorp, Inc.–Festus, MO[2]	Pref. Stock w/ Ex. Warr.	$700,000															$19,287
2/6/09	MidWestOne Financial Group, Inc.–Iowa City, IA	Pref. Stock w/ Warr.	$16,000,000								$8.94	$77	$12.08	198,675	198,675	$(3.14)	Out	$420,000
2/20/09	Mid–Wisconsin Financial Services, Inc.–Medford, WI[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$264,931
4/3/09	Millennium Bancorp, Inc.– Edwards, CO[2]	Pref. Stock w/ Ex. Warr.	$7,260,000															$145,080
1/9/09	Mission Community Bancorp–San Luis Obispo, CA[3]	Pref. Stock	$5,116,000															$153,750
12/23/08	Mission Valley Bancorp–Sun Valley, CA[3]	Pref. Stock	$5,500,000															$177,222
12/19/08	Monadnock Bancorp, Inc.–Peterborough, NH[2]	Pref. Stock w/ Ex. Warr.	$1,834,000															$65,542
2/6/09	Monarch Community Bancorp, Inc.–Coldwater, MI	Pref. Stock w/ Warr.	$6,785,000								$3.57	$7	$3.90	260,962	260,962	$(0.33)	Out	$178,107
12/19/08	Monarch Financial Holdings, Inc.–Chesapeake, VA	Pref. Stock w/ Warr.	$14,700,000								$7.45	$43	$8.33	264,706	264,706	$(0.88)	Out	$481,833
3/13/09	Moneytree Corporation–Lenoir City, TN[2]	Pref. Stock w/ Ex. Warr.	$9,516,000															$218,981
1/30/09	Monument Bank–Bethesda, MD[2]	Pref. Stock w/ Ex. Warr.	$4,734,000															$139,766
10/28/08	Morgan Stanley–New York, NY[4]	Pref. Stock w/ Warr.	$10,000,000,000	6/17/2009	$10,000,000,000	$0	Warrants	8/12/2009	Warrants	$950,000,000	$30.88	$41,971	–	65,245,759	–	–	–	$318,055,555
1/16/09	Morrill Bancshares, Inc.–Merriam, KS[2]	Pref. Stock w/ Ex. Warr.	$13,000,000															$411,324
1/23/09	Moscow Bancshares, Inc.–Moscow, TN[2]	Pref. Stock w/ Ex. Warr.	$6,216,000															$190,099
9/25/09	Mountain Valley Bancshares, Inc.–Cleveland, GA[2]	Pref. Stock w/ Ex. Warr.	$3,300,000															
3/27/09	MS Financial, Inc.–Kingwood, TX[2]	Pref. Stock w/ Ex. Warr.	$7,723,000															$161,342
12/23/08	MutualFirst Financial, Inc.–Muncie, IN	Pref. Stock w/ Warr.	$32,382,000								$7.04	$49	$7.77	625,135	625,135	$(0.73)	Out	$1,043,420
3/27/09	Naples Bancorp, Inc.– Naples, FL[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$83,567
11/21/08	Nara Bancorp, Inc.–Los Angeles, CA	Pref. Stock w/ Warr.	$67,000,000								$6.95	$182	$9.64	1,042,531	1,042,531	$(2.69)	Out	$2,456,667
2/27/09	National Bancshares, Inc.–Bettendorf, IA[2]	Pref. Stock w/ Ex. Warr.	$24,664,000															$627,280
12/12/08	National Penn Bancshares, Inc.–Boyertown, PA	Pref. Stock w/ Warr.	$150,000,000								$6.11	$748	$15.30	1,470,588	1,470,588	$(9.19)	Out	$5,062,500
6/26/09	NC Bancorp, Inc.–Chicago, IL[2]	Pref. Stock w/ Ex. Warr.	$6,880,000															$51,036
12/19/08	NCAL Bancorp–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$357,278
6/19/09	NEMO Bancshares Inc.–Madison, MO[8]	Sub. Debent. w/ Ex. Warr.	$2,330,000															$30,420
1/16/09	New Hampshire Thrift Bancshares, Inc.–Newport, NH	Pref. Stock w/ Warr.	$10,000,000								$9.48	$55	$8.14	184,275	184,275	$1.34	In	$290,278
1/9/09	New York Private Bank & Trust Corporation–New York, NY[2]	Pref. Stock w/ Ex. Warr.	$267,274,000															$8,739,876
12/12/08	NewBridge Bancorp–Greensboro, NC	Pref. Stock w/ Warr.	$52,372,000								$2.74	$43	$3.06	2,567,255	2,567,255	$(0.32)	Out	$1,767,555
12/23/08	Nicolet Bankshares, Inc.–Green Bay, WI[2]	Pref. Stock w/ Ex. Warr.	$14,964,000															$525,557
1/9/09	North Central Bancshares, Inc.–Fort Dodge, IA	Pref. Stock w/ Warr.	$10,200,000								$16.50	$22	$15.43	99,157	99,157	$1.07	In	$306,000
12/12/08	Northeast Bancorp–Lewiston, ME	Pref. Stock w/ Warr.	$4,227,000								$8.75	$20	$9.33	67,958	67,958	$(0.58)	Out	$142,662
5/15/09	Northern State Bank–Closter, NJ[2]	Pref. Stock w/ Ex. Warr.	$1,341,000															$18,270
2/20/09	Northern States Financial Corporation–Waukegan, IL	Pref. Stock w/ Warr.	$17,211,000								$3.80	$15	$4.42	584,084	584,084	$(0.63)	Out	$418,323
11/14/08	Northern Trust Corporation–Chicago, IL[4]	Pref. Stock w/ Warr.	$1,576,000,000	6/17/2009	$1,576,000,000	$0	Warrants	8/26/2009	Warrants	$87,000,000	$58.16	$14,040	–	3,824,624	–	–	–	$46,623,333
1/30/09	Northway Financial, Inc.– Berlin, NH[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$295,208
2/13/09	Northwest Bancorporation, Inc.–Spokane, WA[2]	Pref. Stock w/ Ex. Warr.	$10,500,000															$289,305

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
2/13/09	Northwest Commercial Bank–Lakewood, WA[2]	Pref. Stock w/ Ex. Warr.	$1,992,000															$54,903
1/30/09	Oak Ridge Financial Services, Inc.–Oak Ridge, NC	Pref. Stock w/ Warr.	$7,700,000								$6.25	$11	$7.05	163,830	163,830	$(0.80)	Out	$208,542
12/5/08	Oak Valley Bancorp–Oakdale, CA	Pref. Stock w/ Warr.	$13,500,000								$4.30	$33	$5.78	350,346	350,346	$(1.48)	Out	$468,750
1/16/09	OceanFirst Financial Corp.–Toms River, NJ	Pref. Stock w/ Warr.	$38,263,000								$11.60	$144	$15.07	380,853	380,853	$(3.47)	Out	$1,110,690
1/30/09	Ojai Community Bank–Ojai, CA[2]	Pref. Stock w/ Ex. Warr.	$2,080,000															$61,403
12/5/08	Old Line Bancshares, Inc.–Bowie, MD	Pref. Stock w/ Warr.	$7,000,000	7/15/2009	$7,000,000	$0	Warrants	9/2/2009	Warrants	$225,000	$6.38	$25	–	141,892	–	–	–	$213,889
12/12/08	Old National Bancorp–Evansville, IN[4]	Pref. Stock w/ Warr.	$100,000,000	3/31/2009	$100,000,000	$0	Warrants	5/8/2009	Warrants	$1,200,000	$11.20	$946	–	813,008	–	–	–	$1,513,889
1/16/09	Old Second Bancorp, Inc.–Aurora, IL	Pref. Stock w/ Warr.	$73,000,000								$5.73	$79	$13.43	815,339	815,339	$(7.70)	Out	$2,119,028
4/17/09	Omega Capital Corp.–Lakewood, CO[2]	Pref. Stock w/ Ex. Warr.	$2,816,000															$50,311
5/8/09	One Georgia Bank–Atlanta, GA[2]	Pref. Stock w/ Ex. Warr.	$5,500,000															
6/5/09	OneFinancial Corporation–Little Rock, AR[8,10]	Sub. Debent. w/ Ex. Warr.	$17,300,000															$272,996
12/19/08	OneUnited Bank–Boston, MA[3]	Pref. Stock	$12,063,000															$93,823
4/24/09	Oregon Bancorp, Inc.–Salem, OR[2]	Pref. Stock w/ Ex. Warr.	$3,216,000															$54,048
5/1/09	OSB Financial Services, Inc.–Orange, TX[8]	Sub. Debent. w/ Ex. Warr.	$6,100,000															$147,848
11/21/08	Pacific Capital Bancorp–Santa Barbara, CA	Pref. Stock w/ Warr.	$180,634,000								$1.44	$68	$17.92	1,512,003	1,512,003	$(16.48)	Out	$2,107,397
12/19/08	Pacific City Financial Corporation–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$16,200,000															$358,065
12/23/08	Pacific Coast Bankers' Bancshares–San Francisco, CA[2]	Pref. Stock w/ Ex. Warr.	$11,600,000															$407,418
1/16/09	Pacific Coast National Bancorp–San Clemente, CA[2]	Pref. Stock w/ Ex. Warr.	$4,120,000															$18,088
12/23/08	Pacific Commerce Bank–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$4,060,000															$110,635
12/12/08	Pacific International Bancorp–Seattle, WA	Pref. Stock w/ Warr.	$6,500,000								NA	NA	$7.63	127,785	127,785	NA	NA	$138,125
3/6/09	Park Bancorporation, Inc.–Madison, WI[2]	Pref. Stock w/ Ex. Warr.	$23,200,000															$558,443
12/23/08	Park National Corporation–Newark, OH	Pref. Stock w/ Warr.	$100,000,000								$58.34	$826	$65.97	227,376	227,376	$(7.63)	Out	$3,222,222
1/30/09	Parke Bancorp, Inc.–Sewell, NJ	Pref. Stock w/ Warr.	$16,288,000								$8.52	$34	$8.15	299,779	299,779	$0.37	Out	$441,133
12/23/08	Parkvale Financial Corporation–Monroeville, PA	Pref. Stock w/ Warr.	$31,762,000								$9.20	$50	$12.66	376,327	376,327	$(3.46)	Out	$1,023,442
2/6/09	Pascack Community Bank–Westwood, NJ[2]	Pref. Stock w/ Ex. Warr.	$3,756,000															$107,478
12/19/08	Patapsco Bancorp, Inc.–Dundalk, MD[2]	Pref. Stock w/ Ex. Warr.	$6,000,000															$214,367
9/11/09	Pathfinder Bancorp, Inc.–Oswego, NY	Pref. Stock w/ Warr.	$6,771,000															
3/27/09	Pathway Bancorp–Cairo, NE[2]	Pref. Stock w/ Ex. Warr.	$3,727,000															$77,852
12/19/08	Patriot Bancshares, Inc.–Houston, TX[2]	Pref. Stock w/ Ex. Warr.	$26,038,000															$930,286
4/17/09	Patterson Bancshares, Inc–Patterson, LA[2]	Pref. Stock w/ Ex. Warr.	$3,690,000															$15,645
1/9/09	Peapack-Gladstone Financial Corporation–Gladstone, NJ	Pref. Stock w/ Warr.	$28,685,000								$16.06	$140	$28.63	143,139	293,435	$(12.57)	Out	$860,551
1/30/09	Peninsula Bank Holding Co.–Palo Alto, CA	Pref. Stock w/ Warr.	$6,000,000								NA	$15	$11.02	81,670	81,670	NA	NA	
4/17/09	Penn Liberty Financial Corp.–Wayne, PA[2]	Pref. Stock w/ Ex. Warr.	$9,960,000															$177,924
2/13/09	Peoples Bancorp–Lynden, WA[2]	Pref. Stock w/ Ex. Warr.	$18,000,000															$495,950
1/30/09	Peoples Bancorp Inc.–Marietta, OH	Pref. Stock w/ Warr.	$39,000,000								$13.05	$137	$18.86	313,505	313,505	$(5.81)	Out	$1,056,250
12/23/08	Peoples Bancorp of North Carolina, Inc.–Newton, NC	Pref. Stock w/ Warr.	$25,054,000								$6.75	$37	$10.52	357,234	357,234	$(3.77)	Out	$807,296
4/24/09	Peoples Bancorporation, Inc.–Easley, SC[2]	Pref. Stock w/ Ex. Warr.	$12,660,000															$212,741
3/20/09	Peoples Bancshares of TN, Inc–Madisonville, TN[2]	Pref. Stock w/ Ex. Warr.	$3,900,000															$85,610
3/6/09	PeoplesSouth Bancshares, Inc.–Colquitt, GA[2]	Pref. Stock w/ Ex. Warr.	$12,325,000															$296,663
9/11/09	PFSB Bancorporation, Inc.–Pigeon Falls, WI[2,10]	Pref. Stock w/ Ex. Warr.	$1,500,000															

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
2/6/09	PGB Holdings, Inc.–Chicago, IL[3]	Pref. Stock	$3,000,000															$78,750
1/23/09	Pierce County Bancorp– Tacoma, WA[2]	Pref. Stock w/ Ex. Warr.	$6,800,000															$207,948
3/6/09	Pinnacle Bank Holding Company, Inc.–Orange City, FL[2]	Pref. Stock w/ Ex. Warr.	$4,389,000															$105,629
12/12/08	Pinnacle Financial Partners, Inc.–Nashville, TN[b]	Pref. Stock w/ Warr.	$95,000,000								$12.71	$419	$26.64	534,910	267,455	$(13.93)	Out	$3,206,250
12/19/08	Plains Capital Corporation–Dallas, TX[2]	Pref. Stock w/ Ex. Warr.	$87,631,000															$3,130,888
7/17/09	Plato Holdings Inc.–Saint Paul, MN[8,10]	Sub. Debent. w/ Ex. Warr.	$2,500,000															$16,121
1/30/09	Plumas Bancorp–Quincy, CA	Pref. Stock w/ Warr.	$11,949,000								$3.81	$18	$7.54	237,712	237,712	$(3.73)	Out	$323,619
12/5/08	Popular, Inc.–San Juan, PR[12, f]	Pref. Stock w/ Warr.	$935,000,000								$2.83	$1,810	$6.70	20,932,836	20,932,836	$(3.87)	Out	$33,777,778
11/21/08	Porter Bancorp Inc.–Louisville, KY	Pref. Stock w/ Warr.	$35,000,000								$16.30	$136	$17.51	299,829	299,829	$(1.21)	Out	$1,283,333
4/3/09	Prairie Star Bancshares, Inc.–Olathe, KS[2]	Pref. Stock w/ Ex. Warr.	$2,800,000															$55,953
5/8/09	Premier Bancorp, Inc.–Wilmette, IL[3, 8]	Sub. Debent.	$6,784,000															$140,749
3/20/09	Premier Bank Holding Company–Tallahassee, FL[2]	Pref. Stock w/ Ex. Warr.	$9,500,000															$208,538
5/22/09	Premier Financial Corp–Dubuque, IA[8]	Sub. Debent. w/ Ex. Warr.	$6,349,000															$122,798
2/20/09	Premier Service Bank–Riverside, CA[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															
2/13/09	PremierWest Bancorp–Medford, OR	Pref. Stock w/ Warr.	$41,400,000								$2.71	$67	$5.70	1,038,462	1,090,385	$(2.99)	Out	$1,046,500
1/23/09	Princeton National Bancorp, Inc.–Princeton, IL	Pref. Stock w/ Warr.	$25,083,000								$15.75	$52	$24.27	155,025	155,025	$(8.52)	Out	$703,718
2/27/09	Private Bancorporation, Inc.–Minneapolis, MN[2]	Pref. Stock w/ Ex. Warr.	$4,960,000															$126,149
1/30/09	PrivateBancorp, Inc.–Chicago, IL	Pref. Stock w/ Warr.	$243,815,000								$24.46	$1,163	$28.35	1,290,026	1,290,026	$(3.89)	Out	$6,603,323
11/14/08	Provident Bancshares Corp.–Baltimore, MD[d]	Pref. Stock w/ Warr.	$151,500,000								NA	NA	$9.57	2,374,608	2,374,608	NA	NA	$5,702,292
3/13/09	Provident Community Bancshares, Inc.–Rock Hill, SC	Pref. Stock w/ Warr.	$9,266,000								$3.25	$6	$7.77	178,880	178,880	$(4.52)	Out	$195,616
2/27/09	PSB Financial Corporation–Many, LA[2]	Pref. Stock w/ Ex. Warr.	$9,270,000															$235,788
1/16/09	Puget Sound Bank–Bellevue, WA[2]	Pref. Stock w/ Ex. Warr.	$4,500,000															$142,382
1/16/09	Pulaski Financial Corp–Creve Coeur, MO	Pref. Stock w/ Warr.	$32,538,000								$7.57	$78	$6.27	778,421	778,421	$1.30	In	$944,506
2/13/09	QCR Holdings, Inc.–Moline, IL	Pref. Stock w/ Warr.	$38,237,000								$10.20	$46	$10.99	521,888	521,888	$(0.79)	Out	$966,547
6/19/09	RCB Financial Corporation–Rome, GA[2, 10]	Pref. Stock w/ Ex. Warr.	$8,900,000															$72,974
1/16/09	Redwood Capital Bancorp–Eureka, CA[2]	Pref. Stock w/ Ex. Warr.	$3,800,000															$120,233
1/9/09	Redwood Financial Inc.–Redwood Falls, MN[2]	Pref. Stock w/ Ex. Warr.	$2,995,000															$97,951
3/6/09	Regent Bancorp, Inc.–Davie, FL[2]	Pref. Stock w/ Ex. Warr.	$9,982,000															$240,272
2/27/09	Regent Capital Corporation–Nowata, OK[2]	Pref. Stock w/ Ex. Warr.	$2,655,000															$67,536
2/13/09	Regional Bankshares, Inc.–Hartsville, SC[2]	Pref. Stock w/ Ex. Warr.	$1,500,000															$41,330
11/14/08	Regions Financial Corp.–Birmingham, AL	Pref. Stock w/ Warr.	$3,500,000,000								$6.21	$7,379	$10.88	48,253,677	48,253,677	$(4.67)	Out	$131,736,111
2/13/09	Reliance Bancshares, Inc.–Frontenac, MO[2]	Pref. Stock w/ Ex. Warr.	$40,000,000															$1,102,111
2/27/09	Ridgestone Financial Services, Inc.–Brookfield, WI[2]	Pref. Stock w/ Ex. Warr.	$10,900,000															$277,224
1/9/09	Rising Sun Bancorp–Rising Sun, MD[2]	Pref. Stock w/ Ex. Warr.	$5,983,000															$195,637
6/12/09	River Valley Bancorporation, Inc.–Wausau, WI[8]	Sub. Debent. w/ Ex. Warr.	$15,000,000															$220,238
5/15/09	Riverside Bancshares, Inc.–Little Rock, AR[8]	Sub. Debent. w/ Ex. Warr.	$1,100,000															$23,073
1/30/09	Rogers Bancshares, Inc.–Little Rock, AR[2]	Pref. Stock w/ Ex. Warr.	$25,000,000															$738,021
2/20/09	Royal Bancshares of Pennsylvania, Inc.–Narberth, PA	Pref. Stock w/ Warr.	$30,407,000								$1.55	$21	$4.13	1,104,370	1,104,370	$(2.58)	Out	$358,971
1/16/09	S&T Bancorp–Indiana, PA	Pref. Stock w/ Warr.	$108,676,000								$12.96	$358	$31.53	517,012	517,012	$(18.57)	Out	$3,154,623
12/23/08	Saigon National Bank–Westminster, CA[2]	Pref. Stock w/ Ex. Warr.	$1,549,000															
3/13/09	Salisbury Bancorp, Inc.–Lakeville, CT	Pref. Stock w/ Warr.	$8,816,000								$24.90	$42	$22.93	57,671	57,671	$1.97	In	$186,116
12/5/08	Sandy Spring Bancorp, Inc.–Olney, MD	Pref. Stock w/ Warr.	$83,094,000								$16.28	$268	$19.13	651,547	651,547	$(2.85)	Out	$2,885,208
2/13/09	Santa Clara Valley Bank, N.A.–Santa Paula, CA[2]	Pref. Stock w/ Ex. Warr.	$2,900,000															$79,903
12/19/08	Santa Lucia Bancorp–Atascadero, CA	Pref. Stock w/ Warr.	$4,000,000								$11.89	$23	$16.06	37,360	37,360	$(4.17)	Out	$131,111
3/27/09	SBT Bancorp, Inc.–Simsbury, CT[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$83,567

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[a]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[d]	Income Payment to Treasury (Dividend or Interest)[f]
1/16/09	SCBT Financial Corporation–Columbia, SC[4]	Pref. Stock w/ Warr.	$64,779,000	5/20/2009	$64,779,000	$0	Warrants	6/24/2009	Warrants	$1,400,000	$28.10	$357	–	303,083	–	–	–	$1,115,639
12/19/08	Seacoast Banking Corporation of Florida–Stuart, FL[b]	Pref. Stock w/ Warr.	$50,000,000								$2.52	$133	$6.36	1,179,245	589,623	$(3.84)	Out	$388,889
12/23/08	Seacoast Commerce Bank–Chula Vista, CA[2]	Pref. Stock w/ Ex. Warr.	$1,800,000															$63,220
1/23/09	Seaside National Bank & Trust–Orlando, FL[2]	Pref. Stock w/ Ex. Warr.	$5,677,000															$173,614
2/13/09	Security Bancshares of Pulaski County, Inc.–Waynesville, MO[2]	Pref. Stock w/ Ex. Warr.	$2,152,000															$59,312
1/9/09	Security Business Bancorp–San Diego, CA[2]	Pref. Stock w/ Ex. Warr.	$5,803,000															$189,751
1/9/09	Security California Bancorp–Riverside, CA[2]	Pref. Stock w/ Ex. Warr.	$6,815,000															$222,865
6/26/09	Security Capital Corporation–Batesville, MS[2,10]	Pref. Stock w/ Ex. Warr.	$17,388,000															$124,729
12/19/08	Security Federal Corporation–Aiken, SC	Pref. Stock w/ Warr.	$18,000,000								$13.10	$32	$19.57	137,966	137,966	$(6.47)	Out	$590,000
2/20/09	Security State Bancshares, Inc.–Charleston, MO[2]	Pref. Stock w/ Ex. Warr.	$12,500,000															$331,163
5/1/09	Security State Bank Holding Company–Jamestown, ND[8]	Sub. Debent. w/ Ex. Warr.	$10,750,000															$260,576
11/21/08	Severn Bancorp, Inc.–Annapolis, MD	Pref. Stock w/ Warr.	$23,393,000								$3.25	$33	$6.30	556,976	556,976	$(3.05)	Out	$857,744
1/9/09	Shore Bancshares, Inc.–Easton, MD[4]	Pref. Stock w/ Warr.	$25,000,000	4/15/2009	$25,000,000	$0	Warrants				$16.73	$141	$21.68	172,970	172,970	$(4.95)	Out	$333,333
6/26/09	Signature Bancshares, Inc.–Dallas, TX[8]	Sub. Debent. w/ Ex. Warr.	$1,700,000															$19,414
12/12/08	Signature Bank–New York, NY[4]	Pref. Stock w/ Warr.	$120,000,000	3/31/2009	$120,000,000	$0	Warrants				$29.00	$1,177	$30.21	595,829	595,829	$(1.21)	Out	$1,816,667
1/16/09	Somerset Hills Bancorp–Bernardsville, NJ[4]	Pref. Stock w/ Warr.	$7,414,000	5/20/2009	$7,414,000	$0	Warrants	6/24/2009	Warrants	$275,000	$8.10	$42	–	163,065	–	–	–	$127,686
2/20/09	Sonoma Valley Bancorp–Sonoma, CA[2]	Pref. Stock w/ Ex. Warr.	$8,653,000															$229,259
1/9/09	Sound Banking Company–Morehead City, NC[2]	Pref. Stock w/ Ex. Warr.	$3,070,000															$100,416
12/5/08	South Financial Group, Inc.–Greenville, SC	Pref. Stock w/ Warr.	$347,000,000								$1.47	$250	$5.15	10,106,796	10,106,796	$(3.68)	Out	$12,048,611
7/17/09	SouthCrest Financial Group, Inc.–Fayetteville, GA[2]	Pref. Stock w/ Ex. Warr.	$12,900,000															$54,682
1/16/09	Southern Bancorp, Inc.–Arkadelphia, AR[3]	Pref. Stock	$11,000,000															$319,306
12/5/08	Southern Community Financial Corp.–Winston–Salem, NC	Pref. Stock w/ Warr.	$42,750,000								$2.98	$50	$3.95	1,623,418	1,623,418	$(0.97)	Out	$1,484,375
2/27/09	Southern First Bancshares, Inc.–Greenville, SC	Pref. Stock w/ Warr.	$17,299,000								$8.08	$25	$7.85	330,554	330,554	$0.23	Out	$403,644
5/15/09	Southern Heritage Bancshares, Inc.–Cleveland, TN[2]	Pref. Stock w/ Ex. Warr.	$4,862,000															$66,243
1/23/09	Southern Illinois Bancorp, Inc.–Carmi, IL[2]	Pref. Stock w/ Ex. Warr.	$5,000,000															$152,903
12/5/08	Southern Missouri Bancorp, Inc.–Poplar Bluff, MO	Pref. Stock w/ Warr.	$9,550,000								$10.80	$23	$12.53	114,326	114,326	$(1.73)	Out	$331,597
6/12/09	SouthFirst Bancshares, Inc.– Sylacauga, AL2	Pref. Stock w/ Ex. Warr.	$2,760,000															$26,324
12/5/08	Southwest Bancorp, Inc.–Stillwater, OK	Pref. Stock w/ Warr.	$70,000,000								$14.04	$206	$14.92	703,753	703,753	$(0.88)	Out	$2,430,556
3/13/09	Sovereign Bancshares, Inc.– Dallas, TX[2]	Pref. Stock w/ Ex. Warr.	$18,215,000															$419,157
3/27/09	Spirit BankCorp, Inc.–Bristow, OK[2]	Pref. Stock w/ Ex. Warr.	$30,000,000															$626,750
3/13/09	St. Johns Bancshares, Inc.–St. Louis, MO[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$69,033
4/24/09	Standard Bancshares, Inc.–Hickory Hills, IL[2]	Pref. Stock w/ Ex. Warr.	$60,000,000															$1,008,250
12/5/08	State Bancorp, Inc.–Jericho, NY	Pref. Stock w/ Warr.	$36,842,000								$8.45	$124	$11.87	465,569	465,569	$(3.42)	Out	$1,279,236
1/16/09	State Bankshares, Inc.–Fargo, ND[2,4]	Pref. Stock w/ Ex. Warr.	$50,000,000	8/12/2009	$12,500,000	$37,500,000	Preferred Stock [2]											$1,576,806
2/13/09	State Capital Corporation–Greenwood, MS[2]	Pref. Stock w/ Ex. Warr.	$15,000,000															$413,292
10/28/08	State Street Corporation–Boston, MA[b,5,9]	Pref. Stock w/ Warr.	$2,000,000,000	6/17/2009	$2,000,000,000	$0	Warrants	7/8/2009	Warrants	$60,000,000	$52.60	$26,010	–	5,576,208	–	–	–	$63,611,111

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Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
6/26/09	Stearns Financial Services, Inc.–St. Cloud, MN[8]	Sub. Debent. w/ Ex. Warr.	$24,900,000															$284,351
9/25/09	Steele Street Bank Corporation–Denver, CO[8,10]	Sub. Debent. w/ Ex. Warr.	$11,019,000															
12/19/08	StellarOne Corporation–Charlottesville, VA	Pref. Stock w/ Warr.	$30,000,000								$14.75	$335	$14.87	302,623	302,623	$(0.12)	Out	$983,333
12/23/08	Sterling Bancorp–New York, NY	Pref. Stock w/ Warr.	$42,000,000								$7.22	$131	$12.19	516,817	516,817	$(4.97)	Out	$1,353,333
12/12/08	Sterling Bancshares, Inc.–Houston, TX[4]	Pref. Stock w/ Warr.	$125,198,000	5/5/2009	$125,198,000	$0	Warrants				$7.31	$597	$7.18	2,615,557	2,615,557	$0.13	Out	$2,486,571
12/5/08	Sterling Financial Corporation–Spokane, WA	Pref. Stock w/ Warr.	$303,000,000								$2.00	$105	$7.06	6,437,677	6,437,677	$(5.06)	Out	$6,733,333
1/30/09	Stewardship Financial Corporation–Midland Park, NJ	Pref. Stock w/ Warr.	$10,000,000								$9.27	$52	$11.80	127,119	127,119	$(2.53)	Out	$270,833
2/6/09	Stockmens Financial Corporation–Rapid City, SD[2]	Pref. Stock w/ Ex. Warr.	$15,568,000															$445,421
1/23/09	Stonebridge Financial Corp.–West Chester, PA[2]	Pref. Stock w/ Ex. Warr.	$10,973,000															$335,579
6/19/09	Suburban Illinois Bancorp, Inc.–Elmhurst, IL[8]	Sub. Debent. w/ Ex. Warr.	$15,000,000															$195,770
12/19/08	Summit State Bank–Santa Rosa, CA	Pref. Stock w/ Warr.	$8,500,000								$5.50	$26	$5.33	239,212	239,212	$0.17	Out	$278,611
1/9/09	Sun Bancorp, Inc.–Vineland, NJ[4]	Pref. Stock w/ Warr.	$89,310,000	4/8/2009	$89,310,000	$0	Warrants	5/27/2009	Warrants	$2,100,000	$5.28	$122	–	1,543,376	–	–	–	$1,103,971
11/14/08	SunTrust Banks, Inc.–Atlanta, GA[c]	Pref. Stock w/ Warr.	$3,500,000,000								$22.55	$11,249	$44.15	11,891,280	11,891,280	$(21.60)	Out	$194,131,944
12/31/08	SunTrust Banks, Inc.–Atlanta, GA[c]	Pref. Stock w/ Warr.	$1,350,000,000								$22.55	$11,249	$33.70	6,008,902	6,008,902	$(11.15)	Out	
12/5/08	Superior Bancorp Inc.–Birmingham, AL	Pref. Stock w/ Warr.	$69,000,000								$2.44	$25	$5.38	1,923,792	1,923,792	$(2.94)	Out	$2,395,833
1/9/09	Surrey Bancorp– Mount Airy, NC[2]	Pref. Stock w/ Ex. Warr.	$2,000,000															$65,400
12/12/08	Susquehanna Bancshares, Inc–Lititz, PA	Pref. Stock w/ Warr.	$300,000,000								$5.89	$508	$14.86	3,028,264	3,028,264	$(8.97)	Out	$10,125,000
4/10/09	SV Financial, Inc.–Sterling, IL[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$75,694
12/12/08	SVB Financial Group–Santa Clara, CA	Pref. Stock w/ Warr.	$235,000,000								$43.27	$1,435	$49.78	708,116	708,116	$(6.51)	Out	$7,931,250
5/8/09	Sword Financial Corporation–Horicon, WI[8]	Sub. Debent. w/ Ex. Warr.	$13,644,000															$308,434
12/19/08	Synovus Financial Corp.–Columbus, GA	Pref. Stock w/ Warr.	$967,870,000								$3.75	$1,801	$9.36	15,510,737	15,510,737	$(5.61)	Out	$31,724,628
1/16/09	Syringa Bancorp–Boise, ID[2]	Pref. Stock w/ Ex. Warr.	$8,000,000															$253,122
11/21/08	Taylor Capital Group–Rosemont, IL	Pref. Stock w/ Warr.	$104,823,000								$6.60	$73	$10.75	1,462,647	1,462,647	$(4.15)	Out	$3,843,511
8/28/09	TCB Corporation– Greenwood, SC[8,10]	Sub. Debent. w/ Ex. Warr.	$9,720,000															
1/16/09	TCB Holding Company, Texas Community Bank– The Woodlands, TX[2]	Pref. Stock w/ Ex. Warr.	$11,730,000															$371,167
11/14/08	TCF Financial Corporation–Wayzata, MN[4]	Pref. Stock w/ Warr.	$361,172,000	4/22/2009	$361,172,000	$0	Warrants				$13.04	$1,676	$16.93	3,199,988	3,199,988	$(3.89)	Out	$7,925,719
12/23/08	TCNB Financial Corp.–Dayton, OH[2]	Pref. Stock w/ Ex. Warr.	$2,000,000															$70,244
12/19/08	Tennessee Commerce Bancorp, Inc.–Franklin, TN	Pref. Stock w/ Warr.	$30,000,000								$4.00	$19	$9.75	461,538	461,538	$(5.75)	Out	$983,333
12/23/08	Tennessee Valley Financial Holdings, Inc.–Oak Ridge, TN[2]	Pref. Stock w/ Ex. Warr.	$3,000,000															$105,367
1/16/09	Texas Capital Bancshares, Inc.–Dallas, TX[4]	Pref. Stock w/ Warr.	$75,000,000	5/13/2009	$75,000,000	$0	Warrants				$16.84	$601	$14.84	758,086	758,086	$2.00	In	$1,218,750
1/9/09	Texas National Bancorporation–Jacksonville, TX[2]	Pref. Stock w/ Ex. Warr.	$3,981,000															$130,177
8/7/09	The ANB Corporation–Terrell, TX[2]	Pref. Stock w/ Ex. Warr.	$20,000,000															
12/12/08	The Bancorp, Inc.–Wilmington, DE	Pref. Stock w/ Warr.	$45,220,000								$5.72	$141	$3.46	1,960,405	1,960,405	$2.26	In	$1,526,175
2/6/09	The Bank of Currituck–Moyock, NC[2]	Pref. Stock w/ Ex. Warr.	$4,021,000															$115,049
2/13/09	The Bank of Kentucky Financial Corporation–Crestview Hills, KY	Pref. Stock w/ Warr.	$34,000,000								$21.16	$119	$18.56	274,784	274,784	$2.60	In	$859,444
10/28/08	The Bank of New York Mellon Corporation–New York, NY[4]	Pref. Stock w/ Warr.	$3,000,000,000	6/17/2009	$3,000,000,000	$0	Warrants	8/5/2009	Warrants	$136,000,000	$28.99	$34,870	–	14,516,129	–	–	–	$95,416,667
1/16/09	The Baraboo Bancorporation–Baraboo, WI[2]	Pref. Stock w/ Ex. Warr.	$20,749,000															$656,482
12/19/08	The Connecticut Bank and Trust Company–Hartford, CT	Pref. Stock w/ Warr.	$5,448,000								$4.12	$15	$4.65	175,742	175,742	$(0.53)	Out	
12/19/08	The Elmira Savings Bank, FSB–Elmira, NY	Pref. Stock w/ Warr.	$9,090,000								$16.00	$31	$11.70	116,538	116,538	$4.30	In	$297,950
1/9/09	The First Bancorp, Inc.–Damariscotta, ME	Pref. Stock w/ Warr.	$25,000,000								$18.60	$181	$16.60	225,904	225,904	$2.00	In	$750,000
2/6/09	The First Bancshares, Inc.–Hattiesburg, MS	Pref. Stock w/ Warr.	$5,000,000								$5.62	$17	$13.71	54,705	54,705	$(8.09)	Out	$131,250
2/6/09	The Freeport State Bank–Harper, KS[2]	Pref. Stock w/ Ex. Warr.	$301,000															$8,610

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[a]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[m]	In/Out of the Money[c]	Income Payment to Treasury (Dividend or Interest)[f]
10/28/08	The Goldman Sachs Group, Inc.–New York, NY[4]	Pref. Stock w/ Warr.	$10,000,000,000	6/17/2009	$10,000,000,000	$0	Warrants	7/22/2009	Warrants	$1,100,000,000	$184.35	$94,246	–	12,205,045	–	–	–	$318,055,555
5/22/09	The Landrum Company–Columbia, MO[2]	Pref. Stock w/ Ex. Warr.	$15,000,000															$188,479
12/23/08	The Little Bank, Incorporated–Kinston, NC[2]	Pref. Stock w/ Ex. Warr.	$7,500,000															$263,417
12/31/08	The PNC Financial Services Group Inc.–Pittsburgh, PA	Pref. Stock w/ Warr.	$7,579,200,000								$48.59	$22,420	$67.33	16,885,192	16,885,192	$(18.74)	Out	$236,850,000
2/20/09	The Private Bank of California–Los Angeles, CA[2]	Pref. Stock w/ Ex. Warr.	$5,450,000															$144,409
1/9/09	The Queensborough Company–Louisville, GA[2]	Pref. Stock w/ Ex. Warr.	$12,000,000															$392,400
9/4/09	The State Bank of Bartley–Bartley, NE[8,10]	Sub. Debent. w/ Ex. Warr.	$1,697,000															
2/27/09	The Victory Bank–Limerick, PA[2]	Pref. Stock w/ Ex. Warr.	$541,000															$13,758
12/5/08	TIB Financial Corp–Naples, FL	Pref. Stock w/ Warr.	$37,000,000								$1.49	$22	$5.07	1,063,218	2,180,023	$(3.58)	Out	$1,284,722
12/19/08	Tidelands Bancshares, Inc–Mt. Pleasant, SC	Pref. Stock w/ Warr.	$14,448,000								$2.96	$13	$3.79	571,821	571,821	$(0.83)	Out	$473,573
4/17/09	Tifton Banking Company–Tifton, GA[2]	Pref. Stock w/ Ex. Warr.	$3,800,000															$67,883
12/23/08	Timberland Bancorp, Inc.–Hoquiam, WA	Pref. Stock w/ Warr.	$16,641,000								$4.64	$33	$6.73	370,899	370,899	$(2.09)	Out	$536,211
4/3/09	Titonka Bancshares, Inc–Titonka, IA[2]	Pref. Stock w/ Ex. Warr.	$2,117,000															$42,310
2/6/09	Todd Bancshares, Inc.–Hopkinsville, KY[2]	Pref. Stock w/ Ex. Warr.	$4,000,000															$114,450
12/12/08	TowneBank–Portsmouth, VA	Pref. Stock w/ Warr.	$76,458,000								$12.75	$299	$21.31	538,184	538,184	$(8.56)	Out	$2,580,458
1/16/09	Treaty Oak Bancorp, Inc.–Austin, TX[2]	Pref. Stock w/ Ex. Warr.	$3,268,000															$103,380
3/27/09	Triad Bancorp, Inc.– Frontenac, MO[2]	Pref. Stock w/ Ex. Warr.	$3,700,000															$77,300
12/19/08	Tri–County Financial Corporation–Waldorf, MD[2]	Pref. Stock w/ Ex. Warr.	$15,540,000															$555,210
3/27/09	Trinity Capital Corporation–Los Alamos, NM[2]	Pref. Stock w/ Ex. Warr.	$35,539,000															$742,471
4/3/09	Tri–State Bank of Memphis–Memphis, TN[2,3]	Pref. Stock	$2,795,000															$51,242
2/27/09	TriState Capital Holdings, Inc.–Pittsburgh, PA[2]	Pref. Stock w/ Ex. Warr.	$23,000,000															$584,967
4/3/09	TriSummit Bank–Kingsport, TN[2]	Pref. Stock w/ Ex. Warr.	$2,765,000															$55,246
11/21/08	Trustmark Corporation–Jackson, MS	Pref. Stock w/ Warr.	$215,000,000								$19.05	$1,094	$19.57	1,647,931	1,647,931	$(0.52)	Out	$7,883,333
5/29/09	Two Rivers Financial Group–Burlington, IA[2]	Pref. Stock w/ Ex. Warr.	$12,000,000															$138,067
11/14/08	U.S. Bancorp–Minneapolis, MN[4]	Pref. Stock w/ Warr.	$6,599,000,000	6/17/2009	$6,599,000,000	$0	Warrants	7/15/2009	Warrants	$139,000,000	$21.86	$41,796	–	32,679,102	–	–	–	$195,220,417
8/7/09	U.S. Century Bank–Miami, FL[2]	Pref. Stock w/ Ex. Warr.	$50,236,000															
1/30/09	UBT Bancshares, Inc.–Marysville, KS[2]	Pref. Stock w/ Ex. Warr.	$8,950,000															$264,334
11/14/08	UCBH Holdings, Inc.–San Francisco, CA	Pref. Stock w/ Warr.	$298,737,000								$0.80	$96	$5.71	7,847,732	7,847,732	$(4.91)	Out	$7,509,920
11/14/08	Umpqua Holdings Corp.–Portland, OR[b]	Pref. Stock w/ Warr.	$214,181,000								$10.60	$883	$14.46	2,221,795	1,110,898	$(3.86)	Out	$8,061,535
5/1/09	Union Bank & Trust Company–Oxford, NC[2]	Pref. Stock w/ Ex. Warr.	$3,194,000															$50,296
12/19/08	Union Bankshares Corporation–Bowling Green, VA	Pref. Stock w/ Warr.	$59,000,000								$12.45	$228	$20.94	422,636	422,636	$(8.49)	Out	$1,933,889
2/20/09	United American Bank–San Mateo, CA[2]	Pref. Stock w/ Ex. Warr.	$8,700,000															
1/16/09	United Bancorp, Inc.–Tecumseh, MI	Pref. Stock w/ Warr.	$20,600,000								$6.00	$30	$9.92	311,492	311,492	$(3.92)	Out	$597,972
12/23/08	United Bancorporation of Alabama, Inc.–Atmore, AL	Pref. Stock w/ Warr.	$10,300,000								$5.00	$11	$14.85	104,040	104,040	$(9.85)	Out	$331,889
5/22/09	United Bank Corporation–Barnesville, GA8	Sub. Debent. w/ Ex. Warr.	$14,400,000															$278,551
12/5/08	United Community Banks, Inc.–Blairsville, GA	Pref. Stock w/ Warr.	$180,000,000								$5.00	$440	$12.37	2,132,701	2,182,297	$(7.37)	Out	$6,250,000
1/16/09	United Financial Banking Companies, Inc.–Vienna, VA[2]	Pref. Stock w/ Ex. Warr.	$5,658,000															$179,026
12/5/08	Unity Bancorp, Inc.–Clinton, NJ	Pref. Stock w/ Warr.	$20,649,000								$4.20	$30	$4.05	764,778	764,778	$0.15	Out	$716,980
5/22/09	Universal Bancorp– Bloomfield, IN[2]	Pref. Stock w/ Ex. Warr.	$9,900,000															$124,396
6/19/09	University Financial Corp, Inc.–St. Paul, MN3,8	Sub. Debent.	$11,926,000															$142,847
2/6/09	US Metro Bank–Garden Grove, CA[2]	Pref. Stock w/ Ex. Warr.	$2,861,000															$81,858
12/23/08	Uwharrie Capital Corp–Albemarle, NC[2]	Pref. Stock w/ Ex. Warr.	$10,000,000															$351,222

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details				Capital Repayment Details		Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
1/30/09	Valley Commerce Bancorp–Visalia, CA[2]	Pref. Stock w/ Ex. Warr.	$7,700,000															$227,311
1/9/09	Valley Community Bank– Pleasanton, CA[2]	Pref. Stock w/ Ex. Warr.	$5,500,000															$179,851
12/12/08	Valley Financial Corporation–Roanoke, VA	Pref. Stock w/ Warr.	$16,019,000								$3.43	$16	$6.97	344,742	344,742	$(3.54)	Out	$540,642
11/14/08	Valley National Bancorp–Wayne, NJ[4]	Pref. Stock w/ Warr.	$300,000,000	6/3/2009	$75,000,000	$225,000,000	Preferred Stock w/ Warrants				$12.29	$1,758	$18.66	2,297,090	2,411,945	$(6.37)	Out	$11,201,389
11/14/08	Valley National Bancorp–Wayne, NJ[4]			9/23/2009	$125,000,000	$100,000,000	Preferred Stock w/ Warrants											
5/1/09	Village Bank and Trust Financial Corp–Midlothian, VA	Pref. Stock w/ Warr.	$14,738,000								$4.01	$17	$4.43	499,029	499,029	$(0.42)	Out	$212,882
12/12/08	Virginia Commerce Bancorp–Arlington, VA	Pref. Stock w/ Warr.	$71,000,000								$3.99	$107	$3.95	2,696,203	2,696,203	$0.04	Out	$2,396,250
6/12/09	Virginia Company Bank–Newport News, VA[2,10]	Pref. Stock w/ Ex. Warr.	$4,700,000															$43,377
4/24/09	Vision Bank–Texas– Richardson, TX[2]	Pref. Stock w/ Ex. Warr.	$1,500,000															$25,207
12/19/08	VIST Financial Corp.–Wyomissing, PA	Pref. Stock w/ Warr.	$25,000,000								$5.85	$34	$10.30	364,078	364,078	$(4.45)	Out	$819,444
1/30/09	W.T.B. Financial Corporation–Spokane, WA[2]	Pref. Stock w/ Ex. Warr.	$110,000,000															$3,247,291
12/19/08	Wainwright Bank & Trust Company–Boston, MA	Pref. Stock w/ Warr.	$22,000,000								$6.55	$48	$8.46	390,071	390,071	$(1.91)	Out	$721,111
1/16/09	Washington Banking Company–Oak Harbor, WA	Pref. Stock w/ Warr.	$26,380,000								$9.26	$88	$8.04	492,164	492,164	$1.22	In	$765,753
11/14/08	Washington Federal Inc.–Seattle, WA[4]	Pref. Stock w/ Warr.	$200,000,000	5/27/2009	$200,000,000	$0	Warrants				$16.86	$1,839	$17.57	1,707,456	1,707,456	$(0.71)	Out	$5,361,111
1/30/09	WashingtonFirst Bank– Reston, VA[2]	Pref. Stock w/ Ex. Warr.	$6,633,000															$195,829
6/26/09	Waukesha Bankshares, Inc.–Waukesha, WI[2,10]	Pref. Stock w/ Ex. Warr.	$5,625,000															$40,351
11/21/08	Webster Financial Corporation–Waterbury, CT	Pref. Stock w/ Warr.	$400,000,000								$12.47	$850	$18.28	3,282,276	3,282,276	$(5.81)	Out	$14,666,667
10/28/08	Wells Fargo & Company–San Francisco, CA	Pref. Stock w/ Warr.	$25,000,000,000								$28.18	$131,646	$34.01	110,261,688	110,261,688	$(5.83)	Out	$996,527,778
12/5/08	Wesbanco Bank Inc.–Wheeling, WV[4]	Pref. Stock w/ Warr.	$75,000,000	9/9/2009	$75,000,000	$0	Warrants				$15.46	$411	$25.61	439,282	439,282	$(10.15)	Out	$2,854,167
12/31/08	West Bancorporation, Inc.–West Des Moines, IA	Pref. Stock w/ Warr.	$36,000,000								$4.96	$86	$11.39	474,100	474,100	$(6.43)	Out	$1,125,000
2/13/09	Westamerica Bancorporation–San Rafael, CA	Pref. Stock w/ Warr.	$83,726,000	9/2/2009	$41,863,000	$41,863,000	Preferred Stock w/ Warrants				$52.00	$1,519	$50.92	246,640	246,640	$1.08	In	$2,215,250
11/21/08	Western Alliance Bancorporation–Las Vegas, NV[6]	Pref. Stock w/ Warr.	$140,000,000								$6.31	$457	$13.34	1,574,213	787,107	$(7.03)	Out	$5,133,333
12/23/08	Western Community Bancshares, Inc.–Palm Desert , CA[2]	Pref. Stock w/ Ex. Warr.	$7,290,000															$256,071
12/23/08	Western Illinois Bancshares Inc.–Monmouth, IL[2]	Pref. Stock w/ Ex. Warr.	$6,855,000															$240,778
5/15/09	Western Reserve Bancorp, Inc–Medina, OH[2]	Pref. Stock w/ Ex. Warr.	$4,700,000															$64,038
2/20/09	White River Bancshares Company–Fayetteville, AR[2]	Pref. Stock w/ Ex. Warr.	$16,800,000															$445,083
12/19/08	Whitney Holding Corporation–New Orleans, LA	Pref. Stock w/ Warr.	$300,000,000								$9.54	$646	$17.10	2,631,579	2,631,579	$(7.56)	Out	$9,833,333
12/12/08	Wilmington Trust Corporation–Wilmington, DE	Pref. Stock w/ Warr.	$330,000,000								$14.20	$984	$26.66	1,856,714	1,856,714	$(12.46)	Out	$11,137,500
12/12/08	Wilshire Bancorp, Inc.–Los Angeles, CA	Pref. Stock w/ Warr.	$62,158,000								$7.34	$216	$9.82	949,460	949,460	$(2.48)	Out	$2,097,833
12/19/08	Wintrust Financial Corporation–Lake Forest, IL	Pref. Stock w/ Warr.	$250,000,000								$27.96	$673	$22.82	1,643,295	1,643,295	$5.14	In	$8,194,444
5/15/09	Worthington Financial Holdings, Inc.–Huntsville, AL[2]	Pref. Stock w/ Ex. Warr.	$2,720,000															$37,060
1/23/09	WSFS Financial Corporation–Wilmington, DE	Pref. Stock w/ Warr.	$52,625,000								$26.64	$165	$45.08	175,105	175,105	$(18.44)	Out	$1,476,424
1/16/09	Yadkin Valley Financial Corporation–Elkin, NC	Pref. Stock w/ Warr.	$36,000,000								$4.67	$75	$13.99	385,990	385,990	$(9.32)	Out	$1,083,827
7/24/09	Yadkin Valley Financial Corporation–Elkin, NC	Pref. Stock w/ Warr.	$13,312,000								$4.67	$75	$7.30	273,534		$(0.76)	Out	
4/24/09	York Traditions Bank–York, PA[2]	Pref. Stock w/ Ex. Warr.	$4,871,000															$81,866
11/14/08	Zions Bancorporation–Salt Lake City, UT	Pref. Stock w/ Warr.	$1,400,000,000								$17.97	$2,272	$36.27	5,789,909	5,789,909	$(18.30)	Out	$52,694,444

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CPP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Purchase Details			Capital Repayment Details			Treasury Investment Remaining After Capital Repayment		Final Disposition			Warrant and Market Data for Publicly–Traded Companies							
Purchase Date	Institution	Investment Description	Investment Amount	Capital Repayment Date	Capital Repayment Amount[6]	Remaining Capital Amount	Remaining Investment Description	Final Disposition Date	Disposition Investment Description	Final Disposition Proceeds	Current Stock Price[e]	Market Capitalization (in millions)	Strike Price (reflects updates)[a]	Number of Warrants Originally Issued	Current Number of Outstanding Warrants (reflects updates)[a]	Amount "In the Money" or "Out of the Money"[e]	In/Out of the Money[e]	Income Payment to Treasury (Dividend or Interest)[f]
		TOTAL PURCHASE AMOUNT $204,617,573,320		**TOTAL CAPITAL REPAYMENT AMOUNT $70,717,027,000**														
		TOTAL TREASURY CPP INVESTMENT AMOUNT $133,900,546,320																

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken verbatim from Treasury's 10/2/2009 *Transactions Report* containing data as of 9/30/2009.

1 This transaction was included in previous Transaction Reports with Merrill Lynch & Co., Inc. listed as the qualifying institution and a 10/28/2008 transaction date, footnoted to indicate that settlement was deferred pending merger. The purchase of Merrill Lynch by Bank of America was completed on 1/1/2009, and this transaction under the CPP was funded on 1/9/2009.

2 Privately–held qualified financial institution; Treasury received a warrant to purchase additional shares of preferred stock (unless the institution is a CDFI), which it exercised immediately.

3 To promote community development financial institutions (CDFIs), Treasury does not require warrants as part of its investment in certified CDFIs when the size of the investment is $50 million or less.

4 Repayment pursuant to Title VII, Section 7001(g) of the American Recovery and Reinvestment Act of 2009.

5 Redemption pursuant to a qualified equity offering.

6 This amount does not include accrued and unpaid dividends, which must be paid at the time of capital repayment.

7 The proceeds associated with the disposition of this investment do not include accrued and unpaid dividends.

8 Subchapter S corporation; Treasury received a warrant to purchase additional subordinated debentures (unless the institution is a CDFI), which it exercised immediately.

9 In its qualified equity offering, this institution raised more capital than Treasury's original investment, therefore, the number of Treasury's shares underlying the warrant was reduced by half.

10 This institution participated in the expansion of CPP for small banks.

11 Treasury has three separate investments in Citigroup Inc. ("Citigroup") under CPP, TIP, and AGP for a total of $49 billion. On 6/9/2009, Treasury entered into an agreement with Citigroup to exchange up to $25 billion of Treasury's investment in Fixed Rate Cumulative Perpetual Preferred Stock, Series H (CPP Shares) "dollar for dollar" in Citigroup's Private and Public Exchange Offerings. On 7/23/2009 and 7/30/2009, Treasury exchanged a total of $25 billion of the CPP shares for Series M Common Stock Equivalent ("Series M") and a warrant to purchase shares of common stock. On 9/11/2009, Series M automatically converted to 7,692,307,692 shares of common stock and the associated warrant terminated on receipt of certain shareholder approvals.

12 On 8/24/2009, Treasury exchanged its Series C Preferred Stock issued by Popular, Inc. for a like amount of non tax–deductible Trust Preferred Securities issued by Popular Capital Trust III, administrative trustee for Popular, Inc. Popular, Inc. paid a $13 million exchange fee in connection with this transaction.

a According to Treasury, "If a Share Dividend is declared on a common stock of a bank in which Treasury holds outstanding warrants, Treasury is entitled to additional warrants. The 'Update' netted is the amount of new warrant shares that have been received as a result of the corporate action." Thus, the strike prices presented reflects these adjustments provided by Treasury. It appears that Treasury also adjusts the number of shares based on corporate actions as well. Those adjustments are also presented in the current number of outstanding warrants.

b According to Treasury, these institutions executed Qualified Equity Offerings which "reduce the number of outstanding warrants held by Treasury."

c Treasury made two investments in SunTrust. Since the dividends could not be allocated between the transactions, they are presented on a combined basis.

d According to Treasury, "Provident was purchase by M&T Bank (a public institution). Treasury is currently in the process of swapping the warrants issued by Provident for warrants issued by M&T Bank." According to Treasury, "the closing of the merger of the two banks preferred shares and warrants have not yet taken place."

e When a warrant's current market price rises above the strike price, it is considered "In the Money," otherwise it is considered "Out of the Money." Presented as of 9/30/2009.

f Popular paid Treasury $13 million in fee income, reflected in the Payments to Treasury column. See note 12.

g According to Treasury, "on 1/9/09 the original warrant was replaced by a new warrant certificate (not a second certificate to go along with the first one) for 121,792,790 total warrant shares. The new warrant also has a $30.79 Strike Price."

h According to Treasury, on 9/11/2009, an "extinguishment" transaction "made [warrants] worthless upon execution of Citi Series M Common Stock Equivalent to Common Exchange."

Sources: Treasury, responses to SIGTARP data call, 6/30/2009, 7/8/2009, 9/30/2009, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009, www.treas.gov, accessed 10/6/2009; Market Data: Capital IQ, Inc. (a division of Standard & Poor's), www.capitaliq.com, accessed 10/6/2009; Yahoo Finance, http://finance.yahoo.com, accessed 10/7/2009, Treasury, response to SIGTARP draft, 10/16/2009.

Table D.2

SSFI TRANSACTION DETAIL, AS OF 9/30/2009

		Seller			Purchase Details				Exchange Details				Warrants and Market Data					
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Date	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Stock Price	Market Capitalization (in millions)	Strike Price (reflects updates)	Outstanding Number of Warrants	Amount "In the Money" or "Out of the Money"[a]	In or Out of the Money? [a]	Payments to Treasury
	11/25/08	AIG	New York	NY	Purchase	Preferred Stock w/ Warrants	$40,000,000,000	Par	4/17/09	Exchange	Preferred Stock w/ Warrants[1]	$40,000,000,000	Par	$44.11	$5,936	$50.00	2,689,938	$(5.89)	Out	$-
3	4/17/09	AIG	New York	NY	Purchase	Preferred Stock w/ Warrants	$29,835,000,000	Par[2]						$44.11	$5,936	$0.00002	150	$44.11	In	$-
						TOTAL	$69,835,000,000													

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 *Transactions Report* containing data as of 9/30/2009.
[1] On 4/17/2009, Treasury exchanged its Series D Fixed Rate Cumulative Preferred Shares for Series E Fixed Rate Non-Cumulative Preferred Shares with no change to Treasury's initial investment amount. In addition, in order for AIG to fully redeem the Series E Preferred Shares, it has an additional obligation to Treasury of $1,604,576,000 to reflect the cumulative unpaid dividends for the Series D Preferred Shares due to Treasury through and including the exchange date.
[2] The investment price reflects Treasury's commitment to invest up to $30 billion less a reduction of $165 million representing retention payments AIG Financial Products made to its employees in March 2009.
[3] This transaction does not include AIG's commitment fee of an additional $165 million scheduled to be paid from its operating income in three equal installments over the five-year life of the facility.

Source: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009.

Table D.3

TIP TRANSACTION DETAIL, AS OF 9/30/2009

		Seller							Warrants and Market Data						
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Stock Price	Market Capitalization (in millions)	Strike Price	Outstanding Number of Warrants	Amount "In the Money" or "Out of the Money"[a]	In or Out of the Money?[a]	Payment to Treasury Dividend Payments
1	12/31/08	Citigroup Inc.	New York	NY	Purchase	Trust Preferred Securities	$20,000,000,000	Par	$4.84	$110,741	$10.61	188,501,414	$(5.77)	Out	$933,333,333
	1/16/09	Bank of America Corporation	Charlotte	NC	Purchase	Preferred Stock w/ Warrants	$20,000,000,000	Par	$16.92	$146,385	$13.30	150,375,940	$3.62	In	$928,888,889
						TOTAL	$40,000,000,000								

Note: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 Transactions Report containing data as of 9/30/2009.
[1] Treasury has three separate investments in Citigroup Inc. ("Citigroup") under CPP, TIP, and AGP for a total of $49 billion. On 6/9/2009, Treasury entered into an agreement with Citigroup to exchange all of Treasury's investments. On 7/30/2009, Treasury exchanged all of its Fixed Rate Cumulative Perpetual Preferred Stock, Series I (TIP Shares) "dollar for dollar" for Trust Preferred Securities.

Source: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009.

Table D.4

AGP TRANSACTION DETAIL, AS OF 9/30/2009

		Seller			Transaction Details[b]				Warrants and Market Data						
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Guarantee Limit	Premium Received	Stock Price	Market Capitalization (in millions)	Strike Price	Outstanding Number of Warrants	Amount "In the Money" or "Out of the Money" [a]	In or Out of the Money? [a]	Payment to Treasury Dividend Payments
1,2	1/16/09	Citigroup Inc.	New York	NY	Guarantee	Second-Loss Guarantee on Asset Pool	$5,000,000,000	Preferred Stock and Warrants	$4.84	$110,741	$10.61	66,531,728	$(5.77)	Out	$174,806,667

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 *Transactions Report* containing data as of 9/30/2009.
[1] In consideration for the guarantee, Treasury received $4.03 billion of preferred stock, which pays 8% interest.
[2] Treasury has three separate investments in Citigroup Inc. ("Citigroup") under CPP, TIP, and AGP for a total of $49 billion. On 6/9/2009, Treasury entered into an agreement with Citigroup to exchange all of Treasury's investments. On 7/30/2009, Treasury exchanged all of its Fixed Rate Cumulative Perpetual Preferred Stock Series G (AGP Shares), received as premium with the AGP agreement, "dollar for dollar" for Trust Preferred Securities.
[a] When a warrant's current market price rises above the strike price, it is considered "In the Money," otherwise it is considered "Out of the Money."
[b] AGP transaction is a guarantee, not a purchase. Treasury received a premium including preferred stock and warrants as part of this transaction.

Sources: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009; Market Data: Capital IQ, Inc. (a division of Standard & Poor's), www.capitaliq.com, accessed 10/6/2009.

Table D.5

TALF TRANSACTION DETAIL, AS OF 9/30/2009

		Seller				Purchase Details		
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism
1	3/3/09	TALF LLC	Wilmington	DE	Purchase	Debt Obligation w/ Additional Note	$20,000,000,000	N/A
						TOTAL	**$20,000,000,000**	

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 Transactions Report containing data as of 9/30/2009.
[1] The loan was funded through TALF LLC, a special purpose vehicle created by The Federal Reserve Bank of New York. The amount of $20,000,000,000 represents the maximum loan amount. The loan will be incrementally funded.

Sources: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009.

Table D.6

PPIP TRANSACTION DETAIL, AS OF 9/30/2009

		Seller				Purchase Details		
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism
1	9/30/09	UST/TCW Senior Mortgage Securities Fund, L.P.	Wilmington	DE	Purchase	Membership Interest	$1,111,111,111	Par
2	9/30/09	UST/TCW Senior Mortgage Securities Fund, L.P.	Wilmington	DE	Purchase	Debt Obligation w/ Contingent Proceeds	$2,222,222,222	Par
1	9/30/09	Invesco Legacy Securities Master Fund, L.P.	Wilmington	DE	Purchase	Membership Interest	$1,111,111,111	Par
2	9/30/09	Invesco Legacy Securities Master Fund, L.P.	Wilmington	DE	Purchase	Debt Obligation w/ Contingent Proceeds	$2,222,222,222	Par
						TOTAL	**$6,666,666,666**	

Note: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 Transactions Report containing data as of 9/30/2009.
[1] The equity amount may be incrementally funded. Investment amount represents Treasury's maximum obligation if the limited partners other than Treasury fund their maximum equity capital obligations.
[2] The loan may be incrementally funded. Investment amount represents Treasury's maximum obligation if Treasury and the limited partners other than Treasury fund 100% of their maximum equity obligations.

Source: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, Transactions Report, 10/2/2009.

Table D.7

AIFP TRANSACTION DETAIL, AS OF 9/30/2009

		Seller	Purchase Details				Exchange Details					Principal Repayment Details			Payments to Treasury	
Note	Date	Name of Institution	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Date	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Principal Repayment Date	Principal Repayment Amount [19]	Remaining Principal Amount	Remaining Investment Description	Dividend Payment [a]	Interest Payment a
2	1/16/09	Chrysler Financial Services Americas LLC—Farmington Hills, MI	Purchase	Debt Obligation w/ Additional Note	$1,500,000,000	N/A						3/17/09	$3,499,054.95	1,496,500,945	Debt Obligation w/ Additional Note	NA	$7,405,894
												4/17/09	$31,810,122.11	1,464,690,823	Debt Obligation w/ Additional Note		
												5/18/09	$51,136,083.81	1,413,554,739	Debt Obligation w/ Additional Note		
												6/17/09	$44,357,709.98	1,369,197,029	Debt Obligation w/ Additional Note		
												7/14/09	$1,369,197,029.15	-	N/A		
14, 21, c	1/2/09	Chrysler Holding LLC—Auburn Hills, MI	Purchase	Debt Obligation w/ Additional Note	$4,000,000,000	N/A											
4, 5, 21, c	4/29/09	Chrysler Holding LLC—Auburn Hills, MI	Purchase	Debt Obligation w/ Additional Note	$500,000,000	N/A											
4, 6, 21, b, c	4/29/09	Chrysler Holding LLC—Auburn Hills, MI	Purchase	Debt Obligation w/ Additional Note	$280,130,642	N/A						7/10/09	$280,130,642	-	N/A	NA	$55,237,713
7, c	5/1/09	Chrysler LLC—Wilmington, DE	Purchase	Debt Obligation w/ Additional Note	$3,043,143,000	N/A											
8, c	5/20/09	Chrysler LLC—Wilmington, DE	Purchase	Debt Obligation w/ Additional Note	$756,857,000	N/A											
1, 20	12/29/08	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation	$884,024,131	N/A	5/29/09	Exchange	Equity Interest in GMAC 12, 15	$884,024,131	Par					see note a	
20, d	12/31/08	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation w/ Warrants and Additional Note	$13,400,000,000	N/A	7/10/09	Exchange	Preferred and common stock in General Motors Company 18	$13,400,000,000	Par						
3, 20	4/22/09	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation w/ Additional Note	$2,000,000,000	N/A	7/10/09	Exchange	Preferred and common stock in General Motors Company 18	$2,000,000,000	Par						
9, 20	5/20/09	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation w/ Additional Note	$4,000,000,000	N/A	7/10/09	Exchange	Preferred and common stock in General Motors Company 18	$4,000,000,000	Par						
11, 20, b	5/27/09	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation w/ Additional Note	$360,624,198	N/A	7/10/09	Exchange	Preferred and common stock in General Motors Company 16, 18	$360,624,198	Par					$34,083,686	$143,526,108
13, 20	6/3/09	General Motors Corporation—Detroit, MI	Purchase	Debt Obligation w/ Additional Note	$23,027,511,395	N/A	7/10/09	Exchange	Preferred and common stock in General Motors Company 17, 18	$22,041,706,310	Par						
18, b	7/10/09	General Motors Company—Detroit, MI	Purchase	Debt Obligation w/ Additional Note, Equity Interest	$7,072,488,605	N/A						7/10/09	$360,624,198	6,711,864,407	Debt Obligation w/ Additional Note, Equity Interest		
15	12/29/08	GMAC LLC—Detroit, MI	Purchase	Preferred Stock w/ Exercised Warrants	$5,000,000,000	Par											
15	5/21/09	GMAC LLC—Detroit, MI	Purchase	Preferred Stock w/ Exercised Warrants	$7,500,000,000	Par										$430,611,111	NA
10	5/27/09	New CarCo Acquisition LLC—Wilmington, DE	Purchase	Debt Obligation w/ Additional Note, Equity Interest	$6,642,000,000	N/A											
				TOTAL	**$79,966,778,971**					**Total Principal Repayment Amount**			**$2,140,754,840**				
		Total Treasury Investment Amount		**$77,826,024,131**													

Continued on next page.

AIFP TRANSACTION DETAIL, AS OF 9/30/2009 (CONTINUED)

Note: Numbers affected by rounding. Data as of 6/30/2009. Numbered notes taken from Treasury's 7/2/2009 Transactions Report containing data as of 6/30/2009.
[1] Treasury committed to lend General Motors Corporation up to $1,000,000,000. The ultimate level of funding was dependent upon the level of investor participation in GMAC LLC's rights offering. The amount has been updated to reflect the final level of funding.
[2] The loan was funded through Chrysler LB Receivables Trust, a special purpose vehicle created by Chrysler Financial. The amount of $1,500,000,000 represents the maximum loan amount. The loan was incrementally funded until it reached the maximum amount of $1.5 billion on 4/9/2009.
[3] This transaction is an amendment to Treasury's 12/31/2008 agreement with General Motors Corporation, which brought the total loan amount to $15,400,000,000.
[4] This transaction is an amendment to Treasury's 1/2/2009 agreement with Chrysler Holding LLC, increasing the total loan amount to $4,780,130,642.
[5] The loan may be incrementally funded.
[6] The loan will be used to capitalize Chrysler Warranty SPV LLC, a special purpose vehicle created by Chrysler LLC.
[7] The terms of this transaction, first reported based on a binding term sheet fully executed on 5/1/2009 but made effective as of 4/30/2009, are now finalized and reflected in a credit agreement fully executed on 5/5/2009. Under the terms of the credit agreement, all commitment amounts were adjustedas follows: Treasury's commitment amount is $3.04 billion of the total $4.1 billion debtor-in-possession (DIP) credit facility. The amount of $1.4 billion, of which Treasury's share is $1.04 billion, is available in weekly disbursements under the terms of the Bankruptcy Court's interim order approving the DIP credit facility; the balance will be available in weekly disbursements after certain Bankruptcy Court milestones are met.
[8] This transaction is an amendment to Treasury's DIP credit agreement with Chrysler LLC dated 5/5/2009 and increases Treasury's commitment to $3,800,000,000. The amendment was fully executed on 5/20/2009, but was made effective as of 5/15/2009.
[9] This transaction is an amendment to Treasury's 12/31/2008 agreement with General Motors Corporation, which brought the total loan amount to $19,400,000,000, including the 4/22/2009 amendment.
[10] The terms of this transaction, first reported based on a term sheet fully executed on 5/27/2009 for an amount up to $6.943 billion, are now finalized and reflected in a credit agreement fully executed on 6/10/2009. Under the terms of the credit agreement, Treasury made a new commitment to New CarCo Acquisition LLC (renamed Chrysler Group LLC on or about 6/10/2009) of up to $6.642 billion. The total loan amount is up to $7.142 billion including $500 million of debt assumed from Treasury's 1/2/2009 credit agreement with Chrysler Holding LLC. The debt obligations will be secured by a first priority lien on the assets of New CarCo Acquisition LLC (the company that purchased Chrysler LLC's assets in a sale pursuant to section 363 of the Bankruptcy Code).
[11] This transaction is an amendment to Treasury's 12/31/2008 agreement with General Motors Corporation, which brings the total loan amount to $19,760,624,198, including the 4/22/2009 and 5/20/2009 amendments. The $360 million loan will be used to capitalize GM Warranty LLC, a special purpose vehicle created by General Motors Corporation. On 7/10/2009, the principal amount was included in the $7.07 billion of debt assumed by the new GM, as explained in footnote 17.
[12] Pursuant to its rights under the loan agreement with General Motors Corporation (GM) reported on 12/29/2009, Treasury exchanged its $884 million loan to GM for a portion of GM's common equity interest in GMAC LLC. As a result of the exchange, Treasury holds a 35.4% common equity interest in GMAC LLC.
[13] Under the terms of the $33.3 billion debtor-in-possession (DIP) credit agreement, Treasury's commitment amount is $30.1 billion. Up to $15 billion is available pursuant to the interim order the Bankruptcy Court entered approving the DIP credit facility, of which Treasury's share is $12.8 billion; the balance will be available shortly after the Bankruptcy Court's final and non-appealable order approving the DIP credit facility.
[14] Pursuant to the agreement originally reported on 5/27/2009 and fully executed on 6/10/2009 (explained in Footnote 10), $500 million of this deal's debt will be assumed under that fully executed agreement.
[15] GMAC LLC is now known as GMAC Inc. effective 6/30/2009.
[16] This investment amount was funded as a prepayment of the new General Motors Company's assumed note described in footnote 17.
[17] On 7/10/2009, Treasury and Motors Liquidation Company (formerly known as General Motors Corporation) amended the 6/3/2009 DIP credit agreement for $30.1 billion between Treasury and General Motors Corporation. Under the terms of the amendment, the DIP loan and interest accruing thereunder were extinguished and exchanged for privately placed preferred and common equity in General Motors Company (the new GM) except for $986 million, which remained for the benefit of Motors Liquidation Company, and $7.07 billion, which was assumed by General Motors Company as a new obligation under the terms of a separate agreement (see footnote 18). In total, Treasury received $2.1 billion in preferred shares and 60.8% of the common shares of General Motors Company.
[18] On 7/10/2009, Treasury and General Motors Company entered into an agreement under which General Motors Company assumed $7.07 billion of General Motors Corporation's (now known as Motors Liquidation Company) obligation under its 6/3/2009 agreement with Treasury.
[19] This amount does not include accrued and unpaid interest, which must be paid at the time of principal repayment.
[20] General Motors Corporation is now known as Motors Liquidation Company.
[21] Chrysler Holding LLC is now known as CGI Holding LLC.
[a] The information provided by Treasury on principal, income, and dividends was not broken out by transaction. For purposes of this table, it is presented in aggregate for each AIFP participant.
[b] This table include AWCP transactions. See notes 6 and 11.
[c] This table does not reflect any de-obligations for Chrysler because they were not listed on the 10/2/2009 Transaction Report.
[d] According to Treasury, "the GM Warrant was extinguished as part of the bankruptcy exit. It is no longer a holding of UST."

Source: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009; Market Data: Capital IQ, Inc. (a division of Standard & Poor's), www.capitaliq.com, accessed 10/6/2009.

Table D.8

ASSP TRANSACTION DETAIL
AUTOMOTIVE SUPPLIER SUPPORT PROGRAM, AS OF 9/30/2009

		Seller							Adjustment Details			
Note	Date	Name of Institution	City	State	Transaction Type	Investment Description	Investment Amount	Pricing Mechanism	Adjustment Date	Adjustment Amount	Adjusted Investment Amount	Payment to Treasury Dividend Payments
1	4/9/09	GM Supplier Receivables LLC	Wilmington	DE	Purchase	Debt Obligation w/ Additional Note	$3,500,000,000	N/A	7/8/09 [3]	$(1,000,000,000)	$2,500,000,000	$3,601,370
2	4/9/09	Chrysler Receivables SPV LLC	Wilmington	DE	Purchase	Debt Obligation w/ Additional Note	$1,500,000,000	N/A	7/8/09 [3]	$(500,000,000)	$1,000,000,000	$2,300,564
						INITIAL TOTAL	**$5,000,000,000**			**ADJUSTED TOTAL**	**$3,500,000,000**	

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 *Transactions Report* containing data as of 9/30/2009.
[1] The loan was funded through GM Supplier Receivables, LLC, a special purpose vehicle created by General Motors Corporation. The amount of $3,500,000,000 represents the maximum loan amount. The loan will be incrementally funded. The credit agreement was fully executed on 4/9/2009, but was made effective as of 4/3/2009. General Motors Company assumed GM Supplier Receivables LLC on 7/10/2009.
[2] The loan was funded through Chrysler Receivables SPV LLC, a special purpose vehicle created by Chrysler LLC. The amount of $1,500,000,000 represents the maximum loan amount. The loan will be incrementally funded. The credit agreement was fully executed on 4/9/2009, but was made effective as of 4/7/2009. Chrysler Group LLC assumed Chrysler Receivables SPV LLC on 6/10/2009.
[3] Treasury issued notice to the institution of the permanent reduced commitment on 7/8/2009; the reduction was effective on 7/1/2009.

Sources: Treasury, response to SIGTARP data call, 10/7/2009; Treasury, *Transactions Report*, 10/2/2009.

Table D.9

HAMP TRANSACTION DETAIL, AS OF 9/30/2009

Servicer Modifying Borrowers' Loans								Adjustment Details				
Date	Name of Institution	City	State	Transaction Type	Investment Description	Cap of Incentive Payments on Behalf of Borrowers and to Servicers & Lenders/ Investors (Cap) [1]	Pricing Mechanism	Adjustment Date	Cap Adjustment Amount	Adjusted Cap	Reason for Adjustment	Market Capitalization (in millions)
4/13/09	Select Portfolio Servicing	Salt Lake City	UT	Purchase	Financial Instrument for Home Loan Modifications	$376,000,000	N/A	6/12/09	$284,590,000	$660,590,000	Updated portfolio data from servicer	
								9/30/09	$121,910,000	$782,500,000	Updated portfolio data from servicer & HPDP initial cap	
4/13/09	CitiMortgage, Inc.	O'Fallon	MO	Purchase	Financial Instrument for Home Loan Modifications	$2,071,000,000	N/A	6/12/09	$(991,580,000)	$1,079,420,000	Updated portfolio data from servicer	
								9/30/09	$1,010,180,000	$2,089,600,000	Updated portfolio data from servicer & HPDP initial cap	
4/13/09	Wells Fargo Bank, NA	Des Moines	IA	Purchase	Financial Instrument for Home Loan Modifications	$2,873,000,000	N/A	6/17/09	$(462,990,000)	$2,410,010,000	Updated portfolio data from servicer	$131,646
								9/30/09	$65,070,000	$2,475,080,000	Updated portfolio data from servicer & HPDP initial cap [2]	
4/13/09	GMAC Mortgage, Inc.	Ft. Washington	PA	Purchase	Financial Instrument for Home Loan Modifications	$633,000,000	N/A	6/12/09	$384,650,000	$1,017,650,000	Updated portfolio data from servicer	
								9/30/09	$2,537,240,000	$3,554,890,000	Updated portfolio data from servicer & HPDP initial cap	
4/13/09	Saxon Mortgage Services, Inc.	Irving	TX	Purchase	Financial Instrument for Home Loan Modifications	$407,000,000	N/A	6/17/09	$225,040,000	$632,040,000	Updated portfolio data from servicer	
								9/30/09	$254,380,000	$886,420,000	Updated portfolio data from servicer & HPDP initial cap	
4/13/09	Chase Home Finance, LLC	Iselin	NJ	Purchase	Financial Instrument for Home Loan Modifications	$3,552,000,000	N/A	7/31/09	$(3,552,000,000)	$—	Termination of SPA	
4/16/09	Ocwen Financial Corporation, Inc.	West Palm Beach	FL	Purchase	Financial Instrument for Home Loan Modifications	$659,000,000	N/A	6/12/09	$(105,620,000)	$553,380,000	Updated portfolio data from servicer	$1,081
								9/30/09	$102,580,000	$655,960,000	Updated portfolio data from servicer & HPDP initial cap	
4/17/09	Bank of America, N.A.	Simi Valley	CA	Purchase	Financial Instrument for Home Loan Modifications	$798,900,000	N/A	6/12/09	$5,540,000	$804,440,000	Updated portfolio data from servicer	$146,385
								9/30/09	$162,680,000	$967,120,000	Updated portfolio data from servicer & HPDP initial cap	
4/17/09	Countrywide Home Loans Servicing LP	Simi Valley	CA	Purchase	Financial Instrument for Home Loan Modifications	$1,864,000,000	N/A	6/12/09	$3,318,840,000	$5,182,840,000	Updated portfolio data from servicer	
								9/30/09	$(717,420,000)	$4,465,420,000	Updated portfolio data from servicer & HPDP initial cap	
4/20/09	Home Loan Services, Inc.	Pittsburgh	PA	Purchase	Financial Instrument for Home Loan Modifications	$319,000,000	N/A	6/12/09	$128,300,000	$447,300,000	Updated portfolio data from servicer	
								9/30/09	$46,730,000	$494,030,000	Updated portfolio data from servicer & HPDP initial cap	
4/20/09	Wilshire Credit Corporation	Beaverton	OR	Purchase	Financial Instrument for Home Loan Modifications	$366,000,000	N/A	6/12/09	$87,130,000	$453,130,000	Updated portfolio data from servicer	
								9/30/09	$(249,670,000)	$203,460,000	Updated portfolio data from servicer & HPDP initial cap	
4/24/09	Green Tree Servicing LLC	Saint Paul	MN	Purchase	Financial Instrument for Home Loan Modifications	$156,000,000	N/A	6/17/09	$(64,990,000)	$91,010,000	Updated portfolio data from servicer	
								9/30/09	$130,780,000	$221,790,000	Updated portfolio data from servicer & HPDP initial cap	
4/27/09	Carrington Mortgage Services, LLC	Santa Ana	CA	Purchase	Financial Instrument for Home Loan Modifications	$195,000,000	N/A	6/17/09	$(63,980,000)	$131,020,000	Updated portfolio data from servicer	
								9/30/09	$90,990,000	$222,010,000	Updated portfolio data from servicer & HPDP initial cap	
5/1/09	Aurora Loan Services, LLC	Littleton	CO	Purchase	Financial Instrument for Home Loan Modifications	$798,000,000	N/A	6/17/09	$(338,450,000)	$459,550,000	Updated portfolio data from servicer	
								9/30/09	$(11,860,000)	$447,690,000	Updated portfolio data from servicer & HPDP initial cap	
5/28/09	Nationstar Mortgage LLC	Lewisville	TX	Purchase	Financial Instrument for Home Loan Modifications	$101,000,000	N/A	6/12/09	$16,140,000	$117,140,000	Updated portfolio data from servicer	
								9/30/09	$134,560,000	$251,700,000	Updated portfolio data from servicer & HPDP initial cap	
6/12/09	Residential Credit Solutions	Fort Worth	TX	Purchase	Financial Instrument for Home Loan Modifications	$19,400,000	N/A	9/30/09	$(1,860,000)	$17,540,000	Updated portfolio data from servicer & HPDP initial cap	
6/17/09	CCO Mortgage	Glen Allen	VA	Purchase	Financial Instrument for Home Loan Modifications	$16,520,000	N/A	9/30/09	$13,070,000	$29,590,000	Updated portfolio data from servicer & HPDP initial cap	
6/17/09	RG Mortgage Corporation	San Juan	PR	Purchase	Financial Instrument for Home Loan Modifications	$57,000,000	N/A	9/30/09	$(11,300,000)	$45,700,000	Updated portfolio data from servicer & HPDP initial cap	
6/19/09	First Federal Savings and Loan	Port Angeles	WA	Purchase	Financial Instrument for Home Loan Modifications	$770,000	N/A					
6/19/09	Wescom Central Credit Union	Anaheim	CA	Purchase	Financial Instrument for Home Loan Modifications	$540,000	N/A	9/30/09	$330,000	$870,000	Updated portfolio data from servicer & HPDP initial cap	
6/26/09	Citizens First Wholesale Mortgage Company	The Villages	FL	Purchase	Financial Instrument for Home Loan Modifications	$30,000	N/A	9/30/09	$(10,000)	$20,000	Updated portfolio data from servicer & HPDP initial cap	
6/26/09	Technology Credit Union	San Jose	CA	Purchase	Financial Instrument for Home Loan Modifications	$70,000	N/A					
6/26/09	National City Bank	Miamisburg	OH	Purchase	Financial Instrument for Home Loan Modifications	$294,980,000	N/A	9/30/09	$315,170,000	$610,150,000	Updated portfolio data from servicer & HPDP initial cap	
7/1/09	Wachovia Mortgage, FSB	Des Moines	IA	Purchase	Financial Instrument for Home Loan Modifications	$634,010,000	N/A	9/30/09	$723,880,000	$1,357,890,000	Updated portfolio data from servicer & HPDP initial cap	
7/1/09	Bayview Loan Servicing, LLC	Coral Gables	FL	Purchase	Financial Instrument for Home Loan Modifications	$44,260,000	N/A	9/30/09	$23,850,000	$68,110,000	Updated portfolio data from servicer & HPDP initial cap	
7/10/09	Lake National Bank	Mentor	OH	Purchase	Financial Instrument for Home Loan Modifications	$100,000	N/A	9/30/09	$150,000	$250,000	Updated portfolio data from servicer & HPDP initial cap	
7/10/09	IBM Southeast Employees' Federal Credit Union	Delray Beach	FL	Purchase	Financial Instrument for Home Loan Modifications	$870,000	N/A	9/30/09	$(10,000)	$860,000	Updated portfolio data from servicer & HPDP initial cap	
7/17/09	MorEquity, Inc.	Evansville	IN	Purchase	Financial Instrument for Home Loan Modifications	$23,480,000	N/A	9/30/09	$18,530,000	$42,010,000	Updated portfolio data from servicer & HPDP initial cap	
7/17/09	PNC Bank, National Association	Pittsburgh	PA	Purchase	Financial Instrument for Home Loan Modifications	$54,470,000	N/A	9/30/09	$(36,240,000)	$18,230,000	Updated portfolio data from servicer & HPDP initial cap	$22,419.57
7/17/09	Farmers State Bank	West Salem	OH	Purchase	Financial Instrument for Home Loan Modifications	$170,000	N/A	9/30/09	$(90,000)	$80,000	Updated portfolio data from servicer & HPDP initial cap	

continued on next page

HAMP TRANSACTION DETAIL, AS OF 9/30/2009

Servicer Modifying Borrowers' Loans								Adjustment Details				
Date	Name of Institution	City	State	Transaction Type	Investment Description	Cap of Incentive Payments on Behalf of Borrowers and to Servicers & Lenders/ Investors (Cap) [1]	Pricing Mechanism	Adjustment Date	Cap Adjustment Amount	Adjusted Cap	Reason for Adjustment	Market Capitalization (in millions)
7/17/09	ShoreBank	Chicago	IL	Purchase	Financial Instrument for Home Loan Modifications	$1,410,000	N/A	9/30/09	$890,000	$2,300,000	Updated portfolio data from servicer & HPDP initial cap	
7/22/09	American Home Mortgage Servicing, Inc	Coppell	TX	Purchase	Financial Instrument for Home Loan Modifications	$1,272,490,000	N/A	9/30/09	$(53,670,000)	$1,218,820,000	Updated portfolio data from servicer & HPDP initial cap	
7/22/09	Mortgage Center, LLC	Southfield	MI	Purchase	Financial Instrument for Home Loan Modifications	$4,210,000	N/A	9/30/09	$1,780,000	$5,990,000	Updated portfolio data from servicer & HPDP initial cap	
7/22/09	Mission Federal Credit Union	San Diego	CA	Purchase	Financial Instrument for Home Loan Modifications	$860,000	N/A	9/30/09	$(490,000)	$370,000	Updated portfolio data from servicer & HPDP initial cap	
7/29/09	First Bank	St. Louis	MO	Purchase	Financial Instrument for Home Loan Modifications	$6,460,000	N/A	9/30/09	$(1,530,000)	$4,930,000	Updated portfolio data from servicer & HPDP initial cap	
7/29/09	Purdue Employees Federal Credit Union	West Lafayette	IN	Purchase	Financial Instrument for Home Loan Modifications	$1,090,000	N/A	9/30/09	$(60,000)	$1,030,000	Updated portfolio data from servicer & HPDP initial cap	
7/29/09	Wachovia Bank, N.A.	Charlotte	NC	Purchase	Financial Instrument for Home Loan Modifications	$85,020,000	N/A	9/30/09	$(37,700,000)	$47,320,000	Updated portfolio data from servicer & HPDP initial cap	
7/31/09	J.P.Morgan Chase Bank, NA	Lewisville	TX	Purchase	Financial Instrument for Home Loan Modifications	$2,699,720,000	N/A	9/30/09	$(14,850,000)	$2,684,870,000	Updated portfolio data from servicer & HPDP initial cap	$172,325.35
7/31/09	EMC Mortgage Corporation	Lewisville	TX	Purchase	Financial Instrument for Home Loan Modifications	$707,380,000	N/A	9/30/09	$(10,000)	$707,370,000	Updated portfolio data from servicer & HPDP initial cap	
8/5/09	Lake City Bank	Warsaw	IN	Purchase	Financial Instrument for Home Loan Modifications	$420,000	N/A	9/30/09	$180,000	$600,000	Updated portfolio data from servicer & HPDP initial cap	
8/5/09	Oakland Municipal Credit Union	Oakland	CA	Purchase	Financial Instrument for Home Loan Modifications	$140,000	N/A	9/30/09	$290,000	$430,000	Updated portfolio data from servicer & HPDP initial cap	
8/5/09	HomEq Servicing	North Highlands	CA	Purchase	Financial Instrument for Home Loan Modifications	$674,000,000	N/A	9/30/09	$(121,190,000)	$552,810,000	Updated portfolio data from servicer & HPDP initial cap	
8/12/09	Litton Loan Servicing LP	Houston	TX	Purchase	Financial Instrument for Home Loan Modifications	$774,900,000	N/A	9/30/09	$313,050,000	$1,087,950,000	Updated portfolio data from servicer & HPDP initial cap	
8/12/09	PennyMac Loan Services, LLC	Calasbasa	CA	Purchase	Financial Instrument for Home Loan Modifications	$6,210,000	N/A	9/30/09	$(1,200,000)	$5,010,000	Updated portfolio data from servicer & HPDP initial cap	
8/12/09	Servis One, Inc.	Titusville	PA	Purchase	Financial Instrument for Home Loan Modifications	$29,730,000	N/A	9/30/09	$(25,510,000)	$4,220,000	Updated portfolio data from servicer & HPDP initial cap	
8/28/09	OneWest Bank	Pasadena	CA	Purchase	Financial Instrument for Home Loan Modifications	$668,440,000	N/A					
8/28/09	Stanford Federal Credit Union	Palo Alto	CA	Purchase	Financial Instrument for Home Loan Modifications	$300,000	N/A					
8/28/09	RoundPoint Mortgage Servicing Corporation	Charlotte	NC	Purchase	Financial Instrument for Home Loan Modifications	$570,000	N/A					
9/2/09	Horicon Bank	Horicon	WI	Purchase	Financial Instrument for Home Loan Modifications	$560,000	N/A					
9/2/09	Vantium Capital, Inc.	Plano	TX	Purchase	Financial Instrument for Home Loan Modifications	$6,000,000	N/A					
9/9/09	Central Florida Educators Federal Credit Union	Lake Mary	FL	Purchase	Financial Instrument for Home Loan Modifications	$1,250,000	N/A					
9/9/09	U.S. Bank National Association	Owensboro	KY	Purchase	Financial Instrument for Home Loan Modifications	$114,220,000	N/A					
9/9/09	CUC Mortgage Corporation	Albany	NY	Purchase	Financial Instrument for Home Loan Modifications	$4,350,000	N/A					
9/11/09	ORNL Federal Credit Union	Oak Ridge	TN	Purchase	Financial Instrument for Home Loan Modifications	$2,070,000	N/A					
9/11/09	Allstate Mortgage Loans & Investments, Inc.	Ocala	FL	Purchase	Financial Instrument for Home Loan Modifications	$250,000	N/A					
9/11/09	Metropolitan National Bank	Little Rock	AR	Purchase	Financial Instrument for Home Loan Modifications	$280,000	N/A					
9/11/09	Franklin Credit Management Corporation	Jersey City	NJ	Purchase	Financial Instrument for Home Loan Modifications	$27,510,000	N/A					
9/16/09	Bay Federal Credit Union	Capitola	CA	Purchase	Financial Instrument for Home Loan Modifications	$410,000	N/A					
9/23/09	AMS Servicing, LLC	Buffalo	NY	Purchase	Financial Instrument for Home Loan Modifications	$4,390,000	N/A					
9/23/09	Schools Financial Credit Union	Sacramento	CA	Purchase	Financial Instrument for Home Loan Modifications	$390,000	N/A					
9/23/09	Glass City Federal Credit Union	Maumee	OH	Purchase	Financial Instrument for Home Loan Modifications	$230,000	N/A					
9/23/09	Central Jersey Federal Credit Union	Woodbridge	NJ	Purchase	Financial Instrument for Home Loan Modifications	$30,000	N/A					
9/23/09	Yadkin Valley Bank	Elkin	NC	Purchase	Financial Instrument for Home Loan Modifications	$240,000	N/A					$75

continued on next page

HAMP TRANSACTION DETAIL, AS OF 9/30/2009

Servicer Modifying Borrowers' Loans								Adjustment Details				
Date	Name of Institution	City	State	Transaction Type	Investment Description	Cap of Incentive Payments on Behalf of Borrowers and to Servicers & Lenders/ Investors (Cap) [1]	Pricing Mechanism	Adjustment Date	Cap Adjustment Amount	Adjusted Cap	Reason for Adjustment	Market Capitalization (in millions)
9/25/09	SEFCU	Albany	NY	Purchase	Financial Instrument for Home Loan Modifications	$440,000	N/A					
						Total Initial Cap: $23,411,540,000			**Total Cap Adjustments: $3,654,220,000**			
						TOTAL CAP: $27,065,760,000						

Notes: Numbers affected by rounding. Data as of 9/30/2009. Numbered notes taken from Treasury's 10/2/2009 Transactions Report containing data as of 9/30/2009.
[1] The Cap of Incentive Payments represents the potential total amount allocated to each servicer and includes the maximum amount allotted for all payments on behalf of borrowers and payments to servicers and lenders/investors. The Cap is subject to adjustment based on the total amount allocated to the program and individual servicer usage for borrower modifications. Each adjustment to the Cap is reflected under Adjustment Details.
[2] On July 31, 2009, the SPA with Chase Home Finance, LLC was terminated and superseded by new SPAs with J.P. Morgan Chase Bank, NA and EMC Mortgage Corporation.

Source: Treasury, *Transactions Report*, 10/2/2009.

CROSS-REFERENCE OF REPORT TO THE INSPECTOR GENERAL ACT OF 1978

This appendix cross-references this report to the reporting requirements under the Inspector General Act of 1978 (P.L. 95-452), as amended, 5 U.S.C. APP.

Section	Statute (Inspector General Act of 1978)	SIGTARP Action	Report Reference
Section 5(a)(1)	"Description of significant problems, abuses, and deficiencies... "	List problems, abuses, and deficiencies from SIGTARP audits and investigations.	Section 1: "The Office of the SIGTARP" Section 5: "SIGTARP Recommendations"
Section 5(a)(2)	"Description of recommendations for corrective action…with respect to significant problems, abuses, or deficiencies... "	List recommendations from SIGTARP audits and investigations.	Section 1: "The Office of the SIGTARP" Section 5: "SIGTARP Recommendations"
Section 5(a)(3)	"Identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed..."	List all instances of incomplete corrective action from previous semiannual reports.	Section 5: "SIGTARP Recommendations"
Section 5(a)(4)	"A summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted... "	List status of SIGTARP investigations referred to prosecutive authorities.	Section 1: "The Office of the SIGTARP"
Section 5(a)(5)	"A summary of each report made to the [Treasury Secretary] under section 6(b)(2)... " (instances where information requested was refused or not provided)	List TARP oversight reports by Treasury, FSOB, SEC, GAO, COP, OMB, CBO, Federal Reserve, FDIC, and SIGTARP.	Appendix G: "Key Oversight Reports and Testimonies"
Section 5(a)(6)	"A listing, subdivided according to subject matter, of each audit report issued..." showing dollar value of questioned costs and recommendations that funds be put to better use.	List SIGTARP audits.	Section 1: "The Office of the SIGTARP"
Section 5(a)(7)	"A summary of each particularly significant report... "	Provide a synopsis of significant SIGTARP audits.	Section 1: "The Office of the SIGTARP"
Section 5(a)(8)	"Statistical tables showing the total number of audit reports and the total dollar value of questioned costs... "	Provide statistical tables showing dollar value of questioned costs from SIGTARP audits.	As detailed in Section 1, "The Office of the SIGTARP," SIGTARP has made significant findings in its audit reports. However, to date SIGTARP's audits have not included questioned costs findings.
Section 5(a)(9)	"Statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management..."	Provide statistical tables showing dollar value of funds put to better use by management from SIGTARP audits.	As detailed in Section 1, "The Office of the SIGTARP," SIGTARP has made important findings in its audit reports. However, to date SIGTARP's audits have not included funds put to better use findings.
Section 5(a)(10)	"A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of reporting period, an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision..."	Provide a synopsis of significant SIGTARP audit reports in which recommendations by SIGTARP are still open.	Section 1: "The Office of the SIGTARP"
Section 5(a)(11)	"A description and explanation of the reasons for any significant revised management decision..."	Explain audit reports in which significant revisions have been made to management decisions.	As detailed in Section 1: "The Office of the SIGTARP," and Section 5: "SIGTARP Recommendations," SIGTARP has made noteworthy recommendations in its audit reports, and the majority of these recommendations have been agreed to. To date, no management decisions have been revised.
Section 5(a)(12)	"Information concerning any significant management decision with which the Inspector General is in disagreement..."	Provide information where management disagreed with a SIGTARP audit finding.	See discussion of Use of Funds Audit in Section 1: "The Office of the SIGTARP," and Section 5: "SIGTARP Recommendations."

CORRESPONDENCE

This appendix provides copies of the following correspondence:

CORRESPONDENCE			
Date	**From**	**To**	**Regarding**
7/10/2009	SIGTARP	Treasury	Management Alert Regarding Possible MHA Program Internal Weaknesses
9/10/2009	Treasury Staff	Treasury General Counsel	Issuance of Instructions Regarding Communication with Outside Persons About EESA Funds and Recovery Act Funds
9/25/2009	SIGTARP	Treasury	Response to Recommendations Contained in SIGTARP's July 21, 2009 Quarterly Report
10/2/2009	SIGTARP	Treasury	HAMP Streamlined Borrower Evaluation Process
10/15/09	Treasury	SIGTARP	Response to SIGTARP Recommendations on Treasury's changes to the HAMP streamlined Borrower Evaluation Process
10/19/2009	Treasury	SIGTARP	SIGTARP October Quarterly Report

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 6TH FLOOR
WASHINGTON, D.C. 20220

July 10, 2009

Ms. Nancy Fleetwood,
Interim Chief, Homeownership
Office of Financial Stability
U.S. Department of Treasury
1801 L Street, NW
Washington, DC 20036

RE: Management Alert Regarding Possible MHA Program Internal Weaknesses

Dear Ms. Fleetwood:

Periodically, based upon information compiled in connection with investigative or Hotline activities, the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") will issue Management Alerts or Investigative Reports to Management ("IRMs"). Both Management Alerts and IRMs are intended to advise the Office of Financial Stability ("OFS") or the Department of Treasury about internal control weaknesses or other threats to the integrity of Troubled Asset Relief Program ("TARP"). Management Alerts are intended to advise program managers that SIGTARP has compiled preliminary data that does not currently appear to represent fraud, waste or abuse, but may nonetheless tend to indicate the existence of circumstances that could adversely impact the efficiency and efficacy of a program. Alternatively, IRMs are intended to advise that SIGTARP has compiled evidence through investigative fieldwork revealing internal control weaknesses or other vulnerabilities that have rendered a program susceptible to fraud, waste or abuse.

This Management Alert advises you of data compiled by the SIGTARP Hotline concerning complaints associated with the Making Home Affordable ("MHA") program. It offers no formal findings or recommendations because the data has undergone only preliminary analysis. However, in light of trends noted in the data, SIGTARP believes that OFS should evaluate it and, where appropriate, initiate remedial action. In that regard, SIGTARP offers the data and provides three suggestions.

The information described in this Management Alert may be used in ongoing or future SIGTARP audits or investigations.

Introduction

The SIGTARP Hotline was designed to facilitate the reporting of concerns, information, complaints, and allegations of violations of civil and criminal laws in connection with TARP-related programs. Since its inception the SIGTARP Hotline has received over 3,400 contacts.

More than 2,500 of these were related to the MHA program. Review and preliminary analysis of these contacts and affiliated complaints disclosed issues that, if accurate and left unchecked, could adversely affect program efficiency and efficacy.

Since SIGTARP has not conducted comprehensive analysis of this data it cannot state that all complaints were definitively related to the MHA program as opposed to other mortgage modification initiatives. However, since many of the complaints to the SIGTARP Hotline were related to the application process associated with homeowner mortgage modification, SIGTARP reasonably concluded that at least a large portion of the complaints were related to the MHA. Further, complaints that may have been related to other mortgage modification initiatives could reveal useful information about lenders and their agents generally.

All of the complaints relate to customer service or communications. With regard to mortgage servicing operators (Servicers), homeowner-applicants who contacted the SIGTARP Hotline complained about the quality of customer service and about communications practices generally. Additionally, homeowner-applicants complained about customer service provided by the HOPE Hotline

Complaints About Servicers

Customer Service:

Of the 2,500 MHA program contacts, 327 involved complaints about customer service. The majority of these complaints (258) focused on five of the currently 25 Servicers: Chase/Washington Mutual (87 complaints), OCWEN (61 complaints), Countrywide/Bank of America (51 complaints), Wells Fargo (26 complaints), Saxon (23 complaints), and Citi Mortgage (10 complaints). Further, we determined that customer service related complaints may be categorized into three areas: internal processes, conflicting or inconsistent information, and questionable practices.

With respect to Servicer internal processes, many homeowner-applicants complained that they had submitted their mortgage modification application several times and were told that their applications had been lost and that they should re-submit their applications. Often, the homeowner-applicants theorized that the Servicers were merely engaging in delay tactics, which they believed were designed to preclude their participation in the program and facilitate foreclosure of their home.

Regarding conflicting or inconsistent information about the MHA program, homeowner-applicants complained that:

- their Servicer advised them to stop making mortgage payments in order to qualify for participation in the MHA program;
- their mortgage was foreclosed upon while their MHA application paperwork was being processed by the Servicer;

- they were not informed by their Servicer of:
  - the interest rate associated with the proposed modification during the trial period;
  - the loan interest rate following the modification and successful completion of the trial period;
  - the total payment following the trial period;
  - whether the mortgage modification was guaranteed after a successful trial period; and
- their proposed payment plan under the modification was only minimally lower – and in some cases higher – than what they were formerly paying.

With respect to questionable practices, homeowner-applicants complained about two Servicers that required them to make an additional mortgage payment in order to qualify for the MHA program. For example, following the April 4, 2009, program start date, Servicers required April applicants to make an additional mortgage payment by April 20th. Thus, post-April 1st payments were required on April 20th, May 1st, June 1st and July 1st in order to successfully complete the program trial period. Similarly, May applicants were required to make an additional payment on May 20th, with payments to follow on June 1st, July 1st and August 1st. The homeowner-applicants questioned the purpose and disposition of the additional payments.

Communications:

Homeowner application packages are required to contain SIGTARP Hotline contact information in order to facilitate reporting allegations of possible waste, fraud and abuse. SIGTARP has determined, however, that certain Servicers failed to include or prominently display their contact information in the application packages. Consequently, hundreds of applications were misdirected by homeowner-applicants to the SIGTARP Hotline fax number.

SIGTARP has contacted all homeowner-applicants who mistakenly faxed their applications to the incorrect number due to Servicer communications failures. In each instance, the homeowner-applicants were notified of the error and instructed to contact their respective Servicer to ensure proper receipt of the application package.

Complaints About the HOPE Hotline

The SIGTARP Hotline has received many calls from prospective homeowner-applicants who have requested information about the MHA program and particularly the application process. SIGTARP previously discussed this situation with OFS, and was instructed by OFS to redirect such inquiries to the HOPE Hotline at 1-888-995-HOPE. After initiating this practice, many of the same prospective homeowner-applicants re-contacted the SIGTARP Hotline and expressed frustration over the quality of service they received from the HOPE Hotline. Specifically, they complained of being placed on hold for a very long period time, being transferred around to different staff, and simply being disconnected. They also complained that

when they spoke with HOPE Hotline staff, they believed that that the staff knew or understood little about the MHA program.

Suggestions

The following suggestions are provided for OFS's consideration:

1. Assess the accuracy of the complaints concerning Servicer customer service (i.e., internal processes, conflicting or inconsistent information, and questionable practices), and, if there is merit to any of the complaints, take remedial action;

2. Ensure that homeowner application packages prominently display contact information for the Servicer. Consider including the HOPE Hotline number in the application packages; and

3. Evaluate the accuracy of the complaints concerning the HOPE Hotline (i.e., long wait times, transfers, dropped calls, and lack of expertise), and, if there is merit to any of the complaints, take remedial action.

Please direct questions regarding this Management Alert to Supervisory Special Agent Paul Conlon at 202-927-9385.

Sincerely,

Christopher R. Sharpley
Deputy Special Inspector General
Investigations Division

Help for America's Homeowners

MAKING HOME AFFORDABLE

Supplemental Directive 09-07 ***October 8, 2009***

Home Affordable Modification Program – Streamlined Borrower Evaluation Process

Background

In Supplemental Directive 09-01, the Treasury Department (Treasury) announced the eligibility, underwriting and servicing requirements for the Home Affordable Modification Program (HAMP). Under HAMP, servicers apply a uniform loan modification process to provide eligible borrowers with affordable monthly payments for their first lien mortgage loans. This Supplemental Directive represents an ongoing effort to improve process efficiency by updating the borrower underwriting requirements in Supplemental Directive 09-01 and introducing revised model documentation for the program. The objectives of these changes are to streamline the program documentation requirements and standardize the evaluation process that servicers use to make a HAMP eligibility determination.

The significant changes described in this Supplemental Directive include:

- The creation of a standard MHA Request for Modification and Affidavit form (RMA) that incorporates borrower income and expense information, a revised Hardship Affidavit, the SIGTARP fraud notice and portions of the current Home Affordable Modification Trial Period Plan;
- Updated and simplified income documentation and verification requirements;
- The conversion of the current Trial Period Plan to a notice that does not require a borrower signature; and
- Standardized borrower response timeframes.

The changes under the heading "Borrower Income/Asset Documentation and Verification" in this Supplemental Directive are effective immediately for loans that are currently in a HAMP trial period where income has not yet been verified or for loans that are evaluated for HAMP on or after the date of this Supplemental Directive. The requirements under the heading "Servicer Response" in this Supplemental Directive are effective for loans that begin a trial period after the date of this Supplemental Directive. The new forms outlined in this document, with the exception of the RMA (the use of which is addressed below), may be utilized immediately but must be in use by March 1, 2010. Servicers should continue to use the Home Affordable Modification Cover Letter and Home Affordable Modification Agreement when providing the borrower with an agreement that outlines the terms of the final modification.

Standard MHA Request Form

Effective immediately, borrowers who want to be considered for HAMP may complete and submit to their servicer a RMA, a copy of which is attached to this Supplemental Directive as *Exhibit A*. All documents and forms described herein are posted on www.HMPadmin.com. The RMA, which includes a new borrower financial information section, is intended to replace in their entirety the current Hardship Affidavit and the SIGTARP notice, as well as elements from the current Trial Period Plan.

Servicers may require use of the RMA by all borrowers requesting consideration under HAMP or may continue to use other proprietary financial information forms that are substantially similar in content to the RMA. When provided by or on behalf of the borrower, the RMA must be accepted by servicers in lieu of any servicer specific form(s). When the RMA is not used, servicers must obtain an executed MHA Hardship Affidavit, an updated version of which (including the SIGTARP notice) is attached as *Exhibit B*. The use of "RMA" throughout the remainder of this Supplemental Directive shall refer to the RMA or its equivalent.

Borrower Income/Asset Documentation and Verification

The following information replaces in its entirety the guidance in Supplemental Directive 09-01, on pages 5 through 8, under the heading "Underwriting —Verifying Borrower Income and Occupancy Status." The portions of that section that are in *italics* below are not changed from Supplemental Directive 09-01 but are included here for ease of reference.

Verbal and Verified Income Analysis
There are two forms of Trial Period Plan Notices (TPP Notices) for use by servicers: stated income and verified income. They should be prepared as follows:

- Servicers may use recent verbal financial information obtained from the borrower (the term "borrower" includes any co-borrower) to assess the borrower's eligibility for a trial period plan. A servicer may rely on this information to prepare and send to the borrower a TPP Notice (stated income), attached as *Exhibit C*. Following receipt of a completed and signed RMA and income or other required documentation, the servicer must verify the borrower's financial information and eligibility, including completing a final Net Present Value (NPV) evaluation.

- As an alternative, a servicer may require a borrower to submit the RMA and all required income or other documentation to verify the borrower's financial information and eligibility prior to issuing a TPP Notice (verified income), attached as *Exhibit D*.

A borrower's income documentation may not be more than 90 days old as of the date that such documentation is received by the servicer in connection with evaluating a mortgage loan for HAMP. There is no requirement to refresh such documentation during the remainder of the trial period.

Debt to Income Calculation
The borrower will only qualify for HAMP if the verified income documentation confirms that the monthly mortgage payment ratio prior to the modification is greater than 31 percent. The "monthly mortgage payment ratio" is the ratio of the borrower's current monthly mortgage payment to the borrower's monthly gross income (or the borrowers' combined monthly gross income in the case of co-borrowers). The "monthly mortgage payment" includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees, as applicable (including any escrow payment shortage amounts subject to a repayment plan). When determining a borrower's monthly mortgage payment ratio, servicers must adjust the borrower's current mortgage payment to include, as applicable, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees if these expenses are not already included in the borrower's payment. The monthly mortgage payment does not include mortgage insurance premium payments or payments due to holders of subordinate liens.

Analysis of ARM Resets
With respect to adjustable rate loans where there is a rate reset scheduled within 120 days after the date of the evaluation (a "Reset ARM"), the monthly mortgage payment used to determine eligibility will be the greater of (i) the borrower's current scheduled monthly mortgage payment or (ii) a fully amortizing monthly mortgage payment based on the note reset rate using the index value as of the date of the evaluation (the "Reset Interest Rate"). With respect to adjustable rate loans that reset more than 120 days after the date of the evaluation, the borrower's current scheduled monthly mortgage payment will be used to determine eligibility.

Monthly Gross Income
The borrower's "monthly gross income" is the borrower's income amount before any payroll deductions and includes wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payments, including Social Security and adoption subsidies *received by adults on behalf of minors or by minors intended for their own support, and monthly income from annuities, insurance policies, retirement funds, pensions, disability or death benefits, unemployment benefits, rental income and other income. If only net income is available, the servicer must multiply the net income amount by 1.25 to estimate the monthly gross income.* All non-taxed income, including non-taxed social security income, is considered net income.

Servicers should include non-borrower household income in monthly gross income if it is voluntarily provided by the borrower and if there is documentary evidence that the income has been, and reasonably can continue to be, relied upon to support the mortgage payment. All non-borrower household income included in monthly gross income must be documented and verified by the servicer using the same standards for verifying a borrower's income.

The servicer may not require a borrower to make an up-front cash contribution (other than the first trial period payment) for the borrower to be considered for HAMP.

Information Documentation
Servicers are responsible for determining that any information provided by the borrower and which is needed to evaluate the request is complete and accurate. Servicers should request that the borrower provide the documentation listed below, but may, consistent with investor guidelines, substitute other reliable forms of verification when appropriate.

IRS Form 4506-T
All borrowers must provide a signed and completed IRS Form 4506-T (Request for Transcript of Tax Return). A servicer must submit the borrower's Form 4506-T to the IRS for processing unless the borrower provides a signed copy of his or her most recent federal income tax return, including all schedules and forms (the federal income tax return and all schedules and forms shall be referred to herein as the federal income tax return). A servicer also must submit the borrower's Form 4506-T to the IRS for processing when required by the Compliance Agent.

The servicer should review the tax information for all borrowers to help verify income and identify discrepancies. If the tax information identifies income relevant to the HAMP decision that the borrower did not disclose on the RMA, the servicer must obtain other documentation to reconcile the inconsistency. In resolving inconsistencies servicers must use reasonable business judgment to determine whether such income is no longer being earned or has been reduced to the amounts disclosed on an RMA.

Credit Report and Occupancy Verification
In all cases, the servicer must obtain a credit report for each borrower or a joint report for a married couple who are co-borrowers to validate installment debt and other liens as described on page 10 of Supplemental Directive 09-01. Servicers should use the credit report to confirm that the property securing the mortgage loan is the borrower's principal residence. The servicer is no longer required to verify the borrower's principal residence using other documentation. If the credit report is inconsistent with other information provided by the borrower, the servicer must reconcile the inconsistency.

Income Documentation
Based on the type and source of a borrower's income, the servicer will obtain and review the following documents to verify borrower financial information:

- **Tax Return.** A borrower in imminent default may, in accordance with investor guidelines, be required to provide a signed copy of his or her most recent federal income tax return. All other borrowers may elect to provide signed federal income tax returns but are not required to do so. Whenever a borrower does not provide a tax return, the servicer must obtain the borrower's tax return transcript by submitting the borrower's Form 4506-T to the IRS for processing as provided above.

- **Employment Income.** Copies of the two most recent paystubs indicating year-to-date earnings.

- **Self-employment Income.** The most recent quarterly or year-to-date profit and loss statement for each self-employed borrower.

- **Other earned income** (e.g., bonus, commission, fee, housing allowance, tips, overtime). Reliable third party documentation describing the nature of the income (e.g. an employment contract or printouts documenting tip income).

- **Benefit Income** (e.g., social security, disability, death benefits, pension, public assistance, adoption assistance). Evidence of (i) the amount and frequency of the benefits such as letters, exhibits, a disability policy or benefits statement from the provider, **and** (ii) receipt of payment, such as copies of the two most recent bank statements showing deposit amounts.

- **Unemployment Benefits.** Evidence of the amount, frequency and duration of the benefits (usually obtained through a monetary determination letter). The unemployment income must continue for at least nine months from the date of the application. The duration of benefit eligibility – including federal and state extensions – may be evidenced by a screenshot or printout from the Department of Labor UI benefit tool, which is available at http://www.ows.doleta.gov/unemploy/ben_entitle.asp.

- **Rental income.** Rental income should be documented through the Schedule E – Supplemental Income and Loss of the most recent tax year. If the borrower is using income from the rental of a portion of the borrower's principal residence, the income should be calculated at 75 percent of the monthly gross rental income, with the remaining 25 percent considered vacancy loss and maintenance expense. If the borrower is using rental income from properties other than the borrower's principal residence, the income to be calculated for HAMP purposes should be 75 percent of the monthly gross rental income, reduced by the monthly debt service on the property (i.e., principal, interest, taxes, insurance, including mortgage insurance, and association fees), if applicable. The needed tax forms can be obtained either through a signed and executed 4506-T or the signed copy of the most recent federal income tax return if provided by the borrower.

- **Alimony, Separation Maintenance, and Child Support Income.** Borrowers are not required to use alimony, separation maintenance or child support income to qualify for HAMP. However, if the borrower chooses to provide this income, it should be documented with (i) copies of the divorce decree, separation agreement or other legal written agreement filed with a court, or a court decree that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received, and (ii) evidence of receipt of payment, such as copies of the two most recent bank statements showing deposit amounts.

- **20% Threshold for Passive and Non-Wage Income.** Notwithstanding the foregoing, all passive and non-wage income (including rental, part-time employment, bonus/tip, investment and benefit income) **does not have to be documented if the borrower declares such income** and it constitutes less than 20% of the borrower's total income.

Property Valuation Documentation
Page 5 of Supplemental Directive 09-01 describes requirements for assessing property value for use in the NPV model. This supplemental directive amends the aging requirement for property valuation documentation. Property value information must be less than 90 days old on the date the servicer first evaluates the borrower for a HAMP trial period plan using the NPV model. The information will remain valid for the duration of the trial period and does not need to be updated for any subsequent NPV evaluation.

Document Perfection
Servicers must use good business judgment when determining the level of perfection of the verification documents. Servicers may elect to accept documents with imperfections (blank fields, erasures, use of correction tape, inaccurate dates, etc.) if the servicer determines that the imperfections are immaterial to the business decision, are not indicative of fraud and do not impact the servicer's ability to verify the completeness and accuracy of the borrower's financial representations.

Borrower Signatures
Unless a borrower or co-borrower is deceased or divorced, all parties who signed the original loan documents or their duly authorized representative(s) should sign the HAMP documents. Servicers may encounter circumstances where a co-borrower signature is not obtainable, for reasons such as mental incapacity, military deployment or contested divorce. Servicer should look to investor guidance when determining whether to accept a document without a co-borrower's signature.

Electronic Submission
For all documents required by Treasury (other than for IRS Form 4506-T), electronic submission and signatures are acceptable.

Fraud Detection
Servicers should not modify a mortgage loan if there is reasonable evidence indicating the borrower submitted income information that is false or misleading or if the borrower otherwise engaged in fraud in connection with the modification.

Fannie Mae, in its capacity as a financial agent for the Treasury, will establish a fraud detection surveillance procedure using reported trial period data. When discrepancies or potential misrepresentations are identified, servicers will be notified during the trial period and will be required to take appropriate action to resolve the discrepancy prior to executing a final modification.

Document Retention
The document retention requirements described on pages 13 and 14 of Supplemental Directive 09-01 remain in effect. Additionally, servicers must make all documentation related to HAMP program available to Freddie Mac, as compliance agent for Treasury.

Trial Period Plan Notices

As described above, revised and updated TPP Notices are attached and replace the current cover letters and current Trial Period Plan. The TPP Notices describe the terms and conditions of the trial period plan and must be sent to borrowers as noted below in the section titled, "Servicer

Response". Borrowers are not required to sign or return the TPP Notice. Servicers should retain a copy of the TPP Notice in the borrower file and note the date that it was sent to the borrower. Timely receipt of the first payment under the TPP Notice is evidence of the borrower's acceptance of the trial period plan and its terms and conditions.

A borrower in a trial period plan who makes all required trial period payments, but does not sign and return current trial period plan prior to the end of the trial period, may receive a HAMP modification as long as the servicer has received all required trial period plan payments and all other HAMP-required documentation from the borrower, including a fully executed Home Affordable Modification Agreement.

Servicer Response

Within 10 business days following receipt of borrower financial information verbally or in a completed RMA, the servicer must acknowledge the borrower's request for HAMP participation by sending the borrower one of the following documents:

- The stated income TPP Notice -- if the servicer is evaluating borrower eligibility based on verbal income information and is prepared to offer the borrower a trial period plan.
- A written notice with information describing HAMP and including appropriate forms and a list of verification documents and a specific date by which documentation must be received -- if the servicer is evaluating borrower eligibility based on verified income information.
- If the servicer determines that a borrower cannot be approved for a trial period plan, the servicer must communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative.

Within 30 calendar days following the servicer's receipt of a completed RMA, Form 4506-T and all required income and other information (including all required documentation and either the borrower's tax transcript or tax return when using the verified approach), the servicer must complete its evaluation of borrower eligibility and notify the borrower of its determination as follows:

- If the servicer determines that the borrower is approved for a trial period plan, the servicer must either:
  - Send a TPP Notice (verified income) to the borrower, or
  - If the borrower is currently in a trial period plan pursuant to a stated income TPP Notice, send a written notice that the borrower has been approved for a HAMP modification pending timely receipt of all trial period payments.
- If the servicer determines that a borrower cannot be approved for a trial period plan, the servicer must communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative.

Exhibit A
MHA Request for Modification and Affidavit

MAKING HOME AFFORDABLE.gov

Making Home Affordable Program

Request For Modification and Affidavit (RMA)

Loan I.D. Number _____

I want to: ☐ **Keep the Property** ☐ **Sell the Property**
The property is my: ☐ **Primary Residence** ☐ **Second Home** ☐ **Investment**
The property is: ☐ **Owner Occupied** ☐ **Renter occupied** ☐ **Vacant**

BORROWER		**CO-BORROWER**	
BORROWER'S NAME		CO-BORROWER'S NAME	
SOCIAL SECURITY NUMBER	DATE OF BIRTH	SOCIAL SECURITY NUMBER	DATE OF BIRTH
HOME PHONE NUMBER WITH AREA CODE		HOME PHONE NUMBER WITH AREA CODE	
CELL OR WORK NUMBER WITH AREA CODE		CELL OR WORK NUMBER WITH AREA CODE	
MAILING ADDRESS			
PROPERTY ADDRESS (IF SAME AS MAILING ADDRESS, JUST WRITE SAME)		EMAIL ADDRESS	

Is the property listed for sale? ☐ Yes ☐ No
Have you received an offer on the property? ☐ Yes ☐ No
Date of offer _____ Amount of Offer $_____
Agent's Name:
Agent's Phone Number:
For Sale by Owner? ☐ Yes ☐ No

Have you contacted a credit-counseling agency for help?
☐ Yes ☐ No
If yes, please complete counselor contact information below.
Counselor's Name:
Counselor's Phone Number:
Counselor's Email:

Who pays the Real Estate Tax bill on your property?
☐ I do ☐ Lender does
Are the taxes current? ☐ Yes ☐ No
Condominium or HOA Fee ☐ Yes ☐ No $ _____
Paid to: _____

Who pays the hazard insurance policy for your property?
☐ I do ☐ Lender Does ☐ Paid by Condo or HOA
Is the policy current? ☐ Yes ☐ No
Name of Insurance Co. _____
Insurance Co. Tel #: _____

Have you filed for bankruptcy? Yes ☐ No ☐ If yes: ☐ Chapter 7 ☐ Chapter 13 Filing Date:_____
Has your bankruptcy been discharged? ☐ Yes ☐ No Bankruptcy case number _____

If there are additional Liens/Mortgages or Judgments on this property, please name the person(s), company or firm and their telephone numbers.

Lien Holder's Name/Servicer	Balance	Contact Number	Loan Number

HARDSHIP AFFIDAVIT (use back of request for explanation IF necessary)

I (We) am/are requesting review under the Making Home Affordable program. I am having difficulty making my monthly payment because of financial difficulties created by *(Please check all that apply):*

☐ **My** household income has been reduced. For example unemployment, underemployment, reduced pay or hours, decline in business earnings, death, disability or divorce of a borrower or co-borrower.

☐ **My** monthly debt payments are excessive and I am overextended with my creditors. Debt includes credit cards, home equity or other debt.

☐ **My** expenses have increased. For example: monthly mortgage payment reset, high medical or health care costs, uninsured losses, increased utilities or property taxes.

☐ **My** cash reserves, including all liquid assets, are insufficient to maintain my current mortgage payment and cover basic living expenses at the same time.

☐ Other _____

Explanation (continue on back of page 3 if necessary): _____

_____

INCOME/EXPENSES FOR HOUSEHOLD*

Number of People in Household _____

1 Monthly Household Income		2 Monthly Household Expenses/Debt		3 Household Assets	
Monthly Gross wages	$	First Mortgage Payment	$	Checking Account(s)	$
Overtime	$	Second Mortgage Payment	$	Checking Account(s)	$
Child Support / Alimony*	$	Insurance	$	Saving s/ Money Market	$
Social Security/SSDI	$	Property Taxes	$	CDs	$
Other monthly income from pensions, annuities or retirement plans	$	Credit Cards / Installment Loan(s) (total minimum payment per month)	$	Stocks / Bonds	$
Tips, commissions, bonus and self-employed income	$	Alimony, child support payments	$	Other Cash on Hand	$
Rents Received	$	Net Rental Expenses	$	Other Real Estate (estimated value)	$
Unemployment Income	$	HOA/Condo Fees/Property Maintenance	$	Other _____	$
Food Stamps/Welfare	$	Car Payments	$		$
Other (investment income, royalties, interest, dividends etc) _____	$	Other _____ _____	$	Do not include the value of life insurance or retirement plans when calculating assets (401k, pension funds, annuities, IRAs, Keogh plans, etc.)	
Total (Gross income)	**$**	**Total Debt/Expenses**	**$**	**Total Assets**	**$**

*** * * * * ALL INCOME MUST BE DOCUMENTED * * * * * ***

*** Include combined income and expenses from the borrower and co-borrower (if any). If you include income and expenses from a household member who is not a borrower please specify using the back of this form if necessary. You are not required to disclose Child Support, Alimony or Separation Maintenance income, unless you choose to have it considered by your servicer.**

INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the federal government in order to monitor compliance with federal statutes that prohibit discrimination in housing. **You are not required to furnish this information, but are encouraged to do so. The law provides that a lender or servicer may not discriminate either on the basis of this information, or on whether you choose to furnish it.** If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, the lender or servicer is required to note the information on the basis of visual observation or surname if you have made this request for a loan modification in person. **If you do not wish to furnish the information, please check the box below.**

BORROWER ☐ I do not wish to furnish this information		**CO-BORROWER** ☐ I do not wish to furnish this information	
Ethnicity:	☐ Hispanic or Latino ☐ Not Hispanic or Latino	**Ethnicity:**	☐ Hispanic or Latino ☐ Not Hispanic or Latino
Race:	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	**Race:**	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Sex:	☐ Female ☐ Male	**Sex:**	☐ Female ☐ Male

To be Completed by Interviewer	Interviewer's Name (print or type) & ID Number	Name/Address of Interviewer's Employer
This application was taken by: ☐ Face-to-face interview ☐ Mail ☐ Telephone ☐ Internet	Interviewer's Signature Date _____ Interviewer's Phone Number (include area code)	

ACKNOWLEDGEMENT AND AGREEMENT

In making this request for consideration under the Making Home Affordable Program I certify under penalty of perjury:

1. That all of the information in this document is truthful and the event(s) identified on page 1 is/are the reason that I need to request a modification of the terms of my mortgage loan, short sale or deed-in-lieu of foreclosure.
2. I understand that the Servicer, the U.S. Department of the Treasury, or its agents may investigate the accuracy of my statements, may require me to provide supporting documentation. I also understand that knowingly submitting false information may violate Federal law.
3. I understand the Servicer will pull a current credit report on all borrowers obligated on the Note.
4. I understand that if I have intentionally defaulted on my existing mortgage, engaged in fraud or misrepresented any fact(s) in connection with this document, the Servicer may cancel any Agreement under Making Home Affordable and may pursue foreclosure on my home.
5. That: my property is owner-occupied; I intend to reside in this property for the next twelve months; I have not received a condemnation notice; and there has been no change in the ownership of the Property since I signed the documents for the mortgage that I want to modify.
6. I am willing to provide all requested documents and to respond to all Servicer questions in a timely manner.
7. I understand that the Servicer will use the information in this document to evaluate my eligibility for a loan modification or short sale or deed-in-lieu of foreclosure, but the Servicer is not obligated to offer me assistance based solely on the statements in this document.
8. I understand that the Servicer will collect and record personal information, including, but not limited to, my name, address, telephone number, social security number, credit score, income, payment history, government monitoring information, and information about account balances and activity. I understand and consent to the disclosure of my personal information and the terms of any Making Home Affordable Agreement by Servicer to (a) the U.S. Department of the Treasury, (b) Fannie Mae and Freddie Mac in connection with their responsibilities under the Homeowner Affordability and Stability Plan; (c) any investor, insurer, guarantor or servicer that owns, insures, guarantees or services my first lien or subordinate lien (if applicable) mortgage loan(s); (d) companies that perform support services in conjunction with Making Home Affordable; and (e) any HUD certified housing counselor.

_____ _____ _____ _____

Borrower Signature Date Co-Borrower Signature Date

If you have questions about this document or the modification process, please call your servicer at _____. If you have questions about the program that your servicer cannot answer or need further counseling, you can call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673). The Hotline can help with questions about the program and offers free HUD-certified counseling services in English and Spanish.

888-995-HOPE™
Homeowner's HOPE™ Hotline

NOTICE TO BORROWERS

Be advised that you are signing the following documents under penalty of perjury. Any misstatement of material fact made in the completion of these documents including but not limited to misstatement regarding your occupancy in your home, hardship circumstances, and/or income will subject you to potential criminal investigation and prosecution for the following crimes: perjury, false statements, mail fraud, and wire fraud. The information contained in these documents is subject to examination and verification. Any potential misrepresentation will be referred to the appropriate law enforcement authority for investigation and prosecution.
By signing the enclosed documents you certify, represent and agree that:
"Under penalty of perjury, all documents and information I have provided to Lender in connection with this Agreement, including the documents and information regarding my eligibility for the program, are true and correct."

If you are aware of fraud, waste, abuse, mismanagement or misrepresentations affiliated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline by calling **1-877-SIG-2009** (toll-free), 202-622-4559 (fax), or www.sigtarp.gov. Mail can be sent to Hotline Office of the Special Inspector General for Troubled Asset Relief Program, 1801 L St. NW, Washington, DC 20220.

Exhibit B
MHA Hardship Affidavit

MAKING HOME AFFORDABLE.gov

Making Home Affordable Program
Hardship Affidavit

BORROWER'S NAME		CO-BORROWER'S NAME	
SOCIAL SECURITY NUMBER	DATE OF BIRTH	SOCIAL SECURITY NUMBER	DATE OF BIRTH
LOAN SERVICER		LOAN NUMBER	
PROPERTY ADDRESS (include city, state and zip):			

I want to: ☐ **Keep the Property** ☐ **Sell the Property**
The property is my: ☐ **Primary Residence** ☐ **Second Home** ☐ **Investment Property**
The property is: ☐ **Owner Occupied** ☐ **Renter occupied** ☐ **Vacant**

HARDSHIP AFFIDAVIT

I (We) am/are requesting review under the Making Home Affordable program. I am having difficulty making my monthly payment because of financial difficulties created by *(Please check all that apply):*

☐ **My** household income has been reduced. For example unemployment, underemployment, reduced pay or hours, decline in business earnings, death, disability or divorce of a borrower or co-borrower.

☐ **My** monthly debt payments are excessive and I am overextended with my creditors. Debt includes credit cards, home equity or other debt.

☐ **My** expenses have increased. For example: monthly mortgage payment reset, high medical or health care costs, uninsured losses, increased utilities or property taxes.

☐ **My** cash reserves, including all liquid assets, are insufficient to maintain the payment on my mortgage loan and cover basic living expenses at the same time.

☐ Other _____

Explanation (attach another page if necessary): _____ _____

_____

INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the federal government in order to monitor compliance with federal statutes that prohibit discrimination in housing. **You are not required to furnish this information, but are encouraged to do so. The law provides that a lender or servicer may not discriminate either on the basis of this information, or on whether you choose to furnish it.** If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, the lender or servicer is required to note the information on the basis of visual observation or surname if you have made this request for a loan modification in person. **If you do not wish to furnish the information, please check the box below.**

BORROWER ☐ I do not wish to furnish this information		**CO-BORROWER** ☐ I do not wish to furnish this information	
Ethnicity:	☐ Hispanic or Latino ☐ Not Hispanic or Latino	**Ethnicity:**	☐ Hispanic or Latino ☐ Not Hispanic or Latino
Race:	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	**Race:**	☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Sex:	☐ Female ☐ Male	**Sex:**	☐ Female ☐ Male

To be Completed by Interviewer	Interviewer's Name (print or type) & ID Number	Name/Address of Interviewer's Employer
This application was taken by:		
☐ Face-to-face interview ☐ Mail ☐ Telephone ☐ Internet	Interviewer's Signature Date _____ Interviewer's Phone Number (include area code)	

ACKNOWLEDGEMENT AND AGREEMENT

In making this request for consideration under the Making Home Affordable Program I certify under penalty of perjury:

1. That all of the information in this document is truthful and the event(s) identified on page 1 is/are the reason that I need to request a modification of the terms of my mortgage loan, short sale or deed-in-lieu of foreclosure.
2. I understand that the Servicer, the U.S. Department of the Treasury, or its agents may investigate the accuracy of my statements, may require me to provide supporting documentation, and that knowingly submitting false information may violate Federal law and may result in foreclosure.
3. I understand the Servicer will pull a current credit report on all borrowers obligated on the Note.
4. I understand that if I have intentionally defaulted on my existing mortgage, engaged in fraud or misrepresented any fact(s) in connection with this document, the Servicer may cancel any Agreement under the Home Affordable Modification Program and may pursue foreclosure on my home.
5. I certify that: my property is owner-occupied; I intend to reside in this property for the next twelve months; I have not received a condemnation notice; and there has been no change in the ownership of the Property since I signed the documents for the mortgage that I want to modify.
6. I am willing to provide all requested documents and to respond to all Servicer questions in a timely manner.
7. I understand that the Servicer will use the information in this document to evaluate my eligibility for a loan modification or short sale or deed-in-lieu of foreclosure, but the Servicer is not obligated to offer me assistance based solely on the statements in this document.
8. I understand that Servicer will collect and record personal information, including, but not limited to, my name, address, telephone number, social security number, credit score, income, payment history, government monitoring information, and information about account balances and activity. I understand and consent to the disclosure of my personal information and the terms of any Making Home Affordable Agreement by Servicer to (a) the U.S. Department of the Treasury, (b) Fannie Mae and Freddie Mac in connection with their responsibilities under the Homeowner Affordability and Stability Plan; (c) any investor, insurer, guarantor or servicer that owns, insures, guarantees or services my first lien or subordinate lien (if applicable) mortgage loan(s); (d) companies that perform support services in conjunction with Making Home Affordable; and (e) any HUD certified housing counselor.

_____ _____ _____ _____
Borrower Signature Date Co-Borrower Signature Date

If you have questions about this document or the modification process, please call your servicer at _____. If you have questions about the program that your servicer cannot answer or need further counseling, you can call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673). The Hotline can help with questions about the program and offers free HUD-certified counseling services in English and Spanish.

888-995-HOPE™
Homeowner's HOPE™ Hotline

NOTICE TO BORROWERS

Be advised that you are signing the following documents under penalty of perjury. Any misstatement of material fact made in the completion of these documents including but not limited to misstatement regarding your occupancy in your home, hardship circumstances, and/or income will subject you to potential criminal investigation and prosecution for the following crimes: perjury, false statements, mail fraud, and wire fraud. The information contained in these documents is subject to examination and verification. Any potential misrepresentation will be referred to the appropriate law enforcement authority for investigation and prosecution.
By signing the enclosed documents you certify, represent and agree that:
"Under penalty of perjury, all documents and information I have provided to Lender in connection with this Agreement, including the documents and information regarding my eligibility for the program, are true and correct."

If you are aware of fraud, waste, abuse, mismanagement or misrepresentations affiliated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline by calling **1-877-SIG-2009** (toll-free), 202-622-4559 (fax), or www.sigtarp.gov. Mail can be sent to Hotline Office of the Special Inspector General for Troubled Asset Relief Program, 1801 L St. NW, Washington, DC 20220.

Exhibit C
Trial Period Plan Notice (Stated Income)

HELPING YOU STAY IN YOUR HOME. MAKING HOME AFFORDABLE℠

You may be able to make your payments more affordable..
Act now to get the help you need!

[Servicer Logo]

[Date]

[Name]
[Address 1]
[Address 2]

[Loan number]

Dear _____

Congratulations! You are approved to enter into a trial period plan under the Home Affordable Modification Program! This is the first step towards lowering your mortgage payments. Please read this letter so that you understand all the steps you need to take now to lower your mortgage payments permanently.

What do I need to do first?
To accept this offer, you must make a new monthly payment of $_____ for the next three months of the trial period. This payment is due on the **first day** of each month. So your first payment is due _____, your second payment is due _____ and your third payment is due _____. Send these payments instead of your normal monthly mortgage payment.

Why is there a trial period?
The trial period offers you immediate payment relief while we process the paperwork to determine if we can offer you a permanent loan modification. It also gives you time to make sure that you can manage the lower monthly mortgage payment. Please note that your existing loan and its requirements remain in effect and unchanged during the trial period.

How do I get a permanent modification?
If you do not make each trial period payment in the month in which it is due, your loan may not be modified under the Home Affordable Modification Program.

In addition to making your trial period payments on time, you must send copies of all the documents that are checked below to _____, no later than _____ so that we can verify the financial information you already provided to us. Use the return envelope provided for your convenience. **If the documents are not received by [insert the due date again], this offer will end and your loan will not be modified.**

- ☐ **1.** Your first trial period payment of $ _____,
- ☐ **2.** The enclosed [*Select one*] MHA Request for Modification & Affidavit (RMA) OR MHA Hardship Affidavit form completed and signed by all borrowers, and
- ☐ **3.** Signed and dated copy of the enclosed IRS Form 4506-T (Request for Transcript of Tax Return) for each borrower (borrowers who filed their tax returns jointly may send in one IRS Form 4506-T signed and dated by both of the joint filers), and

☐ **4.** Documentation that will be used by us to verify the income of each borrower. This documentation includes:

For each borrower who receives a salary or hourly wages:

- ☐ Copy of your two most recent pay stubs that show year-to-date earnings.

For each borrower who is self-employed:

- ☐ Most recent quarterly or year-to-date profit/loss statement.

For each borrower who has income such as social security, disability or death benefits, pension, adoption assistance, public assistance, or unemployment:

- ☐ Copy of benefits statement or letter from the provider that states the amount, frequency and duration of the benefit, and
- ☐ Two most recent bank statements showing receipt of such payment.

For each borrower who is relying on alimony or child support as qualifying income*:

- ☐ Copy of divorce or other court decree; or separation agreement or other written agreement filed with the court that states the amount and period of time over which it will be received, and
- ☐ Two most recent bank statement showing receipt of such payment.

* You are not required to disclose Child Support, Alimony or Separation Maintenance income, unless you choose to have it considered by your servicer.

For borrowers who are current on their mortgage payments: [*Optional – delete if not required by investor*]

- ☐ Copies of the most recently filed signed federal tax return with all schedules, including Schedule E—Supplemental Income and Loss.

If you have other types of income, cannot locate the required documents, or have questions about the paperwork required, please contact us at [1.000.000.0000].

Keep a copy of all documents for your records. Don't send original income documentation.

IF YOU DO NOT MAKE YOUR TRIAL PERIOD PAYMENTS OR DO NOT PROVIDE ALL REQUIRED, SIGNED AND COMPLETED DOCUMENTATION FOR EACH BORROWER ON TIME, WE WILL NOT BE ABLE TO DETERMINE WHETHER YOU QUALIFY FOR THE HOME AFFORDABLE MODIFICATION PROGRAM.

If you have further questions about this trial period plan or the program, please call your servicer at

XXX-XXX-XXXX

Homeowner's HOPE™ Hotline

If you have questions about the program that your servicer cannot answer or need further counseling, call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673). The Hotline can help with questions about the program and offers access to free HUD-certified counseling services in English and Spanish.

888-995-HOPE™ Homeowner's HOPE™ Hotline

If you are aware of fraud, waste, mismanagement, or misrepresentations affiliated with the Troubled Asset Relief Program, please contact SIGTARP at 1-877-SIG-2009 (toll-free), 202-622-4559 (fax), or www.sigtarp.gov. Mail can be sent to Hotline Office of the Special Inspector General for Troubled Asset Relief Program, 1801 L St. NW, Washington, DC 20220.

Additional Information

What else should I know about this offer?

- If you make your new payments timely and submit the paperwork by the deadline, we will not conduct a foreclosure sale.
- You will not be charged any fees for this trial period plan or final modification.
- If your loan is modified, we will waive all unpaid late charges.
- Your credit score may be affected by accepting a trial period offer or modification. For more information about your credit score please go to http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.shtm.
- You may be required to attend credit counseling.

How was my new payment in the trial period determined?

Your trial period payment is approximately 31% of your total gross monthly income, which you told us was $_____. The new payment includes principal and interest and an escrow amount of $_____ to pay property taxes, insurance and other permissible escrow fees. If we were able to modify your loan today, based on the information you gave us, we estimate your modified interest rate would be ____%. If we modify your loan permanently after the trial period, the interest rate may be different due to a variety of factors that affect the terms of your final modification. If you did not have an escrow account before, the timing of your tax and insurance bills may require that you make a payment to cover any such bills when they come due. This is known as an escrow shortage. Your loan has an escrow shortage of $_____; this can either be paid in a lump sum when the loan is modified or over the next ____ years (or _____ months). If you wish to pay the total shortage as a lump sum, please contact us.

What happens if my verified income is different from the amount I told you verbally?

During the trial period, we will verify your income based on the documentation you must provide. Your verified income will determine your eligibility for a permanent modification and its final terms. If your verified income is significantly higher than the income you told us, you may have to restart your trial period with a larger payment based on that higher income. Also, if your verified income is different from the amount you gave us verbally, you may no longer be eligible for a Home Affordable Modification.

When will I know if my loan can be modified permanently and how will the modified loan balance be determined?

Once we confirm you are eligible for a Home Affordable Modification and you make all of your trial period payments on time, we will send you a modification agreement detailing the terms of the modified loan. Any difference between the amount of the trial period payments and your regular mortgage payments will be added to the balance of your loan along with any other past due amounts as permitted by your loan documents. While this will increase the total amount that you owe, it should not significantly change the amount of your modified mortgage payment as that is determined based on your total monthly gross income, not your loan balance.

Are there incentives that I may qualify for if am current with my new payments?

Once your loan is modified, you can earn a pay-for-success incentive for every month that you make on-time payments beginning with the trial period Payments. Depending on your modified monthly payment, you may accrue up to $1,000 each year for five years for a total of $5,000. This important benefit, *which will be applied to your principal balance each year after the anniversary date of your first trial period payment due date,* will help you earn equity in your home by reducing the amount that you owe. However, you must remain current on your loan. You will lose this benefit if your modified loan becomes 90 days delinquent.

Will my interest rate and principal and interest payment be fixed after my loan is permanently modified?

Once your loan is modified, your interest rate and monthly principal and interest payment will be fixed for the life of your mortgage **unless** your initial modified interest rate is below current market interest rates. In that case, the below market interest rate will be fixed for five years. At the end of the fifth year, your interest rate may increase by 1% per year until it reaches a cap. The cap will equal the market rate of interest being charged

by mortgage lenders on the day your modification agreement is prepared (the Freddie Mac Primary Mortgage Market Survey Rate for 30-year, fixed-rate conforming mortgages). Once your interest rate reaches the cap, it will be fixed for the remaining life of your loan. Like your trial period payment, your new monthly payment will also include an escrow for property taxes, hazard insurance and other escrowed expenses. If the cost of your homeowner's insurance, property tax assessment or other escrowed expenses increases, your monthly payment will increase as well.

If you have any questions or if you cannot afford the trial period payments shown above, but want to remain in your home, or if you have decided to leave your home but still want to avoid foreclosure, please call us at ###-###-####. We may be able to help you.

Additional Trial Period Plan Information and Legal Notices

The terms of your trial period plan below are effective on the day you make your first trial period payment, provided you have paid it on or before _____. You and we agree that:

- We will not proceed to foreclosure sale during the trial period, provided you are complying with the terms of the trial period plan, except as detailed below:
    - During trial period, any pending foreclosure action or proceeding will not be dismissed and may be immediately resumed if you fail to comply with the terms of the Trial Period Plan or do not qualify for a modification. A new notice of default, notice of intent to accelerate, notice of acceleration, or similar notice will not be necessary to continue the foreclosure action (foreclosure notices). You waive any and all rights to receive such foreclosure notices to the extent permitted by applicable law. However, if your property is located in Georgia, Hawaii, Missouri, or Virginia and a foreclosure sale is currently scheduled, the foreclosure sale will not be suspended and foreclosure may proceed if you do not make each and every trial period payment that is due through the end of the month preceding the month in which the foreclosure sale is scheduled to occur. For example, if a foreclosure sale is scheduled in February and you do not make your January and any earlier required trial period payment by the end of January, the foreclosure sale may proceed in these four states. If a foreclosure sale occurs pursuant to this provision, the Trial Period Plan will be deemed to have terminated.
- During the trial period, we may accept and post your trial period payments to your account and it will not affect foreclosure proceedings that have already been started.
    - The servicer's acceptance and posting of your new payment during the trial period will not be deemed a waiver of the acceleration of your loan or foreclosure action and related activities, and shall not constitute a cure of your default under your loan unless such payments are sufficient to completely cure your entire default under your loan.
- If your monthly payment did not include escrows for taxes and insurance, you are now required to do so:
    - You agree that any prior waiver that allowed you to pay directly for taxes and insurance is revoked. You agree to establish an escrow account and to pay required escrows into that account.
- Your current loan documents remain in effect; however, you may make the trial period payment instead of the payment required under your loan documents:
    - You agree that all terms and provisions of your current mortgage note and mortgage security instrument remain in full force and effect and you will comply with those terms; and that nothing in the Trial Period Plan shall be understood or construed to be a satisfaction or release in whole or in part of the obligations contained in the loan documents.

Exhibit D
Trial Period Plan Notice (Verified Income)

HELPING YOU STAY IN YOUR HOME. MAKING HOME AFFORDABLE

You may be able to make your payments more affordable.
Act now to get the help you need!

[Servicer Logo]

[Date]

[Name]
[Address 1] [Loan number]
[Address 2]

Dear _____

Congratulations! You are approved to enter into a trial period plan under the Making Home Affordable program! This is the first step towards lowering your mortgage payments. Please read this letter so that you understand all the steps you need to take now to lower your mortgage payments permanently.

What do I need to do first?
To accept this offer, you must make a new monthly payment of $_____ for the next three months of the trial period. This payment is due on the first day of each month. So your first payment is due _____, your second payment is due _____ and your third payment is due _____. Send these payments instead of your normal monthly mortgage payment.

Why is there a trial period?
The trial period offers you immediate payment relief and it gives you time to make sure that you can manage the lower monthly mortgage payment. Please note that your existing loan and its requirements remain in effect and unchanged during the trial period.

How do I get a permanent modification?
You must make all of your trial period payments by their due dates; if you do not make each of your trial period payments in the month in which it is due, **your loan will not be modified under Making Home Affordable**.

If you have further questions about this trial period plan or the program, please call your servicer at XXX-XXX-XXXX

Homeowner's HOPE™ Hotline
If you have questions about the program that your servicer cannot answer or need further counseling, call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673). The Hotline can help with questions about the program and offers access to free HUD-certified counseling services in English and Spanish.

888-995-HOPE™ Homeowner's HOPE™ Hotline

If you are aware of fraud, waste, mismanagement, or misrepresentations affiliated with the Troubled Asset Relief Program, please contact SIGTARP at 1-877-SIG-2009 (toll-free), 202-622-4559 (fax), or www.sigtarp.gov. Mail can be sent to Hotline Office of the Special Inspector General for Troubled Asset Relief Program, 1801 L St. NW, Washington, DC 20220.

Additional Information

What else should I know about this offer?
- If you make your new payments timely, we will not conduct a foreclosure sale.
- You will not be charged any fees for this Trial Period Plan or final modification.
- If your loan is modified, we will waive all unpaid late charges.
- Your credit score may be affected by accepting a trial period offer or modification. For more information about your credit score please go to http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.shtm.
- You may be required to attend credit counseling.

How was my new payment in the trial period determined?
Your trial period payment is approximately 31% of your total gross monthly income, which is $_____. The new payment includes principal and interest and an escrow amount of $_____ to pay property taxes, insurance and other permissible escrow fees. If we were able to modify your loan today, based on the information you gave us, we estimate your modified interest rate would be ____%. If we modify your loan permanently after the trial period, the interest rate may be different due to a variety of factors that affect the terms of your final modification. If you did not have an escrow account before, the timing of your tax and insurance bills may require that you make a payment to cover any such bills when they come due. This is known as an escrow shortage. Your loan has an escrow shortage of $_____; this can either be paid in a lump sum when the loan is modified or over the next ____ years (or _____ months). If you wish to pay the total shortage as a lump sum, please contact us.

When will I know if my loan can be modified permanently and how will the modified loan balance be determined?
Once you make all of your trial period payments on time, we will send you a modification agreement detailing the terms of the modified loan. Any difference between the amount of the trial period payments and your regular mortgage payments will be added to the balance of your loan along with any other past due amounts as permitted by your loan documents. While this will increase the total amount that you owe, it should not significantly change the amount of your modified mortgage payment as that is determined based on your total monthly gross income, not your loan balance.

Are there incentives that I may qualify for if am current with my new payments?
Once your loan is modified, you can earn a pay-for-success incentive for every month that you make on-time payments beginning with the trial period payments. Depending on your modified monthly payment, you may accrue up to $1,000 each year for five years for a total of $5,000. This important benefit, *which will be applied to your principal balance each year after the anniversary date of your first trial period payment due date,* will help you earn equity in your home by reducing the amount that you owe. However, you must remain current on your loan. You will lose this important benefit if your modified mortgage becomes 90 days delinquent.

Will my interest rate and principal and interest payment be fixed after my loan is permanently modified?
Once your loan is modified, your interest rate and monthly principal and interest payment will be fixed for the life of your mortgage **unless** your initial modified interest rate is below current market interest rates. In that case, the below market interest rate will be fixed for five years. At the end of the fifth year, your interest rate may increase by 1% per year until it reaches a cap. The cap will equal the market rate of interest being charged by mortgage lenders on the day your modification agreement is prepared (the Freddie Mac Primary Mortgage Market Survey Rate for 30-year, fixed-rate conforming mortgages). Once your interest rate reaches the cap, it will be fixed for the remaining life of your loan. Like your trial period payment, your new monthly payment will also include an escrow for property taxes, hazard insurance and other escrowed expenses. If the cost of your homeowner's insurance, property tax assessment or other escrowed expenses increases, your monthly payment will increase as well.

If you have any questions or if you cannot afford the trial period payments shown above, but want to remain in your home, or if you have decided to leave your home but still want to avoid foreclosure, please call us at ###-###-####. We may be able to help you.

Additional Trial Period Plan Information and Legal Notices

The terms of your trial period plan below are effective on the day you make your first trial period payment, provided you have paid it on or before _____. You and we agree that:

- We will not proceed to foreclosure sale during the trial period, provided you are complying with the terms of the trial period plan, except as detailed below:
    - During trial period, any pending foreclosure action or proceeding will not be dismissed and may be immediately resumed if you fail to comply with the terms of the trial period plan or do not qualify for a modification. A new notice of default, notice of intent to accelerate, notice of acceleration, or similar notice will not be necessary to continue the foreclosure action (foreclosure notices). You waive any and all rights to receive such foreclosure notices to the extent permitted by applicable law. However, if your property is located in Georgia, Hawaii, Missouri, or Virginia and a foreclosure sale is currently scheduled, the foreclosure sale will not be suspended and foreclosure may proceed if you do not make each and every trial period payment that is due through the end of the month preceding the month in which the foreclosure sale is scheduled to occur. For example, if a foreclosure sale is scheduled in February and you do not make your January and any earlier required trial period payment by the end of January, the foreclosure sale may proceed in these four states. If a foreclosure sale occurs pursuant to this provision, the trial period plan will be deemed to have terminated.
- During the trial period, we may accept and post your trial period payments to your account and it will not affect foreclosure proceedings that have already been started.
    - The servicer's acceptance and posting of your new payment during the trial period will not be deemed a waiver of the acceleration of your loan or foreclosure action and related activities, and shall not constitute a cure of your default under your loan unless such payments are sufficient to completely cure your entire default under your loan.
- If your monthly payment did not include escrows for taxes and insurance, you are now required to do so:
    - You agree that any prior waiver that allowed you to pay directly for taxes and insurance is revoked. You agree to establish an escrow account and to pay required escrows into that account.
- Your current loan documents remain in effect; however, you may make the trial period payment instead of the payment required under your loan documents:
    - You agree that all terms and provisions of your current mortgage note and mortgage security instrument remain in full force and effect and you will comply with those terms; and that nothing in the trial period plan shall be understood or construed to be a satisfaction or release in whole or in part of the obligations contained in the loan documents.

GENERAL COUNSEL

DEPARTMENT OF THE TREASURY
WASHINGTON
SEP 10 2009

MEMORANDUM FOR ALL STAFF

FROM: George W. Madison
General Counsel

SUBJECT: Issuance of Instructions Regarding Communications with Outside Persons About Emergency Economic Stabilization Act Funds and Recovery Act Funds

Attached please find the following:

1) January 27, 2009 Press Release Announcing New Guidelines to Bolster Transparency and Limit Influence in Federal Investment Decisions

2) Updated Instructions Regarding Communications With Registered Lobbyists and Other Persons about Recovery Act Funds

3) Instructions Regarding Communications with Registered Lobbyists and Other Persons About Emergency Economic Stabilization Act Funds

On January 27, 2009, Secretary Geithner, announced new principles designed to limit outside influence in the Emergency Economic Stabilization Act (EESA) process and ensure that investment decisions are guided by objective assessments in the best interest of the health and stability of the financial system. That press release is attachment one to this memorandum. We have followed these principles since they were announced and will continue to do so.

In addition, on July 24, 2009 the Office of Management and Budget issued updated guidance to enhance merit-based decision-making with respect to Recovery Act funds and to require transparency for contacts between lobbyists and government officials concerning Recovery Act funding. That guidance is attachment number two to this memorandum. This guidance supersedes our original ARRA guidance issued on April 24, 2009.

In order to preserve consistency between the guidance issued regarding Recovery Act and EESA funds, Treasury is now issuing written guidance based on the final July 24th OMB materials. This new Treasury guidance outlines the actions you are required to take whenever you receive or participate in oral or written communications with any outside persons or entities regarding EESA funding determinations. This guidance is attachment three to this memorandum.

Should you have any questions about any of the attached, please contact Bernard J. Knight, Jr., Assistant General Counsel for General Law, Ethics and Regulation, at (202) 622-1137 or Shira Pavis Minton, Deputy Assistant General Counsel for Ethics, at (202) 622-1963.

Attachments
Tab 1: Press Release
Tab 2: ARRA Guidance
Tab 3: EESA Guidance

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

January 27, 2009
tg-02

Treasury Secretary Opens Term Opens With New Rules To Bolster Transparency, Limit Lobbyist Influence in Federal investment Decisions

Washington, DC – In light of President Barack Obama's firm commitment to transparency, accountability and oversight in our government's approach to stabilizing the financial system, U.S. Treasury Secretary Tim Geithner today announced several key reforms to the Emergency Economic Stabilization Act (EESA). As one of his first acts as the 75th Treasury Secretary, Secretary Geithner outlined new, stepped up rules designed to limit the influence of lobbyists and special interests in the EESA process and ensure that investment decisions are guided by objective assessments in the best interest of the health and stability of the financial system.

"American taxpayers deserve to know that their money is spent in the most effective way to stabilize the financial system. Today's actions reaffirm our commitment toward that goal," said Secretary Geithner.

Today's announcement builds on several reforms to the EESA previously outlined by President Obama, including monitoring and tracking lending patterns by financial institutions, limiting executive compensation, and preventing shareholders from being unduly rewarded at taxpayer expense. These new rules go beyond the approach taken under the EESA to date and will help ensure a new level of openness and accountability going forward.

The new rules include:

Combating lobbyist influence in the EESA process: The Treasury Department will implement safeguards to prevent lobbyist influence over the program, including restricting contacts with lobbyists in connection with applications for, or disbursements of, EESA funds.

Keeping politics out of funding decisions: The Treasury Department will ensure that political influence does not interfere with EESA decision making, using as a model for these protections the limits on political influence over tax matters.

Certification to Congress on objective decision making: In reporting to Congress, the Office of Financial Stability (OFS) will certify that each investment decision is based only on investment criteria and the facts of the case.

The investment process will be transparent and based on objective criteria:

- Only banks recommended by the primary bank regulator will be eligible for capital investments.
- OFS will publish a detailed description of the investment review process undertaken by the regulators and OFS.
- The Treasury Department will ensure adequate resources exist to process applications as quickly as possible with priority to the date of the application as received by OFS and will formulate procedures to ensure integrity and regularity in the application process.

-30-

UPDATED INSTRUCTIONS REGARDING COMMUNICATIONS WITH REGISTERED LOBBYISTS AND OTHER PERSONS ABOUT RECOVERY ACT FUNDS

On March 20, 2009, the President issued a Memorandum entitled, "Ensuring Responsible Spending of Recovery Act Funds." The purpose of the President's Memorandum was to facilitate Federal agencies' merit-based decision-making in awarding Recovery Act funds by, among other things, helping ensure that communications between federally registered lobbyists and Federal agency officials are transparent. This updated guidance outlines the actions you are required to take whenever you receive or participate in oral or written communications with any outside persons or entities regarding Recovery Act funding determinations. This document supersedes the Acting General Counsel's memorandum of April 24, 2009 that provided guidance on this subject.

A. Unrestricted Oral Communications on Logistical Questions Related to the Recovery Act

The President's Memorandum does not place any restrictions on communications between Federal agency officials and outside persons, including federally registered lobbyists, concerning general questions about the logistics of Recovery Act funding or implementation. Such matters may include an outside person's request for a meeting, an inquiry concerning the status of an action, an inquiry concerning the deadlines or logistics of Recovery Act funding opportunities, or any other similar administrative request, if the request does not involve advocacy about Recovery Act policy or a particular project or application for funding under the Recovery Act.

The following general topics of discussion, for example, all may fall within the category of general questions about logistics or implementation, which are not covered by the President's Memorandum:

(1) How to apply for funding under the Recovery Act;

(2) How to conform to deadlines;

(3) To which agencies or officials applications or questions should be directed; or

(4) Requests for information about program requirements and agency practices under the Recovery Act.

B. Unrestricted Oral Communications at Widely Attended Gatherings

The President's Memorandum is aimed at furthering the transparency of oral communications with Federal officials concerning Recovery Act funding. Such transparency aims are achieved with respect to communications made at "widely attended gatherings." A gathering is widely attended when it is attended by a large number of people from throughout an industry or profession who represent a wide range of interests. The term is defined and implemented in ethics regulations at 5 C.F.R. § 2635.204(g)(2) and related interpretive guidance, and is regularly construed and applied by Treasury's designated ethics officials. Thus, the President's

Memorandum imposes no further restrictions on such oral communications by any persons at widely attended gatherings.

The restrictions below, however, do apply to private oral communications that may happen to occur at, in connection with, or immediately before or after, a widely attended gathering. In ot words, private conversations at a widely attended gathering are not covered under this exemption.

C. Oral Communications During the Period Following Submission of a Formal Applicat for a Competitive Grant or Other Competitive Form of Federal Financial Assistance Un the Recovery Act, Continuing Through Award of Competitive Recovery Act Funds

During the period of time commencing with the submission of a formal application by an individual or entity for a competitive grant or other competitive form of Federal financial assistance under the Recovery Act, and ending with the award of the competitive funds, you r not participate in oral communications initiated by any person or entity concerning a pending application for a Recovery Act competitive grant or other competitive form of Federal financi assistance, whether or not the initiating party is a federally registered lobbyist. This restrictior applies unless:

(i) The communication is purely logistical (Part A above);

(ii) The communication is made at a widely attended gathering (Part B above);

(iii) The communication is to or from a Federal agency official and another Federal Government employee;

(iv) The communication is to or from a Federal agency official and an elected chief executive of a state, local or tribal government, or to or from a Federal agency offi and the Presiding Officer or Majority Leader in each chamber of a state legislature

(v) The communication is initiated by the Federal agency official.

If an individual or entity contacts you to talk about a pending application for a competitive gr or other competitive form of Federal financial assistance under the Recovery Act and if the contact does not fall within any of the excepted categories above, you should immediately en the conversation.

Before submission of a formal application for competitive grants or other competitive forms c Federal financial assistance under the Recovery Act, and after the award of such funds, any person or entity, whether or not a federally registered lobbyist, may (consistent with any othe applicable law, regulation, or agency policy) communicate with you orally or in writing abou any matter concerning Recovery Act policy or any particular project for funding that is not th subject of a pending application for competitive funding under the Recovery Act.

Treasury Bureaus and Offices should seek to notify the public through particular notices of funding opportunities under the Recovery Act to which these restrictions apply.

D. Oral and Written Communications With Federally Registered Lobbyists Concerning Recovery Act Policy or Projects For Funding, and Written Communications By Registered Lobbyists Concerning Pending Applications

If you communicate with or are contacted by, via telephone or in-person, any persons outside the Federal Government (including persons associated with for-profit companies, non-profit organizations and state and local governmental entities) regarding Recovery Act policy or projects for funding, you should first ascertain that the contacting party is not restricted from communicating with you orally under Part C above. Even if Part C does not limit oral communications, you must ask if any person participating in the oral communication is a federally registered lobbyist speaking on behalf of a client (or, in the case of an in-house registered lobbyist, on behalf of an employer) for whom the lobbyist is registered. This requirement applies unless the communication is purely logistical (Part A above) or the communication occurs during a widely attended gathering (Part B above).

If any person is a federally registered lobbyist speaking on behalf of a client or employer for whom the lobbyist is registered, please take the following steps:

(1) **Inform the person(s) that you will document** the fact of the conversation in writing, including the name of the lobbyist and other participants, together with a brief description of the conversation, for public posting on Treasury's website within 3 days.

(2) **Subject to the exceptions contained in Part A and Part B above, document each in-person or telephonic conversation concerning Recovery Act funding** with a registered lobbyist immediately after the conversation. You may use the attached form or follow this link to the web-based form:

http://intranet.treas.gov/ethics/forms/ARRA_lobbyist_disclosure_form.pdf

Remember that this form must be posted on the website within 3 days of the conversation. Please be sure your posting includes:

(i) The date of contact,
(ii) The names of the parties to the conversation,
(iii) The name of the lobbyist's client(s),
(iv) A general, one-sentence description of the substance of the conversation, and
(v) Attachments that consist of any written materials prepared by outside participants of the meeting that were submitted in connection with the meeting.

(3) **Submit the form to the Office of the Deputy Assistant General Counsel for Ethics.** Please send your form containing the above-required information, via e-mail, to Ivory.Finnie@do.treas.gov. The ethics office will review the form for completeness and

forward it for posting on the Treasury website within 3 business days of the communication.

If you receive a written communication from a federally registered lobbyist on behalf of a client or employer concerning Recovery Act policy or projects for funding (including, but not limited to, any written communication from a federally registered lobbyist about a pending application), then please submit that written communication to Ivory.Finnie@do.treas.gov for posting on the Treasury website within 3 business days of the communication, in accordance with step (3) immediately above.

If you have any questions about the President's Memorandum or this guidance please refer to the attached "Frequently Asked Questions" which provides specific examples, or contact Bernard Knight, Jr,. Assistant General Counsel for General Law, Ethics & Regulation and Designated Agency Ethics Official at 202-622-1137, or Shira Pavis Minton, Deputy Assistant General Counsel for Ethics at 202-622-1963.

Enclosures:
(1) Frequently Asked Questions
(2) Registered Lobbyist Contact Disclosure Form

FREQUENTLY ASKED QUESTIONS

Q: How does the updated guidance differ from the earlier guidance on this same subjec
A: The prohibition on oral communications between Federal agency officials and federally registered lobbyists regarding specific Recovery Act projects that was contained in the earlie guidance has been clarified to apply to the stage and context where concerns about merit-bas decision-making are greatest – during the period commencing after the submission of formal applications for, and up through awards of, competitive grants or other competitive forms of Federal financial assistance under the Recovery Act. At the same time, the restriction has bee expanded to cover, generally, all persons outside the Federal Government (not just federally registered lobbyists) who initiate oral communications concerning pending competitive grant loan applications under the Recovery Act.

Q: Does the new version of the guidance still require Internet posting of lobbying conta
A: Yes, the updated guidance continues to require prompt Internet disclosure of oral and writ communications with federally registered lobbyists concerning Recovery Act policy or proje for funding. The guidance also requires Internet disclosure of written communications with lobbyists concerning pending applications for competitive funding under the Recovery Act.

Q: A local business group has contacted me to discuss how to apply for funding for projects. May I talk with members of the group?
A: Yes. This area of discussion falls within the category of general logistical and implementa issues concerning the Recovery Act, and thus you may talk with the group without restrictio answer its questions. However, if the group includes federally registered lobbyists and the discussion veers to advocacy about Recovery Act policy or a particular project or applicatio funding under the Recovery Act, you should document your discussion and forward that documentation to the Office of the Deputy Assistant General Counsel for Ethics for posting the Internet. You should decline to discuss any pending applications for competitive grants o other competitive forms of Federal financial assistance under the Recovery Act.

Q: I have received a request to meet with federally registered lobbyists who represent a construction company. Company officials have stated openly that they plan to apply fo competitive grant under the Recovery Act to fund a specific project in upstate New Yo May I talk with the company's lobbyists about that project?
A: Yes. So long as the company has not submitted its formal application for the competitive grant in question, you may meet with the company's lobbyists to discuss the matter in any w that is appropriate under other applicable law, regulations, and agency guidance. You must document your meeting with the lobbyists, however, and forward your documentation to the Office of the Deputy Assistant General Counsel for Ethics for posting on the Internet.

Q: Do the restrictions on oral communications with persons or entities concerning pen competitive grant applications, contained in Part C of the sample guidance, apply to applicants or applications for formula or non-competitive grants?
A: No. The restrictions of Part C of the guidance are applicable only to competitive grants a other competitive forms of financial assistance because that is where concerns about merit-b decision-making and special access are the greatest. In the competitive grant context, there

should be a level playing field among applicants, and decisions should be made on the merits with no special access to Federal officials by some applicants. By contrast, in non-competitive or "formula-driven" grant contexts, grantees (in many situations, state and local governmental entities) are designated by statute and do not have to compete with others to receive their awards from Federal agencies. Because they are not competing for grants, restricting their communications with Federal agency officials during the grant process would not enhance, and might impede, the quality or merits of agency decision-making.

Q: What sorts of Federal assistance is included by the phrase "and other competitive forms of Federal financial assistance"?
A: Competitive loans are an example of a covered form of competitive Federal financial assistance.

Q: What is meant by, and how broad is, the exception for agency official-initiated conversations about pending applications for competitive grants or loans? Does the fact that an agency official is returning a phone call of an applicant make the conversation agency-initiated?
A: The purpose of this exception is to allow agency officials to obtain the information they need or seek about pending applications in order to evaluate the applications, among other things. An agency official should not receive, be willing to receive or respond to communications concerning pending applications unless the official affirmatively seeks or requires information about the application.

Q: I have received a request to meet with representatives of a corporation that has filed an application for a competitive grant. The representatives want to discuss the merits of the corporation's proposal. The representatives are not federally registered lobbyists. May I speak with them?
A: No. Because the corporation has filed an application for a competitive grant, its representatives may not initiate communications with you orally about the merits of the application or proposal.

Q: Shouldn't I simply avoid all contact with federally registered lobbyists about Recovery Act matters, so I don't have to document anything?
A: No. The purpose of the President's Memorandum is to provide transparency to certain communications with federally registered lobbyists concerning the Recovery Act, not to bar such communications. You should proceed with all communications in accordance with the protocol.

Q: Do the reporting requirements that apply to lobbyists apply to all lobbyists – including lobbyists for governmental entities, lobbyists registered under state laws, and individuals who were federally registered lobbyists in recent years but are no longer so registered?
A: The reporting requirements of the Memorandum apply to communications with individuals who are currently federally registered lobbyists, including lobbyists for governmental or non-profit entities, and who are communicating on behalf of a client for whom they are registered. The reporting requirements do not apply to individuals who have been previously registered but are no longer federally registered; to individuals registered to lobby under state rather than Federal laws; or to federally registered lobbyists who are not communicating on behalf of a

client (or, in the case of an in-house registered lobbyist, on behalf of an employer) for whom they are registered.

Q: A group has called me to discuss concerns about how funding is being allocated to certain geographic areas. May I speak with members of the group?
A: Yes. Regardless of whether the group includes federally registered lobbyists, you may speak with members of the group about funding allocation. You may not speak with any member of the group, however, about any pending Recovery Act competitive grant or competitive loan applications before the agency. If the group includes federally registered lobbyists, you should document the contact on the attached form.

Q: I am scheduled to deliver a speech to a group of business leaders about how to apply for Recovery Act funds. Must I pre-screen the group for federally registered lobbyists? If federally registered lobbyists are present, do I need to document each of their questions as a lobbying contact?
A: If the speech is before a widely attending gathering, you do not need to determine whether federally registered lobbyists are present, and you may discuss the Recovery Act without documenting the discussion.

Q: How do I know if a caller or meeting participant is a federally registered lobbyist or if the caller or meeting participant has submitted a formal application for a competitive grant?
A: You should simply ask your caller or meeting participants the applicable questions.

Q: How much information do I need to include on the Lobbyist Contact Disclosure form?
A: The form is meant to document the fact and date of your contact, along with the identity of the lobbyist, his or her client, and a one-sentence description of the general topic or topics of discussion. Additional detailed information is not required.

Q: Are there any exemptions in the revised protocol for communications with other government employees?
A: You may have oral communications at any time, even after the submission of a formal grant application, with (1) other Federal employees, and (2) elected chief executive of a state, local or tribal government, or the Presiding Officer or Majority Leader in each chamber of a state legislature.

Q: Do the documentation requirements of the President's Memorandum concerning lobbyist communications apply only to individuals who are federally registered lobbyists, or to lobbying organizations and their employees more generally?
A: The documentation requirements apply only to communications with individuals who are federally registered lobbyists, and not with lobbying organizations or their non-registered employees more generally.

Q: To whom should I turn for further questions about how to deal with specific situations?

A: You should contact Bernard Knight, Jr,. Assistant General Counsel for General Law, Ethics & Regulation and Designated Agency Ethics Official at 202-622-1137, or Shira Pavis Minton, Deputy Assistant General Counsel for Ethics at 202-622-1963.

Submit | Print Form

REGISTERED LOBBYIST CONTACT DISCLOSURE FORM

This form is to be completed by Executive Branch employees who are contacted by registered lobbyists regarding **the Recovery Act**. This report includes a written description of each contact, the date and time of the contact, and the names of the registered lobbyist(s) and the employee(s) with whom the contact took place. Written materials prepared by registered lobbyists should be attached to this form for posting on the website. The information on this form will be available to the public on Treasury's recovery website.

To be completed by the employee contacted		
Date and time of contact:	Name of the Employee(s) Contacted (Name and Title)	Brief description of the communication: (attach separate sheet if necessary)

Name of the Employee(s) who prepared this form:	Date

Registered Lobbyist Name:	Title:	Firm or Organization:, if applicable	Client

INSTRUCTIONS REGARDING COMMUNICATIONS WITH REGISTERED LOBBYISTS AND OTHER PERSONS ABOUT EMERGENCY ECONOMIC STABILIZATION ACT FUNDS

On January 27, 2009 Treasury Secretary Timothy Geithner announced new rules designed to limit the influence of lobbyists and special interests in the Emergency Economic Stabilization Act (EESA) process and ensure that investment decisions are guided by objective assessments in the best interest of the health and stability of the financial system. This guidance outlines the actions you are required to take whenever you receive or participate in oral or written communications with any outside persons or entities regarding EESA funding determinations. Should you have any questions about any of the following, please contact Bernard J. Knight, Jr., Assistant General Counsel (General Law, Ethics & Regulation), at (202) 622-1137 or Shira Pavis Minton, Deputy Assistant General Counsel for Ethics, at (202) 622-1963.

A. Unrestricted Oral Communications on Logistical Questions Related to EESA Funding

There are no restrictions on communications between Treasury officials and any outside persons, including federally registered lobbyists, concerning general questions about the logistics of EESA funding or implementation. Such matters may include an outside person's request for a meeting, an inquiry concerning the status of an action, an inquiry concerning the deadlines or logistics of EESA funding, or any other similar administrative request, if the request does not involve advocacy about EESA policy or a specific application for funding under the EESA. The following general topics of discussion, for example, all may fall within the category of general questions about logistics or implementation:

(1) How to apply for funding under the EESA;

(2) How to conform to deadlines;

(3) To which officials applications or questions should be directed; or

(4) Requests for information about program requirements and Treasury practices under the EESA.

B. Unrestricted Oral Communications at Widely Attended Gatherings

The Secretary's policy is aimed at furthering the transparency of oral communications with Federal officials concerning EESA funding. Such transparency aims are achieved with respect to communications made at "widely attended gatherings." A gathering is widely attended when it is attended by a large number of people from throughout an industry or profession who represent a wide range of interests. The term is defined and implemented in ethics regulations at 5 C.F.R. § 2635.204(g)(2) and related interpretive guidance, and is regularly construed and applied by Treasury's designated ethics officials. Thus, the Secretary's policy imposes no further restrictions on such oral communications by any persons at widely attended gatherings. The restrictions below, however, do apply to private oral communications that may happen to occur at, in connection with, or immediately before or after, a widely attended gathering. In other words, private conversations at a widely attended gathering are not covered under this exemption.

C. Oral Communications During the Period Following Submission of a Formal Application for Federal Financial Assistance Under the EESA, Continuing Until Preliminary Approval of EESA Funds

During the period of time commencing with the submission of a formal application by an individual or entity for financial assistance under the EESA, and ending with the preliminary approval of EESA funds, you may not participate in oral communications initiated by any person or entity concerning a pending application for EESA funds, whether or not the initiating party is a federally registered lobbyist. This restriction applies unless:

(i) The communication is purely logistical (Part A above);

(ii) The communication is made at a widely attended gathering (Part B above);

(iii) The communication is to or from a Federal executive agency official and a Treasury employee; or

(iv) The communication is initiated by a Treasury official.

If an individual or entity contacts you to talk about a pending application for EESA funds and if the contact does not fall within any of the excepted categories above, you should immediately end the conversation.

D. Oral and Written Communications Concerning EESA Policy or Applications For Funding, and Written Communications Concerning Pending Applications

If you communicate with or are contacted by, via telephone or in person, any persons outside the Federal executive branch (including persons associated with for-profit companies, nonprofit organizations, and state and local governmental entities) regarding EESA policy or applications for funding, you should first ascertain that the contacting party is not restricted from communicating with you orally under Part C above.

Even if Part C does not limit oral communications, you must ask if any person participating in the oral communication is a federally registered lobbyist speaking on behalf of a client (or, in the case of an in-house registered lobbyist, on behalf of an employer) for whom the lobbyist is registered. This requirement applies unless the communication is purely logistical (Part A above) or the communication occurs at a widely attended gathering (Part B above). If any person is a federally registered lobbyist speaking on behalf of a client or employer for whom the lobbyist is registered, please take the following steps:

(1) Inform the person(s) that you will document the fact of the conversation in writing, including the name of the lobbyist and other participants, together with a brief

description of the conversation, for public posting on Treasury's website within 3 days.

(2) Subject to the exceptions contained in Part A and Part B above, document each in-person or telephonic conversation concerning EESA funding with a registered lobbyist immediately after the conversation. You may use the attached form or follow this link to the web-based form:

http://intranet.treas.gov/ethics/forms/EESA_lobbyist_disclosure_form.pdf

Remember that this form must be posted on the website within 3 days of the conversation. Please be sure your posting includes:

(i) The date of contact,

(ii) The names of the parties to the conversation,

(iii) The name of the lobbyist's client(s),

(iv) A general, one-sentence description of the substance of the conversation, and

(v) Attachments that consist of any written materials prepared by outside participants of the meeting that were submitted in connection with the meeting.

(3) Submit the form to the Office of the Deputy Assistant General Counsel for Ethics. Please send your form to Ivory Finnie at Ivory.Finnie@do.treas.gov. The ethics office will review the form for completeness and forward it for posting on the website within 3 business days of the communication.

If you receive a written communication from a federally registered lobbyist on behalf of a client or employer concerning EESA policy or applications for funding (including, but not limited to, any written communication from a federally registered lobbyist about a pending application), then please submit that written communication to Ivory.Finnie@do.treas.gov for posting on Treasury's website within 3 business days of the communication, in accordance with step (3) immediately above. In addition, written communications from EESA applicants or their representatives, in connection with applications for or specific disbursements of EESA funds while the application is pending, must also be submitted for positing on Treasury's website within 3 business days of the communication.

* * *

If you have any questions about this guidance, please refer to the attached "Frequently Asked Questions," which provides specific examples, or contact Bernard J. Knight, Jr., Assistant General Counsel (General Law, Ethics & Regulation), at (202) 622-1137 or Shira Pavis Minton, Deputy Assistant General Counsel for Ethics, at 202-622-1963.

Enclosures:
(1) Frequently Asked Questions
(2) Registered Lobbyist Contact Disclosure Form

FREQUENTLY ASKED QUESTIONS

Q: A local business group has contacted me to discuss how to apply for EESA funding. May I talk with members of the group?

A: Yes. This area of discussion falls within the category of general logistical and implementation issues concerning the EESA, and thus you may talk with the group without restriction to answer its questions. However, if the group includes federally registered lobbyists and the discussion veers to advocacy about EESA policy or a particular project or application for funding under the EESA, you should document your discussion and forward that documentation to your agency representative for posting on the Internet. You should decline to discuss any pending applications for Federal financial assistance under the EESA.

Q: I have received a request to meet with federally registered lobbyists who represent a bank. Bank officials have stated openly that they plan to apply for funding under the EESA. May I talk with the bank's lobbyists about that project?

A: Yes. So long as the bank has not submitted its formal application for the application in question, you may meet with the bank's lobbyists to discuss the matter in any way that is appropriate under other applicable law, regulations, and Treasury guidance. You must document your meeting with the lobbyists, however, and forward your documentation to the Office of the Deputy Assistant General Counsel for Ethics for posting on the Internet.

Q: What is meant by, and how broad is, the exception for Treasury official-initiated conversations about pending applications for funding? Does the fact that an agency official is returning a phone call of an applicant make the conversation agency-initiated?

A: The purpose of this exception is to allow Treasury officials to obtain the information they need or seek about pending applications in order to evaluate the applications, among other things. An agency official should not receive, be willing to receive or respond to communications concerning pending applications unless the official affirmatively seeks or requires information about the application.

Q: I have received a request to meet with representatives of an organization that has filed an application for EESA funding. The representatives want to discuss the merits of the organization's proposal. The representatives are not federally registered lobbyists. May I speak with them?

A: No. Because the organization has filed an application for funding, its representatives may not initiate communications with you orally about the merits of the application or proposal.

Q: Shouldn't I simply avoid all contact with federally registered lobbyists about EESA matters, so I don't have to document anything?

A: No. The purpose of this policy is to provide transparency to certain communications with federally registered lobbyists concerning the EESA, not to bar such communications. You should proceed with all communications in accordance with the protocol.

Q: Do the reporting requirements that apply to lobbyists apply to all lobbyists—including lobbyists for governmental entities, lobbyists registered under state laws, and individuals who were federally registered lobbyists in recent years but are no longer so registered?

A: The answer depends on the nature of the communication. If the communication is in connection with an application for or specific disbursements of EESA funds while the application is pending, such communications may only take place in writing, and must be posted on Treasury's website, regardless of whether the communication is from EESA applicants or their representatives (whether or not they are federally registered lobbyists).

The reporting requirements for other communications only apply to communications with individuals who are currently federally registered lobbyists, including lobbyists for governmental or non-profit entities, and who are communicating on behalf of a client for whom they are registered. They do not apply to individuals who have been previously registered but are no longer federally registered; to individuals registered to lobby under state rather than Federal laws; or to federally registered lobbyists who are not communicating on behalf of a client (or, in the case of an in-house registered lobbyist, on behalf of an employer) for whom they are registered.

Q: A group has called me to discuss concerns about how funding is being allocated among different classes of financial institutions. May I speak with members of the group?

A: Yes. Regardless of whether the group includes federally registered lobbyists, you may speak with members of the group about funding allocation. You may not speak with any member of the group, however, about any pending EESA applications before the agency. If the group includes federally registered lobbyists, you should document the contact on the attached form.

Q: I am scheduled to deliver a speech to a group of business leaders about how to apply for EESA funds. Must I pre-screen the group for federally registered lobbyists? If federally registered lobbyists are present, do I need to document each of their questions as a lobbying contact?

A: If the speech is before a widely attending gathering, you do not need to determine whether federally registered lobbyists are present, and you may discuss the EESA without documenting the discussion.

Q: How do I know if a caller or meeting participant is a federally registered lobbyist or if the caller or meeting participant has submitted a formal application for EESA funds?

A: You should simply ask your caller or meeting participants the applicable questions.

Q: How much information do I need to include on the Lobbyist Contact Disclosure form?

A: The form is meant to document the fact and date of your contact, along with the identity of the lobbyist, his or her client, and a one-sentence description of the general topic or topics of discussion. Additional detailed information is not required.

Q: Are there any exemptions for communications with other government employees?

A: You may have oral communications at any time, even after the submission of a formal application, with another Federal executive branch official.

Q: Do the documentation requirements concerning lobbyist communications apply only to individuals who are federally registered lobbyists, or to lobbying organizations and their employees more generally?

A: The documentation requirements apply only to communications with individuals who are federally registered lobbyists, and not with lobbying organizations or their non-registered employees more generally, with one exception: communications from EESA applicants or their representatives, in connection with applications for or specific disbursements of EESA funds while the application is pending, must take place in writing and be posted on Treasury's website.

Q: An application for EESA funds has received preliminary approval. May I communicate with a federally registered lobbyist about the application?

A: Yes, after an application has received preliminary approval of EESA funds, you may communicate orally in or in writing with any person or entity, whether or not a federally registered lobbyist (consistent with any other applicable law, regulation, or Treasury policy). You must document your meeting with a lobbyist, however, and forward your documentation to the Office of the Deputy Assistant General Counsel for Ethics for posting on the Internet.

Q: To whom should I turn for further questions about how to deal with specific situations?

A: You should contact Bernard J. Knight, Jr., at (202) 622-1137, Assistant General Counsel (General Law, Ethics & Regulation) Shira Pavis Minton, Deputy Assistant General Counsel for Ethics, at (202) 622-1963.

Submit Print Form

REGISTERED LOBBYIST CONTACT DISCLOSURE FORM

This form is to be completed by Executive Branch employees who are contacted by registered lobbyists regarding **EESA**. This report includes a written description of each contact, the date and time of the contact, and the names of the registered lobbyist(s) and the employee(s) with whom the contact took place. Written materials prepared by registered lobbyists should be attached to this form for posting on the website. The information on this form will be available to the public on Treasury's website.

To be completed by the employee contacted

Date and time of contact:	Name of the Employee(s) Contacted (Name and Title)	Brief description of the communication: (attach separate sheet if necessary)

Name of the Employee(s) who prepared this form:	Date

Registered Lobbyist Name:	Title:	Firm or Organization:, if applicable	Client

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 25, 2009

Neil M. Barofsky, Esq.
Special Inspector General
for the Troubled Assets Relief Program
United States Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Re: SIGTARP Quarterly Report

Dear Mr. Barofsky:

This letter comments on the actions taken by the Department of the Treasury (Treasury) in response to the recommendations outlined in the Special Inspector General for the Troubled Asset Relief Program's (SIGTARP) *Quarterly Report to Congress*, dated July 21, 2009.

The attached Summary *Response to Recommendations in the July 2009 SIGTARP Report* updates the information in Appendix G of the July SIGTARP Report: *Correspondence Regarding SIGTARP Recommendations*. Treasury looks forward to the release of the SIGTARP's fourth major report on the Troubled Asset Relief Program (TARP) in October and has continued to take significant steps to address recommendations from the SIGTARP's February, April, and July 2009 reports.

The July SIGTARP report recommended several improvements that will help Treasury to build on the solid foundation it has created since founding the office in October 2008. We welcome these recommendations. As described in our enclosed *Summary Response to SIGTARP Recommendations*, Treasury has made significant progress in addressing the SIGTARP's comments. We agree that Treasury must do more in many of these areas, and appreciate the SIGTARP's recognition of the significant progress we have made.

Following my staff's discussions and meetings with your staff, the enclosed summary outlines the steps Treasury is taking to implement action plans that are responsive to the SIGTARP's outstanding recommendations (the eight new recommendations and the eight ongoing recommendations we have previously discussed as ongoing) as well as the progress made in completing the action plans for each outstanding recommendation.

We appreciate the open and collaborative relationship with you and your team, and have strived to achieve the highest standard for protecting taxpayers while carrying out our mandate of promoting financial stability. We look forward to continuing to work with you and your team as we move forward.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

The U.S. Department of the Treasury
Summary Response to SIGTARP Recommendations

September 25, 2009

The Department of the Treasury (Treasury) welcomes the recommendations on the Troubled Assets Relief Program (TARP) from the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). This summary response serves as a status report on Treasury's response to recommendations contained in SIGTARP's February 2009, April 2009, and July 2009 Quarterly Reports.

The Treasury has given careful consideration to the 40 recommendations in SIGTARP's prior quarterly reports when taking actions to stabilize the financial system and restore the flow of credit. Treasury's policies and programs currently address many of the issues raised in your recommendations, and in other cases, Treasury has taken specific actions to implement your recommendations. Treasury also has executed or will execute alternative approaches that we believe address some of the issues raised in your recommendations. When we believe a particular recommendation would not help carry out Treasury's statutory duties under the Emergency Economic Stabilization Act (EESA), we have developed alternative ways to address the underlying concerns SIGTARP has raised and have explained the measures we are employing to do so to in our summary responses to SIGTARP and to Congress.

This report first presents Treasury's response to the new recommendations issued by SIGTARP in the July 2009 Quarterly Report, and then provides a status report on our actions to address the outstanding recommendations identified in the SIGTARP chart contained in the same quarterly report. We used the corresponding recommendation number from the SIGTARP chart to identify the actions Treasury has taken to address the relevant outstanding recommendations. We have not included in this summary response those recommendations that SIGTARP has confirmed that Treasury has "implemented," specifically, 1, 17, 18, 19, 24, 25, 29, and 31. We also have not included those recommendations that Treasury has previously described in our summary responses the measures we have taken to address concerns raised by SIGTARP, and, based on previous conversation with SIGTARP officials, consider these recommendations as "closed," specifically, 7, 8, 9, 10, 12, 13, 14, 15, 16, 21, 22, 23, 26, 28, 30, and 32. The summary response covers the eight recommendations identified in the July 2009 Quarterly Report and the remaining eight outstanding recommendations identified in the SIGTARP chart.

Recommendations from the July 2009 Quarterly Report

SIGTARP Recommendation 1:
Treasury should require the imposition of strict information barriers or "walls" between the Public-Private Investment Program (PPIP) fund managers making investment decisions on behalf of the Public-Private Investment Fund (PPIF) and those employees of the fund management company who manage non-PPIF funds.

Treasury's Response

Treasury does not believe this recommendation is necessary or appropriate for the PPIP, and has previously explained to SIGTARP officials the alternative ways that Treasury has addressed concerns raised by the SIGTARP in a supplemental letter dated July 2, 2009. As discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 2:
Treasury should periodically disclose trading activity and require PPIF managers to disclose to SIGTARP, within seven days of the close of the quarter, all trading activity, holdings, and valuations so that SIGTARP may disclose such information, subject to reasonable protections, in its quarterly reports.

Treasury's Response

Treasury is currently developing a template for periodic reports to be publicly disclosed, which would provide aggregated information on Eligible Assets investments across the PPIFs. These reports will provide meaningful information regarding the performance of PPIF investments while protecting confidential, sensitive information related to the investment strategies and individual positions of each PPIF.

SIGTARP Recommendation 3:
Treasury should have appropriate metrics defined and an evaluation should be put in place to monitor the effectiveness of the PPIF managers, both to ensure that they are fulfilling the terms of their agreements and to measure their performance against pre-established benchmarks and against each other.

Treasury's Response

Treasury has substantively adopted this recommendation, and is developing appropriate metrics to monitor the effectiveness of the PPIP fund managers as well as the PPIP in general. Treasury is presently working with PPIP fund managers to establish expected reporting requirements. In addition, Treasury is hiring a fund advisor consultant that will assist in the ongoing evaluation, monitoring and reporting of each PPIF. Treasury currently expects to have selected this fund advisor consultant by mid-November and will solicit additional input from this firm in order to refine Treasury's ongoing reporting requirements after that point.

Performance metrics will be evaluated across three principal areas:

- Effectiveness of achieving policy goals for programs for Legacy Assets – Metrics to measure the program's effects on price discovery and restarting the

markets for Eligible Assets are expected to include pricing for Eligible Assets including benchmark indices (e.g. ABX and CMBX).

- Financial performance of a PPIF – Metrics are expected to include PPIF returns relative to appropriate fixed income benchmarks. Treasury will work with its fund advisor consultant to establish appropriate fixed income benchmarks with which to measure performance.
- Adherence to compliance regime – Treasury is presently discussing the applicability of compliance metrics with its compliance contractor.

Treasury has the ability to end the investment period after 12 months in its sole discretion, and to the extent a certain PPIP fund manager is underperforming, Treasury and the private investors will have the ability to replace the General Partner of the PPIF. In addition, material violations of the Rules will be included as Events of Cause in the Partnership Agreements governing each PPIF.

SIGTARP Recommendation 4:
The conditions that give Treasury "cause" to remove a manager should be expanded to include a manager's performance below a certain standard benchmark, or if Treasury concludes that the manger has materially violated compliance or ethical rules.

Treasury's Response

Treasury does not believe this recommendation is necessary or appropriate for the PPIP, and previously explained the alternative ways that Treasury has addressed concerns raised by the SIGTARP in our supplemental letter dated July 2, 2009. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 5:
Treasury should require fund managers to disclose to Treasury, as part of the Watch List process outlined in the term sheet, info about holdings in eligible assets and holdings in related assets or exposure to related liabilities.

Treasury's Response

Treasury accepts this recommendation and will require PPIP fund managers to disclose holdings in derivatives in non-PPIF funds where derivative values are related to Eligible Assets held in the PPIF.

SIGTARP Recommendation 6:
Treasury should require PPIF managers to obtain and maintain information about the beneficial ownership of all the private equity interests, and Treasury should have the unilateral ability to prohibit participation of private equity investors.

Treasury's Response

Treasury has adopted most of this recommendation, and explained measures employed to address the concerns raised by the SIGTARP in our summary response and supplemental letter, both dated July 2, 2009. As further explained in our supplemental letter, Treasury does not agree that having the unilateral ability to prohibit participation of private equity investors is necessary or appropriate for the PPIP. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 7:
Treasury and the Federal Reserve Bank of New York should examine Moody's assertions and develop mechanisms to ensure that acceptance of collateral in the Term Asset-Backed Securities Loan Facility (TALF) is not unduly influenced by the improper incentives to overrate that exist among the rating agencies.

Treasury's Response

The Treasury and Federal Reserve have a robust TALF risk management program that does not rely solely on ratings issued by rating agencies. Additionally, the Federal Reserve Bank of New York recently engaged collateral monitors to assess the risk associated with ABS and CMBS collateral. The collateral monitors, in addition to the credit ratings, conservative haircuts, interest premiums, and other terms and conditions, collectively serve to protect taxpayer interests.

Treasury and the Federal Reserve have discussed concerns about potential overrating or rating shopping with the rating agencies, and we will continue to develop and enhance our risk management tools and processes, where appropriate.

SIGTARP Recommendation 8:
Treasury should require TARP recipients to submit periodic reports to Treasury on their use of funds, including what they were able to do with their TARP funds, such as lending, investments, acquisitions, and other activities that they could not have conducted without TARP funding. Treasury should also require TARP recipients to retain all supporting documentation in conjunction with any reporting requirement that Treasury may impose.

Treasury's Response

In our continuing effort to improve the transparency of our programs, and in order to more closely adopt the recommendations in the SIGTARP report, Treasury is expanding its Quarterly Capital Purchase Program (CPP) Report to include additional categories of information included in the SIGTARP survey responses underlying the SIGTARP report, such as financial institutions' repayments of their outstanding debt obligations and total

investments. This expansion will begin with the next Quarterly CPP Report, scheduled to be released during October 2009.

Most of the information contained in SIGTARP survey responses is already captured by Treasury's Monthly Lending and Intermediation Snapshot, CPP Monthly Lending Report or Quarterly CPP Report. Specifically, these Treasury reports capture financial institution activities regarding lending, capital cushions and other reserves, and investments in mortgage-backed securities and asset-backed securities. Treasury publishes its Monthly Lending and Intermediation Snapshot to help measure the lending activities of the nation's largest Capital Purchase Program (CPP) financial institutions. This report includes quantitative information on lending and other intermediation activities, as well as a qualitative section that allows banks to comment on the lending environment and the host of factors outside a bank's control that affect lending levels, such as loan demand, borrower creditworthiness, capital markets liquidity and the macroeconomic environment. Although some of the largest recipients of TARP funds have recently repaid the assistance, Treasury has obtained their agreement to provide this information to Treasury for the remainder of 2009.

In addition to the Monthly Lending and Intermediation Snapshot, Treasury provides an expanded CPP Monthly Lending Report that includes the monthly average outstanding balances of consumer loans and commercial loans and total loans from all CPP participants. Finally, Treasury publishes a Quarterly CPP Report that provides extensive detail on the financial positions and activities of both CPP and non-CPP banks based on regulatory data collected by each institution's primary financial regulator.

The SIGTARP report provided descriptions of the general uses of capital by TARP recipients but did not contain quantitative data on such uses. By tracking the additional information discussed above, we believe that these reports will now capture all of the categories of information covered by SIGTARP's audit responses. Moreover, because quantitative data used in these reports is based on data that is provided and reviewed by the financial institution's primary banking regulator, they constitute a more reliable and measurable way of tracking how financial institutions use their capital.

Recommendations from the SIGTARP Chart

SIGTARP Recommendation 2:
Treasury should include language in new TARP agreements to facilitate compliance and oversight. Specifically, each program participant should (1) acknowledge explicitly the jurisdiction and authority of SIGTARP and other oversight bodies, as relevant, to oversee compliance of the conditions contained in the agreement in question, (2) establish internal controls with respect to that condition, (3) report periodically to the Compliance department of the Office of Financial Stability ("OFS-Compliance") regarding the implementation of those

controls and its compliance with the condition, and (4) provide a signed certification from an appropriate senior official to OFS-Compliance that such report is accurate.

Treasury's Response

Treasury will implement this recommendation with respect to new TARP programs going forward, as appropriate. Additional details on how Treasury has implemented this recommendation are available in our summary responses dated April 7, 2009 and July 2, 2009. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 3:
All existing TARP agreements, as well as those governing new transactions, should be posted on the Treasury website as soon as possible.

Treasury's Response

Treasury continues to make progress on implementing this recommendation. Treasury posts all the agreements governing new transactions on its *Financial Stability* website. Treasury posts a redacted version of the new agreement for each transaction on the Treasury website ten business days from the closing date of the transaction.

Additionally, Treasury has posted all previously executed TARP agreements, except for approximately 78 CPP agreements. Treasury is working towards posting the remaining 78 CPP agreements, and expects to complete this task by November 1, 2009.

SIGTARP Recommendations 4:
Treasury should require all TARP recipients to report on the actual use of TARP funds.

Treasury's Response

Treasury has previously explained the alternative ways that Treasury has addressed concerns raised by the SIGTARP in our summary response dated July 2, 2009, and as described above, plans to expand its current quarterly report to capture all categories of uses of TARP funds identified by participants in response to SIGTARP's survey. As previously discussed, Treasury considers this recommendation closed.

SIGTARP Recommendation 5
Treasury should formalize its going-forward valuation methodology.

Please see response below under Recommendation 11.

SIGTARP Recommendation 11:
Treasury should formalize its valuation strategy and begin providing values of the TARP investments to the public.

Treasury's Response

Treasury agrees with SIGTARP that it is in the public interest to provide periodic disclosure of the estimated value of the TARP portfolio so that the public knows the value of the investments that Treasury has made. A valuation of the portfolio was previously provided as part of the President's 2010 Budget. Under Federal law, Treasury is required to provide a valuation of its investments in connection with the preparation of its annual financial statements. On November 16, 2009, Treasury will publish the financial statements for the fiscal year ended September 30, 2009. The methodology used for such valuation is governed by Federal accounting principles and the financial statements and the methodology are being audited by the GAO.

SIGTARP Recommendation 6:
Treasury should develop an overall investment strategy to address its portfolio of stocks and decide whether it intends to exercise warrants of common stock.

Treasury's Response

Treasury has been implementing this recommendation. In Treasury's July 2, 2009 response to the SIGTARP's April 21, 2009 Quarterly Report to Congress, Treasury described its investment strategy policy and asset management tenets prescribed by EESA. Treasury is refining the investment and asset management guidelines for CPP and the other programs which comprise the TARP portfolio. Such a strategy considers financial market stability and broader economic goals, taxpayer protection and transparency, a portfolio approach with discipline at the individual investment level, risk management at the portfolio, program and individual investment levels, and a disposition methodology which minimizes market disruption.

With respect to the recommendation on warrants, as previously stated in our summary response dated July 2, 2009, Treasury does not, at this time, intend to exercise the warrants except under certain circumstances related to mergers and acquisitions activity, although Treasury could consider exercising the warrants in the future. Treasury will review its policies from time to time to ensure they serve the goals of promoting financial stability and protecting the taxpayer. Treasury considers this recommendation closed.

SIGTARP Recommendation 20:
Treasury should significantly increase the staffing levels of OFS-Compliance and ensure the timely development and implementation of an integrated risk management and compliance program.

Treasury's Response

Treasury has made significant progress in increasing staffing levels in its compliance functions; notably, we now have a team of executive compensation professionals and a dedicated lead of conflicts has joined the OFS-Compliance staff (overseeing conflicts issues involving contractors and financial agents). A number of other hires are in various stages of the hiring process and we expect a number of additional hires to begin work in the next few weeks in various functions within OFS-Compliance, including anti-fraud, conflicts, reporting, and oversight. In addition, Treasury has posted job descriptions and is reviewing resumes and conducting interviews to fill remaining compliance positions at all levels in the organization. When fully staffed, the compliance department will have senior compliance professionals and supporting teams overseeing each TARP program.

In the meantime, the compliance staff is receiving assistance from other OFS personnel, including those in the risk management, financial management, home ownership preservation and investment areas, to ensure that TARP participants are meeting their responsibilities under the investment agreements. In addition, Treasury is using Freddie Mac, Fannie Mae, and contractors to provide substantive expertise and program monitoring services under the direction of the compliance staff.

SIGTARP Recommendation 27:
Additional anti-fraud protections should be adopted in MHA to verify the identity of the participants in the transaction and to address the potential for services to steal from individuals by receiving Government subsidies without applying them for the benefit of the homeowner.

Treasury's Response

Incentive payments to servicers include servicer incentives, investor payments, and borrower incentives. Payments represent (i) incentive payments to the servicer at the successful conclusion of the trial loan modification period (90-120 days) and (ii) payments to the servicer to be passed on to the investor as a partial offset to reduced interest income resulting from the loan modification. After one year (and annually thereafter, and for up to five years) payments to servicers also include borrower incentives, assuming the borrower is current, which would be applied to reduce the principal amount of the residential mortgage loan for the borrower.

Freddie Mac, Treasury's compliance agent for the Home Affordable Modification Program ("HAMP"), is in the process of refining procedures to verify that incentives paid

to servicers are applied to the respective borrower participating in HAMP, and to investors. These compliance procedures will be performed by Freddie Mac on each HAMP participating servicer by reviewing a random sample of serviced mortgage loans, starting in October, since cash payments have only just begun (Treasury made payments to just one HAMP servicer in August). Through this random sampling, Freddie Mac's procedures will look to verify that borrower incentives paid to servicers were properly applied to reduce the outstanding principal balance of the related borrower's residential mortgage loan by tracing the incentives allocated to such loan. Freddie Mac will also look to verify that the investor incentives have been passed through to the related investors. Additional procedures include loan file reviews performed by Freddie Mac to verify that the loan exists, and that the data submitted by the servicer to the HAMP system of record is accurate. Freddie Mac will also use third party databases to verify the existence of the mortgaged property.

Treasury does not believe that additional anti-fraud protections are necessary to identify borrowers and/or co-borrowers involved in HAMP because borrower incentives are in the form of a principal reduction of the related borrower's residential mortgage loan, and thus, no cash payments are made to the borrowers. In addition, controls are in place to ensure that borrowers can receive benefit for only one modification to a first lien loan and, if applicable, only one modification to a second lien loan.

Treasury also does not believe that additional anti-fraud protections are necessary to identify incentives paid to investors since the ownership of mortgage loans can change on a regular basis, as they are often traded in the secondary mortgage market, or in the case of any mortgage loans held in a securitization, the loans are held in a pooled trust and many investors may hold separate slices of this pooled trust. Freddie Mac will, as part of its servicer compliance reviews, reconcile on a sample basis the investor payments remitted to the servicer to verify that servicers are not retaining these incentives.

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM
1801 L STREET, NW, 4TH FLOOR
WASHINGTON, D.C. 20220

October 2, 2009

Herbert Allison
Assistant Secretary for Financial Stability
United States Department of the Treasury
Main Treasury Building
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Duane Morse
Chief Risk and Compliance Officer
Office of Financial Stability
United States Department of the Treasury
1801 L Street, NW
Washington, DC 20220

Re: HAMP Streamlined Borrower Evaluation Process

Dear Messrs. Allison and Morse:

Thank you for the briefing on the proposed streamlining of the HAMP application process and for the opportunity to review the draft Supplemental Directive. We appreciate the opportunity to provide our views prior to the rollout of the changes and wanted to give specific comments in three areas.

Verification of Residence. We were pleased to learn that Treasury will be retaining a contractor to obtain third-party verification of residence as part of the HAMP application approval process. As you know, SIGTARP previously recommended that such verification be obtained, and your decision to hire a contractor to do this should improve the efficacy of this protection. As we indicated before, however, we continue to encourage Treasury to obtain this information prior to funding the modification.

Homeowner Execution of Trial Plan Notice. We certainly understand the desire to streamline the process by eliminating the need for homeowner execution and return of the Trial Notice Plan. Our concern here is that reasonable steps be taken to ensure that homeowners are fully aware of their rights and obligations under HAMP. Although a signature from the homeowner unambiguously accomplishes this goal, other methods could serve the same purpose. Your recent suggestion, made in response to our concerns about the removal of this safeguard, that the servicer retain proof of mailing of the program details to the homeowner, when coupled with homeowner signature upon closing of the modification, should be a reasonable alternative.

Third-Party Income Verification. More problematic is Treasury's decision to do away with third-party income verification for most HAMP applicants. As you know, in light of the incentive to understate income inherent in the program, we previously recommended that Treasury require verifiable, third-party information about an applicant's income before modifications are approved. The program as currently constituted requires submission of last year's tax return or execution of IRS Form 4056-T. We understand why you have found the tax returns not particularly helpful — as you may recall, in our April Quarterly Report we suggested that tax return information "may be of limited value given the time lag between the last income tax return and the date of the application." In our view, your understandable frustrations with the always-problematic solution of using tax returns, however, should not result in an abandonment of the concept of obtaining third-party income verification. Applicant-

supplied documentation remains a substantial fraud risk, and we urge you to consider other ways to obtain third-party, verifiable information about an applicant's income.

Thank you again for the opportunity to comment on the changes to the HAMP. As always, please do not hesitate to contact us if you would like to discuss these issues further.

Very truly yours,

NEIL M. BAROFSKY
Special Inspector General

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 15, 2009

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General for the Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

RE: Response to SIGTARP Recommendations on Treasury's Changes to the HAMP Streamlined Borrower Evaluation Process

Dear Mr. Barofsky:

Thank you for providing comments on October 2, 2009 regarding the Streamlined Borrower Evaluation Process under the Home Affordable Modification Program (HAMP) published by the U.S. Department of the Treasury (Treasury). We appreciate the concerns that you raised in your letter, and fully agree with your recommendations. We have provided below our summary response that we believe satisfies your specific areas of concern with the HAMP Streamlined Borrower Evaluation Process.

SIGTARP Recommendation: Treasury should obtain third-party verification of residence prior to funding the modification.

Fannie Mae, Treasury's program administrator for HAMP, is developing a process to validate occupancy prior to funding the borrower's modification. If discrepancies or potential misrepresentations are identified, then servicers will be notified during the trial period and will be required to resolve the discrepancy prior to executing a final modification.

SIGTARP Recommendation: Treasury should verify that servicers retain proof of mailing of the program details to the homeowner.

We agree with your concern that homeowners are fully aware of their rights and obligations under HAMP. Specifically, Treasury requires the servicers to retain copies of all written communications with borrowers of HAMP program details (which would include the trial period plan notices), which is subject to compliance review by Freddie Mac at any time. In addition, the borrower is required to acknowledge the terms of the final modification by signing the final modification documents. We are also developing servicer operational metrics that will include measures of borrower follow-up.

SIGTARP Recommendation: Treasury should obtain third-party income verification from all borrowers.

We understand the importance of obtaining verifiable, third-party information about an applicant's income before a modification is approved. Under the new streamlined borrower evaluation process, all borrowers must now provide a signed and completed IRS Form 4506 (Request for Transcript of Tax Return). The IRS has worked with Treasury to create a new, simplified form for this request to be called Form 4506 EZ and has identified an expedited means through which servicers can obtain transcripts using the form. A servicer must submit the borrower's Form 4506--EZ to the IRS for processing unless the borrower provides a signed copy of his or her most recent federal income tax return, including all schedules and forms.

We share your commitment to oversight for all TARP programs. Thank you for your continuing efforts to help us improve our programs.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 19, 2009

Neil M. Barofsky
Special Inspector General
for the Troubled Assets Relief Program
United States Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Re: SIGTARP October Quarterly Report

Dear Mr. Barofsky:

The Treasury Department ("Treasury") appreciates the opportunity to review SIGTARP's October quarterly report to Congress on Treasury's Troubled Asset Relief Program. We welcome and largely agree with your comments and suggestions as Treasury continues to move forward in implementing the President's Financial Stability Plan and our other programs. In our ongoing efforts to use our programs to help promote financial stability while protecting taxpayer interests, we will take into account the points you raised in your upcoming quarterly report.

We wish to respond to a few statements in your discussion of recommendations. Specifically:

1. **PPIP Compliance Rule Amendments**. The Ensign-Boxer Amendment requires Treasury, "in consultation with [SIGTARP, to] impose strict conflict of interest rules" on PPIP fund managers. Your report acknowledges that Treasury has met this obligation with respect to PPIP, and our prior letter indicated that we intend to continue such consultations. We confirm that we will consult with you before making any material changes to the Compliance Rules.

2. **Access to PPIF Fund Manager Affiliates' Books and Records**. SIGTARP will have access on the same basis as Treasury to daily trading records for all transactions in eligible assets by any member of the manager's fund complex. These records go to the heart of the potential conflict concerns you have identified to us, because they allow you and us to detect quickly any trades by affiliates that may indicate activity in conflict with the interests of PPIP investors.

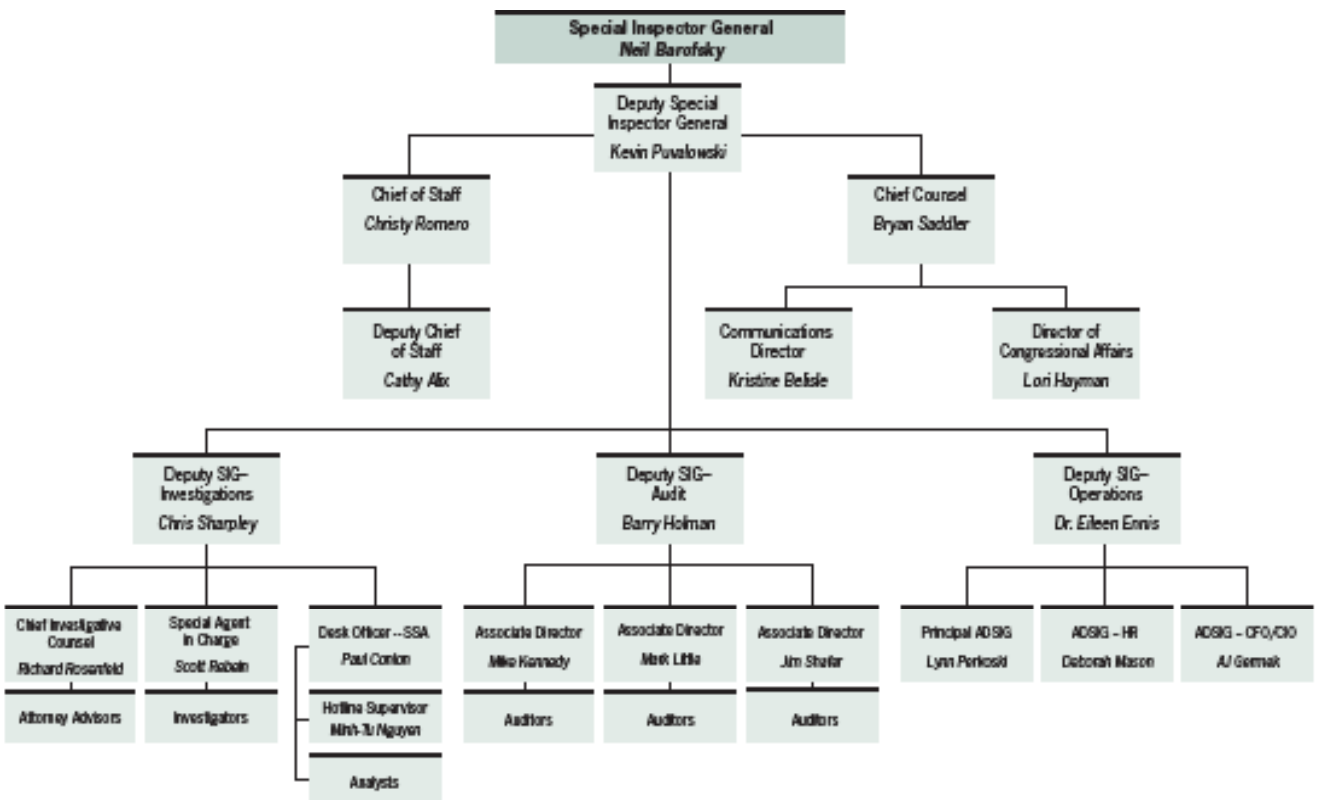
3. **Initial CPP and Bank of America Investments Audit**. Treasury wishes to clarify that our position remains to be fully committed to transparency. We agree that an important lesson of these earlier events is that transparency and effective communication are important to restoring and maintaining public confidence, especially during a financial crisis.

4. **Use of Funds**. Treasury has carefully considered this recommendation, and will issue reports that we believe will adequately address the transparency issues raised by SIGTARP. Our expanded quarterly report will cover all of the significant categories of uses reported in SIGTARP's Use of Funds Survey Responses, such as lending, investments, capital cushion, repayment of debt and acquisitions. Moreover, our report will be based upon data collected by bank regulators, rather than anecdotal, unquantified information provided by the banks, and will specify the actual level and changes of assets and liabilities related to each use of funds rather than simply identifying categories. Further, our report released each quarter will capture how uses of capital by banks are changing over time.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

ORGANIZATIONAL CHART



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SIGTARP

SIG-QR-09-04

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