TROUBLED ASSET RELIEF PROGRAM

Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency

What GAO Found

Treasury has taken a number of steps to stabilize U.S. financial markets and the banking system, including injecting billions of dollars in financial institutions. Through the capital purchase program (CPP)—a preferred stock and warrant purchase program—Treasury provided more than $150 billion in capital to 52 institutions as of November 25, 2008. GAO recognizes that TARP has existed for less than 60 days and that a new program of such magnitude faces many challenges, especially in this current uncertain economic climate. However, Treasury has yet to address a number of critical issues, including determining how it will ensure that CPP is achieving its intended goals and monitoring compliance with limitations on executive compensation and dividend payments. Moreover, further actions are needed to formalize transition planning efforts and establish an effective management structure and an essential system of internal control. To help ensure the program’s integrity, accountability, and transparency, GAO recommends that Treasury

- work with the bank regulators to establish a systematic means of determining and reporting in a timely manner whether financial institutions’ activities are generally consistent with the purposes of CPP and help ensure an appropriate level of accountability and transparency;
- develop a means to ensure that institutions participating in CPP comply with key program requirements (e.g., executive compensation, dividend payments, and the repurchase of stock);
- formalize the existing communication strategy to ensure that external stakeholders, including Congress, are informed about the program’s current strategy and activities and understand the rationale for changes in this strategy to avoid information gaps and surprises;
- facilitate a smooth transition to the new administration by building on and formalizing ongoing activities, including ensuring that key OFS leadership positions are filled during and after the transition;
- expedite OFS’s hiring efforts to ensure that Treasury has the personnel needed to carry out and oversee TARP;
- ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for Contracts priced on a time and materials basis, and move toward fixed-price arrangements whenever possible;
- continue to develop a comprehensive system of internal control over TARP, including policies, procedures, and guidance that are robust enough to protect taxpayers interests and ensure that the program objectives are being met;
- issue final regulations on conflicts of interest quickly and review and renegotiate mitigation plans to enhance specificity and compliance; and
- institute a system to effectively manage and monitor the mitigation of conflicts of interest.

To view the full product, including the scope and methodology, click on GAO-09-161. For more information, contact Thomas McCool (202)512-2642.
It is too soon to determine whether the program is having the intended effect on credit and financial markets. Moreover, given that U.S. regulators as well as foreign governments are continuing to take a variety of actions aimed at stabilizing markets and the economy, separately evaluating the impact of Treasury’s efforts under TARP will be difficult. Nevertheless, GAO has identified a number of preliminary indicators that when viewed collectively should signal whether TARP as well as other related programs may be functioning as intended. Among these preliminary indicators are trends in interest rate spreads, mortgage rates, mortgage originations, and foreclosures.

Treasury has operated on parallel tracks in implementing the act. The following timeline highlights key actions associated with program implementation to date.

**Timeline of Key Treasury Activities (Program Activities, Selection of Financial Agents and Contractors, and Organizational Activities), as of November 25, 2008**

**Program activities**

10/14: Treasury announces that it will purchase up to $250 billion in financial firms’ preferred stock under TARP via the Capital Purchase Program (CPP).

9 major financial institutions agree to participate in CPP.

Treasury issued executive compensation guidelines on Tuesday, October 14, for three TARP areas: CPP, Troubled Asset Auction Program, and Systemically Significant Failing Institutions (SSFI).

10/28: Treasury disburses capital injections to 8 of the 9 banks slated to participate in the first round of the CPP, resulting in the purchase of $115 billion in senior preferred shares of 8 national financial institutions.

11/10: Treasury announces that it will purchase $40 billion in senior preferred stock from the American International Group (AIG) under SSFI.

11/14: Deadline for financial institutions to apply for participation in CPP.

11/25: Treasury purchases $40 billion in senior preferred shares from AIG under the SSFI program.

10/20: Treasury, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation issue application guidelines and other documents for all banks wishing to participate in CPP.

10/31: Treasury issues form documents for publicly traded financial institutions applying for CPP participation.

11/17: Treasury announces purchases of almost $33.6 billion in senior preferred shares from 21 financial institutions under CPP.

11/21: Treasury purchases about $2.9 billion in senior preferred shares from 23 financial institutions under CPP.

**Selection of financial agents and contractors**

10/6: Treasury solicits financial institutions interested in providing custodial and asset management services for TARP.

10/13: Treasury announces it will contract with EnnisKnupp & Associates to provide investment consultant services on TARP.

10/16: Treasury announces award of contract to Simpson, Thacher & Bartlett to provide legal advice on the implementation of the act.

10/29: Treasury contracts with Hughes Hubbard & Reed, LLP, and Squire Sanders & Dempsey, LLP to provide legal advice on implementation of CPP.

10/14: Treasury announces Bank of New York Mellon selected as financial agent to provide custodial services for TARP.

11/7: Treasury announces solicitation for financial agents to provide Equity, Debt, Warrants Asset Management Services to implement CPP.

**Organizational activities**

10/6: Treasury Secretary appoints Interim Assistant Secretary of the Treasury for Financial Stability to oversee the Office of Financial Stability (OFS).

10/7: First meeting of the Financial Stability Oversight Board, established under the act.

10/13: Treasury identifies individuals to fill chief positions within the OFS on an interim basis.

11/12: Secretary Paulson provides update on priorities for spending remaining TARP funds, including plans to provide support for securitizing credit outside of the banking system.

10/22: Treasury Department announces appointment of Interim Chief Investment Officer for TARP.

Source: GAO.