



United States Government Accountability Office  
Washington, DC 20548

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September 16, 2011

Congressional Committees

Subject: *TROUBLED ASSET RELIEF PROGRAM: Status of GAO  
Recommendations to Treasury*

Nearly 3 years ago, the Emergency Economic Stabilization Act of 2008 (EESA) authorized the creation of the Troubled Asset Relief Program (TARP) to address the most severe crisis that the financial system had faced in decades.<sup>1</sup> EESA provided GAO with broad oversight authorities for actions taken under TARP and required that we report at least every 60 days on TARP activities and performance. Our oversight and reporting has resulted in 69 performance audit recommendations and matters for congressional consideration to improve TARP's accountability and transparency. Sixty of the performance audit recommendations have been directed to the U.S. Department of the Treasury (Treasury), the primary agency responsible for TARP programs.<sup>2</sup> While Treasury has taken a number of steps to address many of our recommendations, some recommendations remain outstanding.

This 60-day report describes the status of our TARP performance audit recommendations to Treasury as of September 2011.<sup>3</sup> In particular, this report discusses Treasury's implementation of our recommendations, focusing particularly on two cross-cutting issues—communications and staffing—and two major TARP programs, the Capital Purchase Program (CPP), which supports certain U.S. financial institutions, and Making Home Affordable (MHA), which is a collection of housing programs designed to help certain homeowners avoid foreclosure. Enclosure I provides the status of recommendations we have made since 2008, by report.

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<sup>1</sup>EESA, Pub. L. No. 110-343, 122 Stat. 3765 (2008), codified at 12 U.S.C. §§ 5201 *et seq.* EESA was enacted on October 3, 2008.

<sup>2</sup>Six recommendations, for the Capital Assessment Program and the Supervisory Capital Assessment Program, were directed to the Board of Governors of the Federal Reserve System (see reports GAO-09-658 and GAO-10-861 in enclosure I). Another recommendation, for the Automotive Industry Financing Program (AIFP), was directed to the Department of Labor (see GAO-11-471). In addition, we made two matters for congressional consideration related to the Term Asset-Backed Securities Loan Facility and AIFP (see [GAO-10-25](#) and [GAO-11-471](#)).

<sup>3</sup>Our financial audit recommendations will be updated in a separate product.

To determine the status of Treasury’s implementation of TARP recommendations, we assessed public and internal documentation, including data, policies, and procedures, and spoke with Treasury officials. We conducted this performance audit from June 2011 through September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

Of the TARP recommendations we have made, some were program-specific while others addressed cross-cutting issues like staffing and communications. Our program-specific recommendations have focused on the following TARP initiatives:<sup>4</sup>

- **American International Group (AIG) (formerly Systemically Significant Failing Institutions Program)**, which provided support to AIG to avoid disruptions to financial markets from its failure.
- **Automotive Industry Financing Program (AIFP)**, which aimed to prevent a significant disruption of the American automotive industry through government investments in the major automakers.
- **Capital Assessment Program (CAP)**, which was created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program (SCAP)—or “stress test”—requirements. This program was never used.
- **CPP**, which was designed to provide capital to financially viable financial institutions through the purchase of preferred shares and subordinated debentures.
- **Consumer and Business Lending Initiative**, which consists of multiple programs:
  - **The Community Development Capital Initiative (CDCI)** provided capital to Community Development Financial Institutions by purchasing preferred stock.

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<sup>4</sup>This list includes TARP programs for which we have made recommendations. Comprehensive information on all TARP programs can be found in our two previous anniversary reports: GAO, *Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations*, [GAO-11-74](#) (Washington, D.C.: Jan. 12, 2011) and GAO, *Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges*, [GAO-10-16](#) (Washington, D.C.: Oct. 8, 2009).

- **SBA 7(a) Securities Purchase Program** provided liquidity to secondary markets for government-guaranteed small business loans in SBA's 7(a) loan program.
- **Term Asset-backed Securities Loan Facility (TALF)** provided liquidity in securitization markets for various asset classes to improve access to credit for consumers and businesses.
- **MHA**, which includes, among other housing programs:
  - The **Home Affordable Modification Program (HAMP)**, under which Treasury shares the cost of reducing monthly payments on first-lien mortgages with mortgage holders/investors and provides financial incentives to servicers, borrowers, and mortgage holders/investors for loans modified under the program.
  - The **Second-Lien Modification Program**, which provides incentives for second-lien holders to modify or extinguish a second-lien mortgage when a HAMP modification has been initiated on the first-lien mortgage for the same property.
  - **Home Affordable Foreclosure Alternatives** provides incentives for short sales and deeds-in-lieu of foreclosure as alternatives to foreclosure for borrowers who are unable or unwilling to complete the HAMP first-lien modification process.

**Treasury Has Implemented Three-Quarters of Our TARP Recommendations, but a Number Related to CPP and the Housing Programs Remain Open**

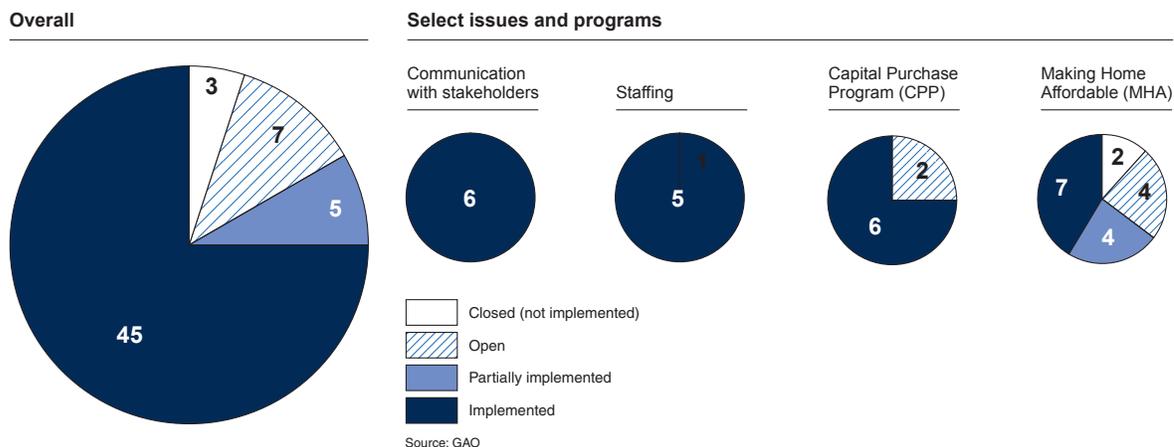
Treasury has addressed most TARP recommendations that we have made since issuing our first report in 2008. Of 60 recommendations that were directed to Treasury, 45 had been implemented as of September 2011, including those related to communication and staffing (see fig. 1).<sup>5</sup> Treasury has partially implemented five of the recommendations, meaning that it has taken some steps to implement the recommendations but needs to take further actions to fully implement them. Seven of our recommendations remain open—that is, Treasury has not taken steps to implement the recommendations. Among these are recommendations directed at CPP and the housing programs under MHA. Another three recommendations are closed, but not implemented, reflecting Treasury's decision not to take action. For example, Treasury has indicated that it does not intend to assess whether borrowers with high debt-to-income ratios actually

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<sup>5</sup>In addition to our 69 performance audit recommendations and matters for congressional consideration, we made 29 recommendations to Treasury in our financial audits. Of the 29 financial audit recommendations, 16 have been implemented (as reported in *Management Report: Improvements Are Needed in Internal Control Over Financial Reporting for the Troubled Asset Relief Program*, [GAO-11-434R](#) [Washington, D.C.: Apr. 18, 2011]) and 13 remain open and are being reassessed as part of our 2011 financial statement audit.

receive housing counseling required as a condition for MHA program participation or establish specific criteria for servicers to use in determining whether a borrower is in imminent danger of default during the MHA eligibility assessment process.

**Figure 1: Number and Status of TARP Recommendations to Treasury**



Note: For communication and staffing recommendations that are program specific, we categorized them under their respective programs.

### Treasury Has Responded to Our Recommendations for Improving Its Communication and Staffing Strategies

When Treasury first created the Office of Financial Stability (OFS) to administer TARP, the new office did not always clearly communicate its goals and objectives for TARP to the public and to Congress. A number of our early recommendations were directed specifically at improving the way OFS communicates with external stakeholders, including Congress. For example, in 2008 and 2009 we recommended that OFS formalize its communication strategy and clearly articulate its vision for TARP. OFS took steps to address these recommendations starting in 2009 and has now fully implemented all of them. In particular, in March 2011 OFS hired its own senior liaison for legislative affairs to focus on sharing TARP-specific information with Congress and to answer questions about TARP programs. However, we will continue to monitor this issue while Treasury carries out its housing-related programs and unwinds remaining TARP programs.

Treasury has also enhanced its workforce planning to better anticipate and address current and future staffing challenges. As we have previously reported, Treasury initially staffed OFS with detailees from other federal agencies and newly hired term appointments.<sup>6</sup> Now that OFS has become more established, it no longer has detailees from other agencies and has been detailing some of its staff

<sup>6</sup>GAO-11-74.

to other Treasury programs, such as the Small Business Lending Fund (SBLF).<sup>7</sup> OFS staffing numbers have also generally stabilized, although they have declined slightly since we last reported on this issue. Specifically, as of July 2011, OFS had 207 employees compared to 219 in September 2010. More than half of OFS's staff are in term appointments that will expire over the next 3 years.<sup>8</sup>

Given these characteristics of OFS staffing, we recommended that OFS finalize its staffing plan to help ensure that it could retain and attract the requisite expertise and that the plan address staffing turnover for term-appointed employees, including key Senior Executive Service (SES) positions. This year Treasury addressed this recommendation by completing a staffing plan that considered the potential challenges that OFS faces. For example, OFS has identified critical personnel, including those in term appointments, and potential successors for them. This plan should help Treasury prepare for staff turnover as term appointments expire throughout the office. The plan should also help OFS maintain important expertise for housing programs and asset management as the remaining TARP programs wind down. We will continue to review workforce planning documentation and expect to issue a report in January 2012 with updates on OFS's staffing.

#### Treasury Has Applied Lessons Learned from CPP but Has not Taken Action to Monitor Regulators' CPP Repayment Decisions

Treasury has implemented our recommendation to apply lessons learned from CPP to SBLF but has not taken action to monitor regulators' CPP repayment decisions. Our October 2010 report recommended that Treasury apply lessons learned to programs containing elements similar to those of CPP.<sup>9</sup> Specifically, we recommended that when implementing SBLF, Treasury should better ensure that similar applicants are treated equitably by establishing a process for collecting and evaluating information from bank regulators on all applicants that withdraw from consideration in response to a regulator's recommendation. For SBLF, the roles of Treasury and the regulators have been modified: Treasury officials make the recommendations for approval and withdrawal with final approval made by the Treasury Deputy Assistant Secretary for Small Business, Community Development, and Affordable Housing Policy. The role of the regulators is to provide supervisory information and a viability assessment to Treasury, with Treasury also independently conducting a credit analysis of each applicant. To help ensure consistent treatment of applicants, Treasury created an application

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<sup>7</sup>SBLF was created by the Small Business Jobs Act of 2010, Pub. L. No. 111-240, 124 Stat. 2504 (2010), enacted on September 27, 2010. SBLF is a \$30 billion capital support program that encourages small and midsize banks and community development loan funds to lend to small businesses.

<sup>8</sup>[GAO-11-74](#) includes more detailed information on staffing trends from November 2008 through September 2010. According to Treasury officials, OFS had 207 staff as of July 6, 2011, with 115 term appointments.

<sup>9</sup>GAO, *Troubled Asset Relief Program: Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process*, [GAO-11-47](#) (Washington, D.C.: Oct. 4, 2010).

review committee that reviews all applicants when the federal regulator's input concluded that the applicant was not viable for the program. Treasury's lead role in recommending applicants for funding and this additional review step should help to ensure that applicants receive consistent treatment in investment decisions.<sup>10</sup>

However, Treasury has no plans to review and provide feedback to regulators on their CPP repayment decisions. Similar to the recommendation in our June 2009 report, we recommended in October 2010 that Treasury periodically collect and review information on the analysis supporting regulators' decisions on CPP repayment requests and provide feedback for regulators' consideration on the extent to which similar institutions are being evaluated consistently.<sup>11</sup> Although Treasury agrees with the objectives of our recommendation, it has not implemented this recommendation, citing concerns that this recommendation raises questions about how to balance the goals of consistency with the need to respect regulators' independence. Treasury also stated that it does not have access to confidential supervisory information that regulators may use in making repayment decisions, potentially limiting the information collection and review envisioned in our recommendation. But as we noted in our 2010 report, the two regulators with responsibility for most CPP repayment requests document their analysis in much the same way that they document the analysis they send to Treasury when recommending CPP applicants. As a result, we recommended that Treasury collect and review this type of documentation. We continue to believe that because CPP is a TARP program, Treasury has a responsibility to help ensure that participants are being treated equitably and that this can be achieved in a way that balances the goals of consistency and respect for the independence of regulators.

### Continued Attention on Recommendations Intended to Improve the Housing Programs Is Needed

Since 2009, we have issued a series of reports and testimonies on MHA programs, including four reports and testimonies that were issued this year.<sup>12</sup> Through these products, we have made 17 recommendations to improve

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<sup>10</sup>The Small Business Jobs Act of 2010 requires that GAO annually report on the SBLF program. We anticipate issuing a report on this program later this year that will assess the internal controls that Treasury put in place to ensure compliance with program rules and consistent treatment of applicants.

<sup>11</sup>See GAO, *Troubled Asset Relief Program: June 2009 Status of Efforts to Address Transparency and Accountability Issues*, [GAO-09-658](#) (Washington, D.C.: June 17, 2009), and [GAO-11-47](#).

<sup>12</sup>See GAO, *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, [GAO-09-837](#) (Washington, D.C.: July 23, 2009); *Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs*, [GAO-10-634](#) (Washington, D.C.: June 24, 2010); *Troubled Asset Relief Program: Actions Needed by Treasury to Address Challenges in Implementing Making Home Affordable Programs*, [GAO-11-338T](#) (Washington, D.C.: Mar. 2, 2011); and [GAO-11-288](#). Additionally, we reported on results of a survey we conducted of housing counselors as part of our oversight of Treasury's MHA program implementation. See GAO, *Troubled Asset Relief Program: Results of Housing Counselors Survey on Borrowers' Experiences with the Home Affordable Modification Program*, [GAO-11-367R](#) (Washington, D.C.: May 26, 2011) and corresponding e-supplement, [GAO-11-368SP](#).

Treasury's MHA programs. Treasury has taken actions to implement some of our recommendations, including the following:<sup>13</sup>

- In 2010, we reported that some servicers that we contacted were not systematically tracking HAMP complaints or their resolutions—potentially resulting in inconsistent treatment of similarly situated borrowers. Treasury subsequently revised its guidelines to servicers for MHA programs on the types of borrower complaints they are to track, including requirements related to the tracking and timeliness of the handling and escalation process for these complaints.
- In 2010, we found significant variations in servicers' quality assurance programs for HAMP. Treasury has since issued program guidelines that provided additional clarification on servicers' responsibilities for developing and executing an effective internal quality assurance program covering MHA activities.
- In 2010, we reported that Treasury had not formalized a policy to assess remedies or established specific consequences or penalties for servicer noncompliance with HAMP guidelines. Consequently, Treasury has begun publishing quarterly assessments of the performance of participating servicers in meeting the requirements for implementing MHA programs and has imposed monetary sanctions on servicers that have been identified as needing to substantially improve their performance in meeting MHA program requirements.

While Treasury has implemented or partially implemented some of our recommendations related to its MHA programs, continued attention to our other MHA-related recommendations is needed. In March 2011 we reported on the implementation of newer MHA programs, specifically the TARP-funded second-lien modification, foreclosure alternatives, and principal reduction programs. Similar to the problems we identified with HAMP, we noted that Treasury has experienced challenges in implementing the newer MHA programs. For example, we noted that relatively few second liens had been modified under MHA and that more could be done to inform potentially eligible borrowers about the program. We also reported that the majority of servicers for which readiness reviews had been conducted had not provided all the documentation required to demonstrate that the key tasks needed to support the newer MHA programs were in place, and consequently recommended that Treasury ensure that these servicers have the operational capacity and infrastructure in place to successfully implement the newer MHA programs. Lastly, we reported that while Treasury had begun reporting the outcomes for borrowers who had been denied or cancelled from HAMP trial modification, weaknesses in Treasury's data collection hampered its ability to determine whether borrowers were receiving effective assistance outside of HAMP and whether additional actions may

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<sup>13</sup>[GAO-10-634](#).

be needed to assist them. To date, Treasury has agreed with the recommendations but has not yet implemented any of these recommendations.

### **Agency Comments and Our Evaluation**

We provided Treasury a draft copy of this report for review and comment and we received written comments from the Assistant Secretary for Financial Stability, which are reprinted in enclosure II. In its written comments, Treasury agreed with our characterization of the progress Treasury has made implementing our recommendations to improve the accountability and transparency of TARP. Treasury also noted that it continues to work with the banking agencies regarding our recommendation related to CPP. As we state in the report, we continue to believe that Treasury can take steps to achieve greater consistency while also respecting regulatory independence. Finally, Treasury stated that it continues to work to address our MHA recommendations that remain open. We will continue to evaluate information that Treasury provides about its progress implementing the remaining open recommendations.

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We are sending copies of this report to the appropriate congressional committees. This report will also be available at no charge on our Web site at <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-8678 or [clowersa@gao.gov](mailto:clowersa@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in enclosure III.



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Financial Markets and  
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Enclosures

## List of Congressional Committees

The Honorable Daniel K. Inouye  
Chairman  
The Honorable Thad Cochran  
Vice Chairman  
Committee on Appropriations  
United States Senate

The Honorable Tim Johnson  
Chairman  
The Honorable Richard C. Shelby  
Ranking Member  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate

The Honorable Kent Conrad  
Chairman  
The Honorable Jeff Sessions  
Ranking Member  
Committee on the Budget  
United States Senate

The Honorable Max Baucus  
Chairman  
The Honorable Orrin G. Hatch  
Ranking Member  
Committee on Finance  
United States Senate

The Honorable Hal Rogers  
Chairman  
The Honorable Norm Dicks  
Ranking Member  
Committee on Appropriations  
House of Representatives

The Honorable Paul Ryan  
Chairman  
The Honorable Chris Van Hollen  
Ranking Member  
Committee on the Budget  
House of Representatives

The Honorable Spencer Bachus  
Chairman  
The Honorable Barney Frank  
Ranking Member  
Committee on Financial Services  
House of Representatives

The Honorable Dave Camp  
Chairman  
The Honorable Sander Levin  
Ranking Member  
Committee on Ways and Means  
House of Representative

**Status of TARP Recommendations by Product, as of September 2011**

The following table summarizes the status of TARP recommendations that we have made to date. We classify each recommendation as implemented, partially implemented (the agency took steps to implement the recommendation but more work remains), open (the agency has not taken steps to implement the recommendation), and closed, not implemented (the agency decided not to take action to implement the recommendation).

<b>GAO Recommendations</b>	<b>Status</b>
<b>Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency: GAO-09-161, December 2, 2008</b>	
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 the Capital Purchase Program (CPP) and help ensure an appropriate level of accountability and transparency.	Implemented
Develop a means to ensure that institutions participating in CPP comply with key program requirements (for example, executive compensation, dividend payments, and the repurchase of stock).	Implemented
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.	Implemented
Facilitate a smooth transition to the new administration by building on and formalizing ongoing activities, including ensuring that key Office of Financial Stability (OFS) leadership positions are filled during and after the transition.	Implemented
Expedite OFS's hiring efforts to ensure that the Department of the Treasury (Treasury) has the personnel needed to carry out and oversee the Troubled Asset Relief Program (TARP).	Implemented
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.	Implemented
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.	Implemented
Issue final regulations on conflicts of interest involving Treasury's agents, contractors, and their employees and related entities as expeditiously as possible and review and renegotiate mitigation plans, as necessary, to enhance specificity and compliance with the new regulations once they are issued.	Implemented
Institute a system to effectively manage and monitor the mitigation of conflicts of interest.	Implemented
<b>Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues: GAO-09-296, January 30, 2009</b>	
Expand the scope of planned monthly CPP surveys to include collecting at least some information from all institutions participating in the program.	Implemented
Ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants.	Implemented
Establish a process to ensure compliance with all CPP requirements, including those associated with limitations on dividends and stock repurchase restrictions.	Implemented
Communicate a clearly articulated vision for TARP and show how all individual programs are intended to work in concert to achieve that vision. This vision should incorporate actions to preserve homeownership. Once this vision is clearly articulated, Treasury should document needed skills and competencies.	Implemented
Continue to expeditiously hire personnel needed to carry out and oversee TARP.	Implemented

Enclosure I

<b>GAO Recommendations</b>	<b>Status</b>
Expedite efforts to 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 as program requirements are better defined over time.	Implemented
Develop a comprehensive system of internal control over TARP activities, including policies, procedures, and guidance that are robust enough to ensure that the program's objectives and requirements are met.	Implemented
Develop and implement a well-defined and disciplined risk-assessment process, as such a process is essential to monitoring program status and identifying any risks of potential inadequate funding of announced programs.	Implemented
Review and renegotiate existing conflict-of-interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflicts of interest regulation, and take continued steps to manage and monitor conflicts of interest and enforce mitigation plans.	Implemented
<b>Troubled Asset Relief Program: March 2009 Status of Efforts to Address Transparency and Accountability Issues: <a href="#">GAO-09-504</a>, March 31, 2009</b>	
Develop a communication strategy that includes building an understanding and support for the various components of the program. Specific actions could include hiring a communications officer, integrating communications into TARP operations, scheduling regular and ongoing contact with congressional committees and members, holding town hall meetings with the public across the country, establishing a counsel of advisors, and leveraging available technology.	Implemented
Require that American International Group, Inc. (AIG) seek concessions from stakeholders, such as management, employees, and counterparties, including seeking to renegotiate existing contracts, as appropriate, as it finalizes the agreement for additional assistance.	Closed, not implemented
Update OFS documentation of certain internal control procedures and the guidance available to the public on determining warrant exercise prices to be consistent with actual practices applied by OFS.	Implemented
Improve transparency pertaining to TARP program activities by reporting publicly the monies, such as dividends, paid to Treasury by TARP participants.	Implemented
Complete the review of, and as necessary renegotiate, the four existing vendor conflicts-of-interest mitigation plans to enhance specificity and conformity with the new interim conflicts-of-interest rule.	Implemented
Issue guidance requiring that key communications and decisions concerning potential or actual vendor-related conflicts of interest be documented.	Implemented
<b>Troubled Asset Relief Program: June 2009 Status of Efforts to Address Transparency and Accountability Issues: <a href="#">GAO-09-658</a>, June 17, 2009</b>	
Ensure that the warrant valuation process maximizes benefits to taxpayers and consider publicly disclosing additional details regarding the warrant repurchase process, such as the initial price offered by the issuing entity and Treasury's independent valuations, to demonstrate Treasury's attempts to maximize the benefit received for the warrants on behalf of the taxpayer.	Implemented
In consultation with the Chairmen of the Federal Deposit Insurance Corporation (FDIC) and the Chairman of the Board of Governors of the Federal Reserve System (Federal Reserve), the Comptroller of the Currency, and the Acting Director of the Office of Thrift Supervision, ensure consideration of generally consistent criteria by the primary federal regulators when considering repurchase decisions under TARP.	Open
Fully implement a communication strategy that ensures that all key congressional stakeholders are adequately informed and kept up to date about TARP.	Implemented
Expedite efforts to conduct usability testing to measure the quality of users' experiences with the financial stability Web site and measure customer satisfaction with the site, using appropriate tools such as online surveys, focus groups, and e-mail feedback forms.	Implemented

Enclosure I

<b>GAO Recommendations</b>	<b>Status</b>
Explore options for providing to the public more detailed information on the costs of TARP contracts and agreements, such as a dollar breakdown of obligations and/or expenses.	Implemented
To help improve the transparency of the Capital Assistance Program (CAP)—in particular the stress tests results—we recommend that the Director of Supervision and Regulation of the Federal Reserve consider periodically disclosing to the public the aggregate performance of the largest 19 U.S. bank holding companies against the more adverse scenario forecast numbers for the duration of the 2-year forecast period and whether or not the scenario needs to be revised. At a minimum, the Federal Reserve should provide the aggregate performance data to OFS program staff for any of the 19 institutions participating in CAP or CPP.	Implemented <sup>a</sup>
<b>Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable: <a href="#">GAO-09-837</a>, July 23, 2009</b>	
Consider methods of monitoring whether borrowers with total household debt of more than 55 percent of their income who have been told that they must obtain housing counseling do so, and assess how this counseling affects the performance of modified loans to see if the requirement is having its intended effect of limiting redefaults.	Closed, not implemented
Re-evaluate the basis and design of the Home Price Decline Protection (HPDP) program to ensure that Home Affordable Modification Program (HAMP) funds are being used efficiently to maximize the number of borrowers who are helped under HAMP and to maximize overall benefits of utilizing taxpayer dollars.	Implemented
Institute a system to routinely review and update key assumptions and projections about the housing market and the behavior of mortgage holders, borrowers, and servicers that underlie Treasury’s projection of the number of borrowers whose loans are likely to be modified under HAMP and revise the projection as necessary in order to assess the program’s effectiveness and structure.	Implemented
Place a high priority on fully staffing vacant positions in the Homeownership Preservation Office (HPO)—including filling the position of Chief Homeownership Preservation Officer with a permanent placement—and evaluate HPO’s staffing levels and competencies to determine whether they are sufficient and appropriate to effectively fulfill its HAMP governance responsibilities.	Partially implemented
Expediently finalize a comprehensive system of internal control over HAMP, including policies, procedures, and guidance for program activities, to ensure that the interests of both the government and taxpayer are protected and that the program objectives and requirements are being met once loan modifications and incentive payments begin.	Implemented
Expediently develop a means of systematically assessing servicers’ capacity to meet program requirements during program admission so that Treasury can understand and address any risks associated with individual servicers’ abilities to fulfill program requirements, including those related to data reporting and collection.	Implemented
<b>Troubled Asset Relief Program: One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges: <a href="#">GAO-10-16</a>, October 8, 2009</b>	
Consider TARP in a broad market context, and as part of determining whether to extend TARP, work with the Chairmen of the Federal Reserve and FDIC to develop a coordinated framework and analytical basis to determine whether an extension is needed. And if so, clearly spell out what objectives and measures of any extended programs would be, along with anticipated costs and safeguards.	Implemented
Document its analytical decision-making process and clearly communicate the results to Congress and the American people for determining whether an extension is needed.	Implemented
Update its projected use of funds and if the program is extended, continue to re-evaluate them on a periodic basis.	Implemented

GAO Recommendations	Status
<b>Troubled Asset Relief Program: Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM: <a href="#">GAO-10-151</a>, November 2, 2009</b>	
Ensure that Treasury has the expertise needed to adequately monitor and divest the government's investment in Chrysler Group LLC (Chrysler) and General Motors Company (GM), and obtain needed expertise in areas where gaps are identified (either through in-house or external means).	Implemented
Report to Congress on Treasury's plans to assess and monitor the auto companies' performance and ability to repay their loans. When reporting, balance the need for transparency with need to protect proprietary information.	Implemented
Develop criteria for evaluating the optimal method and timing for divesting the government's ownership stake in Chrysler and GM, including evaluating the full range of available options, such as initial public offerings or private sales.	Implemented
<b>Troubled Asset Relief Program: Treasury Needs to Strengthen Its Decision-Making Process on the Term Asset-Backed Securities Loan Facility: <a href="#">GAO-10-25</a>, February 5, 2010</b>	
To enable GAO to audit TARP support for the Term Asset-Backed Securities Loan Facility (TALF) most effectively, Congress may wish to provide GAO with audit authority over all Federal Reserve operational and administrative actions taken with respect to TALF, together with appropriate access authority.	Implemented <sup>b</sup>
To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, given the distressed conditions in the commercial real estate market, as part of its ongoing monitoring of TALF collateral, the Secretary of the Treasury should direct OFS to continue to give greater attention to reviewing risks posed by commercial mortgage-backed securities.	Implemented
To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, the Secretary of the Treasury should direct OFS to strengthen the process for making major program decisions for TALF and document how it arrives at final decisions with the Federal Reserve and the Federal Reserve Bank of New York (FRBNY). Such decisions should include how Treasury considers expert and contractor recommendations and resolves those recommendations that differ from those of the Federal Reserve and FRBNY.	Implemented
To improve transparency of decision making on the use of TARP funds for TALF and to ensure adequate monitoring of risks related to TALF collateral, the Secretary of the Treasury should direct OFS to conduct a review of what data to track and metrics to disclose to the public in the event that TALF LLC purchases surrendered assets from FRBNY. Such data and metrics should relate to the purchase, management, and sale of assets in TALF LLC that potentially impact TARP funds. Metrics related to TALF LLC could include periodic reports on the date and purchase price of assets; fluctuations in the market value of assets held; the date, price, and rationale when assets are sold; and the total amount of loans outstanding to Treasury.	Implemented
<b>Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs: <a href="#">GAO-10-634</a>, June 24, 2010</b>	
Establish clear and specific criteria for determining whether a borrower is in imminent default to ensure greater consistency across servicers.	Closed, not implemented
Develop additional guidance for servicers on their quality assurance programs for HAMP, including greater specificity on how to categorize loans for sampling and what servicers should be evaluating in their reviews.	Implemented
Specify which complaints servicers should track to ensure consistency and to facilitate program oversight and compliance.	Implemented
More clearly inform borrowers that the HOPE Hotline may also be used if they are having difficulty with their HAMP application or servicer or feel that they have been incorrectly denied HAMP, monitor the effectiveness of the HOPE Hotline as an escalation process for handling borrower concerns about potentially incorrect HAMP denials, and develop an improved escalation mechanism if the HOPE Hotline is not sufficiently effective.	Partially implemented

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GAO Recommendations	Status
Finalize and issue consequences for servicer noncompliance with HAMP requirements as soon as possible.	Implemented
Report activity under the principal reduction program, including the extent to which servicers determined that principal reduction was beneficial to investors but did not offer it, to ensure transparency in the implementation of this program feature across servicers.	Partially implemented
Finalize and implement benchmarks for performance measures under the first-lien modification program, as well as develop measures and benchmarks for the recently announced TARP-funded homeowner assistance programs.	Partially implemented
Implement a prudent design for remaining TARP-funded housing programs.	Open
<b>Troubled Asset Relief Program: Treasury's Framework for Deciding to Extend TARP Was Sufficient, but Could be Strengthened for Future Decisions: <a href="#">GAO-10-531</a>, June 30, 2010</b>	
Formalize and document coordination with the Chairman of the FDIC for decisions associated with the expiration of TARP (1) by including the Chairman at relevant FinSOB meetings, (2) through formal bilateral meetings, or (3) by utilizing other forums that accommodate more structured dialogue.	Partially implemented
Publicly identify clear program objectives, the expected impact of programs, and the level of additional resources needed to meet those objectives. Set quantitative program objectives for its small business lending programs and identify any additional data needed to make program decisions.	Open
<b>Troubled Asset Relief Program: Bank Stress Test Offers Lessons as Regulators Take Further Actions to Strengthen Supervisory Oversight: <a href="#">GAO-10-861</a>, September 29, 2010</b>	
To gain a better understanding of the Supervisory Capital Assistance Program (SCAP) and inform the use of similar stress tests in the future, the Federal Reserve should compare the performance of the 19 largest bank holding companies against the more adverse scenario projections following the completion of the 2-year period covered in the SCAP stress test ending December 31, 2010, and disclose the results of the analysis to the public.	Open <sup>a</sup>
The Federal Reserve, in consultation with the other banking regulators, should develop a plan that reconciles the divergent views on transparency and allows for increased transparency in the regular supervisory process. Such a plan should, at a minimum, outline steps for releasing supervisory methodologies and analytical results for stress testing.	Open <sup>a</sup>
The Federal Reserve, in consultation with the other banking regulators, should develop more specific criteria to include in its guidance to examiners for assessing the quality of stress tests and how these tests inform bank holding companies' capital adequacy planning. These guidelines should clarify the stress testing procedures already incorporated into banking regulations and incorporate lessons learned from SCAP.	Open <sup>a</sup>
The Federal Reserve, in consultation with the other banking regulators, should fully develop its plan for maintaining and improving the use of data, risk identification and assessment infrastructure, and requisite systems in implementing its supervisory functions and new responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). This plan should also ensure the dissemination of these enhancements throughout the Federal Reserve System and other financial regulators, as well as new organizations established in the Dodd-Frank Act.	Open <sup>a</sup>
The Federal Reserve, in consultation with the other banking regulators, should take further steps to more effectively coordinate and communicate among the banking regulators, including that all applicable agencies are included in discussions and decisions regarding multi-agency activities, such as horizontal examinations of financial institutions.	Open <sup>a</sup>

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GAO Recommendations	Status
<b>Troubled Asset Relief Program: Opportunities Exist to Apply Lessons Learned from the Capital Purchase Program to Similarly Designed Programs and to Improve the Repayment Process: <a href="#">GAO-11-47</a>, October 4, 2010</b>	
Apply lessons learned from the implementation of CPP to similar programs, such as Small business Lending Fund (SBLF), and enhance procedural controls for addressing the risk of inconsistency in regulators' decisions on withdrawals. Specifically, establish a process for collecting information from federal bank regulators on all applicants that withdraw from consideration in response to a regulator's recommendation, including the reasons behind the recommendation. Evaluate the information to identify trends or patterns that may indicate whether similar applicants were treated inconsistently across different regulators and take action, if necessary, to help ensure a more consistent treatment.	Implemented
Periodically collect and review certain information from federal bank regulators on the analysis and conclusions supporting their decisions on CPP repayment requests and provide feedback for the regulators' consideration on the extent to which regulators are evaluating similar institutions consistently.	Open
<b>Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations: <a href="#">GAO-11-74</a>, January 12, 2011</b>	
OFS should finalize a plan for addressing how it will manage its workforce, in particular term-appointed employees and key SES positions, including plans for various staffing scenarios.	Implemented
<b>Troubled Asset Relief Program: Treasury Continues to Face Implementation Challenges and Data Weaknesses in Its Making Home Affordable Program: <a href="#">GAO-11-288</a>, March 17, 2011</b>	
Require servicers to advise borrowers to notify their second-lien servicers once a first lien has been modified under HAMP to reduce the risk that borrowers with modified first liens are not captured in the Lender Processing Services (LPS) matching database and, therefore, are not offered second-lien modifications.	Open
Ensure that servicers demonstrate they have the operational capacity and infrastructure in place to successfully implement the requirements of the Second-Lien Modification (2MP), Home Affordable Foreclosure Alternatives (HAFA), and Principal Reduction Alternative (PRA) programs.	Open
Consider methods for better capturing outcomes for borrowers who are denied, cancelled, or redefaulted from HAMP, including more accurately reflecting what actions are completed or pending and allowing for the reporting of multiple concurrent outcomes, in order to determine whether borrowers are receiving effective assistance outside of HAMP and whether additional actions may be needed to assist them.	Open

Source: GAO.

Notes: This table does not include the 29 recommendations related to the fiscal year 2009 and 2010 financial audits as detailed in [GAO-11-434R](#). Nor does the table include a recommendation directed at the Secretary of Labor, along with a matter for congressional consideration, from the TARP report on AIFP ([GAO-11-471](#)).

<sup>a</sup>These recommendations were made to the Board of Governors of the Federal Reserve System.

<sup>b</sup>This is a matter for Congressional consideration related to the TALF program.

## Comments from the Department of the Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 13, 2011

A. Nicole Clowers  
Director  
Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Clowers:

Thank you for providing the Department of the Treasury ("Treasury") an opportunity to review your draft report on the Troubled Asset Relief Program (TARP) titled, *Status of GAO Recommendations to Treasury* ("Draft Report"). We welcome GAO's recognition that Treasury has implemented, or is in the process of implementing, most of the TARP-related recommendations that GAO has made since it issued its first TARP report in 2008. We also appreciate the Draft Report's specific acknowledgment that the Office of Financial Stability ("OFS") has fully implemented recommendations to improve its communication strategy and enhance its workforce planning.

In addition, Treasury welcomes its ongoing dialogue with GAO regarding GAO's remaining recommendations, including on the Capital Purchase Program ("CPP") and the Making Home Affordable ("MHA") program. As you acknowledge in the report, we have had certain concerns with respect to these remaining recommendations. These include, in the case of the CPP recommendation, how to insure consistency with the need to respect regulators' independence. Nevertheless, Treasury continues to work with the banking agencies to achieve the objective of this recommendation. In the case of the MHA recommendations, which pertain primarily to newer initiatives, we are continuing to assess the operational challenges, impact to borrowers, and available resources in determining implementation feasibility. We look forward to updating you on our progress.

Treasury values GAO's recommendations as we continue our efforts to promote financial stability.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Massad".

Timothy G. Massad  
Assistant Secretary for Financial Stability

## **GAO Contact and Staff Acknowledgments**

### GAO Contact

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In addition to the contacts named above, Daniel Garcia-Diaz, Kay Kuhlman, Harry Medina, Raymond Sendejas, and Karen Tremba (Lead Assistant Directors), along with Kevin Averyt, Emily Chalmers, John Forrester, Christopher Forys, Heather Krause, Robert Lee, Marc Molino, and Emily Owens made key contributions to this report.

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