United States Government Accountability Office

Report to Congressional Committees

January 2015

TROUBLED ASSET RELIEF PROGRAM

Treasury Continues to Wind down Most Programs, but Housing Programs Remain Active

GAO-15-197

GAO

Highlights

Highlights of GAO-15-197, a report to congressional committees

Why GAO Did This Study

The Emergency Economic Stabilization Act of 2008 (EESA) authorized Treasury to create TARP, designed to restore liquidity and stability to the financial system and to preserve homeownership by assisting borrowers struggling to make their mortgage payments. Congress reduced the initial authorized amount of $700 billion to $475 billion as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. EESA also required that GAO report every 60 days on TARP activities in the financial and mortgage sectors. This report provides an update on the condition of all TARP programs—nonhousing and housing—as of September 30, 2014.

To conduct this work, GAO analyzed audited financial data for various TARP programs; reviewed documentation such as press releases, and agency reports on TARP programs; and interviewed Treasury officials.

GAO provided a draft of this report to Treasury. Treasury generally concurred with GAO's findings and provided technical comments, which GAO has incorporated, as appropriate.

GAO makes no recommendations in this report.

View GAO-15-197. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

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TROUBLED ASSET RELIEF PROGRAM

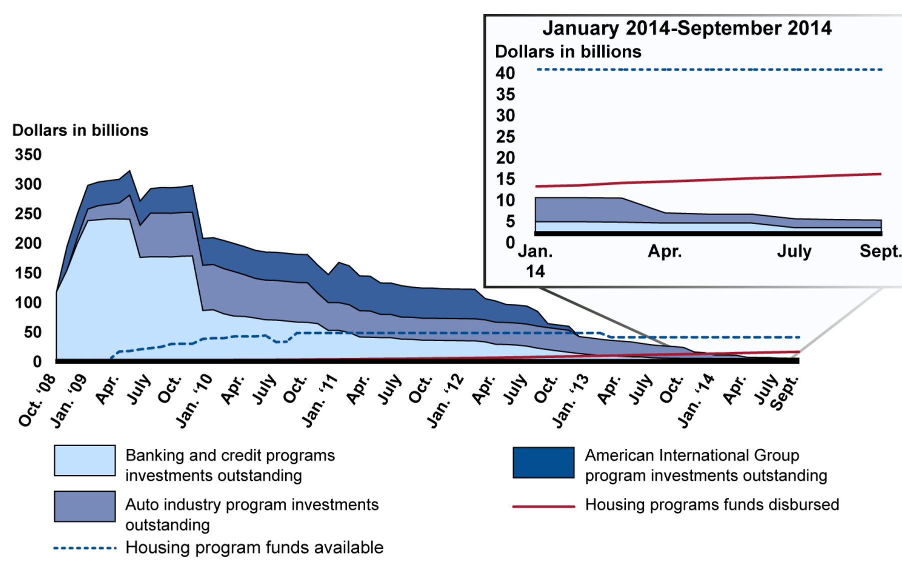
Treasury Continues to Wind down Most Programs, but Housing Programs Remain Active

What GAO Found

The Department of the Treasury (Treasury) continues to wind down Troubled Asset Relief Program (TARP) nonhousing programs that were designed to support financial and automotive markets (see figure). As of September 30, 2014, Treasury had exited four of the nine nonhousing programs that were once active, and was managing assets totaling $2.9 billion under those remaining. Some programs have yielded returns that exceed the original investment. For example, as of September 30, 2014, repayments and income from participants in the Capital Purchase Program, which provided capital to over 700 financial institutions, had exceeded original investments. In contrast, as of the same date Treasury had recouped 86 percent of its expenditures and incurred an estimated lifetime cost of $12.2 billion for the Automotive Industry Finance Program, which invested in major domestic automakers to prevent a significant industry disruption. Treasury's decision to fully exit a program depends on various factors, including the participating institutions' health and market conditions.

TARP-funded housing programs, which focus on preventing avoidable foreclosures, are ongoing. As of September 30, 2014, Treasury had disbursed $13.7 billion (36 percent) of the $38.5 billion in TARP housing funds (see figure). The number of new Home Affordable Modification Program (HAMP) permanent modifications added on a monthly basis rose in early 2013 but fell in 2014 to the lowest level since the program's inception. According to Treasury, this decline is attributable in part to the shrinking pool of eligible mortgages, as evidenced in the declining number of 60-day-plus delinquencies reported by the industry. Treasury has taken steps to help more borrowers, including by extending the deadline for program applications for a third time until at least 2016. Also, Treasury launched a new series of public service advertisements that were distributed through a donated media campaign.

Status of TARP Programs, October 2008 to September 2014



Source: GAO analysis of Treasury data. | GAO-15-197

Contents

Abbreviations

2MP	Second Lien Modification Program
ABS	asset-backed securities
AIFP	Automotive Industry Financing Program
AIG	American International Group, Inc.
CBO	Congressional Budget Office
CCAR	Comprehensive Capital Analysis and Review
CDCI	Community Development Capital Initiative
CDFI	Community Development Financial Institutions
CFPB	Bureau of Consumer Financial Protection
CMBS	commercial mortgage-backed securities
CPP	Capital Purchase Program
DTI	debt-to-income ratio
EESA	Emergency Economic Stabilization Act of 2008
Federal Reserve	Board of Governors of the Federal Reserve System
FHA	Federal Housing Administration
FHA2LP	FHA Second Lien Program
FRBNY	Federal Reserve Bank of New York
GM	General Motors
GMAC	General Motors Acceptance Corporation
HAFA	Home Affordable Foreclosure Alternatives
HAMP	Home Affordable Modification Program
HUD	Department of Housing and Urban Development
IPO	initial public offering
MHA	Making Home Affordable
NPV	net present value
OFS	Office of Financial Stability
PPIF	public-private investment fund
PPIP	Public-Private Investment Program
PRA	Principal Reduction Alternative
PSA	public service advertisement
RHS	Department of Agriculture's Rural Housing Service
RD	Rural Development
RMBS	residential mortgage-backed securities
SBA	Small Business Administration
SBLF	Small Business Lending Fund
TALF	Term Asset-backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TIP	Targeted Investment Program
Treasury	Department of the Treasury

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Congressional Committees

The Emergency Economic Stabilization Act of 2008 (EESA) initially authorized $700 billion to assist financial institutions and markets, businesses, homeowners, and consumers through the Troubled Asset Relief Program (TARP).[1] TARP investments and programs were intended to provide confidence that the U.S. government would help address the greatest threat the financial markets and economy had faced since the Great Depression. As the severity and immediacy of the 2008 financial crisis began to diminish, Congress reduced the authorized amount to $475 billion as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[2] TARP costs were not estimated to reach the authorized amounts, and over time the projected costs have declined as financial institutions repay some assistance and the government continues to exit programs.

The Department of the Treasury (Treasury), the primary agency implementing TARP, established the Office of Financial Stability (OFS) to carry out TARP activities. These activities have included injecting capital into key financial institutions, implementing programs to address problems in the securitization markets, providing assistance to the automobile industry, and offering incentives for modifying residential mortgages. Some programs have yielded returns that exceed the original investment. For example, as of September 30, 2014, repayments and income from investments made through the Capital Purchase Program (CPP), which provided capital investments to financial institutions, have exceeded the original outlays by $21.5 billion. However, in other cases, the government exited a program at a loss, such as when it exited its investment in General Motors Corporation (GM), made under the Automotive Industry Financing Program (AIFP). TARP-funded housing programs continue their expenditures in an effort to address weaknesses in the U.S. housing market that continue to hamper the economic recovery. As of September 30, 2014, Treasury had disbursed $13.7 billion

[1]Pub. L. No. 110-343, § 115(a), 122 Stat. 3765, 3780 (codified as amended at 12 U.S.C. § 5225(a)).

[2]Pub. L. No. 111-203, § 1302, 124 Stat. 1376, 2133 (2010).

(36 percent) of the authorized TARP funds that are currently dedicated to housing programs.

This report is based on our continuing analysis and monitoring of Treasury's activities in implementing EESA, which provided us with broad oversight authorities for actions taken under TARP and required that we report at least every 60 days on TARP activities and performance.[3] To fulfill our statutorily mandated responsibilities, we have been monitoring and providing updates on TARP programs.[4] This report provides an update on the condition of all TARP programs as of September 30, 2014. In particular, the objectives in this report were to examine the condition and status of (1) nonhousing-related TARP programs and (2) TARP housing programs.

To assess the condition and status of TARP's nonhousing-related programs, we collected and analyzed data about program utilization and assets held, focusing primarily on financial information in OFS's September 30, 2014, financial statements that we had audited. In some instances, we analyzed more recent unaudited financial information provided by Treasury. The financial information includes the types of assets held in the program, obligations, disbursements, and income. Further, we reviewed Treasury documentation such as press releases, and reports on TARP programs and costs. Also, we interviewed OFS program officials and obtained information from them to determine the current status of each TARP program and to update what is known about exit considerations for TARP programs. To assess the condition and status of TARP-funded housing programs, we reviewed Treasury's reports, guidance, and documentation and interviewed OFS officials. For

[3]Pub. L. No. 110-343, § 116, 122 Stat. 3765, 3783 (codified at 12 U.S.C. § 5226).

[4]See, for example, our recent reports on TARP programs: GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-132R (Washington, D.C.: Nov. 7, 2014); *Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices,* GAO-15-5 (Washington, D.C.: Oct. 6, 2014); *Troubled Asset Relief Program: Government's Exposure to Ally Financial Lessens as Treasury's Ownership Share Declines*, GAO-14-698 (Washington, D.C.: Aug. 5, 2014); *Community Development Capital Initiative: Status of the Program and Financial Health of Remaining Participants*, GAO-14-579 (Washington, D.C.: Jun. 6, 2014); *Troubled Asset Relief Program: Status of the Wind Down of the Capital Purchase Program*, GAO-14-388 (Washington, D.C.: Apr. 7, 2014); and *Troubled Asset Relief Program: More Efforts Needed on Fair Lending Controls and Access for Non-English Speakers in Housing Programs* GAO-14-117 (Washington, D.C.: Feb. 6, 2014).

both objectives, we leveraged our past reporting on TARP, as appropriate. Unless otherwise noted, the financial information presented in this report was current as of September 30, 2014. The financial information used in this report is sufficiently reliable to assess the condition and status of TARP programs based on the results of our audits of fiscal years 2009 through 2014 financial statements for TARP. Appendix I contains additional information about our scope and methodology.

We conducted this performance audit from September 2014 to January 2015 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

When EESA was enacted on October 3, 2008, the U.S. financial system was facing a severe crisis that rippled throughout the global economy, moving from the U.S. housing market to the financial markets and affecting an array of financial assets and interbank lending. The crisis restricted access to credit and made the financing on which businesses and individuals depended increasingly difficult to obtain. Further tightening of credit exacerbated a global economic slowdown. During the crisis, Congress, the President, federal regulators, and others took a number of steps to facilitate financial intermediation by banks and the securities markets. While the financial system has generally stabilized and investor confidence has improved, some concerns persist that global demand will remain weak for a significant period of time, and that central bank efforts to combat inflation could disrupt financial markets.

Under EESA, Treasury established a variety of TARP programs.[5]

- *American International Group, Inc. (AIG) Investment Program*.[6] Provided support to AIG to avoid disruptions to financial markets as the insurer's financial condition deteriorated.
- *Asset Guarantee Program.* Provided federal government assurances for assets held by financial institutions that were viewed as critical to the functioning of the nation's financial system. Bank of America and Citigroup were the only two participants in this program.
- *AIFP*. Aimed to prevent a significant disruption of the American automotive industry through government investments in domestic automakers Chrysler and GM and auto financing companies Chrysler Financial and Ally Financial (formerly known as General Motors Acceptance Corporation, or GMAC).[7]
- *Capital Assessment Program*. Created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program—or "stress test"—requirements. This program was never used.
- *CPP.* The largest TARP program, designed to provide capital investments to financially viable financial institutions. Treasury received preferred shares and subordinated debentures, along with warrants.[8]
- *Consumer and Business Lending Initiative programs.*

[5]For more information on these programs, see *Related GAO Products* at the end of this report.

[6]The AIG Investment Program was formerly known as the Systemically Significant Failing Institutions Program.

[7]Prior to bankruptcy reorganization, the automakers' legal names were Chrysler LLC and General Motors Corporation. Chrysler Group LLC and General Motors Company were new legal entities created through the bankruptcy process to purchase the operating assets of the pre-reorganization companies. In December 2014, Chrysler Group LLC changed its name to FCA US LLC to reflect the name of its parent company Fiat Chrysler Automobiles, N.V.

[8]A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

    - *Community Development Capital Initiative (CDCI.)* Provided capital to Community Development Financial Institutions (CDFI) by purchasing preferred stock and subordinated debentures.[9]
    - *Small Business Administration (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.
- *Public-Private Investment Program (PPIP).* Created to address the challenge of "legacy assets" as part of Treasury's efforts to repair balance sheets throughout the financial system. Treasury partnered with private funds that purchased residential and commercial mortgage-backed securities.
- *Targeted Investment Program (TIP).* Sought to foster market stability and strengthen the economy by making case-by-case investments in institutions that Treasury deemed critical to the functioning of the financial system. Bank of America and Citigroup were the only two institutions that participated in this program.

Many of these programs are winding down or have ended. For example, as of September 30, 2014, Treasury had recovered all debt and equity investments made in PPIP. Furthermore, the AIG Assistance Program, the Asset Guarantee Program, the Capital Assessment Program, the SBA 7(a) Securities Purchase Program, and TIP are no longer active, and Treasury no longer holds assets related to these programs.[10] Treasury

[9]CDFIs are financial institutions that provide financing and related services to communities and populations that lack access to credit, capital, and financial services.

[10]As we have previously reported, Treasury received payment for the last of its AIG common stock in December 2012. (See GAO, *Troubled Asset Relief Program: Treasury Sees Some Returns as It Exits Programs and Continues to Fund Mortgage Programs,* GAO-13-192, Washington, D.C.: Jan. 7, 2012). However, Treasury continued to hold warrants to purchase approximately 2.7 million shares of common stock. On March 1, 2013, AIG repurchased the warrants for approximately $25 million, ending Treasury's remaining residual interest in AIG.

still holds investments in CPP, CDCI, and AIFP, and the housing assistance programs remain active.[11] The housing programs include:

- *Making Home Affordable (MHA).* MHA includes several housing programs, but the cornerstone is 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 other financial incentives to servicers, borrowers, and mortgage holders/investors for loans modified under the program. There are several other programs that operate under MHA:
    - *Home Affordable Foreclosure Alternatives (HAFA) Program.* The HAFA Program offers assistance to homeowners looking to relinquish their homes through a short sale or a deed-in-lieu of foreclosure. Treasury offers incentives to eligible homeowners, servicers, and investors under the program.[12]
    - *Principal Reduction Alternative (PRA).* PRA, a companion program to HAMP, requires servicers to evaluate the benefit of principal reduction for mortgages being assessed for a HAMP first-lien loan modification that have a loan-to-value ratio of 115 percent or more and that are not owned or guaranteed by Fannie Mae or Freddie Mac. Servicers are required to evaluate homeowners for PRA when evaluating them for a HAMP first-lien modification but are not required to actually reduce principal as part of the modification.

[11]One housing assistance program has ended, the Treasury/FHA Second Lien Program (known as FHA2LP). Under this program, which ended on December 31, 2013, Treasury provided incentive payments to servicers and investors if they partially or fully extinguished second liens associated with a Federal Housing Administration (FHA) Short Refinance. Servicers received a one-time payment of $500 for each second lien extinguished under the program, and investors were eligible for incentive payments based on the amount of principal extinguished. However, according to Treasury officials, no second liens had been extinguished and no incentive payments had been made under FHA2LP as of December 31, 2013, the date on which the program expired.

[12]Specifically, under HAFA, investors are eligible for reimbursement of $2.00 for every $3.00 of short sale proceeds paid to subordinate mortgage lien holders not to exceed a total of $5,000. In October 2014, Treasury issued Supplemental Directive 14-04, which: (1) increased the maximum investor reimbursement to $8,000, and (2) increased the relocation assistance from $3,000 to $10,000 for borrowers who relocate under HAFA. Both changes are effective February 1, 2015.

- *Second Lien Modification Program (2MP).* 2MP provides additional assistance to homeowners receiving a HAMP first-lien permanent modification who have an eligible second lien with participating servicers. When a borrower's first lien is modified under HAMP, participating program servicers must offer to modify the borrower's eligible second lien according to a defined protocol.[13] This assistance can result in a modification or even full or partial extinguishment of the second lien. Treasury provides incentive payments to second lien mortgage holders in the form of a percentage of each dollar in principal reduction on the second lien. Treasury doubled the incentive payments offered to second lien mortgage holders for 2MP permanent modifications that included principal reduction and had an effective date on or after June 1, 2012.
- *Government-insured or guaranteed loans (Federal Housing Administration (FHA-HAMP) and Rural Development (RD-HAMP)).* FHA and the Department of Agriculture's Rural Housing Service (RHS) have implemented modification programs similar to HAMP Tier 1 for FHA-insured and RHS-guaranteed first-lien mortgage loans. RD-HAMP provides borrowers with a monthly mortgage payment equal to 31 percent of the homeowners' monthly gross income and FHA-HAMP provides for payment reduction based on a formula that considers gross income options (31 percent and 25 percent) and current payment (80 percent). Both programs require borrowers to complete a trial payment plan before permanent modification. If a modified FHA-insured or RHS-guaranteed mortgage loan meets Treasury's eligibility criteria, the borrower and servicer can receive TARP-funded incentive payments from Treasury.

- *Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund).* The Hardest Hit Fund seeks to help homeowners in the states hit hardest by unemployment and house price declines by funding innovative measures developed by state housing finance agencies and approved by Treasury. By September 2010, Treasury had completed the distribution of $7.6 billion in funds

[13]In order to be eligible for 2MP, borrowers' loans must meet certain criteria. For example, the loan must have been originated on or before January 1, 2009, and have an unpaid balance of greater than $5,000 and a premodification monthly payment greater than $100. A loan can be modified only once under the program.

across 18 states and the District of Columbia.[14] States were selected for funding either because their unemployment rates were at or above the national average or they had experienced housing price declines of 20 percent or more that left some borrowers owing more on their mortgages than the value of their homes. Although the type of assistance provided varies by state, all states use some portion of their funds to help unemployed homeowners make mortgage payments. Some states have programs that reduce principal to help make mortgage payments more affordable, reduce or eliminate borrowers' second liens, and provide transition assistance to borrowers leaving their homes.

- *Department of Housing and Urban Development's (HUD) FHA Short Refinance program (FHA Short Refinance).* FHA Short Refinance enables homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages.

Most Nonhousing-Related Programs Continue to Wind Down

Treasury continues to make progress in winding down the TARP nonhousing programs. According to Treasury, its decision to exit a program depends on various circumstances, including market conditions and other factors outside the government's control. Treasury estimates that some nonhousing programs have produced, or will produce, a lifetime income while others have, or are expected to have, a lifetime cost. For example, repayments and income from the federal government's investments in participating CPP institutions have exceeded the original amounts. Further, Treasury's estimates of the lifetime costs of CDCI have been falling significantly as participants exit the program. However, under AIFP Treasury sold its stock in GM at a loss, although it will make a profit on the sale of its investments in Ally Financial. Treasury expects lifetime income from two other programs—TALF and PPIP.

[14]The Hardest Hit Fund was initially announced as a $1.5 billion effort to reach borrowers in five states. Treasury subsequently provided three additional rounds of funding to reach the $7.6 billion allocation and included 18 states—Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee—and the District of Columbia.

Treasury Continues to Exit Nonhousing Programs as Opportunities Exist

As of September 30, 2014, Treasury had completed the wind down of four of nine TARP nonhousing programs that were once active.[15] Treasury has stated that when deciding to sell assets and exit TARP programs, it strives to:

- protect taxpayer investments and maximize overall investment returns within competing constraints, and promote the stability of financial markets and the economy by preventing disruptions to the financial system;
- bolster markets' confidence in order to encourage private capital investment; and
- dispose of investments as soon as practicable.

We and others have noted that these goals can at times conflict.[16] For example, we previously reported that deciding to unwind some of its assistance to GM by participating in an initial public offering (IPO) presented Treasury with a conflict between maximizing taxpayer returns and exiting as soon as practicable. Holding its shares longer could have meant realizing greater gains for the taxpayer but only if the stock appreciated in value. By participating in GM's November 2010 IPO, Treasury tried to fulfill both goals, selling almost half of its shares at an early opportunity. Treasury officials stated that although they strove to balance these competing goals, they had no strict formula for doing so. Rather, they ultimately relied on the best available information in deciding when to start exiting this program. Moreover, in some cases Treasury's ability to exercise control over the timing of its exit from TARP programs is limited. For example, Treasury has limited control over its exit from CDCI because the program's exit depends on when each financial institution decides to repay Treasury's investments.

[15]The Capital Assessment Program, the tenth TARP nonhousing program, was never used. As discussed later in this report, in December 2014, Treasury announced an agreement to sell all of its remaining common shares in Ally Financial. When that sale is complete, Treasury will have wound down AIFP.

[16]See GAO, *TARP: Treasury's Exit from GM and Chrysler Highlights Competing Goals, and Results of Support to Auto Communities Are Unclear*, GAO-11-471 (Washington, D.C.: May 10, 2011). The Congressional Oversight Panel also noted these competing goals. See Congressional Oversight Panel, *January Oversight Report: Exiting TARP and Unwinding Its Impact on the Financial Markets* (Washington, D.C.: Jan. 14, 2010).

As shown in table 1, Treasury estimates that several of the TARP nonhousing programs will provide or have provided income over their lifetimes, while others will incur a lifetime cost.

Table 1: Status of Nonhousing Programs Supported by TARP Funding and Their Estimated Lifetime Income (Cost) as of September 30, 2014

Program	Program start date	Program status	Initial investment (dollars in billions)	Lifetime income (cost) (dollars in billions)
American International Group, Inc. (AIG) Investment Program[a]	November, 2008	Exited December, 2012.	67.8	(15.2)
Asset Guarantee Program	January, 2009	Exited January, 2011.	0.0	4.0[b]
Automotive Industry Financing Program (AIFP)	December, 2008	Treasury retains a 13% ownership share of Ally Financial. No set exit date for Ally Financial. Treasury has exited other portions of the AIFP program.	79.7	(12.2)
Capital Assessment Program	February, 2009	This program was never utilized.	0	0
Capital Purchase Program (CPP)	October, 2008	$625 million outstanding. No set exit date.	204.9	16.1
Community Development Capital Initiative (CDCI)	February, 2010	$465 million outstanding, No set exit date. Treasury has limited control over when participants choose to exit the program.	0.57	(0.11)
Public-Private Investment Program (PPIP)	September, 2009	No funds outstanding, only the completion of wind-down activities remains before exit. Treasury expects exit by December 31, 2014.	18.6	2.7
Small Business Administration Securities Purchase Program	March, 2010	Exited January, 2012.	0.37	0.004
Term Asset-backed Securities Loan Facility (TALF)	March, 2009	No loans outstanding, only the completion of wind-down activities remains before exit.	0.1	0.6
Targeted Investment Program (TIP)	December, 2008	Exited January, 2011.	40.0	4.0

Legend: ▭ Estimated

Source: GAO analysis of Treasury data. | GAO 15-197

Note: The data in this table are as of September 30, 2014, and do not reflect significant transactions, which are discussed later in this report, related to the AIFP, PPIP and TALF programs that occurred after that date.

[a]In addition to using TARP to support AIG, Treasury also supported AIG through non-TARP assistance. Treasury received 562,868,096 common shares outside of TARP from a trust created by the Federal Reserve Bank of New York for the benefit of the Treasury. The trust exchanged its AIG Series C preferred shares, for AIG common shares.

[b]This program provided federal government assurances for assets held by financial institutions that were deemed critical to the functioning of the U.S. financial system. In exchange for this guarantee, Treasury received preferred stock and warrants from participating institutions. Although Treasury did not disburse any of the funds obligated under this program, it did receive income from dividends and the sale of preferred stock and warrants from participating institutions, as well as an early termination fee paid by one participant.

Though direct costs for TARP—including potential lifetime income—can be estimated and quantified, certain indirect costs connected to the government's assistance are less easily measured. For example, as we have previously concluded, when the government provides assistance to the private sector, it may increase moral hazard that would then need to be mitigated.[17] That is, in the face of government assistance, private firms are motivated to take risks they might not take in the absence of such assistance, or creditors may not price into their extensions of credit the full risk assumed by the firm, believing that the government would provide assistance should the firm become distressed. Government interventions can also have consequences for the banking industry as a whole, including institutions that do not receive bailout funds. For instance, investors may perceive the debt associated with institutions that received government assistance as being less risky because of the potential for future government bailouts. This perception could lead them to choose to invest in such assisted institutions instead of those that did not receive assistance.[18]

CPP Continues to Wind Down, with Repayments and Income Exceeding Original Investments

Treasury continues to wind down CPP, the largest TARP investment program, which was designed to provide capital investments to viable financial institutions, and thus far, repayments and income have exceeded the total amount of original outlays. As we have reported, Treasury disbursed $204.9 billion to 707 financial institutions nationwide

[17] GAO, *Financial Assistance: Ongoing Challenges and Guiding Principles Related to Government Assistance For Private Sector Companies*, GAO-10-719 (Washington, D.C.: Aug. 3, 2010).

[18]For further discussion on the perceived or actual impact of government support for large financial institutions, see GAO, *Government Support for Bank Holding Companies: Statutory Changes to Limit Future Support Are Not Yet Fully Implemented*, GAO-14-18 (Washington, D.C.: Nov. 14, 2013) and *Large Bank Holding Companies: Expectations of Government Support.* GAO-14-621 (Washington, D.C.: July 31, 2014).

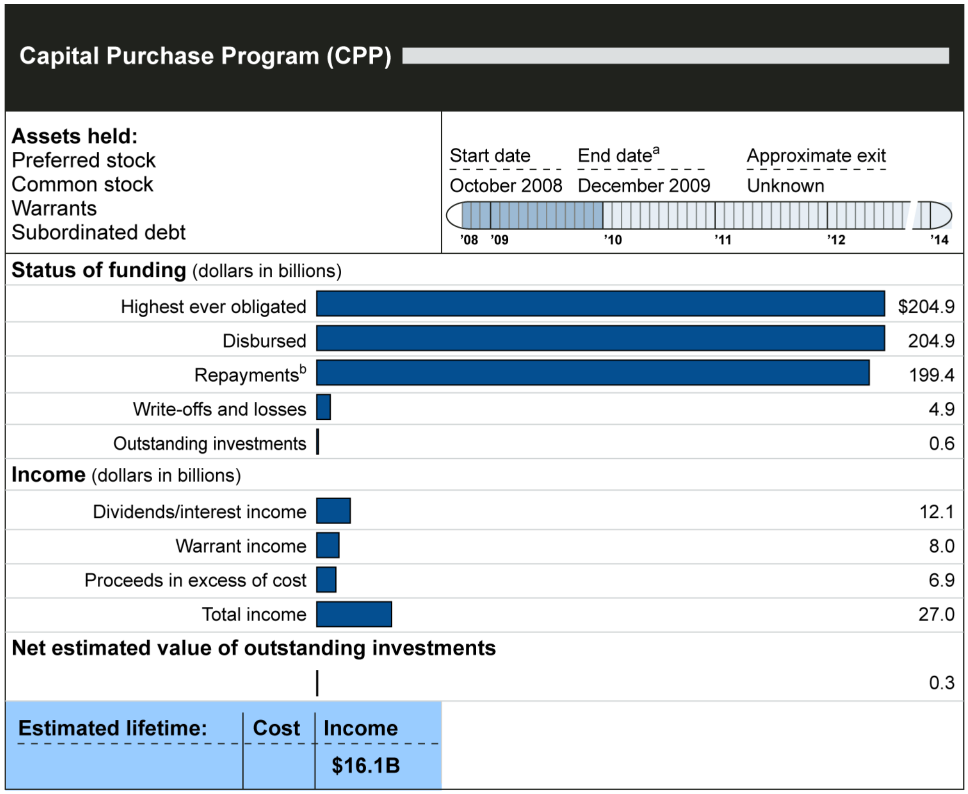
from October 2008 through December 2009.[19] As of September 30, 2014, Treasury had received $226.4 billion in repayments and income from its CPP investments, exceeding the amount originally disbursed by $21.5 billion (see fig. 1). The repayments and income amounts include $199.4 billion in repayments and sales of original CPP investments, as well as $12.1 billion in dividends and interest, and $14.9 billion in proceeds in excess of costs, which includes $8.0 billion from the sale of warrants. After accounting for write-offs and realized losses from sales totaling $4.9 billion, CPP had $625 million in outstanding investments as of September 30, 2014.[20] Treasury estimated a lifetime income of $16.1 billion for CPP as of September 30, 2014.[21]

[19]See GAO, *Troubled Asset Relief Program: Status of Programs and Implementation of GAO Recommendations,* GAO-11-74. (Washington, D.C.: Jan. 12, 2011). We also reported on CPP in *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), *Capital Purchase Program: Revenues Have Exceeded Investments, but Concerns about Outstanding Investments Remain*, GAO-12-301 (Washington, D.C.: Mar. 8, 2012), and GAO-14-388.

[20]Write-offs and realized losses include losses sustained from investments in the 30 institutions that have gone into bankruptcy or receivership and any losses sustained from Treasury selling its investment in CPP institutions.

[21]Treasury estimates lifetime costs (or income) on a quarterly basis using the aggregate value of investments at market prices in conjunction with the Office of Management and Budget and publishes them in its monthly reports to Congress. Estimated lifetime cost represents Treasury's best estimate of what the program will ultimately cost the taxpayer. Treasury's methodology for estimating lifetime costs includes a discount rate that reflects market risk for future cash flows.

Figure 1: Status of the Capital Purchase Program, as of September 30, 2014



Source: GAO analysis of Treasury data. | GAO-15-197

[a]End date is the date on which the program stopped acquiring new assets and no longer received funding.

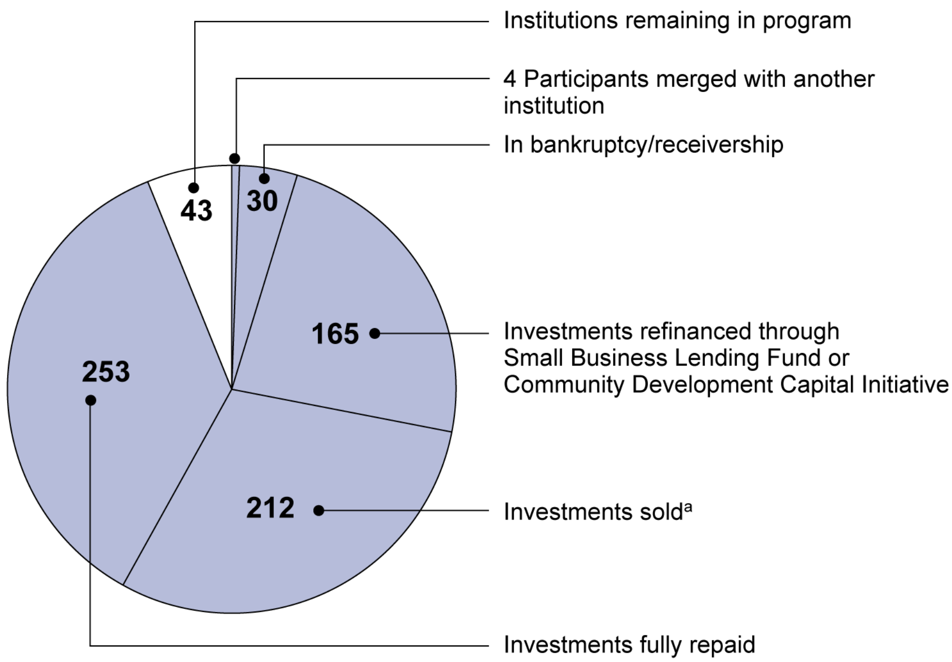
[b]The total amount of repayments includes $363 million from institutions that transferred to the Community Development Capital Initiative and $2.2 billion from institutions that transferred to the Small Business Lending Fund.

As of September 30, 2014, a total of 664 of the 707 institutions (94 percent) that originally participated in CPP had exited the program. Of these, 253 had repurchased their preferred shares or subordinated debentures in full (see fig. 2).[22] Another 165 institutions refinanced their shares through other federal programs: 28 through CDCI and 137 through another Treasury fund—separate from TARP—the Small Business

[22]Additionally, one institution has made partial repayments but remains in the program.

Lending Fund (SBLF).[23] An additional 212 institutions had their investments sold through auction or other sales, and 30 institutions went into bankruptcy or receivership. The remaining 4 merged with another institution.

Figure 2: Status of Institutions that Received Capital Purchase Program Investments, as of September 30, 2014



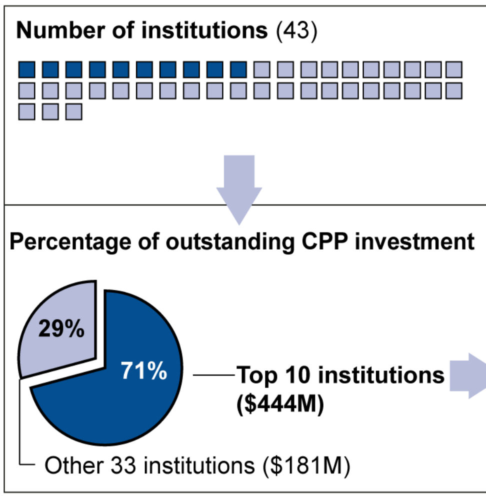
Source: GAO analysis of Treasury data. | GAO-15-197

[a]This amount includes investments sold through auction and investments sold through other Treasury sales programs.

[23]As discussed earlier in this report, CDCI is a TARP program that provides capital to CDFIs that have a federal depository institution supervisor. Structured like CPP, the program also covers credit unions and provides more favorable capital terms than CPP. SBLF was created by the Small Business Jobs Act of 2010, Pub. L. No. 111-240, § 4103, 124 Stat. 2504, 2585, to encourage small business lending. SBLF was a $30 billion non-TARP fund operated by Treasury that provided capital to qualified community banks and community development loan funds with assets of $10 billion or less. When SBLF closed on September 27, 2011, the program had approved $4 billion in disbursements to 332 institutions. Of the 332 institutions participating in SBLF, 137 were originally TARP participants with combined investments of $2.2 billion.

As shown in figure 3, as of September 30, 2014, the remaining $625 million in outstanding CPP investments was concentrated in a few institutions. The 10 largest remaining institutions accounted for $444 million (71 percent) of the outstanding investments. The remaining $181 million (29 percent) was spread among the other 33 institutions. According to Treasury officials, with the exit of 40 institutions between January 31, 2014, and September 30, 2014, the overall financial condition of the remaining institutions collectively became modestly weaker.

Figure 3: Remaining Capital Purchase Program Investments, as of September 30, 2014



Outstanding Capital Purchase Program (CPP) investment by top 10 institutions

	Institution	Location	Investment amount (dollars in millions)	Percentage of total outsanding investment
1	First Bancorp	San Juan, PR	$230.2	36.8%
2	U.S. Century Bank	Miami, FL	50.2	8.0
3	Porter Bancorp Inc.	Louisville, KY	35.0	5.6
4	First United Corporation	Oakland, MD	30.0	4.8
5	Chambers Bancshares, Inc.	Danville, AR	19.8	3.2
6	OneFinancial Corporation	Little Rock, AR	17.3	2.8
7	Liberty Shares Inc.	Hinesville, GA	17.3	2.8
8	Broadway Financial Corporation	Los Angeles, CA	15.0	2.4
9	Suburban Illinois Bancorp Inc.	Elmhurst, IL	15.0	2.4
10	Tidelands Bancshares Inc.	Mt. Pleasant, SC	14.4	2.3
	Total top 10		**$444.2**	**71.1%**
	All other CPP outstanding		$180.8	28.9%
	All CPP outstanding		**$625.0**	**100.0%**

Source: GAO analysis of Treasury data. | GAO-15-197

The percentage of remaining CPP institutions with missed quarterly dividend or interest payments has been increasing as the number of remaining institutions declines, rising from less than 2 percent (8 of 467 institutions) in February 2009 to 77 percent (33 of 43 institutions) in August 2014.[24] Of the 43 institutions remaining in the program as of September 30, 2014, 36 (84 percent) had missed at least one payment during their time in the program. In total, 246 institutions had missed at least one payment while participating in the CPP program. Additionally,

[24]CPP dividend and interest payments are due on February 15, May 15, August 15, and November 15 of each year, or the first business day subsequent to those dates. The reporting period ends on the last day of the calendar month in which the dividend or interest payment is due. The August 15, 2014 Dividend and Interest Report is the most recent data available for a month in which dividends are due.

most of the institutions with missed payments missed them in several quarters. For example, the 33 institutions that missed a payment in August 2014 had missed an average of 15 payments. Institutions can elect whether to pay dividends and may choose not to pay for a variety of reasons, including decisions that they or their federal and state regulators make to conserve cash and maintain (or increase) capital levels. However, investors view a company's ability to pay dividends as an indicator of its financial strength and may see failure to pay full dividends as a sign of financial weakness.

Treasury does not know when it will completely exit the CPP program. By the end of 2014, all of the institutions with outstanding preferred share investments will be required to pay dividends at a 9 percent rate, rather than the 5 percent rate that had been in place for the past 5 years. According to Treasury, this increase in dividend rate may influence the remaining institutions' decision to repay or stay with the program. In the meantime, Treasury continues to utilize auctions to wind down the CPP program.[25] As of September 30, 2014, Treasury had conducted a total of 26 auctions and received 3.1 billion in proceeds, about 80 percent of the principal amount.[26] On November 17, 2014, Treasury announced its 27th auction, at which it sold its investments in 3 more institutions, including 2 of the 10 institutions with the highest outstanding investment amounts as

[25]Treasury began selling its investments in banks through auctions In March 2012 as a way to balance the speed of exiting the investments with maximizing returns for taxpayers. We reported on Treasury's auction process in a previous report. See GAO, *Troubled Asset Relief Program: Treasury's Use of Auctions to Exit the Capital Purchase Program*, GAO-13-630 (Washington, D.C.: July 8, 2013).

[26]In these auctions and other sales, Treasury reports that it sold all or part of its investments in 212 institutions, including the rights to approximately $347 million in missed dividends and interest payments. The total proceeds from selling securities do not include any income received from repurchases, dividends, or other sources or any missed dividend or interest payments, the rights to which are sold with the securities. For example, if an institution whose securities were being sold by Treasury at auction had missed $100,000 worth of dividend payments, the purchaser of the securities would own the right to receive those past-due dividends if the institution could pay them.

of September 30, 2014.[27] Treasury expected proceeds from this sale to total approximately $35.6 million.

Estimated Lifetime Costs for CDCI Have Decreased as Participants Exit

Treasury created the CDCI program to help mitigate the adverse impacts of the financial crisis on communities underserved by traditional banks by providing capital to CDFIs—banks and credit unions—that provide financial services to low- and moderate-income, minority, and other underserved communities. CDCI, which is structured much like CPP, provides capital to financial institutions by purchasing preferred equity and subordinated debt from them.[28] As of September 30, 2014, 68 of the original 84 CDCI institutions remained in the program. Of the 16 institutions that had exited the program, 15 had done so through repayment and 1 had done so as a result of its subsidiary bank's failure. Three of the 68 remaining institutions had begun to repay the principal on investments they had received, while the other remaining institutions had paid only dividends and interest.

As of September 30, 2014, the outstanding investment balance for CDCI was $465 million of an original investment of $570 million.[29] As of the same date, Treasury had received approximately $98 million in principal repayments from CDCI participants, and had written off approximately $7 million. CDCI participants have also paid approximately $43 million in dividends and interest. Treasury has lowered its estimates of the program's lifetime cost over the last 3 years as market conditions have improved and institutions have begun to repay their investments. As of November 2010, Treasury estimated the program's lifetime cost at about

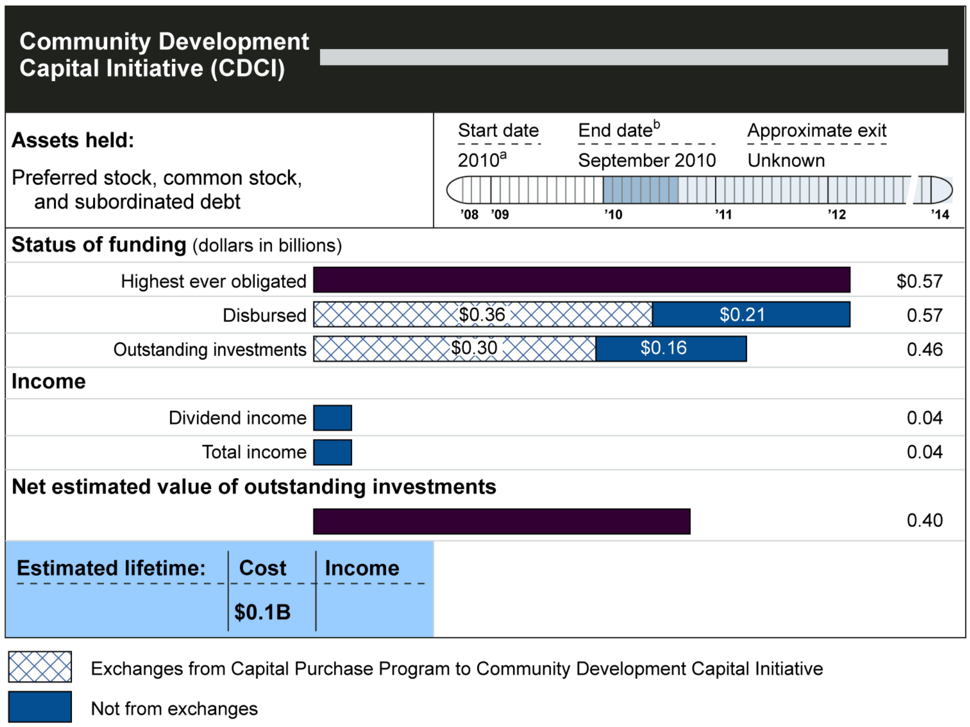
[27]The three institutions involved in the 27th auction were: (1) First United Corporation of Oakland, Md.; (2) Lone Star Bank of Houston, Tex.; and (3) Porter Bancorp, Inc., of Louisville, Ky. As it had done in the past, Treasury used a modified Dutch auction process that established a market price by allowing investors to submit bids at specified increments above a set minimum price. See GAO, *Troubled Asset Relief Program: Treasury's Use of Auctions to Exit the Capital Purchase Program*, GAO-13-630 (Washington, D.C.: July 8, 2013).

[28]CDCI differs from CPP in several ways. Unlike CPP, it provides financial assistance to bolster financial services to underserved communities, assists credit unions, and offers more favorable capital terms to its participants, including a longer period with a lower dividend rate. For more details, see GAO-11-74 and GAO-14-579.

[29]Treasury completed funding of the CDCI program in September 2010. No additional program funds are available.

$290 million. As of September 30, 2014, Treasury estimated the program's lifetime cost at $110 million.

Figure 4: Status of the Community Development Capital Initiative, as of September 30, 2014



Source: GAO analysis of Treasury data. | GAO-15-197

Note: Treasury began holding common stock for CDCI after September 30, 2011.

[a]Treasury first announced CDCI in October 2009. The program first provided capital to CDFIs in 2010

[b]End date is the date on which the program stopped acquiring new assets and no longer received funding.

As we have reported, Treasury continues to monitor the performance of CDCI participants because their financial strength will affect their ability to repay Treasury.[30] Generally, the number of CDCI institutions with missed quarterly dividend or interest payments has been low, representing, on average, about 4 percent of all remaining institutions over the life of the program. The percentage of remaining institutions with missed payments

[30]GAO-13-192.

has ranged from 0 to about 7 percent (0 to 6 institutions). Since November 2010 (the first quarter that dividend and interest payments were due), nine institutions (seven banks and two credit unions) have missed at least one quarterly payment.[31] Of those institutions, three banks have missed at least eight payments, the threshold at which Treasury has the right to elect directors to their boards.[32] However, as of September 30, 2014, Treasury had not appointed directors to the board of any CDCI banks, but it had sent an observer to one bank and asked to send an observer to a second. In an effort to preserve their capital and promote safety and soundness, federal and state regulators generally do not allow institutions on these lists to make dividend payments.

As of September 30, 2014, Treasury was continuing to assess exit alternatives for the CDCI program. Treasury had not yet determined a final exit strategy and associated timing and has limited control over participants' decision to exit. As we previously reported, CDCI participants said that the 2 percent dividend rate they would pay on investments until 2018 was lower than the cost of private capital and that access to capital would play a major factor in their decision to repay their CDCI investments. The dividend rate will increase from 2 percent to 9 percent in 2018 and may be a key factor for many CDCI participants in the decision to stay in or exit the program.

Treasury Completes Its Wind Down of AIFP

Treasury disbursed $79.7 billion through AIFP from December 2008 through June 2009 to support two automakers, Chrysler and GM, and their automotive finance companies, Chrysler Financial and Ally Financial (then known as GMAC). As of September 30, 2014, the government had recovered $68.9 billion (86.3 percent) of the funds disbursed through the program, and expects AIFP to have a lifetime cost of $12.2 billion.

- *Chrysler.* In May 2011, Chrysler repaid its outstanding TARP loans, 6 years ahead of schedule. Chrysler returned more than $11.1 billion of $12.4 billion committed to Chrysler through principal repayments,

[31]CDCI dividend and interest payments are due on February 15, May 15, August 15, and November 15 of each year, or the first business day subsequent to those dates. The reporting period ends on the last day of the calendar month in which the dividend or interest payment is due. The August 15, 2014, Dividend and Interest Report is the most recent data available for a month in which dividends are due.

[32]This authorization does not apply to credit unions.

interest, and cancelled commitments. Treasury has fully exited its investment in Chrysler Group under TARP.

- *GM.* On December 9, 2013, Treasury fully exited its investment in GM. Treasury completed its fourth and final pre-arranged trading plan for the sale of its remaining 31.1 million shares. Treasury recovered a total of $39.7 billion from its original investment of $51.0 billion in GM.[33]
- *Chrysler Financial.* In July 2009, Chrysler Financial repaid its $1.5 billion in TARP loans plus around $7 million in interest. Chrysler Financial has since ceased operations.

Also through AIFP, Treasury provided $17.2 billion of assistance to Ally Financial, a large financial holding company, whose primary business is auto financing. To provide this assistance, Treasury purchased senior equity, mandatory convertible preferred shares, and trust preferred securities, some of which Treasury ultimately converted into common shares. By December 2010, Treasury held common shares totaling 74 percent of Ally financial as well as $5.9 billion in mandatory convertible preferred shares. Treasury retained this level of ownership through the third quarter of 2013. Then, in late 2013, three key regulatory and legal developments helped Treasury accelerate the wind down of its investments in Ally Financial (see text box). As a result, in November 2013, Ally Financial made cash payments totaling $5.9 billion to repurchase all remaining mandatory convertible preferred shares outstanding and terminate an existing share adjustment provision. Additionally, Ally Financial issued $1.3 billion of common equity to third-party investors, reducing Treasury's ownership share from 74 to 63 percent.

[33] Treasury established two other programs under AIFP—the Auto Supplier Support Program and the Auto Warranty Commitment Program. The Auto Supplier Support Program was designed to ensure that automakers received the parts and components they needed to manufacture vehicles and that suppliers had access to liquidity on their receivables. Under this program, GM and Chrysler received loans, all of which have been repaid. The Auto Warranty Commitment Program was designed to mitigate consumer uncertainty about purchasing vehicles from the restructuring automakers by providing funding to guarantee the warranties on new vehicles from those automakers. Funds were provided to GM and Chrysler under this program, but both companies were able to continue to honor consumer warranties and repay the funds in full.

Key Regulatory and Legal Developments in Late 2013 Pertaining to Ally Financial

- The Board of Governors of the Federal Reserve System (Federal Reserve) did not object to Ally Financial's resubmitted capital plan, allowing Ally Financial to complete the private placement of common shares valued at $1.3 billion, which it had announced in August 2013. The private placement, intended in part to help finance the repurchase of the $5.9 billion remaining Treasury-owned mandatory convertible preferred shares, was completed in November 2013, and the Treasury shares were repurchased.
- In December 2013, the bankruptcy of Ally Financial's subsidiary ResCap was substantially resolved. The final bankruptcy agreement included a settlement that the bankruptcy court judge had approved in June 2013. It released Ally Financial from any and all legal claims by ResCap and, with some exceptions, all other third parties, in exchange for $2.1 billion in cash from Ally Financial and its insurers.
- Also in December 2013, Ally Financial obtained Federal Reserve approval to convert from a bank holding company to a financial holding company, enabling it to continue insurance underwriting and other

Source: GAO. | GAO-15-197

Because of the positive results of the March 2014 stress test and Comprehensive Capital Analysis and Review (CCAR) conducted by the Board of Governors of the Federal Reserve System (Federal Reserve) on Ally Financial, Treasury decided to further reduce its ownership share.[34] The day after the release of the CCAR results in March 2014, Treasury announced that it would sell Ally Financial common stock in an initial public offering (IPO). In April 2014, Treasury completed the IPO of 95 million shares at $25 per share. The $2.4 billion sale reduced Treasury's ownership share to approximately 17 percent. Following the IPO, Ally Financial became a publicly held company. In May 2014, Treasury received $181 million from the sale of additional shares after underwriters exercised the option to purchase an additional 7 million shares from Treasury at the IPO price. This additional sale reduced Treasury's ownership share to approximately 16 percent.

[34]CCAR is an annual Federal Reserve assessment of the internal capital planning process and capital adequacy of large, complex U.S. bank holding companies.

In September 2014, Treasury announced the completion of its first trading strategy for Ally common stock. With this plan, Treasury sold 8.89 million shares and recovered approximately $218.7 million, further reducing its ownership share to 13.8 percent (around 64 million shares of common stock). On September 12, 2014, Treasury announced that it would continue to wind down its investment in Ally by selling additional shares of common stock through its second pre-defined written trading plan, with sales beginning that day. As of September 30, 2014, Treasury had recovered approximately $18.1 billion in sales proceeds and interest and dividend payments on its total $17.2 billion investment in Ally Financial.[35]

On December 19, 2014, Treasury announced an agreement to sell all of its remaining common shares in Ally Financial. Treasury reported that it recovered $19.6 billion from Ally, which is approximately $2.4 billion more than its initial investment of $17.2 billion. This results in the exit of Treasury's last outstanding investments in AIFP.

TALF Produced Lifetime Income

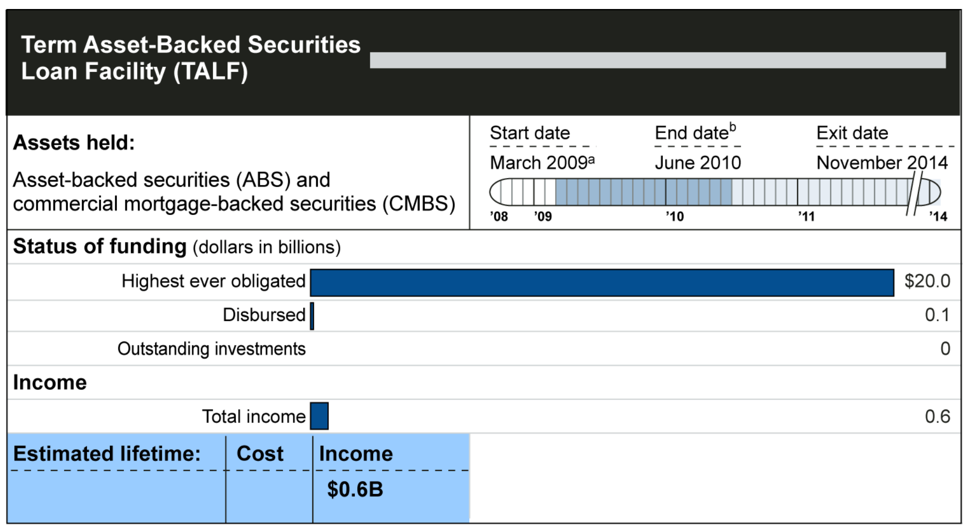
The Federal Reserve established TALF in an effort to reopen the securitization markets and improve access to credit for consumers and businesses.[36] Treasury committed funds to the TALF special-purpose vehicle, TALF LLC, established by the Federal Reserve Bank of New York (FRBNY) to provide credit protection to FRBNY for TALF loans should borrowers fail to repay and surrender the asset-backed securities

[35]In addition to repayments on the initial investment, Treasury has received dividends and other income from Ally Financial worth approximately $4.6 billion. For example, Treasury received a 9.0 percent fixed dividend annually from Ally Financial for the mandatory convertible preferred shares held until November 2013.

[36]FRBNY provided loans to certain institutions and business entities in return for collateral in the form of securities that would be forfeited if the loans were not repaid. Securitization is a process that aggregates into pools similar debt instruments—such as loans, leases, or receivables. Interest-bearing securities backed by these pools are then sold to investors. These ABS provide a source of liquidity for consumers and small businesses, because financial institutions can take assets that they would otherwise hold on their balance sheets, sell them as securities, and use the proceeds to originate new loans, among other purposes. CMBS are securitizations with cash flows backed by principal and interest payments on a pool of loans on commercial properties. FRBNY stopped issuing new TALF loans in 2010. For additional information about securitization and about TALF, see GAO, *Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance*, GAO-11-696 (Washington, D.C.: July 21, 2011), and *Troubled Asset Relief Program: Treasury Needs to Strengthen Its Decision-Making Process on the Term Asset-Backed Securities Loan Facility*, GAO-10-25 (Washington, D.C.: Feb. 5, 2010).

(ABS) or commercial mortgage-backed securities (CMBS) pledged as collateral.[37] Treasury disbursed $100 million for start-up costs to TALF LLC (see fig. 5). TALF LLC repaid Treasury's initial $100 million disbursement in 2013, and as of September 30, 2014, had accumulated $759 million in income from the TALF loans, of which $632 million was paid to Treasury as contingent interest.[38] On November 6, 2014, the net portfolio holdings of TALF LLC were reduced to zero, and TALF LLC together with the other TALF agreements were terminated, effectively closing the TALF program.

Figure 5: Status of TALF, as of November 2014



Source: GAO analysis of Treasury data. | GAO-15-197

[a]Although the program was first announced in November 2008, the first program activity was initiated in March 2009.

[b]End date is the date at which the program stopped acquiring new assets and no longer received funding.

[37]Initially, Treasury committed to providing as much as $20 billion in credit protection to FRBNY, but in July 2010, Treasury and the Federal Reserve agreed to reduce the credit protection to $4.3 billion. In June 2012, they agreed to further reduce the TARP credit protection to $1.4 billion.

[38] TALF LLC receives a portion of the interest income earned on TALF loans that can be used to purchase any borrower-surrendered collateral from FRBNY.

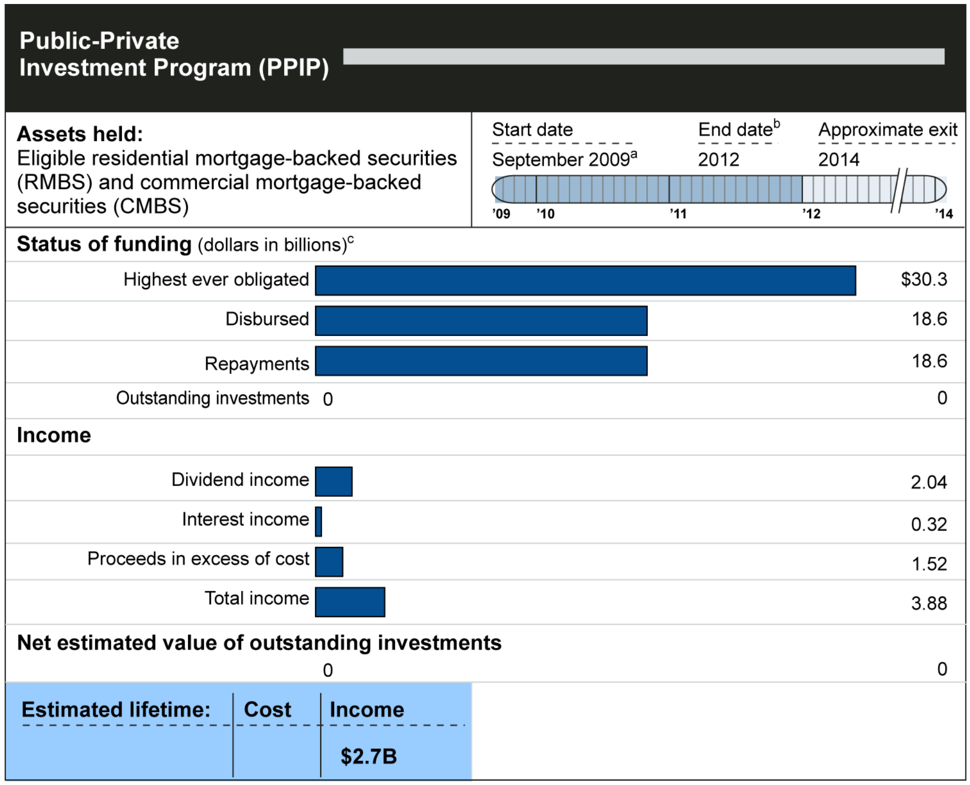
PPIP Has Produced Lifetime Income with Final Distribution

To create PPIP, Treasury partnered with private funds that purchased troubled mortgage-related assets (“legacy assets”) from financial institutions in order to help repair balance sheets throughout the financial system. The program’s Public-Private Investment Funds (PPIF) each had a 3-year investment period that began at each fund’s inception date, and at the completion of the investment period each fund had 5 years to completely divest. Treasury provided these PPIFs with equity and loan commitments of $7.4 billion and $14.7 billion, respectively, but disbursed a total of $18.6 billion (see fig. 6).

On September 30, 2014, Treasury received its final $1.8 million distribution from the PPIP. With this distribution all nine PPIFs have completely divested their assets and Treasury recovered a total of $22.5 billion.[39] According to Treasury officials, as of December 29, 2014, all nine PPIFs had formally provided Treasury official termination notices and the PPIP program had been effectively wound down.

[39] GAO-15-132R.

Figure 6: Status of PPIP, as of September 30, 2014



Source: GAO analysis of Treasury data. | GAO-15-197

[a]PPIFs began their investment periods in September 2009. The program was first announced in March 2009.

[b]End date is the date at which the program stopped acquiring new assets and no longer received funding.

[c]Figures may not sum due to rounding.

Treasury Has Disbursed Just over One-Third of Its TARP Housing Program Funds

As of September 30, 2014, Treasury had disbursed $13.7 billion (36 percent) of the $38.5 billion in TARP funds that had been allocated to support housing programs. The number of new HAMP permanent modifications added on a quarterly basis rose slightly in early 2013 but has declined in 2014, falling to 29,000 in the third quarter, the lowest level since the program's inception. Treasury has taken steps to help more borrowers, including by extending the deadline for HAMP applications for a third time.

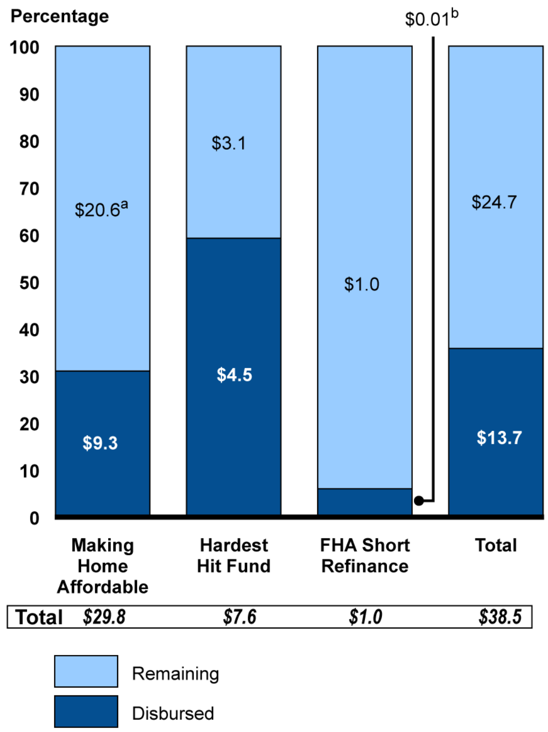
Treasury Has Disbursed Just over One-Third of TARP Housing Funds

Treasury's Office of Homeownership Preservation within OFS is tasked with finding ways to help prevent avoidable foreclosures and preserve homeownership. Treasury established three initiatives under TARP to address these issues: MHA, the Hardest Hit Fund, and FHA Short Refinance. As of September 30, 2014, Treasury had disbursed approximately $13.7 billion (36 percent) of the $38.5 billion in TARP housing funds, though the amount of disbursements varied across the three programs (see fig. 7). For example, of the $29.8 billion dedicated to MHA, the largest TARP-funded housing program, Treasury had disbursed $9.3 billion (31 percent) as of September 2014. In the case of the Hardest Hit Fund, $7.6 billion (59 percent) had been disbursed as of that date. In contrast, only $0.01 billion (0.13 percent) had been disbursed for the FHA Short Refinance program.[40] As we have reported, Treasury officials said that they anticipated using all of the remaining MHA funds, and in April 2014, the Congressional Budget Office (CBO) increased its estimate of likely disbursements under TARP-funded housing programs because of extensions of the MHA program. But CBO has continued to project an $11 billion dollar surplus for the TARP-funded housing programs because it anticipates that fewer households will participate in the housing programs.[41]

[40]This amount excludes the $50 million on deposit with Citibank, N.A. to facilitate payment of claims for the program. As discussed later in this report, under the FHA Short Refinance program, Treasury pays a portion of claims on certain loans in the event of a default. Only one claim has been paid out, in the amount of about $48,000. The remaining $9.5 million disbursed were payments made to Citibank, N.A. to cover its administrative costs in managing the letter of credit that Treasury established for this program.

[41]See CBO, *Report on the Troubled Asset Relief Program—April 2014* (Washington D.C.: April 2014). CBO's current estimate of the cost for the TARP-funded mortgage programs is $10 billion higher than its May 2013 estimate. Under EESA, as amended, CBO is required to prepare annual assessments of TARP's costs.

Figure 7: Percentage and Amount of TARP Mortgage Funds Disbursed and Remaining as of September 2014 (dollars in billions)



Source: GAO analysis of Treasury's daily update of TARP housing programs. | GAO-15-197

Notes: Data are as of September 30, 2014. Amounts may not add up due to rounding.

[a]According to Treasury officials, $5.9 billion of Making Home Affordable's remaining $20.6 billion is obligated for payment of future financial incentives to borrowers, servicers, and investors/mortgage holders.

[b] This amount excludes the $50 million on deposit with Citibank, N.A. to provide loss coverage for the program.

Treasury will continue to disburse TARP funds under the housing programs for several more years. Specifically, homeowners have until at least December 31, 2016, to apply for assistance under MHA programs, and Treasury will continue to pay incentives for up to 6 years after the last permanent modification begins. Treasury's obligation under FHA Short Refinance will continue until September 2020. Unlike TARP expenditures under some other programs, such as those that provided capital infusions to banks, expenditures under these programs are generally direct outlays of funds with no provision for repayment.[42] As of September 30, 2014, the estimated lifetime cost for the housing programs was $37.4 billion.[43]

MHA Programs

The centerpiece of Treasury's MHA program is HAMP, which seeks to help eligible borrowers facing financial distress avoid foreclosure by reducing their monthly first-lien mortgage payments to more affordable levels. Treasury announced HAMP (which originally included what is now called HAMP Tier 1) on February 18, 2009.[44] At that time, Treasury projected that the program would help up to 3 million to 4 million borrowers who were at risk of default and foreclosure. However, we noted then that reaching the projected number of borrowers might be difficult for several reasons.[45] In an effort to reach more borrowers, Treasury expanded HAMP to include HAMP Tier 2, which servicers began implementing in June 2012.[46] Treasury also provides incentive payments to services, investors, and borrowers for modifications under HAMP Tier 1 and HAMP Tier 2.

Since the HAMP first lien modification program began in 2009 through September 2014, there have been 2,246,680 trial modifications and 1,416,705 permanent modifications. These modifications resulted in a median monthly mortgage payment reduction of $490 per month.[47] As shown in figure 8, HAMP participation, as measured by trial and

[42]Under the FHA Short Refinance program, FHA remits to Treasury a share of TARP-funded claim payments recovered from a servicer.

[43]The estimated lifetime cost represents the total commitment except for the FHA Refinance Program, which is accounted for under credit reform. The estimated lifetime cost of the FHA Refinance Program represents the total estimated subsidy cost associated with total obligated amount.

[44]Generally, HAMP Tier 1 is available to qualified borrowers who occupy their properties as their primary residences and whose first-lien mortgage payments are more than 31 percent of their monthly gross income. Treasury shares with mortgage holders or investors the cost of lowering borrowers' monthly payments to 31 percent of monthly income for a 5-year period.

[45]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).

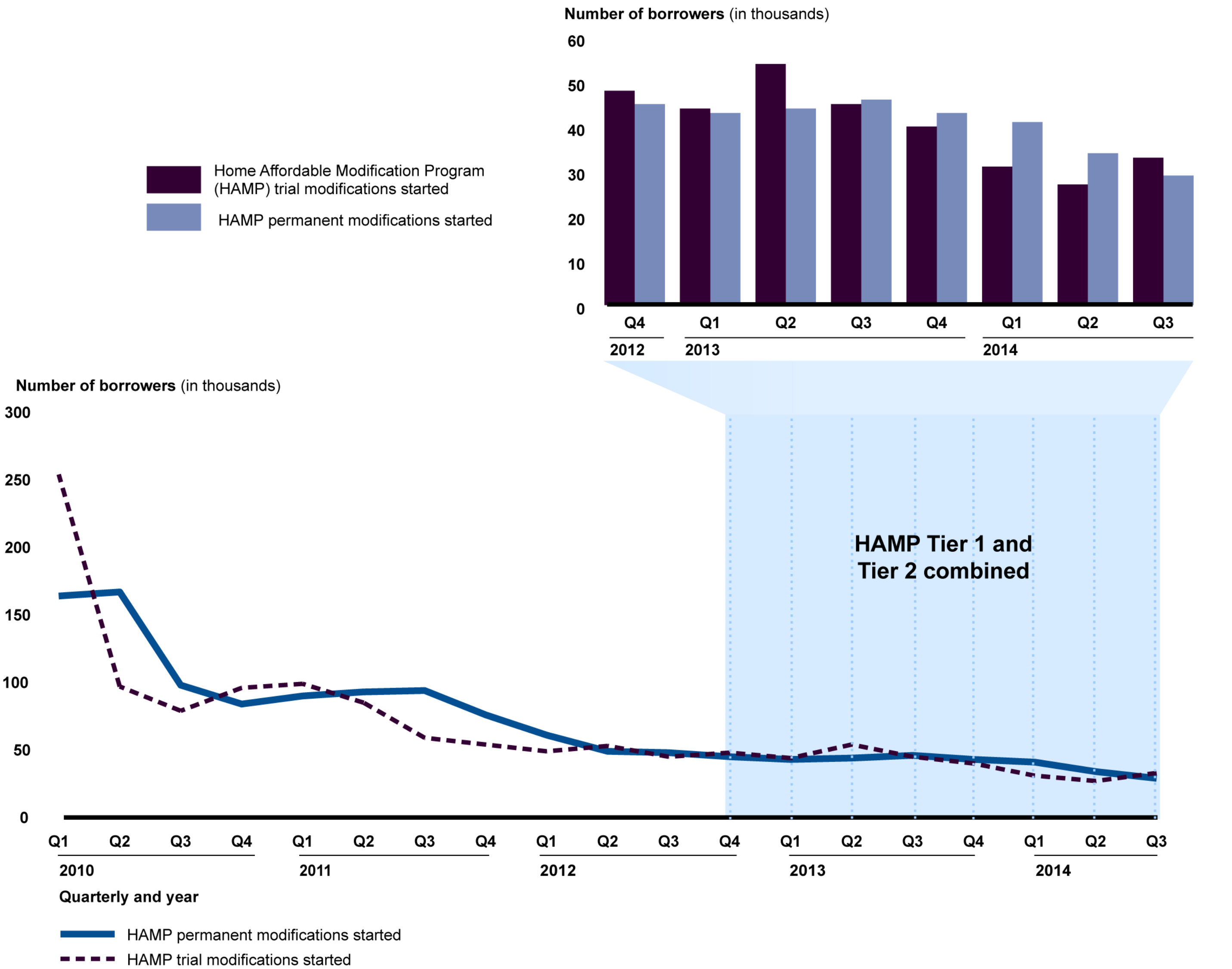
[46]HAMP Tier 2 is available for either owner-occupied or rental properties, and borrowers' monthly mortgage payments prior to modification do not have to exceed a specified threshold.

[47]These data are for Tiers 1 and 2 of the first-lien program combined.

permanent modifications started each quarter, peaked in early 2010, generally declined in 2011, and then held relatively steady through the middle of 2013. However, beginning with the third quarter of 2013, the number of new HAMP trial modifications began to decline, falling to 27,000 in the second quarter of 2014, then increasing slightly, to 33,000 in the third quarter of 2014—the most recent for which data are available. During the same period, the number of new HAMP permanent modifications declined steadily, from 46,000 in the third quarter of 2013 to 29,000 in the third quarter of 2014.[48] As we have reported, according to Treasury, the decline in HAMP modifications is a reflection of the shrinking pool of HAMP-eligible mortgages, as evidenced in the declining number of 60-day-plus delinquencies reported by the industry.

[48]As we have reported, Treasury officials are assessing whether guidance released in late 2013 to align HAMP reporting with the Bureau of Consumer Financial Protection's (known as CFPB) new mortgage servicing rules, effective as of January 2014, may have impacted reporting. See GAO-15-5.

Figure 8: Quarterly HAMP and Combined Tier 1 and Tier 2 Activity Levels through September 2014



Source: GAO analysis of Treasury's Making Home Affordable program performance reports. | GAO-15-197

Treasury has taken steps to increase HAMP participation, including extending the program application deadline and making other program changes. First, in June 2014, Treasury announced the third extension of the program to at least December 31, 2016.[49] With this extension, Treasury has increased the period for eligible borrowers—including the unemployed and those facing an increase in interest rates—to apply for assistance by 4 years from the initial program deadline of December 31, 2012. However, as we have reported earlier, the pool of mortgages eligible for HAMP programs is declining.[50] Second, in September 2014 Treasury, in conjunction with HUD and the Ad Council, launched a new series of public service advertisements (PSA) to raise awareness of the free government resources available through MHA to assist struggling homeowners in avoiding foreclosure.[51] The campaign includes television, print, radio, outdoor (billboards and other signage), and digital PSAs.[52] According to Treasury, since the campaign was initially launched in 2010, media outlets have donated about $137 million in airtime and physical and digital space, and more than 16,000 outdoor or transit ads have been placed nationwide. Treasury officials said that calls to the Homeowner's HOPE™ Hotline increased by 20 percent during the first week of the campaign. Treasury attributes the increase to the September 2014 campaign effort. Lastly, in late 2014, Treasury released two Supplemental Directives. The first, Supplemental Directive 14-04, was issued in October 2014 and stated that the interest rate on a HAMP Tier 2 modification would be lowered effective January 1, 2015, to the weekly Freddie Mac Primary Mortgage Market Survey Rate minus 50 basis points (down from zero basis points). Treasury is lowering the rate in an effort to increase the population that is potentially eligible for HAMP and provide greater

[49]In March 2012, Treasury first extended the MHA program from December 31, 2012, to December 31, 2013. Subsequently, in June 2013, Treasury extended the program for a second time to December 31, 2015. In June 2014, Treasury again extended the program until at least December 31, 2016. Treasury officials told us that the extension applies to all the MHA programs.

[50]See GAO-14-117.

[51]According to its web site, the Ad Council is a private, non-profit organization that runs national campaigns sponsored by non-profit organizations or federal government agencies. The campaigns are produced *pro bono* by advertising agencies that donate their services on a volunteer basis. See http://www.adcouncil.org/ (accessed Nov. 25, 2014).

[52]According to Treasury officials, there is no set broadcast schedule or plan because, per the Ad Council model, all PSAs are being aired and run in time and space donated by media organizations. The PSAs and the print ads for the campaign can be viewed at: http://www.makinghomeaffordable.gov/about-mha/psa-campaigns/Pages/default.aspx (accessed Nov. 19, 2014).

payment reduction.[53] In particular, Treasury believes the lowered rate will allow more HAMP Tier 1 borrowers, who might struggle with an interest rate step-up under Tier 1, to qualify for a HAMP Tier 2 modification.[54] On November 30, 2014, Treasury issued Supplemental Directive 14-05, which made several changes to HAMP that, among other things, will extend the pay-for-performance borrower incentives by an additional year, to a sixth year for the modification, and increases the amount of the incentive payment for that additional year to $5,000, up from $1,000 for years 1 to 5. While previously Tier 2 modifications were not eligible for pay-for-performance incentive payments, the changes in Supplemental Directive 14-05 apply to both Tier 1 and Tier 2 modifications, as well as to FHA-HAMP and RD-HAMP modifications.

Among the other programs designed to help borrowers, HAFA has assisted the largest number of borrowers—approximately 169,000—through September 2014. Under HAFA, 162,498 short sales and 6,975 deeds-in-lieu had taken place, as of September 2014 PRA had provided an estimated $14.8 billion in principal reduction to borrowers, through 163,951 permanent loan modifications, with $68,861 in median principal reduction. Through 2MP, servicers reported starting about 141,697

[53]We note that the net effect of a lowered rate is unclear. HAMP uses a standardized net present value (NPV) model to compare expected cash flows from a modified loan to the same loan with no modifications, using certain assumptions. If the expected cash flow with a modification is positive (i.e., more than the estimated cash flow of the unmodified loan), the participating loan servicer is required to make the loan modification. The net effect of the reduction in the interest rate depends on its impact on the NPV, which is generally ambiguous. While the rate reduction will reduce cash flows to the investor (hence decreasing NPV), it will reduce the borrower's monthly payment and the debt-to-income ratio (DTI), which would reduce the probability of redefault (hence increasing NPV). However, it is true that a positive NPV would increase the number of borrowers modifying their loans because investors and servicers would be willing to offer loan modifications and borrowers would be willing to accept the offers because of lower payments.

[54]As part of the HAMP Tier 1 modification, servicers reduce a borrower's interest rate until the DTI is 31 percent or the interest rate falls to 2 percent. The new interest rate is fixed for the first 5 years of the modification. It then gradually increases by increments of no more than 1 percent per year until it reaches the cap, which is the Freddie Mac Primary Mortgage Market Survey rate at the time of the evaluation for the modification. The interest rate is then fixed at that rate for the remaining loan term. In contrast, under HAMP Tier 2 the interest rate is adjusted to the weekly Freddie Mac Primary Mortgage Market Survey Rate at the time of the modification (less 50 basis points effective January 2, 2015) and remains fixed for the life of the loan. As we reported, Treasury estimated that approximately 83 percent of HAMP Tier 1 borrowers (at least 752,000 borrowers) would experience at least one interest rate increase after the initial 5 years of their HAMP loan modification. For more information, see GAO-15-5.

second-lien modifications, of which 38,480 fully extinguished the second lien as of September 2014. Nearly 67,708 trial modifications were started that received Treasury FHA-HAMP incentives as of June 2014, and the median monthly payment reduction for active permanent modifications was $232.[55] However, as of June 2014, only 187 modifications had been made that qualified for Rural Development (RD)-HAMP incentives. For the RD-HAMP loans, the median monthly payment reduction for active permanent modifications was $260.

As discussed earlier, Treasury extended HAMP and all MHA programs until at least December 31, 2016. However, Treasury officials told us that they might decide at a future date to wind down some programs under MHA at an earlier date or to extend MHA beyond 2016. They added that their decision would be based on market conditions, program volume, and other factors.

Hardest Hit Fund

As of September 30, 2014, six states and the District of Columbia had closed their Hardest Hit Fund application process in anticipation of full commitment of program funds.[56] As of that date, participating states and the District of Columbia had committed a total of $3.4 billion of the $7.6 billion dedicated to the program, and assisted a total of 207,511 homeowners. However, as we have reported, progress in disbursing funds and meeting state-level targets for household participation varied across states.[57] As we also reported, state officials told us that, with Treasury's help, they had confronted challenges related to staffing and infrastructure, servicer participation, borrower outreach, and program implementation[58]

In terms of an exit strategy and end date for the Hardest Hit Fund, state housing finance agencies must commit funds by December 31, 2017, but can continue to spend committed funds after that date. According to Treasury officials, currently there are no plans to extend the deadline for

[55]The Treasury FHA-HAMP data represent only those FHA-HAMP modifications reported to and paid for by Treasury under TARP.

[56]The six states that closed their application portals were: (1) Illinois, (2) New Jersey, (3) Ohio, (4) Oregon, (5) Rhode Island, and (6) Tennessee.

[57]See GAO-15-5.

[58]GAO, *Troubled Asset Relief Program: Further Actions Needed to Enhance Assessments and Transparency of Housing Programs*, GAO-12-783, (Washington, D.C.: July 19, 2012).

committing Hardest Hit Fund monies beyond 2017. However, Treasury will continue to evaluate that deadline over time, taking into account changing market conditions in Hardest Hit Fund areas, program performance, and other factors.

FHA Short Refinance

Finally, FHA refinanced 4,963 loans between September 2010 and September 2014 through the FHA Short Refinance program. As of September 30, 2014, Treasury would pay a portion of claims in the event of a default for 3,015 of those loans.[59] Through September 2014, Treasury had paid one claim of approximately $48,000 and spent approximately $10 million in administrative costs. The scheduled end date for the FHA Short Refinance program was December 31, 2014. However, on November 14, 2014, FHA extended the program for an additional 2 years, with all loans required to close on or before December 31, 2016. Treasury officials are evaluating whether the extension through 2016 will require an extension of Treasury's line of credit.

Agency Comments

We provided a draft of this report to Treasury for review and comment. In its written comments, reproduced in appendix II, Treasury generally concurred with our findings. Treasury stated that it will continue its efforts to wind down the remaining investment programs while protecting taxpayers' interests and maximizing returns and continue to implement TARP-funded housing programs, primarily through mortgage modifications and other assistance programs. Treasury also provided technical comments that we have incorporated as appropriate.

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

[59]Treasury established a $50 million account with Citibank, N.A. to administer payment of claims under the program which expires on September 24, 2020. The unused portion of the account will be returned to Treasury.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or clowersa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

A. Nicole Clowers
Director
Financial Markets and
Community Investment

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Appendix I: Objectives, Scope and Methodology

The objectives in this report were to examine the condition and status of (1) nonhousing-related Troubled Asset Relief Programs (TARP) and (2) TARP-funded housing programs. To assess the condition and status of all the nonhousing-related programs initiated under TARP, we collected and analyzed data about program utilization and assets held, as applicable, focusing primarily on financial information that we had audited in the Office of Financial Stability's (OFS) financial statements, as of September 30, 2014. In some instances we analyzed more recent, unaudited financial information. The financial information includes the types of assets held in the program, obligations that represent the highest amount obligated for a program (to provide historical information on total obligations), disbursements, and income. We also used OFS cost estimates for TARP that we audited as part of the financial statement audit. As part of the financial statement audit, we tested OFS's internal controls over financial reporting. The financial information used in this report is sufficiently reliable to assess the condition and status of TARP programs based on the results of our audits of fiscal years 2009 through 2014 financial statements for TARP.[1]

Further, we reviewed the Department of the Treasury's (Treasury) documentation such as press releases and reports on TARP programs and costs. Also, we interviewed OFS program officials and obtained information from them to determine the current status of each TARP program and to update what is known about exit considerations for TARP programs. In reporting on these programs and their exit considerations, we leveraged our previous TARP reports, as appropriate. In addition, we did the following:

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[1]See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-132R, (Washington, D.C.: November 7, 2014); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2013 and 2012 Financial Statements*, GAO-14-172R, (Washington, D.C.: December 11, 2013); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2012 and 2011 Financial Statements*, GAO-13-126R, (Washington, D.C.: November 9, 2012); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2011 and 2010 Financial Statements,* GAO-12-169, (Washington, D.C.: November 10, 2011); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2010 and 2009 Financial Statements,* GAO-11-174, (Washington, D.C.: November 15, 2010); and *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements*, GAO-10-301, (Washington, D.C.: December 9, 2009).

- For the Capital Purchase Program, we used OFS's reports to describe the status of the program, including which participants had begun repaying Treasury investments, the number of institutions that had exited the program, and the amount of dividends paid. In addition, we reviewed Treasury's press releases on the program and interviewed Treasury officials.
- For the Community Development Capital Initiative, we interviewed program officials to determine what exit concerns Treasury has for the program.
- To update the status of the Automotive Industry Financing Program and Treasury's plans for managing its investment in the companies, we reviewed information on Treasury's plans for overseeing its financial interests in Ally Financial, including Treasury reports. We also interviewed officials from Treasury.
- For the Term Asset-Backed Securities Loan Facility, we interviewed OFS officials about their role in the program as it continues to unwind.
- To update the status of the Public-Private Investment Program, we analyzed program quarterly reports, term sheets, and other documentation related to the public-private investment funds. We also interviewed OFS staff responsible for the program to determine the status of the program while it remains in active investment status.

To assess the status of TARP-funded housing programs, we reviewed Treasury reports, guidance, and documentation and interviewed Treasury officials, in addition to leveraging our recent work.[2] Specifically, to determine the status of Treasury's TARP-funded housing programs, we obtained and reviewed Treasury's published reports on the programs, as well as guidelines and related updates issued by Treasury for each of the programs. In addition, we obtained information from and interviewed Treasury officials about the status of the TARP-funded housing programs.

We conducted this performance audit from September 2014 to January 2015 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

[2]*See GAO, Troubled Asset Relief Program: Treasury Could Better Analyze Data to Improve Oversight of Servicers' Practices,* GAO-15-5, (Washington, D.C.: October 6, 2014).

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.

Appendix II: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 22, 2014

Nikki Clowers
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Clowers:

Thank you for the opportunity to review your draft report titled "Treasury Continues to Wind down Most Programs, but Housing Programs Remain Active." Treasury appreciates the efforts of the Government Accountability Office (GAO) in providing an update on the current status of the various programs under the Troubled Asset Relief Program (TARP).

In the six years since the establishment of TARP, Treasury has implemented, and in a number of cases wound down, programs that helped to stabilize the financial system. The Office of Financial Stability has collected 103 percent of the $411.7 billion in program funds that were disbursed under TARP investment programs, as well as an additional $17.5 billion from Treasury's equity in AIG. Most recently, Treasury announced that it would exit its investment in Ally, receiving in total roughly $2.4 billion more than its original investment, and wind down the Auto Industry Financing Program. Treasury will continue its efforts to wind down the remaining investment programs while protecting taxpayers' interests and maximizing returns.

In addition, Treasury continues to implement TARP housing programs that have already helped over a million struggling homeowners avoid foreclosure, primarily through mortgage modifications and other forms of assistance. These programs have also set new mortgage modification and consumer protection standards, which helped transform the mortgage servicing industry and thereby helped millions more families. The Making Home Affordable Program has been extended through at least December 2016, and Treasury recently announced program enhancements to motivate homeowners to continue making their mortgage payments on time, strengthen the safety net for those facing continuing financial hardships, and help homeowners build equity in their homes.

Treasury values GAO's detailed review of TARP. We look forward to continuing to work with you and your team as we move forward.

Sincerely,

Timothy J. Bowler

Timothy J. Bowler
Deputy Assistant Secretary for Financial Stability

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

A. Nicole Clowers, (202) 512-8678 or clowersa@gao.gov.

Staff Acknowledgments

In addition to the contacts named above, Marcia Carlsen, Lynda E. Downing, Harry Medina, and Karen Tremba (lead assistant directors); Kristeen McLain (Analyst-in-Charge), Bethany M. Benitez, Emily R. Chalmers, William R. Chatlos, Rachel DeMarcus, Alex Fedell, John A. Karikari, Dragan Matic, Marc Molino, and Jena Y. Sinkfield have made significant contributions to this report.

Related GAO Products

Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2014 and 2013 Financial Statements. GAO-15-132R. Washington, D.C.: November 7, 2014.

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