Troubled Asset Relief Program (TARP): Implementation and Status

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Summary

The Troubled Asset Relief Program (TARP) was created by the Emergency Economic Stabilization Act (EESA; P.L. 110-343) in October 2008. EESA was enacted to address an ongoing financial crisis that reached near-panic proportions in September 2008. The act granted the Secretary of the Treasury authority to either purchase or insure up to $700 billion in troubled assets owned by financial institutions. This authority was granted for up to two years from the date of enactment and was very broad. In particular, the definitions of both "troubled asset" and "financial institution" allowed the Secretary wide leeway in deciding what assets might be purchased or guaranteed and what might qualify as a financial firm.

The financial crisis grew out of an unprecedented housing boom that turned into a housing bust. Much of the lending for housing during the boom was based on asset-backed securities, which used the repayment of housing loans as the basis for repaying these securities. As housing prices fell and mortgage defaults increased, these securities became illiquid and fell sharply in value, causing capital losses for financial firms. Uncertainty about future losses on illiquid and complex assets led to some firms having reduced access to private liquidity, with the loss in liquidity being in some cases catastrophic. September 2008 saw the government takeover of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, and the near collapse of AIG, which was saved only by an $85 billion loan from the Federal Reserve. There was widespread lack of trust in the financial markets as participants were unsure which firms might be holding so-called toxic assets that might now be worth much less than previously estimated, and thus might be unreliable counterparties in financial transactions. This prevented firms from accessing credit markets to meet their liquidity needs.

As EESA moved through Congress, most attention was focused on the idea of the government purchasing mortgage-related toxic assets, thus alleviating the widespread uncertainty and suspicion by cleaning up bank balance sheets. The initial TARP Capital Purchase Program, however, directly added capital onto banks' balance sheets through preferred share purchases, rather than removing assets that had become liabilities through purchasing mortgage-related assets. Several other TARP programs followed, including an asset guarantee program; programs designed to spur consumer and business lending; financial support for companies such as AIG, GM, and Chrysler; and programs to aid homeowners at risk of foreclosure. Eventually, the Public-Private Investment Program resulted in the purchase of some mortgage-related assets from banks, but this has remained a relatively small part of TARP. Most of the TARP programs are now closed, with no additional disbursements expected.

With the immediate crisis subsiding through 2009, congressional attention in financial services turned largely to consideration of broad regulatory changes. The resulting Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) amended the TARP authority, including (1) reduction of the overall amount to $475 billion; (2) removal of the ability to reuse TARP funds that had been repaid; and (3) removal of the authority to create new TARP programs or initiatives. The original TARP authority to purchase new assets or enter into new contracts expired on October 3, 2010. Outlays under the existing contracts, however, may continue through the life of these contracts. Overall budget cost estimates for TARP have decreased significantly since the passage of EESA, with the latest Congressional Budget Office estimates foreseeing $25 billion in costs and the latest Treasury estimates foreseeing $48 billion in costs. Most of these costs are from aid to homeowners and the automakers. The assistance to banks is generally showing a profit for the government.

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Introduction

The Troubled Asset Relief Program (TARP) was created by the Emergency Economic Stabilization Act[1] (EESA) enacted on October 3, 2008. EESA was passed by Congress and signed by President Bush to address an ongoing financial crisis that reached near-panic proportions in September 2008.

Financial turmoil began in August 2007 when asset-backed securities, particularly those backed by subprime mortgages, suddenly became illiquid and fell sharply in value as an unprecedented housing boom turned to a housing bust. The Federal Reserve (Fed) stepped in with emergency measures to restore liquidity, temporarily calming markets. Losses in mortgage markets, however, continued and spilled into other markets. Financial firms eventually wrote down many of these losses, depleting their capital. Uncertainty about future losses on illiquid and complex assets led to some firms having reduced access to private liquidity, with the loss in liquidity being in some cases catastrophic.

September 2008 saw the government takeover of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, and the near collapse of AIG, which was averted with an $85 billion loan from the Fed. There was widespread unwillingness to lend in the financial markets as participants were unsure which firms might be holding so-called toxic assets now worth much less than previously estimated, and thus might be unreliable counterparties in financial transactions.

EESA authorized the Secretary of the Treasury (hereafter "the Secretary") to either purchase or insure up to $700 billion in troubled assets owned by financial firms. This authority was granted for a maximum of two years from the date of enactment and expired on October 3, 2010. The general concept was that by removing such assets from the financial system, confidence in counterparties could be restored and the system could resume functioning. This authority granted in EESA was very broad. In particular, the definitions of both "troubled assets" and "financial institutions" allowed the Secretary wide latitude in deciding what assets might be purchased or guaranteed and what might qualify as a financial institution.[2] EESA also included a number of oversight mechanisms[3] and reporting requirements.[4] EESA was later amended to strengthen its executive compensation requirements[5] and to reduce the authorized amount to $475 billion.[6]

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[1] P.L. 110-343, 12 USC 5311 *et seq.*

[2] The definition for financial institution gives examples, such as banks and credit unions, but specifically does not limit the definition to the types of firms named. The definition of troubled asset includes "any financial instrument" determined by the Secretary, in consultation with the Chairman of the Fed, the purchase of which would promote financial stability.

[3] See CRS Report R40099, *The Special Inspector General for the Troubled Asset Relief Program (SIGTARP)*, by Vanessa K. Burrows and CRS Report RL34713, *Emergency Economic Stabilization Act: Preliminary Analysis of Oversight Provisions*, by Curtis W. Copeland.

[4] Treasury publishes their TARP reports at http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/Pages/Home.aspx. This report will make use of many of these TARP reports. Monthly overall reports are required under Section 105(a) of EESA and will be referenced hereafter as, for example, the "December 2010 TARP 105(a) Report." Monthly reports on dividends and interest accrued to TARP will be referenced hereafter as, for example, the "December 2010 TARP Dividends and Interest Report." These reports are typically published 10 days after the month in question. Treasury also is required to publish a "TARP Transactions Report" detailing TARP transactions shortly after they occur.

[5] P.L. 111-5; see CRS Report R40540, *Executive Compensation Limits in Selected Federal Laws*, by Michael V. Seitzinger and Carol A. Pettit.

This report provides a brief outline of the programs created under TARP, recent changes made by Congress, and a summary of the current status and estimated costs of the program. It also provides an **Appendix** that contains detailed discussions of the individual TARP programs. This report will be updated as warranted by market and legislative events.

TARP Programs

Treasury reacted quickly after the enactment of EESA, announcing the first TARP program, the Capital Purchase Program, on October 14, 2008, and several other programs followed. This programs included the following:

- **Capital Purchase Program (CPP).** The CPP did not purchase the mortgage-backed securities that were seen as toxic to the system, but instead purchased preferred shares in banks.[7] The resulting addition of capital, it was hoped, would allow banks to overcome the effect of the toxic assets while the assets remained on bank balance sheets. The CPP is now closed, with assets outstanding, but no additional disbursements
- **Targeted Investment Program (TIP).** This program provided for exceptional preferred share purchases and was used only for Citigroup and Bank of America. This program is closed, with all funds repaid.
- **Asset Guarantee Program (AGP).** Required by Section 102 of EESA, guarantees provided under this program were also part of the exceptional assistance to Citigroup and Bank of America. This program is closed, with all guarantees cancelled.
- **Systemically Significant Failing Institution Program/AIG Assistance.** Preferred share purchases to supplement and supplant assistance to AIG previously provided by the Federal Reserve. This assistance was recently restructured with the government now owning 92% of AIG's common equity and substantial equity in AIG subsidiaries. This equity is to be sold, and AIG may access up to $2 billion in additional TARP funding.[8]
- **Consumer and Business Lending Initiatives (CBLI).** Three different attempts to increase lending and spur the economy. The *Term Asset-Backed Securities Loan Facility* (TALF) supported the asset-backed security market.[9] The *Section 7a Securities Purchase Program* supported the Small Business Administration's (SBA) Section 7a loan program through purchases of pooled SBA guaranteed securities. The *Community Development Capital Initiative* (CDCI) provided for lower dividend rates on preferred share purchases from banks that target their

(...continued)

[6] P.L. 111-203.

[7] Preferred stock is an equity instrument, but it does not confer any control over the company and typically has a set dividend rate to be paid by the company; it is similar economically to debt, but accounted for as equity.

[8] For more detailed information on AIG, see CRS Report R40438, *Federal Government Assistance for American International Group (AIG)*, by Baird Webel.

[9] For more information see CRS Report RL34427, *Financial Turmoil: Federal Reserve Policy Responses*, by Marc Labonte.

lending to small businesses. The SBA securities and CDCI programs are closed with some assets still outstanding, but no new disbursements. Additional disbursements are possible under TALF should future losses occur.

- **Housing Assistance Programs.** These programs are unlike the other TARP programs in that they do not result in valuable assets or income in return for the TARP funding. The *Home Affordable Modification Program* (HAMP) pays mortgage servicers if they modify mortgages to reduce the financial burden on homeowners. The *Hardest Hit Fund* provides aid to state housing authority programs in states that have high unemployment rates and foreclosures. These programs remain open under the contracts previously agreed to and substantial funds remain to be disbursed. The December TARP 105(a) report shows $45.6 billion planned with only $1 billion disbursed.[10]
- **Public-Private Investment Program (PPIP).** This program provides funds and guarantees for purchases of mortgage-related securities from bank balance sheets. Purchases and management of the securities is done by private investors who have provided capital to invest along with the TARP funds. The PPIP is still open under previous contracts with $15.6 billion of a possible $22.4 billion disbursed as of December 2010.
- **Automobile Industry Support.** This program provided loans to support General Motors (GM) and Chrysler. The program ultimately resulted in majority government ownership of GM (60.8%) and its financing arm, GMAC/Ally Financial (74%), and minority government ownership of Chrysler (9.9%). The ownership in GM was reduced to 33.3% in a recent public share offering but the government has yet to divest any shares in GMAC/Ally Financial or Chrysler. The only remaining funds that might be disbursed are up to $2 billion in loans to Chrysler.[11]

Current Status and Future of TARP

As detailed above, until October 3, 2010, the Secretary had the authority to purchase or insure nearly any financial asset under the programs in place on June 25, 2010. This authority has now expired. The legal contracts entered into under the previous authority, however, are still in force. Thus, TARP funds may still flow out from the Treasury in the future. The programs with the largest gap between legal commitments and the actual amount disbursed, and thus the largest potential to grow in the future, are the housing support programs. **Table 1** presents the figures reported by the Treasury for committed and actually disbursed TARP funds.

[10] For more information see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by Katie Jones.

[11] For more information see CRS Report R41401, *General Motors' Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter and CRS Report R41154, *The U.S. Motor Vehicle Industry: A Review of Recent Domestic and International Developments*, by Bill Canis and Brent D. Yacobucci.

Table 1. Outlay of TARP Funds

($ in billions)

TARP Program	Committed Amount	Actual Disbursements
Capital Purchase Program	$204.89	$204.89
Targeted Investment Program	$40.0	$40.0
Asset Guarantee Program	$5	$0
Consumer and Business Lending Initiative	$5.24	$0.67
Public-Private Investment Program	$22.41	$15.56
AIG	$69.84	$67.84 (Jan. 14, 2011)
Auto Industry Financing Program	$81.76	$79.69
Housing Support	$45.63	$1.00
Totals	$475	$411.65

Source: December 2010 TARP 105(a) Report; January 18, 2011 TARP Transactions Report.

Notes: Figures as of December 31, 2010, except for AIG assistance. Figures may not sum due to rounding.

Although the total amount of assets held or insured under TARP was initially capped at $700 billion, and the program was widely reported as a "$700 billion bailout,"[12] the actual net cost of TARP was never likely to approach $700 billion. Unlike most government programs, where funds are simply expended, TARP funds were generally used in ways that resulted in either the holding of assets by the government or in some form of income accruing to the government. The incoming receipts from TARP outlays have taken several forms, including

- funds from the sale of previously purchased assets,
- repayment of principal from loans,
- premium payments for insured assets,
- dividend and interest payments from assets and loans, and
- proceeds from the sale of warrants issued by companies who sold assets to TARP.

Table 2 summarizes these incoming revenues from TARP.

[12] See, for example, "7 Questions about the $700 Billion Bailout," *Time*, September 24, 2008, http://www.time.com/time/politics/article/0,8599,1843941,00.html and "Administration Is Seeking $700 Billion for Wall Street," *New York Times*, September 20, 2008, p. A1.

Table 2. Incoming TARP Funds

($ in billions; as of December 31, 2010)

TARP Program	Asset Sales/Repayment of Loan Principal	Dividends, Interest, Premiums, and Warrant Proceeds	Unpaid Accrued Dividends and Interest[a]
Capital Purchase Program	$167.9	$30.96	$0.2
Targeted Investment Program	$40	$4.26	$0
Asset Guarantee Program	none	$2.96	$0
Consumer and Business Lending Initiative	$0	$0	$0
Public-Private Investment Program	$0.43	$0.2	$0
AIG	$0	$0	$1.6
Auto Industry Financing Program	$26.86	$3.47	$0.3 (Chrysler)
Housing Support	Not applicable	Not applicable	Not applicable
Totals	$199.1	$30.0	$2.0

Source: December 2010 TARP 105(a) Report; December 2010 TARP Dividends and Interest Report; Chrysler 2010 2nd Quarter Financial Statement.

Notes: Housing support programs results in no assets to be sold, nor other income.

a. For both AIG and Chrysler, the unpaid dividends and interest have been converted into principal under contracts agreed to between the company and the Treasury. The unpaid Capital Purchase Program dividends are due to banks missing their scheduled dividend payments.

The 112th Congress and TARP

The 112th Congress has shown a continued interest in TARP despite the expiration of the purchasing authority in October 2010. The first hearing of the House Committee on Oversight and Government Reform in the 112th Congress focused on TARP, with the Special Inspector General for TARP and Treasury's Acting Assistant Secretary for Financial Stability as witnesses. Shortly following this hearing, Representative Jim Jordan introduced H.R. 430, a bill to terminate TARP's HAMP program. Other TARP legislation introduced in the 112th includes Representative Jordan's H.R. 189, which was introduced on January 5, 2011, and would repeal TARP in its entirety while allowing the Secretary to continue managing TARP assets to maximize future returns.

The Costs of TARP

In arriving at an overall cost to the government of TARP, or any similar program, it is important to account for the difference in time between initial outlay of funds and the receipt of any income. Some TARP contracts run for five years or more, and the difference in value between a dollar in 2008 and 2013, for example, could be significant. To compare dollar values over time, economists use present value calculations that reduce costs or income in the future relative to the present by a discount rate. Present value calculations can be very sensitive to the rate used if the amount of time involved is large. In preparing the budget cost estimates for TARP, the

Administration and the Congressional Budget Office (CBO) are directed by Section 123 of EESA to adjust their estimates by current market borrowing rates, as opposed to the borrowing rate paid by Treasury. Using market rates instead of government borrowing rates increases the net calculated cost of these investments, and is meant to better represent the true economic costs of the programs. **Table 3** presents a range of TARP cost estimates over the life of the program while **Table 4** summarizes the latest detailed estimates of TARP's cost from CBO and the Treasury.

Table 3. Estimates of Overall TARP Costs Over Time

($ in billions; gain(+)/loss(-))

Date Of Estimate/Agency	Amount
October 2008/CBO	"likely to be substantially less than $700 billion but is more likely than not to be greater than zero."
January 2009/CBO	-$189
March 2009/CBO	-$356
May 2009/OMB	-$307.5
August 2009/OMB	-$208
August 2009/CBO	-$241
October 2009/Treasury	-$68.5
January 2010/CBO	-$99
February 2010/OMB	-$127
March 2010/CBO	-$109
May 2010/Treasury	-$105.4
August 2010/CBO	-$67
October 2010/Treasury	-$51[a]
October 2010/OMB	-$113[b]
November 2010/Treasury	-$77.7(-$45.9)[c]
November 2010/CBO	-$25
December 2010/Treasury	-$48

Source: CBO, *Analysis of Dodd Substitute Amendment for H.R. 1424*, October 1, 2008; OMB, *Analytical Perspectives, FY2010 President's Budget*, Table 702, May 2009; CBO, *Budget and Economic Outlook*, (January 2009, August 2009, January 2010, and August 2010); and U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2009*, October 2009. OMB, *Analytical Perspectives, FY2011 President's Budget*, Table 4-7; February 2010; CBO, *Report on the Troubled Asset Relief Program—March 2010*, March 17 2010; U.S. Treasury, *Summary Tables of Trouble Asset Relief Program (TARP) Investments as of March 31, 2010*, May 2010; U.S. Treasury, *Troubled Asset Relief Program: Two Year Retrospective*, October 5, 2010; and U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2010*, November 2010. CBO, *Report on the Troubled Asset Relief Program—November 2010*, November 29, 2010; OMB, *Report Under the Emergency Economic Stabilization Act, Section 202*, October 15 2010; and December 2010 TARP 105(a) Report.

a. This estimate assumed the announced AIG restructuring would take place as planned and used the market value of AIG stock. It did not adjust for market risk and the time value of money as other estimates do.

b. This estimate was released in October, but used data from the end of May 2010; other estimates use data closer to their publication dates.

c. The smaller figure is a "pro forma" cost, assuming that the proposed AIG restructuring takes place and using market values for AIG stock. This is akin to the October estimate released by Treasury.

Table 4. Detailed Cost/Gain Estimates for TARP

($ in billions; gain(+)/loss(-))

TARP Program	CBO (November 2010)	Treasury (December 2010)
Capital Purchase Program	$15	$15.5
Targeted Investment Program	$7 (combined)	$3.8
Asset Guarantee Program		$3.7
Consumer and Business Lending Initiative	$0	$0
Public-Private Investment Program	$0	$0.2
AIG	-$14	-$8.0
Auto Industry Financing Program	-$19	-$14.8
Housing Support	-$12	-$45.6

Source: CBO, *Report on the Troubled Asset Relief Program—November 2010*, November 29, 2010; December TARP 105(a) Report.

Note: December Treasury estimate assumes the completion of the AIG restructuring that subsequently occurred January14, 2011.

The cost estimates of TARP are sensitive to financial markets and the state of the economy. The ultimate cost of the program will depend largely on recouping value from the financial assets held in TARP. The assets resulting from bank assistance (CPP/TIP/AGP), including warrants and both preferred and common shares, have turned out to be relatively valuable, thus CBO and Treasury estimate that these programs may show an overall profit as the increases in asset values outweigh any losses from defaults. In the cases of AIG or the automakers, however, both CBO and Treasury estimate that the assets held by the government ultimately will not return enough to recoup the cash put into the companies, though the latest estimates are for a much smaller loss than was previously expected.

Ownership of Private Companies

Government ownership of common equity in private companies was not a general goal of EESA although it was expected that the government would be compensated for the assistance given to companies under TARP. In some cases, this compensation for TARP assistance has resulted in government holdings of common stock in amounts that typically would result in the government having a controlling interest in these companies. Common equity in companies has typically been accepted in return for TARP assistance in order to strengthen the companies' capital positions going forward. Such equity also provides a potential financial upside to the taxpayers if firms have a strong recovery, but has potential downside if firms do not recover strongly.

In the case of Citigroup, which converted $25 billion of preferred shares into common shares, the outcome for the government has been positive as the share price rose after the conversion, resulting in approximately $6.8 billion in gains for taxpayers. The outcome for GM is less certain. The share price would have to rise substantially from current levels to result in an overall gain. Sales of the stakes in the other large companies (Chrysler, AIG, and GMAC/Ally Financial) have yet to begin, although preferred shares in both AIG and GMAC/Ally Financial have recently been converted into common shares to facilitate the sale of the government's investment in these companies.

Table 5. Companies with Large Government Common Ownership Stakes

($ in billions)

Company	Current Government Ownership Share	Total TARP Assistance Received[a]	Amount Recouped by the Treasury	TARP Outlays Still Owed by the Company to the Treasury	Outstanding Outlays Converted to Ownership Stakes
GM	33.3%	$50.2	$23.3[b]	$0	$27.1
Chrysler	9.9%	$11.3	$2.9[c]	$5.1	$3.5
GMAC/Ally Financial	74%	$17.2	$2.0	$7.6	$9.6
AIG	92.1%[d]	$67.8	$0	$0	$47.5
Citigroup[e]	0%	$45 cash; $5 billion guarantee	$57.0	$0	$0

Source: Various TARP 105(a) Reports, TARP Dividend and Interest Reports, and U.S. Treasury press releases Chrysler Group LLC, *Third Quarter 2010 Financial Statement*, November 8, 2010.

a. Some of these companies received commitments for funds greater than the reported amounts, or other TARP assistance. These figures are actual dollars received by, or spent on behalf of, companies. In the case of GM and Chrysler, this includes before, during, and after their bankruptcies, and also includes amounts that went to support third party suppliers to GM and Chrysler.

b. Includes repayments, interest, dividends and fees.

c. $1.9 billion recouped from assets remaining after the bankruptcy of Old Chrysler; $403 million principal repaid for warranty and supplier support loans; and $570 million in interest, dividends, and fees.

d. 79.8% ownership of AIG results from a Federal Reserve loan that predates TARP. The additional 12.3% resulted from conversion of TARP preferred shares, including $1.6 billion in unpaid dividends. This conversion substantially diluted the initial 80% government stake.

e. $20 billion was repaid directly by Citigroup; $25 billion was converted into 34% of the equity in Citigroup, which was subsequently sold for $31.8 billion. Warrants from the transactions are still outstanding.

TARP and the Dodd-Frank Act[13]

Unlike EESA, which was a temporary response to the immediate financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was a broad bill that permanently changed many parts of the U.S. financial regulatory system. The act included a relatively short amendment to EESA in Title XIII, entitled the Pay It Back Act. Section 1302 of Dodd-Frank made three primary changes to EESA:

- reducing the overall authorization to purchase from nearly $700 billion[14] to $475 billion;

[13] P.L. 111-203, see CRS Report R41350, *The Dodd-Frank Wall Street Reform and Consumer Protection Act: Issues and Summary*, coordinated by Baird Webel.

[14] The initial $700 billion had been reduced by $1.26 billion in P.L. 111-22.

- removing the implicit authority for the Secretary to reuse TARP funds when TARP assets are sold;[15] and
- limiting the authorities under the act to programs or initiatives initiated prior to June 25, 2010.

As of June 30, 2010, the Treasury reported that it planned to spend approximately $537 billion on the various programs, with $491 billion committed under signed contracts and $385 billion actually disbursed.[16] The July 21, 2010, enactment of the $475 billion limit in the Dodd-Frank Act thus required Treasury to reduce the amounts planned for TARP by more than $60 billion and the legal commitments under TARP by more than $16 billion. CBO scored the TARP changes in the Dodd-Frank Act as resulting in a decrease in direct spending of $11 billion in 2010.[17] The TARP changes reported by Treasury following the Dodd-Frank Act appear below in **Table 6**.

Table 6. TARP Changes Following the Dodd-Frank Act

($ in billions)

TARP Program	Planned Allocation Prior to Dodd-Frank	Change Following Dodd-Frank	Planned Allocation July 31, 2010	Legal Commitments July 31, 2010
Capital Purchase Program	$204.9	$0.0	$204.9	$204.9
Targeted Investment Program	$40.0	$0.0	$40.0	$40
Asset Guarantee Program	$5.0	$0.0	$5.0	$5.0
AIG (Systemically Significant Failing Institutions)	$69.8	$0.0	$69.8	$69.8
Term Asset-Backed Securities Program	$20.0	-$15.7	$4.3	$4.3
SBA Section 7(a)	$1.0	-$0.6	$0.4	$1.0[a]
Community Development Capital Initiative	$0.8	$0.0	$0.8	
Small Business Lending Fund	$30	-$30.0[b]	$0.0	$0.0
Public Private Investment Program	$30.4	-$7.9	$22.4	$22.4
Automotive Industry Financing Program	$84.8	-$3.1	$81.8	$81.8
Housing/HAMP	$48.7	-$3.1	$45.6	$30.25
Total	**$535.5**	**-60.5**	**$475.0**	**$454**

Source: July 2010 TARP 105(a) Report

Notes: Figures may not add due to rounding.

a. Treasury's reporting did not separate the legal commitments for the two programs.

[15] Section 115(a)(3) of EESA limits the Secretary's authority to purchase or guarantee assets to $700 billion "outstanding at any one time." While the interpretation was never subject to determination by the courts, this language can be read to allow total purchase of assets beyond $700 billion if assets are sold before additional purchases are made. Section 1302 of Dodd-Frank removed the phrase "outstanding at any one time."

[16] June 2010 TARP 105(a) Report.

[17] Congressional Budget Office, *CBO Estimate of the Net Deficit Effects of H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act*, June 29, 2010.

b. The Administration proposed creating a similar fund outside of TARP. See CRS Report R41385, *Small Business Legislation During the 111th Congress*, by Robert Jay Dilger, Oscar R. Gonzales, and Gary Guenther .

Under the broad authorities granted by EESA, Treasury could unilaterally change the planned program allocations. Following the Dodd-Frank Act, this authority was limited to the difference between the total of Treasury's plans and the total of the signed contracts, approximately $21 billion as of July 31, 2010.

Appendix. Details of TARP Programs

Capital Purchase Program and Capital Assistance Program

Under the Capital Purchase Program (CPP), $125 billion in capital was immediately provided to the nine largest banks (which became eight after a merger), with up to another $125 billion reserved for smaller banks that might wish to apply for funds through their primary federal banking regulator. This capital was provided in the form of preferred share purchases by TARP under contracts between the Treasury and banks. The initial contracts with the largest banks (ultimately, eight rather than nine) prevented these banks from exiting the program for three years. The contracts included dividend payments to be made on the preferred shares outstanding and the granting of warrants to the government. By the end of 2008, the CPP had 214 participating banks with approximately $172.5 billion in share purchases outstanding.

The Obama Administration and the 111th Congress implemented changes to the CPP. EESA was amended by the new 111th Congress, placing additional restrictions on participating banks in the existing CPP contracts, but also allowing for early repayment and withdrawal from the program without financial penalty.[18] With the advent of more stringent executive compensation restrictions for TARP recipients, many banks began to repay, or attempt to repay, TARP funds. According to Treasury reports, by June 30, 2009, $70.1 billion of $203.2 billion CPP funds had been repaid; by December 31, 2009, $121.9 billion of $204.9 billion had been repaid; and by December 31, 2010, $167.93 billion of $204.9 billion had been repaid.

The new Administration also announced a review of the banking system, in which the largest participants were subject to stress tests to assess the adequacy of their capital levels. Satisfactory performance in the stress test was one regulatory requirement for large firms that wished to repay TARP funds. Large firms that appear too fragile in the stress test would be required to raise additional capital, and the firms would have the option of raising that capital privately or from the government through a new Capital Assistance Program. No funding was provided through the Capital Assistance Program, although GMAC, formerly General Motors' financing arm, received funding to meet stress test requirements through the Automotive Industry Financing Program (discussed below). In addition, Citigroup, one of the initial eight large banks receiving TARP funds, agreed with the government to convert its TARP preferred shares into common equity to meet stress test requirements (see discussion of Citigroup below).

CPP profits stem from dividend payments and warrants received from recipients, and capital gains in limited cases when shares are sold for more than face value (the standard CPP shares can be resold only at face value). Losses stem from failure to repay in part or full. The ultimate profitability of the program will be determined by the balance between the two.

Realized losses to date on the CPP preferred shares have been relatively small. At the end of 2010, Treasury reported seven TARP recipients had failed. These seven had CPP shares of $2.98 billion, with losses from the largest failed recipient (CitiGroup) accounting for $2.3 billion of

[18] Title VII of the American Recovery and Reinvestment Act of 2009 (P.L. 111-16,123 Stat. 115).

those losses. In addition, Treasury had realized losses of $242 million on discounted sales as of the end of September 2010.[19]

An indication of how many preferred shares may currently be at risk of future losses might be gleaned from the number of recipients who have missed dividend payments. At the end of September 2010, 123 recipients missed the last quarterly dividend payment, and 21 recipients had missed four or more payments. The missed payments equaled $44.9 million, not including dividends owed by failed recipients[20] (e.g., $58.3 million were owed by CIT Group in 2009).[21] This may be a misleading measure of troubled participants, however, because there is no financial penalty for missing a dividend payment. Missed dividend payments are simply rolled into the outstanding balance, although multiple missed dividend payments do give Treasury the right to appoint members to the board of the institution. Thus, healthy banks could be missing dividend payments in order to increase the amount of capital available to support their business. In practice, two studies have claimed that dividend skippers tend to be weaker institutions.[22] Alternatively, some of the banks who cannot afford dividend payments now may become more profitable as the economy recovers and ultimately repay TARP funds.

Another source of CPP profits are the proceeds from the warrants received from the companies. Treasury has not generally exercised warrants to take common stock in CPP recipients. Following the contracts initially agreed upon, Treasury has allowed institutions to purchase their warrants directly upon repayment of preferred shares, as long as both sides can reach an acceptable price. To reach an initial offering price, Treasury is using complex option pricing models to price the warrants that require assumptions to be made about future prices and interest rates. Since these pricing models are by their nature uncertain, some critics urge Treasury to auction the warrants on the open market (allowing the issuing firm to bid as well) to ensure that Treasury receives a fair price for them. Open auctions have been used, but only when an agreement between the Treasury and the firms cannot be reached.

CPP also earns income from dividends with a rate of 5% for the first five years, and 9% thereafter. (For S-Corp banks, the dividend rate is 7.7% for the first five years and 13.8% thereafter.)

Table A-1 below summarizes the CPP, including current and peak asset holdings, losses or gains, and conditions of the program.

[19] U.S. Department of Treasury, Office of Financial Stability, *Troubled Asset Relief Program – Two Year Retrospective*, October 2010, p. 26.

[20] U.S. Department of Treasury, Office of Financial Stability, *Troubled Asset Relief Program – Two Year Retrospective*, October 2010, p. 26.

[21] Special Inspector General, Troubled Asset Relief Program, *Quarterly Report to Congress*, January 2010, Table 2.10.

[22] Dobrina Georgieva, Linus Wilson “TARP’s Dividend Skippers,” working paper, Social Science Research Network, August 6, 2010; Linus Wilson “TARP’s Deadbeat Banks,” working paper, Social Science Research Network, August 15, 2010.

Table A-1. Capital Purchase Program

Federal Government				Terms and Conditions		
Latest Asset Holdings	**Asset Holdings at Peak**	**Total Income**	**Expected Gains(+)/ Losses(-)**	**Dividend Rate**	**Warrants**	**Expiration Date**
$34 billion	$198.8 billion (Mar 30, 2009)	$24.1 billion (less 3 billion in losses)	+$12.5 billion (Treasury); +15 billion (CBO)	5% for first 5 years, 9% thereafter[a]	15% of preferred shares (5% immediately exercised for privately- held banks)	Preferred Shares outstanding until repaid. No new contracts/modifications after Oct. 3, 2010.

Source: December 2010 TARP 105(a) Report; CBO, *Report on the Troubled Asset Relief Program—November 2010*; SIGTARP, *Quarterly Report to Congress*, January 30, 2010; U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2010*, November 2010. Various TARP Transactions Reports.

Notes: Data includes preferred shares to Citigroup and Bank of America under CPP, which are also detailed in sections on assistance to those companies below.

a. For S-Corp banks, the dividend rate is 7.7% for the first five years and 13.8% thereafter.

TARP Housing Assistance Programs[23]

One criticism leveled in TARP's early stages was its focus on assisting financial institutions, thus providing only indirect assistance to individual homeowners facing foreclosure. Sections 103, 109 and 110 of the EESA specifically embody congressional intent that homeowners be aided under TARP. Treasury ultimately created several programs addressing this criticism, specifically (1) the *Home Affordable Modification Program* (HAMP) pays mortgage servicers if they modify mortgages to reduce the financial burden on homeowners; (2) the *Hardest Hit Fund* provides aid to state housing authority programs in states that have high unemployment rates and foreclosures; and (3) *FHA Short Refinance Program* for homeowners who owe more than their house is worth. Unlike other TARP programs that have resulted in asset purchases that may eventually return some funds to the government, the housing assistance programs have no mechanism for returning funds. Some $50 billion of TARP funding was initially planned for housing assistance effort. Expected outlays under these programs have been counted as 100% spending with no expected financial return to the government.

As of December 31, 2010, Treasury reports commitments of $45.6 billion to its TARP foreclosure prevention programs, compared with the initial $50 billion. Of this amount, nearly $30 billion was committed to HAMP and its related programs, $7.6 billion was committed to the Hardest Hit Fund, and $8.1 billion to the FHA Refinance Program. As of the same date, only $0.8 billion had been disbursed for HAMP, $0.1 billion for the Hardest Hit Fund, and $0.05 for the FHA Refinance Program. This low amount of spending has resulted in further criticism that the programs are ineffective at helping homeowners.

[23] For additional detail on these and other housing assistance efforts, see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by Katie Jones; portions of this section are based on this report.

Home Affordable Modification Program

In March 2009, the TARP Home Affordable Modification Program (HAMP) was announced.[24] Through HAMP, the government provides financial incentives to participating mortgage servicers that provide loan modifications to eligible troubled borrowers to reduce the borrowers' monthly mortgage payments to no more than 31% of their monthly income. Servicers receive an upfront incentive payment for each successful permanent loan modification, an additional payment for modifications made for borrowers who are not yet delinquent, and a "pay-for-success" payment for up to three years if the borrower remains current after the modification. The borrower can also receive a "pay-for-success" incentive payment (in the form of principal reduction) for up to five years if he or she remains current after the modification is finalized. Investors receive the payment cost-share incentive (that is, the government's payment of half the cost of reducing the monthly mortgage payment from 38% to 31% of monthly income), and can receive incentive payments for loans modified before a borrower becomes delinquent. Mortgage modifications can be made under HAMP until December 31, 2012.

The Administration originally estimated that HAMP would cost $75 billion. Of this amount, $50 billion was to come from TARP funds and $25 billion was to come from Fannie Mae and Freddie Mac for the costs of modifying mortgages that those entities owned or guaranteed.[25] Treasury has since revised its estimate of the amount of TARP funds that will be used for HAMP, and it has used some of the $50 billion originally allocated to HAMP to help pay for other foreclosure-related programs.

Hardest Hit Fund

On February 19, 2010, the Obama Administration announced that it would make up to a total of $1.5 billion available to the housing finance agencies (HFAs) of five states that had experienced the greatest declines in home prices. This program is known as the Hardest Hit Fund, and several additional rounds of funding have been announced since its inception, bringing the total number of states receiving funds to 18 plus the District of Columbia. The funding comes from the TARP funds that Treasury initially set aside for HAMP. The latest announcement came in September 2010, when Treasury announced an additional $3.5 billion of funding to be distributed to the 18 states and District of Columbia that were receiving funding through earlier rounds, bringing the total amount of funding allocated to the Hardest Hit Fund to $7.6 billion.

FHA Short Refinance Program

On March 26, 2010, the Administration announced a new FHA Refinance Program for homeowners who owe more than their homes are worth. Detailed program guidance was released on August 6, 2010.[26] The FHA Refinance Program is intended to use current FHA refinancing processes to include people who are underwater. Under the new program, certain homeowners

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[24] HAMP is part of the Administration's broader Making Home Affordable Program, whose other aspects include an FDIC-sponsored loan modification program and lower mortgage-interest rates through Fannie Mae and Freddie Mac. Much of the funding for these programs is not through TARP.

[25] November 2010 TARP 105(a) Report.

[26] FHA Mortgagee Letter 2010-23, "FHA Refinance of Borrowers in Negative Equity Positions," August 6, 2010, available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/.

who owe more than their homes are worth may be able to refinance into new, FHA-insured mortgages for an amount lower than the home's current value. The original lender will accept the proceeds of the new loan as payment in full on the original mortgage; the new lender will have FHA insurance on the new loan; and the homeowner will have a first mortgage balance that is below the current value of the home, thereby giving him or her some equity. Homeowners will have to be current on their mortgages to qualify for this program. Further, the balance on the first mortgage loan will have to be reduced by at least 10%. This program is voluntary for lenders and borrowers, and borrowers with mortgages already insured by FHA are not eligible. The FHA Refinance Program began on September 7, 2010, and is to be available until December 31, 2012. As of the end of October 2010, FHA reported receiving 35 applications to the program.[27] Treasury has committed $8.1 billion of the TARP funds originally set aside for HAMP to help pay for the cost of this program; additional program costs will be borne by FHA.

Consumer and Business Lending Initiatives

The Consumer and Business Lending Initiatives is a grouping of three different attempts to increase lending in segments of the credit market that are perceived to be frozen and spur the economy.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) is a Fed program to assist the asset-backed security market, with TARP acting as a backstop in case of any losses. TALF income accrues to the Fed with possible losses and some expenses accruing to the Treasury. As of December 2010, Treasury reported $0.1 billion in disbursements for TALF.[28]

Section 7(a) Securities Purchase Program

This program supports the Small Business Administration's (SBA) Section 7(a) loan program through purchasing pooled SBA guaranteed securities backed by private loans to small businesses.[29] Beginning in March 2010, Treasury purchased a total of $357 million in securities guaranteed by the SBA in 31 different transactions. Purchases ended in October 2010 with the expiration of the TARP authority.

Community Development Capital Initiative

The Community Development Capital Initiative (CDCI) operated somewhat like the CPP in that it purchased preferred shares from financial institutions, and in some cases institutions were permitted to convert previous CPP preferred shares to CDCI preferred shares. The program was specifically focused on institutions that serve low-income, underserved communities. Treasury

[27] Federal Housing Administration, *FHA Outlook*, October 2010, available at http://www.hud.gov/offices/hsg/rmra/oe/rpts/ooe/olcurr.pdf.

[28] For additional information on TALF, see CRS Report RL34427, *Financial Turmoil: Federal Reserve Policy Responses*, by Marc Labonte.

[29] For additional information on this program, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger.

purchased preferred shares from institutions that qualified for the CDCI up to an amount equal to 5% of the institutions' risk-weighted assets for banks and thrifts or 3.5% of total assets for credit unions. These preferred shares pay an initial dividend rate of 2%, which will increase to 9% after eight years. Unlike the CPP, no warrants in the financial institutions were included. Purchases under the program were completed in September of 2010 with approximately $210 million new shares purchased. In addition, approximately $360 million of shares were converted from CPP shares.

Table A-2 below summarizes the Consumer and Business Lending Initiatives, including current and peak asset holdings, losses or gains, and conditions of the program.

Table A-2. Consumer and Business Lending Initiatives

Federal Government					Terms and Conditions		
Program	**TARP Funds Disbursed**	**Funds Disbursed at Peak**	**TARP Income**	**Current or Expected Gains(+)/ Losses(-)**	**Interest/ Dividend Rate**	**Warrants**	**Expiration Date**
TALF	$106 million	$106 million	$0	$330 million (Treasury)	n/a	none	No new purchases after June 30, 2010.
Section 7(a) Securities	$337 million	$337 million	$5.1 million	$0 (Treasury)	floating	none	No new purchases after Oct. 2010.
CDCI	$570 million[a]	$570 million[a]	$2.1 million	-$290 million (Treasury)	2% (9% after 8 years)	none	No new purchases after Oct. 2010.
Total	**$1.0 billion**	**$1.0 billion**	**$7.2 million**	**+$1 billion** (CBO)/ **$0** (Treasury)	n/a	n/a	n/a

Source: December 2010 TARP 105(a) Report; CBO, *Report on the Troubled Asset Relief Program—November 2010.*

Notes: For TALF, the figures in this table are for TARP funds only.

a. Of this total, $210 million are new shares and $360 million are shares transferred from CPP.

U.S. Automaker Assistance[30]

In addition to financial firms, non-financial firms have also sought support under TARP, most notably U.S. automobile manufacturers.[31] While EESA specifically authorized the Secretary of the Treasury to purchase troubled assets from "financial firms," the legislative definition of this term did not mention manufacturing companies.[32] After specific legislation for the automakers failed to clear Congress, [33] the Bush Administration turned to TARP for funding.

On December 19, 2008, the Bush Administration announced it was providing support through TARP to General Motors and Chrysler under the Automotive Industry Financing Program (AIFP). The initial package included up to $13.4 billion in a secured loan to GM and $4 billion in a secured loan to Chrysler. In addition, $884 million was lent to GM for its participation in a rights offering by GMAC as GM's former financing arm was becoming a bank holding company. On December 29, 2008, the Treasury announced that GMAC also was to receive a $5 billion capital injection through preferred share purchases.

After January 21, 2009, the Obama Administration continued assistance for the automakers, including support for the automaker warranties under the AIFP (so that consumers would not be discouraged from purchasing cars during the restructuring), and for third-party suppliers to the automakers (the Automotive Supplier Support Program, ASSP). Additional loans for GM and Chrysler were made before and during the two companies' bankruptcies, and GMAC received additional capital through preferred share purchases as well. At the end of 2009, GM had received approximately $49.5 billion in direct loans; Chrysler had outstanding commitments for $12.9 billion in loans and drawn approximately $10.9 billion; GMAC had received $17.2 billion in preferred equity purchases; and Chrysler Financial had received $1.5 billion in loans. Some of this assistance is still owed by the companies, some has been repaid, and some has been converted into common equity in the company receiving assistance.

As of December 31, 2010, TARP support for the auto industry totaled approximately $79.7 billion disbursed, with $24.7 billion repaid and $3.23 billion in income. The assistance outstanding takes the form of (1)government ownership of 33.3% of post-bankruptcy GM; (2) government ownership of 9.9% of the equity in post-bankruptcy New Chrysler, with $5.1 billion in loans outstanding; and (3) government ownership of 73.8% government ownership of GMAC (which changed its name to Ally Financial), with $8.6 billion in preferred equity outstanding. In addition $985.8 million in loans to Old (pre-bankruptcy) GM are outstanding and $1.8 billion in loans to

[30] This section was prepared with the assistance of Bill Canis, CRS Specialist in Industrial Organization and Business. For a comprehensive analysis of federal financial assistance to U.S. automakers, see CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis. Statistics in the section are taken from the December TARP 105(a) Report, from Congressional Oversight Panel, *September Oversight Report: The Use of TARP Funds in the Support and Reorganization of the Domestic Automotive Industry*, September 9, 2009, available at http://cop.senate.gov/documents/cop-090909-report.pdf and from various contracts posted by the U.S. Treasury at http://www.treasury.gov/initiatives/financial-stability/investment-programs/aifp/Pages/autoprogram.aspx.

[31] See, for example, Statement by Secretary of the Treasury Henry Paulson in U.S. Congress, House Committee on Financial Services, *Oversight of Implementation of the Emergency Economic Stabilization Act of 2008 and of Government Lending and Insurance Facilities: Impact on the Economy and Credit Availability*, 110th Cong., 2nd sess., November 18, 2008.

[32] P.L. 110-343, Division A, Section 3.

[33] In December 2008, the House of Representatives passed H.R. 7321, authorizing the use of certain Department of Energy funds as bridge loans to GM and Chrysler. Passed by a vote of 237-170, the bill was not acted upon in the Senate.

Old (pre-bankruptcy) Chrysler are outstanding, although neither amount appears likely to be repaid. The loan to Chrysler Financial was completely repaid with interest.

For the outstanding assistance, the extent to which the government recoups its TARP funds will depend substantially on how much is eventually received when the government sells its equity interests. The government has already sold a portion of its stake in New GM at a price of $33 per share. The remaining shares would have to reach approximately $54 in order for the government to be able to recoup the nominal value of its $50.2 billion assistance for the company.[34] Treasury estimates the ultimate subsidy cost of assistance to the auto industry to be $14.8 billion, whereas CBO estimates it to be $19 billion.

Table A-3 below summarizes the support for the automakers, including current and peak asset holdings or loan amounts, losses or gains, and conditions of the assistance.

Table A-3. Government Support to the Auto Industry

	Federal Government				Terms and Conditions		
Beneficiary/ Program	**Latest Outstanding Balance**	**Total Assistance at Peak**	**Total Income**	**Current or Expected Gain(+)/ Loss(-)**	**Dividend/ Interest Rate**	**Subsequent Conversion**	**Expiration Date**
"New" General Motors (post-bankruptcy)	$0	$49.5 billion combined loans (before bankruptcy completed)	$610 million	Not Reported	London Inter-bank Offered Rate (LIBOR) + 5%	Loan converted into 60.8 % of common equity and preferred stock; 27.5% of common equity sold for $13.5 billion.	January 2015 (loan); preferred shares had no expiration
"Old" General Motors (pre- and during bankruptcy)	$985.8 million		$143.5 million	Not Reported	LIBOR + 5%	n/a	December 2011
GMAC/Ally Financial	$8.6 billion preferred equity	$16.3 billion preferred equity; $884 million loan through GM	$2.0 billion	Not Reported	9%	Loan and preferred shares converted into 73.8% of common equity	No expiration
"New" Chrysler (post-bankruptcy)	$5.1 billion loan	$10.5 billion drawn of $14.9 billion total loan	$511 million	Not Reported	LIBOR + 7.9%	9.9% of common equity	June 2017

[34] CRS Report R41401, *General Motors' Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter.

Federal Government					Terms and Conditions		
Beneficiary/ Program	**Latest Outstanding Balance**	**Total Assistance at Peak**	**Total Income**	**Current or Expected Gain(+)/ Loss(-)**	**Dividend/ Interest Rate**	**Subsequent Conversion**	**Expiration Date**
"Old" Chrysler (pre- and during bankruptcy)	$1.8 billion loan	commitments; $2 billion still available.	$55 million	Not Reported	LIBOR + 3%; LIBOR + 5%	$1.9 billion of $5.4 billion recouped in bankruptcy process	January 2012
Chrysler Financial	$0	$1.5 billion loan (until July 14, 2009)	$7 million	n/a		None	January 2014
Auto Supplier (benefitting GM and Chrysler)	$0	$290 million (GM); $123 million (Chrysler)	$116 million	n/a	Greater of LIBOR+ 3.5% or 5.5%	None	Apr. 2010
GM and Chrysler Warranty Commitment	$0	$361 million (GM); $280 million (Chrysler) (until July 10, 2009)	$5.5 million	n/a	LIBOR+3.5%	None	July 2009

Source: December 2010 TARP 105(a) Report; December 2010 TARP Dividends and Interest Report; Congressional Oversight Panel, *September 2009 Oversight Report*; CBO, *Report on the Troubled Asset Relief Program—November 2010;* SIGTARP, *Quarterly Report to Congress*, September 30, 2010; U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2010*, November 2010.

Public Private Investment Program

On March 23, 2009, Treasury announced the Public Private Investment Program (PPIP). PPIP as envisioned consisted of two asset purchase programs designed to leverage private funds with government funds to remove troubled assets from bank balance sheets. Perhaps closer to the original conception of TARP than other TARP programs, PPIP dedicated TARP resources as equity to (1) acquire troubled loans in a fund partially guaranteed by the FDIC and (2) acquire troubled securities in a fund designed to be used with loans from the Federal Reserve's TALF program or TARP. Both funds would match TARP money with private investment, and profits or losses would be shared between the government and the private investors. Unlike the original conception of TARP, private investors would choose the assets to purchase and manage the funds and the day-to-day disposition of assets. Treasury originally envisioned assets purchases through PPIP would be as high as $1 trillion (using as much as $200 billion in TARP funds), but ultimately Treasury reports only $22.4 billion of TARP funds committed to the program with $15.6 billion disbursed as of December 2010.

Legacy Loan Program

A legacy loan is a problem loan that is already on a bank's balance sheet, as opposed to a potential new loan or refinance. The Legacy Loan Program was intended to reduce uncertainty

about bank balance sheets and draw private capital to the financial services sector by providing FDIC debt guarantees and Treasury equity co-investment to fund private-public entities purchasing problem loans from banks. The program, however, was not implemented beyond a single pilot legacy loan sale reported by the FDIC on September 30, 2009. In this pilot sale, the FDIC auctioned a portfolio of residential mortgages with unpaid principal of $1.3 billion from a bank that the FDIC had taken into receivership. Residential Credit Solutions placed a winning bid of $64 million to receive a 50% stake in this pool, and financed the purchase with $728 million of debt guaranteed by the FDIC.[35]

Legacy Securities Program

The larger part of the PPIP is designed to deal with existing mortgage-related securities on bank balance sheets. There are several basic steps to the Legacy Securities Program (S-PPIP). Investors identify non-agency MBS that were originally rated AAA. Agency MBS refer to loans issued by GSEs, such as Fannie Mae and Freddie Mac, and non-agency MBS refers to mortgage-related securities issued by private financial institutions, such as investment banks. Private fund managers apply to Treasury to pre-qualify to raise funds to participate in the program. Approved fund managers that raise private equity capital receive matching Treasury capital and an additional loan to the fund that matches the private capital (thus far, the private investor that raises $100 has a total of $300 available). In addition to this basic transaction, Treasury reserves discretion to allow up to another matching loan so that, in some cases, raising $100 makes a total of $400 available.

Nine funds were pre-qualified by the Treasury in June 2009. In early January 2010, however, one of the funds reached a liquidation agreement with Treasury and was wound down.[36] As of December 31, 2010, PPIP funds had raised $7.4 billion of private equity capital, to be matched by $22.1 billion in TARP equity and debt capital.[37] The Treasury reported that $15.6 billion of TARP funds were disbursed.

Table A-4 below summarizes the Public Private Investment Program, including current and peak asset holdings, losses or gains, and conditions of the program.

[35] Federal Deposit Insurance Corporation, "Legacy Loans Program – Winning Bidder Announced in Pilot Sale," press release, September 16, 2009, http://www.fdic.gov/news/news/press/2009/pr09172.html. FDIC reports seven other public-private partnership transactions since 2008, but classifies only the September 2009 transaction as a PPIP transaction.

[36] December 2009 TARP 105(a) Report, pp. 15, 30-32.

[37] U.S. Treasury, *Legacy Securities Public-Private Investment Program Update*, January 24, 2011, p. 3, available at http://www.treasury.gov/initiatives/financial-stability/investment-programs/ppip/s-ppip/Documents/ppip-%2012-10%20vFinal.pdf.

Table A-4. Public Private Investment Program

	Federal Government				Terms and Conditions		
Program	**Current Funds Disbursed/ Guaranteed**	**Funds Disbursed/ Guaranteed at Peak**	**Total Income**	**Current or Expected Gains(+)/ Losses(-)[a]**	**Interest/ Dividend Rate**	**Warrants**	**Expiration Date**
Legacy Securities	$15.6 billion	$15.6 billion	$430 million	$0 billion (CBO); $0.2 billion (Treasury)	LIBOR[b] plus "applicable margin"	yes (amount unspecified)	10 years from creation of fund.
Legacy Loans	$728 million	$728 million	n/a		no contracts	yes (amount unspecified)	No new contracts/ modifications after Oct. 3, 2010.

Source: December 2010 TARP 105(a) Report; U.S. Treasury, *Legacy Securities Public-Private Investment Program Update*, January 24, 2011; Congressional Oversight Panel September 2009 Oversight Report; SIGTARP, *Quarterly Report to Congress*, January 30, 2010; CBO, *Report on the Troubled Asset Relief Program—November 2010*; U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2010*, November 2010; Data on Structured Loan Sales from FDIC.

Note: For legacy securities, funds disbursed to date (not committed). For legacy loans, loans guaranteed.

a. Expected losses for Legacy Securities and Legacy Loans combined.

b. LIBOR = London Interbank Offered Rate.

American International Group

In the fall of 2008, American International Group (AIG) was a federally chartered thrift holding company regulated by the Office of Thrift Supervision (OTS) at the holding company level, with a broad range of businesses, primarily insurance subsidiaries, which are state-chartered and state-regulated.[38] Facing losses on various operations, AIG experienced a significant decline in its stock price and downgrades from the major credit rating agencies. These downgrades led to immediate demands for significant amounts of collateral (approximately $14 billion to $15 billion in collateral payments, according to contemporary press reports).[39] As financial demands on the company mounted, bankruptcy appeared a possibility, as had occurred with Lehman Brothers on September 15, 2008. Many feared that AIG was "too big to fail" due to the potential for widespread disruption to financial markets resulting from such a failure.

On September 16, 2008 (prior to the existence of TARP), the Fed announced that it was taking action to support AIG in the form of a secured two-year line of credit with a value of up to $85 billion and a high interest rate. In addition, the government received warrants to purchase up to 79.9% of the equity in AIG. On October 8, 2008, the Fed announced that it would lend AIG up to an additional $37.8 billion against securities held by its insurance subsidiaries. In October 2008, AIG also announced that it had applied to the Fed's general Commercial Paper Funding Facility (CPFF) and was approved to borrow up to $20.9 billion at the facility's standard terms.

[38] For a comprehensive analysis of federal assistance to AIG, see CRS Report R40438, *Federal Government Assistance for American International Group (AIG)*, by Baird Webel.

[39] See, for example, "U.S. to Take Over AIG in $85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up," *Wall Street Journal*, September 17, 2008, pp. A1-A6.

In early November 2008 (following the creation of TARP), the financial support for AIG was restructured. The restructured financial support consisted of (1) reducing the size of the Fed loan to up to $60 billion, with the term lengthened to five years and the interest rate reduced by 5.5%; (2) purchasing of $40 billion in preferred shares through TARP; and (3) replacing the $37.8 billion loan, with up to $52.5 billion total in asset purchases by the Fed through two Limited Liability Corporations (LLCs) known as Maiden Lane II and Maiden Lane III. The 79.9% equity position of the government in AIG remained essentially unchanged after the restructuring of the intervention.

In March 2009, the assistance was restructured further through (1) a partial payback of the Fed loan through a swap of debt for equity in two AIG subsidiaries worth approximately $25 billion, reducing the maximum to $35 billion; and (2) commitments for additional future TARP purchases of up to $29.8 billion in preferred shares at AIG's discretion, and the conversion of existing shares into shares with optional dividend payments.[40] The Maiden Lane LLCs continued operating under the previous terms, with the actual loans extended to the LLCs totaling $43.9 billion at their peak of the possible $52.5 billion. AIG's access to the CPFF had been reduced to $15.9 billion in January 2009, due to a ratings agency downgrade. AIG continued to access this facility until it expired in February 2010.

In September 2010, AIG and the government announced another restructuring of the government's assistance. This restructuring closed on January 14, 2011. The expressed goal was to simplify the government's interest in AIG and provide for a path for the divestment of the government's stake in AIG. The essence of the plan called for (1) ending the Fed's involvement with AIG through loan repayment and transfer of the Fed's equity interests to the Treasury and (2) converting the government's $49.1 billion in existing preferred shares into common shares, which can then be sold to the public over time. The specific steps involved several interlocking transactions, including the initial public offering (IPO) of a large AIG subsidiary, the sale of several other AIG subsidiaries, and the use of up to approximately $20 billion in TARP funds to transfer equity interests from the Fed to the Treasury.

The current government interests resulting from the AIG assistance include the following:

- Approximately 92.1% (1.66 billion shares) of AIG's common equity are held by the Treasury (this equity results from both TARP's 1.1 billion shares and assistance by the Federal Reserve's 0.56 billion shares).
- An additional $2 billion in TARP preferred shares may be purchased by the Treasury, at AIG's discretion.
- Treasury holds $20.3 billion of preferred equity interests in AIG subsidiaries after being exchanged against $20.3 billion in TARP funds.
- The Fed continues to hold an interest in the Maiden Lane II and III LLCs created in November 2008. As of January 20, 2011, $26.5 billion in loans and accrued

[40] AIG issued $1.6 billion of additional preferred shares to the government in recognition of accrued, unpaid dividends on the initial $40 billion in assistance. AIG has not paid dividends since the conversion to optional dividends, with a total of $6.7 billion in missed dividend payments as of September 30, 2010, according to the Special Inspector General for TARP, http://www.sigtarp.gov/reports/congress/2010/October2010_Quarterly_Report_to_Congress.pdf. These missed payments gave Treasury the right to appoint two directors to AIG's board.

interest are outstanding with sufficient equity holdings to provide an additional $3.9 billion in capital gains.

The government's ability to recoup its funds from the AIG rescue will depend mainly on how much it eventually receives when it sells its equity interests. **Table A-2** below summarizes the support received by AIG from both TARP and the Fed, including current and peak asset holdings, losses or gains, and conditions of the support.

Table A-5. AIG Support

Federal Government					Terms and Conditions			
Program	**Latest Outstanding Amount**	**Outstanding Amount at Peak**	**Total Income**	**Current or Expected Gain(+) /Loss(-)**	**Dividend/ Interest Rate**	**Warrants/ Equity Interests**	**Subsequent Conversion**	**Expiration Date**
TARP Systemically Significant Failing Institutions	$67.8 billion	$67.8 billion	$1.6 billion in accrued dividends	-$14 billion (CBO); -$36.9 billion (Treasury)	10% (dividends paid at AIG's discretion)	warrants for 2% of common shares	$49.1 billion[a] converted to AIG common equity; $20.3 billion converted subsidiary equity	Mar. 2014
Fed Loan to AIG	$0	$87.3 billion loan (Oct. 2008)	$6.2 billion (accrued interest; Sept 2010)		3 month London Inter-bank Offered Rate (LIBOR)+3%	warrants for 79.9% (later reduced to 77.9%) of common shares	Reduced balance by $25 billion in exchange for equity in life insurance subsidiaries	Sept. 2013
Fed Loan for Troubled Asset Purchases	$25.4 billion in loans to purchase assets	$43.9 billion loans to purchase assets (Dec. 2008)	$1 billion (unpaid accrued interest)	$0 ($3.9 billion unrealized capital gain)	LIBOR+1%	none	n/a	None; securities held until sold or until maturity.
Fed Commercial Paper Funding Facility	$0	$16.2 billion (Jan. 2009)	Not reported	n/a	overnight index swap (OIS) rate+1%; OIS+3%	none	n/a	Feb. 2010

Source: December2010 TARP 105(a) Report; Federal Reserve, statistical release H.4.1, *Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks*, January 20, 2011; Federal Reserve, *Monthly Report on Credit and Liquidity Programs and the Balance Sheet*, January 2009; CBO, *Report on the Troubled Asset Relief Program—November 2010;* SIGTARP, *Quarterly Report to Congress*, September 30, 2010; U.S. Treasury Office of Financial Stability, *Agency Financial Report Fiscal Year 2010*, November 2010; AIG website, "What AIG Owes the U.S. Government," September 30, 2010; CRS Calculations with Fed data.

a. Includes $1.6 billion in additional preferred shares issued in return for previous conversion of shares paying a mandatory dividend to shares paying an optional dividend.

Citigroup (CPP/TIP/AGP)

On November, 23, 2008, the Treasury, Federal Reserve, and FDIC announced a joint intervention in Citigroup, which had previously been a recipient of $25 billion in TARP Capital Purchase Program funding, to "[support] financial stability."[41] This exceptional intervention consisted of an additional $20 billion purchase of preferred shares through the TARP Targeted Investment Program and a government guarantee for a pool of $306 billion in Citigroup assets (reduced to $301 billion when the guarantee was finalized on January 16, 2009) through the TARP Asset Guarantee Program, FDIC, and Federal Reserve. Citigroup paid the federal government a fee for the guarantee in the form of $4 billion in trust preferred securities paying an 8% dividend rate. The Treasury also received warrants in both of these transactions.

On February 27, 2009, Citigroup and Treasury officials agreed that the Treasury Department would convert $25 billion of its TARP CPP investment in Citigroup preferred stock into Citigroup common stock and cancel the warrants taken by Treasury under the CPP. After this conversion, the U.S. government owned approximately 33.6% (7.7 million shares) of Citigroup common stock. The conversion of preferred shares to common stock worsened the government's priority on Citigroup's assets in the event of liquidation, but improved certain capital ratios for the company and relieved it of the obligation to pay dividends to the government, as it had previously with the preferred shares. The conversion exposed the government to more potential risk as well as to potential upside reward. The government's preferred shares could only be redeemed at par value, regardless of the performance of the company, while the government's holdings of common stock rose and fell in value based on the market valuation of the company.

In December 2009, Citigroup and the Treasury reached an agreement to repay the outstanding $20 billion in preferred securities and to cancel the asset guarantee. As part of this agreement, Treasury agreed to cancel $1.8 billion worth of the $4 billion in trust preferred securities originally paid as a fee for the guarantee. Citigroup repurchased the outstanding AGP trust preferred securities on September 30, 2009. While the asset guarantee was in place, no losses were claimed and no federal funds were paid out. Warrants received under the TIP and AGP, with a strike price of $10.61, are still held by the Treasury.

In April 2010, the Treasury began selling its common share holdings in Citigroup. The shares were sold in tranches through 2010, with a total of 4.1 million shares being sold by the end of September 2010. Treasury announced the completion of the sales early in December 2010. The average sales price for the Treasury shares was $4.14 per share compared with an initial conversion price of $3.25 per share. The gain from the common stock sales was approximately $6.9 billion, along with approximately $2.2 billion from the sales of the remaining trust preferred securities granted as a fee from the AGP, $2.9 billion in interest and dividends, and $54 million from the sale of warrants for a total nominal gain (i.e., not discounted for market risk) from the Citigroup intervention of $12.1 billion.[42]

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[41] U.S. Treasury, "Joint Statement by Treasury, Federal Reserve, and FDIC on Citigroup," press release hp-1287, November 23, 2008.

[42] U.S. Treasury, "Taxpayers Receive $10.5 Billion in Proceeds Today From Final Sale of Treasury Department Citigroup Common Stock," press release, December 10, 2010, http://www.financialstability.gov/latest/pr_12102010.html, and TARP Transactions Report, January 26, 2011.

Table A-6 below summarizes the assistance for Citigroup through the CPP, TIP, and AGP, including current and peak asset holdings, losses or gains, and conditions of the program.

Table A-6. Citigroup Support (CPP/TIP/AGP)

Federal Government					Terms and Conditions			
Program	Current Asset Holdings/ Guarantees	Asset Holdings/ Guarantees at Peak	Total Income	Realized Capital Gains(+)/ Losses(-)	Dividend/Fee	Warrants Issued	Subsequent Conversion/ Amendment	Expiration Date
Capital Purchase Program	$0	$25 billion	$932 million in dividends	+$6.9 billion	preferred: 5% dividend for first 5 years, 9% thereafter; common: none	210 million with a strike price of $17.85 per share	Converted preferred shares to common stock, subsequently sold for $31.9 billion.	None, shares outstanding until sold or repurchased.
Targeted Investment Program	$0;	$20 billion trust preferred securities (until Dec. 2009)	$1.6 billion in dividends	$0	8% dividend	188,5 million with a strike price of $10.61	Converted preferred shares to trust preferred securities.	None, shares or securities outstanding until sold or repurchased.
Asset Guarantee Program	$0;	$301 billion (up to $244.8 billion of losses borne by Fed, Treasury and FDIC) (until Dec. 2009)	$443 million in dividends; $50 million termination fee to Fed	$2.2 billion	following termination, $2.2 billion in trust preferred securities with 8% dividend	66,5 million with a strike price of $10.61 per share	$1.8 billion canceled upon termination of Asset Guarantee.	Nov. 2018 (residential assets)/Nov. 2013 (non-residential assets)

Sources: November 2010 TARP 105(a) Report; November 2010 TARP Dividends and Interest Report; SIGTARP, *Extraordinary Financial Assistance Provided to Citigroup, Inc*, January 13, 2011; U.S. Treasury press release, December 10, 2010

Note: Assistance to Citigroup through CPP is also included in the CPP Table.

Bank of America (CPP/TIP/AGP)

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC announced a joint intervention in Bank of America, which had previously been a recipient of $25 billion in TARP Capital Purchase Program funds,[43] "as part of its commitment to support financial market stability."[44] This exceptional assistance included the purchase of an additional $20 billion of Bank of America preferred shares through the TARP Targeted Investment Program[45] and a joint

[43] As part of this transaction, the government received warrants for 121,792,790 shares with a strike price of $30.79.

[44] U.S. Treasury, "Treasury, Federal Reserve, and the FDIC Provide Assistance to Bank of America," press release hp1356, January 16, 2009.

[45] As part of this transaction, the government received warrants for 150,375,940 shares with a strike price of $13.30.

guarantee on a pool of up to $118 billion of Bank of America's assets (largely acquired through its merger with Merrill Lynch) through the TARP Asset Guarantee Program, the FDIC, and the Federal Reserve. Bank of America was to pay the federal government a fee for the guarantee in the form of $4 billion in preferred stock with an 8% dividend rate and warrants to purchase common stock worth $2.4 billion at the time of the agreement.

While the asset guarantee was announced in January 2009, a final agreement was never signed. On September 21, 2009, Bank of America announced that it had negotiated a $425 million termination fee that allowed it to withdraw from the AGP, canceling the warrants and preferred shares issued for the program.

On December 9, 2009, Treasury announced that Bank of America had repurchased the $45 billion in preferred stock previously purchased under TARP. The warrants issued under the CPP and the TIP were sold at auction by the government in March 2010 for approximately $1.6 billion. No government assistance to Bank of America remains outstanding.

Table A-7 below summarizes the support for Bank of America through the CPP, TIP, and AGP, including current and peak asset holdings, losses or gains, and conditions of the support.

Table A-7. Bank of America Support (CPP/TIP/AGP)

	Federal Government				Terms and Conditions		
Program	**Current Asset Holdings/ Guarantees**	**Asset Holdings/ Guarantees at Peak**	**Total Income**	**Realized Capital Gains(+)/ Losses(-)**	**Dividend Rate/Fee**	**Warrants**	**Expiration Date**
Capital Purchase Program	$0	$25 billion (until Dec. 2009)[a]	$1.3 billion (dividends); $0.3 billion (warrants	$0	5% for first 5 years, 9% thereafter	121,792,790 warrants sold for $0.3 billion.	None, shares outstanding until repurchased.
Targeted Investment Program	$0	$20 billion (until Dec. 2009)	$1.4 billion (dividends): $1.25 billion (warrants)	$0	8%	150,375,940 warrants sold for $1.25 billion	None, shares outstanding until repurchased.
Asset Guarantee Program	$0	$118 billion (up to $97.2 billion of losses borne by Fed, Treasury and FDIC) (never finalized)	$425 million termination fee to government ($57 million termination fee to Fed)	n/a	n/a	n/a	Jan. 2019 (residential assets)/Jan. 2014 (non-residential assets.

Source: December 2010 TARP 105(a) Report; December 2010 TARP Dividends and Interest Report; Congressional Budget Office, *Budget and Economic Outlook*, January 2010; SIGTARP, *Quarterly Report to Congress*, January 30, 2010; OMB, *Analytical Perspectives, FY2011 President's Budget*, Table 4-7; February 2010.

Notes: Assistance to Bank of America through CPP is also included in the CPP Table.

a. Of the $25 billion of preferred shares, $10 billion were originally issued by Merrill Lynch, which subsequently merged with Bank of America.

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