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Highlights

Highlights of GAO-09-658, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

June 2009 Status of Efforts to Address Transparency and Accountability Issues

Why GAO Did This Study

GAO's fifth report on the Troubled Asset Relief Program (TARP) follows up on prior recommendations. It also reviews (1) activities that had been initiated or completed under TARP as of June 12, 2009; (2) the Department of the Treasury's Office of Financial Stability's (OFS) hiring efforts and use of contractors; and (3) TARP performance indicators. To do this, GAO reviewed signed agreements and other relevant documentation and met with officials from OFS, contractors, and financial regulators.

What GAO Recommends

GAO makes 5 recommendations, including that Treasury improve disclosure of the warrant repurchase process, fully implement a communication strategy that ensures that all key congressional stakeholders are kept up to date about TARP, and in consultation with the primary federal regulators, ensure consideration of generally consistent criteria to evaluate repurchase requests. GAO also recommends that the Federal Reserve consider providing certain aggregate information related to the stress tests to the public and OFS in particular.

Treasury described the steps it has taken since our March report. The Federal Reserve said that GAO's recommendation was operationally difficult and the information reported would be potentially misleading. GAO continues to see value in reporting aggregate trend information.

View GAO-09-658 or key components.
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What GAO Found

As of June 12, 2009, Treasury had disbursed $330 billion of the roughly $700 billion in TARP funds (see table below). Most of the funds ($200 billion) went to purchase preferred shares and subordinated debentures of 623 financial institutions under the Capital Purchase Program (CPP), which continues to be OFS's primary vehicle for stabilizing financial markets. At the same time that Treasury continues to purchase preferred shares in institutions, others have paid about $1.9 billion to repurchase shares and Treasury announced that it expects to receive approximately $68 billion from CPP repurchases later in June 2009. Unlike the capital purchase process, Treasury, in conjunction with primary federal regulators, has yet to share criteria used to evaluate repurchase requests. Treasury also has provided only limited information about the actual warrant repurchase process resulting in questions about whether it is getting the best price for taxpayers.

Status of TARP Funds as of June 12, 2009

Dollars in billions

Program	Treasury's current projected use of funds[a]	Disbursed
Capital Purchase Program	$218.0	$199.5
Targeted Investment Program	40.0	40.0
Capital Assistance Program	TBD[b]	TBD
Systemically Significant Failing Institutions	70.0	41.2
Asset Guarantee Program	12.5	0.0
Automotive Industry Financing Program	82.6	49.2
Making Home Affordable	50.0	0.0
Consumer and Business Lending Initiative[c]	70.0	0.1
Public Private Investment Program	100.0	0.0
Totals	**$643.1**	**$330.0**

Source: Treasury OFS, unaudited.

[a]Amounts represent Treasury's most recent projected funding level. Portions of Treasury's projected use of funds are not yet legal obligations.
[b]Treasury has announced the Capital Assistance Program but has not yet projected its funding level.
[c]The Consumer and Business Lending Initiative now includes the Term Asset-Backed Securities Loan Facility and the Small Business and Community Lending Initiative.

Treasury continued to operationalize its more recent programs, including the Capital Assistance Program (CAP). As part of this program, the Federal Reserve led the stress tests of the largest 19 U.S. bank holding companies, which revealed that about half needed to raise additional capital to keep them strongly capitalized and lending even if economic conditions worsen. Whether any of the institutions will have to participate in CAP has yet to be determined. While the Federal Reserve disclosed the stress test results, it has no plans to disclose information about the 19 institutions going forward. What information, if any, is disclosed will be left to the discretion of the affected institutions raising a number of concerns including potentially inconsistent or only selected information being disclosed. Moreover, the Federal Reserve had not developed a mechanism to share information with OFS about the ongoing condition of the 19 bank holding companies that continue to participate in TARP programs.

According to Treasury, its Financial Stability Plan has provided a basis for its communication strategy. Treasury plans to more regularly communicate with congressional committees of jurisdiction about TARP. However, until this strategy is fully implemented, all congressional stakeholders will not be receiving information in a consistent or timely manner. A key component of the communication strategy is the new www.financialstability.gov Web site. While a goal of the new site is to provide the public with a more user friendly format, Treasury has not yet measured the public's satisfaction with the site.

OFS has made progress in establishing its management infrastructure. Continued attention to hiring remains important because some offices within OFS, including the Office of the Chief Risk and Compliance Officer, continue to have a number of vacancies that will need to be filled as TARP programs are fully implemented. Treasury has also continued to build a network of contractors and financial agents to support TARP administration and operations. These contracts and agreements are key tools OFS has used to help develop and administer its TARP programs. Treasury has provided information to the public on procurement contracts and financial agency agreements, but has not included a breakdown of cost data by each entity. As a result, Treasury is missing an opportunity to provide additional transparency about TARP operations.

GAO again notes the difficulty of measuring the effect of TARP's activities. As shown in the table below, some indicators suggest general improvements in various markets since our March 2009 report, although the cost of credit has risen in some cases. Specifically, the Baa corporate bond rate and LIBOR have declined but mortgage and Aaa bond rates have risen. However, perceptions of risk in credit markets (as measured by premiums over Treasury securities) have decreased in interbank, mortgage, and corporate bond markets, while total mortgage originations have increased. Empirical analysis of the interbank market, which showed signs of significant stress in 2008, suggests that the CPP and programs outside of the TARP announced in October of 2008 resulted in a statistically significant improvement in risk spreads even when other important factors were considered. In addition, although Federal Reserve survey data suggest that lending standards remained tight, collectively the largest CPP recipients extended roughly $260 billion on average each month in new loans to consumers and businesses in the first quarter of 2009, according to the Treasury's loan survey. However, attributing any of these changes directly to TARP continues to be problematic because of the range of actions that have been and are being taken to address the current crisis. While these indicators may be suggestive of TARP's ongoing impact, no single indicator or set of indicators can provide a definitive determination of the program's impact.

Select Credit Market Indicators

Credit market rates and spreads

Indicator	Description	Basis point change since GAO March 2009 report	Basis point change since October 13, 2008
LIBOR	3-month London interbank offered rate, LIBOR (an average of interest rates offered dollar-denominated loans)	Down 38	Down 388
TED Spread	Spread between 3-month LIBOR and 3-month Treasury yield	Down 57	Down 407
Aaa bond rate	Rate on highest quality corporate bonds	Up 22	Down 62
Aaa bond spread	Spread between Aaa bond rate and 10-year Treasury yield	Down 101	Down 61
Baa bond rate	Rate on corporate bonds subject to moderate credit risk	Down 84	Down 108
Baa bond spread	Spread between Baa bond rate and 10-year Treasury yield	Down 207	Down 107
Mortgage rates	30-year conforming loans rate	Up 61	Down 87
Mortgage spread	Spread between 30-year conforming loans rate and 10-year Treasury yield	Down 53	Down 74

Quarterly mortgage volume and defaults

Indicator	Description	Change from December 31, 2008 to March 31, 2009 (latest available data)
Mortgage originations	New mortgage loans	Up $185 billion to $445 billion
Foreclosure rate	Percentage of homes in foreclosure	Up 55 basis points to 3.85 percent

Source: GAO analysis of data from Global Insight, Thomson Datastream, and *Inside Mortgage Finance*.