March 2009

GAO

Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-504, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

March 2009 Status of Efforts to Address Transparency and Accountability Issues

Why GAO Did This Study

GAO's third report on the Troubled Asset Relief Program (TARP) follows up on recommendations from the January 28, 2009, report (GAO-09-296). It also reviews (1) the nature and purpose of activities that had been initiated under TARP as of March 27, 2009; (2) the Department of Treasury's Office of Financial Stability's (OFS) hiring efforts, use of contractors, and progress in developing an internal control system; and (3) TARP performance indicators. For this work, GAO reviewed signed agreements and other relevant documentation and met with officials from OFS, contractors, and federal agencies.

What GAO Recommends

This report has six new recommendations to Treasury, including to continue developing an integrated communication strategy; require AIG to seek appropriate concessions from employees and derivatives counterparties, among others; update documentation of certain internal control procedures and the public guidance on determining warrant exercise prices; publicly report monies, such as dividends received from TARP participants; and finish reviewing existing conflict mitigation plans, renegotiate them as appropriate, and improve associated conflicts documentation.

In written comments, Treasury described steps it had taken in the last 60 days to address the extraordinary economic challenges.

To view the full product, including the scope and methodology, click on GAO-09-504. For more information, contact Thomas McCool at (202) 512-2642 or mccoolt@gao.gov. To view the e-supplement online, click on GAO-09-522SP.

What GAO Found

As of March 27, 2009, Treasury had disbursed $303.4 billion of the $700 billion in TARP funds (see table). Most of the funds (almost $199 billion) went to purchase preferred shares of 532 financial institutions under the Capital Purchase Program (CPP), Treasury's primary vehicle under TARP for stabilizing financial markets. Treasury has continued to improve the integrity, accountability and transparency of TARP. For example, it recently expanded monthly surveys of the largest institutions' lending activity to cover all CPP participants, as GAO recommended. These surveys should provide additional important information about how the capital investments are impacting participants' lending activities and capital levels.

Status of TARP Funds as of March 27, 2009 (dollars in billions)

Program	Maximum announced program funding level[a]	Projected use of funds	Disbursed
Capital Purchase Program	$250.0	$218.0	$198.8
Systemically Significant Failing Institutions	70.0	70.0	40.0
Targeted Investment Program	40.0	40.0	40.0
Automotive Industry Financing Program	24.9	24.9	24.5
Citigroup Asset Guarantee	5.0	5.0	0.0
Bank of America Asset Guarantee	7.5	7.5	0.0
Homeowner Affordability & Stability Plan	50.0	50.0	0.0
Term Asset-Backed Securities Loan Facility (TALF)[b]	100.0	55.0	0.1
Unlocking Credit for Small Business	15.0	15.0	0.0
Auto Supplier Support Program	5.0	5.0	0.0
Public Private Investment Program	100.0	100.0	0.0
Capital Assistance Program	TBD[c]	TBD	0.0
Total	**$667.4**	**$590.4**	**$303.4**

Source: Treasury OFS, unaudited.

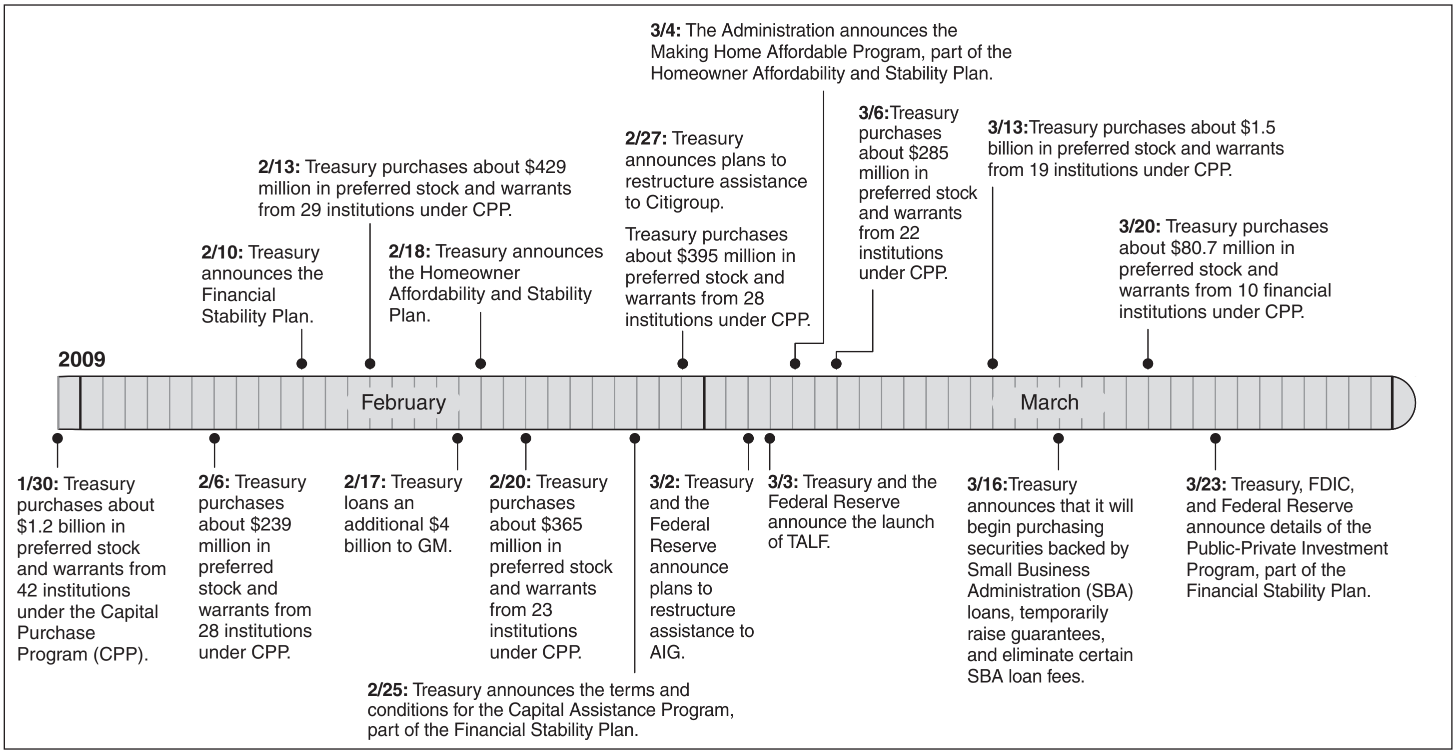
[a]Some of Treasury's announced transactions are not yet legal obligations and actual amounts will depend on participation.

[b]Treasury considers this program part of its Consumer & Business Lending initiative.

[c]Treasury has announced the Capital Assistance Program, but has not yet announced the funding level for that program.

Treasury also continues to develop a process to monitor compliance with the terms of the agreements but has not yet hired asset managers. Treasury officials told GAO that these managers will have a role in helping ensure that institutions were honoring dividend and stock repurchase requirements. In February 2009, Treasury announced its broad strategy for using the remaining TARP funds and in the following weeks provided details for its major components. While articulating its plan was an important step, Treasury continues to struggle with developing an effective overall communication strategy that is integrated into TARP operations. Without such a strategy, Treasury may face challenges should it need additional funding for the program. Finally, as Treasury finalizes the terms of the agreement with American International Group, Inc. (AIG) for $30 billion in additional assistance, it should require that AIG seek additional concessions from employees and existing derivatives counterparties, as appropriate.

Timeline of Programs and Selected Actions under TARP, January 30, 2009, to March 23, 2009



Source: GAO.

GAO's January 2009 report also included recommendations about OFS's management infrastructure, including hiring, contract oversight, and internal controls. Treasury has continued to take steps to address GAO's recommendations. First, it has continued to hire additional permanent staff to address OFS's long-term organizational needs. Second, Treasury has enhanced its capacity to manage vendors by using trained oversight personnel and looking for opportunities to use fixed-price arrangements. Further actions are needed to complete its review of existing vendor conflict-of-interest mitigation plans and to improve documentation of decisions relating to potential conflicts. Third, OFS continued to refine, develop, and document its internal control framework over financial reporting and compliance, including its risk assessment activities. However, GAO noted that certain internal control procedures and the guidance pertaining to determining warrant exercise prices had not been updated to be consistent with actual practice. GAO also noted that Treasury had not publicly reported that through March 20, 2009, it had received dividends totaling almost $2.9 billion from TARP participants. Further steps in these areas are needed to improve the program's transparency and integrity.

GAO again notes the difficulty of measuring the effect of TARP's activities. Developments in the credit markets have generally been mixed since the January 2009 report. Some indicators revealed that the cost of credit has increased in interbank and corporate bond markets and decreased in mortgage markets, while perceptions of risk (as measured by premiums over Treasury securities) have declined in interbank and mortgage markets and risen in corporate debt markets. In addition, although Federal Reserve survey data suggest that lending standards remained tight, the largest CPP recipients extended roughly $245 billion in new loans to consumers and businesses in both December 2008 and January 2009, according to the Treasury's new 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.