EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 31, 2012

MEMORANDUM FOR THE PRESIDENT

FROM: Jeffrey D. Zients
Acting Director

SUBJECT: Transmittal of the Office of Management and Budget's required report per the Emergency Economic Stabilization Act of 2008

Attached is the Office of Management and Budget's report of the estimated cost of assets purchased under the Emergency Economic Stabilization Act of 2008 (EESA), as required by section 202 of EESA.

OMB is required to submit this report to the President and the Congress semiannually; the first report this year was issued with your February Budget. This report analyzes the cost of transactions completed by May 31, 2012, which is consistent with the requirement to analyze transactions completed at least thirty days before each report's publication.

OMB will continue to work closely with the Department of the Treasury to monitor the budgetary and programmatic impacts of this important program.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 31, 2012

The Honorable Joseph Biden
President of the United States Senate
Washington, D.C. 20510

Dear Mr. President:

Enclosed and as transmitted to the President of the United States is the Office of Management and Budget's (OMB) report of the estimated cost of assets purchased under the Emergency Economic Stabilization Act of 2008 (EESA).

OMB is required to submit this report to the President and the Congress semi-annually; OMB's first report this year was released with the President's Budget in February. This report analyzes the cost of transactions completed by May 31, 2012, which is consistent with the requirement to analyze transactions completed at least 30 days before each report's publication. The report also provides estimates of expected Troubled Asset Relief Program transactions as presented in the Mid-Session Review of the President's FY 2013 Budget.

OMB will continue to work closely with the Department of the Treasury to monitor the budgetary and programmatic impacts of this important program.

Sincerely,

Jeffrey D. Zients
Acting Director

Enclosure

Identical Letter Sent to the Speaker of the House of Representatives

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 31, 2012

The Honorable John Boehner
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed and as transmitted to the President of the United States is the Office of Management and Budget's (OMB) report of the estimated cost of assets purchased under the Emergency Economic Stabilization Act of 2008 (EESA).

OMB is required to submit this report to the President and the Congress semi-annually; OMB's first report this year was released with the President's Budget in February. This report analyzes the cost of transactions completed by May 31, 2012, which is consistent with the requirement to analyze transactions completed at least 30 days before each report's publication. The report also provides estimates of expected Troubled Asset Relief Program transactions as presented in the Mid-Session Review of the President's FY 2013 Budget.

OMB will continue to work closely with the Department of the Treasury to monitor the budgetary and programmatic impacts of this important program.

Sincerely,

Jeffrey D. Zients
Acting Director

Enclosure

Identical Letter Sent to the Honorable Joseph R. Biden, Jr.

OMB Report under the Emergency Economic Stabilization Act, Section 202

The Emergency Economic Stabilization Act of 2008 (EESA, enacted as P.L. 110-343) authorized the Department of the Treasury (Treasury) to purchase or guarantee troubled assets and other financial instruments, provided that the total purchase price paid for assets held by the Secretary at any one time not exceed $700 billion.[1] The Helping Families Save Their Homes Act of 2009 (P.L. 111-22) reduced total TARP purchase authority by $1.3 billion, and in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) further reduced total TARP purchase authority to a maximum of $475 billion in cumulative obligations. Treasury implemented the Troubled Asset Relief Program (TARP) under this authority to provide capital to and restore confidence in the strength of U.S. financial institutions, restart markets critical to financing American households and businesses, and address housing market problems and the foreclosure crisis. Authority for TARP to incur new obligations terminated in October 2010 per EESA, on the two-year anniversary of its enactment. The Treasury continues to manage existing investments and is authorized to expend previously committed TARP funds pursuant to obligations entered into prior to October 3, 2010.

Section 202 of EESA requires the Office of Management and Budget (OMB) to report the estimated cost of TARP assets purchased and guarantees issued pursuant to EESA. OMB is required to submit the report semi-annually; the most recent report was issued as part of the *Budget of the United States Government, Fiscal Year 2013* (the Budget).[2] Consistent with the requirement to analyze transactions occurring no less than thirty days before publication, this report analyzes transactions through May 31, 2012. For information on TARP program developments after May 31, 2012, please consult the Treasury Department's *Troubled Asset Relief Program Monthly 105(a) Reports.*

Introduction: Updated Deficit Estimate and Market Impact of TARP

The financial crisis of 2008-09 resulted in the near-collapse of the U.S. financial system: large financial institutions failed and capital markets froze, leaving businesses without the financing needed to produce goods and services. Securitization markets that provided financing for credit cards, student loans, auto loans and other consumer financing stopped functioning, millions of Americans lost their jobs, and an unprecedented number of homeowners lost their homes. Although challenges in the economy remain, the extraordinary actions undertaken by the Government, including the implementation of TARP, have helped to mitigate and repair some of the damage caused by the crisis.

Market Impact

TARP's support to the banking sector through the Capital Purchase Program (CPP), Targeted Investment Program (TIP), Asset Guarantee Program, and the Community Development Capital Initiative (CDCI) helped stabilize the financial system and strengthen the financial position of the Nation's banking institutions. Total provisions for loan losses for all insured depository institutions fell for the tenth consecutive quarter, totaling $14.3 billion as of March 31, 2012, which marks the lowest amount since

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[1] TARP purchase authority is defined as the purchase price paid for assets held by the Secretary of the Treasury, and Treasury's maximum liability for guaranteed amounts.

[2] See Chapter 4 of the Analytical Perspectives volume of the 2013 Budget: *"Financial Stabilization Efforts and Their Budgetary Effects."* *http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/econ_analyses.pdf*

the second quarter of 2007.[3] This continued reduction in loan loss reserves points to improving credit and market conditions.

The on-going healing of the banking sector, coupled with the TARP programs aimed at reviving the credit markets, have facilitated the improved flow of credit in both the commercial and consumer markets. Together, the Term Asset Backed Securities Loan Facility (TALF) and the Public Private Investment Program (PPIP) helped to improve the overall credit climate for businesses, as evidenced by the declining cost of long-term investment grade borrowing, which has fallen from a peak of roughly 570 basis points over benchmark Treasury securities at the height of the crisis to just 224 basis points over Treasuries as of May 31, 2012.[4] However, additional progress is needed to increase businesses' access to credit, and enable the economy to achieve its full potential.

Emergency loans to General Motors and Chrysler via the TARP Automotive Industry Financing Program (AIFP) spurred the resurgence of the U.S. auto manufacturing industry. The Administration's assistance to both GM and Chrysler was conditioned on the requirement that stakeholders make difficult but necessary restructuring and reorganization decisions in order for these companies to emerge from bankruptcy and achieve long-term viability. Although AIFP is still estimated to result in a net cost to taxpayers, the Government has been able to recover much more from auto companies than originally estimated, and far sooner, while reinvigorating one of America's critical industries. New Chrysler has posted nine consecutive quarters of operating profit and as of the first quarter of 2012 reported a fourfold increase in net income, which represents the largest quarterly net income since emerging from bankruptcy in 2009.[5] The story has been similar for New GM — and the industry as a whole. Ford, Chrysler, and GM all again achieved positive quarterly net profits in the first quarter of 2012.[6] In May 2012, Chrysler said that three U.S. plants would skip their normally scheduled two-week midyear shutdowns to meet increased demand, and Ford said it would idle 13 plants for one week instead of two as part of the company's annual summer shutdown. The auto industry is leading a resurgence in American manufacturing that translates to the creation of more American jobs. Since June 2009, the auto industry has added nearly a quarter of a million new jobs.

Although the housing market is still recovering, the Administration's housing programs implemented through the TARP have helped stabilize the market and kept millions of borrowers in their homes. As of May 31, 2012, more than one million borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated $13.3 billion in realized aggregate savings for these homeowners. In addition to helping these borrowers, the Administration's TARP housing programs have been a catalyst to private sector modifications, as they have led to

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[3] Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, March 2012. http://www2.fdic.gov/qbp/2012mar/qbp.pdf. Bank net income was $35.332 billion in the first quarter of 2012 compared to $35.317 in the third quarter of 2011.

[4] Spreads for the cost of long-term investment grade borrowing are based upon 10-year Treasury yield and FINRA/Bloomberg Investment Grade U.S. Corporate Bond Index yield.

[5] Chrysler Corporation, *First Quarter 2012 Financial Results Webcast*, April, 26, 2012
http://www.chryslergroupllc.com/Investor/presentations/QAWebcasts/ChryslerDocuments/Q1_2012_Presentation.pdf

[6] Chrysler Corporation, *First Quarter 2012 Financial Results Webcast*, April, 26, 2012
http://www.chryslergroupllc.com/Investor/presentations/QAWebcasts/ChryslerDocuments/Q1_2012_Presentation.pdf.
Ford Corporation, First Quarter 2012 Financial Results, April 27, 2012
http://corporate.ford.com/doc/ir_20120427a_financial_results.pdf.
GM Corporation First Quarter 2012 Financial Results, May 3, 2012
http://media.gm.com/content/dam/Media/gmcom/investor/2012/GM2012Q1FinancialHighlights.pdf.

improved standardization of credit extension and loan modification criteria across diverse private lenders and investors. Since April 2009, HAMP, FHA, and the private sector HOPE Now alliance have completed more than 5.5 million mortgage modifications. The Administration has continued to respond to the evolving housing crisis by implementing programs that provide mortgage relief to unemployed homeowners and those with negative home equity. In January 2012, the Administration announced important enhancements to HAMP, including expanding eligibility criteria, tripling incentives for principal reduction, and extending the program through 2013. Furthermore, through the HFA Hardest Hit Fund (HHF), the Administration has allocated $7.6 billion to 17 States and the District of Columbia to implement innovative housing programs to bring stability to local housing markets and meet the unique needs of their communities.

Deficit Impact

Nearly four years after the first TARP dollars were disbursed, the TARP has not only helped to stabilize financial markets and set the foundation for economic recovery, but it has done so at a much lower cost than originally estimated. As of May 31, 2012, total repayments and income on TARP investments were approximately $343 billion, which is 82 percent of the $416 billion in total disbursements to date. The projected total lifetime deficit impact of TARP programmatic costs, reflecting recent activity and revised subsidy estimates based on market data as of May 31, 2012, is now estimated at $63.5 billion (Table 1).

Compared to the 2013 Budget estimate of $67.8 billion, the estimated deficit impact of TARP decreased by $4.3 billion when incorporating market data as of May 31, 2012. This decrease was largely attributable to the higher valuation of the AIG common stock held by Treasury, which increased by $5.87 (or 27 percent) per share from the 2013 Budget estimate. GM's share price also increased, albeit by a more modest $0.91 (or 4 percent), relative to the share prices used to formulate the 2013 Budget.[7] The change in PPIP reflected in the May 31st Valuation was primarily driven by lower projected Treasury interest rates that serve as the basis for the market-risk adjustment used to estimate the cost of the program.

This revised estimate of $63.5 billion for the TARP deficit effect is produced solely for this report, and is not reflected in the Mid-Session Review of the 2013 Budget (MSR) data. The May 31st Valuation incorporates recent market price information, while the MSR does not include such updated valuations for TARP transactions treated on a risk-adjusted Federal Credit Reform Act (FCRA) basis. Rather such updates will be reflected in the 2014 Budget, consistent with standard FCRA practices. For credit programs like TARP that can no longer enter into new obligations, MSR updates typically reflect loan cancellations and modification transactions resulting from a government action that was not assumed in the Budget. In this case, the 2013 MSR estimate includes changes to the CPP program cost estimates due to asset sales that occurred this spring that were not assumed in the Budget's CPP estimates. Using MSR data and subsidy cost estimates from the 2013 Budget, TARP's lifetime deficit impact for MSR, which includes interest on reestimates, is estimated at $68.0 billion, as shown in Table 2 (on page 14). Revised subsidy costs for the TARP programs using actual performance, updated market information and investment values will be included in the 2014 Budget.

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[7] The May 31st Valuation used the May 31, 2012 share price of $29.18 for Treasury's AIG common stock and $22.20 for Treasury's GM common stock.

Table 1. Detailed TARP Program Levels and Costs - 2013 Budget vs. May 31st Valuation (In billions of dollars)				
Program	2013 Budget		May 31st Valuation	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Program	204.9	-6.7	204.9	-7.4
AIG Investments	67.8	24.0	67.8	21.9
Targeted Investment Program	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP)	16.3	5.5	16.3	5.8
Public-Private Investment Program - Equity	7.5	-2.2	7.5	-2.3
Community Development Capital Initiative	0.6	0.2	0.6	0.1
Subtotal equity purchases	337.1	17.2	337.1	14.6
Direct Loan Programs				
Automotive Industry Financing Program (AIFP)	63.4	19.3	63.4	19.6
Term Asset-Backed Securities Loan Facility (TALF)	4.3	-0.4	4.3	-0.4
Public-Private Investment Program - Debt [1]	14.9	0.2	14.4	-0.3
Small Business 7(a) Program	0.4	*	0.4	*
Subtotal direct loan programs	83.0	19.1	82.4	18.9
Guarantee Programs under Section 102				
Asset Guarantee Program [2]	5.0	-3.6	5.0	-3.7
Subtotal asset guarantees	5.0	-3.6	5.0	-3.7
TARP Housing Programs				
Making Home Affordable (MHA) Programs	29.9	29.9	29.9	29.9
Hardest Hit Fund	7.6	7.6	7.6	7.6
Subtotal non-credit programs	37.5	37.5	37.5	37.5
FHA Refinance Letter of Credit [3]	8.1	8.1	8.1	8.1
Subtotal TARP housing programs	45.6	45.6	45.6	45.6
Totals	**470.7**	**78.2**	**470.1**	**75.4**
Memorandum:				
Interest on reestimates [4]		-10.4		-11.9
Deficit impact before administrative costs and interest effects		***67.8***		***63.5***

* $50 million or less

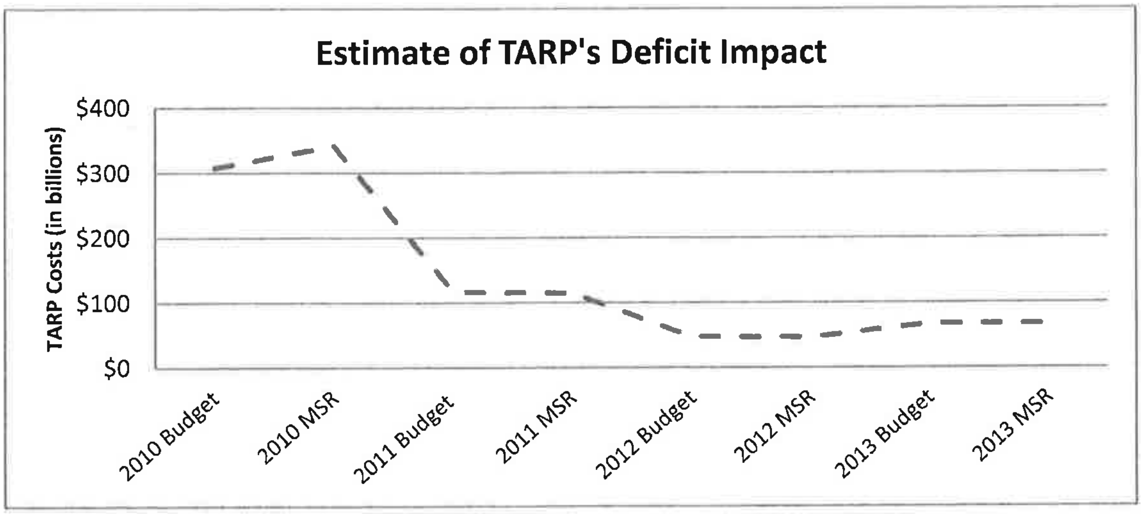
[1] The reduction in PPIP debt obligations between the 2013 Budget and 2013 MSR reflects the cancellation of an outstanding obligation for Invesco on September 27, 2011.

[2] The total assets supported by the Asset Guarantee Program were $301 billion.

[3] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

[4] Total programmatic costs of the TARP exclude interest on reestimates of $10.4 billion in "2013 Budget" and $11.9 billion in "May 31st Valuation." Interest on reestimates is an interest adjustment that accounts for the difference between the original subsidy rate and current estimates; such amounts impact the deficit but are not direct programmatic costs.

There has been a notable reduction in TARP's projected deficit impact from the $341 billion estimate published in the 2010 MSR (see graph below). The May 31st Valuation reflects a total TARP deficit impact of $63.5 billion, a $277.5 billion reduction from the 2010 MSR and a $293 billion reduction from the Congressional Budget Office's March 2009 estimate of $356 billion.



Source: OMB and Treasury.

A description of the TARP programs, followed by a detailed analysis of the programmatic changes to the TARP and the cost estimates since the publication of the 2013 Budget is provided below.

Description of Assets Purchased Through the TARP, by Program

Capital Purchase Program (CPP). Pursuant to EESA, the Treasury created the CPP in October 2008 to restore confidence throughout the financial system by ensuring that the Nation's banking institutions have a sufficient capital cushion against potential future losses and to support lending to creditworthy borrowers. All eligible CPP recipients completed funding by December 31, 2009, and Treasury purchased $204.9 billion in preferred stock in 707 financial institutions under the CPP program. As of May 31, 2012, Treasury had received approximately $192 billion in principal repayments (i.e., redemptions of common and preferred stock, CDCI conversions, and refinancing to SBLF) and over $26 billion in revenues from dividends, interest, warrants, gains/other interest and fees. Total redemptions and income now exceed Treasury's initial investment. In March 2012, Treasury initiated the disposition of certain remaining CPP assets, when it sold its preferred stock investments in six banks through public auctions. Treasury has executed two subsequent auctions as of May 31, 2012, and views these asset sales, along with restructuring and repayments, as part of the overall strategy to wind down TARP's bank programs as quickly as feasible while protecting taxpayer interests.

Capital Assistance Program (CAP) and Other Programs. The Treasury launched the CAP in March 2009 as the next phase of its effort to ensure that institutions have enough capital to lend, even under more distressed economic scenarios. The CAP was announced in conjunction with the commencement of a supervisory capital assessment process, commonly referred to as the "stress tests". The CAP was available to institutions that participated in the "stress tests" as well as others. Of the ten bank holding companies that were identified by the test as needing to raise more capital, nine have met or exceeded the capital raising requirements through private efforts. The Treasury provided an additional $3.8 billion in capital to GMAC, now Ally Financial, under the Auto Industry Financing Program (described above) to assist its fundraising efforts to meet the requirements of the stress test results. Due to the success of the stress tests, efforts to raise private capital, and CPP, as well as other Government efforts, the Treasury did not receive any applications for the CAP, which terminated on November 9, 2009.

Community Development Capital Initiative (CDCI): The CDCI program invests lower-cost capital in Community Development Financial Institutions (CDFIs), which operate in markets underserved by traditional financial institutions. In February 2010, Treasury released program terms for the CDCI program, under which participating institutions received capital investments of up to 5 percent of risk-weighted assets and pay dividends to Treasury of as low as 2 percent per annum. The dividend rate increases to 9 percent after eight years. CDFI credit unions were able to apply to TARP for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts. These institutions could apply for capital investments of up to 3.5 percent of total assets – an amount approximately equivalent to the 5 percent of risk-weighted assets available under the CDCI program to banks and thrifts. TARP capital of $570 million has been committed to this program.

American International Group (AIG) Investments. The Federal Reserve Bank of New York (FRBNY) and the Treasury provided financial support to AIG in order to mitigate broader systemic risks that would have resulted from the disorderly failure of the company. To prevent the company from entering bankruptcy and to resolve the liquidity issues it faced, the FRBNY provided an $85 billion line of credit to AIG in September 2008 and received preferred shares that entitled it to 79.8 percent of the voting rights of AIG's common stock. After TARP was enacted, the Treasury and FRBNY continued to work to facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. Government and taxpayers. As of December 31, 2008, when purchases ended, the Treasury had purchased $40 billion in preferred shares from AIG through TARP, which have subsequently been converted to common stock. In April 2009, Treasury also extended a $29.8 billion line of credit, of which AIG drew down $27.8 billion as of January 2011, in exchange for additional preferred stock. The remaining $2 billion obligation was subsequently canceled. The total cumulative TARP investment in AIG is therefore $67.8 billion.

AIG executed a recapitalization plan with FRBNY, Treasury, and the AIG Credit Facility Trust in mid-January 2011 that allowed for the acceleration of the Government's exit from AIG. As a result of the restructuring, AIG's ensuing public offering, and subsequent common stock sales, the Treasury now has a 61 percent ownership stake in AIG, which represents a 31 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Treasury's investment in AIG common shares consists of shares acquired in exchange for preferred stock purchased with TARP funds ("TARP shares") and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG ("non-TARP shares"). Treasury held a total of 1.06 billion AIG common shares, consisting of 699 million TARP shares and 360 million non-TARP shares as of May 31, 2012. AIG has fully repaid the FRBNY. A summary of recent transactions is provided below:

- Treasury sold 200 million shares of its common stock through a public offering on May 24, 2011. These shares were sold at $29.00 per share, netting $5.8 billion in proceeds for taxpayers. Approximately two-thirds of the proceeds, or $3.8 billion, represented sales of stock acquired from TARP assistance to AIG and is included in TARP AIG net cost estimates, while the remaining one-third, or $2 billion, represented the sale of AIG common stock that was transferred to the Treasury from the Federal Reserve.
- On August 18, 2011, Treasury received an additional payment of $2.2 billion funded through proceeds from the sale of AIG's Nan Shan life insurance subsidiary. This was followed by an additional repayment of $972 million on November 1, 2011, that was funded primarily through the scheduled release of escrowed proceeds from AIG's sale of ALICO, a subsidiary, to MetLife, Inc. Proceeds from both of these repayments were used to pay back the U.S.

taxpayers' investments in AIG. After this repayment, Treasury's remaining outstanding investment in AIG, including common shares and preferred interests, was $50 billion.

- In early March 2012, AIG sold 1.72 billion shares of the AIA special purpose vehicle for approximately $6 billion and used $5.6 billion of the net proceeds to reduce Treasury's preferred equity position in AIG. The remaining preferred equity interest was repaid later that month.
- On March 8, 2012, Treasury sold approximately 207 million shares of AIG common stock at $29.00 per share, generating $6 billion in proceeds to Treasury.
- On May 6, 2012, Treasury sold 163.9 million shares of its AIG common stock at $30.50 per share. The following day, the underwriters exercised their over-allotment option to purchase an additional $750 million of AIG common stock from Treasury. In total through this transaction, Treasury generated $5.8 billion in proceeds from the sale of 188.5 million shares.

Targeted Investment Program (TIP). The goal of the TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets, and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased $20 billion in preferred stock from Citigroup and $20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. Both Citigroup and Bank of America repaid their TIP investments in full in December 2009, along with dividend payments of approximately $3.0 billion. In March 2010, Treasury sold all of its Bank of America warrants for $1.2 billion, and in January 2011, the Treasury sold Citigroup warrants acquired through the TIP for $190.4 million. The TIP is closed and has no remaining assets; taxpayers received a positive return of $4.4 billion on these investments.

Asset Guarantee Program (AGP). The TARP created the AGP to provide Government assurances for assets held by financial institutions that were critical to the functioning of the nation's financial system. In January 2009, the Treasury, the Federal Reserve, and the FDIC negotiated a potential loss-sharing arrangement under the AGP on up to $118 billion of financial instruments owned by Bank of America. In May 2009, Bank of America announced its intention to terminate negotiations with respect to the loss-sharing arrangement. In September 2009, the Treasury, the Federal Reserve, the FDIC, and Bank of America entered into a termination agreement pursuant to which Bank of America agreed to pay a termination fee of $425 million to the Government parties. Of this amount, $276 million was paid to the TARP in 2009 for the value Bank of America received from the announcement of the government's willingness to guarantee and share losses on the pool of assets.

The Treasury, the Federal Reserve and the FDIC entered into a final agreement for a loss-sharing arrangement with Citigroup on January 15, 2009. Under the agreement, the Treasury guaranteed up to $5 billion of potential losses incurred on a $301 billion portfolio of financial assets held by Citigroup. The agreement was terminated, effective December 23, 2009. The U.S. Government parties did not pay any losses under the agreement, and retained $5.2 billion of the $7 billion in trust preferred securities that were part of the initial agreement with Citigroup.[8] TARP retained $2.2 billion of the trust preferred

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[8] Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by

securities, as well as warrants for common stock shares that were issued by Citigroup as consideration for the guarantee. Treasury sold the trust preferred securities on September 30, 2010, and the warrants on January 25, 2011, liquidating its direct holdings in Citigroup. However, TARP is entitled to receive up to $800 million in additional Citigroup trust preferred securities held by the FDIC (net of any losses suffered by the FDIC) under Citigroup's use of the Temporary Liquidity Guarantee Program. The AGP program is now closed and will generate a positive return to the taxpayers from the preferred securities and other considerations.

Automotive Industry Financing Program (AIFP). In December 2008, the Treasury established the AIFP to prevent a disruption of the domestic automotive industry, in order to mitigate a systemic threat to the Nation's economy and a potential loss of thousands of jobs. Through TARP, the Treasury originally committed $84.8 billion through loans and equity investments to participating domestic automotive manufacturers, auto finance companies, and auto parts manufacturers and suppliers. As of May 31, 2012, Treasury had recouped nearly 50 percent of its investments in GM and had fully exited its Chrysler Group LLC investments. Below is a summary of the securities TARP received in exchange for the assistance provided to automotive manufacturers and recent transactions:

- Treasury received 60.8 percent of the common equity and $2.1 billion in preferred stock and retained a loan of $7 billion in "New GM" when the sale of assets from the old GM to the new GM took place on July 10, 2009. In April 2010, New GM repaid its $7 billion loan, ahead of its publicly stated goal to repay the entire loan by June 2010. As part of New GM's initial public offering (IPO) in November 2010, Treasury sold nearly 359 million shares of New GM common stock at $33.00 per share, and subsequently sold an additional 53.7 million shares in December 2010 at the same price. In total, TARP raised $13.5 billion in net proceeds from the New GM IPO and reduced its ownership stake by nearly half, to approximately 32 percent. New GM also repurchased $2.1 billion in preferred stock from TARP in December 2010. As of May 31, 2012, TARP had recouped $24.1 billion of the $51.03 billion in aid extended to GM.
- Treasury also received a $7.1 billion debt security and a 9.9 percent share of the equity in the newly formed, post-bankruptcy Chrysler Group LLC (New Chrysler). In January 2009, the OFS loaned $1.5 billion to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. On July 14, 2009, the loan and additional note of $15.0 million were paid in full. In addition, during the period ended September 30, 2009, the OFS received $7.4 million in interest payments while this loan was outstanding. As part of the bankruptcy proceedings, New Chrysler also assumed $500 million of debt from TARP's original $4 billion loan to Chrysler Holding (Old Chrysler). Therefore, TARP held a $3.5 billion loan with Old Chrysler in addition to investments in New Chrysler. In April 2010, TARP received a $1.9 billion repayment of its investments in Old Chrysler. This repayment, while less than the amount Treasury invested, was significantly more than the Administration had previously estimated to recover. As part of the repayment agreement, Treasury agreed to write off the $1.6 billion balance remaining under the $3.5 billion TARP loan to Old Chrysler. On May 24, 2011, six years ahead of schedule, Chrysler Group LLC repaid the remaining $5.1 billion in TARP loans and terminated the remaining $2.1 billion TARP loan commitment. Finally, on June 2, 2011, Treasury reached an agreement to sell to Fiat Treasury's 6 percent fully diluted equity interest in New Chrysler and Treasury's interest in an agreement with the UAW retiree trust for $560 million. The closing of this transaction in July 2011 marked Treasury's full

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regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

exit from its TARP investments in Chrysler. In total, Chrysler repaid $11.1 billion[9] of the $12.4 billion in aid provide by the U.S. Government, which far exceeded expectations when the program was first unveiled in December 2008.

- The Treasury has also purchased investments totaling $16.3 billion in Ally Financial (formerly GMAC). On December 30, 2010, Treasury converted $5.5 billion of its $11.4 convertible preferred stock in Ally Financial into common stock. On March 2, 2011, Treasury sold all of its trust preferred securities for approximately $2.7 billion. Ally Financial filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering on March 31, 2011. Proceeds from the public offering are expected to facilitate Ally paying back TARP and ending governmental ownership shares; however, the timing of the offering is uncertain. As of May 31, 2012, Treasury had recouped $5.54 billion of its $16.3 billion in Ally-related investments, including $2.87 billion in dividends and interest.

Both the Auto Supplier Support Program (ASSP) and the Auto Warranty Commitment Program (AWCP) have closed and, in aggregate, these investments did not result in losses. The Government originally committed $5 billion in loans to ASSP, to ensure that auto suppliers would be paid for products and services purchased by automakers. Through the AWCP, the Government extended temporary support to protect consumer warranties on purchased GM and Chrysler vehicles while the companies worked through their restructuring plans. Treasury no longer holds warranties under the AWCP.

Credit Market Programs. The Credit Market programs are designed to facilitate lending that supports consumers and small businesses, through the Term Asset-Backed Securities Loan Facility (TALF), the Small Business Administration's guaranteed loan program (SBA 7(a)), and the Public Private Investment Program (PPIP).

TALF: The TALF is a joint initiative with the Federal Reserve that provides financing (TALF loans) to private investors to help facilitate the restoration of efficient and robust secondary markets for various types of credit. The Treasury provides protection to the Federal Reserve through a loan to the TALF's special purpose vehicle (SPV), which was originally available to purchase up to $20 billion in assets that would be acquired in the event of default on Federal Reserve financing. The Treasury has disbursed $0.1 billion of this amount to the TALF SPV to implement the program, representing a notional amount used to establish the SPV. The Treasury's total TALF purchases will depend on actual TALF loan defaults. In July 2010, Treasury, in consultation with the Federal Reserve, reduced the maximum amount of assets Treasury will acquire upon default to $4.3 billion, or 10 percent of the total $43 billion outstanding in the facility when the program was closed to new lending on June 30, 2010.

SBA 7(a): In March 2009, Treasury and the Small Business Administration announced a TARP program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and purchased 31 securities with an aggregate face value of approximately $368 million. Treasury reduced its commitment to the Small Business 7(a) program from $1 billion to $368 million, as demand for the program waned due to significantly improved secondary market conditions for these securities following the original announcement of the program. TARP investments in the SBA 7(a) Securities Purchase Program totaled $368 billion. On June 2, 2011, Treasury began the disposition of its SBA 7(a) securities

[9] Chrysler repayments of $11.1 billion include $560 million in proceeds from the sale of Treasury's 6 percent fully diluted equity interest in Chrysler to Fiat and Treasury's interest in an agreement with the UAW retiree trust that were executed on July 21, 2011.

and sold the remaining SBA 7(a) securities in January 2012. Recoveries through sales, principal and interest payments totaled $376 million – $8 million more than the TARP investment in the program).

PPIP: The Treasury, in conjunction with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, introduced the PPIP on March 23, 2009, to address the volatile market cycle affecting troubled legacy assets clogging the balance sheets of private-sector financial institutions. The PPIP is designed to improve the financial position of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities). The Treasury implemented the legacy securities PPIP and initially announced that it would provide up to $100 billion. However, Treasury has subsequently reduced the PPIP commitment twice, since the need for Government intervention in the legacy securities market has waned as market conditions have improved and investment of private capital has increased. PPIP closed for new funding on June 30, 2010 and there are currently $18.45 billion in TARP funds disbursed toward this program.

TARP Housing Programs. To mitigate foreclosures and preserve homeownership, in February 2009 the Administration announced a comprehensive housing program utilizing up to $50 billion in funding through the TARP. The Government-Sponsored Entities (GSEs) Fannie Mae and Freddie Mac participated in the Administration's program both as the Treasury Department's financial agents for Treasury's contracts with servicers, and by implementing similar policies for their own mortgage portfolios.[10] These housing programs are focused on creating sustainably affordable mortgages for responsible homeowners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. Following the enactment of the Wall Street Reform Act, Treasury reduced its commitments to the TARP Housing programs to $45.6 billion. These programs fall into three initiatives:

1. Making Home Affordable (MHA);
2. Housing Finance Agency (HFA) Hardest-Hit Fund (HHF); and
3. Federal Housing Administration (FHA) Refinance Program. [11]

The MHA initiative includes among its components the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Modification Program (2MP), and the second lien extinguishment portion of the FHA-Refinance Program, and Rural Development-HAMP.[12] Under MHA programs, the Treasury contracts with servicers to modify loans in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and investors for those modification or other foreclosure alternatives. As of June 30, 2012, Treasury had active agreements with 105 non-GSE mortgage servicers and over two million trial modification offers had been extended to borrowers. More than one million permanent modifications were initiated as of the end of May 2012, which have saved

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[10] For additional information on MHA programs, visit: http://www.makinghomeaffordable.gov/.

[11] This program has also been referred to as the FHA Short Refinance Program or Option in other reporting. The FHA Refinance Program is not a Treasury program, but is supported through the TARP with nearly $3.0 billion available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens, and an additional $8.1 billion is committed to cover a share of any losses on FHA Refinance guaranteed loans.

[12] For additional information on MHA programs, visit: http://www.makinghomeaffordable.gov/.

homeowners an estimated $13.3 billion to date in reduced monthly mortgage payments. Program implementation has continually improved since its inception in February 2009. As of May 31, 2012, 86 percent of homeowners who started a trial modification after June 1, 2010, had converted to permanent modifications within an average of 3.5 months – a higher conversion rate and shorter time to convert than earlier in the program. In addition to providing responsible homeowners with sustainable mortgages, the MHA initiative has also, for the first time, standardized the mortgage modification process across the servicing industry.

In January 2012 the Administration announced it would triple the incentives for HAMP modifications that include the Principal Reduction Alternative (PRA) effective March 1st, to a range between $0.18 and $0.63 per dollar of principal reduced. The Administration also announced that incentives for the Second Lien Modification Program (2MP) would be doubled to a range between $0.12 and $0.42 per dollar of unpaid principal extinguished. From March to June 30th there were more than 89,000 trial PRA modifications started, and nearly 35,000 HAMP modifications with principal reduction outside of PRA. In June 2012, 75 percent of eligible HAMP trial modifications had some form of principal reduction. Treasury launched "HAMP Tier 2"in June 2012, allowing HAMP modifications on non-owner-occupied rental properties and expanding eligibility to borrowers with a wider range of debt-to-income situations. The Administration will continue to closely monitor the impact of these policy changes.

Treasury also offers other forms of incentives to encourage mortgage loan modifications and prevent foreclosures under the HAMP, as part of its MHA program. For example, Treasury provides payments to servicers and investors to protect against declining home prices for loans modified through HAMP as part of encouraging mortgage modifications in communities that experienced continued home price depreciation. As of March 31, 2012, there were 109,031 loan modifications under the Home Price Depreciation Program (HPDP). When a mortgage modification is not possible, Treasury contracts with servicers to provide incentives that encourage borrower short sales (sales for less than the value of the mortgage in satisfaction of the mortgage) or deeds-in-lieu (when the homeowner voluntarily transfers ownership of the property to the servicer in full satisfaction of the total amount due on the mortgage) via the Home Affordable Foreclosure Alternatives Program (HAFA), in order to provide a means for borrowers to avoid foreclosure. Since the inception of the program, nearly 51,000 HAFA agreements have been initiated as of May 31, 2012.

As part of its ongoing effort to continuously refine the targeting of mortgage assistance to address the sector's greatest needs, the Administration created several programs that will give a greater number of responsible borrowers an opportunity to remain in their homes and reduce costly foreclosures. Major programs announced since December 31, 2009, include:

Home Affordable Unemployment Program (part of HAMP): Unemployed borrowers that meet eligibility criteria will receive temporary mortgage payment assistance while they look for a new job. In an effort to keep more unemployed borrowers in their homes and allow them an opportunity to find new employment, Treasury extended the minimum period for which unemployed borrowers receive temporary payment assistance from 3 months to 12 months in July 2011. In response to the Administration's efforts, 12-month forbearance is becoming an industry standard, with Fannie Mae and Freddie Mac now applying it to mortgages they own and Wells Fargo and Bank of America now offering it as their default approach for unemployed borrowers.

Principal Reduction Alternative (PRA, part of HAMP): Servicers who have signed up for this program are required to consider an alternative mortgage modification that emphasizes principal relief for borrowers who owe more than their home is worth. Under the alternative approach, if the servicer reduces borrower loan principal using this program, investors will receive incentive payments based on a percentage of each dollar of loan principal written off. Beginning on March 1, 2012, incentive payments to investors for loans modified through HAMP that incorporate PRA principal reduction tripled to $0.18 and $0.63 per dollar of principal reduction. Borrowers and investors will receive principal reduction and the incentives, respectively, through a pay-for-success structure. There have been nearly 86,000 PRA trial modifications initiated as of May 31, 2012, with the median principal amount reduced for active permanent modifications of nearly $63,000, representing a median reduction of over 31 percent from the original loan.

HFA Hardest-Hit Fund (HHF): The $7.6 billion HHF provides the eligible entities of Housing Finance Agencies from 18 states and the District of Columbia with funding to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The Administration targeted areas hardest hit by unemployment and home price declines through the program. Approximately 70 percent of the HHF funds are dedicated to programs that help unemployed borrowers stay in their homes, while the remaining 30 percent of HHF funds facilitate principal write-downs for borrowers who owe more than their home is worth. The flexibility of the HHF funds has allowed States to design and tailor innovative programs to meet the unique needs of their community. For example, California will use some of its HHF resources in conjunction with a loan modification or loan recast that can reduce an underwater homeowner's payment to affordable levels. The loan recast process in particular can be a streamlined way to improve affordability while addressing negative equity. The state is coordinating with servicers, FHFA and the GSEs to ensure these funds can reach as many eligible borrowers in California as possible and officials plan to begin approving borrowers for assistance in September 2012. While initial implementation of HHF has required more time than anticipated, the Administration continues to work pro-actively with States to strengthen the impact of HHF.

FHA Refinance Program: This program, which is administered by the Federal Housing Administration and supported by TARP, was initiated in September 2010 and allows eligible borrowers who are current on their mortgage but owe more than their home is worth, to re-finance into an FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan. Nearly $3.0 billion in TARP funds allocated under the MHA are available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens under the MHA, and an additional $8.1 billion is committed to cover a share of any losses on the loans and administrative expenses. In January 2012, the Administration extended the FHA Refinance Program until December 31, 2014.

TARP Program Costs in the Mid-Session Review

This section provides the special analysis required under Section 202 of EESA, including estimates of the cost to taxpayers and the budgetary effects of TARP transactions as reflected in Mid-Session Review of the 2013 Budget (MSR).[13] The analysis includes an alternate estimate of what the budgetary effects would have been had all transactions been reflected on a cash basis, and also shows the estimated present value cost for transactions using the standard methodology required under the Federal Credit Reform Act (FCRA), using Treasury rates to discount the expected cash flows associated with TARP investments without the adjustment to the discount rate for market risks that is required by EESA. It

[13] The analysis does not assume the effects on net TARP costs of a cost-recoupment proposal authorized under Section 134 of EESA and included in the 2013 Budget.

also includes a comparison of the cost estimates with previous estimates provided by OMB and the Congressional Budget Office (CBO).

This section does not provide a detailed discussion of the TARP cost estimate reflected in the May 31st Valuation, as presented in Table 1 earlier in this report. Federal credit program reestimates of costs to reflect changes for actual activity, market conditions, and future projections are performed annually and typically included in the Budget. Therefore, while the May 31st Valuation incorporates recent market information such as updated values of AIG stock holdings, the MSR cost estimate does not. Rather such updates will be reflected in the 2014 Budget, consistent with FCRA practices. MSR updates typically reflect loan cancellations and modification transactions resulting from a government action that was not assumed in the Budget, and the TARP MSR estimate reflects a modification in the CPP program based on a revised asset sale strategy implemented last spring. Revised subsidy costs for the TARP programs using actual performance and updated market information will be included in the 2014 Budget.[14]

Table 2, below, summarizes the current and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the MSR, compared to estimates from the 2013 Budget. The direct impact of TARP program costs on the deficit in the MSR is projected to be $68.0 billion, $200 million above the $67.8 billion cost projected in the 2013 Budget. The subsidy cost represents the estimated lifetime net present value cost of TARP obligations from the date the obligations originated, and excludes the effect of interest on any subsidy reestimates. Using the required risk-adjustment to the discount rate required under EESA, the subsidy cost for TARP is now estimated in MSR to be $78.6 billion (Table 2).[15] The eventual subsidy cost of TARP is likely to be lower than the current subsidy cost because of the risk adjustment to the discount rate, which adds a premium to current estimates of TARP costs. Because over time the annual substitution of actual for projected cash flows with the public already reflect the effects of market risks, if actual cash flows match projections, the risk premium added to TARP costs is essentially returned via downward subsidy reestimates over time. The actual cost of TARP will not be fully known until all its investments are extinguished.

Table 2. Change in Programmatic Costs of Troubled Asset Relief Actions (Excluding Debt Service)
(In billions of dollars)

TARP Actions	2013 Budget		2013 MSR		Change from 2013 Budget to 2013 MSR	
	TARP Obligations [1]	Estimated Cost (+) / Savings (-)	TARP Obligations [1]	Estimated Cost (+) / Savings (-)	TARP Obligations [1]	Estimated Cost (+) / Savings (-)
Equity Purchases	337.1	17.2	337.1	17.5	-0.0	0.4
Structured & direct loans and asset-backed security purchases	83.0	19.1	82.4	19.1	0.6	0.0
Guarantees of troubled asset purchases [2]	5.0	-3.6	5.0	-3.6	---	0.0
TARP Housing Programs [3]	45.6	45.6	45.6	45.6	0.0	0.0
Total programmatic costs [4]	**470.7**	**78.2**	**470.1**	**78.6**	**0.6**	**0.4**
Memorandum:						
Deficit impact before administrative costs and interest effects		***67.8***		***68.0***		***0.2***

[1] TARP obligations are net of cancellations.
[2] The total assets supported by the Asset Guarantee Program were $301 billion.
[3] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.
[4] Total programmatic costs of the TARP exclude Interest on reestimates.

[14] The transaction data in the MSR and in this section of the report are as of May 31, 2012. Subsidy costs for these programs reflecting actual performance and updated market information will be updated in the 2014 Budget.
[15] With the exception of the Making Home Affordable and HFA Hardest-Hit Fund programs, all the other TARP investments are reflected on a present value basis pursuant to the Federal Credit Reform Act.

Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt, Based on the EESA Methodology

The estimates of the deficit and debt in the Budget and the MSR reflect the impact of TARP as estimated pursuant to FCRA and Section 123 of EESA, and are presented in detail in Table 3. The deficit estimates include the budgetary costs for each program under TARP, administrative expenses, certain indirect interest effects of credit programs, and the debt service cost to finance the program. Direct activity under TARP is expected to increase the 2012 deficit by $35.4 billion, which is largely attributable to net upward reestimates of program costs totaling $20.3 billion (including interest on reestimates) and outlays for TARP housing programs estimated to be $13.6 billion. The estimates of U.S. Treasury debt attributable to TARP include borrowing to finance both the deficit impact of TARP activity and the requirements of non-budgetary financing accounts. Estimated debt due to TARP at the end of 2012 is $98.4 billion, and while debt increases over time due to debt service (even as TARP loans are repaid and TARP equity purchases are sold or redeemed), this figure declines as a percentage of GDP in later years.

Debt held by the public net of financial assets due to TARP reflects the cumulative amount of money the Federal Government has borrowed from the public for the program and not repaid, minus the current value of financial assets acquired with the proceeds of this debt, such as loan assets, or equity held by the Government. While debt held by the public is one useful measure for examining the impact of TARP, it provides incomplete information on the program's effect on the Government's financial condition. Debt held by the public net of financial assets provides a more complete picture of the U.S. Government's financial position because it reflects the net change in the government's balance sheet due to the program. Accounting for the financial assets acquired through TARP, the impact of the program on debt net of financial assets is projected to be $35.3 billion as of the end of 2012. This is the same as the projected 2012 debt held net of financial assets reflected in the 2013 Budget.

Under the FCRA, the financing account earns and pays interest on its Treasury borrowings at the same rate used to discount cash flows for the credit subsidy cost. Section 123 of EESA requires an adjustment to the discount rate used to value TARP subsidy costs, to account for 'market risks.' However, actual cash flows as of September 30, 2011, already reflect the effect of any market risks to that point, and these prior-year credit transactions with the financing accounts reflect the actual Treasury interest rates present in these years, with no additional risk adjustment.[16] Future cash flows reflect a risk-adjusted discount rate, consistent with the EESA requirement. For on-going TARP credit programs, the risk-adjusted discount rates on future cash flows result in subsidy costs that are higher than subsidy costs estimated under FCRA.

[16] As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks have already been realized in the actual cash flows. Therefore, the final subsidy cost for TARP transactions will equal the cost per FCRA, where the net present value reflects discounting with Treasury rates.

Table 3. Troubled Asset Relief Program Effects on the Deficit and Debt [1]
(Dollars in billions)

	Actual			Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Deficit Effect:														
Programmatic and administrative expenses:														
Programmatic expenses:														
Equity purchases	115.3	8.4	19.1	1.2	*	---	---	---	---	---	---	---	---	---
Direct loans and purchases of asset-backed securities	36.9	-0.9	-0.3	-0.3	-*	---	---	---	---	---	---	---	---	---
Guarantees of troubled asset purchases	-1.0	-1.4	---	—	---	---	---	---	---	---	---	---	---	---
TARP housing programs	*	0.5	1.9	13.6	12.1	8.1	5.4	2.4	1.2	0.2	*	*	---	---
Reestimates of credit subsidy costs	---	-116.5	-58.5	20.3	---	---	---	---	---	---	---	---	---	---
Subtotal, programmatic expenses	151.2	-109.9	-37.7	34.9	12.1	8.1	5.4	2.4	1.2	0.2	*	*	---	---
Administrative expenses	0.1	0.2	0.4	0.5	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*	*
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, programmatic & administrative expenses	151.3	-109.6	-37.3	35.4	12.5	8.4	5.6	2.6	1.4	0.4	0.1	0.1	0.1	0.1
Interest effects:														
Interest transactions with credit financing accounts [2]	-2.8	-4.7	-3.0	-6.5	-4.5	-3.7	-2.2	-1.6	-1.5	-1.2	-0.9	-0.5	-0.3	-0.3
Debt service [3]	2.8	4.7	3.0	6.4	4.5	4.2	3.7	4.2	4.4	4.4	4.3	4.0	4.0	4.1
Subtotal, interest effects	*	-*	-*	-0.1	*	0.5	1.5	2.4	2.9	3.2	3.4	3.5	3.7	3.8
Total deficit impact	151.3	-109.6	-37.3	35.3	12.6	8.9	7.1	5.0	4.2	3.6	3.5	3.6	3.8	3.9
Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:														
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	-28.5	-2.0	-39.3	-18.7	-5.4	-2.6	-0.1	-1.6	-0.3	-0.3	-5.0	0.2	0.2
Troubled Asset Relief Program Direct Loan Financing Account	23.9	18.8	-14.2	-3.3	-5.3	-8.5	-2.0	-1.8	-3.8	-0.7	-0.7	-2.2	—	---
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.8	-1.6	*	-0.3	-0.2	-0.1	-*	-*	-*	-*	-*	-*	-*
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	---	---	-*	-2.8	-2.4	-1.7	0.5	1.5	1.5	1.3	1.1	0.9	—	---
Total, other transactions affecting borrowing from the public	129.9	-7.9	-17.8	-45.3	-26.7	-15.8	-4.1	-0.4	-4.0	0.2	0.1	-6.3	0.2	0.2
Change in debt held by the public	281.2	-117.6	-55.1	-10.0	-14.2	-6.9	3.0	4.6	0.3	3.8	3.6	-2.7	4.0	4.1
Debt held by the public	281.2	163.6	108.4	98.4	84.2	77.4	80.4	84.9	85.2	89.0	92.6	89.9	93.9	98.0
As a percent of GDP	2.0%	1.1%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Debt held by the public net of financial assets:														
Debt held by the public	281.2	163.6	108.4	98.4	84.2	77.4	80.4	84.9	85.2	89.0	92.6	89.9	93.9	98.0
Less financial assets net of liabilities — credit financing account balances:														
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	35.6	16.9	11.4	8.9	8.8	7.2	6.8	6.5	1.5	1.7	1.9
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	25.2	19.9	11.4	9.5	7.7	3.8	3.1	2.4	0.2	0.2	0.2
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	---	—	-*	-2.8	-5.1	-6.8	-6.3	-4.8	-3.3	-2.0	-0.9	---	---	---
Total, financial assets net of liabilities	129.9	122.0	104.1	58.9	32.2	16.4	12.3	11.9	7.9	8.1	8.2	1.9	2.1	2.2
Debt held by the public net of financial assets	151.3	41.6	4.3	39.6	52.1	61.0	68.1	73.1	77.3	80.9	84.4	88.0	91.8	95.7
As a percent of GDP	1.1%	0.3%	0.0%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%

* $50 million or less.
[1] Table reflects the deficit effects of the TARP program, including administrative costs and interest effects.
[2] Projected Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates. Actual credit financing account interest transactions reflect the appropriate Treasury rates under the FCRA.
[3] Includes estimated debt service effects of all TARP transactions that affect borrowing from the public.

Portion of the Deficit Attributable to TARP, and the Extent to Which the Deficit Impact is Due to a Reestimate

Table 3 shows the portion of the deficit attributable to TARP transactions. The largest changes in the overall TARP effects on the deficit between 2012 and 2022 are the result of reestimates of TARP activity outstanding as of September 30, 2011. The largest changes since the 2013 Budget are as follows:

- TARP reestimates and interest on reestimates will increase the deficit by $20.3 billion in 2012. This is $800 million less than reestimates reflected in the 2013 Budget.
- The cost of TARP equity investments in 2012 is $1 billion higher than anticipated in the 2013 Budget, reflecting costs associated with the sale of CPP assets.
- The full impact of TARP on the deficit includes the estimated cost of Treasury borrowing from the public—debt service—for the outlays listed above. Debt service is estimated at $6.4 billion for 2012 (as shown in Table 3), and then is expected to decrease between 2013 and 2022. Total debt service estimates are lower than estimated in the 2013 budget due to investment cancellations in AIFP and AIG, and faster than anticipated repayments in the AIFP program.

Estimates on a Cash Basis

The value to the Federal Government of the assets acquired through TARP is the same whether the costs of acquiring the assets are recorded in the budget on a cash basis, or a credit basis. As noted above, the budget records the cost of equity purchases, direct loans, and guarantees as the estimated net present value cost to the Government, discounted at the rate required under the FCRA and adjusted for market risks as required under Section 123 of EESA. Therefore, the net present value cost of the assets is reflected on-budget, and the gross value of these assets is reflected in the financing accounts.[17] If these purchases were instead presented in the budget on a cash basis as shown in Table 4, the budget would reflect outlays for each disbursement (whether a purchase, a loan disbursement, or a default claim payment), and offsetting collections as cash is received from the public, with no obvious indication of whether the outflows and inflows leave the Government in a better or worse financial position, or what the net value of the transaction is.

Table 4. Troubled Asset Relief Program Effects on the Deficit and Debt Calculated on a Cash Basis [1]
(Dollars in billions)

	Actual			Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Deficit Effect:														
Programmatic and administrative expenses:														
Programmatic expenses:														
Equity purchases	217.6	-121.9	-36.8	-27.8	-21.9	-9.1	-4.2	-1.2	-2.6	-1.1	-0.9	-5.2	-0.1	-0.1
Direct loans and purchases of asset-backed securities	61.1	-1.0	-21.3	-*	-6.6	-8.3	-2.3	-2.0	-3.9	-0.8	-0.7	-2.2	---	---
Guarantees of troubled asset purchases	-0.5	-0.3	-2.3	*	-0.3	-0.2	-0.1	-0.1	-*	-*	-*	-*	-*	-*
TARP housing programs	*	0.5	1.9	10.9	9.8	6.3	5.6	3.4	2.3	1.2	0.8	0.6	---	---
Subtotal, programmatic expenses	278.3	-122.6	-58.5	-16.9	-19.0	-11.3	-1.0	0.2	-4.3	-0.7	-0.8	-6.8	-0.1	-0.1
Administrative expenses	0.1	0.2	0.4	0.5	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*	*
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, programmatic & administrative expenses	278.4	-122.3	-58.1	-16.4	-18.7	-11.1	-0.7	0.4	-4.1	-0.6	-0.7	-6.7	-*	*
Debt service [2]	2.8	4.7	3.0	6.4	4.5	4.2	3.7	4.2	4.4	4.4	4.3	4.0	4.0	4.1
Total deficit impact	281.2	-117.6	-55.1	-10.0	-14.2	-6.9	3.0	4.6	0.3	3.8	3.6	-2.7	4.0	4.1
Change in debt held by the public	281.2	-117.6	-55.1	-10.0	-14.2	-6.9	3.0	4.6	0.3	3.9	3.6	-2.7	4.0	4.1
Debt held by the public	281.2	163.6	108.4	98.4	84.2	77.4	80.4	84.9	85.2	89.0	92.6	89.9	93.8	98.0
As a percent of GDP	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Debt Held by the Public Net of Financial Assets:														
Debt held by the public	281.2	163.6	108.4	98.4	84.2	77.4	80.4	84.9	85.2	89.0	92.6	89.9	93.9	98.0
Less financial assets net of liabilities — credit financing account balances:														
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	35.6	16.9	11.4	8.9	8.8	7.2	6.8	6.5	1.5	1.7	1.9
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	25.2	19.9	11.4	9.5	7.7	3.8	3.1	2.4	0.2	0.2	0.2
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
FHA Refinance Letter of Credit Financing Account	---	---	-*	-2.8	-5.1	-6.8	-6.3	-4.8	-3.3	-2.0	-0.9	---	---	---
Total, financial assets net of liabilities	129.9	122.0	104.1	58.9	32.2	16.4	12.3	11.9	7.9	8.1	8.2	1.9	2.1	2.2
Debt held by the public net of financial assets	151.3	41.6	4.3	39.6	52.1	61.0	68.1	73.1	77.3	80.9	84.4	88.0	91.8	95.7
As a percent of GDP	1.1%	0.3%	0.0%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%

* $50 million or less
[1] Table reflects deficit effect of budgetary costs, substituting estimates calculated on a cash basis for estimates calculated under FCRA and Sec. 123 of EESA.
[2] Includes estimated debt service effects of all TARP transactions affecting borrowing from the public.

Revised Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt Based on the Cash-basis Valuation

Table 4 also shows estimates of the debt and deficit due to TARP if transactions were calculated on a cash basis. If TARP transactions were reported on a cash basis, the annual budgetary effect would include the full amount of government disbursements for activities such as equity purchases and direct loans, offset by cash inflows from dividend payments, redemptions, and loan repayments occurring in each year. For loan guarantees, the deficit would show fees, claim payouts, or other cash transactions associated with the guarantee as they occurred. Updates to estimates of future performance would impact the deficit in the year that they occur, and there would not be credit reestimates.

Table 4 shows that if TARP transactions were reported on a cash basis, TARP would reduce the deficit in 2012 by an estimated $10.0 billion, so the 2012 deficit would be $45.3 billion lower if TARP were reflected on a cash basis than the estimate in the MSR. The deficit would be lower because repayments and proceeds of sales that are now included in non-budgetary financing accounts for TARP would be reflected as offsetting receipts when they occur. Under FCRA, the marginal change in present value attributable to more favorable projections of future inflows from the public is recognized up front in a downward reestimate, in contrast with a cash-based treatment that would show the marginal changes in cash flows in the years they are expected to occur. However, the impact of TARP on the Federal debt,

[17] For the Making Home Affordable programs and the Hardest Hit Fund, Treasury's purchase of financial instruments does not result in the acquisition of an asset with potential for future returns, and therefore are recorded on a cash basis.

and on debt held net of financial assets, is the same on a cash basis as under FCRA with adjustments to the discount rate for market risks.

Table 5. Detailed TARP Program Levels and Costs - 2013 Budget vs. 2013 MSR
(In billions of dollars)

Program	2013 Budget		2013 MSR	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Program	204.9	-6.7	204.9	-6.3
AIG Investments	67.8	24.0	67.8	24.0
Targeted Investment Program	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP)	16.3	5.5	16.3	5.5
Public-Private Investment Program - Equity	7.5	-2.2	7.5	-2.2
Community Development Capital Initiative	0.6	0.2	0.6	0.2
Subtotal equity purchases	337.1	17.2	337.1	17.5
Direct Loan Programs				
Automotive Industry Financing Program (AIFP)	63.4	19.3	63.4	19.3
Term Asset-Backed Securities Loan Facility (TALF)	4.3	-0.4	4.3	-0.4
Public-Private Investment Program - Debt [1]	14.9	0.2	14.4	0.2
Small Business 7(a) Program	0.4	-*	0.4	-*
Subtotal direct loan programs	83.0	19.1	82.4	19.1
Guarantee Programs under Section 102				
Asset Guarantee Program [2]	5.0	-3.6	5.0	-3.6
Subtotal asset guarantees	5.0	-3.6	5.0	-3.6
TARP Housing Programs				
Making Home Affordable (MHA) Programs	29.9	29.9	29.9	29.9
Hardest Hit Fund	7.6	7.6	7.6	7.6
Subtotal non-credit programs	37.5	37.5	37.5	37.5
FHA Refinance Letter of Credit [3]	8.1	8.1	8.1	8.1
Subtotal TARP housing programs	45.6	45.6	45.6	45.6
Totals	**470.7**	**78.2**	**470.1**	**78.6**
Memorandum:				
Interest on reestimates [4]		-10.4		-10.6
Deficit impact before administrative costs and interest effects		***67.8***		***68.0***

* $50 million or less

[1] The reduction in PPIP debt obligations between the 2013 Budget and 2013 MSR reflects the cancellation of an outstanding obligation for Invesco on September 27, 2011.

[2] The total assets supported by the Asset Guarantee Program were $301 billion.

[3] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

[4] Total programmatic costs of the TARP exclude interest on reestimates of $10.4 billion in "2013 Budget" and $10.6 billion in "2013 MSR." Interest on reestimates is an interest adjustment that accounts for the difference between the original subsidy rate and current estimates; such amounts impact the deficit but are not direct programmatic costs.

Differences Between Current and Previous OMB Estimates

As shown in Table 5, the MSR reflects a total TARP deficit impact of $68.0 billion, an increase of $200 million from the 2013 Budget projection of $67.8 billion. This increase stems from the implementation of Treasury's disposition strategy for CPP. Based on transactions since the 2013 Budget, the expected sale of certain CPP assets requires a liquidity discount that reduces the projected lifetime positive return associated with this program relative to the 2013 Budget. In addition, the Budget's $67.8 billion deficit impact estimate can be compared with the May 31st Valuation of $63.5 billion in Table 1, which reflects the expected cost of TARP when incorporating updated market values and the CPP disposition strategy, as well as recent market information.

The estimated TARP deficit impact differs from the TARP subsidy cost of $78.6 billion in MSR and $78.2 billion in the 2013 Budget because the deficit impact reflects a $10.6 billion cumulative downward adjustment for interest on subsidy cost reestimates (for 2011 and 2012 reestimates). These adjustments account for the time between when the subsidy cost was originally estimated and the time when the reestimate is booked. The subsidy rates and the cumulative downward adjustment for interest on reestimates will be updated in the 2014 Budget to reflect actual performance and updated market information.

Table 6. Comparison of OMB and CBO TARP Costs
(In billions of dollars)

Program	Risk-Adjusted Subsidy Costs	
	CBO Subsidy Cost [1]	OMB Subsidy Cost 2013 MSR [2]
Capital Purchase Program	-17	-6
Targeted Investment Program	-8	-4
AIG Assistance	22	24
Automotive Industry Financing Program	19	25
Term Asset-Backed Securities Loan Facility	*	- *
Other Programs [3]	*	-5
TARP Housing Programs	16	46
Total	**32**	**79**

* Amounts round to less than $1 billion.
[1] CBO estimates from March 2012, available online at
http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-28-2012TARP.pdf
[2] Lifetime subsidy costs as reflected in the 2013 MSR estimates, excluding interest on reestimates.
[3] "Other Programs" reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, AGP, and small business programs.

Differences Between OMB and CBO Estimates

Table 6 compares the subsidy cost for TARP reflected in MSR against the costs estimated by the Congressional Budget Office in its "Report on the Troubled Asset Relief Program – March 2012." [18]

CBO estimates the total cost of TARP at $32 billion, based on estimated lifetime TARP obligations of $431 billion. MSR estimates total subsidy costs of $79 billion, based on lifetime obligations of roughly $471 billion. Differences in OMB and CBO's estimated cost of the TARP Housing programs stem from divergent demand and participation rate assumptions. The CBO projects $16 billion in total TARP Housing expenditures, while MSR reflects a $46 billion estimate. CBO and OMB cost estimates for the Capital Purchase Program are $11 billion apart because of different assumptions for the value of the investments in remaining institutions in the program. Cost estimates for AIFP and support for AIG are highly sensitive to common stock valuations for GM and AIG. The CBO and OMB estimates for AIFP and

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[18] United States. Congressional Budget Office. Report on the Troubled Asset Relief Program – March 2012. Washington: CBO, 2012. http://www.cbo.gov/publication/43138.

AIG are $6 billion and $2 billion apart, respectively, due to different timing of the market data used to calculate these estimates. The assumptions for the future performance of equity investments in these programs may also differ.

Table 7. Comparison of EESA and FCRA TARP Subsidy Costs Using May 31st Budget Valuations
(In billions of dollars)

Program	TARP Obligations	Subsidy Cost	
		EESA	FCRA
Capital Purchase Program	204.9	-7.4	-7.5
Targeted Investment Program	40.0	-3.6	-3.6
Asset Guarantee Program [1]	5.0	-3.7	-3.7
Community Development Capital Initiative	0.6	0.1	0.1
Term Asset-Backed Securities Loan Facility	4.3	-0.4	-0.5
Small Business 7(a) Program	0.4	-*	-*
Public Private Investment Program [2]	21.9	-2.6	-4.2
AIG Investments	67.8	21.9	21.9
Automotive Industry Financing Program [2]	79.7	25.4	25.4
Subtotal TARP equity and direct loans	424.5	29.8	28.0
TARP Housing Programs			
Making Home Affordable Programs [3]	29.9	29.9	29.9
Hardest Hit Fund [3]	7.6	7.6	7.6
Subtotal Non-Credit Programs	37.5	37.5	37.5
FHA Refinance Letter of Credit [4]	8.1	8.1	3.8
Subtotal TARP Housing	45.6	45.6	41.3
Total [5]	**470.1**	**75.4**	**69.3**

* $50 million or less

[1] The total assets supported by the Asset Guarantee Program were $301 billion.

[2] Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.

[3] TARP Making Home Affordable Programs and Hardest Hit Fund involve financial instruments without any provision for income or other returns, and are recorded on a cash basis. The table reflects 100 percent subsidy cost for these programs.

[4] TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.

[5] Total subsidy costs do not include interest effects or administrative costs. Costs at EESA and FCRA discount rates are the same for common stock costed programs and for programs that are closed or awaiting a closing reestimate.

Differences Between EESA and FCRA Cost Estimates

EESA directs that for asset purchases and guarantees under TARP, the cost shall be determined pursuant to the Federal Credit Reform Act of 1990 (FCRA), except that the discount rate shall be adjusted for market risks. EESA's directive to adjust the FCRA discount rate for market risks effectively assumes higher losses on these transactions than those estimated under FCRA guidelines, which require that Treasury rates be used to discount expected cash flows. In implementing this requirement of EESA, the market risk adjustment is intended to capture the cost of the extra return on investment that a private investor would seek in compensation for uncertainty surrounding risks of default and other losses reflected in the cash flows.[19] As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks have already been realized in the actual cash flows. Therefore, the final subsidy cost

[19] For example, if there were a 100 percent default expectation on a loan, and losses given default were projected at 100 percent, the market risk adjustment to the discount rate would be zero. This reflects the fact that there are no unexpected losses if losses are expected to be 100 percent of the face value of the loan.

for TARP transactions will equal the cost per FCRA, where the net present value costs are estimated by discounting cash flows using Treasury rates.

Table 7 compares the subsidy costs and subsidy rates of TARP programs discounted at the Treasury rate adjusted for market risk (EESA), and discounted at the unadjusted Treasury rate (FCRA) using May 31st subsidy cost valuations (not MSR). The largest differences between these two reflect the most uncertainty regarding the probability of losses. For example, there is greater uncertainty regarding the value of Treasury's mortgage-backed security investments in PPIP than there is compared to the valuation of Treasury's investments in CPP and TALF, and so the difference between the market-risk adjusted cost versus the non-adjusted cost (as a percent change in dollar costs) is greater for PPIP than for CPP and TALF. Removing the market risk adjustment from the discount rate for Treasury's investment in PPIP decreases its subsidy cost by 61 percent ($1.6 billion), whereas it decreases the CPP and TALF programs by less than 1 percent. There is a relatively small difference in the FCRA and market risk cost of AGP because there is only a negligible market risk adjustment for the outstanding $800 million in additional Citigroup trust preferred securities that the Treasury is entitled to receive from the FDIC. For the TIP there is no difference because the TIP program has been fully repaid and its final value is known. Treasury holdings within the AIG and AIFP programs include significant amounts of common stock, the value of which is based on the closing May 31, 2012 share price. The share price of common stock is inherently adjusted for market risk and, therefore, there is no additional market risk adjustment necessary for the EESA directive. As a result, there is no difference in the cost of AIG and AIFP between values calculated using the Treasury and risk adjusted rate. The FHA refinance program cost estimate is 53 percent (or $4.3 billion) lower under FCRA than under EESA due to a relatively large estimated risk premium associated with risk of mortgage defaults (and TARP losses). The non-credit TARP Housing programs are reflected on a cash basis and, therefore, costs are not discounted, which is why there is no difference in the subsidy cost estimate. Using May 31, 2012 valuations, TARP investments discounted at a risk adjusted rate will cost an estimated $75.4 billion, which suggests a net subsidy rate of 16 percent. TARP investments discounted under FCRA will cost an estimated $69.3 billion, or a net subsidy rate of 15 percent.