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

THE DIRECTOR

November 8, 2011

MEMORANDUM FOR THE PRESIDENT

FROM: Jacob J. Lew
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 June 30, 2011, 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

THE DIRECTOR

November 8, 2011

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 June 30, 2011, 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 2012 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,

Jacob J. Lew
Director

Enclosure

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

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

THE DIRECTOR

November 8, 2011

The Honorable Joseph R. Biden, Jr.
President of the 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 June 30, 2011, 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 2012 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,

Jacob J. Lew
Director

Enclosure

Identical Letter Sent to The Honorable John Boehner

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.

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 2012* (the Budget).[2] Consistent with the requirement to analyze transactions occurring no less than thirty days before publication, this report analyzes transactions through June 30, 2011. For information on TARP program developments after June 30, 2011, 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 our 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 the economic recovery has been slower than hoped, 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

Although challenges in the economy remain, 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) has helped strengthen the financial position of the Nation's banking institutions. Net income of insured financial institutions for the quarter ending June 30, 2011, was $29.0 billion, which marked eight consecutive quarters of year-over-year net income gains.[3] This growth in earnings has largely been fueled by financial institutions reducing the loan loss provisions on their balance sheets based on improved forecasts of their asset quality. Total provisions for loan losses for all insured depository institutions was reduced by half to $19 billion as of June 30, 2011, on a

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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 2012 Budget: *"Financial Stabilization Efforts and their Budgetary Effects."* http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/econ_analyses.pdf

[3] Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, June 2011. http://www2.fdic.gov/qbp/2011jun/qbpall.html

year-over-year basis.[4] This reduction in loan loss reserves points to improving credit and market conditions.

The gradual 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. While secondary credit markets continue to recover, the Term Asset-Backed Securities Loan Facility (TALF) and the Public Private Investment Program (PPIP) have helped keep the secondary credit markets functioning and have also facilitated some new securities issuances. According to the Federal Reserve Bank of New York, issuance of non-mortgage asset-backed securities increased to $35 billion in the first three months of TALF lending in 2009, after having slowed to less than $1 billion per month in late 2008. Moreover, since the announcement of PPIP in March 2009, prices for representative legacy securities (eligible commercial and mortgage backed securities issued prior to January 1, 2009) have increased by as much as 75 percent for both residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).[5] Furthermore, new CMBS and RMBS transactions have been brought to market, collectively representing over $27.5 billion in new non-agency RMBS and CMBS issuance as of June 30, 2011 (Note: all but $533 million of this new non-agency issuance is CMBS).[6] These programs have 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 131 basis points over Treasuries as of June 30, 2011.[7] However, additional progress is needed to fully revive the banking sector and the credit markets in order to increase businesses' access to credit at reasonable rates and enable our economy to meet 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 than originally estimated, and far sooner, while reinvigorating one of America's critical industries. New Chrysler has posted six consecutive quarters of operating profit and has announced more than $3 billion in investments in plants and technology since emerging from bankruptcy in 2009. The story has been similar for New GM — and the industry as a whole, which has been supported by AIFP and other Federal programs such as the Advanced Technology Vehicles Manufacturing Loan program administered by the Department of Energy. For the first time since 2004, Ford, Chrysler, and GM all achieved positive quarterly net profits in the first quarter of 2011.[8] In addition, the Big Three automakers increased their market share in 2010 for the first time since 1995.[9] These car companies are leading a resurgence in American manufacturing that translates to the creation of more American jobs.

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[4] Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, June 2011. http://www2.fdic.gov/qbp/2011jun/qbpall.html
[5] Department of the Treasury, Secretary Timothy F. Geithner's Written Testimony before the Congressional Oversight Panel.
[6] Department of the Treasury, Office of Financial Stability Investment Office, 30 June 2011 data.
[7] 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.
[8] Department of the Treasury, Secretary Timothy F. Geithner's Written Testimony before the Congressional Oversight Panel, http://www.treasury.gov/press-center/press-releases/Pages/tg1008.aspx.
[9] White House Report, *The Resurgence of the American Automotive Industry*, June 2011.

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 June 30, 2011, over 760,000 borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to approximately $7.3 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 set the industry standard for the affordability target – 31 percent debt-to-income ratio – used in private sector modifications. Between April 2009 and June 30, 2011, HAMP and the private sector HOPE Now alliance initiated more than 4 million mortgage modifications, which is nearly double the number of foreclosures completions that were executed in the same period. Treasury has also responded to the evolving housing crisis by implementing programs that provide mortgage relief to unemployed homeowners and those with negative home equity.

Deficit Impact

Nearly 3 years after the first TARP dollars were disbursed, the TARP has not only helped to stabilize our financial markets and set the foundation for economic recovery, but it has done so at a much lower cost than originally estimated. As of June 30, 2011, total repayments and income on TARP investments were approximately $308 billion, which is 75 percent of the $412 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 June 30, 2011, is now estimated at $53 billion (see Table 1 below).

Compared to the 2012 Budget estimate of $48 billion, the estimated deficit impact of TARP increased by $5 billion. This increase was largely attributable to the lower valuation of the AIG common stock held by Treasury, as the company's share price fell by $6.52 (or 18 percent) relative to the share price used to formulate the Budget projection.[10] AIG losses were partly offset by a higher valuation for the Public-Private Investment Program (PPIP), as the value of commercial and mortgage-back securities held in the portfolios of Public-Private Investment Funds improved.

The Mid-Session Review of the 2012 Budget (MSR) data presented in this report reflect actual debt and deficit transactions as of June 30, 2011, but by convention MSR does not update estimated subsidy rates or market valuations, such as for AIG stock in TARP's case. Using MSR data and subsidy cost estimates from the 2012 Budget, TARP's lifetime deficit impact is estimated at $47 billion, as shown in Table 2. Revised subsidy costs for the TARP programs using actual performance and updated market information will be included in the 2013 Budget.

[10] The 2012 Budget valuation for Treasury's AIG common stock used a share price of $35.84. This price reflected a downward adjustment to the November 30, 2011 share of $41.20 to account for the value of 75 million warrants that AIG issued to existing shareholders as part of the recapitalization that closed in January 2011.

Table 1. Detailed TARP Program Levels and Costs (In billions of dollars)				
Program	2012 Budget		June 30th Valuation	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Program	204.9	-5.9	204.9	-7.2
AIG Investments [1]	69.8	11.7	67.8	19.8
Targeted Investment Program	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP)	16.3	3.5	16.3	3.2
Public-Private Investment Program - Equity	7.5	-0.1	7.5	-1.9
Community Development Capital Initiative	0.6	0.3	0.6	0.2
Subtotal equity purchases	339.1	5.9	337.1	10.4
Direct Loan Programs				
Automotive Industry Financing Program (AIFP) [2]	65.5	16.8	63.4	16.5
Term Asset-Backed Securities Loan Facility (TALF)	4.3	-0.3	4.3	-0.3
Public-Private Investment Program - Debt	14.9	*	14.9	0.4
Small Business 7(a) Program	0.4	*	0.4	*
Subtotal direct loan programs	85.1	16.5	83.0	16.6
Guarantee Programs under Section 102				
Asset Guarantee Program	5.0	-3.7	5.0	-3.7
Non-Add Asset Guarantee Program Face Value	*301.0*		*301.0*	
Subtotal asset guarantees	5.0	-3.7	5.0	-3.7
TARP Housing Programs [3]				
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	8.1	8.1	8.1	8.1
Subtotal TARP housing programs	45.6	45.6	45.6	45.6
Total program costs	**474.8**	**64.4**	**470.7**	**69.0**
Memorandum:				
Interest on reestimates [4]		-16.2		-15.8
Deficit impact before administrative costs and interest effects		***48.3***		***53.2***

* $50 million or less

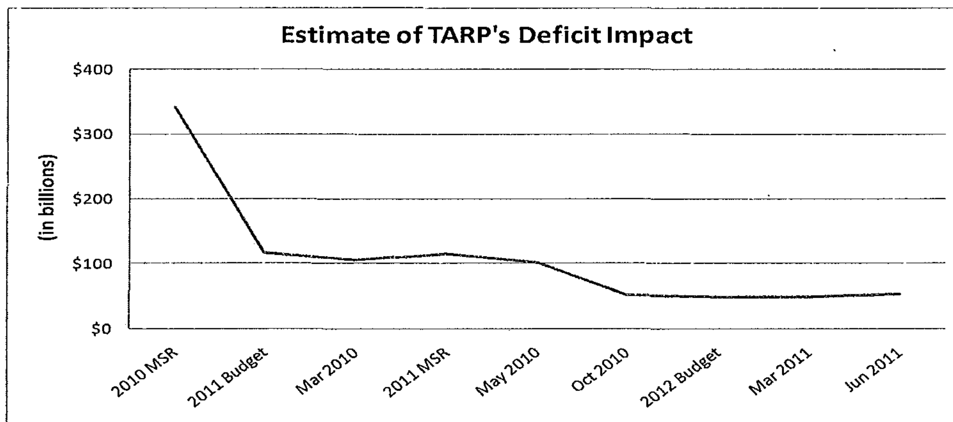
[1] June 30 Valuation reflects the cancelation of AIG's outstanding $2 billion credit facility with Treasury.

[2] June 30 Valuation reflects the Chrysler Group LLC termination of a remaining $2.1 billion TARP loan commitment.

[3] 2012 Budget and June 30 Valuation subsidy costs account for a reduction included in the Helping Families Save their Homes Act, as an offset for Special Inspector General for the Troubled Asset Relief Program (SIGTARP) administrative costs.

[4] Interest on reestimates is an adjustment for interest effects of changes in TARP subsidy costs from original subsidy estimates; such amounts are a component of the deficit impacts of TARP programs but are not a direct programmatic cost.

There has been a notable reduction in TARP's projected deficit impact from the $341 billion estimate published in the *Budget of the United States Government, Mid-Session Review Fiscal Year 2010* (see graph below). The $53 billion TARP deficit impact as of June 30, 2011 represents a $288 billion reduction from the Fiscal Year 2010 Mid-Session Review and a $303 billion reduction from 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 2012 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 June 30, 2011, Treasury had received approximately $181 billion in redemptions of preferred stock (i.e., principal repayments) and over $25 billion in revenues from dividends, interest, warrants, gains/other interest and fees. Total redemptions and income now exceed Treasury's initial investment.

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". Of the ten bank holding companies that were identified by the test as needing to raise more capital, nine subsequently 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 below) to help meet its capital needs. Due to the generally positive results of the stress tests, financial institutions' subsequent successful efforts to raise private capital, and effective support for the institutions through the TARP CPP program, 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, the Treasury through TARP had purchased $40 billion in preferred shares from AIG, which have subsequently been converted to common stock. In April 2009, Treasury also extended a $29.8 billion line

of credit, of which AIG had drawn $27.8 billion as of January 2011, in exchange for additional preferred stock. The remaining $2 billion obligation was subsequently canceled.

After consulting with the FRBNY, Treasury, and the AIG Credit Facility Trust, AIG executed a recapitalization plan in mid-January 2011 that has allowed for the acceleration of the Government's exit from AIG. As a result of the recapitalization and AIG's ensuing public offering, the Treasury now has a 77 percent ownership stake in AIG, which represents a 15 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Moreover, AIG has fully repaid the FRBNY. A summary of the deal terms and recent transactions is provided below:

- AIG fully repaid the remaining $20 billion line of credit held by the FRBNY (including accrued interest and fees) using $27.2 billion raised from the initial public offering of the AIA Group Limited (AIA) and the sale of its American Life Insurance Company (ALICO) to MetLife. The line of credit was subsequently canceled.
- AIG drew $20.3 billion from the remaining $22.3 billion TARP line of credit to buy-out the FRBNY's preferred interests in special purposes vehicles (SPV) holdings within AIA and ALICO. In exchange, Treasury received the preferred interests in the two SPV's, which are supported by interests in a number of AIG subsidiaries that are currently valued at well over $22.3 billion. In February 2011, AIG sold subsidiaries AIG Star Life and AIG Edison Life Insurance Companies and provided $2.2 billion in proceeds to Treasury. On March 2, 2011, AIG sold common stock and equity shares in MetLife for $9.6 billion in gross proceeds. AIG used $6 billion of these proceeds to repay U.S. taxpayers, which represented Treasury's share of preferred interests in the ALICO SPV that was transferred from the FRBNY. As of June 30, 2011, Treasury held approximately $11.3 billion of preferred equity interest of designated AIG assets held in the AIA SPV. The MSR and June 30, 2011, cost estimates assume full repayment of the Treasury's preferred equity interest, as the estimated value of the underlying assets in the AIA SPV far exceed Treasury's $11.3 billion holdings, based on June 30, 2011, market pricing.
- The January recapitalization agreement allowed AIG to draw down $2.0 billion in previous obligations from the TARP credit line for general corporate purposes as necessary. However, these funds were not drawn down and in May 2011, AIG canceled the outstanding $2 billion credit line with Treasury in conjunction with AIG's sale of 100 million primary shares of common stock. The MSR and June 30, 2011, cost estimates in Table 1 reflect this cancelation.
- When the recapitalization closed in January 2011, Treasury exchanged its Series E and F preferred interest holdings acquired through the TARP for 1.09 billion shares in AIG common stock, which facilitates Treasury's ability to exit the program as common stock is more liquid than preferred interest holdings.
- As part of the initial aid package extended to AIG in 2008, the FRBNY received AIG Series C convertible preferred shares worth 79.8 percent of AIG common stock in January 2009, and transferred ownership to an independent Trust that names the U.S. Treasury as beneficiary. As part of the January recapitalization plan, the Series C preferred shares held by the Trust were exchanged for 562.9 million shares of AIG common stock. Immediately after the exchange, the Trust distributed all of its AIG common stock to the Treasury, and was subsequently dissolved. (Note: the transfer of AIG common stock from the Trust to the Treasury was not a TARP purchase, and thus the value of this stock received from the Federal Reserve is not included in the TARP cost estimates.)
- On May 24, 2011, Treasury sold 200 million shares of its common stock through a public offering

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. As of June 30, 2011, Treasury percentage ownership of AIG's outstanding shares of common stock stood at 77 percent, or 1.45 billion 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 outstanding transactions; taxpayers received a positive return of 8.5 percent on these investments.

Asset Guarantee Program (AGP). The TARP created the AGP to provide Government assurances for assets held by financial institutions that are 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.[11] TARP retained $2.2 billion of the trust preferred 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, Treasury 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.

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[11] Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

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 June, 2011, Treasury had recouped nearly 50 percent of its investments in GM, had come to terms to fully exit Chrysler Group LLC investments in July 2011 (which was subsequently implemented), and is anticipating an initial public offering for Ally Financial (previously GMAC) that will set the path for full exit. 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 in "New GM" when the sale of assets from the old GM to the new GM took place on July 10, 2009.[12] In April 2010, GM fully 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.[13] 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 June 30, 2011, TARP had recouped $24.0 billion of the $49.5 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). 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 exit from its TARP investments in Chrysler. In total, Chrysler repaid $11.1 billion[14] 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 $17.2 billion in Ally Financial (formerly GMAC). On December 30, 2010, Treasury converted $5.5 billion of its $11.4 convertible

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[12] Pursuant to the sale of its major assets, intellectual property, and trademarks on July 10, 2009, General Motors was renamed Motors Liquidation Company (referred to as "Old GM" in the text). The purchasing company subsequently changed its name to General Motors Company LLC (referred to as "New GM" in the text).

[13] Pursuant to the underwriters' exercise of an option as part of the GM IPO, Treasury sold 53.7 million additional shares in GM in December 2010.

[14] Chrysler repayments of $11.1 billion includes $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.

preferred stock in Ally Financial into common stock. On March 2, 2011, Treasury sold all of its trust preferred securities for approximately $2.5 billion. Ally Financial filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering on March 31, 2011, proceeds of which will facilitate Ally paying back TARP and ending governmental ownership shares. As of June 30, 2011, Treasury had recouped $5.0 billion of its $17.2 billion in Ally-related investments, including $2.5 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, ensuring the auto suppliers received compensation for products and services purchased by automakers. Through the AWCP, the Government extended support to protect consumer warranties on purchased GM and Chrysler vehicles while the companies worked through their restructuring plans.

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.[15] 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 Dodd-Frank 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[16].

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.[17] 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, 2011, 143 non-GSE mortgage servicers had signed up to participate in the HAMP, over 1.8 million trial modification offers had been extended to borrowers, and over 1.6 million trial modifications were initiated. Over 760,000 permanent modifications were initiated as of the end of June 2011, which have saved homeowners approximately $7.3 billion in reduced mortgage payments. Program implementation has continually improved since its inception in February 2009. As of June 2011, 74 percent of homeowners who started a trial modification after June 1, 2010,

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[15] For additional information on the program, visit: http://www.makinghomeaffordable.gov/.

[16] 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 loans.

[17] For more information on MHA programs please visit: www.makinghomeaffordable.gov.

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.

Treasury also offers other forms of incentives to encourage mortgage loan modifications, or prevent foreclosure under the HAMP, as part of its MHA program. For example, Treasury provides payments to servicers and investors to protect against declining home prices as part of encouraging mortgage modifications in communities that have experienced continued home price depreciation. 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, over 21,400 HAFA agreements have been initiated.

As part of its ongoing effort to continuously refine the targeting of mortgage assistance to address the sector's greatest needs, the Administration announced 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:

1. 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.

2. 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. Borrowers and investors will receive principal reduction and the incentives, respectively, through a pay-for-success structure. There have been over 26,000 PRA trial modifications initiated as of June 2011, with the median principal amount reduced for active permanent modifications of over $68,700, representing a median reduction of over 31 percent from the original loan.

3. 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, Oregon has recently

implemented a program through which the state's Housing Finance Agency will purchase mortgages of homeowners who have sustaineda financial shock, rehabilitate the loan by reducing the borrowers' principal balance, and subsequently sell the loan after the borrowers' circumstances stabilize and a reliable payment history is established. The design of Oregon's model allows the Housing Finance Agency to generate enough cash flow to create a revolving loan fund that provides on-going support to responsible, but vulnerable homeowners.

4. 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 a 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.

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 CDCI discussed previously, and the Small Business Administration's guaranteed loan program (SBA 7(a)).

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 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 Treasury 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 $370 million, as demand for the program waned due to significantly improved secondary market conditions for these securities following the original announcement of the program. On June 2, 2011, Treasury began the disposition of its SBA 7(a) securities. As of June 30, 2011, 12 securities have been sold for approximately $171.5 million, with 19 securities still held by TARP.

Public Private Investment 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 sale of legacy assets from their balance sheets. Legacy assets are securities backed by non-agency residential and commercial real estate loans. TARP 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, driven by improved market conditions and growing private capital investment. PPIP closed for new funding on June 30, 2010. The Public Private Investment Funds (PPIF) raised private sector equity capital, matched by TARP funds. Using this structure, Treasury was able to leverage $7.4 billion in private capital, and contributed $22.4 billion in PPIF commitments.

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 2012 Budget (MSR).[18] 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 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 in the June 30, 2011, valuation, as presented in Table 1 earlier in this report.[19]

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 2012 Budget. The direct impact of TARP program costs on the deficit in the MSR is projected to be $46.8 billion, down $1.5 billion from $48.3 billion as projected in the 2012 Budget. The subsidy cost represents the lifetime net present value cost of TARP obligations from the date the obligations originated. With the risk-adjustment to the discount rate required under EESA, the subsidy cost for TARP is now estimated to be $62.9 billion.[20] 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. While TARP's cost to taxpayers will likely be lower than current estimates, the final cost will not be fully known until all TARP investments are extinguished.

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[18] The analysis does not assume the effects on net TARP costs of a recoupment proposal authorized under Section 134 of EESA.

[19] The transaction data in the MSR and in this section of the report are as of June 30, 2011. Subsidy rates for these programs reflecting actual performance and updated market information will be updated in the 2013 Budget.

[20] 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.

TARP Actions	2012 Budget		2012 MSR		Change from 2012 Budget to 2012 MSR	
	TARP Obligations	Estimated Cost (+) / Savings (-)	TARP Obligations [1]	Estimated Cost (+) / Savings (-)	TARP Obligations	Estimated Cost (+) / Savings (-)
Equity Purchases	339.1	5.9	337.1	5.2	-2.0	-0.7
Structured & direct loans and asset-backed security purchases	85.1	16.5	83.0	15.7	-2.1	-0.8
Guarantees of troubled asset purchases [2]	5.0	-3.7	5.0	-3.7	0.0	0.0
TARP Housing Programs	45.6	45.6	45.6	45.6	0.0	0.0
Total deficit impact [3]	474.8	64.4	470.7	62.9	-4.1	-1.5
Memorandum:						
Deficit impact before administrative costs with interest effects		*48.3*		*46.8*		*-1.5*

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

[1] 2012 MSR TARP obligations are net of cancellations.
[2] The face value of assets supported by the Asset Guarantee Program was $301 billion.
[3] Total deficit impact of the TARP in "2012 Budget" and "2012 MSR" columns excludes net downward interest on reestimates of $16.2 billion.

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 under FCRA and Section 123 of EESA. 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. The TARP is expected to reduce the 2011 deficit by $41.4 billion, which is largely attributable to net downward reestimates of program costs totaling $41.8 billion (including interest on reestimates). 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. These estimates are shown in Table 3. Estimated debt due to TARP at the end of 2011 is $115.8 billion, and this figure declines in later years as TARP loans are repaid and TARP equity purchases are sold or redeemed.

Debt held by the public net of financial assets 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 $0.2 billion as of the end of 2011. This is $10.9 billion less than the projected 2011 debt held net of financial assets reflected in the 2012 Budget, primarily due to faster than anticipated repayments in the AIG and AIFP program and a shift in the outlay pattern of the TARP Housing programs.

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, 2010, 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.[21] 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.

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
Deficit Effect:													
Programmatic and administrative expenses:													
Programmatic expenses:													
Equity purchases	115.3	8.4	2.5	0.3	*	—	—	—	—	—	—	—	—
Direct loans and purchases of asset-backed securities	36.9	-0.9	-0.3	-0.2	*	—	—	—	—	—	—	—	—
Guarantees of troubled asset purchases	-1.0	-1.4	—	—	—	—	—	—	—	—	—	—	—
TARP housing programs	*	0.5	1.8	17.1	11.6	6.0	4.8	2.4	1.2	0.2	*	*	—
Reestimates of credit subsidy costs	—	-116.5	-41.8	—	—	—	—	—	—	—	—	—	—
Subtotal, programmatic expenses	151.2	-109.9	-37.8	17.1	11.6	6.0	4.8	2.4	1.2	0.2	*	*	—
Administrative expenses	0.1	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*
Special Inspector General for TARP	*	*	0.1	*	*	*	*	*	*	*	0.1	0.1	0.1
Subtotal, programmatic & administrative expenses	151.3	-109.6	-37.2	17.5	11.9	6.3	5.1	2.6	1.4	0.3	0.1	0.1	0.1
Interest effects:													
Interest transactions with credit financing accounts[2]	-2.8	-4.7	-16.0	-13.4	-12.3	-12.1	-11.5	-10.8	-9.6	-8.3	-8.6	-4.4	-2.7
Debt service[3]	2.8	4.7	11.9	10.0	9.5	9.9	9.9	9.7	9.1	8.2	7.1	5.5	4.4
Subtotal, interest effects	*	*	-4.2	-3.4	-2.8	-2.2	-1.5	-1.1	-0.6	-0.1	0.4	1.1	1.7
Total deficit impact	151.3	-109.6	-41.4	14.1	9.0	4.1	3.6	1.6	0.8	0.2	0.6	1.2	1.8
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	5.2	-31.5	1.6	0.7	-1.4	-1.4	-4.1	-4.3	-6.5	-7.0	0.3
Troubled Asset Relief Program Direct Loan Financing Account	23.9	18.8	-10.0	3.2	0.5	-0.8	-2.3	-3.6	-6.8	-4.3	-5.4	-6.9	-3.4
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.8	-1.5	*	-0.8	—	—	—	—	—	*	—	—
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	—	—	*	-6.2	-1.5	0.9	1.5	1.5	1.3	1.0	0.8	0.6	—
Total, other transactions affecting borrowing from the public	129.9	-7.9	-6.4	-34.4	-0.3	0.8	-2.2	-3.5	-9.7	-7.6	-11.0	-13.3	-3.1
Change in debt held by the public	281.2	-117.6	-47.8	-20.3	8.7	4.9	1.3	-1.9	-8.9	-7.3	-10.6	-12.0	-1.3
Debt held by the public	281.2	163.6	115.6	95.5	104.2	109.1	110.4	108.5	99.6	92.3	81.8	69.7	68.4
As a percent of GDP	2.0%	1.1%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.4%	0.4%	0.3%	0.3%
Debt held by the public net of financial assets:													
Debt held by the public	281.2	163.6	115.6	95.5	104.2	109.1	110.4	108.5	99.6	92.3	81.8	69.7	68.4
Less financial assets net of liabilities — credit financing account balances:													
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	76.9	82.1	50.6	52.2	52.9	51.5	50.1	46.0	41.7	35.3	28.2	28.5
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	32.7	35.9	36.4	35.5	33.2	29.6	22.8	18.4	13.1	6.2	2.8
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	*	*	*	*	*	*	*	*	*
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account	—	—	*	-6.2	-7.7	-6.8	-5.3	-3.8	-2.5	-1.4	-0.6	*	*
Total, financial assets net of liabilities	129.9	122.0	115.6	81.2	80.9	81.7	79.5	76.0	68.3	58.7	47.7	34.4	31.4
Debt held by the public net of financial assets	151.3	41.6	0.2	14.3	23.4	27.4	30.9	32.6	33.3	33.6	34.1	35.3	37.1
As a percent of GDP	1.1%	0.3%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%

* $50 million or less.
[1] Table reflects the deficit effect of budgetary costs, including 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.

Estimates on a Cash Basis

The value to the Federal Government of the assets acquired through TARP are 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 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.[22] If these purchases were instead presented in the budget on a cash basis as shown in Table 4, the budget would

[21] 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.
[22] 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.

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
Deficit Effect:													
Programmatic and administrative expenses:													
Programmatic expenses:													
Equity purchases	217.6	-121.9	-37.3	-39.1	-5.2	-5.6	-7.0	-6.6	-8.9	-8.4	-9.7	-9.1	-1.2
Direct loans and purchases of asset-backed securities	61.1	-1.0	-22.5	-2.6	-5.1	-6.4	-7.8	-8.7	-11.3	-8.1	-8.4	-8.9	-4.5
Guarantees of troubled asset purchases	-0.5	-0.3	-2.2	*	-0.8	*	*	*	*	*	*	*	*
TARP housing programs	*	0.5	1.8	10.9	10.0	6.8	5.9	3.5	2.1	0.9	0.5	0.4	—
Subtotal, programmatic expenses	278.3	-122.6	-60.2	-30.7	-1.0	-5.3	-8.9	-11.8	-18.1	-15.7	-17.6	-17.6	-5.8
Administrative expenses	0.1	0.2	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*
Special Inspector General for TARP	*	*	0.1	*	*	*	*	*	*	*	0.1	0.1	0.1
Subtotal, programmatic & administrative expenses	278.4	-122.3	-59.6	-30.3	-0.7	-5.0	-8.7	-11.6	-17.9	-15.6	-17.5	-17.5	-5.7
Debt service [2]	2.8	4.7	11.9	10.0	9.5	9.9	9.9	9.7	9.1	8.2	7.1	5.5	4.4
Total deficit impact	281.2	-117.6	-47.8	-20.3	8.7	4.9	1.3	-1.9	-8.9	-7.3	-10.6	-12.0	-1.3
Change in debt held by the public	281.2	-117.6	-47.8	-20.3	8.7	4.9	1.3	-1.9	-8.9	-7.3	-10.6	-12.0	-1.3
Debt held by the public	281.2	163.6	116.8	95.6	104.2	109.1	110.4	108.6	99.6	92.3	81.8	69.7	68.4
As a percent of GDP	2.0%	1.1%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.4%	0.4%	0.3%	0.3%
Debt Held by the Public Net of Financial Assets:													
Debt held by the public	281.2	163.6	115.8	95.5	104.2	109.1	110.4	108.5	99.6	92.3	81.8	69.7	68.4
Less financial assets net of liabilities — credit financing account balances:													
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	82.1	50.6	52.2	52.9	51.5	50.1	46.0	41.7	35.3	28.2	28.5
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	32.7	35.9	36.4	35.5	33.2	29.6	22.8	18.4	13.1	6.2	2.8
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	*	*	*	*	*	*	*	*	*
FHA Refinance Letter of Credit Financing Account	—	—	*	-6.2	-7.7	-6.8	-5.3	-3.8	-2.5	-1.4	-0.6	*	*
Total, financial assets net of liabilities	129.9	122.0	115.6	81.2	80.9	81.7	79.5	76.0	66.3	58.7	47.7	34.4	31.4
Debt held by the public net of financial assets	151.3	41.6	0.2	14.3	23.4	27.4	30.9	32.6	33.3	33.6	34.1	35.3	37.1
As a percent of GDP	1.1%	0.3%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%

* $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

Estimates of the deficit and debt under TARP transactions calculated on a cash basis are reflected in Table 4, for comparison to those estimates in Table 3 reported above in which TARP transactions are calculated consistent with FCRA and Section 123 of EESA.

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 2011 by an estimated $47.8 billion, so the 2011 deficit would be $6.4 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 the present value attributable to better-than-expected future inflows from the public would be recognized up front in a downward reestimate, in contrast with a cash-based treatment that would show the annual marginal changes in cash flows. However, the impact of TARP on the Federal debt, 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.

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 2011 and 2021 are the result of reestimates of TARP activity outstanding as of September 30, 2010, and reductions in the total anticipated assistance provided under TARP from $474.8 billion in TARP obligations in the 2012 Budget to $470.7 billion in the 2012 MSR, with cancellations of $4.1 billion under the AIFP and AIG programs. The specific effects are as follows:

- TARP reestimates and interest on reestimates will reduce the deficit by $41.8 billion in 2011, including $25.6 billion in reduced subsidy costs for TARP programs, and $16.2 billion in interest on reestimates.
- Program costs for purchases of assets including costs associated with AIG disbursements, MHA incentive payments, FHA Refinance letter of credit loss sharing, and modifications of existing TARP activity (excluding reestimates) are estimated to increase the deficit by $3.9 billion in 2011, $9.5 billion less than the estimated 2011 deficit effects reflected in the 2012 Budget.
    - TARP equity purchase outlays in 2011 are estimated to increase the deficit by $2.5 billion due to AIG drawing on its TARP line of credit and the drawing of additional capital by the PPIP fund managers.
    - Subsidy costs associated with new disbursements of direct loans from previous TARP obligations are estimated to result in a $0.3 billion reduction in net outlays in 2011 through 2014, largely due to expected returns from PPIP purchases. Estimated costs for new direct loan disbursements are roughly $0.5 less than anticipated in the 2012 Budget, with the cancellation of AIFP disbursements.
    - Outlays for the TARP Housing Programs are estimated at $1.8 billion in 2011, which includes payments under the MHA program, Hardest Hit Fund, and subsidy costs for the FHA Refinance letter of credit facility. Outlays for TARP Housing are estimated to increase through 2015, and then decline gradually through 2020.
- Administrative expenses for TARP are estimated at $0.5 billion in 2011, and expected to annually decrease as TARP winds down through 2021. Similarly, costs for the Special Inspector General for TARP are estimated at $0.1 billion in 2011, and to remain relatively stable through 2021. These estimates are the same as reflected in the 2012 Budget.
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payments to these accounts and receipt of interest from them are budgetary transactions and therefore affect net outlays and the deficit. For TARP financing accounts, projected interest transactions are based on the market-risk adjusted rates used to discount the cash flows. The projected net financing account interest paid to Treasury at market-risk adjusted rates is $16.0 billion in 2011 and declines over time as the financing accounts repay borrowing from Treasury through investment sale proceeds and repayments on TARP equity purchases and direct loans.

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 $11.9 billion for 2011 (as shown in Table 3), and then expected to fall gradually to $4.4 billion in 2021 as the program winds down. Total debt service estimates are lower than estimated in the 2012 budget due to investment cancellations in AIFP and AIG, and faster than anticipated repayments in the AIFP program.

Table 5. Detailed TARP Program Levels and Costs
(In billions of dollars)

Program	2012 Budget		2012 MSR	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases				
Capital Purchase Program	204.9	-5.9	204.9	-5.9
AIG Investments [1]	69.8	11.7	67.8	11.4
Targeted Investment Program	40.0	-3.6	40.0	-3.8
Automotive Industry Financing Program (AIFP)	16.3	3.5	16.3	3.4
Public-Private Investment Program - Equity	7.5	-0.1	7.5	-0.1
Community Development Capital Initiative	0.6	0.3	0.6	0.3
Subtotal equity purchases	339.1	5.9	337.1	5.2
Direct Loan Programs				
Automotive Industry Financing Program (AIFP) [2]	65.5	16.8	63.4	16.0
Term Asset-Backed Securities Loan Facility (TALF)	4.3	-0.3	4.3	-0.3
Public-Private Investment Program - Debt	14.9	*	14.9	*
Small Business 7(a) Program	0.4	*	0.4	*
Subtotal direct loan programs	85.1	16.5	83.0	15.7
Guarantee Programs under Section 102				
Asset Guarantee Program	5.0	-3.7	5.0	-3.7
Non-Add Asset Guarantee Program Face Value	*301.0*		*301.0*	
Subtotal asset guarantees	5.0	-3.7	5.0	-3.7
TARP Housing Programs [3]				
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	8.1	8.1	8.1	8.1
Subtotal TARP housing programs	45.6	45.6	45.6	45.6
Total program costs	474.8	64.4	470.7	62.9
Memorandum:				
Interest on reestimates [4]		-16.2		-16.2
Deficit impact before administrative costs and interest effects		*48.3*		*46.8*

* $50 million or less

[1] 2012 MSR reflects the cancelation of AIG's outstanding $2 billion credit facility with Treasury.

[2] 2012 MSR reflects the Chrysler Group LLC termination of a remaining $2.1 billion TARP loan commitment.

[3] 2012 Budget and 2012 MSR subsidy costs account for a reduction included in the Helping Families Save their Homes Act, as an offset for Special Inspector General for the Troubled Asset Relief Program (SIGTARP) administrative costs.

[4] Interest on reestimates is an adjustment for interest effects of changes in TARP subsidy costs from original subsidy estimates; such amounts are a component of the deficit impacts of TARP programs but are not a direct programmatic cost.

Differences Between Current and Previous OMB Estimates

As shown in Table 5, the MSR reflects a total TARP deficit impact of $46.8 billion, a reduction of $1.5 billion from the 2012 Budget projection of $48.3 billion. This reduction is the result of several changes in the TARP program since the Budget estimates. Obligations and expected disbursements for the AIG investments were reduced by $2.0 billion, as AIG canceled its remaining $2.0 billion credit facility with Treasury after the recapitalization deal with the Federal Reserve and the Treasury was executed in January 2011. New Chrysler also canceled its outstanding $2.1 billion credit facility with Treasury after fully repaying its outstanding TARP loan balance in May 2011. The MSR also reflects higher-than-anticipated proceeds from the sale of Trust Preferred Shares in Ally Financial (formerly GMAC) and Citigroup warrants acquired through the TIP. Treasury also lowered its projected disbursements for the TALF by $32 million, which marginally increased the expected TARP cost as the program has a negative subsidy rate, indicating that the program is expected to generate positive returns. Collectively, these changes lowered the TARP obligations by roughly $3.7 billion and reduced expected costs by $1.5 billion.

The estimated TARP deficit impact differs from the subsidy cost of $62.9 billion in MSR and $64.4 billion in the 2012 Budget because the deficit impact reflects a $16.2 billion cumulative downward adjustment for interest on subsidy cost reestimates (for 2010 and 2011 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 2013 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]	2012 MSR OMB Subsidy Cost [2]
Capital Purchase Program	-16	-6
Targeted Investment Program	-7	-4
AIG Assistance	14	11
Automotive Industry Financing Program	14	19
Term Asset-Backed Securities Loan Facility	*	-*
Other Programs [3]	1	-3
TARP Housing Programs	13	46
Total	**19**	**63**

* Represents cost estimates between $-0.5 billion and $0.5 billion.
[1] The CBO cost estimate was published in March 2011.
[2] Lifetime subsidy costs as reflected in the 2012 MSR.
[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 2011". [23]

CBO estimates the total cost of TARP at $19 billion, based on estimated lifetime TARP obligations of $432 billion. The MSR reflects current estimates of roughly $471 billion in program obligations, and $63 billion in programmatic costs. Differences in the estimated cost of the TARP Housing programs, which stem from divergent demand and participation rate assumptions, are the main difference between OMB and CBO cost estimates. The CBO projects $13 billion in total TARP Housing expenditures, while MSR reflects a $46 billion estimate. CBO and OMB cost estimates for the Capital Purchase Program are $10 billion apart because of different assumptions for the remaining institutions with investments in the program.

[23] United States. Congressional Budget Office. Report on the Troubled Asset Relief Program – March 2011. Washington: CBO, 2011. http://www.cbo.gov/ftpdocs/121xx/doc12118/03-29-TARP.pdf

Table 7. Comparison of EESA and FCRA TARP Subsidy Costs using June 30, 2011 valuations (In billions of dollars)			
Program	TARP Obligations [1]	Subsidy Cost	
		EESA	FCRA
Capital Purchase Program	204.9	-7.2	-10.5
Targeted Investment Program	40.0	-3.6	-3.6
Asset Guarantee Program	5.0	-3.7	-3.7
Community Development Capital Initiative	0.6	0.2	0.1
Term Asset-Backed Securities Loan Facility (TALF)	4.3	-0.3	-0.5
Small Business 7(a) Program	0.4	*	*
Public Private Investment Program [2]	22.4	-1.6	-5.0
AIG Investments	67.8	19.8	19.8
Automotive Industry Financing Program [2]	79.7	19.7	19.7
Subtotal TARP equity and direct loans	425.1	23.3	16.3
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	8.1	8.1	5.2
Subtotal TARP Housing	45.6	45.6	42.7
Total [4]	**470.7**	**69.0**	**58.9**

* $50 million or less

[1] TARP obligations reflect the cancelation of AIG's outstanding $2 billion credit facility with Treasury and the Chrysler Group LLC termination of a remaining $2.1 billion TARP loan commitment.

[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 relfects 100% subsidy cost for these programs.

[4] Total subsidy costs do not include interest effects or administrative costs.

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 cashflows. 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 cashflows.[24]

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 June 30th 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 213 percent ($3.4 billion), whereas it only decreases the CPP and TALF program by 46 percent (or $3.3 billion) and 55 percent (or $0.2 billion), respectively. There is no difference in FCRA and market risk cost of AGP because the market risk adjustment for the

[24] 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.

outstanding $800 million in additional Citigroup trust preferred securities that the Treasury is entitled to receive from the FDIC is negligible. 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 June 30, 2011, 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 37 percent (or $2.9 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 June 30, 2011, valuations, TARP investments discounted at a risk-adjusted rate will cost an estimated $69.0 billion, which suggests a net subsidy rate of 15 percent. TARP investments discounted under FCRA will cost an estimated $58.9 billion, or a net subsidy rate of 13 percent.