SIGTARP
OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM
ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

ADDITIONAL INSIGHT ON USE OF TROUBLED ASSET RELIEF PROGRAM FUNDS

SIGTARP-10-004
DECEMBER 10, 2009

SIGTARP

Office of the Special Inspector General For The Troubled Asset Relief Program

Summary of Report: SIGTARP-10-004

Why SIGTARP Did This Study

The Emergency Economic Stabilization Act ("EESA") of 2008, which was enacted on October 3, 2008, created the Troubled Asset Relief Program ("TARP") and provided the Secretary of the Treasury with various authorities to restore the liquidity and stability of the United States financial system and stimulate lending.

Congress and the public frequently ask questions about how TARP funds have been used. In July 2009, the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") reported on the use of funds by 360 banks receiving TARP funds through January 2009. SIGTARP found that, although most banks did not segregate or track TARP fund usage on a dollar-for-dollar basis, banks reported that TARP funds allowed them to support lending, increase capital reserves, and make investments, often citing multiple benefits. That report also met a congressional mandate in the Special Inspector General for the Troubled Asset Relief Program Act of 2009 that SIGTARP report on the use of TARP funds.

This report expands our coverage of the use of TARP funds to include six additional institutions—two automobile manufacturers, two automobile financing firms, and two life insurance companies. SIGTARP conducted this expanded review to provide additional insight into how companies used TARP funds. Together, these two reports provide perspective on the use of funds by a broad range of institutions receiving TARP assistance.

To determine how companies used TARP funds, we interviewed Department of the Treasury officials and officials from each company. We also reviewed supporting documentation from each organization. SIGTARP performed its work in accordance with generally accepted government auditing standards. However, as in SIGTARP's previous audit on the use of funds, the results in this audit rely primarily on what was reported to SIGTARP by TARP recipients in response to high-level inquiries. SIGTARP intends to engage in follow-up reviews of specific institutions in the future, as appropriate.

What SIGTARP Recommends

This audit demonstrates that TARP recipients can provide meaningful information about their use of TARP funds. Notwithstanding Treasury's prior contrary views and public statements on this issue, it has now agreed to adopt SIGTARP's recommendation that it collect and publish information regarding each TARP recipients' use of TARP funds. Treasury should be given substantial credit for its willingness to remain engaged with SIGTARP on this issue and change course. Its adoption of this recommendation is a significant step forward in providing the American taxpayers with the transparency they deserve on how their money is being used.

December 10, 2009

ADDITIONAL INSIGHT ON USE OF TROUBLED ASSET RELIEF PROGRAM FUNDS

What SIGTARP Found

As in SIGTARP's previous report on how banks used TARP funds, the six companies included in this report were able to provide useful insight on their actual or planned use of TARP funds notwithstanding the inherent fungibility of money and regardless of whether they segregated the money from other company funds. In total, Treasury provided the six reviewed companies $81.25 billion in TARP funds; their use of this money is summarized below.

- **General Motors ("GM"**), which received $49.5 billion, reported that it used about $32 billion (65 percent) to meet day-to-day operating expenses, such as payments to employees and suppliers. Treasury also made $986 million (2 percent) available to GM for the old company's wind-down, a portion of which will be set aside for environmental cleanup at manufacturing plants that are being shut down. Additionally, GM used about $2.8 billion (6 percent) to resolve the bankruptcy of a major parts supplier, Delphi. Finally, $13.7 billion (27 percent) remains unused but is still available to GM. GM officials stated that a portion of these proceeds are expected to be used to pay outstanding loans from Treasury and the Canadian Government. Treasury requires GM to report on its intended use of TARP funds prior to each draw and also receives reports on the actual uses of funds.
- **Chrysler**, which received $12.5 billion, reported that it used about $10.5 billion (84 percent) to meet day-to-day operating expenses, such as payments to employees and suppliers. About $2.0 billion (16 percent) is unused but still available to Chrysler. Treasury requires Chrysler to report on its intended use of TARP funds prior to each draw and also receives reports on the actual uses of funds.
- **GMAC LLC ("GMAC")**, which received $13.4 billion, reported that it used all its TARP funds to strengthen its capital reserves, allowing it to continue to make auto loans, provide dealer financing, and modify home loans. GMAC officials stated that it plans to leverage the TARP funds to make significantly more than $13.4 billion in new loans and dealer financing.
- **Chrysler Financial Services Americas LLC ("Chrysler Financial**"), which received $1.5 billion, reported that it used the funds to make about 85,000 auto loans from February to June 2009. As was intended by Treasury at the time it approved such funding, the company has repaid Treasury using primarily funds obtained from the Term Asset-Backed Securities Loan Facility, another TARP-related program.
- **The Hartford Financial Services Group, Inc. ("Hartford"),** which received $3.4 billion, reported that it invested $3.2 billion (94 percent) in high quality short-term investments or money market funds. This allowed the company to issue additional insurance policies. Hartford also provided $195 million (6 percent) in TARP funds to Federal Trust Bank, which it had purchased in order to qualify for CPP funds, to support the thrift's recapitalization.
- **Lincoln National Corporation ("Lincoln")**, which received $950 million, reported that it invested about $608 million (64 percent) in domestic corporate bonds and mortgage-backed securities, with the remaining $342 million (36 percent) to be invested in commercial mortgage-backed securities, commercial real estate loans, domestic bonds and asset-backed securities. Lincoln acquired Newton County Loan & Savings FSB in order to qualify for CPP funds. Unlike Hartford's investment in Federal Trust Bank, Lincoln invested $10 million of its own capital, and not TARP funds, to capitalize Newton County.

OFFICE OF THE SPECIAL INSPECTOR GENERAL

FOR THE TROUBLED ASSET RELIEF PROGRAM

1801 L STREET, NW, 4TH FLOOR

WASHINGTON, D.C. 20220

December 10, 2009

MEMORANDUM FOR: The Honorable Timothy F. Geithner, Secretary of the Treasury

SUBJECT: Additional Insight on Use of Troubled Asset Relief Program Funds (SIGTARP-10-004)

We are providing this audit report for your information and use. It is the second report on the use of Troubled Asset Relief Program funds. It follows our July 20, 2009, report that focused on the use of TARP funds by 360 banking institutions. This report expands our coverage of TARP fund usage to include six additional institutions—two automobile manufacturers, two automobile financing firms, and two life insurance companies. The Office of the Special Inspector General for the Troubled Asset Relief Program conducted this audit project 010-004 under the authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended.

We considered comments from the Office of Financial Stability when preparing the final report. The comments are addressed in the report, where applicable, and a copy is included in the Management Comments appendix of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Michael Kennedy (michael.kennedy@do.treas.gov / 202-622-9257).

Neil M. Barofsky
Special Inspector General
for the Troubled Asset Relief Program

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Additional Insight on Use of Troubled Asset Relief Program Funds

SIGTARP 10-004 **December 10, 2009**

Introduction

The Congress and the public frequently ask how companies have used the billions of dollars provided by the U.S. government under the Troubled Asset Relief Program ("TARP"). In July 2009, the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") reported on the use of funds by 360 banks receiving TARP funds.[1] We found that, although most banks said that they did not segregate or track TARP fund usage on a dollar-for-dollar basis, they reported that TARP funds allowed them to support lending, increase capital reserves, and make investments, often citing multiple benefits. This report expands our coverage of the use of TARP funds to include six additional institutions—two automobile manufacturers, two automobile financing firms, and two life insurance companies. We conducted this expanded review to provide additional insight into how companies use TARP funds and to respond more fully to a congressional mandate in the Special Inspector General for the Troubled Asset Relief Program Act of 2009, dated April 24, 2009, that we report on the use of TARP funds. Collectively, these two reports provide perspective on the use of funds by a broad range of institutions receiving TARP assistance.

Background

The Emergency Economic Stabilization Act of 2008 ("EESA")[2] authorized the Secretary of the Treasury to establish TARP to purchase troubled assets from financial institutions. As the financial markets rapidly deteriorated in fall 2008, the Department of the Treasury ("Treasury") injected capital into qualified financial institutions[3] under its Capital Purchase Program ("CPP") to stabilize them and to stimulate lending. Treasury established CPP to invest in viable financial institutions to promote financial stability, maintain confidence in the financial system, and permit financial institutions to meet the credit needs of American consumers and businesses.

Toward the end of 2008, the financial conditions of General Motors ("GM") and Chrysler were seriously deteriorating, and the two companies were virtually closed out of the private capital markets. As a result, Treasury established the Automotive Industry Financing Program ("AIFP") to invest in auto-related companies (manufacturing and finance) to prevent their failure and the

[1] SIGTARP Survey Demonstrates that Banks Can Provide Meaningful Information on Their Use of TARP Funds, SIGTARP-09-001, July 20, 2009.
[2] P.L. 110-343, October 3, 2008.
[3] Qualified financial institutions are public and private U.S. government-regulated banks, savings associations, and holding companies.

potential systemic market disruption that was expected to follow. On December 29, 2008, and January 2, 2009, Treasury provided AIFP funds to GM and Chrysler, respectively, to allow the two companies to continue operating and to restructure for long-term viability. Treasury also included in AIFP the auto finance companies—GMAC LLC ("GMAC") and Chrysler Financial Services Americas LLC ("Chrysler Financial")—because these companies served as a critical link to the viability of the automakers. As of November 26, 2009, Treasury has obligated about $76.9 billion under AIFP to these four companies, as shown in Table 1.

Table 1: AIFP Funds Obligated[4] to Automobile Manufacturing and Financing Companies ($ in Billions)

Company	Funds Obligated
GM	$49.5
Chrysler	12.5 [a]
GMAC	13.4
Chrysler Financial	1.5
Total	**$76.9** [b]

Notes:
a. Includes $350 million available for GMAC risk sharing; excludes $2.4 billion originally provided, but later de-obligated by Treasury.
b. Excludes loans made to GM and Chrysler under the Auto Warranty Commitment Program and to GM and Chrysler special purpose vehicles under the Auto Supplier Support Program.

Source: SIGTARP analysis of data from the Department of the Treasury

Treasury's investments in GM and Chrysler were used to help pay general operating and corporate expenses, such as payments to suppliers and employees. Treasury received detailed financial forecasts prior to providing any funds and imposed some restrictions on uses of those funds. In addition, Treasury required each company to provide information on intended uses of those funds. The investment in GMAC was intended to strengthen its capital structure and to provide funds to continue financing auto dealerships and customers, as well as to increase home loans under its mortgage subsidiary. Finally, Treasury's investment in Chrysler Financial was intended to support loans to customers. In return for its investments in these four companies, Treasury received some combination of company debt, preferred stock, common stock, and warrants to purchase common stock. As of November 26, 2009, Treasury holds a 60.8 percent equity interest in GM, a 35.4 percent equity interest in GMAC, and a 9.8 percent equity interest in Chrysler.[5]

CPP application guidelines define qualified financial institutions as bank holding companies, financial holding companies, insured depository institutions and thrift savings and loan holding companies. Treasury officials stated that, regardless of their size, these types of companies could be eligible for CPP funds. Like other such institutions, companies that reorganize as bank or

[4] The AIFP funds obligated to GM, GMAC, and Chrysler Financial have been disbursed to the respective companies.
[5] Treasury's 9.846 percent (rounded to 9.8) interest in Chrysler can be reduced to 8 percent if Fiat S.p.A, a junior equity owner of Chrysler, assists the company in meeting certain performance "milestones".

thrift holding companies must first receive approval from their regulatory agency before their application is forwarded and reviewed for CPP admittance. To become eligible for CPP funding, two insurance companies—The Hartford Financial Services Group, Inc. ("Hartford") and Lincoln National Corporation ("Lincoln")—each purchased small depository institutions and reorganized as thrift holding companies. On November 14, 2008, Hartford applied to become a thrift holding company based on its plans to acquire Federal Trust Corporation and its insured depository, Federal Trust Bank. The Office of Thrift Supervision ("OTS") approved the purchase in early January 2009 contingent upon Treasury's approval of Hartford's participation in CPP. On November 13, 2008, Lincoln applied to OTS to become a savings and loan holding company based on its plans to acquire Newton County Loan & Savings ("Newton County"). OTS approved this purchase in January 2009. On June 26, 2009, Hartford received $3.4 billion in CPP funds; on July 10, 2009, Lincoln received $950 million. In return, Treasury received preferred shares in amounts equal to its investment, as well as warrants that it can exercise to acquire common stock.[6]

Objective

This report addresses how six companies reported on how they accounted for and used TARP funds.

Scope

The scope of this audit included the six companies noted below. For a more detailed discussion of our audit scope and methodology, see Appendix A. We provide a detailed discussion of each company's accounting for and use of TARP funds in the following appendices:

- Appendix B—General Motors
- Appendix C—Chrysler
- Appendix D—GMAC LLC
- Appendix E—Chrysler Financial Services Americas LLC
- Appendix F—The Hartford Financial Services Group, Inc.
- Appendix G—Lincoln National Corporation

For management comments, see Appendix H. For a list of audit team members, see Appendix I. For definitions of acronyms used in this report, see Appendix J.

[6] A warrant is the right to purchase shares of common stock at a fixed ("strike") price over a specific period.

Companies Were Able To Provide Information on Their Use of TARP Funds

This section discusses how six companies reported on how they accounted for and used TARP funds. As in SIGTARP's previous report on how banks used TARP funds, the six companies included in this report were able to provide useful insight on their actual or planned use of TARP funds, regardless of whether they segregated TARP funds from other company funds.

When a financial institution uses TARP funds to strengthen its capital structure, the company can typically leverage the capital provided through TARP at some multiple to the funds that they were provided. For example, during our review, a Lincoln official stated that the leveraging effect of the CPP funding suggests that "for every $100 of capital, we can support roughly 20 times that amount in new product sales.…" Similarly, in our previous report on the use of funds, SIGTARP noted that "[o]ne added dollar of…capital can generate the potential for the bank to then issue an additional $10 in loans."

Accounting for TARP Funds Appears Related to Its Planned Use or Industry Practice

The six companies included in this report differed in the extent to which they segregated TARP funds from other company funds. The choice to segregate funds appears related to the planned use of the funds or industry practice, as described below:

- **Automobile manufacturing companies:** GM and Chrysler comingled TARP funds with other company funds. GM's Chief Financial Officer stated that, because GM did not have adequate cash to pay its operating expenses without TARP, it was not practical to establish a separate account for TARP funds. Chrysler's Treasurer stated that it is not customary practice for industrial companies to establish separate accounts for their operating cash. However, Treasury restricts the usage of TARP funds to specified corporate purposes.

- **Automobile financing companies:** GMAC officials stated that the company did not segregate TARP funds from its other institutional funds. They added, however, that current management routines and reporting processes are in place to track and forecast overall cash balances and related sources and uses of funds. Chrysler Financial, on the other hand, used a Special Purpose Vehicle ("SPV") [7] to segregate TARP funds from other company funds. The Chief Financial Officer of Chrysler Financial stated that the funds were placed into an existing SPV and allowed Chrysler Financial to report easily on the use of funds because the agreement with Treasury stipulated that TARP funds could be used only to support loans for Chrysler products.

[7] A special purpose vehicle is an off-balance-sheet legal entity that holds transferred assets presumptively beyond the reach of the entities providing the assets.

- **Insurance companies:** Hartford and Lincoln established separate general ledger accounts to account for TARP funds. Officials at both companies stated that segregating TARP funds followed their normal business practice of establishing separate accounts for different types of investments. Hartford segregated TARP funds by establishing (1) separate custodial accounts and investment portfolios at the holding company and certain subsidiaries, and (2) unique identifiers in the general ledger to report the flow of investments/funds within the company's books and records. Lincoln also placed TARP funds into a segregated account as part of its life insurance subsidiary's capital. Thus, the company is able to track the funds separately from its general capital. According to Lincoln officials, the company maintains a clear accounting of the receipt of TARP funds, a same-day capital contribution to Lincoln National Life, and segregated portfolio accounts.

Companies' Actual and Planned Use of TARP Funds

Irrespective of whether a company segregated TARP funds from its other capital, the six companies were able to provide information on how they used or expected to use TARP funds. The uses identified reflect the specific needs of each of the recipients.

Automobile Manufacturing Companies

GM: Treasury has disbursed $49.5 billion to GM—$19.4 billion before bankruptcy and $30.1 billion during bankruptcy. Treasury restricts the purposes for which these funds may be used and requires GM to provide information on its intended use of proceeds prior to each draw. As of November 18, 2009, GM had used about $35.8 billion (72 percent) of TARP funds as follows:

- $31.9 billion was used to help pay its operating costs, such as payments to employees and parts suppliers. Prior to Treasury assistance in December 2008, GM only had $2.7 billion in cash. For 2009, GM's payments to its suppliers average about $3 billion per month, and employee payroll costs average about $424 million per month. GM provided a cash flow analysis for the first six months of 2009 that shows that, without TARP and Canadian government investments, GM had a negative cash flow and would not have been able to pay its bills. GM's Chief Financial Officer stated that this condition continued through June 2009 because receipts from car sales did not generate adequate cash to meet operating expenses. During this period, GM also applied for and received approval from Treasury to use TARP funds to make investments to fund foreign subsidiaries, settle derivative positions and provide a loan to GM Canada Limited.[8]

- $986 million is being used to support the wind-down of old GM along with $189 million loaned by Export Development Canada, Canada's export credit agency, for a total of $1.2 billion. According to Motors Liquidation Company[9] officials, a portion of these funds

[8] Under the original loan, transactions over $100 million required approval of Treasury. Under the new loan, only uses of funds in escrow require approvals.

[9] During the Chapter 11 bankruptcy proceeding, General Motors Corporation (old GM) changed its name to Motors Liquidation Company and sold substantially all of GM's assets to General Motors Company, a new and independent entity.

will be set aside for environmental clean-up and other costs associated with closing manufacturing plants.

A portion of the proceeds of the $30.1 billion loan to GM was placed in an escrow account so that Treasury could exercise additional supervision over its use. Treasury must approve each withdrawal. In October 2009, Treasury granted a request for the release of approximately $2.8 billion in TARP funds from the escrowed funds to resolve the bankruptcy of Delphi, a major parts supplier. Approximately $1.7 billion was used to acquire a membership interest in the new Delphi entity, and approximately $1.1 billion was used to acquire Delphi's global steering business and four parts-manufacturing facilities.

After the withdrawal of funds related to Delphi, the escrow account had a balance of approximately $13.7 billion. GM officials stated that they intend to seek release of additional escrowed funds to repay its outstanding $6.7 billion loan to Treasury and $1.3 billion loan to the Canadian Government.

Chrysler: Treasury had initially made $14.9 billion available to Chrysler in three stages: $4.5 billion before bankruptcy, $3.8 billion during bankruptcy and $6.6 billion after bankruptcy. Treasury subsequently de-obligated $2.4 billion of the $14.9 billion, leaving a total Treasury-obligated funding of $12.5 billion. As of November 18, 2009, Chrysler had drawn down $10.5 billion (84 percent) of the $12.5 billion, which it used primarily to help pay operating costs, such as payments to employees and parts suppliers. Treasury requires Chrysler to provide information on use of proceeds prior to each draw, as well as quarterly reports on the actual use of all TARP funds.

As of November 18, 2009, Chrysler had not used $2.0 billion of the funds obligated by Treasury. This amount includes $350 million set aside to cover potential losses that GMAC may incur from assuming the financing of Chrysler dealerships and consumer car loans from Chrysler Financial, in which Chrysler has a continuing financial interest. The remaining $1.7 billion of TARP funds remains available to Chrysler for general corporate and working capital purposes. The agreement with Chrysler permits it to draw funds over the life of the loan as long as it provides Treasury with a Borrowing Notice two days prior to the requested draw date and it does not default on the terms of the loan. The Borrowing Notice contains a detailed report on how Chrysler plans to use the money. The Treasurer of Chrysler stated that the company does not currently have plans on whether or how to use the remaining funds.

Automobile Financing Companies

GMAC: Treasury has thus far disbursed $13.4 billion to GMAC—$5.9 billion[10] on December 29, 2008, and an additional $7.5 billion on May 21, 2009. According to GMAC officials, it has requested additional TARP funding, but its Board of Directors has since asked that this decision be postponed until GMAC's new management has assessed the company's financial situation to determine the appropriate amount and form of such funding. According to GMAC's Chief Financial Officer:

[10] This includes $884 million loaned to GM to underwrite a debt-for-equity exchange offering by GMAC; this exchange took place on January 16, 2009.

- GMAC used the initial $5.9 billon to strengthen capital reserves, which enabled it to continue to make auto loans and, through its Residential Capital, LLC mortgage subsidiary, modify home loans, both of which it had curtailed at the end of 2008. In general, companies that issue such loans are required to keep a percentage of capital on hand to allow them to absorb losses due to fluctuations in the markets or defaults; the ratio of debt to capital requirements may vary across industries. GMAC reported that its mortgage refinancing increased in volume from $4.6 billion in the fourth quarter 2008, to $10.5 billion during the first quarter 2009, and to $14.7 billion during the second quarter 2009. Likewise, it reported that car loans increased from $999 million in the fourth quarter 2008, to $2.3 billion in the first quarter 2009, and $4.5 billion in the second quarter 2009.
- The second tranche of $7.5 billion was used in two ways: $3.5 billion to further strengthen GMAC's capital position, and $4 billion to finance Chrysler dealers and consumers who purchase Chrysler cars. GMAC reported that, since it began financing Chrysler in May 2009, retail loans have increased from 1,603 in May to 6,270 in June; 6,392 in July; and 9,896 in August. It also reported that receivables from dealers have increased from $572 million in June to $1.1 billion in July and about $2 billion in August.

Chrysler Financial: In January 2009, Treasury provided $1.5 billion in TARP funds to Chrysler Financial as a temporary loan until the Term Asset-Backed Securities Loan Facility ("TALF")[11] program was operational. The company reported that it used TARP funds to make about 85,000 automobile loans from February to June 2009. Treasury's agreement with Chrysler Financial required it to provide auto loans for new or used vehicles manufactured by Chrysler and that were originated in the United States. Chrysler Financial has repaid the entire $1.5 billion loan with interest. According to the Chief Financial Officer of Chrysler Financial, about 70 percent of the funds used to pay back TARP loans were provided from transactions financed under the TALF program, and the remaining 30 percent was from private investors.

Insurance Companies

As with all CPP participants, Treasury's agreements with Hartford and Lincoln state that the companies agreed to (1) "expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy" and (2) "work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market." However, the agreements do not detail how TARP funds are to be used to accomplish these goals.

Hartford: Hartford, which received $3.4 billion, reported that it invested $3.2 billion (94 percent) of its TARP funds in short-term liquid assets, such as mortgage-backed securities and corporate bonds. Hartford invested approximately $2.7 billion at the holding company level in eight different investment funds and $500 million in six different investment funds through its

[11] Treasury and the Federal Reserve originally announced TALF as a $200 billion program that included $20 billion of TARP funds for purchasing surrendered collateral. TALF was designed to increase the credit available for consumer and small-business loans through a Federal Reserve loan program backed by TARP funds. TALF provides non-recourse loans to investors secured by certain types of asset-backed securities.

life insurance subsidiary. Hartford officials stated that these investments, which provide Hartford with additional capital reserves, would allow it to continue to sell individual annuities, life insurance, and group business policies.

Between June and September 2009, Hartford provided $195 million in TARP funds to Federal Trust Bank, the thrift it acquired for the primary purpose of enabling it to qualify for CPP funds, to support its recapitalization. Federal Trust Bank has maintained the funds in its Federal Reserve Account and has used $47 million, together with its operating cash flow, to repay higher cost debt. As of September 30, 2009, the CPP funds remaining at Federals Trust Bank's Federal Reserve Account totaled $148 million.

Hartford received substantially more TARP funds than the thrift could have received had it applied and been accepted for TARP funds on its own. Under Treasury's guidance, CPP funding may be from one percent to three percent of the recipients firm's risk-weighted assets, up to $25 billion.[12] Based on these criteria, had Federal Trust Bank met Treasury's criteria for a "viable" thrift and hypothetically had all of its assets carried zero risk weight, it would have been eligible for a maximum of only about $18 million in CPP funding. A Treasury official stated that, because the CPP funds went to Hartford, Federal Trust Bank's holding company, Treasury's analysis was based on Hartford's assets. He also noted that the Federal Trust Bank did not apply independently for CPP funding.

Lincoln: Lincoln, which received $950 million of TARP funds, reported that it invested $608 million (64 percent) in domestic corporate bonds and mortgage-backed securities, and $342 million (36 percent) is to be invested in commercial mortgage-backed securities, commercial real estate loans and domestic bonds. According to Lincoln officials, the additional funds provided by TARP will allow it to continue to sell individual annuities, life insurance, and group business policies. Under insurance risk-based capital guidelines, Lincoln is required to hold capital against the business it underwrites in the event of financial losses. The amount of capital or leveraged assets required differs from product to product and is largely dictated by the nature of the insurance liability and the amount of asset risk it takes.

According to Lincoln officials, the leveraging impact of the CPP funding suggests that "for every $100 dollars of capital, [Lincoln] can support roughly 20 times that amount in new [insurance and retirement] product sales." As such, they project that TARP funds will allow the company to expand its business and that its investment in assets such as commercial mortgage-backed securities will indirectly support the extension of credit to institutions and individuals. Unlike Hartford, Lincoln had invested $10 million of its own capital to acquire Newton County prior to receiving TARP funds. Lincoln officials stated that the thrift is currently well capitalized and can afford to invest in new technology and necessary upgrades without further capital infusion. Had Newton County applied to CPP on its own and met the criteria for a "viable" thrift, and

[12] Risk-weighted assets are the amount of a bank's total assets after applying risk factor to each asset class. Cash for example, would be a low-risk asset, whereas commercial mortgage-backed securities carry a higher risk. Subsequent to Hartford's funding, CPP was changed so that banks that have less than $500 million of total assets are eligible to apply for up to 5 percent of their risk-weighted assets.

hypothetically had all of its assets carried zero risk weight, it would have been eligible for a maximum of about $350,000.

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See appendices B through G for a more complete discussion of each company's accounting for and use of TARP funds.

Conclusions and Recommendation

Although the extent that companies segregated TARP funds from their other capital varied, all six companies were able to report on actual or planned activities that were supported by TARP funds, such as paying current bills, increasing capital reserves, and/or increasing lending. In some cases, companies leveraged TARP funds to provide loans or insurance policies worth significantly more than the face value of the TARP investment. The responses of the six companies in this audit, along with our previous report on use of CPP funds by 360 banks, conclusively and demonstrably prove that TARP recipients can provide meaningful information on how they use TARP funds.

Beyond the transparency issue, the examples of the CPP investments in two insurance companies highlight an incongruity in the CPP program design that is worth noting. Hartford and Lincoln were able to obtain CPP funds by buying small thrift savings institutions and becoming thrift/ savings and loan holding companies, thereby meeting the technical criteria for receipt of CPP funds. The amount of CPP funds provided, however, was then determined by the assets of the holding company (*i.e.*, the parent insurance company), not just the assets of the much smaller qualifying thrifts. In the case of Lincoln, for example, the company was able to obtain $950 million in TARP funds after it acquired a thrift that, on its own, would have been able to obtain at most $350,000 (if it would have qualified for CPP funding at all). Moreover, in using TARP funds, there was no requirement that TARP funding be used in connection with the subsidiary thrifts' activities. As it happened, the insurance companies reported that they used little (in the case of Hartford) or no (in the case of Lincoln) TARP funds in connection with the subsidiary thrifts' activities but rather used the vast bulk of the funds to support their insurance businesses. Stated another way, simply by purchasing comparatively tiny thrifts, Hartford and Lincoln—companies whose primary businesses (unlike other CPP participants) have little to do with lending to consumers and businesses—gained access to more than $4.3 billion in taxpayer funds, an amount that is many multiples of the thrifts' total assets.

Recommendation and Treasury's Adoption Thereof

From its inception, SIGTARP's most fundamental recommendation with respect to basic transparency in the operation TARP has been that Treasury require all TARP recipients to report periodically on their use of TARP funds. The efficacy of this common sense recommendation — initially made in December 2008 (just eight days into SIGTARP's existence) and later examined through a survey of 364 TARP recipients and supported by an initial audit report issued in July 2009 — has now been fully reaffirmed by this report. Once again, this audit demonstrates that meaningful information supporting basic transparency in the operation of TARP can indeed be generated by requiring TARP recipients to report on what they did with the taxpayers' money. Even when TARP recipients do not segregate TARP funds, they are fully capable of providing a general indication of what they have been able to do that they would not otherwise have been able to do without TARP funds.

Notwithstanding Treasury's previously articulated skepticism about this recommendation — saying that use of funds reporting would not be "meaningful" and deeming the recommendation "closed" as recently as this September — to its credit, Treasury has been willing to remain engaged with SIGTARP on this issue and has recently informed us that it has decided to undertake surveying and reporting on recipients' use of TARP funds. Building on positive steps taken by Treasury over the past several months, Treasury will be obtaining and reporting to the public qualitative responses from each TARP recipient on their use of TARP funds, backed by quantitative data obtained from the recipients' regulators and Treasury's own analysis. For the first time, Treasury will be collecting and publicly reporting this data, and it will be doing so on an institution-by-institution basis. We believe that Treasury's decision to provide this basic transparency will provide meaningful information to the public and to policy makers on whether the TARP programs have met their goals and, as a result, will significantly enhance the credibility of TARP. If implemented as described, Treasury's plan on this front will constitute an adoption of SIGTARP's recommendation.

Although SIGTARP has been highly critical of Treasury for its previous refusal to adopt this recommendation, Treasury—at the very highest levels—should be given substantial credit for its willingness (a) to continue to work with SIGTARP on this issue, (b) to change course notwithstanding its prior views and public comments, and (c) to develop a workable plan for implementation that will finally give the American people (the investors in TARP) the transparency they deserve on how their money is being used.

Management Comments and SIGTARP's Response

In commenting on a draft of this report, in addition to confirming that it will be collecting and reporting upon TARP recipients' use of funds, Treasury has taken issue with SIGTARP's comments above about the participation of Hartford and Lincoln in CPP, asserting that "the report fails to explain why the CPP was designed in this manner." Treasury's letter then goes on to explain how these insurance companies' participation is consistent with the letter of EESA and Treasury's own CPP program rules.

Treasury's criticism of the report, however, misses the point. This report does not suggest that the insurance companies' participation was contrary to the letter of EESA or the CPP rules that Treasury instituted — and if it was, SIGTARP would have taken prompt action to address such non-compliance — but rather that such participation was incongruous with the spirit and intent of the CPP program. Treasury no doubt could have, consistent with EESA, designed a program specifically to provide capital to insurance companies, much as it designed programs to provide support to other non-banking enterprises such as AIG and the auto industry, but it did not. Instead, Treasury chose to allow the insurance companies access to the CPP program, a program that has otherwise been geared toward providing banks and similar institutions engaged in lending with a strengthened capital base so that they, according to Treasury's website, could "have an increased capacity to lend to U.S. businesses and consumers and to support the U.S. economy." As demonstrated by this audit, the investments in Hartford and Lincoln supported those entities' insurance businesses, not their comparatively tiny, newly acquired thrifts. Further, the amount of the CPP investments (which was based on the parent insurance companies' assets) dwarfed the size of the thrifts that made the insurance companies CPP eligible in the first instance. Simply put, Treasury fit the enormous investments in these insurance companies, huge proverbial pegs, into the small round holes represented by the technical CPP eligibility brought about through these targeted acquisitions.

Appendix A—Scope and Methodology

We performed this audit under the authority of Public Law 110-343, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978, as amended. This audit reports on the use of TARP funds by six companies that participated in TARP. Our specific objective was to determine how these TARP recipients accounted for and used the funds obligated to it by Treasury.

We performed this audit in accordance with generally accepted government auditing standards from July to October 2009. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

To ascertain how the companies accounted for and used TARP funds, we interviewed Treasury officials and officials from each company**.** We also reviewed and cross-checked corporate financial information with Treasury-issued documents. The documents analyzed for this report include:

- SIGTARP's Quarterly Reports to Congress, July 21, 2009 and October 21, 2009
- Company responses to SIGTARP's February 2009 "Use of Funds" survey
- Treasury's CPP Case Decision Memoranda
- Credit agreements between TARP recipients and Treasury
- Loan and Security Agreements between TARP recipients and Treasury
- Treasury's corporate term sheets
- Securities and Exchange Commission filings
- Company investor relations presentations and press releases
- Office of Financial Stability TARP Transactions and Dividends Reports

Internal Controls

We used data files from Treasury related to TARP transactions, but did not verify the information. We also used information that the companies provided us and to the Securities and Exchange Commission. We compared the information obtained from Treasury with the data collected from the individual companies for consistency. We found no material discrepancies.

Use of Computer-Generated Data

Much of the information provided by the six companies included in this review came from independently audited financial systems. As a result, we believe that the data is sufficiently reliable as a basis for our conclusions.

Prior Coverage

SIGTARP Survey Demonstrates that Banks Can Provide Meaningful Information on Their Use of TARP Funds, SIGTARP-09-001, July 20, 2009.

Appendix B—General Motors

As early as the second quarter of 2008, GM anticipated a reduction in cash flow due to fewer automobile sales, and it reported that it had initiated a plan to reduce operating costs and raise capital in the private marketplace, closing factories and cutting its workforce in the process. In October 2008, GM began discussions with the U.S. Government for financial assistance. Although GM sought assistance from Congress, it was unable to secure financing through legislation. GM officials stated that, by December 2008, the company had reached a liquidity crisis: cash revenues from operations were insufficient to fund ongoing operations. With no alternative sources for financing, GM entered into a Loan & Security Agreement with Treasury and received an initial tranche of $13.4 billion in TARP funds in December 2008 to allow it to pay its outstanding bills and avoid bankruptcy, at least in the short term. From January through the end of May 2009, GM received another $6.0 billion to allow it to continue operating.

Treasury subsequently entered into the debtor-in-possession loan with GM, in the amount of $30.1 billion, which was fully funded during its bankruptcy. Of this amount, $16.4 billion of the unused $30.1 billion debtor-in-possession funds was used to fund an escrow account that was transferred to the new GM under a new loan agreement. As of November 18, 2009, Treasury had disbursed a total of $49.5 billion in TARP funds to GM, of which it has used about $35.8 billion (see Table 4).

Table 4: TARP AIFP Disbursement to GM [a] ($ in Billions)

Category	Time Period	Funds Disbursed by Treasury	Funds Used by GM
Pre-bankruptcy	Dec. 31, 2008 – May 31, 2009	$19.4	$19.4
Bankruptcy	Jun. 3, 2009 – Jul. 9, 2009	30.1	13.6
Post-bankruptcy	Jul. 10, 2009 – Present	---	2.8
TOTAL		**$49.5**	**$35.8**

Notes
a. On December 29, 2008, Treasury loaned $884 million to GM. GM was required to use the proceeds to purchase common membership interests in GMAC and made the purchase on January 16, 2009. The Loan Security Agreement included an option for Treasury to exchange the amount owed for GMAC common membership interests. On May 29, 2009, Treasury exercised its option and terminated the GMAC loan with GM. In connection with the transaction, Treasury was granted the right to appoint two Board members at GMAC. This amount is excluded from the direct TARP investment in GM shown in Table 4. In addition, the Table 4 does not include funds received through the Supplier Receivable Program, the Auto Warranty Commitment Program, or the Canadian Government.

Source: General Motors

With its $49.5 billion investment in GM, Treasury received these direct financial interests in GM:

- 60.8 percent common stock interest in the new General Motors Company
- $2.1 billion in preferred stock of General Motors Company

- $7.1 billion interest-bearing notes from General Motors Company maturing in 2015[13]

As of October 31, 2009, Treasury has received about $302 million in dividends and interest on its TARP AIFP investment in GM.

Accounting for TARP Funds

GM stated that it did not segregate TARP funds from other operating funds. The agreements with Treasury did not require it to do so. However, Treasury did include specific reporting requirements on GM's short- and long-term viability. The December 31, 2008 Loan and Security Agreement with Treasury required that GM notify Treasury of any defaults, litigation, material adverse company effects, change of control, significant adverse legal judgments, and changes in accounting policies. GM was also to provide reports related to its finances, such as a 13-week rolling cash forecast, liquidity status, and changes to its expense policies. In April 2009, Treasury amended the Loan and Security Agreement to require any draw of funds to be accompanied by a certificate signed by an officer of GM setting forth the intended use of the requested advance. Additionally, Treasury implemented a requirement that GM provide Treasury, upon request, a certification that GM has used the loan proceeds in accordance with the previous intended use, as well as supporting documentation. In both the debtor-in-possession credit facility and the loan agreement with the new GM, Treasury implemented provisions to account for the use of funds.

Use of TARP Funds

The December 31, 2008, Loan and Security Agreement between GM and Treasury permitted TARP funds to be used for "general corporate and working capital" purposes. In addition, the Agreement listed 22 categories of permitted investments associated with the loan, as well as restrictions on certain investment, financing, and operating activities—including entrance into joint ventures and incurring new debt. Certain transactions, such as transactions over $100 million and entering into joint ventures, require approval of Treasury. The subsequent agreements included similar restrictions and defined corporate purposes.

According to GM officials, through the first six months of 2009, TARP funds were GM's primary source of funding along with operating receipts. In the face of ongoing liquidity requirements, GM used the funds received under the original Loan and Security Agreement ($19.4 billion), a portion of the Debtor-in-Possession financing ($8.5 billion), and funding from the Canadian Government ($2.2 billion) to pay its operating costs and other corporate expenses, primarily payments to its employees and suppliers. A total of about $35.8 billion of TARP funding, combined with cash generated through other operating, financing, and investing activities of the business, has been utilized as necessary to support the restructuring of the company and for general corporate purposes and working capital needs. Table 5 shows the impact of government funds on GM's cash balances as a major source to cover its operating and corporate expenses from December 31, 2008, through June 30, 2009.

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[13] GM made a partial repayment of $0.4 billion on July 10, 2009, leaving an outstanding principal balance of $6.7 billion under the notes.

Table 5: Impact of Government Investments on General Motors Liquidity Pool - Dec. 31, 2008 – Jun. 30, 2009 ($ in Billions)

Description	Amount
Beginning cash balance as of December 31, 2008	$2.7
Receipts from operations	31.6
Disbursements for operations and net non-operating activities	(56.4)
Negative cash flow without government investment	($22.1)
Treasury TARP investment [a]	27.9
Canadian Government investment	2.2
Ending cash balance as of June 30, 2009	**$8.0**

Source: General Motors

Notes:
a. TARP funds used from December 31, 2008 through June 30, 2009 to meet GM's expenses.

$1.2 billion is being used to support the wind-down of old GM (of which $986 million, or 84 percent of which, was funded by Treasury and $189 million by Export Development Canada, Canada's export credit agency). According to Motors Liquidation Company officials, a portion of these funds will be set aside for environmental clean-up and other costs associated with closing manufacturing plants.

Upon the sale of substantially all the assets of old GM to new GM, $16.4 billion of the unused loan funds was placed in an escrow account and made available to GM according to a Treasury approval process. In October 2009, Treasury granted a request for the release of $2.8 billion in TARP funds from the escrowed funds in order to resolve the bankruptcy of Delphi, a major parts supplier. Approximately $1.7 billion was used to acquire a membership interest in the new Delphi entity and approximately $1.1 billion was used to acquire of Delphi's global steering business and four parts-manufacturing facilities. GM stated that it does not anticipate applying for additional releases from the escrow account for its operations in 2009. GM officials stated that a portion of the escrow proceeds is expected to be used to pay the outstanding $6.7 billion Treasury and $1.3 billion Canadian loans.

Appendix C—Chrysler

In a statement made before the Congressional Oversight Panel on July 27, 2009, a Chrysler Group LLC[14] official stated that as the credit markets tightened in fall 2008, the U.S. automotive industry, including Chrysler LLC (now known as Old Carco LLC), faced an impending liquidity crisis. The availability of loans to dealers and consumers became severely restricted, and Chrysler would have been unable to meet its operating expenses. Facing a severe capital shortage and the lack of other available government assistance, Chrysler requested a $7 billion bridge loan under TARP. On January 2, 2009, Chrysler Holding LLC received an initial loan of $4 billion from Treasury. Old Carco LLC then received $1.9 billion in debtor-in-possession funds on May 1, 2009.

Chrysler Group LLC received a secured loan for $7.1 billion[15] in TARP funds in connection with its purchase of Old Carco LLC's principal operating assets on June 10, 2009, of which about $4.6 billion has been drawn. Table 6 shows TARP funds obligated to Old Carco LLC and Chrysler Group LLC.

Table 6: Funds Obligated by Treasury and Used by Old Carco LLC and Chrysler Group LLC as of October 31, 2009 ($ in Billions)

Category	Time period	Funds Obligated by Treasury	Funds Used
Pre-bankruptcy	Dec. 2008 - Apr. 30, 2009	$4.0 [a]	$4.0
In-bankruptcy	Apr. 30, 2009 - Jun. 10, 2009	1.9 [b]	1.9
Post-bankruptcy	Jun. 10, 2009 – Present	6.6 [c]	4.6
Total		**$12.5** [d]	**$10.5**

a. Excludes $500 million that Treasury obligated but subsequently de-obligated
b. Excludes $1.9 billion that Treasury obligated but subsequently de-obligated
c. Includes $350 million available for GMAC risk-sharing
d. Excludes Supplier Receivable SPV and Warranty SPV loans

Source: Department of the Treasury and Chrysler Group LLC

[14] Chrysler Group LLC (formerly New Carco Acquisition LLC) was formed in April 2009 by Fiat North America LLC, an offshoot of Fiat S.p.A. Chrysler Group LLC purchased the principal operating assets of Chrysler LLC on June 10, 2009. It is owned by the UAW Retiree Medical Benefits Trust, a voluntary employees' beneficiary association trust (67.7 percent), Fiat North America LLC (20 percent), the United States Department of the Treasury (9.8 percent), and the Canadian Government (2.5 percent). Chrysler LLC filed for bankruptcy on April 30, 2009. It was owned by Chrysler Holding LLC, which in turn was held by affiliates of Cerberus Capital Management L.P. (80.1 percent) and Daimler AG (19.9 percent). Chrysler Holdings LLC also owns Chrysler Financial Services Americas LLC, a company that provides financing to automotive dealers and consumers. Chrysler LLC and Chrysler Financial were operated independently from each other under separate managements.
[15] The $7.1 billion consists of $6.6 billion in new funding and $500 million of assumed debt from the initial loan to Chrysler Holding LLC.

In return for providing a secured term loan to Chrysler Group LLC, Treasury received a 9.8 percent equity interest. As of October 31, 2009, Treasury reported that it has received more than $55 million in interest payments from Chrysler Holding LLC.

Accounting for TARP Funds

None of Chrysler Holding LLC, Old Carco LLC, and Chrysler Group LLC segregated TARP funds from other institutional capital. Such segregation, according to Chrysler officials, is not a customary practice for industrial companies. However, Old Carco LLC did segregate proceeds received from the disposition of certain collateral in which Treasury was granted a first lien priority interest under the TARP loan. Old Carco LLC has stated that it established two such cash collateral accounts:

- a cash collateral account relating to the balance of its spare parts inventory, which it has pledged as collateral for the loan, and
- a cash collateral account relating to the disposition of certain other property, which it has also pledged as collateral for the loan.

Treasury also required Chrysler Holding LLC and Old Carco LLC to report frequently on their viability and expenditures, including 13-week rolling cash forecasts, liquidity status, and changes to their expense policies. Company officials noted that its cost committee held daily meetings to provide oversight for the use of all company funds during the bankruptcy period. According to company officials, the committee could cut the company's expenses by discontinuing or limiting services. In May 2009, Treasury amended the Loan and Security Agreement to require any draw of funds to be accompanied by a certificate signed by an officer of Chrysler Holding LLC setting forth the intended use of the requested advance. Additionally, Treasury implemented a requirement that Chrysler Holding LLC provide Treasury, upon request, a certification that it has used the loan proceeds in accordance with the previous intended use, as well as supporting documentation. Likewise, in the debtor-in-possession credit facility with Old Carco LLC, Treasury implemented provisions to account for the use of funds. The restrictions on the use of funds were tied to a specific budget of the company during bankruptcy and, later, the wind-down budget.

The agreement between Treasury and Chrysler Group LLC states that the company is bound by reporting requirements similar to those of Chrysler Holding LLC and Old Carco LLC. The use of proceeds is limited to a specific set of purposes, and Chrysler Group LLC must submit a "Use of Proceeds Statement" describing how it intends to use an advance each time it requests a draw on the Treasury loan. Moreover, each quarter, Chrysler Group LLC must deliver to Treasury a report detailing the actual use of the loan proceeds.

Use of TARP Funds

The initial TARP loan agreement with Treasury provided that Chrysler Holding LLC use TARP proceeds for general corporate and working capital purposes. Likewise, the debtor-in-possession loan agreement with Old Carco LLC and the loan agreement with Chrysler Group LLC limited the use of funds to working capital needs and other corporate purposes. According to Chrysler officials, it used TARP funds, along with its other capital, primarily to pay its suppliers and auto dealers. Table 7 shows the impact of Treasury's TARP investment of the company's cash balance.

Table 7: Impact of Treasury Investment on Old Carco LLC U.S. Cash Balances Jan. 1, 2009 – June 10, 2009 ($ in Billions)

Description	Amount
Beginning cash balance (01/01/09)	$0.8
Receipts from operations	12.4
Disbursements for operations	(18.8)
Negative cash flow without government investment	($5.6)
Treasury TARP investment	5.9
Ending cash balance (06/10/09)	$0.3

Notes - U.S. entities only
Source: Chrysler Group LLC

Chrysler officials stated that Treasury's initial investment of TARP funds allowed Old Carco LLC to avoid near-term bankruptcy. However, Treasury required Old Carco LLC to prepare a restructuring plan for long-term sustainability of the company, which it submitted on February 17, 2009. On April 30, 2009, following a determination by Treasury that the company's plan did not indicate long-term viability, Old Carco LLC filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. It completed a sale of its principal operating assets to Chrysler Group LLC on June 10, 2009. With the aid of TARP funds, Old Carco LLC is liquidating its remaining assets in bankruptcy and Chrysler Group LLC is operating the automobile production lines acquired from Old Carco LLC.

Appendix D—GMAC LLC

GMAC has been the primary financial services arm of GM for more than 90 years, providing automobile loans to individuals and commercial businesses. Through its residential mortgage subsidiary, Residential Capital, LLC, it also provides mortgage loans. In November 2006, GM sold 51 percent of the controlling ownership interest in GMAC to FIM Holdings, whose primary partner was Cerberus Capital Management, L.P. Beginning in 2007 and continuing through 2008, GMAC was adversely impacted by the severe stress in the credit markets as well as decreasing home values and the decline in GM's profitability. With a net loss of more than $2.0 billion in 2008, GMAC needed funding to recapitalize itself and preserve its lending capabilities. As capital markets continued to contract in the third and fourth quarters of 2008, Treasury's TARP became the sole option for additional capital. GMAC officials stated that its decision to pursue federal assistance was driven, in part, by the desire to preserve funding for $20-$30 billion of loans to U.S. auto dealers, 4.5 million U.S. consumer vehicle loans and leases and servicing for just under $400 billion of U.S. mortgages.

On December 29, 2008, Treasury invested $5 billion in GMAC. At the time of this investment, GMAC reorganized into a bank holding company and thus became eligible to participate in other Government support programs. On May 21, 2009, Treasury purchased an additional $7.5 billion of mandatorily convertible preferred equity in GMAC. Of this $7.5 billion investment, $4 billion supported GMAC's servicing of Chrysler loans and leases. The additional $3.5 billion helped GMAC address its capital needs as identified through the Supervisory Capital Assessment Program stress test completed with the Federal Reserve. At the time of the initial Treasury investment, the Federal Reserve required GMAC to raise $2 billion of new equity. GMAC raised $1.1 billion through private investments, and Treasury loaned GM the remaining $884 million to purchase GMAC equity; GM purchased additional equity in GMAC on January 16, 2009. On May 29, 2009, Treasury exchanged this $884 million loan to GM for a portion of GM's common equity interests in GMAC. Through that exchange, Treasury now holds 35.4 percent of GMAC's common shares. According to GMAC officials, it has requested additional TARP funding, but its Board of Directors has since asked that this decision be postponed until GMAC's new management has assessed the company's financial situation to determine the appropriate amount and form of such funding

As of November 18, 2009, Treasury's TARP transaction report shows that GMAC has thus far received approximately $13.4 billion in TARP funds. Table 8 shows Treasury's AIFP allotment to, and funds used by GMAC.

Table 8: TARP AIFP Disbursement to GMAC and Funds Used ($ in Billions)

Agreement	Date	Funds Disbursed by Treasury	Funds Used by GMAC
Loan and Security Agreement	Dec. 29, 2008	$5.0	$5.0
Loan to GM for rights offering	Dec. 29, 2008	0.9	0.9
Loan and Security Agreement	May 21, 2009	7.5	7.5
Total		**$13.4**	**$13.4**

Source: Department of the Treasury Transaction Report for period ending, Nov. 26, 2009, unaudited and GMAC

As of October 31, 2009, Treasury reported that it has received about $431 million in dividend payments on its TARP AIFP investment in GMAC.

Accounting for TARP Funds

GMAC officials stated that GMAC did not segregate TARP funds from its other institutional funds. However, they added that current management routines and reporting processes are in place to track and forecast cash balances and the related sources and uses of funds. GMAC specifically stated that its Global Liquidity Reporting team meets bi-weekly to review and discuss such reporting. Through this process, its executive management team monitors GMAC's operating and lending activities and manages the company's cash balances to a level it considers sufficient to meet lending and operating needs. It added that this process serves as the basis for generally monitoring the use of TARP funds.

Although GMAC is not required to do so under its agreement with Treasury, the company's internal audit function plans to conduct periodic audits of the company's processes and reporting of its use of federal funds, according to GMAC officials. To date, its internal audit group has performed audits of executive compensation and travel and entertainment expenses. Additional audits will include GMAC's use of funds and reporting, and its governance and oversight of TARP compliance. In addition, Treasury designated two new members of the GMAC's Board. One is Chairman of the Audit Committee and a member of the Compensation, Nominating and Governance Committee; the other is Chairman of the Compensation, Nominating and Governance Committee and a member of the Audit Committee.

Use of TARP Funds

GMAC officials stated that the company used TARP funds to replenish its depleted equity caused by a significant decrease in asset values and continued operating losses. The use of TARP funds to recapitalize GMAC and the emergence of GM from bankruptcy has allowed GMAC to increase its lending activities that had been significantly curtailed. According to GMAC officials, it will leverage the $13.4 billion in TARP funds to make significantly more than $13.4 billion in new loans and dealer financings in 2009 and 2010.

Although GMAC's latest financial report shows a continued operating loss, the number of retail auto loans has almost doubled in each of the first two quarters of 2009. GMAC reported that its car loans increased from $999 million in the fourth quarter 2008, to $2.3 billion in the first quarter 2009, and $4.5 billion in the second quarter 2009. Further, GMAC estimates that since it took over financing Chrysler consumer loans and dealerships in May 2009, it has financed over $650 million of new Chrysler consumer originations through August 2009. GMAC has also reported that it has extended approximately $2 billion in wholesale financing to U.S. and Canadian Chrysler dealers. Finally, GMAC reported that its mortgage refinancing increased from $4.6 billion in the fourth quarter 2008 to $10.5 billion during the first quarter 2009 and to $14.7 billion during the second quarter 2009.

Appendix E—Chrysler Financial Services Americas LLC

For more than 40 years, Chrysler Financial served as the primary lending arm to consumers and dealers of Chrysler vehicles. In early 2009, due to disruptions in the capital markets, Chrysler Financial lacked access to sufficient and reasonably priced capital to enable it to continue to support Chrysler vehicle sales at previous levels. Chrysler Financial accepted TARP funds to support such sales while Chrysler was developing its viability plan. According to Treasury officials, TARP funds were provided to Chrysler Financial to allow the company to make retail loans to support economic growth. As reflected in the minutes of the meeting at which Treasury's TARP Investment Committee considered Chrysler Financial's application, TARP funds were intended to be a temporary measure until the Federal Reserve and Treasury's Term Asset-Backed Securities Loan Facility ("TALF") became operational, according to the January 14, 2009 TARP Investment Committee meeting minutes. TALF funds were later used by Chrysler Financial to help pay back the TARP loan.

In January 2009, Chrysler Financial established a special purpose vehicle (the "SPV"), Chrysler LB Receivables Trust, and the SPV entered into an agreement with Treasury to provide Chrysler Financial with retail loan capacity through AIFP. Under the terms of the agreement, TARP funds would not flow directly to Chrysler Financial. Rather, up to $1.5 billion would be placed into the SPV to finance qualified new retail auto loans. Use of the bankruptcy-remote SPV was intended to protect Treasury's interests.

The process worked as follows: Chrysler Financial used its own operating funds to make loans for Chrysler automobiles and it sold them to the SPV. The sale to the SPV ensured that no creditor, other than Treasury, had claims against these receivables. The purchase price paid by the SPV for these receivables was limited to a maximum of 85 percent of the face value of the receivables, providing additional loss protection to Treasury. Chrysler Financial funded the remaining 15 percent of the value of the sold receivables to the SPV in underlying equity contributions. TARP funds were released to Chrysler Financial only as qualified new receivables were sold to the SPV. Treasury reported that it had received about $7.4 million in interest on its TARP AIFP investment in Chrysler Financial.

Accounting for TARP Funds

The company segregated the money in the SPV, allowing the funds to remain separate from Chrysler Financial's general ledger accounts. Each month, Chrysler Financial submitted a report to Treasury showing the amount of TARP funds used by the SPV to purchase receivables. In addition, the Loan and Security Agreement required Chrysler Financial to provide Treasury with written documentation on defaults, litigation, and other actions involving changes in its accounting and organizational policies.

Use of TARP Funds

The agreement between Chrysler Financial and Treasury required that Chrysler Financial use TARP proceeds only to support Chrysler retail auto loans and was not to be used for its own operating expenses. Treasury required that these loans meet these specific criteria to ensure the taxpayer's investment in Chrysler Financial:

- Underlying loans must be vehicles manufactured by Chrysler.
- Loans originated must be from January 1, 2009, onward.
- Loans must originate in the United States.
- The borrowers in the loan pool had to have a weighted average credit score of 700.

According to Chrysler Financial, it used TARP funds to acquire loans for retail customers. With TARP funds, the company stated it was able to fund about 85,000 automobile loans from January 2009 to June 2009.

Beginning on March 17, 2009, Chrysler Financial began repaying its outstanding loan and accrued interest, completing full repayment on July 14, 2009. According to the Chief Financial Officer of Chrysler Financial, about 70 percent of the funds used to pay back the TARP loans were provided from transactions financed under the TALF program, and the remaining 30 percent was from private investors.

Appendix F—The Hartford Financial Services Group, Inc.

The Hartford Financial Services Group, Inc. is one of the largest life insurance and investment companies in the United States. Throughout 2008, Hartford experienced losses in its mortgage-backed securities investments and sought to raise capital to compensate for those losses. On November 14, 2008, Hartford applied to the Office of Thrift Supervision ("OTS") to become a thrift holding company and entered into a binding agreement to acquire Federal Trust Corporation and its insured depository, Federal Trust Bank. According to Treasury officials, the primary purpose of this acquisition was to allow Hartford to apply for TARP funds under the CPP, for approximately $3.4 billion, for which Hartford would otherwise be ineligible. Treasury established CPP to invest in viable financial institutions to promote financial stability, maintain confidence in the financial system, and permit these institutions to continue to meet the credit needs of American consumers and businesses. Under program guidelines, institutions that become bank or thrift holding companies were eligible to apply for CPP funds. In early January 2009, the OTS approved the purchase of Federal Trust Corporation contingent on Treasury's approval of Hartford's participation in the CPP.

According to Hartford's CEO, participation in the CPP was a prudent step for the company, particularly given the continued uncertainty in the economic markets. He added that Hartford would use TARP funds to strengthen its capital reserves and provide additional financial flexibility. Subsequent to preliminary CPP approval on May 14, 2009, on June 24, 2009, Hartford completed its purchase of Federal Trust Corporation and Federal Trust Bank, thereby becoming eligible to receive CPP funds. On June 26, 2009, Treasury provided $3.4 billion in TARP funds to Hartford. In return, Treasury received 3.4 million shares of Hartford's Series E preferred stock, which pay a 5 percent dividend per year for the first 5 years, and 9 percent thereafter. Treasury also received a warrant to purchase up to 52 million shares of common stock that it can exercise at $9.79 per share. On November 31, 2009, the closing price for Hartford's common stock was $24.48 per share. As of October 31, 2009, Treasury reported that it has received about $23 million in dividend payments on its TARP CPP investment in Hartford.

Accounting for TARP Funds

The agreements between Hartford and Treasury did not require the company to segregate TARP funds from its other capital. However, prior to receiving TARP funds, Hartford agreed with the Office of Thrift Supervision, its primary federal regulator, to segregate TARP funds. As a result, Hartford established:

- separate custodial accounts at the holding company and certain subsidiaries to segregate TARP funds and related investments;
- separate investment portfolios at the holding company and certain subsidiaries to segregate TARP funds and related investments; and
- unique identifiers in the general ledger to track TARP investments within the company's books and records.

Hartford officials stated that it established new CPP custodial accounts and portfolios at The Hartford Financial Services Group Inc., Hartford Life and Accident Insurance Company, Hartford Life Insurance Company, and Hartford Life and Annuity Insurance Company. Hartford has also said that it will maintain a central repository of supporting documentation at the holding company level to respond to requests for information. Accordingly, Hartford's Corporate Treasury Department maintains a repository that includes custody account statements, portfolio holding reports, general ledger reports and other supporting documentation.

Use of TARP Funds

Hartford officials stated that the company invested the $3.4 billion in TARP funds in high quality short-term investments or money market funds, as shown in Table 10, as well as in Federal Trust Bank. Hartford's holdings primarily include government or agency-backed securities or mutual funds.

Table 10: Hartford's Allotment of TARP Funds as of September 30, 2009 ($ in Millions)

Investment	Total
The Hartford Financial Services Group, Inc.	$2,705
Hartford Life Insurance Company	500
Federal Trust Bank	195
TOTAL	**$3,400**

Source: The Hartford Financial Services Group, Inc.

Between June and September 2009, Hartford provided $195 million in CPP funds to Federal Trust Bank to support its recapitalization. Federal Trust used $47 million, along with its internal operating cash flow, to repay high-cost liabilities and the rest was deposited into its account at the Federal Reserve, which, as of September 30, 2009, had a balance of $148 million. Hartford received substantially more TARP funds than the thrift could have received had it applied and been accepted for TARP funds on its own. Under Treasury guidelines in place at the time Hartford was funded, CPP funding was equal to not less than 1 percent or more than 3 percent of a recipient's risk-weighted assets. Based on these criteria, had Federal Trust bank met Treasury's criteria for a "healthy, viable" bank and hypothetically had all of its assets carried zero risk weight, it would have been eligible for a maximum of about $18 million in CPP funding. Under Treasury's policies for administering CPP funds, however, the amount of CPP funds awarded to a holding company of a depositary institution is based on the risk-weighted assets of the holding company, rather than those of the subsidiary depositary institution. Thus, Hartford received $3.4 billion in CPP funding based on its risk-weighted assets, including its overwhelmingly non-Federal Trust Bank related assets.

Federal Trust Bank

Federal Trust Bank is a federally chartered thrift stock-savings bank, headquartered in Sanford, Florida, with $602 million in assets as of September 30, 2008. In addition to its main offices, Federal Trust Bank has ten full-service branches in Orange, Seminole, Lake, Flagler, and Volusia counties. Its assets are concentrated in residential and commercial real estate loans, which the thrift has historically funded with customer deposits and borrowings.

According to an OTS analysis, as of September 30, 2008 the thrift was in "troubled" condition. [16] Absent a recapitalization, OTS had expected to put Federal Trust Bank into Federal Deposit Insurance Company ("FDIC") receivership in the first quarter of 2009. Hartford alleviated this condition by agreeing to purchase the thrift.

[16] The OTS analysis is in a publicly available Prompt Corrective Action report, dated February 3, 2009.

Appendix G—Lincoln National Corporation

Lincoln National Corporation and its subsidiaries operate under the marketing name Lincoln Financial Group. Lincoln is a Fortune 500 company that provides life insurance, retirement and group benefits, and investment management products to individuals and commercial entities across the United States and internationally. The company posted a loss of $506 million in fourth quarter 2008 and sought additional capital during a period when the credit and equity markets were unstable. As a result, it sought to participate in TARP and obtain funds to increase its capitalization and liquidity. However, to qualify for TARP funds under Treasury's CPP, Lincoln had to purchase a bank or thrift and become a bank or thrift holding company.

On November 14, 2008, Lincoln applied to OTS to become a thrift holding company. That same day, Lincoln entered into an agreement with Newton County Loan & Savings FSB to purchase the Indiana-based institution. At the time, the stability and viability of Newton County's loan portfolio were uncertain. Newton County was a $7 million mutual-thrift institution whose primary business was originating loans secured by single-family residences. By comparison, Lincoln is a $173 billion corporation with diversified financial investment portfolios. Lincoln officials told us that the company opted to acquire a small thrift because of its unfamiliarity with the savings and loan industry and because it wanted to minimize any potential risks associated with the acquisition.

Lincoln and Treasury officials stated that the primary purpose for purchasing Newton County was to become eligible for CPP funds. Lincoln officials added, however, that its acquisition of Newton was not contingent on Treasury's approval of its CPP application; it had been considering acquiring a bank or thrift for some time. Lincoln had invested $10 million of its own capital in Newton County prior to receiving TARP funds. Had Newton County applied to CPP on its own and met the criteria for a "healthy, viable" thrift and if hypothetically all of its assets carried zero risk weight, it would have been eligible for a maximum of about $350,000.
In May 2009, Lincoln received approval for up to $2.5 billion in TARP funding. According to Lincoln officials, as the credit and equity markets began to open, the company was able to secure $1.2 billion from non-government lenders. As a result, Lincoln only sought $950 million in CPP funds, which it received on July 10, 2009. In return, Treasury received 950,000 preferred shares with a 5 percent annual dividend for the first 5 years, and 9 percent thereafter. In addition, Treasury received a warrant to purchase slightly more than 13 million shares of common stock that it can exercise at $10.92 per share. Lincoln officials stated that it is reviewing the viability of raising private capital to retire CPP funds early, but it is more likely to repay the investment as market conditions dictate over the next few years. As of November 31, 2009, the price of Lincoln's common stock was about $23.29 a share. As of October 31, 2009, Treasury reported that it has received about $4.6 million in dividend payments on its TARP CPP investment in Lincoln.

Accounting for TARP Funds

According to Lincoln officials, the company placed the $950 million in TARP funds into a segregated account as part of its life insurance subsidiary's capital; it also tracks the money separately from the company's general capital. Lincoln officials added that although OTS did not require it to do so, the company maintains a clear accounting of the receipt of TARP funds, the same-day capital contribution to Lincoln National Life, and segregated portfolio accounts. Lincoln officials stated that separately accounting for the funds was necessary to track the money's specific use. Lincoln plans to report monthly to Treasury on the investment performance of TARP funds, and it is in the process of building internal reports as part of its automated systems, according to company officials.

Use of TARP Funds

Treasury considered Lincoln's financial position strong and the company viable without TARP funds. However, Lincoln deemed that TARP funds could provide additional protection for the company to prudently pursue its business plan. Lincoln indicated in its application for CPP funds that it would channel most of the TARP proceeds into its life insurance subsidiaries to increase their capital base. According to its filing, Lincoln stated that it would use TARP funds as follows:

- 60 to 70 percent in corporate bonds,
- 10 to 15 percent in commercial mortgage loans,
- 10 to 15 percent in agency mortgage-backed securities, and
- up to 5 percent in non-agency mortgage-backed securities/commercial mortgage-backed securities

According to Lincoln officials, the use of TARP funds is consistent with the company's lending activities and the original intent of the CPP, namely investing in funds to support the U.S. economy and providing credit to credit markets. Lincoln provided SIGTARP updated information indicating that it had used TARP funds to purchase approximately $608 million in domestic corporate bonds and mortgage-backed securities, with the remaining $342 million to be invested in commercial mortgage loans that it plans to originate, domestic bonds, and asset-backed securities. Many of these assets carry a low risk weight and can be used as leveraged collateral in ways similar, although not identical, to cash. According to Lincoln officials, TARP funds allowed it to continue to underwrite business by selling individual annuities, life insurance, and group business.

Under insurance risk-based capital guidelines, Lincoln is required to hold capital against the business it underwrites. The amount of capital required differs from product to product and depends on the nature of the insurance liability and the amount of asset risk it takes. For example, according to Lincoln officials, variable annuities generally require less capital support—approximately three percent—because the underlying investment risk is borne by the policyholder. On the other hand, fixed annuity deposits are invested in the insurance company's general account where the insurance company takes on the asset risk. As a result, it must hold approximately five percent of the initial deposit as capital. The investments that Lincoln made with TARP funds count towards the total amount of capital it must hold. Accordingly, Lincoln officials stated that the leveraging impact of the CPP funding can be "up to 20 times that amount in new [insurance and retirement] product sales." This leveraging ability is governed by the National Association of Insurance Commissioners risk-based capital requirements that dictate capital guidelines for the insurance industry on a product-by-product basis. As such, Lincoln projects that TARP funds will allow the company to accept more insurance deposits and invest the assets that make up reserves back into the economy through investing in structured securities like residential mortgage and credit card-backed securities.

Lincoln officials added that, while the company is assessing the potential for early repayment, it expects to pay back TARP funds before the interest rate rises to 9 percent at the end of 5 years. These officials also stated that Lincoln would like to see the economic situation improve before repaying the funds to include less volatile credit markets, the recovery of bonds to pre-recession prices, and the availability of markets for issuing common stock at prices higher than it currently stands.

Newton County Loan & Savings FSB

Prior to its purchase by Lincoln in January 2009, Newton County was a federal mutual savings bank (thrift) with roughly $7 million in assets. It had one branch office in Goodland, Indiana, and three employees. According to Lincoln officials, at the time of its acquisition, Newton County was the 37th-smallest savings & loan bank in the United States. Its assets were concentrated in non-owner occupied, single-family residential loans in the Indianapolis, Indiana, area.

Lincoln officials stated that prior to acquiring Newton County, the thrift needed financial assistance. Throughout 2007 and 2008, Newton County's capital, earnings, and loan portfolio had deteriorated in part because of untimely payments or defaults on loans it had issued. After conducting a June 2008 field visit, the OTS considered Newton County to be "significantly undercapitalized." Further, Newton County had received poor quality of service ratings from the government in other areas. As a small institution incorporated into the Community Reinvestment Act, Newton County was required to help meet the credit needs of the local community by issuing residential loans. Over a 5-year period, however, it had issued only four loans in its local community out of the 550 loans it originated. The OTS stated that Newton County also had other weaknesses attributable to its small size, geographical location, and managerial resources, including its limited products and outdated technology systems.

Since its acquisition of Newton County, Lincoln reported that it has focused on recapitalizing and restructuring the thrift. Lincoln officials stated that it has injected $10 million of capital into the thrift which was not funded with TARP proceeds. Lincoln also appointed a new thrift president, a company employee, and according to Lincoln officials, it is overhauling Newton County's technology and security systems. Lincoln officials stated that the thrift is currently well capitalized and can afford to invest in new technology and necessary upgrades without further capital infusion.

Appendix H—Management Comments

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

December 9, 2009

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General for the Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

RE: SIGTARP Official Draft Audit Report

Dear Mr. Barofsky:

Thank you for giving the U.S. Department of the Treasury ("Treasury") the opportunity to review and comment on your official draft audit report regarding the use of Troubled Asset Relief Program ("TARP") funds by six companies, specifically Chrysler, Chrysler Financial, General Motors, GMAC, Hartford Financial Services, and Lincoln National. This letter provides our official comment on the draft report in two areas: (1) Treasury's plans to collect information from financial institutions that have participated in the Capital Purchase Program ("CPP"); and (2) the rationale for certain CPP program requirements.

First, we appreciate your collaboration on our *Use of Funds Survey*. As you mention in the report, Treasury will collect and analyze information from CPP recipients to gauge the effectiveness of the CPP. Treasury will post all answers that are collected from each individual CPP recipient through the *Use of Funds Survey*, and will publish the names of any financial institutions that fail to submit a survey response to Treasury, on the *FinancialStability.gov* website. Additionally, Treasury will post a summary of quantitative data on the categories provided in the overall Quarterly CPP Report for each individual CPP recipient on the *FinancialStability.gov* website.

We also appreciate the fact that the report notes that Treasury included specific measures in the loan agreements with Chrysler and General Motors regarding their use of funds. These auto companies are required to submit certified statements identifying how they plan to use their requested funds each time the companies draw down additional funds under their loan agreements. The information SIGTARP described in the report is consistent with the information previously provided to us.

Second, SIGTARP notes in the report that Hartford Financial Services and Lincoln National were able to obtain larger CPP investments from Treasury than they would have otherwise received if the thrift institutions they acquired had applied and been accepted to participate in CPP on their own. However, the report fails to explain why the CPP was designed in this manner.

The Emergency Economic Stabilization Act of 2008 (the "Act") broadly defined the "financial institutions" from which Treasury could purchase troubled assets, and specifically included in that definition insurance companies. The Act also required that Treasury ensure that "all financial institutions are eligible to participate, without discrimination based on size, geography, form of organization, or the size, type and number of assets eligible for purchase under the Act." The CPP was designed to insure that consistent rules would be followed as to when capital would be provided and on what terms. These terms included, among others, that (i) only certain types of "qualified financial institutions" could apply, which included bank and thrift holding companies, (ii) a federal banking regulator had to recommend approval of the application, (iii) the investment would be made at the holding company level where possible or at the highest level that allows Tier 1 capital treatment by the applicable regulator, and (iv) the amount of capital available would be based on risk weighted assets of the entity in which the investment is made. The cases cited in the report reflect the consistent application of the rules of the program.

We share your commitment to transparency and accountability in all of TARP's programs and policies. Again, thank you for your comments on our survey, which we believe will provide meaningful information for taxpayers on the effectiveness of the CPP. We look forward to continuing to work with you and your team as we continue our efforts to stabilize our financial system.

Sincerely,

Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability

Appendix I—Audit Team Members

This report was prepared and the review was conducted under the direction of Barry W. Holman, Deputy Special Inspector General for Audit, Office of the Special Inspector General for the Troubled Asset Relief Program.

The staff members who conducted the audit and contributed to the report include:

Michael Kennedy

Joshua Moses

Charles Thompson

Appendix J—Acronyms

Acronym	Definition
AIFP	Automotive Industry Financing Program
Chrysler Financial	Chrysler Financial Services Americas
CPP	Capital Purchase Program
EESA	Emergency Economic Stabilization Act of 2008
FDIC	Federal Deposit Insurance Corporation
GM	General Motors
GMAC	GMAC LLC
Hartford	The Hartford Financial Services Group, Inc.
IPO	Initial Public Offering
Lincoln	Lincoln National Corporation
Newton County	Newton County Loan & Savings FSB
OTS	Office of Thrift Supervision
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SPV	special purpose vehicle
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury

SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement, or misrepresentations associated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline.

By Online Form: www.SIGTARP.gov *By Phone:* Call toll free: (877) SIG-2009

By Fax: (202) 622-4559

By Mail:
Hotline: Office of the Special Inspector General
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