GLOSSARY

This appendix provides a glossary of terms that are used throughout the context of this report.

504 Community Development Loan Program: SBA program combining Government-guaranteed loans with private-sector mortgage loans to provide loans of up to $10 million for community development.

7(a) Program: SBA loan program guaranteeing a percentage of loans for small businesses that cannot otherwise obtain conventional loans at reasonable terms.

Asset Backed Securities ("ABS"): Bonds backed by a portfolio of non-mortgage consumer or corporate loans, *e.g.,* credit card, auto, or small business loans. Financial companies typically issue ABS backed by existing loans in order to fund new loans for their customers.

Auction Agent: Firms (such as investment banks) that buy a series of securities from one institution for resale — also called "underwriters."

Collateral: Asset pledged by a borrower to a lender until a loan is repaid.

Commercial Mortgage-Backed Securities ("CMBS"): Bonds backed by one or more mortgages on commercial real estate (*e.g.,* office buildings, rental apartments, hotels) rather than by residential real estate loans.

Common Stock: Equity ownership entitling an individual to share in corporate earnings and voting rights.

Community Development Financial Institutions ("CDFIs"): Financial institutions eligible for Treasury funding to serve the CDCI's targeted demographic under the CDFI Fund. CDFIs were created in 1994 by the Riegle Community Development and Regulatory Improvement Act.

Cumulative Preferred Stock: Stock requiring a defined dividend payment. If the company does not pay the dividend on schedule, it still owes the missed dividend to the preferred stock's owner.

Custodian Bank: Bank (for TALF the custodian is BNY Mellon) holding the collateral and managing accounts for FRBNY.

Debtor-in-Possession ("DIP"): Company operating under Chapter 11 bankruptcy protection that technically still owns its assets but is operating them to maximize the benefit to its creditors.

Dutch Auction: For a Treasury warrant auction (which has multiple bidders bidding for different quantities of the asset) the accepted price is set at the lowest bid of the group of high bidders, whose collective bids fulfill the amount offered by Treasury.

Equity Capital Facility: Commitment to invest equity capital in a firm under certain future conditions.

Exceptional Assistance Recipients: Companies receiving assistance under SSFI, TIP, AIFP, and any future Treasury program designated by the Treasury Secretary as providing exceptional assistance. Current recipients are AIG, Chrysler, GM, and Ally Financial (formerly GMAC).

Excess Reserves: Balances held in within the Federal Reserve System excess of the required reserve and any other contractually required balances.

Federal Funds: Funds deposited by commercial banks at the Federal Reserve banks, thereby enabling banks temporarily falling short of reserve requirements to borrow funds from banks with excess reserves.

Federal Funds Rate: Rate charged by a depository institution on an overnight loan of federal funds to another depository institution; the rate may vary from day to day and from bank to bank.

Federal Funds Transactions: Short-term transactions in immediately available funds — made between depository institutions and certain other institutions that maintain accounts with the Federal Reserve — that involve lending balances at the Federal Reserve; such transactions are usually not collateralized.

Haircut: Difference between the value of the collateral and the value of the loan (the loan value is less than the collateral value).

Illiquid Assets: Assets that cannot be quickly converted to cash.

Legacy Assets: Commonly called troubled or toxic assets, these are real estate-related loans and securities issued before the financial institutions' balance sheets. Legacy assets lost significant value at the onset of the financial crisis and were difficult to price because of market disruption.

Legacy Securities: Real estate-related securities lingering on the balance sheets of financial institutions because of pricing difficulties resulting from market disruption.

Limited Partnership: Partnership in which there is at least one partner whose liability is limited to the amount invested (limited partner), and at least one partner whose liability extends beyond monetary investment (general partner).

London Interbank Offered Rate ("LIBOR"): Interest rate that large banks in London charge each other for dollar-denominated funds.

Mandatorily Convertible Preferred Stock ("MCP"): Preferred share that can be converted to common stock at the issuer's discretion if specific criteria are met by a certain date.

Monetary Policy: Measures undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals.

Nationally Recognized Statistical Rating Organization ("NRSRO"): Credit rating agency registered with the SEC. Credit rating agencies provide their opinion on the creditworthiness of companies and the financial obligations issued by companies. The ratings distinguish between investment grade and non-investment grade equity and debt obligations.

Non-Agency Residential Mortgage- Backed Securities ("non-agency RMBS"): Financial instrument backed by a group of residential real estate mortgages not guaranteed by a Government-sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac").

Non-cumulative Preferred Stock: Type of preferred stock that also features a defined dividend but the company has no obligation to pay any dividends it misses.

Non-recourse Loan: Secured loan whereby the borrower is relieved of the obligation to repay the loan upon surrender of the collateral.

Open Market Operations ("OMO"): OMOs involve the purchase and sale of securities in the open market by a central bank. These transactions are a key tool used by the Federal Reserve to adjust the supply of reserve balances so as to keep the effective federal funds rate near the target rate. OMOs are conducted by the trading desk at the Federal Reserve Bank of New York.

Preferred Stock: Equity ownership that usually pays a fixed dividend prior to distributions for common stock owners but only after payments due to holders of debt and depositors. It typically confers no voting rights. Preferred stock also has priority over common stock in the distribution of assets when a bankrupt company is liquidated.

Pro Rata: Refers to dividing something among a group according to the proportionate share that each participant holds as a part of the whole.

Prompt Corrective Action Order: Federal law requires that Federal bank regulators take necessary actions to resolve the problems of insured depository institutions at the least possible long-term loss to the Deposit Insurance Fund.

Public Interest Standard: Regulatory standard that the Special Master is required to apply in making determinations. It refers to the determination of whether TARP-recipient compensation plans are aligned with the best interests of the U.S. taxpayer, based on a balancing of specific principles set forth in the Rule.

Quantitative Easing: Monetary policy used occasionally in which the Government increases the money supply by buying Government or other securities from the market. Quantitative easing aims to increase the money supply by flooding financial institutions with reserves in an effort to promote lending and liquidity. Such actions are conducted through OMOs.

Required Reserves: Balances held within the Federal Reserve System to satisfy reserve requirements.

Reserve Requirements: Amount of money a depository institution must keep in reserve against specified deposit liabilities. The reserves must be in the form of vault cash or deposits held at the Federal Reserve banks.

Residential Mortgage-Backed Securities ("RMBS"): Bonds backed by a pool of mortgages for residential real estate (*e.g.*, home mortgages for residences occupied by up to four families) rather than by commercial real estate loans.

Revolving Credit Facility: Line of credit for which the borrower pays a commitment fee and is then allowed to use up to a guaranteed maximum amount of funds as needed.

SBA Pool Certificate: Ownership interest in a bond backed by SBA-guaranteed loans.

Senior Executive Officer ("SEO"): "Named executive officer" of a TARP recipient as defined under Federal securities law, which generally includes the principal executive officer, principal financial officer, and the next three most highly compensated executive officers.

Senior Preferred Stock: Shares that give the stockholder priority dividend and liquidation claims over junior preferred and common stockholders.

Senior Subordinated Debenture: Debt instrument ranking below senior debt but above equity with regard to investors' claims on company assets or earnings. Senior debt holders are paid in full before subordinated debt holders are paid. There may be additional distinctions of priority among subordinated debt holders.

Skin in the Game: Equity stake in an investment; down payment; the amount an investor can lose.

Special Purpose Vehicle ("SPV"): Off-balance-sheet legal entity that holds the transferred assets presumptively beyond the reach of the entities providing the assets, and is legally isolated.

Spread: Difference between two interest rates or the excess of return on a particular security or instrument relative to a benchmark.

Synthetic ABS: Security deriving its value and cash flow from sources other than from a physical set of reference assets.

Systemically Significant: Term referring to any financial institution whose failure would impose significant losses on creditors and counterparties, call into question the financial strength of similar institutions, disrupt financial markets, raise borrowing costs for households and businesses, and reduce household wealth (also commonly used to describe institutions known as "too big to fail").

TALF Agent: Financial institution that is party to the TALF Master Loan and Security Agreement and which occasionally acts as an agent to the borrower. TALF Agents include primary and nonprimary broker-dealers.

Total Risk-Weighted Assets: Financial institutions' total assets after making adjustments based on each individual asset's risk factor.

Trial Modification: Under the design of HAMP, a trial modification is generally intended to last three months.

Trust Preferred Securities: Securities that have both equity and debt characteristics created by establishing a trust and issuing debt to it.

Undercapitalized: Condition in which a financial institution does not meet its regulator's requirements for sufficient capital to operate under a defined level of adverse conditions.

Under-Served Communities: Either geographic areas or demographic groups that Treasury's CDFI Fund division determines lack adequate access to financial services.

Underwater Mortgage: When a homeowner owes more on the mortgage than the home is worth. When a home's value drops and/or when mortgage debt increases significantly, the homeowner has "negative equity" in that home.

Warrant: Right, but not an obligation, to purchase a certain number of shares of common stock at a fixed price. Because warrants rise in value as the company's share price rises, Treasury (and the taxpayer) can benefit from a firm's potential recovery.