




OFFICE OF THE SPECIAL INSPECTOR GENERAL

FOR THE TROUBLED ASSET RELIEF PROGRAM

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WASHINGTON, D.C. 20220

June 8, 2009

MEMORANDUM FOR: Duane Morse, Chief Risk and Compliance Officer, Office of
Financial Stability

FROM: Neil Barofsky, Special Inspector General for the Troubled Asset
Relief Program 

SUBJECT: Engagement Memo – Review of Treasury Process to Value and
Repurchase Warrants Issued Under the Capital Purchase Program

As part of our continuing oversight of the Troubled Asset Relief Program, we are initiating an audit of the process Treasury has established to value and permit repurchase or sale of warrants held by Treasury after Capital Purchase Program (CPP) participants have repaid Treasury's preferred stock investment. On February 17, 2009, Congress enacted the American Recovery and Reinvestment Act, which included provisions that allowed recipients to immediately repurchase their preferred stock by notifying its intent to Treasury and working in consultation with a federal banking agency. After repurchasing their preferred stock, institutions may also repurchase the warrants by working with Treasury to determine a mutually agreed upon fair market value for the warrants. Where agreement is not reached, we understand that an appraisal procedure may be used to determine fair market value. Recently, however, as Treasury has begun to redeem CPP warrants, some questions have been raised regarding decisions made on the disposition of warrants and whether fair value was being realized.

Our specific objectives will be to determine (1) the extent to which financial institutions have repaid the preferred stock of their CPP investment and the extent to which associated warrants were repurchased or sold, and (2) what process and procedures Treasury has established to ensure the government receives a fair market value for the warrants and the extent to which Treasury follows a clear, consistent, and objective process in reaching decisions where differing valuations of warrants exist.

We plan to start work on this engagement immediately. This work will be performed under engagement code 007. We expect to perform our field work at the Office of Financial Stability of the Department of the Treasury. A member of my staff will contact you shortly to arrange an entrance conference. At that time, we will discuss our scope, methodology, and timeframes in more detail. In the meantime, please contact Mr. Barry W. Holman, Deputy Special IG for Audit, at (202) 622-4633.