

Troubled Asset Relief Program: GAO's Oversight Role

**Federal Deposit Insurance Corporation
Accounting & Auditing Conference
Arlington, VA**

October 1, 2009

Overview

- Background
- TARP Disbursements
- Status of Key Programs
- Measuring Performance
- Financial Reporting
- Ongoing and Future Work

Background

- On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law.
 - Established the Office of Financial Stability (OFS) within Treasury and created the Troubled Asset Relief Program (TARP).
 - Provided Treasury with broad, flexible authorities to buy or guarantee up to almost \$700 billion in troubled assets.
 - Created a number of mechanisms to oversee the implementation.

GAO's Role

- The Comptroller General is required to report at least every 60 days on:
 - findings resulting from its oversight of TARP's performance,
 - financial condition and internal controls,
 - characteristics of asset purchases and disposition of assets,
 - compliance with laws and regulations,
 - efforts to address conflicts of interest, and
 - efficacy of contracting procedures.

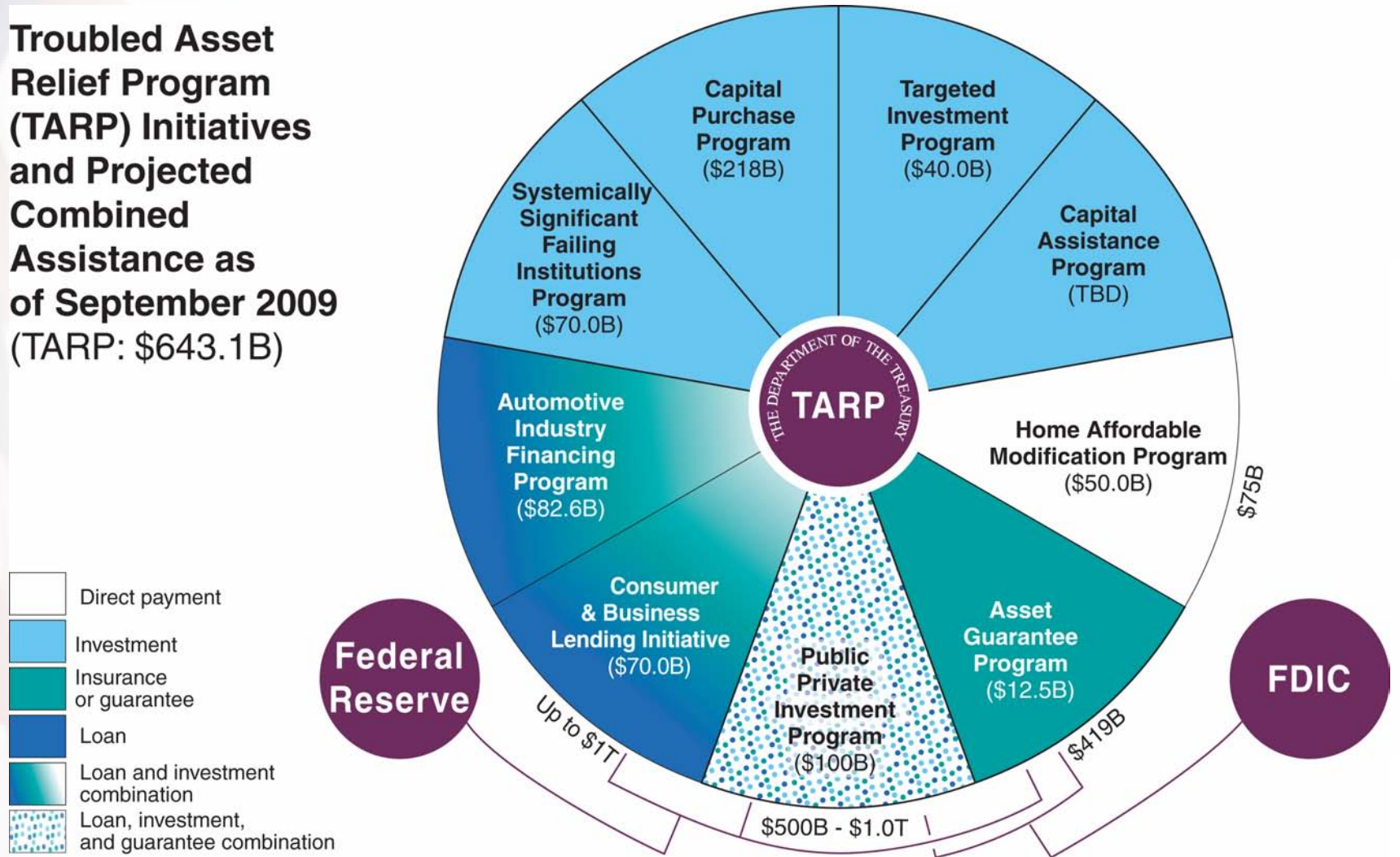
How GAO Has Fulfilled Its Oversight Role

- Multi-disciplinary team from across GAO.
- Coordination with other oversight bodies:
 - Special Inspector General for TARP,
 - Congressional Oversight Panel, and
 - Financial Stability Oversight Board.
- Ongoing monitoring of the program including inquiries inside and outside of Treasury.
- Regular reporting (reports, testimonies, briefings) on issues.

GAO Reports on TARP

- Since December 2008, GAO has issued:
 - Seven 60-day reports addressing transparency and accountability issues,
 - Ten testimonies on TARP, and
 - Dozens of congressional briefings
- GAO's most recent TARP report was issued September 21, 2009, on the status of financial assistance provided to AIG.

Troubled Asset Relief Program (TARP) Initiatives and Projected Combined Assistance as of September 2009 (TARP: \$643.1B)



Source: Treasury, Office of Financial Stability.

Status of TARP Disbursements as of September 11, 2009

Program	Disbursed (dollars in billions)
Capital Purchase Program	\$204.5
Capital Assistance Program	TBD
Automotive Industry Financing Program	75.9
Systemically Significant Failing Institutions	43.2
Targeted Investment Program	40.0
Consumer & Business Lending Initiative	0.1
Home Affordable Modification Program	0.0 ^a
Public Private Investment Program	0.0
Asset Guarantee Program	0.0
Totals	\$363.7

^aTreasury has disbursed \$276,000 in HAMP incentive payments to participating servicers.
Source: Treasury, Office of Financial Stability, unaudited.

Capital Purchase Program (CPP)

- CPP is the largest and most widely used program under TARP, with over \$200 billion dollars invested in financial institutions.
- Treasury has made some progress in addressing GAO recommendations:
 - Monthly information collected on lending activities for all CPP institutions.
 - Asset management firms hired to oversee compliance with certain requirements.
- Treasury needs to finalize the specific guidance and performance measures for the asset managers' oversight responsibilities.

Automotive Industry Financing Program

- Treasury has committed a total of about \$82.6 billion to help support automakers, suppliers, consumers, and auto finance companies.
- The long-term financial viability of GM and Chrysler restructured automakers remains unclear.
- We will report later this fall on Treasury's approach to managing its ownership interests in the companies, how it plans to divest itself of these interest, and the progress the companies have made in restructuring themselves.
- We will report this winter on how Chrysler and GM's restructuring efforts have affected their pension plan assets.

Home Affordable Mortgage Modification Program (HAMP)

- HAMP will use up to \$50 billion to prevent foreclosures by sharing the cost of reducing monthly payments on first-lien mortgages and providing incentives for loan modification.
- Many of HAMP's key administrative process and internal control policy and procedures have not been finalized.
- High debt borrowers must agree to obtain debt counseling but Treasury has not taken steps to ensure the effectiveness of the counseling.
- Key leadership and staff positions for HAMP remain unfilled.
- Means for systematically assessing servicers' capacity to meet program requirements during program admission have not been established.

Systemically Significant Failing Institutions Program (SSFI)

- The Federal Reserve and Treasury made over \$182 billion available to assist AIG in restructuring; over \$120 billion used as of September 2, 2009.
 - About \$70 billion in TARP funds authorized for purchase of preferred shares through SSFI.
- Steps have been taken to protect the government's interests (e.g., collateral, management controls, and dividends).
- Significant exposure to risk remains: potential adverse market impact on AIG and its assets during restructuring.
- GAO-developed indicators suggest that AIG's ability to restructure its business and fully repay the government is unclear at this time.

Overall TARP Progress and Challenges

- Treasury has made progress in developing management infrastructure, overseeing contractors and financial agents, and developing system of internal controls.
- However, some challenges remain, such as key senior positions at OFS remain vacant.
- Continued progress needed to formalize its communication strategy and improve communications with Congress and the public.

Measuring the Performance of TARP

- Difficult to separate the effects of TARP from those of other non-TARP activities.
- GAO reports on a range of market indicators with qualitative discussions.
 - Broad improvements in lending in terms of cost of credit and perceptions of risk.
 - Improvements in total mortgage originations, though foreclosures continue to rise.

Measuring the Performance of TARP

Credit market rates and spreads		
Indicator	Description	Basis point change since October 13, 2008
LIBOR	3-month London interbank offered rate (an average of interest rates offered on dollar-denominated loans)	Down 446
TED Spread	Spread between 3-month LIBOR and 3-month Treasury yield	Down 434
Aaa bond rate	Rate on highest-quality corporate bonds	Down 130
Aaa bond spread	Spread between Aaa bond rate and 10-year Treasury yield	Down 83
Baa bond rate	Rate on corporate bonds subject to moderate credit risk	Down 239
Baa bond spread	Spread between Baa bond rate and 10-year Treasury yield	Down 192
Mortgage rates	30-year conforming loans rate	Down 139
Mortgage spread	Spread between 30-year conforming loans rate and 10-year Treasury yield	Down 78
Quarterly mortgage volume and defaults		
Indicator	Description	Change from December 31, 2008 to June 30, 2009
Mortgage originations	New mortgage loans	Up \$290 billion to \$550 billion
Foreclosure rate	Percentage of homes in foreclosure	Up 100 basis points to 4.30 percent

Source: GAO analysis of data from Global Insight, the Federal Reserve, Thomson Reuters Datastream, and *Inside Mortgage Finance*.

TARP Financial Reporting Requirements

- Treasury must:
 - annually prepare and submit to Congress and the public audited financial statements for TARP that are prepared in accordance with GAAP.
 - establish and maintain an effective system of internal control over TARP that includes providing reasonable assurance of the reliability of its financial reporting and compliance with applicable laws and regulations.
 - annually report on its assessment of the effectiveness of internal control over financial reporting.
- The Comptroller General is required to audit TARP's annual financial statements.

Status of Financial Statement Audit

- The fiscal year ending September 30, 2009, will be the first year for which Treasury prepares TARP financial statements.
- GAO has been auditing the activities that will be reflected in the FY 2009 TARP financial statements:
 - rendering an opinion on the financial statements,
 - rendering an opinion on TARP's internal control over financial reporting and compliance with applicable laws and regulations as of September 30, 2009, and
 - reporting on TARP's compliance with selected provisions of laws and regulations related to financial reporting.
- OFS is continuing to build a financial reporting structure for preparing TARP's financial statements, but faces many accounting challenges.

TARP Accounting Challenges

- **First year of operation**
 - Need for specialized staff which has resulted in significant reliance on contractor support and detailees.
 - Need to operate in a 'reactive mode' as new programs are established.
 - Need to establish and implement an internal control framework.
 - Extensive coordination is needed from related parties and OMB.
- **Complex accounting transactions that are not typical of federal government entities**
 - FASAB standards do not address all situations / financial instruments.
 - ESSA requires the cost of troubled assets and guarantees to be calculated in accordance with the Federal Credit Reform Act of 1990.
 - Lack of historical basis for valuing various type of TARP assets.
 - Transactions require significant judgment to determine valuation.

TARP Accounting Challenges Continued

- Valuing warrants in the repurchase process
 - Need for valuation techniques to determine what prices to accept from repurchasing institutions.
- Reporting issues for warrants held at year end
 - Challenge of incorporating warrant valuations into credit reform models for financial statement reporting.
- Governed by numerous laws and regulations
 - Aggressive reporting deadline (prior to November 16, 2009).
 - Responsiveness to congressional and other oversight bodies.
 - Significant communication responsibilities (reports and website).

GAO's Ongoing and Future Monitoring Efforts

- We have ongoing engagements reviewing the operations and activities of several TARP programs:
 - Capital Purchase Program,
 - Home Affordable Modification Program,
 - Automobile Industry Financing Program,
 - Systemically Significant Failing Institutions Program,
 - Public-Private Investment Program, and
 - Consumer & Business Lending Initiative/Term Asset-Back Securities Lending Facility.
- Coordinated review with the Special IG-TARP.

On the Web

Web site: www.gao.gov/cghome.htm

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