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TROUBLED ASSET RELIEF PROGRAM

Treasury Sees Some Returns As it Exits Programs and Continues to Fund Mortgage Programs

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Highlights

Highlights of GAO-13-192, a report to congressional addressees

Why GAO Did This Study

The Emergency Economic Stabilization Act of 2008 authorized Treasury to create TARP, a $700 billion program designed to restore liquidity and stability to the financial system and to preserve homeownership by assisting borrowers struggling to make their mortgage payments. The act also required that GAO report every 60 days on TARP activities in the financial and mortgage sectors. This report examines the condition and status of (1) nonmortgage-related TARP programs and (2) TARP-funded mortgage programs and Treasury's efforts to better ensure that servicers are implementing as intended two new requirements designed to improve interactions with borrowers (the MHA single point of contact and resolution of escalated cases requirements). To do this work, GAO analyzed audited financial data for various TARP programs; reviewed documentation such as program terms and agency reports on TARP programs; and interviewed Office of Financial Stability officials.

Treasury generally agreed with the findings. Treasury, Ally Financial, and General Motors provided technical comments that GAO incorporated, as appropriate.

View GAO-13-192 or key components.
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What GAO Found

As of September 30, 2012, the Department of the Treasury (Treasury) was managing assets totaling $63.2 billion in nonmortgage-related Troubled Asset Relief Programs (TARP) (see figure). As of this date, Treasury had exited 4 of the 10 nonmortgage-related programs, and in December 2012 Treasury announced the exit from a fifth program—the American International Group (AIG) Investment Program. Exactly when Treasury will exit the remaining five programs remains uncertain. Treasury has identified several factors that will affect its decisions. For example,

- for the Capital Purchase Program (CPP, created to provide capital to financial institutions), the financial condition of the participating institutions and the success of auctions;
- for the Community Development Capital Initiative (CDCI, created to provide capital to credit unions and financial institutions in underserved communities), which Treasury has not yet decided to exit, the financial condition of the participating institutions and the rate at which the institutions repay Treasury; and
- for the Automotive Industry Financing Program (AIFP, created to prevent a significant disruption of the American automotive industry).

Some programs, such as CPP, have yielded returns that exceed the original investments. Others, such as CDCI and AIFP, have not.

Unlike the nonmortgage-related TARP programs, TARP-funded mortgage programs, which focus on mitigating foreclosures, are ongoing, and Treasury's oversight of new requirements designed to improve servicers' interactions with borrowers showed both challenges and improvements. Treasury allocated $45.6 billion in TARP funds to three programs, including Making Home Affordable (MHA), but more than $40 billion of the funding has not yet been disbursed, and the programs have not reached the expected number of borrowers. The centerpiece of MHA is the Home Affordable Modification Program, which has provided about 1.1 million permanent modifications to borrowers. To help ensure that homeowners receive appropriate assistance from servicers under this and other MHA programs, since September 2011 Treasury has required servicers to identify a "relationship manager" to serve as the homeowner's single point of contact throughout a delinquency or imminent default resolution process. GAO found that Treasury's initial reviews of servicers' implementation of this requirement had identified some inconsistencies. However, oversight of a second requirement designed to improve the resolution of borrower inquiries and disputes (escalated cases) showed that the nine largest servicers had met the performance target. Treasury officials said that the MHA program administrator, Fannie Mae, handled oversight of the escalation process and the vendors who supported in keeping with Treasury's guidelines.

Status of Programs, as of September 30, 2012

	Program	Amounts (dollars in billions)
Non-mortgage-related programs with outstanding assets	**Capital Purchase Program (CPP)** To provide capital to viable banks through the purchase of preferred shares and subordinated debentures.	$8.7 outstanding assets **Disbursed: $204.9**
	Community Development Capital Initiative Program To provide capital to credit unions and financial institutions in underserved communities.	$0.6 outstanding assets **Disbursed: $0.6**
	Automotive Industry Financing Program (AIFP) To prevent a significant disruption of the American automotive industry.	$37.3 outstanding assets **Disbursed: $79.7**
	AIG Investment Program To provide stability in financial markets and avoid disruptions to the markets from the deterioration of AIG's financial condition.	On December 14, 2012, Treasury announced that it had received payment from its final sale of AIG stock, bringing to an end the government's assistance to the company.
	Public-Private Investment Program To address the challenge of "legacy assets" by partnering with investors to purchase certain residential and commercial mortgage-backed securities.	$9.8 outstanding assets **Disbursed: $18.6**
	Term Asset-backed Securities Loan Facility To provide liquidity in securitization markets for various asset classes to improve access to credit for consumers and businesses.	$0.1 outstanding assets **Disbursed: $0.1**

	Program	Lifetime income (dollars in billions)
Non-mortgage programs Treasury has exited	**SBA 7(a) Program** To alleviate liquidity strains in secondary markets for SBA 7(a) loans. Treasury purchased 31 SBA 7(a) securities between March and September 2010.[a]	**$0.004**
	Asset Guarantee Program (AGP) To provide federal government assurances for assets held by financial institutions that were viewed as critical to the functioning of the nation's financial system.[b]	**$3.9**
	Targeted Investment Program (TIP) To foster market stability and strengthen the economy by making investments on a case-by-case basis in institutions that Treasury deemed critical to the functioning of the financial system.	**$4.0**
	Capital Assessment Program (CAP) Created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program (SCAP)—or "stress test"—requirements. This program was never used.	**N/A**
TARP-funded mortgage programs	To offer assistance to homeowners at risk of foreclosure.[c]	$5.5 in payments **Authorized: $45.6**

Source: GAO analysis of Treasury data.

Notes: The September 30, 2012, data are audited numbers from Treasury's financial statements. Outstanding assets are presented at book value.

[a]The SBA 7(a) program is SBA's primary program for helping small businesses obtain access to credit when they cannot obtain it from private lending institutions. The program provides credit for working capital and other business needs.

[b]Treasury no longer holds assets for this program that it must manage, though the Federal Deposit Insurance Corporation still holds Citigroup trust preferred stock and Treasury could receive income when these assets are sold.

[c]TARP-funded mortgage programs include a variety of programs to assist homeowners. Unlike the investment programs, these programs do not hold assets to manage and sell and thus have no outstanding assets.