

21. FINANCIAL STABILIZATION EFFORTS AND THEIR BUDGETARY EFFECTS

In response to the financial crisis of 2008, the U.S. Government took unprecedented and decisive action to mitigate damage to the U.S. economy and financial markets. The Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Commodity Futures Trading Commission worked cooperatively to expand access to credit, strengthen financial institutions, restore confidence in U.S. financial markets, and stabilize the housing sector.

This chapter provides a report analyzing the cost and budgetary effects of the Treasury's Troubled Asset Relief Program (TARP), consistent with Sections 202 and 203 of the Emergency Economic Stabilization Act (EESA) of 2008 (P.L. 110-343), as amended. The cost estimates in this report analyze transactions as of November 30, 2013, and expected transactions as reflected in the budget and required under EESA. Where noted, a descriptive analysis of additional transactions that occurred after November 30, 2013 is provided. This chapter also includes an overview of the Wall Street Reform Act signed into law in 2010 and a summary of other key Government programs supporting economic recovery and financial market reforms.

TROUBLED ASSET RELIEF PROGRAM

The 2008 EESA authorized the Treasury to purchase or guarantee troubled assets and other financial instruments to restore liquidity and stability to the financial system of the United States while protecting taxpayers. Treasury has used its authority under EESA to restore confidence in U.S. financial institutions, to restart markets critical to financing American household and business activity, and to address housing market problems and the foreclosure crisis. Under EESA, TARP purchase authority was limited to \$700 billion in obligations at any one time, as measured by the total purchase price paid for assets and guaranteed amounts outstanding. The Helping Families Save Their Homes Act of 2009 (P.L. 111-22) reduced total TARP purchase authority by \$1.3 billion, and in July 2010, the Wall Street Reform Act further reduced total TARP purchase authority to a maximum of \$475 billion in cumulative obligations.

On December 9, 2009, as authorized by EESA, the Secretary of the Treasury certified to Congress that an extension of TARP purchase authority until October 3, 2010, was necessary "to assist American families and stabilize financial markets because it will, among other things, enable us to continue to implement programs that address housing markets and needs of small businesses, and to maintain the capacity to respond to unforeseen threats." On October 3, 2010, the Treasury's authority to make new TARP commitments expired. The Treasury continues to manage existing investments and is authorized to expend previously committed TARP funds pursuant to obligations entered into prior to October 3, 2010.

Section 202 of EESA requires the Office of Management and Budget (OMB) to report the estimated cost of TARP assets purchased and guarantees issued pursuant to EESA. Consistent with statutory requirements, the 2015 Budget data presented in this report reflect revised subsidy costs for the TARP programs using actual performance and updated market information through November 30,

2013. Proceeds from sales of TARP-related financial assets occurring from November 30, 2013 to January 31, 2014 exceeded estimates and will ultimately lower lifetime deficit costs relative to the estimates provided in this report. For information on subsequent TARP program developments, please consult the Treasury Department's Troubled Asset Relief Program Monthly 105(a) Reports.

The Administration's current estimate of TARP's deficit cost for its \$456.6 billion in cumulative obligations is \$39.0 billion (see Tables 21-1 and 21-7). Section 123 of EESA requires TARP costs to be estimated on a net present value basis, adjusted to reflect a premium for market risk. As investments are liquidated, their actual costs (including any market risk effects) become known and are reflected in reestimates. It is likely that the total cost of TARP to taxpayers will eventually be lower than current estimates as the market risk premiums are returned, but the total cost will not be fully known until all TARP investments have been extinguished. (See Table 21-9 for an estimate of TARP subsidy costs stripped of the market-risk adjustment.)

A description of the market impact of TARP programs, followed by a detailed analysis of the assets purchased through TARP, is provided at the end of this report.

Method for Estimating the Cost of TARP Transactions

Under EESA, Treasury has purchased different types of financial instruments with varying terms and conditions. The budget reflects the costs of these instruments using the methodology as provided by Section 123 of EESA. The costs of equity purchases, loans, guarantees, and loss sharing under the FHA Refinance program are the net present value of cash flows to and from the Government over the life of the instrument, per the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.), with an adjustment

to the discount rate for market risks. Costs for the incentive payments under TARP Housing programs, other than loss sharing under the FHA Refinance program, involve financial instruments without any provision for future returns and are recorded on a cash basis.¹

The estimated costs of each transaction reflect the underlying structure of the instrument. TARP financial instruments include direct loans, structured loans, equity, loan guarantees, and direct incentive payments. For each of these instruments, cash flow models are used to estimate future cash flows to and from the Government over the life of a program or facility. Each cash flow model reflects the specific terms and conditions of the program, and technical assumptions regarding the underlying assets, risk of default or other losses, and other factors that may affect cash flows to and from the Government. For instruments other than direct incentive payments, projected cash flows are discounted using the appropriate Treasury rates, adjusted for market risks as prescribed under EESA. Risk adjustments to the discount rates are intended to capture a risk premium for uncertainty around future cash flows, and were made using available data and methods. Consistent with the requirement under FCRA to reflect the lifetime present value cost, subsidy cost estimates are reestimated every year an instrument is outstanding, with a final closing reestimate once an instrument is fully liquidated. Reestimates update the cost for actual transactions, and updated future expectations. When all investments in a given cohort are liquidated, their actual costs (including any market risk effects) become known and are reflected in final closing reestimates. The basic methods for each of these models are outlined below.

Direct Loans and Asset-Backed Securities

Direct loan cash flow models include the scheduled principal, interest, and other payments to the Government, including estimated income from warrants or additional notes. These models include estimates of delinquencies, default and recoveries, based on loan-specific factors including the value of any collateral provided by the contract. The probability and timing of default and recoveries are estimated using applicable historical data and econometric projections, where available, or publically available proxy data including aggregated credit rating agency historical performance data. Direct loans also include structured loans where an intermediary special purpose vehicle (SPV) was established to purchase or commit to purchase assets from beneficiaries such as under the Term Asset-Backed Loan Securities Loan Facility. TARP asset purchases are reflected as direct loans, with fees and repay-

ments from the SPV, or other cashflows from the proceeds of any purchased assets. The model projects cash flows to and from the Government based on estimated SPV performance, the estimated mix of assets funded through the facility, the terms of the contracts, and other factors. Where the Government purchases securities backed by debt instruments, this is considered a direct loan because in purchasing the security, the Government is effectively stepping into the shoes of the lender, and providing the capital for the underlying loans. Repayments are derived from the principal and interest payments on the underlying loans, and are part of the forecast revenue stream.

Guarantees

Cost estimates for guarantees reflect the net present value of estimated claim payments by the Government, net of income from fees, recoveries on defaults, or other sources. Under EESA, asset guarantees provided through TARP had to be structured such that fees and other income completely offset estimated losses at the time of commitment. In TARP's Asset Guarantee Program, fees were paid in the form of preferred stock and termination fees.

Equity Purchases

Purchases of preferred stock result in dividends and other proceeds from such stock or other consideration, such as warrants. Cash flow projections reflect the risk of losses associated with adverse events, such as the failure of an institution, or other negative market movements. Estimated cash flows depend on the interest rate environment and the strength of a financial institution's assets—both of which affect the institution's decision to repurchase its stock, and the price expected if Treasury elects to sell the stock. The model also estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility.

FHA Refinance Program

Under this program, the cost estimates reflect the present value of estimated claim payments made from the letter of credit (LOC) provider to the lenders of FHA-guaranteed loans, adjusted for market risks. Through the LOC agreement with Citigroup, Treasury is committed to make claim payments to private lenders to cover a portion of defaulted single-family mortgage debt obligations of non-Federal borrowers. Therefore, the program costs are estimated according to the principles of FCRA, with a risk adjustment to the discount rate as prescribed by EESA. The model projects TARP claim payments based on projected FHA Refinance volumes and net claim rates.

Other TARP Housing

Foreclosure mitigation incentive payments occur when the Government makes incentive payments to borrowers, servicers, and investors for certain actions such as: successful modifications of first and second liens, on-schedule borrower payments on those modified loans, protection against further declines in home prices, completing a short

¹ Section 123 of the EESA provides the Administration the authority to record TARP equity purchases pursuant to the FCRA, with required adjustments to the discount rate for market risks. The Making Home Affordable programs and HFA Hardest Hit Fund involve the purchase of financial instruments which have no provision for repayment or other return on investment, and do not constitute direct loans or guarantees under FCRA. Therefore these purchases are recorded on a cash basis. Administrative expenses are recorded for all of TARP under the Office of Financial Stability and the Special Inspector General for TARP on a cash basis, consistent with other Federal administrative costs, but are recorded separately from TARP program costs.

Table 21–1. CHANGE IN PROGRAMMATIC COSTS OF TROUBLED ASSET RELIEF ACTIONS

(In billions of dollars)

TARP Actions	2014 Budget		2015 Budget		Change from 2014 Budget to 2015 Budget	
	TARP Obligations ¹	Estimated Cost (+) / Savings (–)	TARP Obligations ¹	Estimated Cost (+) / Savings (–)	TARP Obligations ¹	Estimated Cost (+) / Savings (–)
Equity purchases	336.8	10.2	336.8	6.1	.....	–4.1
Direct loans and asset-backed security purchases	77.5	17.4	76.2	16.6	–1.2	–0.9
Guarantees of troubled asset purchases ²	5.0	–3.8	5.0	–3.9	.....	–0.1
TARP housing programs ³	38.5	37.6	38.5	37.5	–*	–0.1
Total programmatic costs⁴	457.8	61.5	456.6	56.3	–1.2	–5.2
Memorandum:						
Deficit impact with interest on reestimates⁵		47.5		39.0		–8.5

* \$50 Million or less.

¹ TARP obligations are net of cancellations.² The total assets supported by the Asset Guarantee Program were \$301 billion.³ TARP obligations include FHA Refinance Letter of Credit first loss coverage of eligible FHA insured mortgages.⁴ Total programmatic costs of the TARP exclude interest on reestimates.⁵ The total deficit impact of TARP as of November 30, 2013 includes \$17.43 billion in subsidy cost for TARP investments in AIG. Additional proceeds of \$17.55 billion resulting from Treasury holdings of non-TARP shares in AIG are not included.

sale, or receiving a deed in lieu of foreclosure. The method for estimating these cash flows includes forecasting the total eligible loans, the timing of the loans entering into the program, loan characteristics, the overall participation rate in the program, the re-default rate, home price appreciation, and the size of the incentive payments. For the HFA Hardest-Hit Fund (HHF), the Government provides a cash infusion, similar to a grant, to the eligible entities of state Housing Financing Agencies (HFAs) to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The estimated cash flows for the HHF are based on the program plans submitted by the HFAs and approved by Treasury.

TARP Program Costs and Current Value of Assets

This section provides the special analysis required under Sections 202 and 203 of EESA, including estimates of the cost to taxpayers and the budgetary effects of TARP transactions as reflected in the budget.² This section explains the changes in TARP costs, and includes alternative estimates as prescribed under EESA. It also includes a comparison of the cost estimates with previous estimates provided by OMB and by the Congressional Budget Office (CBO).

Table 21–1, above, summarizes the cumulative and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the Budget, compared to estimates from the 2014 Budget. The direct impact of TARP on the deficit is projected to be \$39.0 billion, down \$8.5 billion from the \$47.5 billion estimate in the 2014 Budget. The total programmatic cost represents the lifetime net present value cost of TARP obligations from the date of disbursement, which is now estimated to be \$56.3 billion, excluding interest on reestimates.³ The final subsidy cost

of TARP is likely to be lower than the current estimate, because projected cashflows are discounted using a risk adjustment to the discount rate as required by EESA. This requirement adds a premium to current estimates of TARP costs on top of market and other risks already reflected in cash flows with the public. Over time, the risk premium for uncertainty on future estimated TARP cash flows is returned to the General Fund through subsidy reestimates, as actual cash flows are known. TARP's overall cost to taxpayers will not be fully known until all TARP investments are extinguished.

Current Value of Assets

The current value of future cash flows related to TARP transactions can also be measured by the balances in the program's non-budgetary credit financing accounts. Under the FCRA budgetary accounting structure, the net debt or cash balances in non-budgetary credit financing accounts at the end of each fiscal year reflect the present value of anticipated cashflows to and from the public.⁴ Therefore, the net debt or cash balances reflect the expected present value of the asset or liability. Future collections from the public—such as proceeds from stock sales, or payments of principal and interest—are financial assets, just as future payments to the public are financial liabilities. The current year reestimates true-up assets and liabilities, setting the net debt or cash balance in the financing account equal to the present value of future cashflows.⁵

est-Hit Fund programs, all the other TARP investments are reflected on a present value basis pursuant to the FCRA and the EESA.

⁴ For example, to finance a loan disbursement to a borrower, a direct loan financing account receives the subsidy cost from the program account, and borrows the difference between the face value of the loan and the subsidy cost from the Treasury. As loan and interest payments from the public are received, the value is realized and these amounts are used to repay the financing account's debt to Treasury.

⁵ For a full explanation of FCRA budgetary accounting, please see chapter 20, "Credit and Insurance," in this volume.

² The analysis does not assume the effects on net TARP costs of a recoupment proposal required by Section 134 of EESA.

³ With the exception of the Making Home Affordable and HFA Hardest-Hit Fund programs, all the other TARP investments are reflected on a present value basis pursuant to the FCRA and the EESA.

Table 21–2. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE¹

(In billions of dollars)

	Actual					Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Financing Account Balances:																	
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	17.9	3.1	0.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....	.....	.....	—*	—*	—*	—*	—*	—*	—*	—*	—*	—*	.....	.....	.....	.....
Total Financing Account Balances	129.9	122.0	104.1	32.2	9.7	5.9	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	

* \$50 million or less.

¹Current value as reflected in the 2015 Budget. Amounts exclude housing activity under the Making Home Affordable program and the Hardest Hit Fund as these programs are reflected on a cash basis.

Table 21–2 shows the actual balances of TARP financing accounts as of November 30, 2013, and projected balances for each subsequent year through 2024.⁶ Based on actual net balances in financing accounts at the end of 2009, the value of TARP assets totaled \$129.9 billion. By the end of 2013, total TARP net asset value decreased to \$9.7 billion, reflecting the realized value of TARP assets as repayments, primarily from large banks, and exceeding amounts TARP paid for financial assets. Estimates in 2014 and beyond reflect estimated TARP net asset values over time as of November 30, 2013, and all other anticipated transactions. The overall balance of the financing accounts is estimated to continue falling over the next few years, as TARP investments wind down.

no financing account balance as of the end of 2013. The FHA Refinance program reflects net cash balances, showing the reserves set aside to cover TARP's share of default claims for FHA Refinance mortgages over the 10-year letter of credit facility. These reserves are projected to fall as claims are paid and as the TARP coverage expires.

Where Table 21–2 displays the estimated value of TARP investments, guarantees, and loss share agreements over time, Table 21–3 shows the actual and estimated face value of outstanding TARP investments at the end of each year through 2015. For equity investments, the par value of Treasury's remaining investment is reflected. The outstanding amount of equity investments and direct loans decreased in 2013, as Treasury continued to wind down its

Table 21–3. TROUBLED ASSET RELIEF PROGRAM FACE VALUE OF TARP OUTSTANDING¹

(In billions of dollars)

	Actual					Estimate	
	2009	2010	2011	2012	2013	2014	2015
Equity purchases	229.6	119.0	88.2	33.8	17.4	5.6	1.0
Direct loans and asset-backed security purchases	60.5	15.7	11.5	6.6	0.8	.....	.....
Guarantees of troubled assets	251.4	.....	.....	.....	.....	.....	.....
FHA Refinance Letter of Credit .....	.....	.....	0.1	0.3	0.5	0.5	0.4
Total Face Value of TARP Outstanding	541.5	134.7	99.8	40.7	18.7	6.1	1.5

¹Table reflects face value of TARP outstanding direct loans, preferred stock equity purchases, guaranteed assets, and the face value of FHA Refinance mortgages supported by the TARP Letter of Credit. Transactions under the Making Home Affordable program and Hardest Hit Fund are reflected in the budget on a cash basis, and are not included here.

The value of TARP equity purchases reached a high of \$105.4 billion in 2009, and has since declined significantly with the wind down of AIG funding and repayments from large financial institutions. The value of the TARP equity portfolio is anticipated to continue declining as participants repurchase stock and assets are sold. TARP direct loans are expected to be fully wound down by the beginning of 2015. The Asset Guarantee Program concluded with the February 2013 liquidation of trust preferred shares Treasury received from the FDIC, following termination of the guarantee on Citigroup assets and shows

⁶ Reestimates for TARP are calculated using actual data through November 30, 2013, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2014 financing account balances.

equity investments and receive repayments on outstanding loans. Under FCRA, the total outstanding reflects the full face value of loans supported by a Federal guarantee, any portion of which may be guaranteed. TARP's liability under the Asset Guarantee Program was only a fraction of the face value of the underlying loans (see Table 21–6), and was extinguished with the termination of the Citibank guarantee in 2009. Likewise, while TARP supports nearly \$0.5 billion in FHA Refinance mortgages by the letter of credit facility, the TARP's estimated liability is much lower (including \$25 million set aside for administrative fees). The TARP coverage ratio or share of default losses was 15.17 percent in 2012 and 9.82 percent in 2013 for covered FHA Short Refinancing loans. The overall out-

standing face value of mortgages supported by the FHA Refinance Letter of Credit reached \$0.5 billion in 2013. Currently it is not anticipated that additional guarantees will require TARP loss coverage after 2013 because FHA's premium collections are sufficient to cover estimated claim costs, though a reserve is maintained to support the program through December 31, 2014.⁷ The face value of TARP FHA Refinance Letter of Credit instruments in Table 21-3 does not include FHA Refinancing guarantees after 2013 that do not need TARP loss coverage.

Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt, Based on the EESA Methodology

The estimates of the deficit and debt in the budget reflect the impact of TARP as estimated under FCRA and Section 123 of EESA. The deficit estimates include the budgetary costs for each program under TARP, administrative expenses, certain indirect interest effects of credit programs, and the debt service cost to finance the program. As shown in Table 21-4, direct activity under the TARP is expected to decrease the 2014 deficit by \$2.6 billion. This reflects estimated TARP housing outlays of \$5.2 billion, offset by \$8.1 billion in downward reestimates on TARP investments, including interest on reestimates. The estimates of U.S. Treasury debt attributable to TARP include borrowing to finance both the deficit impacts of TARP activity and the cash flows to and from the Government reflected as a means of financing in the TARP financing accounts. Estimated debt due to TARP at the end of 2014 is \$23.8 billion.

Debt held by the public net of financial assets reflects the cumulative amount of money the Federal Government has borrowed from the public for the program and not repaid, minus the current value of financial assets acquired with the proceeds of this debt, such as loan assets, or equity held by the Government. While debt held by the public is one useful measure for examining the impact of TARP, it provides incomplete information on the program's effect on the Government's financial condition. Debt held by the public net of financial assets provides a more complete picture of the U.S. Government's financial position because it reflects the net change in the government's balance sheet due to the program.

Debt net of financial assets due to the TARP program is estimated to be \$17.9 billion as of the end of 2014. This is \$16.4 billion lower than the projected 2014 debt held net of financial assets reflected in the 2014 Budget. However, debt net of financial assets is anticipated to increase annually starting in 2014, as debt is incurred to finance TARP housing costs and debt service.

In 2014, Table 21-4 shows total TARP activity including interest effects and administrative costs, reducing the deficit by \$2.6 billion. Financing account interest transactions are estimated to be roughly \$2 billion. Under FCRA, the financing account earns and pays interest on its Treasury borrowings at the same rate used to discount

cash flows for the credit subsidy cost. Section 123 of EESA requires an adjustment to the discount rate used to value TARP subsidy costs, to account for market risks. However, actual cash flows as of September 30, 2013, already reflect the effect of any incurred market risks to that point, and therefore actual financing account interest transactions reflect the FCRA Treasury interest rates, with no additional risk adjustment.⁸ Future cash flows reflect a risk adjusted discount rate and the corresponding financing account interest rate, consistent with the EESA requirement. For on-going TARP credit programs, the risk adjusted discount rates on future cash flows result in subsidy costs that are higher than subsidy costs estimated under FCRA.

Estimates on a Cash Basis

The value to the Federal Government of the assets acquired through TARP is the same whether the costs of acquiring the assets are recorded in the budget on a cash basis, or a credit basis. As noted above, the budget records the cost of equity purchases, direct loans, and guarantees as the net present value cost to the Government, discounted at the rate required under the FCRA and adjusted for market risks as required under Section 123 of EESA. Therefore, the net present value cost of the assets is reflected on-budget, and the gross value of these assets is reflected in the financing accounts.⁹ If these purchases were instead presented in the budget on a cash basis, the budget would reflect outlays for each disbursement (whether a purchase, a loan disbursement, or a default claim payment), and offsetting collections as cash is received from the public, with no obvious indication of whether the outflows and inflows leave the Government in a better or worse financial position, or what the net value of the transaction is.

Revised Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt Based on the Cash-basis Valuation

Estimates of the deficit and debt under TARP transactions calculated on a cash basis are reflected in Table 21-5, for comparison to those estimates in Table 21-4 reported above in which TARP transactions are calculated consistent with FCRA and Section 123 of EESA.

If TARP transactions were reported on a cash basis, the annual budgetary effect would include the full amount of government disbursements for activities such as equity purchases and direct loans, offset by cash inflows from dividend payments, redemptions, and loan repayments occurring in each year. For loan guarantees, the deficit would show fees, claim payouts, or other cash transac-

⁷ Changes to the FHA program fee structure were sufficient to cover anticipated losses on new guarantees beginning in 2013. As a result, TARP first-loss coverage is not provided for FHA Short Refi loans after the revised fee structure was implemented.

⁸ As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks have already been realized in the actual cash flows. Therefore, the final subsidy cost for TARP transactions will equal the cost per FCRA, where the net present value costs are estimated by discounting cashflows using Treasury rates.

⁹ For the Making Home Affordable programs and the HFA Hardest Hit Fund, Treasury's purchase of financial instruments does not result in the acquisition of an asset with potential for future cash flows, and therefore are recorded on a cash basis.

Table 21–4. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT¹

(Dollars in billions)

	Actual					Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Deficit Effect:																	
Programmatic and administrative expenses:																	
Programmatic expenses:																	
Equity purchases	115.3	8.4	19.1	1.0	—*	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Direct loans and purchases of asset-backed securities	36.9	–0.9	–0.3	–0.1	–0.1	—*	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guarantees of troubled asset purchases	–1.0	–1.4	.....	.....	–0.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
TARP housing programs	*	0.5	1.9	3.1	3.9	5.2	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....
Reestimates of credit subsidy costs .....	.....	–116.5	–58.5	20.3	–12.6	–8.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, programmatic expenses	151.2	–109.9	–37.7	24.3	–8.8	–3.0	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....
Administrative expenses	0.1	0.2	0.4	0.3	0.2	0.4	0.2	0.1	0.1	0.1	*	*	*	*	.....	.....
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	
Subtotal, programmatic & administrative expenses	151.3	–109.6	–37.3	24.6	–8.5	–2.6	6.4	5.4	5.3	3.1	1.6	1.6	0.4	*	*	*	
Interest effects:																	
Interest transactions with credit financing accounts ² ...	–2.8	–4.7	–3.0	–1.6	–0.6	–2.0	–0.2	–0.1	–0.1	—*	—*	—*	—*	—*	—*	—*	
Debt service ³	2.8	4.7	3.0	1.7	0.6	2.0	0.2	0.3	0.7	1.2	1.6	1.8	1.9	2.0	2.0	2.1	
Subtotal, interest effects	*	*	*	*	*	–0.1	—*	0.3	0.7	1.2	1.6	1.7	1.9	2.0	2.0	2.1	
Total deficit impact	151.3	–109.6	–37.3	24.7	–8.5	–2.6	6.4	5.6	6.0	4.3	3.1	3.3	2.3	2.0	2.1	2.2	
Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:																	
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	–28.5	–2.0	–61.3	–7.0	–1.5	–4.1	–0.3	–0.2	–0.1	–0.2	–0.1	—*	—*	—*	—*	
Troubled Asset Relief Program Direct Loan Financing Account	23.9	18.8	–14.2	–10.6	–14.8	–2.2	–0.9	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	1.8	–1.6	—*	–0.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....	.....	.....	—*	—*	—*	*	*	*	*	*	*	*	*	.....	.....	.....
Total, other transactions affecting borrowing from the public	129.9	–7.9	–17.8	–71.9	–22.5	–3.8	–5.0	–0.3	–0.2	–0.1	–0.2	–0.1	—*	—*	—*	—*	
Change in debt held by the public	281.2	–117.5	–55.1	–47.2	–31.0	–6.4	1.4	5.3	5.8	4.2	3.0	3.2	2.3	2.0	2.1	2.1	
Debt held by the public	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
As a percent of GDP	2.0	1.1	0.7	0.4	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Debt held by the public net of financial assets:																	
Debt held by the public	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
Less financial assets net of liabilities — credit financing account balances:																	
Troubled Assets Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Troubled Asset Relief Program Direct Loan Financing Account	23.9	42.7	28.5	17.9	3.1	0.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account	0.6	2.4	0.8	0.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....	.....	.....	—*	—*	—*	—*	—*	—*	—*	—*	—*	—*	.....	.....	.....	.....
Total, financial assets net of liabilities	129.9	122.0	104.1	32.2	9.7	5.9	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Debt held by the public net of financial assets	151.3	41.6	4.4	29.0	20.5	17.9	24.3	29.9	35.9	40.2	43.4	46.7	49.0	51.0	53.1	55.2	
As a percent of GDP	1.0	0.3	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	

* \$50 million or less.

¹Table reflects the deficit effects of the TARP program, including administrative costs and interest effects.²Projected Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates. Actual credit financing account interest transactions reflect the appropriate Treasury rates under the FCRA.³Includes estimated debt service effects of all TARP transactions that affect borrowing from the public.

Table 21–5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS¹

(Dollars in billions)

	Actual					Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Deficit Effect:																	
Programmatic and administrative expenses:																	
Programmatic expenses:																	
Equity purchases	217.6	-121.9	-36.8	-47.2	-16.4	-9.3	-4.2	-0.4	-0.3	-0.1	-0.2	-0.1	-0.1	-*	-*	-*	
Direct loans and purchases of asset-backed securities	61.1	-1.0	-21.3	-5.0	-18.4	-4.6	-1.0	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guarantees of troubled asset purchases	-0.5	-0.3	-2.3	-*	-1.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
TARP housing programs	*	0.5	1.9	3.1	3.9	5.2	6.2	5.2	5.2	3.0	1.5	1.5	0.4	.....	.....	.....
Subtotal, programmatic expenses	278.3	-122.6	-58.6	-49.2	-31.9	-8.8	1.0	4.8	4.9	2.9	1.3	1.4	0.3	-*	-*	-*	
Administrative expenses	0.1	0.2	0.4	0.3	0.2	0.4	0.2	0.1	0.1	0.1	*	*	*	*	.....	.....
Special Inspector General for TARP	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	
Subtotal, programmatic & administrative expenses	278.4	-122.3	-58.1	-48.9	-31.6	-8.4	1.3	5.0	5.1	3.0	1.4	1.5	0.4	*	*	*	
Debt service ²	2.8	4.7	3.0	1.7	0.6	2.0	0.2	0.3	0.7	1.2	1.6	1.8	1.9	2.0	2.0	2.1	
Total deficit impact	281.2	-117.5	-55.1	-47.2	-31.0	-6.4	1.4	5.3	5.8	4.2	3.0	3.2	2.3	2.0	2.1	2.1	
Change in debt held by the public	281.2	-117.5	-55.1	-47.2	-31.0	-6.4	1.4	5.3	5.8	4.2	3.0	3.2	2.3	2.0	2.1	2.1	
Debt held by the public	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
As a percent of GDP	2.0	1.1	0.7	0.4	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Debt Held by the Public Net of Financial Assets:																	
Debt held by the public	281.2	163.6	108.5	61.3	30.3	23.8	25.3	30.6	36.4	40.6	43.6	46.8	49.1	51.1	53.1	55.3	
Less financial assets net of liabilities — credit financing account balances:																	
Troubled Asset Relief Program Equity Purchase Financing Account	105.4	76.9	74.9	13.6	6.6	5.1	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Troubled Asset Relief Program Direct Loan Financing Account.	23.9	42.7	28.5	17.9	3.1	0.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account.	0.6	2.4	0.8	0.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
FHA Refinance Letter of Credit Financing Account.....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	.....	.....	.....	.....
Total, financial assets net of liabilities	129.9	122.0	104.1	32.2	9.7	5.9	1.0	0.7	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Debt held by the public net of financial assets	151.3	41.6	4.4	29.0	20.5	17.9	24.3	29.9	35.9	40.2	43.4	46.7	49.0	51.0	53.1	55.2	
As a percent of GDP	1.0	0.3	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	

* \$50 million or less.

¹Table reflects deficit effect of budgetary costs, substituting estimates calculated on a cash basis for estimates calculated under FCRA and Sec. 123 of EESA.²Includes estimated debt service effects of all TARP transactions affecting borrowing from the public.

tions associated with the guarantee as they occurred. Updates to estimates of future performance would affect the deficit in the year that they occur, and there would not be credit reestimates.

Under cash reporting, TARP would decrease the deficit in 2014 by an estimated \$6.4 billion, so the 2014 deficit would be \$3.8 billion lower if TARP were reflected on a cash basis than the estimate in the Budget. The deficit would be lower because repayments and proceeds of sales that are now included in non-budgetary financing accounts for TARP would be reflected as offsetting receipts when they occur. Under FCRA, the marginal change in the present value attributable to better-than-expected future inflows from the public would be recognized up front in a downward reestimate, in contrast with a cash-based treatment that would show the annual marginal changes in cash flows. However, the impact of TARP on the Federal

debt, and on debt held net of financial assets, is the same on a cash basis as under FCRA.

Portion of the Deficit Attributable to TARP, and the Extent to Which the Deficit Impact is Due to a Reestimate

Table 21–4 shows the portion of the deficit attributable to TARP transactions. The largest changes in the overall TARP effects on the deficit are the result of reestimates of TARP activity outstanding as of September 30, 2013, and November 30, 2013. The specific effects are as follows:

- TARP reestimates and interest on reestimates will decrease the deficit by \$8.1 billion in 2014, including \$4.2 billion in decreased subsidy costs for TARP programs, and \$3.9 billion in interest on reestimates.
- Outlays for the TARP Housing Programs are estimated at \$5.2 billion in 2014, which includes payments under the MHA program and Hardest Hit

Table 21–6. TROUBLED ASSET RELIEF PROGRAM REESTIMATES

(Dollars in billions)

TARP Program and Cohort Year	Original subsidy rate	Current reestimate rate	Current reestimate amount	Net lifetime reestimate amount, excluding interest	TARP disbursements as of 11/30/2013
Equity Programs:					
Automotive Industry Financing Program (Equity):					
2009	54.52%	13.45%	–3.9	–4.7	12.5
2010	30.25%	–16.78%	–0.9	–1.6	3.8
Capital Purchase Program:					
2009	26.99%	–6.76%	–1.0	–65.7	204.6
2010	5.77%	5.71%	–*	–*	0.3
AIG Investments:					
2009	82.78%	21.88%	.....	–38.5	67.8
Legacy Securities Public-Private Investment Program:					
2009	34.62%	–20.41%	.....	–0.3	0.7
2010	22.97%	–51.11%	–0.5	–3.7	5.5
Targeted Investment Program:					
2009	48.85%	–8.47%	.....	–23.2	40.0
Community Development Capital Initiative:					
2010	48.06%	21.07%	–*	–0.1	0.6
Subtotal equity program reestimates			–6.3	–137.1	335.8
Structured and Direct Loan Programs:					
Automotive Industry Financing Program (AIFP)					
2009	58.75%	21.43%	–1.8	–20.0	63.4
Legacy Securities Public-Private Investment Program:					
2009	–2.52%	–0.29%	.....	*	1.4
2010	–10.85%	1.84%	–*	1.3	11.0
Small Business Lending Initiative 7(a) purchases:					
2010	0.48%	–1.35%	.....	–*	0.4
Term-Asset Backed Securities Loan Facility ¹ :					
2009	–104.23%	–577.50%	–*	–0.4	0.1
Subtotal direct loan program reestimates			–1.8	–19.0	76.2
Guarantee Programs:					
Asset Guarantee Program ² :					
2009	–0.25%	–1.20%	.....	–1.4	301.0
FHA Refinance Letter of Credit:					
2011	1.26%	0.90%	–*	–*	0.1
2012	4.00%	3.18%	–*	–*	0.2
2013	2.48%	2.57%	*	*	0.2
Subtotal guarantee program reestimates			–*	–1.3	301.5
Total TARP Reestimates			–8.1	–157.5	713.6

* \$50 million or less.

¹The Term-Asset Backed Securities Loan Facility 2009 subsidy rate reflects the anticipated collections for Treasury's \$20 billion commitment, as a percent of estimated lifetime disbursements of roughly \$0.1 billion.²Disbursement amount reflects the face value of guarantees of assets supported by the guarantee. The TARP obligation for this program was \$5 billion, the maximum contingent liability while the guarantee was in force.

Fund. Outlays for the TARP Housing Program are estimated to decline gradually through 2020.

- Administrative outlays for TARP are estimated at \$353 million in 2014, and expected to decrease annually thereafter as TARP winds down through 2024. Costs for the Special Inspector General for TARP are

estimated at \$46 million in 2015, and are expected to remain relatively stable through 2024.

- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payments to these accounts and receipt of interest from them are budgetary transac-

Table 21–7. DETAILED TARP PROGRAM LEVELS AND COSTS

(In billions of dollars)

Program	2014 Budget		2015 Budget	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
Equity Purchases:				
Capital Purchase Program	204.9	–7.7	204.9	–8.3
AIG Investments	67.8	18.1	67.8	17.4
Targeted Investment Program	40.0	–3.6	40.0	–3.6
Automotive Industry Financing Program (AIFP)	16.3	5.3	16.3	3.0
Public-Private Investment Program - Equity	7.2	–2.0	7.2	–2.5
Community Development Capital Initiative	0.6	0.2	0.6	0.1
Subtotal equity purchases	336.8	10.2	336.8	6.1
Direct Loan Programs:				
Automotive Industry Financing Program (AIFP)	63.4	17.7	63.4	17.0
Term Asset-Backed Securities Loan Facility (TALF)	0.1	–0.5	0.1	–0.5
Public-Private Investment Program - Debt	13.6	0.2	12.4	0.1
Small Business 7(a) Program	0.4	*	0.4	*
Subtotal direct loan programs	77.5	17.4	76.2	16.6
Guarantee Programs under Section 102:				
Asset Guarantee Program ¹	5.0	–3.8	5.0	–3.9
Subtotal asset guarantees	5.0	–3.8	5.0	–3.9
TARP Housing Programs:				
Making Home Affordable (MHA) Programs	29.9	29.9	29.9	29.9
Hardest Hit Fund	7.6	7.6	7.6	7.6
Subtotal non-credit programs	37.5	37.5	37.5	37.5
FHA Refinance Letter of Credit ²	1.0	0.1	1.0	*
Subtotal TARP housing programs	38.5	37.6	38.5	37.5
Totals	457.8	61.5	456.6	56.3
Memorandum:				
Interest on reestimates ³		–13.9		–17.2
Deficit impact with interests on reestimates		47.5		39.0

* \$50 million or less

¹ The total assets supported by the Asset Guarantee Program were \$301 billion.² TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.³ Total programmatic costs of the TARP exclude interest on reestimates of \$13.9 billion in the 2014 Budget and \$17.2 billion in the 2015 Budget.

Interest on reestimates is an adjustment that accounts for the time between the original subsidy costs and current estimates; such adjustments impact the deficit but are not direct programmatic costs.

tions and therefore affect net outlays and the deficit. For TARP financing accounts, projected interest transactions are based on the market risk adjusted rates used to discount the cash flows. The projected net financing account interest paid to Treasury at market risk adjusted rates is \$2.0 billion in 2014 and declines over time as the financing accounts repay borrowing from Treasury through investment sale proceeds and repayments on TARP equity purchases and direct loans.

The full impact of TARP on the deficit includes the estimated cost of Treasury borrowing from the public—debt service—for the outlays listed above. Debt service is estimated at \$2.0 billion for 2014 (as shown in Table 21–4), and then expected to increase to \$2.1 billion by 2024, largely due to outlays for TARP housing programs. Total debt service will continue over time after the TARP winds down, due to the financing of past TARP costs.

Analysis of TARP Reestimates

The costs of outstanding TARP assistance are reestimated annually by updating cash flows for actual experience and new assumptions, and adjusting for any changes by either recording additional subsidy costs (an upward technical and economic reestimate) or by reducing subsidy costs (a downward reestimate). The reestimated dollar amounts to be recorded in 2014 reflect TARP disbursements through November 30, 2013, while reestimated subsidy rates reflect the full lifetime costs, including anticipated future disbursements. Detailed information on upward and downward reestimates to program costs is reflected in Table 21–6.

The current reestimate reflects a significant decrease in estimated TARP costs from the 2014 Budget. This decrease was due in large part to improved market conditions and significant progress winding down TARP investments over the past year.

Table 21–8. COMPARISON OF OMB AND CBO TARP COSTS

(In billions of dollars)

Program	Estimates of Deficit Impact ¹	
	CBO Cost Estimate ²	OMB Cost Estimate
Capital Purchase Program	–17	–16
Targeted Investment Program & Asset Guarantee Program	–8	–8
AIG Assistance	15	15
Automotive Industry Financing Program	17	14
Term Asset-Backed Securities Loan Facility	*	–1
Other Programs ³	–2	–3
TARP Housing Programs	16	37
Total	21	39

^{*}Amounts round to less than \$1 billion.¹Totals include interest on reestimates.²CBO estimates from May 2013, available online at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256_TARP.pdf³“Other Programs” reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, and small business programs. In previous budgets, other programs included AGP.

Differences Between Current and Previous OMB Estimates

As shown in Table 21–7, the Budget reflects a total TARP deficit impact of \$39.0 billion before administrative costs and interest effects. This is a decrease of \$8.5 billion from the 2014 Budget projection of \$47.5 billion.

The estimated TARP deficit impact reflected in 21–7 differs from the subsidy cost of \$56.3 billion in the Budget because the deficit impact includes subsidy cost and \$17.2 billion in cumulative downward adjustments for interest on reestimates. See footnote 3 in Table 21–7.

Differences Between OMB and CBO Estimates

Table 21–8 compares the OMB estimate for TARP’s deficit impact against the deficit impact estimated by the Congressional Budget Office in its “Report on the Troubled Asset Relief Program—May 2013.”¹⁰

CBO estimates the total cost of TARP at \$21 billion, based on estimated lifetime TARP disbursements of \$428 billion. The Budget reflects current estimates of roughly \$456.6 billion in program obligations, and total deficit impact of \$39 billion, including interest on reestimates. Differences in the estimated cost of the TARP Housing programs, which stem from divergent demand and participation rate assumptions, are the main difference between OMB and CBO cost estimates. The CBO projects \$16 billion in total TARP Housing expenditures, while the Budget reflects a \$37 billion estimate. CBO and OMB cost estimates for the Capital Purchase Program are \$1 billion apart because of different assumptions for the remaining institutions with investments in the program. Similarly, CBO and OMB cost estimates for the Automotive Industry Financing Program are \$3 billion apart due to different assumptions for the future performance of equity investments in the program.

Differences Between EESA and FCRA Cost Estimates

EESA directs that for asset purchases and guarantees under TARP, the cost is determined pursuant to the FCRA, except that the discount rate is adjusted for market risks. EESA’s directive to adjust the FCRA discount rate for market risks effectively assumes higher losses on these transactions than those estimated under FCRA guidelines, which require that Treasury rates be used to discount expected cashflows. In implementing this requirement of EESA, the market risk adjustment is intended to capture the cost of the extra return on investment that a private investor would seek in compensation for uncertainty surrounding risks of default and other losses reflected in the cashflows.

Table 21–9 compares the subsidy costs and subsidy rates of TARP programs discounted at the Treasury rate adjusted for market risk (EESA), and discounted at the unadjusted Treasury rate (FCRA) using 2015 Budget estimated cashflows with the public. Now that the bulk of TARP financial assets have wound down, removing the market risk adjustment from the discount rate for TARP direct, guaranteed, and equity programs (excluding housing programs) decreases subsidy costs by only 2.7 percent (\$0.5 billion) from current estimates. Programs that have fully wound down reflect no difference between the EESA and FCRA estimates, as there are no future cashflows that would be discounted using a risk-adjusted rate under EESA. The share price of common stock is inherently adjusted for market risk and, therefore, there is no additional market risk adjustment necessary for the EESA directive. As a result, there is no difference in the cost of the Automotive Industry Financing Program between values calculated using the Treasury and risk adjusted rate. The non-credit TARP Housing programs are reflected on a cash basis and, therefore, costs are not discounted, which is why there is no difference in the subsidy cost estimate. Using November 30, 2013, valuations, TARP investments discounted at a risk adjusted rate will cost an estimated

¹⁰ Available at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/44256_TARP.pdf

Table 21–9. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS

(In billions of dollars)

Program	TARP Obligations	Subsidy Cost	
		EESA	FCRA
TARP Equity and Direct Loans:			
Capital Purchase Program	204.9	−8.3	−8.7
Targeted Investment Program	40.0	−3.6	−3.6
Asset Guarantee Program ¹	5.0	−3.9	−3.9
Community Development Capital Initiative	0.6	0.1	0.1
Term Asset-Backed Securities Loan Facility	0.1	−0.5	−0.5
Small Business 7(a) Program	0.4	−*	−*
Public Private Investment Program ²	19.6	−2.4	−2.4
AIG Investments	67.8	17.4	17.4
Automotive Industry Financing Program ²	79.7	20.0	20.0
Subtotal TARP equity and direct loans	418.1	18.8	18.3
TARP Housing Programs:			
Making Home Affordable Programs ³	29.9	29.9	29.9
Hardest Hit Fund ³	7.6	7.6	7.6
Subtotal Non-Credit Programs	37.5	37.5	37.5
FHA Refinance Letter of Credit ⁴	1.0	*	*
Subtotal TARP Housing	38.5	37.5	37.5
Total ⁵	456.6	56.3	55.8

* \$50 million or less

¹ The total assets supported by the Asset Guarantee Program were \$301 billion.² Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.³ TARP Making Home Affordable programs and Hardest Hit Fund involve financial instruments without any provision for income or other returns, and are recorded on a cash basis. The table reflects 100 percent subsidy cost for these programs.⁴ TARP obligations under the FHA Refinance Letter of Credit provide first loss coverage of eligible FHA insured mortgages.⁵ Total subsidy costs do not include interest effects or administrative costs. Costs at EESA and FCRA discount rates are the same for common stock programs and for programs that are closed or awaiting a closing reestimate.

\$56.3 billion. TARP investments discounted under FCRA are estimated to have a lifetime cost of \$55.8 billion.

TARP Market Impact

Although challenges in the economy remain, TARP's support to the banking sector through the Capital Purchase Program, Targeted Investment Program, Asset Guarantee Program, and the Community Development Capital Initiative helped stabilize the financial system and strengthen the financial position of the Nation's banking institutions. With the auto industry profitable and growing again, in December 2013, Treasury sold all its remaining shares of General Motors, recouping a total of \$39 billion from the original GM investment. Since publication of the 2014 Budget, Treasury also sold a substantial portion of its remaining Ally holdings. Sales of TARP assets occurring after November 30, 2013 are not included in the cost analysis provided in this report.

The housing market is also strengthening while still recovering, but the Administration's housing programs implemented through the TARP have helped stabilize the market and kept millions of borrowers in their homes. As of November 30, 2013, nearly 1.3 million borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated \$24.2 billion in realized monthly mort-

gage payment savings for these homeowners. In addition to helping these borrowers, the Administration's TARP housing programs have been a catalyst to private sector mortgage modifications. Since April 2009, HAMP, FHA, and the private sector HOPE Now alliance have initiated more than 7.3 million mortgage modifications, which is nearly double the number of foreclosures completed in the same period. The Administration has continued to respond to the evolving housing crisis by implementing programs that provide mortgage relief to unemployed homeowners and those with negative home equity. Furthermore, through the HFA Hardest Hit Fund, the Administration has allocated \$7.6 billion to eligible States to implement innovative housing programs to bring stability to local housing markets and meet the unique needs of their communities. See the "Credit and Insurance" chapter of this volume for more information on the Administration's efforts to support the housing market.

Description of Assets Purchased Through the TARP, by Program

Capital Purchase Program (CPP): Pursuant to EESA, the Treasury created the CPP in October 2008 to restore confidence throughout the financial system by ensuring that the Nation's banking institutions had a sufficient capital cushion against potential future losses and

to support lending to creditworthy borrowers. All eligible CPP recipients completed funding by December 31, 2009, and Treasury purchased \$204.9 billion in preferred stock in 707 financial institutions under the CPP program. As of November 30, 2013, Treasury had received approximately \$197.7 billion in principal repayments and \$26.8 billion in revenues from dividends, interest, warrants, gains/other interest and fees. CPP cash proceeds of \$224.5 billion now exceed Treasury's initial investment by \$19.6 billion. As of November 30, 2013, \$2.1 billion remained outstanding under the program.

Community Development Capital Initiative (CDCI): The CDCI program invests lower-cost capital in Community Development Financial Institutions (CDFIs), which operate in markets underserved by traditional financial institutions. In February 2010, Treasury released program terms for the CDCI program, under which participating institutions received capital investments of up to 5 percent of risk-weighted assets and pay dividends to Treasury of as low as 2 percent per annum. The dividend rate increases to 9 percent after eight years. CDFI credit unions were able to apply to TARP for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts. These institutions could apply for capital investments of up to 3.5 percent of total assets — an amount approximately equivalent to the 5 percent of risk-weighted assets available under the CDCI program to banks and thrifts. TARP capital of \$570 million has been committed to this program. As of November 30, 2013, Treasury has received \$130 million in cash back on its CDCI investments and \$470 million remains outstanding.

Capital Assistance Program and Other Programs (CAP): In 2009, Treasury worked with federal banking regulators to develop a comprehensive “stress test” known as the Supervisory Capital Assessment Program (SCAP) to assess the health of the nation's 19 largest bank holding companies. In conjunction with SCAP, Treasury announced that it would provide capital under TARP through the Capital Assistance Program (CAP) to institutions that participated in the stress tests as well as others. Only one TARP institution (Ally Financial) required additional funds under the stress tests, but received them through the Automotive Industry Financing Program, not CAP. CAP closed on November 9, 2009, without making any investments and did not incur any losses to taxpayers. Following the release of the stress test results, banks were able to raise hundreds of billions of dollars in private capital.

American International Group (AIG) Investments: The Federal Reserve Bank of New York (FRBNY) and the Treasury provided financial support to AIG in order to mitigate broader systemic risks that would have resulted from the disorderly failure of the company. To prevent the company from entering bankruptcy and to resolve the liquidity issues it faced, the FRBNY provided an \$85 billion line of credit to AIG in September 2008 and received preferred shares that entitled it to 79.8 percent of the voting rights of AIG's common stock. After TARP was enacted, the Treasury and FRBNY continued to work to facilitate AIG's execution of its plan to sell certain of its business-

es in an orderly manner, promote market stability, and protect the interests of the U.S. Government and taxpayers. As of December 31, 2008, when purchases ended, the Treasury had purchased \$40 billion in preferred shares from AIG through TARP, which were subsequently converted into common stock. In April 2009, Treasury also extended a \$29.8 billion line of credit, of which AIG drew down \$27.8 billion, in exchange for additional preferred stock. The remaining \$2 billion obligation was subsequently canceled.

AIG executed a recapitalization plan with FRBNY, Treasury, and the AIG Credit Facility Trust in mid-January 2011 that allowed for the acceleration of the Government's exit from AIG. Following the restructuring and AIG's ensuing public offering in May of 2011, the Treasury had a 77 percent ownership (or 1.45 billion shares) stake in AIG, which represented a 15 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Throughout 2012, Treasury completed public offerings to further reduce its AIG ownership stake. In December 2012, Treasury sold its remaining balance of AIG common stock in a public offering that reduced Treasury's AIG common stock position to zero, including its shares acquired outside of TARP from the FRBNY. With this final sale, the Treasury and the FRBNY have fully recovered all funds committed to stabilize AIG during the financial crisis.¹¹ In March 2013, Treasury sold its remaining 2.7 million warrants for \$25.2 million and has fully exited its investment in AIG. A summary of the deal terms and recent transactions can be found in the Analytical Perspectives volume of the President's 2014 Budget. TARP's AIG commitments totaled \$67.8 billion and, with the program closed, yielded \$55.3 billion in total cash back.

Targeted Investment Program (TIP): The goal of the TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets, and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased \$20 billion in preferred stock from Citigroup and \$20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. Both Citigroup and Bank of America repaid their TIP investments in full in December 2009, along with dividend payments of approximately \$3.0 billion. In March 2010, Treasury sold all of its Bank of America warrants for \$1.2 billion, and in January 2011, the Treasury sold Citigroup warrants acquired through the TIP for \$190.4 million. After obligating \$40 billion, TIP investments yielded gross proceeds of \$44.4 billion. The TIP is closed and has no remaining assets.

¹¹ Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares). Treasury collected proceeds of \$17.5 billion for its non-TARP shares in AIG.

Asset Guarantee Program (AGP): The AGP was created to provide Government assurances for assets held by financial institutions that were critical to the functioning of the nation's financial system. Under the AGP, the Treasury and FDIC guaranteed up to \$5 billion and \$10 billion, respectively, of potential losses incurred on a \$301 billion portfolio of financial assets held by Citigroup. In exchange, the Treasury received \$4 billion of preferred stock that was later converted to trust preferred securities; the FDIC received \$3 billion in preferred stock.¹² The preferred stock provided an 8 percent annual dividend. On December 23, 2009, in connection with Citigroup's TIP repayment, Citigroup and the Government terminated the AGP agreement. The Treasury and FDIC did not pay any losses under the agreement, and retained \$5.2 billion of the \$7 billion in trust preferred securities that were part of the initial agreement with Citigroup. TARP retained \$2.2 billion of the trust preferred securities, as well as warrants for common stock shares that were issued by Citigroup as consideration for the guarantee. Treasury sold the trust preferred securities on September 30, 2010, and the warrants on January 25, 2011. On December 28, 2012, Treasury received \$800 million in additional Citigroup trust preferred securities from the FDIC and, in 2013, sold them for \$894 million. The TARP's Citigroup asset guarantees yielded \$3.9 billion in total cash back.

In May 2009, Bank of America announced a similar asset guarantee agreement with respect to approximately \$118 billion in Bank of American assets, but the final agreement was never executed. As a result, in 2009 Bank of America paid a termination fee of \$425 million to the Government. Of this amount, \$276 million was paid to the TARP, \$92 million was paid to FDIC, and \$57 million was paid to the Federal Reserve. In total, AGP obligated \$5 billion, but never paid a claim. Treasury sold the last of its AGP holdings in 2013, ending the program and yielding \$4.1 billion in total cash back.

Automotive Industry Support Programs: In December 2008, in order to mitigate a systemic threat to the Nation's economy and a potential loss of thousands of jobs, the Treasury established several programs to prevent the collapse of the domestic automotive industry. Through the Auto Industry Financing Program (AIFP), the largest and only remaining active auto program, TARP made emergency loans to Chrysler, Chrysler Financial, and General Motors (GM). Additionally, TARP bought equity in Ally Financial, formerly GMAC, and assisted Chrysler and GM during their bankruptcy proceedings. The Chrysler program is now closed. In total, of the \$12.4 billion committed to Chrysler, TARP was repaid \$11.1 billion in total cash back.¹³

Over the last year, Treasury liquidated much of its remaining AIFP holdings. On November 20, 2013, Ally

repaid \$5.9 billion of TARP's original commitment. Significant additional sales of AIFP related TARP assets have also occurred since November 30, 2013 and are, therefore, not reflected in the cost analysis provided in this report. Notably, on December 9, 2013, TARP sold its last remaining shares in GM, recouping \$38.8 billion from TARP's \$51 billion investment in GM. Then on January 16, 2014, Treasury announced that TARP sold 410,000 shares of Ally common equity for \$3 billion in a private placement, leaving TARP with only 571,971 remaining Ally shares. As of January 31, 2014, of the \$78.6 billion committed for AIFP, only \$5.7 billion remains outstanding for Ally.

Through the Auto Supplier Support Program (Supplier Program) and the Auto Warranty Commitment Program (Warranty Program), Treasury disbursed \$1.1 billion in direct loans to GM and Chrysler to support auto parts manufacturers and suppliers. Both the Supplier and Warranty programs have closed and, in aggregate, these investments yielded \$1.2 billion in total cash back.

Credit Market Programs: The Credit Market programs were designed to facilitate lending that supports consumers and small businesses, through the Term Asset-Backed Securities Loan Facility (TALF), the CDCI discussed previously, and the Small Business Administration's guaranteed loan program (SBA 7(a)).

TALF: The TALF was a joint initiative with the Federal Reserve that provided financing (TALF loans) to private investors to help facilitate the restoration of efficient and robust secondary markets for various types of credit. The Treasury provided protection to the Federal Reserve through a loan to the TALF's special purpose vehicle (SPV), which was originally available to purchase up to \$20 billion in assets that would be acquired in the event of default on Federal Reserve financing. In March 2009 Treasury disbursed \$0.1 billion of this amount to the TALF SPV to implement the program. In July 2010, Treasury, in consultation with the Federal Reserve, reduced the maximum amount of assets Treasury would acquire to \$4.3 billion, or 10 percent of the total \$43 billion outstanding in the facility when the program was closed to new lending on June 30, 2010. In June 2012, Treasury, in consultation with the Federal Reserve, further reduced its loss-coverage to \$1.4 billion. Finally, Treasury and the Federal Reserve announced in January 2013 that Treasury's commitment of TARP funds to provide credit protection was no longer necessary due to the fact that the accumulated fees collected through TALF exceeded the total principal amount of TALF loans outstanding. As of November 30, 2013 Treasury had received gross cash proceeds of \$690 million from TALF.

SBA 7(a): In March 2009, Treasury and the Small Business Administration announced a Treasury program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and purchased 31 securities with an aggregate face value of approximately \$368 million. Treasury reduced its commitment to the Small Business 7(a) program from \$1 billion to \$370 million, as

¹² Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

¹³ Chrysler repayments of \$11.1 billion include \$560 million in proceeds from the sale of Treasury's 6 percent fully diluted equity interest in Chrysler to Fiat and Treasury's interest in an agreement with the UAW retiree trust that were executed on July 21, 2011.

demand for the program waned due to significantly improved secondary market conditions for these securities following the original announcement of the program. In January 2012, Treasury completed the final disposition of its SBA 7(a) securities portfolio. The SBA 7(a) program received total proceeds of \$376 million, representing a gain of approximately \$8 million to taxpayers.

Public Private Investment Program (PPIP): The Treasury announced the Legacy Securities Public-Private Investment Partnership (PPIP) on March 23, 2009, to help restart the market for legacy mortgage-backed securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses. Under the program, Public-Private Investment Funds (PPIFs) were established by private sector fund managers for the purchase of eligible legacy securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers as defined under EESA. On June 30, 2010, PPIP closed for new funding and as of December 2012 the PPIFs can no longer deploy capital and make new investments. Treasury may continue to manage these investments for up to five additional years. As of November 30, 2013, after obligating \$19.6 billion, PPIP investments had yielded \$22.5 billion in total cash back.

TARP Housing Programs: To mitigate foreclosures and preserve homeownership, in February 2009 the Administration announced a comprehensive housing program utilizing up to \$50 billion in funding through the TARP. The Government-Sponsored Entities (GSEs) Fannie Mae and Freddie Mac participated in the Administration's program both as the Treasury Department's financial agents for Treasury's contracts with servicers, and by implementing similar policies for their own mortgage portfolios. These housing programs are focused on creating sustainably affordable mortgages for responsible homeowners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. Following the enactment of the Wall Street Reform Act, Treasury reduced its commitments to the TARP Housing programs to \$45.6 billion. These programs fall into three initiatives:

- Making Home Affordable (MHA);
- Housing Finance Agency (HFA) Hardest-Hit Fund (HHF); and
- Federal Housing Administration (FHA) Refinance Program.¹⁴

The MHA initiative includes among its components the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Modification Program (2MP), and the second lien extinguishment portion of the FHA-

Refinance Program, and Rural Development-HAMP.¹⁵ Under MHA programs, the Treasury contracts with servicers to modify loans in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and investors for those modification or other foreclosure alternatives. When a mortgage modification is not possible, Treasury contracts with servicers to provide incentives that encourage borrower short sales (sales for less than the value of the mortgage in satisfaction of the mortgage) or deeds-in-lieu (when the homeowner voluntarily transfers ownership of the property to the servicer in full satisfaction of the total amount due on the mortgage) via the Home Affordable Foreclosure Alternatives Program (HAFA), in order to provide a means for borrowers to avoid foreclosure. In May of 2013, the Administration announced a two-year extension of HAMP and HAFA to December 31, 2015. As of November 30, 2013, TARP has paid \$7.0 billion in HAMP and HAFA related incentive payments and an additional \$22.9 billion in TARP funds is obligated for future payments.

HFA Hardest-Hit Fund (HHF): The \$7.6 billion HHF provides the eligible entities of Housing Finance Agencies from 18 states and the District of Columbia with funding to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The Administration targeted areas hardest hit by unemployment and home price declines through the program. Approximately 60 percent of the HHF funds are dedicated to programs that help unemployed borrowers stay in their homes, 40 percent of HHF funds facilitate principal write-downs for borrowers who owe more than their home is worth and other activities including blight elimination, transition assistance, and administrative expenses. The flexibility of the HHF funds has allowed States to design and tailor innovative programs to meet the unique needs of their community. Over the past year, the Administration has taken key actions to help communities turn the corner to recovery, including working with Michigan, Ohio, and Indiana to use \$235 million of their HHF allocations for blight elimination.

FHA Refinance Program: This program, which is administered by the Federal Housing Administration and supported by TARP, was initiated in September 2010 and allows eligible borrowers who are current on their mortgage but owe more than their home is worth, to re-finance into an FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan. Nearly \$3.0 billion in TARP funds allocated under the MHA are available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens into an FHA-insured mortgage, and an additional \$8.1 billion was originally committed through a letter of credit agreement with Citigroup to cover a share of any losses on the loans and administrative expenses. In January 2012, the Administration extended the FHA Refinance Program until December 31, 2014. In 2013, Treasury's commitment to cover a share of any losses under the FHA Refinance Program was reduced from \$8.1 billion to \$1.0 billion. As

¹⁴ This program has also been referred to as the FHA Short Refinance Program or Option in other reporting. The FHA Refinance Program is a HUD not a Treasury program, but is supported through the TARP with \$1 billion to cover a share of any losses on FHA Refinance loans.

¹⁵ For additional information on MHA programs, visit: <http://www.makinghomeaffordable.gov/>.

of November 30, 2013, TARP's remaining commitment to the FHA Refinance Program letter of credit was \$0.5 billion.

TARP Oversight and Accountability

Ensuring effective internal controls and monitoring of TARP programs and funds to protect taxpayer investments remains a top priority of Treasury's TARP staff and those offices charged with TARP oversight and accountability. The Treasury has implemented a comprehensive set of assessments geared toward identifying risks, evaluating their potential impact, and prioritizing resource assignments to manage risks based on a combined top-down and bottom-up assessment of risk to ensure appropriate coverage of high-impact areas. A Senior Assessment Team and the Risk and Control Group guide OFS efforts to meet all applicable requirements for a sound system of internal controls, and to review and respond to all recommendations made by the four TARP oversight bodies—the Special Inspector General for TARP (SIGTARP), the Government Accountability Office (GAO), the Financial Stability Oversight Board, and the Congressional Oversight Panel (terminated April 3, 2011). The soundness of Treasury's TARP compliance monitoring, internal control, and risk management policies and processes are reflected in the clean opinions issued by GAO after its audit of OFS finan-

cial statements for 2009 through 2013 and the associated internal control over financial reporting.

The Treasury has issued regulations governing executive compensation and conflicts of interest related to TARP program administration and participation. Compliance with these rules is monitored on an ongoing basis, and reviews of participant conduct and program administration are conducted as appropriate. In executing its responsibility for monitoring compliance with executive compensation requirements, the Treasury has also created an Office of the Special Master for TARP to review TARP participant compliance with applicable legal and regulatory authority, and to recommend action to the Secretary when compensation is found to be awarded in a manner or amount deemed contrary to the public interest.

Special Inspector General for TARP

Section 121 of EESA created the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to prevent fraud, waste, and abuse in the administration of TARP programs through audits and investigations of the purchase, management, and sales of TARP assets. SIGTARP is required to submit quarterly reports to Congress, and as of its latest report released on January 29, 2014, SIGTARP's investigations have resulted in criminal charges against 174 defendants, 112 of which were senior officers. As of January 2014, 122 have been convicted with others awaiting trial.

FEDERAL REFORMS IN RESPONSE TO THE FINANCIAL CRISIS

This section provides an overview of the financial reforms and regulatory actions put in place in response to the financial crisis of 2008. The analysis is presented in three parts. The first part, "Reforming Financial Regulation," discusses implementation of financial reforms mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The second part, "Federal Reserve Actions," analyzes the extraordinary measures conducted by the Board of Governors of the Federal Reserve System (the "Federal Reserve" or the "Fed"). The chapter concludes with a discussion of multilateral efforts to strengthen international financial regulation under the heading "International Financial Reform." See the "Credit and Insurance" chapter of this volume for a detailed analysis of additional programs and Administration initiatives designed to support the housing market, depository institutions, credit unions, and small businesses.

Reforming Financial Regulation

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act¹⁶ (the "Wall Street Reform Act" or the "Act"). The Act embodies the Administration's critical objectives for achieving a more stable financial system, which include: helping prevent future financial crises in part by filling gaps in the U.S. regulatory regime; better protecting consumers of financial products and services; preventing

unnecessary and harmful risk-taking that threatens the economy; and providing the Government with more effective tools to manage financial crises. Important milestones in the implementation of the Act include:

Enhanced Consumer Financial Protection

The Wall Street Reform Act created a single independent regulator—the Consumer Financial Protection Bureau (CFPB)—whose sole mission is to look out for consumers in the increasingly complex financial marketplace. The CFPB is an independent bureau in the Federal Reserve System responsible for the regulation and enforcement of existing consumer financial products, services and laws, and it issues and enforces new regulations on nonbank financial institutions (e.g., payday lenders and credit providers). On July 21, 2011, as designated by the Treasury Department, the authorities of seven regulatory agencies were transferred to the CFPB—one year after the agency was created by the Wall Street Reform Act. The CFPB is authorized to supervise and enforce existing consumer financial protection regulations affecting a bank and its affiliates if the bank has assets of \$10 billion or more. Notable existing regulations include those issued under the Fair Credit Reporting Act, Truth in Lending Act, and the Real Estate Settlement Procedures Act. The CFPB is also authorized to issue new rules; enforce prohibitions against unfair, deceptive, or abusive practices; and improve disclosures about the features of consumer financial products and services. In addition, the CFPB is

¹⁶ P.L. 111-203.

charged with supervising nonbank financial firms in specific markets regardless of size, such as mortgage lenders and servicers, consumer reporting agencies, debt collectors, private education lenders, and payday lenders.

The CFPB finalized several mortgage rules in January 2013 and subsequently promulgated clarifying amendments in September 2013. Among these rules, the Ability-to-Repay rule protects consumers from irresponsible mortgage lending by requiring that lenders generally make a reasonable, good-faith determination that prospective borrowers have the ability to repay their loans. The mortgage servicing rules establish strong protections for homeowners facing foreclosure, and the loan originator compensation rules address certain practices that created incentives to steer borrowers into risky or high-cost loans. In addition to providing stronger consumer protections for mortgages, CFPB continued broader enforcement actions in 2013, provided relief through assessments of \$394 million to 2.1 million consumers harmed by credit card companies that had violated Federal consumer financial laws, and assessed an additional \$50 million in civil monetary penalties to help deter future occurrences of unfair, deceptive and abusive acts or practices in marketing consumer financial products and services.

The CFPB is funded through transfers from the Federal Reserve. The Budget reflects funding for the CFPB through these authorized transfers from the Federal Reserve, estimated at \$583 million in 2015.

Increasing Transparency in Financial Markets

As the regulators of U.S. financial markets, the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) are key components of the Administration's efforts to reform dangerous Wall Street trading practices that increase economic volatility and undermine market stability. Despite their constrained funding through appropriations in recent years, both agencies are aggressively working to address many of the root causes of the crisis, to adapt their organizations to more effectively monitor ever-changing regulated industries and activities, and to implement enforcement strategies designed to both punish violators and deter wrongdoing.

The Wall Street Reform Act gave the SEC significant new responsibilities and tasked the agency with writing a large number of new rules. In addition to managing the complexity and interrelatedness of the mandated rules, the SEC has worked to provide certainty to financial markets and investors by finalizing rules as quickly as possible without compromising the agency's ability to review, evaluate, and make changes to reflect the large number of public comments received on its proposed rulemakings. As of December 2013, the SEC had proposed or adopted more than 80 percent of the rules required by the Act. For example, the SEC has adopted and implemented all the rules designed to enhance the oversight of advisers to hedge funds and other private funds, and has adopted rules to pay awards to eligible whistleblowers who voluntarily provide the agency with original information about violations of the Federal securities laws. In calendar year

2013, among other things, the SEC adopted final rules for municipal advisor registration and issued comprehensive proposed rules regarding the regulatory treatment of cross-border security-based swap transactions. The SEC also issued or proposed rules required under the Jumpstart Our Business Startups Act (JOBS Act) intended to increase access to capital for small businesses, including rules permitting the use of general solicitation in certain private offerings and permitting securities offerings through "crowdfunding".

In 2013, the SEC also strengthened its enforcement policies by beginning to require admissions of misconduct in certain cases where there is a heightened need for public accountability. In 2013, the SEC's Enforcement Division filed 686 enforcement actions. The agency also continued to hold accountable those whose actions contributed to the financial crisis, and has now charged 169 entities and individuals with wrongdoing stemming from the crisis, 70 of whom were CEOs, CFOs, or other senior executives. Those efforts have resulted in over \$3 billion in disgorgement, prejudgment interest, civil penalties, and other monetary relief agreed to or ordered.

In addition to its longstanding responsibility to ensure fair, open, and efficient futures markets, the Wall Street Reform Act authorized the CFTC to regulate the swaps marketplace through oversight of swap dealers and open trading and clearing of standardized derivatives on regulated platforms. Despite its constrained appropriations that in recent years have been significantly below the Administration's request, the CFTC has adapted its mission to include these new responsibilities. In 2013, the CFTC issued final rules and guidance for the registration and operation of swap execution facilities (SEFs), and within months oversaw the successful launch of SEF platforms that are already bringing transparency to the previously unregulated U.S. swaps market (a market notionally valued at more than \$380 trillion) by making trade data available to market participants and regulators.

While devoting significant resources to timely and thorough implementation of new Wall Street Reform Act authorities, the CFTC has continued its market surveillance and enforcement activities in the historically-regulated futures and options markets. In 2013, CFTC filed 82 enforcement actions, bringing the total over the past three fiscal years to 283, nearly double the number of actions brought during the prior three fiscal years. As a result of these actions, CFTC's Division of Enforcement obtained orders imposing more than \$1.7 billion in sanctions in 2013, including orders for more than \$1.5 billion in civil monetary penalties and more than \$200 million in restitution and disgorgement.

In support of the SEC's mission, the President's Budget provides \$1.7 billion in new resources in 2015, an increase of \$350 million over 2014. For CFTC, \$280 million is provided, an increase of \$65 million over 2014. Additionally, the Administration strongly supports legislation authorizing the CFTC to collect user fees to fund its activities beginning in 2016 as reflected in the Budget. The CFTC is the only Federal financial regulator funded through taxpayer rather than user fee funds.

Ending Too-Big-to-Fail

The Act makes clear that no financial company will be considered “too big to fail” in the future, and that taxpayers will not be on the hook for the costs of those that do fail. Under the framework of Wall Street Reform, bankruptcy is the preferred option in the event of a failure of a large, interconnected financial institution. To achieve this goal, the Act requires all large bank-holding companies to submit resolution plans, or “living-wills,” to demonstrate how the company could be resolved in a rapid and orderly manner in the midst of a crisis. In 2011, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve finalized the resolution plan rule and in 2012 and 2013 received initial living wills from all qualifying institutions. As of December 31, 2013, the FDIC and the Federal Reserve are in the process of reviewing the plans under the standards provided in the Wall Street Reform Act.

In cases where resolution under the Bankruptcy Code may result in serious adverse effects on US financial stability, the FDIC now may unwind failing nonbank financial companies in an orderly manner to prevent widespread disruptions. Through its new orderly liquidation authority under the Title II of the Act, the FDIC serves as receiver of non-depository financial companies whose failure and resolution under otherwise applicable law would have serious adverse effects on U.S. financial stability. In December 2013, the FDIC issued a Federal Register notice on the Single Point of Entry Strategy for resolving a failing financial company and sought public comment on how the policy objectives set forth in Title II of Wall Street Reform Act could be better achieved.

While the Budget includes an estimated cost to the Government that is based on the probability of default under this new orderly liquidation authority, the total costs of any liquidation will, by law, be recovered in full, so there is no long-run cost to taxpayers. The probabilistic ten-year cost from this authority of \$21 billion, reflected in the Budget in the Orderly Liquidation Fund, is due to the fact that cost recovery occurs only over a period of years after liquidation expenses are incurred. For a further discussion of FDIC, see the “Credit and Insurance” chapter in this volume.

Monitoring Systemic Risk

The Act established the Financial Stability Oversight Council (FSOC) to identify, monitor, and respond to emerging threats to U.S. financial stability. The FSOC is chaired by the Secretary of the Treasury, with the heads of the Federal financial regulators and an independent insurance expert serving as voting members. The FSOC is also charged with facilitating information sharing and coordination among its member agencies and identifying gaps in the U.S. regulatory regime that could pose risks to U.S. financial stability.

The FSOC has moved quickly to identify key issues and firms posing risks to U.S. financial stability, while emphasizing the importance of transparency and stakeholder collaboration throughout the process. The FSOC’s 2013

annual report identified a number of risks and emerging threats to financial stability along with a series of associated recommendations to regulators, policy makers, and market participants. Additionally, in the summer of 2013, the FSOC designated American International Group, Inc., General Electric Capital Corporation, Inc., and Prudential Financial, Inc. for enhanced prudential standards and consolidated supervision by the Federal Reserve, adding to the eight financial market utilities designated by the FSOC for enhanced risk management standards in 2012. Going forward, the FSOC will continue to monitor emerging threats to financial stability and monitor risks in the financial system including risks related to housing finance, commodity market volatility, foreign financial markets, and the U.S. fiscal position.

The Secretary of the Treasury, as Chairperson of the FSOC, also coordinated the joint rulemaking required by the Wall Street Reform Act to implement the Volcker Rule—providing critical leadership to help agencies finalize the rule. Adopted on December 10, 2013, the rule prohibits banking entities from engaging in speculative proprietary trading activities for their own benefit, rather than their customers; restricts banks’ investments in private equity and hedge funds, while preserving their ability to maintain liquidity and hedge their risks; and requires robust compliance regimes that are commensurate with a firm’s size and trading activity.

The Act established the Financial Research Fund (FRF) to fund the FSOC, the Office of Financial Research (OFR), and certain Orderly Liquidation Authority implementation expenses of the FDIC. The OFR, an office housed within the Treasury Department, was created to improve the quality of financial data available to policymakers and to facilitate more robust and sophisticated analysis of the financial system. The OFR is in the process of comprehensively cataloguing the data that are currently collected by U.S. financial regulators to identify deficiencies and redundancies in the existing regulatory framework, as well as enhancing the quality of the financial data infrastructure through the development of a global Legal Entity Identifier (LEI) for entities engaged in financial transactions. The FRF is fee-funded through assessments on bank holding companies with total consolidated assets of \$50 billion or greater and nonbank financial companies subject to supervision by the Federal Reserve. The Budget projects gross 2015 FRF assessments of \$115 million.

Improving Insurance Regulation

The Federal Insurance Office (FIO), housed within the Treasury Department, was established by the Wall Street Reform Act to “monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to” a systemic crisis. The FIO was created, in part, to streamline what is currently a decentralized regulatory regime. In December 2013, the FIO released its report on the modernization and improvement of the system of insurance regulation in the United States. The report made 27 recommendations designed to improve our insurance regulatory system by making it more responsive to the needs of consumers,

market participants, and regulators in a global environment. In 2013, the FIO also continued its work representing the United States in the International Association of Insurance Supervisors to develop a common supervisory framework for internationally active insurance groups. In 2014, the FIO plans to release a report on the reinsurance market. The FIO is funded with discretionary resources through the Treasury's Departmental Offices.

Federal Reserve Actions

Beginning in August 2007, the Federal Reserve responded to the financial crisis by taking a number of actions designed to support the liquidity positions of financial institutions and foster improved conditions in financial markets. When significant financial stresses first emerged, in August 2007, the Federal Open Market Committee (FOMC) responded quickly through traditional means, first through liquidity actions—cutting the discount rate and extending term loans to banks—and by lowering the target for the federal funds rate from 5.25 percent in August 2007 to nearly zero by December 2008.

In late 2008 and early 2009 as the crisis deepened, the Federal Reserve began taking extraordinary steps to provide liquidity and support credit market functioning, including establishing a number of emergency lending facilities and creating or extending currency swap agreements with 14 central banks around the world. In its role as banking regulator, the Federal Reserve also led stress tests of the largest U.S. bank holding companies, setting the stage for the companies to raise capital. Many of the Federal Reserve's crisis response actions were coordinated with other Federal agencies. For discussions of the Federal Reserve's role in TARP programs, including AIG support and the Term Asset-Backed Securities Loan Facility, please see the "Description of Assets Purchased Through the TARP, by Program" subsection of this chapter.

With the global financial crisis cresting and the Federal funds rate at its effective lower bound, the Federal Reserve turned to non-traditional policy approaches to avoid deflation and repair the damage caused by the crisis. To provide stimulus to household and business spending, in November 2008 the Federal Reserve began a series of large-scale asset purchases known as "quantitative easing." Initially, the Federal Reserve's quantitative easing programs used a "stock" approach by specifying total amounts of Treasury bond, GSE debt, or mortgage-backed security purchases to be completed within certain timeframes. But after several rounds of quantitative easing using this approach, in September 2012 the FOMC announced it would begin using a "flow" approach, where the Federal Reserve would buy a set amount of Treasury bonds and mortgage-backed securities every month until economic conditions sufficiently improved. After buying \$85 billion a month for more than a year, in 2014 the Federal Reserve began "tapering" its asset purchases to \$75 billion in January, and then \$65 billion in February.

With the zero lower bound conditions on the Federal funds rate set to continue, the Federal Reserve has also

made considerable use of "forward guidance" as a policy tool to foster expectations of lower future interest rates. In practice, "forward guidance" has referred to the Federal Reserve's attempts to more clearly articulate objectives, timeframes, and thresholds for policy adjustments—leading to more accommodative financial conditions. As a notable example, in December 2012, the FOMC indicated that the Federal funds target rate would remain near zero until either unemployment drops below 6.5 percent, or inflation exceeds 2.5 percent.

The Federal Reserve has also made considerable progress in implementing the statutory mandates in the Wall Street Reform Act, helping to further improve financial stability and mitigate systemic risk. In October 2013, the Federal Reserve and other Federal banking agencies issued a proposed rule, consistent with section 165 of the Act, which would implement the first broadly applicable quantitative liquidity requirement for U.S. banking firms. The Federal Reserve has continued conducting comprehensive stress tests required by the Act, which in late 2013 provided key information to improve the Fed's supervisory efforts of large banking firms. In December 2013, the Federal Reserve also approved a final rule clarifying the treatment of uninsured U.S. branches and agencies of foreign banks under section 716 of the Act, which generally prohibits certain types of Federal assistance—such as discount window lending and deposit insurance—to swap dealers and major swap participants.

Earnings resulting from the expansion of the Federal Reserve's balance sheet through the large-scale asset purchases have, over the last several years, increased the surplus the Federal Reserve deposits in the Treasury, reducing the budget deficit. As its support winds down, transfers are likely to return to lower, more normal levels. In 2013, Treasury received \$75.8 billion from the Federal Reserve, which represents an 8 percent decrease below 2012 deposits. The Budget projects Treasury will receive \$90.4 billion and \$88.3 billion from the Federal Reserve in 2014 and 2015, respectively.

International Financial Reform

The financial crisis was an international event not limited to U.S. markets, corporations, and consumers. In addition to its demonstrated commitment to achieving meaningful financial reform at home, the Administration continues to ensure coordination of financial reform principles across the globe. At the G-20 Summit in Pittsburgh in September 2009, President Obama and other G-20 leaders established the G-20 as the premier forum for international economic cooperation. Over the course of Summits held in London (April 2009), Pittsburgh (September 2009), Toronto (June 2010), Seoul (November 2010), Cannes (November 2011), Los Cabos (June 2012), and Saint Petersburg (September 2013), the Administration and G-20 leaders have committed to an ambitious agenda for financial regulatory reform. Their reform commitments have extended the scope of regulation, will improve transparency and disclosure, and will strengthen banks through increased and higher quality capital and adop-

tion of a leverage ratio that will more tightly limit the amount banks may lend relative to their capital reserves. In 2013, the Office of the Comptroller of the Currency, the FDIC, and the Federal Reserve implemented a rule reflecting the most recent international capital framework published by the Basel Committee on Banking Supervision. This rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets.

Together, the U.S. and its global allies are building effective resolution regimes, including cross-border resolution frameworks, and are developing higher prudential standards for systemically important financial institutions to reflect the greater risk those institutions pose to financial system stability. To facilitate bilateral discussions and cooperation, the FDIC is negotiating memoranda of understanding with certain foreign counterparts that will provide a basis for international information sharing and cooperation relating to cross-border resolution planning and implementation. The Treasury Department, working

together with other agencies, has ensured that these commitments are fully consistent with our domestic financial reform agenda.

The Administration continues to work cooperatively with its G-20 partners to close regulatory gaps. These efforts reflect the parties' recognition of the interconnectedness of financial markets and the need to preclude opportunities for regulatory arbitrage, in which firms seek jurisdictions and financial instruments that are comparatively less regulated and, in doing so, allow risk to build up covertly, posing a threat to financial stability. In developing regulatory reforms that strengthen the resilience of the financial system to withstand the level of stress seen in the recent financial crisis, the Administration and its G-20 partners have remained mindful of the need to undertake reform in ways consistent with cultivating vibrant, innovative, and healthy markets that can do what financial markets do best: allocate scarce resources efficiently.

