January 2012

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-229, a report to congressional addressees

TROUBLED ASSET RELIEF PROGRAM

As Treasury Continues to Exit Programs, Opportunities to Enhance Communication on Costs Exist

Why GAO Did This Study

The Emergency Economic Stabilization Act of 2008 authorized the Department of the Treasury (Treasury) to create the Troubled Asset Relief Program (TARP), a $700 billion program designed to restore the liquidity and stability of the financial system. The act also requires that GAO report every 60 days on TARP activities. This report examines (1) the condition and status of TARP programs; (2) Treasury's management of TARP operations, including staffing for the Office of Financial Stability (OFS) and oversight of contractors and financial agents; and (3) what is known about the direct and indirect costs of TARP. To do this work, GAO analyzed audited financial data for various TARP programs; reviewed documentation such as program terms and internal decision memos; analyzed TARP cost estimates from the Congressional Budget Office (CBO), the Office of Management and Budget, and Treasury; and interviewed CBO and OFS officials.

What GAO Recommends

Treasury should enhance its program-specific press releases to the public by consistently including lifetime cost estimates when reporting on program activities and results. Treasury agreed with our recommendation and plans to implement it by including a link to its cost reporting in future TARP program-specific press releases.

View GAO-12-229 or key components.
For more information, contact Thomas J. McCool at (202) 512-2642 or mccoolt@gao.gov.

What GAO Found

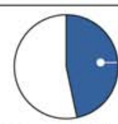
Many TARP programs continue to be in various stages of unwinding and some programs, notably those that focus on the foreclosure crisis, remain active. The figure provides an overview of selected programs and the amount disbursed and outstanding, as applicable. Treasury has articulated broad principles for exiting TARP, including exiting TARP programs as soon as practicable and seeking to maximize taxpayer returns, goals that at times conflict. Some of the programs that Treasury continues to unwind, such as investments in American International Group, Inc. (AIG), require Treasury to actively manage the timing of its exit as it balances its competing goals. For other programs, such as the Capital Purchase Program (CPP)—which was created to provide capital to financial institutions—Treasury's exit will be driven primarily by the financial condition of the participating institutions. Consequently, the timing of Treasury's exit from TARP remains uncertain.

Treasury continues to manage the various TARP programs using OFS staff, financial agents, and contractors. Overall OFS staffing has declined slightly for the first time as staff responsible for managing TARP investment programs and those in term-appointed leadership positions have departed. However, staff in some offices within OFS have increased—for example, in the Office of Internal Review, which helps to ensure that financial agents and contractors comply with laws and regulations. Through September 30, 2011, about half of Treasury's 116 contracts remained active, along with 14 of the 17 financial agency agreements. Treasury has continued to strengthen its management and oversight of contractors and financial agents and conflict-of-interest requirements. In response to a GAO recommendation, OFS has finalized a plan to address staffing levels and expertise that includes identifying critical positions and conducting succession planning, in light of the temporary nature of its work.

Treasury and CBO project that TARP costs will be much lower than the amount authorized when the program was initially announced. Treasury's fiscal year 2011 financial statement, audited by GAO, estimated that the lifetime cost of TARP would be about $70 billion—with CPP expected to generate the most lifetime income, or net income in excess of costs. OFS also reported that from inception through September 30, 2011, the incurred cost of TARP transactions was $28 billion. Although Treasury regularly reports on the cost of TARP programs and has enhanced such reporting over time, GAO's analysis of Treasury press releases about specific programs indicate that information about estimated lifetime costs and income are included only when programs are expected to result in lifetime income. For example, Treasury issued a press release for its bank investment programs, including CPP, and noted that the programs would result in lifetime income, or profit. However, press releases for investments in AIG, a program that is anticipated to result in a lifetime cost to Treasury, did not include program-specific cost information. Although press releases for programs expected to result in a cost to Treasury provide useful transaction information, they exclude lifetime, program-specific cost estimates.

Consistently providing greater transparency about cost information for specific TARP programs could help reduce potential misunderstanding of TARP's results. While Treasury can measure and report direct costs, indirect costs associated with the moral hazard created by the government's intervention in the private sector are more difficult to measure and assess.

Status of Selected Programs, as of September 30, 2011

	Program	Amounts (dollars in billions)
Closed programs with outstanding assets	**Capital Purchase Program** To provide capital to viable banks through the purchase of preferred shares and subordinated debentures.	 $17.3 outstanding assets **Disbursed: $204.9**
	Automotive Industry Financing Program To prevent a significant disruption of the American automotive industry.	 $37.3 outstanding assets **Disbursed: $79.7**
	AIG Investment Program To provide stability in financial markets and avoid disruptions to the markets from the deterioration of AIG's financial condition.	 $51.1 outstanding assets **Disbursed: $67.8**
Active programs	**TARP-funded housing programs** To offer assistance to homeowners at risk of foreclosure.[a]	 $2.4 in payments **Authorized: $45.6**
	Public-Private Investment Program To address the challenge of "legacy assets" by partnering with investors to purchase certain residential and commercial mortgage-backed securities.	 $15.9 outstanding assets **Disbursed: $17.6**

	Program	Lifetime income (dollars in billions)
Programs Treasury exited	**Asset Guarantee Program** To provide federal government assurances for assets held by financial institutions that were viewed as critical to the functioning of the nation's financial system.[b]	**$3.7**
	Targeted Investment Program To foster market stability and strengthen the economy by making case-by-case investments in institutions that Treasury deemed critical to the functioning of the financial system.	**$4**
	Capital Assessment Program Created to provide capital to institutions not able to raise it privately to meet Supervisory Capital Assessment Program—or "stress test"—requirements. This program was never used.	**n/a**

Source: GAO analysis of Treasury data.

Note: TARP programs with disbursements of less than $600 million are excluded. Outstanding assets are presented at book value.

[a]TARP-funded housing programs include a variety of programs to assist homeowners. Unlike the investment programs, TARP-funded housing programs do not hold assets to manage and sell; therefore, there are no outstanding assets.

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