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A LOOK AT TAXPAYER BAILOUTS:

Update on TARP and Fannie Mae & Freddie Mac

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GETTING THE FACTS STRAIGHT: TARP'S LINGERING COST

In a recent press release, the Treasury Department hailed what it called a "milestone" for the Troubled Asset Relief Program [TARP]: "*Repayments to Taxpayers Surpass TARP Funds Outstanding*." The clear implication is that taxpayer funds for TARP have been fully repaid. Not so.

Not only is there still a $190 billion balance of funds outstanding, but Treasury also continues to report plans to spend *additional* amounts. In total, $384 billion has been disbursed under TARP, while $194 billion of that amount has been repaid (see table below). Over 95 percent of total repayments have come from financial institutions. Almost 97 percent of these bank repayments are from major financial institutions where the government has earned interest and has or will receive proceeds from warrant sales. Remaining TARP funds are now concentrated in auto companies, AIG, mortgage subsidies and support for small and medium-sized banks.

Summary of TARP Funds	
Total Funds Disbursed	$384 billion
Total Funds Repaid	(-) $194 billion
Total Funds Outstanding, May 2010	**= $190 billion**
Total Amount Committed (not all disbursed)	$490 billion
Total Amount Planned for Disbursement[1]	$537 billion
Total Treasury Secretary Authority	$699 billion
CBO Total Cost to Taxpayers of TARP	**$109 billion**

Source: U.S. Department of the Treasury, Monthly 105(a) Report, May 2010, unless otherwise noted.

TARP began as emergency legislation to prevent a financial collapse during a crisis, but has since morphed into a government slush fund for a host of programs. The Congressional Budget Office

[1] This includes funds announced for disbursement but not contractually committed. For example, $30 billion has been announced for a small business lending program, but no official program has commenced.

[CBO] estimates TARP will have an all-in cost to taxpayers of $109 billion.[2] Not surprisingly, almost 85 percent of this cost is expected to come from auto, housing and AIG programs.

In December 2009, after the banking system had stabilized from its teetering state, Treasury Secretary Timothy Geithner chose to extend TARP for another ten months to allow for new spending. While publicizing that TARP is winding down, Treasury nonetheless continues to report its intention to spend an additional $153 billion before authority expires.[3] For example, the Administration has for months discussed plans for a new $30 billion small business lending initiative as part of TARP (which is moving forward in Congress at a cost of $3.3 billion but no longer tied to the unpopular bailout). It has also announced increased spending for those delinquent on their mortgages.

DISSECTING THE COST OF TARP

CBO's latest report on TARP estimated a $109 billion net loss for taxpayers. This figure does not simply capture cash disbursements – it was determined using a credit reform estimate adjusting for the market risk of each of the nine programs individually.[4] While TARP initiatives include a public-private partnership to buy troubled assets and participation in the Fed's Term Asset-Backed Securities Loan Facility [TALF], the four major areas are as follows (see Appendix for summary table of all programs).

1. *Bank Bailouts.* Despite a proposed $90 billion tax on the nation's largest financial institutions to "recover every single dime the American people are owed"[5] for the bailout as President Obama remarked earlier this year, TARP funds aimed at bank programs will actually make a *profit* for the taxpayer, according to CBO.

   The Capital Purchase Program, TARP's first initiative to inject funds directly into banks, is estimated to make an overall $2 billion profit,[6] despite losses coming from small and medium-sized banks. Another program targeted specifically to Citigroup and Bank of America will earn approximately $3 billion.[7] The biggest banks have repaid about $179 billion.[8] On top of that, they have so far paid Treasury $16 billion in dividends, interest and other payments and Treasury has made $7 billion in income from bank warrant sales.

   Understandably, there is public anger as big banks record their own record profits and smaller institutions fail in increasing numbers. The Administration, however, has seized upon this anger to push forward a new tax – which will undoubtedly fall on consumers – to offset losses stemming mainly from auto, homeowner and AIG bailouts.

2. *Auto Bailouts.* The taxpayer rescue of the auto industry is poised to lose **$34 billion**, reports CBO. Over $69 billion of the funds disbursed for auto support remains outstanding. The Federal government still owns a 60.8 percent common equity stake of General Motors and $2 billion in preferred stock. The government is also the majority shareholder in GMAC, with a 56.3 percent common stake and $14 billion in preferred

[2] Congressional Budget Office, "Report on the Troubled Asset Relief Program – March 2010."
[3] U.S. Department of the Treasury, Monthly 105(a) Report, May 2010.
[4] In this case, the estimate involves taking the net present value of future cash flows associated with TARP using a discount rate that incorporates the time value of money and market risk.
[5] The White House, Press Release, January 14, 2010.
[6] Congressional Budget Office, "Report on the Troubled Asset Relief Program – March 2010."
[7] Congressional Budget Office, "Report on the Troubled Asset Relief Program – March 2010."
[8] This figure includes the $6.18 billion in common stock sold as part of Treasury's Citigroup holding.

stock. In Chrysler, Treasury's common ownership is almost 10 percent, while it holds $13 billion in debt.

3. *Housing Bailouts.* While Treasury has committed $40 billion and signaled it will spend up to $50 billion on its mortgage loan subsidization plan, "Home Affordable Modification Program" [HAMP], so far only $190 million has been disbursed. Using the Administration's announced objective of preventing 3 to 4 million foreclosures, the program has been a failure, modifying mortgages for only 300,000 homeowners. Still, this is a costly program for taxpayers since all funds spent for HAMP carry a subsidy rate of 100 percent. CBO estimates the final bill will be **$22 billion**.

4. *AIG Bailout.* At one point, the total government assistance to AIG, including Federal Reserve and Treasury support, reached a staggering $182 billion. Treasury has committed $70 billion from TARP to rescue the insurer, at a CBO cost of **$36 billion**. Federal Reserve Chairman Ben Bernanke sounded more optimistic about AIG, however, at a recent House Budget Committee hearing: "Well, the direct cost for financial institutions – including AIG – I would say is, at this point, not very large. Except for AIG, every other major institution has repaid with interest and dividends. And AIG, I believe, will repay.[9]"

THE BIGGEST BAILOUT OF THEM ALL: FANNIE MAE AND FREDDIE MAC

Treasury has neglected to mention its most costly bailout program. While most of the focus from the financial crisis has been on Wall Street and TARP, the cost to taxpayers of bailing out mortgage companies Fannie Mae and Freddie Mac is the greatest expense by far. Treasury's latest report to Congress states that "the direct costs of all financial interventions will be less than 1 percent of GDP," but this does not include the costs of rescuing Fannie and Freddie.

According to CBO, the one-time cost of putting Fannie's and Freddie's existing business on the budget was a startling $248 billion as estimated in 2009. This, combined with new business, will cost taxpayers an estimated **$373 billion**[10] if Fannie and Freddie remain under government conservatorship and continue to receive Treasury funding.

After experiencing record losses from excessive risk-taking driven by their implicit government guarantee, Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency [FHFA] in September 2008. This agreement initially gave Treasury warrants for 79.9 percent in common equity and $1 billion in preferred equity. Since then, Treasury has injected more than **$145 billion** in capital into the two GSEs in exchange for additional preferred shares and annual dividends of 10 percent, which are financed by government funds.

As losses continue to mount for the two GSEs, taxpayers continue to pay the bill for what has become the largest single bailout of the financial crisis of 2008.

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[9] House Budget Committee hearing with Federal Reserve Chairman Bernanke, June 9, 2010. Highlights: http://house.gov/budget_republicans/bernankehearing692010.shtml

[10] According to CBO, the one-time cost to taxpayers of putting Fannie and Freddie under conservatorship – therefore assuming their liabilities – is $248 billion (as reported in The Budget and Economic Outlook: An Update," August 2009). Of that amount, $248 billion represents the subsidies associated with the net present value of the cash flows of the GSEs' mortgage commitments, discounted using fair value under Generally Accepted Accounting Principles. Combined with new business, CBO has estimated the credit reform cost of Fannie and Freddie to be $291 billion through 2009, which will grow to a total of $373 billion over the next 10 years absent reform.

APPENDIX

SUMMARY TABLE – TARP PROGRAMS
(in billions, totals rounded)

Program	Disbursed	Repaid[11]	Outstanding	CBO Cost[12]	OMB Cost[13]
1. Capital Purchase Program	205	143	62[14]	-2	1
2. Automaker Support	80	11	69	34	31
3. Citigroup and Bank of America Support	40	40	-	-3	-4
4. Asset Guarantee Program	-	-	-	-3	-3
5. TALF	0.2	-	0.2	1	-1
6. AIG	48	-	48	36	50
7. Public- Private Partnership Program	11	0.4	10.6	1	0
8. HAMP	0.2[15]	-	0.2	22	49
9. Small Business & Community Lending	0.1	-	0.1	0	-
Additional disbursements	-	-	-	23	3
TOTAL	**$384**	**$194**	**$190**	**$109**	**$127**

Source: U.S. Department of the Treasury, Monthly 105(a) Report, May 2010, unless otherwise noted. Slight discrepancies may appear due to rounding.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.

[11] Includes proceeds from selling Citigroup common stock.
[12] CBO, "Report on the Troubled Asset Relief Program – March 2010."
[13] OMB, "Analytical Perspectives," Fiscal Year 2011. The May 2010 Treasury 105(a) report shows a reduction in overall cost estimated by Treasury of $10 billion.
[14] Includes losses already taken.
[15] A maximum of $40 billion has been committed to loan servicers under contract.