Troubled Assets Relief Program

Monthly Progress Report – August 2009

September 10, 2009

This report to Congress is pursuant to Section 105(a)
of the Emergency Economic Stabilization Act of 2008.

Monthly Progress Report – August 2009

Treasury is pleased to present a revised format for our monthly 105(a) Report to Congress. This new format will provide the latest developments on efforts to stabilize the financial system, current status of TARP investments, and background information on all TARP programs.

This report contains summaries of TARP programs and investments. These summaries do not include all the material terms and conditions of such programs and investments. Please see more detailed information available at www.financialstability.gov.

The Latest – August 2009 Key Developments

The **Troubled Assets Relief Program** or **TARP** was established pursuant to the Emergency Economic Stabilization Act of 2008 or EESA. This law was adopted on October 3, 2008 in response to the severe financial crisis facing our country. To carry out its duties under the law, Treasury has developed a number of programs to stabilize our financial system and the housing market. These programs are described in this report. These efforts, together with the American Recovery and Reinvestment Act, help lay the financial foundation for economic recovery.

The following are some key developments that took place in August under these programs:

- The U.S. Treasury received $1.85 billion in dividend, interest and fee payments from all TARP Programs in August 2009
  - Total dividends and interest payments received since inception of TARP through August 31, 2009 is $9.36 billion
- 3 banks repaid $140 million of Treasury investments in August, bringing the total amount of investments repaid to $70.3 billion through August 2009
- Treasury made new investments in 9 banks totaling $129.9 million in August 2009
- 9 new mortgage servicers signed up to participate in the Home Affordable Mortgage Modification Program (HAMP)
  - Approximately 85 percent of residential mortgages are covered by HAMP-participating servicers
- Treasury and the Federal Reserve Board announced the extension of the Term Asset-Backed Securities Loan Facility (TALF)
  - The Federal Reserve will continue to make loans against newly issued asset-backed securities (ABS) and legacy commercial mortgage-backed securities (CMBS) through March 31, 2010 and against newly issued CMBS through June 30, 2010

Where is TARP Money Going?

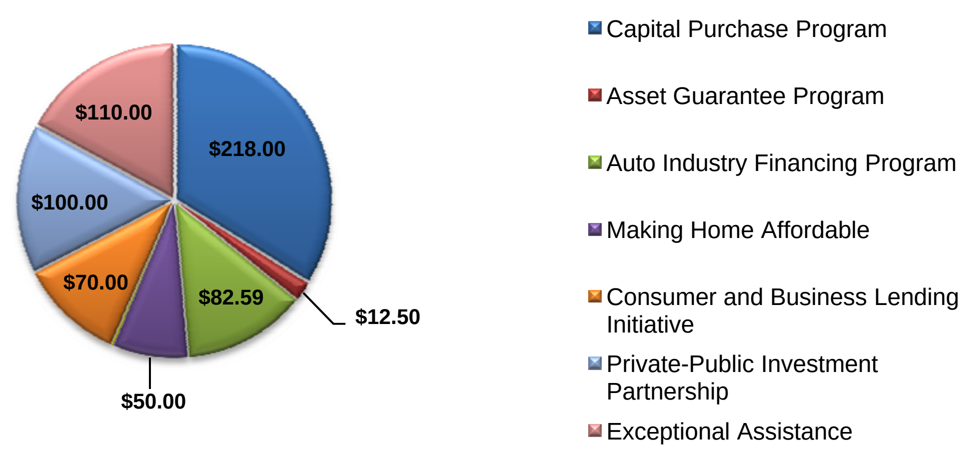
EESA authorized $700 billion for TARP. Treasury has used this authority to make investments that are designed to restore confidence in the strength of our financial institutions, restart markets that are critical to financing American households and businesses, and address the housing market problems.

As of August 31, 2009, Treasury has announced the following uses of TARP funds:

- $644.4 billion has been planned for particular TARP programs, as shown in Figure 1.
  - Of that amount, $443.8 billion has been committed to specific institutions under signed contracts.
  - $365 billion has been paid out by Treasury under those contracts.

Figure 1 shows the planned TARP investments by program as of August 31, 2009. Please see Appendix 1 for a description of the programs listed in the chart.

Figure 1: Planned TARP investments ($ billions) as of August 2009



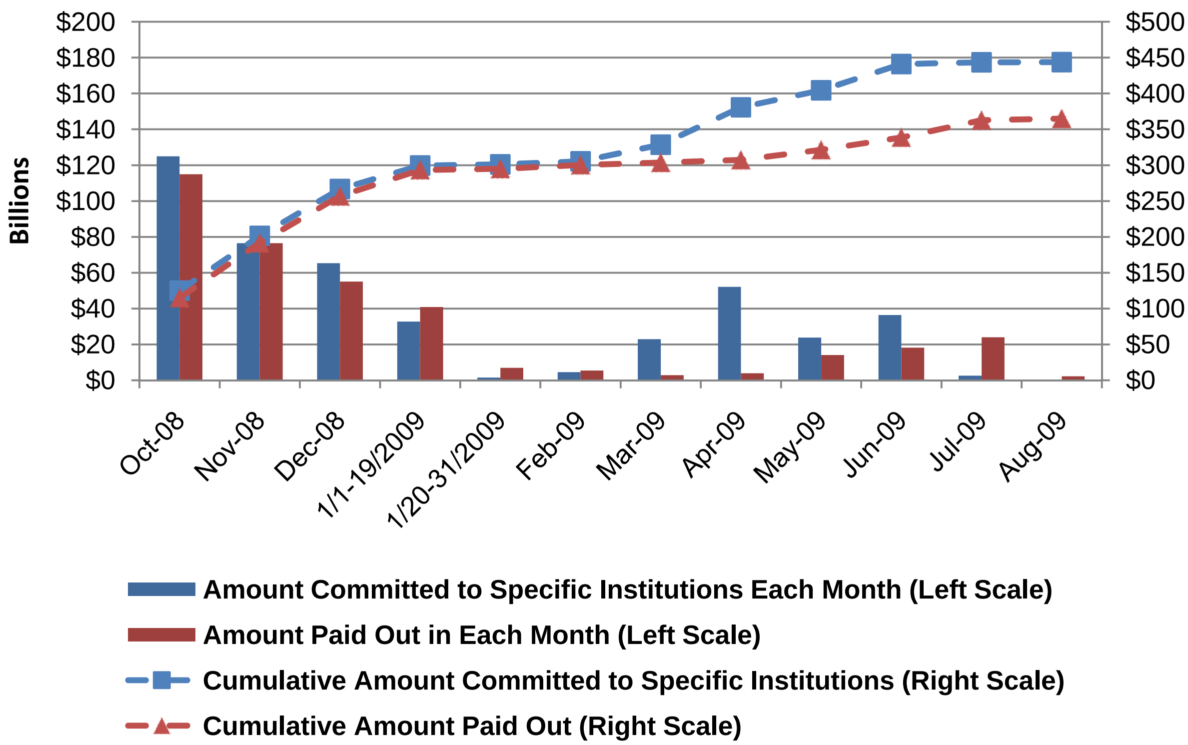
The authority to make investments under EESA expires on December 31, 2009. However, the Secretary of the Treasury may extend the authority through October 3, 2010 upon satisfying certain conditions.

Where is TARP Money Going?

A large part of the total investments to date occurred last fall under the Capital Purchase Program following the adoption of EESA in October 2008. The more recent commitments include amounts extended under the Obama Administration's Financial Stability Plan. This includes funds committed under the Making Home Affordable program, the planned TARP investments in the Public-Private Investment Partnership, and those under the other programs described in this report.

Figure 2 shows the amount of TARP investments by month. It shows both the amount obligated -- or committed for investment -- and the amount disbursed or actually paid out.

Figure 2: Funds committed and paid out under TARP



Taxpayers can track progress on all of the financial stability programs and investments, as well as repayments, on Treasury's website. Specifically, taxpayers can look at investments within 2 days of closing in our TARP transaction reports at www.financialstability.gov. In addition, on November 16th, Treasury will publish audited annual financial statements under Federal financial reporting standards that will provide detailed information on the value of the TARP portfolio.

August Program Updates – Dividends and Interest Received

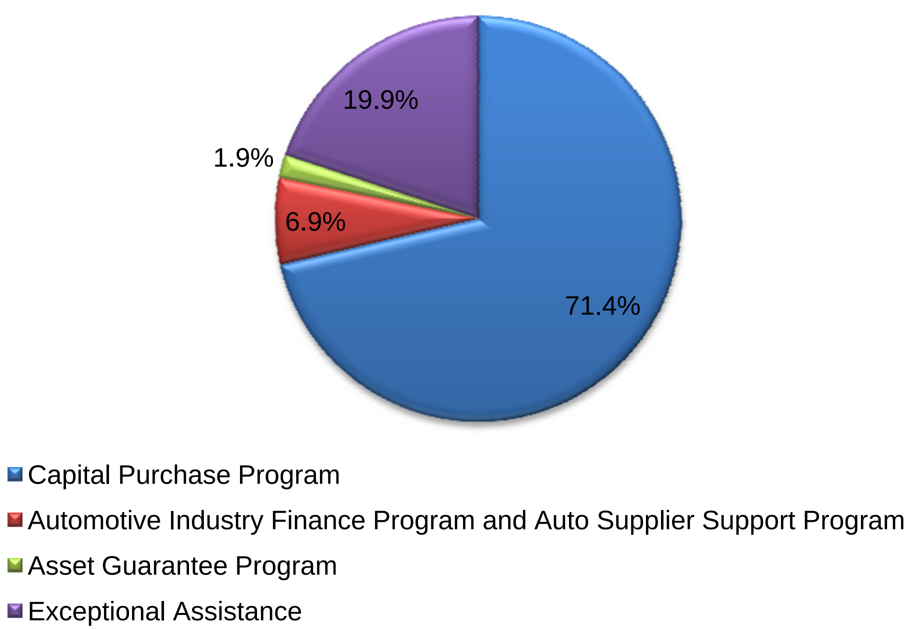
Most of the TARP money has been used to make investments in preferred stock or loans. Treasury receives dividend or interest payments on these investments from the institutions participating in TARP programs. These payments are a return on Treasury's TARP investments.

- In August, Treasury received $1.85 billion in dividends, interest and fees from TARP investments.

- Treasury has received a total of $ 9.36 billion in dividends, interest and fees through August 31, 2009.

Figure 3 shows the allocation of dividends, interest and fees received since inception of TARP by program as of August 31, 2009.

Figure 3: Dividends, interest and fees received by TARP Program



Please see Appendix 1 for a description of the programs listed in the chart above.

Dividend payments are a portion of a company's earnings that are paid to equity investors. Most banks participating in the CPP pay Treasury a cumulative dividend rate of 5 percent per year for the first five years and 9 percent per year thereafter. S-corporation banks pay an **interest rate** of 7.7 percent per year for the first five years and 13.8 percent thereafter. **Preferred shares** (or stock) are a form of ownership in a company. Preferred shares are senior to common stock, but junior to debt.

Treasury's Dividends and Interest Report is available at http://www.financialstability.gov/latest/reportsanddocs.html.

August Program Updates – Capital Purchase Program

A major part of TARP is the **Capital Purchase Program (CPP)**.

Under this program, Treasury invests in banks and other financial institutions to increase their capital. Banks use the CPP money in a number of ways, including shoring up capital, investing in assets, and increasing lending. Treasury continues to accept applications under the CPP from small banks.

Figure 4: CPP Snapshot through August 2009

CPP Investments

Amount disbursed in August 2009: **$129.9** million to **9** institutions

Total amount disbursed since October 2008: **$ 204.48** billion

CPP investments repaid since October 2008: **$ 70.31** billion

CPP Banks

Number of institutions that have received CPP investment: **671**

Number of institutions that have repaid CPP investment: **37***

Number of institutions currently participating in CPP: **637***

*Including partial investments/repayments

CPP Facts

Participation across the US:

Banks in **48 states**, the District of Columbia and Puerto Rico

Largest Investment: **$ 25** billion

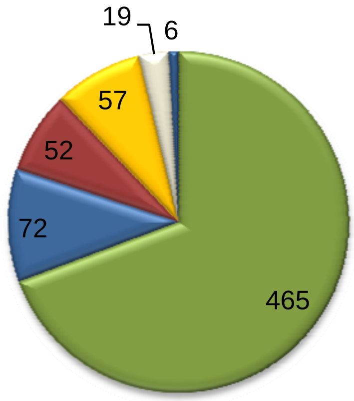
Smallest Investment: **$ 301,000**

Details on the Capital Purchase Program are available at http://www.financialstability.gov/roadtostability/capitalpurchaseprogram.html.

August Program Updates – Capital Purchase Program

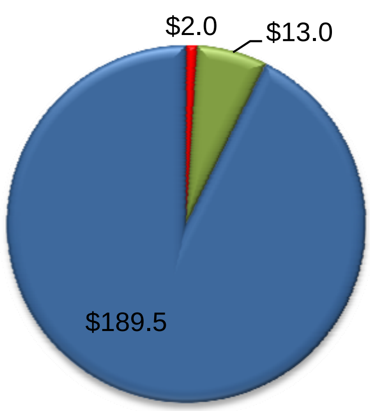
The CPP was available to banks of all sizes. Figures 5 and Figure 6 show the distribution of CPP funds by size of investment as of August 31, 2009. These charts include all 671 banks that have received funds, including those that have repaid the investment.

Figure 5: Number of banks by investment amount



	Investment Amount in millions (m) or billions (b)	Number of Banks
	Less than $25m	465
	$25m - $50m	72
	$50m - $100m	52
	$100m - $1b	57
	$1b - $10b	19
	$10b and up	6

Figure 6: Total CPP funds disbursed by investment amount



	Investment Amount in millions (m) or billions (b)
	Small (CPP investment $12m and less)
	Medium (CPP investment $12m-$250m)
	Large (CPP investment $250m and up)

Note: The CPP investment amount is determined by the size of the bank. CPP investments are no less than 1% and no greater than 3% (5% for small banks) of the recipient's risk-weighted assets.

August Program Updates – Capital Purchase Program

Treasury receives dividend or interest payments on its TARP investments. Some of the banks that received investments under TARP have repaid Treasury. When a bank repays, it is also required to pay any accrued and unpaid dividends or interest.

Treasury also receives warrants in connection with most of its investments. These are rights to purchase shares of common stock or in some cases other securities. The purpose of warrants is to give the U.S. Treasury the potential to benefit from the "upside" of a bank's recovery. Some banks that have repaid the TARP investment have also repurchased the warrants issued to Treasury.

The chart below shows the amount of dividends, interest and fees, repayments of principal, and warrant proceeds to date:

Figure 7: Cash received through the CPP

	August	Total
Dividends, Interest and Fees:	$1.18 billion	$ 6.68 billion
Repayments of Principal:	$140 million	$ 70.31 billion
Warrant Proceeds*:	$1.17 billion	$ 2.90 billion
Total:	$ 2.49 billion	$ 79.89 billion

* Includes proceeds from the repurchase of shares received through the exercise of warrants.

Repurchase of Warrants

When a publicly traded bank repays Treasury for a preferred stock investment, the bank has the right to repurchase its warrants. The warrants do not trade on any market and do not have observable market prices. If the bank wishes to repurchase its warrants, an independent valuation process is used to establish fair market value. If an institution chooses not to repurchase its warrants, Treasury is entitled to sell them. Treasury is currently developing an auction process to sell warrants.

A privately-held bank does not have common stock that trades in the market. Privately held banks that receive CPP funds give Treasury a warrant for additional shares of preferred stock. Treasury immediately exercises the warrant and acquires the preferred shares. Any proceeds from the repurchases of shares acquired from a warrant are included as cash received from sales of warrants in the table on this page.

Figure 8: Cash received from sales of warrants through August 31, 2009

Financial Institution	Price Paid to Treasury (millions)
Alliance Financial Corporation	$ 0.900
American Express Company	$ 340.000
BB&T Corp.	$ 67.010
Berkshire Hills Bancorp, Inc.	$ 1.040
Centra Financial Holdings, Inc.	$ 0.750
First Manitowoc Bancorp, Inc.	$ 0.600
First Niagara Financial Group	$ 2.700
First ULB Corp.	$ 0.245
FirstMerit Corporation	$ 5.025
HF Financial Corp.	$ 0.650
Iberiabank Corporation	$ 1.200
Independent Bank Corp.	$ 2.200
Morgan Stanley	$ 950.000
Northern Trust Corporation	$ 87.000
Old National Bancorp	$ 1.200
SCBT Financial Corporation	$ 1.400
Somerset Hills Bancorp	$ 0.275
State Street Corporation	$ 60.000
Sun Bancorp, Inc.	$ 2.100
The Bank of New York Mellon Corp.	$ 136.000
The Goldman Sachs Group, Inc.	$ 1,100.000
U.S. Bancorp.	$ 139.000
Total Proceeds to Treasury $2.899 billion	

August Program Updates – Bank Lending and Intermediation Surveys

Each month, Treasury asks banks participating in the CPP to provide information about their lending activities and publishes the results in two reports described below. The most recent reports were conducted in June. During this period the economy continued to contract, albeit at a slower pace than earlier in the year. Although there was modest improvement in some economic indicators, the economy remained very weak.

August Monthly Lending and Intermediation Snapshot

This monthly lending report gathers and provides data on the lending activities for the 22 largest financial institutions that received TARP investments under the CPP. In August, Treasury released the following information on June lending:

- Overall outstanding loan balance of the 22 institutions fell 1 percent from May to June 2009.
- New lending by the 22 institutions increased 13 percent from May to June 2009, indicating approximately $312 billion in new loans made.
- Surveyed participants also reported that loan demand in the commercial real estate market and the commercial and industrial sectors was well below normal levels.

August CPP Monthly Lending Report

This monthly lending report provides data on consumer lending, commercial lending, and total lending for all CPP participants. As shown in the table below, from May to June, total average consumer loans fell by 0.80%, total average commercial loans fell by 1.02%, and total loans outstanding fell by 0.90%.

Figure 9: Loans outstanding for all CPP Recipients as of June 30, 2009

Date	Number of Respondents	Total Average Consumer Loans	Total Average Commercial Loans	Total Average Total Loans
2/28/2009	521	$2,898,031	$2,380,692	$5,278,662
3/31/2009	553	$2,885,646	$2,353,047	$5,239,745
4/30/2009	540	$2,852,671	$2,329,547	$5,182,212
5/31/2009	580	$2,840,877	$2,337,524	$5,178,418
5/31/2009 (Adjusted)	546	$2,808,914	$2,291,026	$5,099,941
6/30/2009	559	$2,797,169	$2,362,892	$5,160,061
6/30/2009 (Adjusted)	546	$2,786,351	$2,267,735	$5,054,086
Change (May Adjusted to June Adjusted)		***-0.80%***	***-1.02%***	***-0.90%***

Note: In Figure 9 above, the "May Adjusted" and "June Adjusted" data include balances from only those institutions that submitted both May 2009 and June 2009 CPP Monthly Lending Reports.

Details on the Bank Lending Surveys are available at http://www.financialstability.gov/impact/surveys.htm.

The Quarterly Capital Purchase Program Report

To understand better how CPP and other stabilization initiatives launched by the Federal Government may have affected financial institutions and their activities, an interagency group was convened to determine and conduct appropriate analyses. This interagency group consists of representatives from Treasury, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

This interagency group has undertaken to produce a summary of the activities of institutions receiving TARP capital. In August, Treasury released the Quarterly Analysis of Institutions in the Capital Purchase Program for the first quarter of 2009 (2009 Q1).

Details on the Quarterly Capital Purchase Program Reports are available at http://www.financialstability.gov/impact/CPPreport.html.

August Program Update – Home Affordable Modification Program

The **Home Affordable Modification Program** (HAMP) provides incentives for mortgage servicers, borrowers and investors to modify existing mortgages to make them more affordable for homeowners. Each servicer reviews its loans to identify eligible borrowers and then offers eligible borrowers a trial modification. If the borrower makes three consecutive monthly payments at the modified rate, and submits required documentation, the modification becomes permanent.

Figure 10: Home Affordable Modification Program (HAMP) Snapshot through August 2009

Number of Requests for Financial Information Sent to Borrowers (Cumulative)	1,883,108
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)	571,354
Number of Trial Modification Started (Cumulative)	360,135

HAMP Participating Servicers

- Approximately 85% of residential mortgages are covered by servicers who are participating in HAMP.
- As of August 31, 2009, 47 servicers have signed servicer participation agreements to modify loans under HAMP. These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, owned by the servicer, or serviced on behalf of other investors.

Details on the Home Affordable Modification Program are available at http://www.financialstability.gov/roadtostability/homeowner.html

More information on the Making Home Affordable programs is available on the website http://www.makinghomeaffordable.gov

August Program Updates – Home Affordable Modification Program

The HAMP is well underway. Since inception of the program, the number of trial plans offered to borrowers has increased each week, as has the number of trial modifications started.

Figure 11: HAMP Trial Plans Offered to Borrowers (Cumulative)

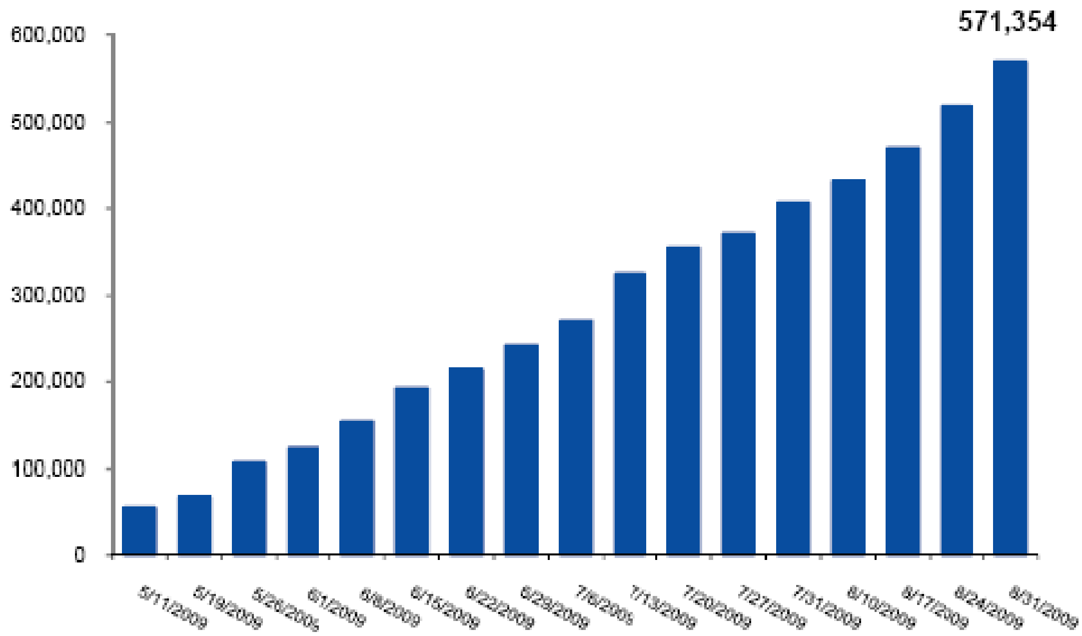
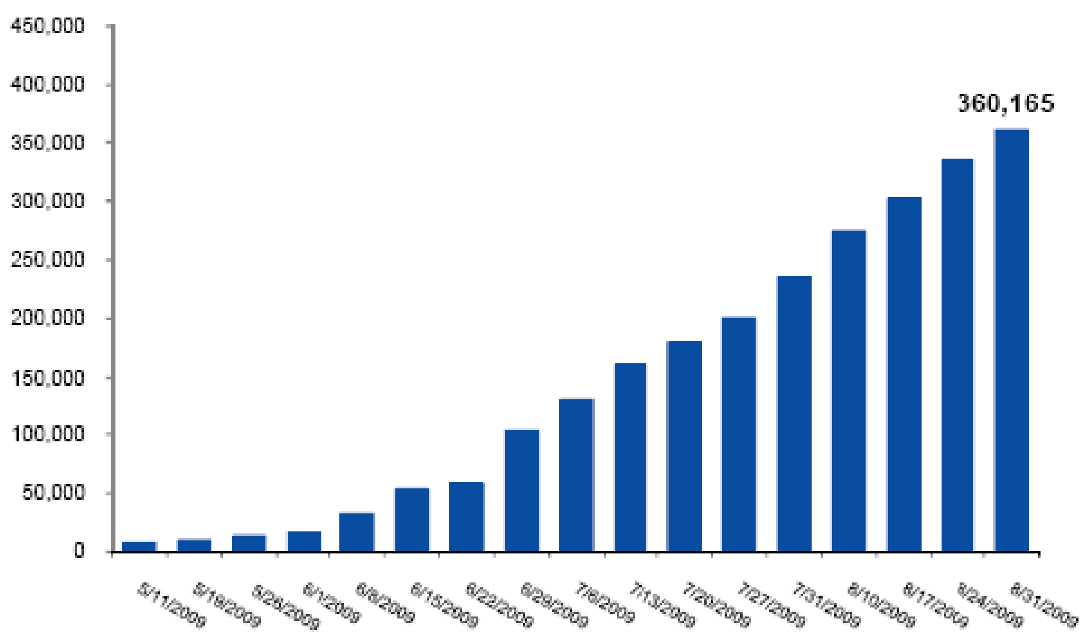


Figure 12: HAMP Trial Modifications (Cumulative)

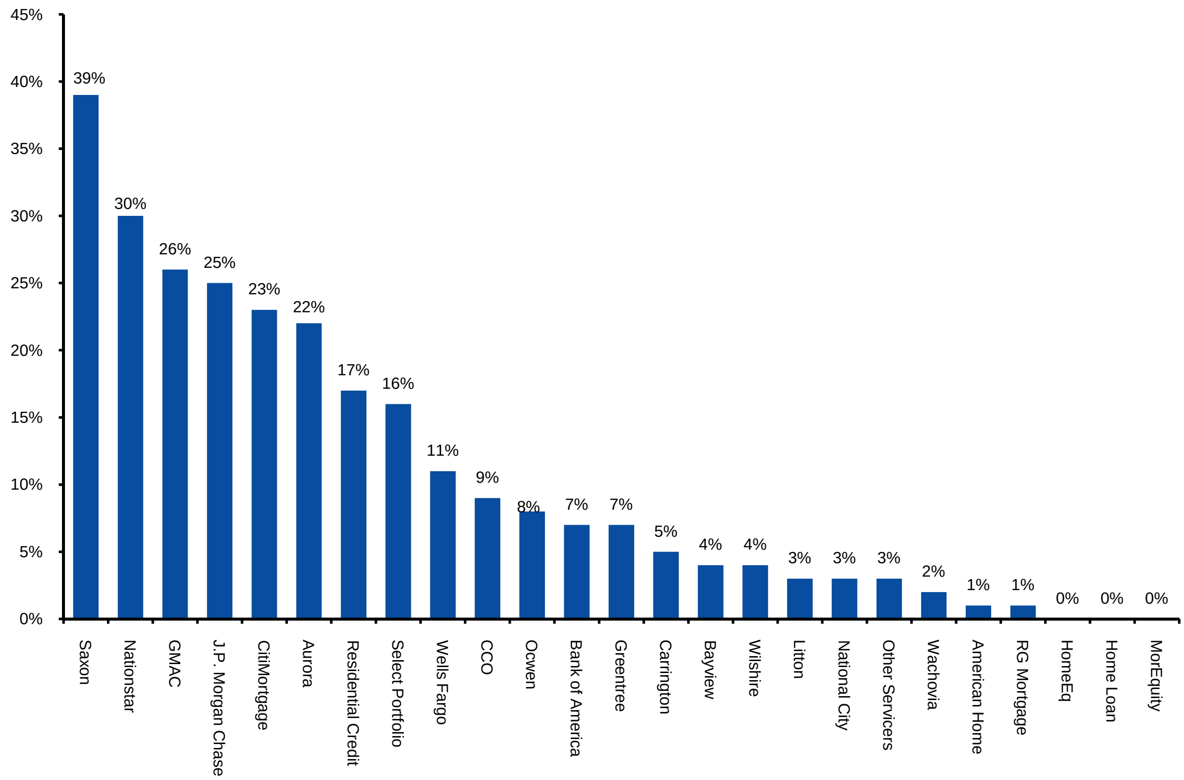


August Program Update – Home Affordable Modification Program

Figure 13 shows individual mortgage servicers' progress in making modifications under HAMP. For each servicer, the chart shows the percentage of trial modifications started as a percentage of the servicer's estimated pool of HAMP-eligible mortgages that are at least 60 days delinquent.

Servicers have joined the program at different times. Those that joined later tend to have lower percentages of trial modifications started than servicers that joined earlier.

Figure 13: HAMP Mortgage Servicer Progress through August



For more information see http://www.financialstability.gov/docs/MHA-Public_090909.pdf

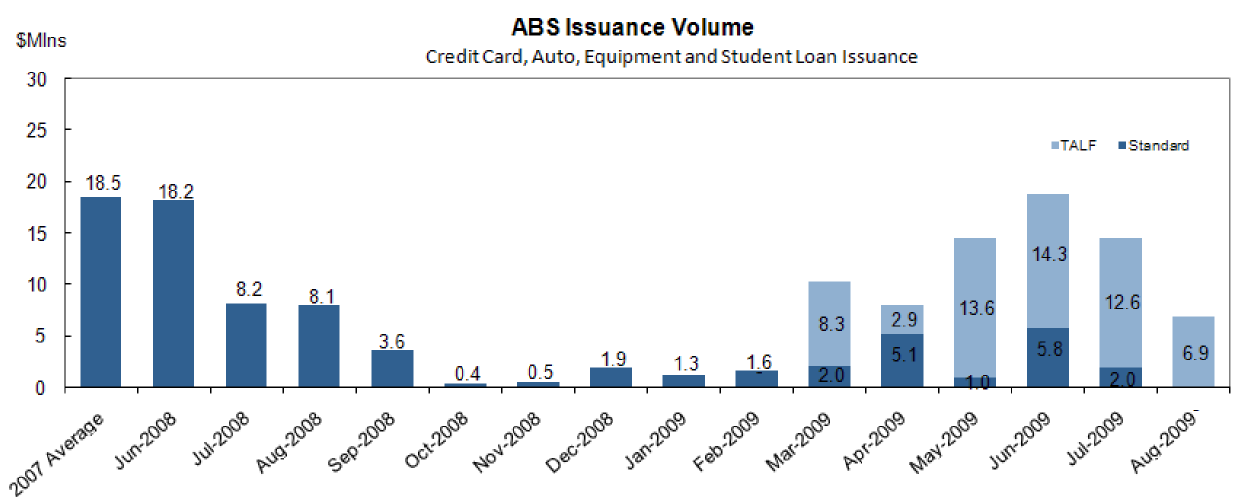
August Program Updates – Term Asset-Backed Securities Loan Facility

Under the **Term Asset-Backed Securities Loan Facility (TALF)**, the Federal Reserve Bank of New York makes loans to buyers of asset-backed securities in order to stimulate consumer and business lending by the issuers of those securities. Treasury uses TARP funds to provide credit support for the TALF.

The asset-backed securities (ABS) that are eligible for the TALF must be backed by new or recently originated auto loans, student loans, credit card loans, small business loans, or commercial mortgage loans.

The markets for asset backed securities are an important source of credit for consumers and businesses. These markets essentially stopped functioning during the financial crisis. The purpose of TALF is to help restart these markets and help consumers and businesses obtain credit. Since the launch of TALF in March 2009, issuance of ABS has increased, as shown by Figure 14 below.

Figure 14: Total Consumer ABS Issuance



Source: Markets Room, U.S. Treasury Department (08/31/09)

Details on TALF are available at
http://www.financialstability.gov/roadtostability/lendinginitiative.html

August Program Updates – Term Asset-Backed Securities Loan Facility

TALF Extension

Conditions in financial markets have improved considerably in recent months. Nonetheless, the markets for ABS backed by consumer and business loans and for those backed by mortgages on commercial properties are still not functioning normally and seem likely to remain unstable for some time.

The Federal Reserve had previously authorized using the TALF to make loans through December 31, 2009. To promote the flow of credit to businesses and households and to facilitate the financing of commercial properties, the Federal Reserve announced on August 17, 2009 that TALF will continue to make loans against newly issued ABS and previously issued CMBS through March 31, 2010. In addition, TALF will make loans against newly issued CMBS through June 30, 2010.

For more information see
http://www.federalreserve.gov/newsevents/press/monetary/20090817a.htm

Certification

As Assistant Secretary for Financial Stability at the United States Department of Treasury, I am the official with delegated authority to approve purchases of troubled assets under the Troubled Assets Relief Program. I certify to the Congress that each decision by my office to approve purchases of troubled assets during this reporting period was based on the office's evaluation of the facts and circumstances of each proposed investment, including recommendations from regulators, in order to promote financial stability and the other purposes of the Emergency Economic Stabilization Act of 2008.

Herbert M. Allison, Jr.
Assistant Secretary
Office of Financial Stability

Appendix

Description of TARP Programs – Capital Purchase Program

What is the CPP?

- Treasury created the Capital Purchase Program (CPP) in October 2008 to stabilize the financial system by providing capital to viable banks of all sizes throughout the nation. With a strengthened capital base, banks have an increased capacity to lend to U.S. businesses and consumers and to support the U.S. economy.
- Across the country, many banks are fundamentally sound, but hesitant to lend. During this unprecedented crisis, banks and financial institutions felt the strain of the troubled market conditions, which had suddenly and dramatically impaired their capital. The level of confidence between banks and other financial institutions was also low, so they were unwilling to lend to each other.
- Restoring capital and confidence is essential to allowing the financial system to work effectively and efficiently.

How does the CPP work?

- Through the CPP, Treasury makes investments in banks, increasing their capital and enabling them to continue lending to businesses and consumers and otherwise serving their customers.
- Treasury purchases senior preferred shares and other interests from qualifying U.S.-controlled banks, savings associations, and other financial institutions. Treasury also receives warrants to purchase common shares or other securities from the banks.
- Banks use the CPP money in a number of ways, including shoring up capital, investing in assets, and increasing lending.
- Banks participating in the CPP pay Treasury dividends on the preferred shares at a rate of five percent per year for the first five years following Treasury's investment and at a rate of nine percent per year thereafter.
- Banks may repay Treasury under the conditions established in the purchase agreements as amended by the American Recovery and Reinvestment Act. Treasury also has the right to sell the securities. The repayment price is equal to what Treasury paid for the shares, plus any unpaid dividends.
- When a publicly-traded bank repays Treasury for the preferred stock investment, the bank has the right to repurchase its warrants. The warrants do not trade on any market and do not have observable market prices. If the bank wishes to repurchase warrants, an independent valuation process is used to establish fair market value. If an institution chooses not to repurchase the warrants, Treasury is entitled to sell the warrants. Treasury is currently developing a process to auction these warrants.

Description of TARP Programs – Exceptional Assistance

Pursuant to EESA, Treasury has provided additional assistance on a case-by-case basis in order to stabilize institutions that were considered systemically significant to prevent broader disruption of financial markets. Treasury has provided this assistance by purchasing preferred shares in the institutions. As part of those transactions Treasury has also received warrants to purchase common shares in the institutions. As of August 31, 2009, assistance under these programs had been provided to:

Exceptional Assistance Programs:

American International Group (AIG)

In November 2008, Treasury purchased $40 billion in preferred shares from AIG. In April 2009, it also created an equity capital facility, under which AIG may draw up to $29.8 billion as needed in exchange for issuing additional preferred stock to Treasury. As of August 31, 2009, AIG has drawn $3.21 billion from the facility. The preferred stock pays a dividend of 10 percent per year. The Federal Reserve Bank of New York (FRBNY) also provided loans to AIG. In connection with such loans, the FRBNY received convertible preferred shares representing approximately 79.8% of the current voting power of the AIG common shares. These preferred shares were deposited in a trust, which exists for the benefit of the U.S. taxpayers.

Targeted Investment Program (TIP)

Under the TIP, Treasury purchased $20 billion in preferred stock from Citigroup, Inc. and $20 billion in preferred stock from Bank of America Corporation. Both preferred stock agreements pay a dividend of 8 percent per annum. These investments were in addition to CPP investments in these institutions. As part of an exchange offer designed to strengthen Citigroup's capital, Treasury recently exchanged all its preferred shares in Citigroup for a combination of common shares and trust preferred securities.

Description of TARP Programs – Asset Guarantee Program

Asset Guarantee Program (AGP)

Under the AGP, Treasury supports the value of certain assets held by qualifying financial institutions, by helping them absorb unexpectedly large losses on certain assets. The program was designed for financial institutions whose failure could harm the financial system and has been used in conjunction with other forms of exceptional assistance.

How does AGP work?

- The pool of covered assets is proposed by the financial institution in consultation with federal regulators and Treasury, and then Treasury applies certain credit tests and asset filters in order to determine the final pool of covered assets.

- As compensation for its guarantee, Treasury collects a premium in the form of preferred stock, warrants, or other form approved by Treasury.

- As required by EESA, an actuarial analysis is used to ensure that the expected value of the premium is no less that the expected value of the losses to TARP from the guarantee. The United States government also provides a set of asset management guidelines that the institution must follow with respect to the guaranteed pool.

Who Has Received Assistance Under AGP?

Citigroup

- Treasury has guaranteed up to $5 billion of potential losses incurred on a $301 billion pool of loans, mortgage-backed securities, and other financial assets held by Citigroup. The Federal Reserve and the FDIC are also parties to this arrangement. In consideration for the guarantee, Treasury received $4.03 billion in preferred securities that pay a dividend of 8 percent per annum. Treasury also received a warrant to purchase approximately 66 million shares of common stock at a strike price of $10.61 per share.

- As part of the exchange offer noted earlier, Treasury recently exchanged preferred shares received under the AGP program for an equivalent amount of trust preferred securities paying interest at the same rate.

- Treasury does not become obligated to pay on its guaranty unless and until Citigroup has absorbed $39.5 billion of losses on the covered pool. Treasury would then cover 90% of all losses on the covered pool, up to a maximum of $5 billion.

Description of TARP Programs – Asset Guarantee Program

Bank of America

- In January 2009, Treasury, the Federal Reserve and the FDIC agreed to share potential losses on a $118 billion pool of financial instruments owned by Bank of America, consisting of securities backed by residential and commercial real estate loans and corporate debt and derivative transactions that reference such securities, loans and associated hedges.

- Bank of America agreed to absorb all eligible losses in the pool up to $10 billion. Treasury and the FDIC agreed to share eligible losses in the pool in excess of that amount, up to $10 billion, with Treasury's share capped at $7.5 billion. All further losses were to be shared 90% by the Federal Reserve and 10% by Bank of America.

- Bank of America has stated that it does not intend to use the guarantee and no final documentation has been entered into.

Description of TARP Programs – Automotive Industry Financing Program

What is the AIFP?

The **Automotive Industry Financing Program (AIFP)** was developed in December 2008 to prevent a significant disruption of the U.S. automotive industry, because the potential for such a disruption posed a systemic risk to financial market stability and would have had a negative effect on the economy. AIFP loans have helped to enable General Motors and Chrysler to go through orderly bankruptcies and emerge as more viable auto manufacturing companies.

In the related **Auto Supplier Support Program (ASSP)**, Treasury provides loans to ensure that auto suppliers receive compensation for their services and products, regardless of the condition of the auto companies that purchase their products.

How does the AIFP work?

- Treasury has provided approximately $76 billion in loans and equity investments to General Motors, GMAC, Chrysler, and Chrysler Financial.

- Short-term funding was initially provided to GM and Chrysler on the condition that they develop plans to achieve long-term viability. In cooperation with the Administration, GM and Chrysler eventually developed satisfactory viability plans and underwent speedy restructurings: Chrysler's business was restructured through the bankruptcy process in 42 days, and GM's bankruptcy restructuring process lasted 40 days. Treasury provided additional assistance during the respective periods.

- The terms of the assistance impose a number of restrictions on the recipients. Among other things, they must adhere to rigorous executive compensation standards and other measures to protect the taxpayer's interests, including limits on the institution's expenditures and other corporate governance requirements.

See the next pages to learn how AIFP has helped each participating company.

Description of TARP Programs – Automotive Industry Financing Program

Chrysler

On January 2, 2009, Treasury loaned $4 billion to Chrysler to give it time to implement a viable restructuring plan. On March 30, the Administration determined that the business plan submitted by Chrysler failed to demonstrate viability and announced that in order for Chrysler to receive additional taxpayer funds, it needed to find a partner with whom it could establish a successful alliance. Chrysler made the determination that forming an alliance with Fiat was the best course of action for its stakeholders.

Treasury continued to support Chrysler as it formed an alliance with Fiat. In connection with Chrysler's bankruptcy proceedings filed on April 30, 2009, Treasury provided an additional $1.9 billion under a debtor-in-possession financing agreement to assist Chrysler in an orderly restructuring. On June 10, 2009, pursuant to a court-approved order, substantially all of Chrysler's assets were sold to the newly formed entity, Chrysler Group LLC (New Chrysler). Treasury committed to loan $6.6 billion to New Chrysler in working capital funding, and New Chrysler has drawn $4.6 billion of this amount.

As of August 31, 2009, Treasury owned 9.9% of the equity in New Chrysler, and was owed $5.1 billion of debt from New Chrysler. The original loans to Chrysler remain outstanding, but are reduced by $500 million of debt that was assumed by New Chrysler. Current equity ownership in New Chrysler is as follows: the Chrysler Voluntary Employee Benefit Association (VEBA) (67.7%), Fiat (20%), Treasury (9.9%) and the Government of Canada (2.5%).

General Motors

On December 31, 2008, Treasury agreed to make loans of $13.4 billion to General Motors Corporation to fund working capital. Under the loan agreement, GM was also required to implement a viable restructuring plan by March 30. The first plan GM submitted failed to establish a credible path to viability, and the deadline was extended to June 1. Treasury loaned an additional $6 billion to fund GM during this period. To achieve an orderly restructuring, GM filed bankruptcy proceedings on June 1, 2009. Treasury provided $30.1 billion under a debtor-in-possession financing agreement to assist GM through the restructuring period. The new entity, General Motors Company (New GM), began operating on July 10, 2009, following its purchase of most of the assets of the Old GM.

When the sale to New GM was completed on July 10, Treasury converted most of its loans to 60.8% of the common equity in the New GM and $2.1 billion in preferred stock. Treasury continues to hold loans in the amount of $7.1 billion. The New GM currently has the following ownership: Treasury (60.8%), GM Voluntary Employee Benefit Association (VEBA) (17.5%), the Canadian Government (11.7%), and Old GM's unsecured bondholders (10%).

Chrysler Financial

On January 16, 2009, Treasury announced that it would lend up to $1.5 billion to a special purpose vehicle created by Chrysler Financial to enable Chrysler Financial to finance the purchase of Chrysler vehicles by consumers. To satisfy the EESA warrant requirement, the Chrysler Financial special purpose vehicle issued additional notes entitling Treasury to an amount equal to 5 percent of the maximum loan amount. Twenty percent of those notes vested upon the closing of the transaction, and additional notes were to vest on each anniversary of the transaction closing date. The loan was fully drawn by April 9, 2009. On July 14, 2009, Chrysler Financial fully repaid the loan, including the vested additional notes and interest.

GMAC

On December 29, 2008, Treasury purchased $5 billion in senior preferred equity from GMAC LLC, and received an additional $250 million in preferred shares through warrants that Treasury exercised at closing. At the same time, Treasury also agreed to lend up to $1 billion of TARP funds to GM (one of GMAC's owners), to enable GM to purchase additional ownership interests in GMAC's rights offering. GM drew $884 million under that commitment on January 16, 2009. On May 21, 2009, Treasury purchased $7.5 billion more of preferred shares from GMAC and received warrants that Treasury exercised at closing for an additional $375 million in preferred shares.

On May 29, 2009, Treasury exercised its option to exchange the $884 million loan it had made to GM in January 2009 for about 35 percent of the common membership interests in GMAC. As of August 31, 2009, Treasury owns $13.1 billion in preferred shares in GMAC, through purchases and the exercise of warrants, in addition to 35% of the common equity in GMAC. At the option of the Federal Reserve, it is possible that additional preferred shares could be converted in the future to permit GMAC to increase its tangible common capital ratio; if all of such preferred shares were converted, Treasury would own up to a maximum of a 79.8% voting interest in GMAC.

Description of TARP Programs – Consumer and Business Lending Initiative (TALF and Small Business)

What is the TALF?

The **Term Asset-Backed Securities Loan Facility (TALF)** is a lending facility operated by the Federal Reserve Bank of New York (FRBNY). The FRBNY provides term non-recourse loans collateralized by AAA-rated asset-backed securities (ABS) backed by new or recently originated auto loans, student loans, credit card loans, small business loans, and commercial mortgage loans, including legacy commercial mortgage loans. Treasury provides credit support for TALF as part of Treasury's Consumer and Business Lending Initiative.

How does the TALF work?

- Once each month investors can request the FRBNY to make loans secured by eligible consumer or small business ABS. Assuming that the borrower and the ABS it plans to pledge as collateral meet Federal Reserve requirements, the investor will receive the requested funding. Most borrowers use the loan, together with their own funds, to purchase the ABS that serves as collateral for the TALF loans.

- If the borrower does not repay the loan, the FRBNY will enforce its rights in the collateral and sell the collateral to a special purpose vehicle (SPV) established specifically for the purpose of purchasing and managing such assets. The SPV is funded, in part, by a $20 billion subordinated loan commitment from Treasury.

- The first TALF subscription took place on March 19, 2009 and there have been five subsequent monthly ABS subscriptions to date. A total of $53.8 billion of new TALF-eligible ABS has been brought to market. Of that amount, approximately 62% or $33.1 billion was financed using TALF loans.

- On August 17, 2009, Treasury and the FRBNY announced the extension of the TALF for newly-issued ABS and legacy commercial mortgage backed securities (CMBS) through March 31, 2010. In addition, TALF will make loans against newly issued CMBS through June 30, 2010. There were no further additions to the types of collateral eligible for the TALF.

What is the Small Business and Community Lending Initiative?

- Under the Small Business and Community Lending Initiative to ensure that credit flows to entrepreneurs and small business owners, Treasury is taking measures to complement the Administration's actions to help small businesses recover and grow, including several tax cuts under the American Recovery and Reinvestment Act and a temporary increase in the Small Business Administration (SBA) guarantee for certain types of loans. Treasury has announced a program to purchase in the secondary market securities that are backed by the SBA-guaranteed portions of loans originated under section 7(a) of the Small Business Act.

Description of TARP Programs – Public-Private Investment Program

What is the Public-Private Investment Program?

The Legacy Securities **Public-Private Investment Program (S-PPIP)** is intended to address the problem of legacy real estate-related assets, support market functioning and facilitate price discovery in the market for mortgage-backed securities (MBS), allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. Both residential and commercial MBS are pools of mortgages bundled together by financial institutions. Rights to receive a portion of the cash generated by the pools are sold as securities in the financial markets, in the same way a stock or bond would be sold in financial markets.

The Public-Private Investment Program was announced as part of the Financial Stability Plan, which also included a program for legacy loans, to be administered by the FDIC. That program is still under development.

How does the Legacy Securities PPIP work?

- Treasury will partner with selected fund management firms to purchase MBS under the S-PPIP.

- Treasury provides equity as well as debt financing to special purpose entities to be formed by the managers. Treasury will provide one-half of the equity investment; the remainder must be raised by the fund manager from private sources. Treasury also will make a loan to each special purpose entity. The loan will earn interest and must be repaid at the end of the life of the fund.

- The equity investment, together with warrants to be received by Treasury, ensures that if these special purpose entities perform well, the U.S. treasury will benefit from the upside of the performance.

- The S-PPIP is designed to help the financial system recover by encouraging institutions that hold mortgage-backed securities to sell them, thereby freeing up their capital for other purposes.

Legacy Securities PPIP Fund Managers

Following a comprehensive two-month application, evaluation and selection process, during which Treasury received over 100 unique applications to participate in the Legacy Securities PPIP, in July 2009, Treasury pre-qualified the following firms to participate as fund managers in the initial round of the program:

- AllianceBernstein, LP and its sub-advisors Greenfield Partners, LLC and Rialto Capital Management, LLC
- Angelo, Gordon & Co., L.P. and GE Capital Real Estate
- BlackRock, Inc.

- Invesco Ltd.
- Marathon Asset Management, L.P.
- Oaktree Capital Management, L.P.
- RLJ Western Asset Management, LP.
- The TCW Group, Inc.
- Wellington Management Company, LLP

S-PPIP Progress

Treasury is working with the S-PPIP fund managers to develop the program, and the fund managers are raising the required private capital. The program is expected to launch with the first closings in late September.

Treasury expects to provide approximately $30 billion in equity and debt financing to the special purpose entities formed by fund managers in the initial phase of S-PPIP.

Description of TARP Programs – Making Home Affordable

What is the Home Affordable Modification Program?

The Home Affordable Modification Program (HAMP) is designed to give up to 3 to 4 million homeowners an opportunity to reduce their monthly mortgage payments to more affordable levels. Through HAMP, $75 billion is being committed to keep Americans in their homes by preventing avoidable foreclosures. HAMP includes both GSE and non-GSE mortgages. GSE stands for “government sponsored enterprise” and in this report refers to Fannie Mae and Freddie Mac.

- $50 billion of TARP funds will be used primarily to encourage the modification of non-GSE mortgages that financial institutions own and hold in their portfolios (whole loans) and mortgages held in private-label securitization trusts.

- Fannie Mae and Freddie Mac will provide up to an additional $25 billion to encourage servicers and borrowers to modify loans through HAMP that are owned or guaranteed by the two GSEs.

How does the HAMP work?

- Homeowners participating in HAMP work with HUD-certified housing counselors and mortgage servicers to have their monthly first lien mortgage payments adjusted to no more than 31 percent of monthly gross income. In other words, HAMP is designed to enable responsible homeowners to stay in their homes by reducing mortgage payments to an affordable level.

Description of TARP Programs – SCAP and CAP

What are SCAP and CAP?

The **Supervisory Capital Assessment Program (SCAP)** and **Capital Assistance Program (CAP)** are important components of the Financial Stability Plan to help ensure that banks have a sufficient capital cushion in a more adverse economic scenario. SCAP is a comprehensive capital assessment exercise for the largest 19 U.S. bank holding companies and a complement to the CAP. The SCAP assessments, or "stress tests," are the most comprehensive, forward-looking review of the largest U.S. banks.

How does SCAP work?

Federal banking supervisors conducted forward-looking assessments to provide the transparency necessary for individuals and markets to judge the strength of the banking system. Results of the stress tests were released on May 7, 2009.

Some banks were required to take steps to improve the quality and/or the quantity of their capital to give them a larger cushion to support future lending even if the economy performs worse than expected. Banks have a range of options to raise capital in the private markets, including common equity offerings, asset sales and the conversion of other forms of capital into common equity. If these options are not sufficient, they can request additional capital from the government through CAP. Financial institutions must submit a detailed capital plan to supervisors, who will consult with Treasury on the development and evaluation of the plan. Any bank needing to augment its capital buffer at the conclusion of the SCAP was required to develop a detailed capital plan by June 8, 2009, and has until November 9, 2009 to implement that capital plan.

How does CAP work?

In cases in which the SCAP indicated that an additional capital buffer was warranted, institutions have an opportunity to turn first to private sources of capital, but are also eligible to receive government capital via investment available immediately through the CAP. Eligible U.S. banks that did not participate in the SCAP may apply to their primary federal regulator to receive capital under the CAP.

Capital provided under CAP will be in the form of a preferred security that is convertible into common equity. CAP securities will carry a 9 percent dividend yield.

How Treasury Exercises its Voting Rights

The Obama Administration has stated that core principles will guide Treasury's management of financial interests in private firms. One such principle is that the United States government will not interfere with or exert control over day-to-day company operations and, in the event the government obtains ownership interests, it will vote only on key governance issues. These core principles also include Treasury's commitment to seek to dispose of its ownership interests as soon as practicable. Treasury will follow these principles in a manner consistent with the obligation to promote the liquidity and stability of the financial system.

Treasury does not participate in the day-to-day management of any company in which it has an investment nor is any Treasury employee a director of any such company. Treasury's investments have generally been in the form of non-voting securities or loans. For example, the preferred shares that Treasury holds in financial institutions under the Capital Purchase Program do not have voting rights except in certain limited circumstances, such as amendments to the charter of the company, or in the event dividends are not paid for several quarters, in which case Treasury has the right to elect two directors to the board.

Treasury holds common stock in a few companies, including the new General Motors, the new Chrysler, and Citigroup. In those cases, Treasury has announced that it will follow the following principles in exercising its voting rights:

Governance Principles for Citigroup

1) Treasury will exercise its right to vote only on certain matters consisting of:

   - the election or removal of directors;
   - certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution;
   - issuances of equity securities where shareholders are entitled to vote; and
   - amendments to the charter or bylaws.

2) On all other matters, Treasury will vote its shares in the same proportion (for, against or abstain) as all other shares of the company's stock are voted.

These principles are set forth in an agreement between Treasury and Citigroup.

Governance Principles for GM

Before GM's expected initial public offering (IPO), Treasury will vote its shares as it determines, provided that it will vote in favor of directors nominated by the GM Voluntary Employee Benefit Association (VEBA) or the government of Canada, each of which is also a shareholder. After the IPO, the following voting principles will apply:

How Treasury Exercises its Voting Rights

1) Treasury will exercise its right to vote only on certain matters consisting of:

   - the removal of directors;
   - the election of directors, provided that Treasury will vote in favor of individuals nominated through a certain pre-designated process, and individuals nominated by VEBA;
   - certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution;
   - amendments to the charter or bylaws; and
   - matters in which Treasury's vote is necessary for the stockholders to take action, in which case the shares will be voted in the same proportion (for, against or abstain) as all other shares of the company's stock are voted.

2) On all other matters, Treasury will not vote its shares.

These principles are set forth in the GM Stockholders Agreement.

Governance of AIG

In the case of AIG, the U.S. Treasury is the beneficiary of a trust created by the Federal Reserve Bank of New York (FRBNY). That trust owns shares having 79.8% of the voting rights of the common stock. The FRBNY has appointed three independent trustees who have the power to vote the stock and dispose of the stock with prior approval of FRBNY and after consultation with Treasury. The trust agreement provides that the trustees cannot be employees of Treasury or the FRBNY. The trust exists for the benefit of the U.S. Treasury, and the Department of the Treasury does not control the trust and it cannot direct the trustees. Treasury owns preferred stock which does not have voting rights except in certain limited circumstances (such as amendments to the charter) or in the event dividends are not paid for four quarters, in which case Treasury has the right to elect two directors to the board.

Appendix 2 – Financial Statement

Attached as Appendix 2 is the financial statement required under Sections 105(a)(2) and (3) of EESA for the period ending August 31, 2009.