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TROUBLED ASSET RELIEF PROGRAM

Status of Efforts to Address Transparency and Accountability Issues

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Acting Comptroller General of the United States

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GAO-09-1048T

Chairman Dodd, Ranking Member Shelby, and Members of the Committee:

I am pleased to be here today to discuss our work on the Troubled Asset Relief Program (TARP), under which the Department of the Treasury (Treasury), through the Office of Financial Stability (OFS), has the authority to purchase or insure almost $700 billion in troubled assets held by financial institutions.[1] As you know, about 1 year ago, Treasury was granted this authority in response to the financial crisis that has threatened the stability of the U.S. banking system and the solvency of numerous financial institutions. The Emergency Economic Stabilization Act (the act) that authorized TARP on October 3, 2008, requires GAO to report at least every 60 days on findings resulting from our oversight of actions taken under the program.[2] Our statement today draws on the 7 reports we have issued to date under this mandate and on ongoing work.[3] Our next report, planned to be issued early next month, will include a detailed progress report of TARP programs and activities over the past year.

[1]The Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (2008) originally authorized Treasury to buy or guarantee up to $700 billion in troubled assets. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, amended the act and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.741 billion.

[2]The Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (2008). The act requires the U.S. Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

[3]See GAO, *Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency*, GAO-09-161 (Washington, D.C.: Dec. 2, 2008); *Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-296 (Washington, D.C.: Jan. 30, 2009); *Troubled Asset Relief Program: March 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-504 (Washington, D.C.: Mar. 31, 2009); *Auto Industry: Summary of Government Efforts and Automakers' Restructuring to Date*, GAO-09-553 (Washington, D.C.: Apr. 23, 2009); *Troubled Asset Relief Program: June 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-658 (Washington, D.C.: June 17, 2009); *Troubled Asset Relief Program: Treasury Actions Needed to Make the Home Affordable Modification Program More Transparent and Accountable*, GAO-09-837 (Washington, D.C.: July 23, 2009); and *Troubled Asset Relief Program: Status of Government Assistance to AIG*, GAO-09-975 (Washington, D.C.: Sept. 21, 2009).

Specifically, this statement focuses on (1) the nature and purpose of activities that have been initiated under TARP over the past year and ongoing challenges; (2) Treasury's efforts to establish a management infrastructure for TARP; and (3) outcomes measured by indicators of TARP's performance. To do this work, we reviewed documents provided by OFS and conducted interviews with Treasury and OFS officials. In addition, we have updated the program's receipts and disbursements through September 11, 2009. We plan to continue to monitor the issues highlighted in this statement, as well as future and ongoing capital purchases and ongoing repurchases. We conducted this performance audit between June 2009 and September 2009 in accordance with generally accepted government auditing standards.

Summary

TARP is one of many programs and activities the federal government has put in place over the past year to respond to the financial crisis. It represents a significant government commitment to stabilizing the financial system. For example, as of September 11, 2009, it had disbursed $363 billion to participating institutions. At the same time, TARP's Capital Purchase Program (CPP) has shown evidence of some success in returning funds to the federal government. Treasury has received almost $7 billion in dividend payments, about $2.9 billion in warrant liquidations, and over $70 billion in repurchases from institutions participating in CPP, as of August 31, 2009. But TARP still faces a variety of challenges. For example, CPP, the largest of the TARP programs, has hundreds of participating institutions. Because of its size, this program requires ongoing strong oversight to ensure that participants comply with the program's requirements as we have recommended in prior reports. In addition, most of the other investment-based TARP programs that have provided assistance to a few large individual institutions present Treasury with the challenge of determining when assistance is no longer needed. Further, amid concerns about the strategic direction of the program and lack of transparency, the new administration has attempted to provide a more strategic plan for using the remaining funds and has created a number of programs aimed at stabilizing the securitization markets and preserving homeownership. While some programs, such as the Term Asset-backed Securities Loan Facility (TALF), are fully operational, others including the Home Affordable Modification Program (HAMP) and the Public-Private Investment Program (PPIP), are still new and face ongoing implementation and operational challenges. Finally, even though substantial investments have been made to avert the collapse of American International Group, Inc. (AIG), General Motors Corporation (GM), and Chrysler LLC (Chrysler), the ultimate outcomes of these investments are unclear and will be influenced by the long-term viability of these entities. Certain of these TARP investments were made with Treasury's expectation that the disbursements would be returned to the federal government. HAMP funds, however, are direct expenditures which are not expected to be repaid. But given the many challenges and uncertainties facing TARP programs, the total cost to the government of these programs remains unclear at this time.

OFS has continued to make progress in establishing a management infrastructure to administer TARP and oversee contractors and financial agents, but some challenges also remain in this area. Though OFS now has close to 200 staff, some key senior positions remain unfilled on a permanent basis, such as the Chief Homeownership Preservation Officer and Chief Investment Officer. Bringing on board permanent staff for these key positions is important in helping Treasury effectively administer TARP activities and ensuring accountability for program outcomes. Treasury has strengthened its management and oversight of its contractors as its reliance on them to support TARP grew over the past year. OFS continues to make progress in developing a comprehensive system of internal control. As we complete our first audit of OFS's annual financial statements for TARP, we will be able to provide a more definitive view of TARP's internal controls over financial reporting. Over the past year, OFS has also started to take steps to formalize its communication strategy and improve how it communicates with Congress and the public about TARP activities and the strategy for using TARP funds. Consistent and timely communication will continue to be an important function for Treasury as it continues to make important decisions on the use of TARP funds.

While isolating and estimating the effect of TARP programs continues to present a number of challenges, indicators that we have been following of the cost of credit and perceptions of risk in credit markets suggest broad improvement since the announcement of CPP in October 2008. In particular, a significant improvement in the interbank market has been associated with the announcement of CPP and other programs outside TARP. Treasury has recently released a report that begins to discuss the next phase of its stabilization and rehabilitation efforts that also includes a range of indicators.[4] Treasury's authority to purchase or insure additional troubled assets will expire on December 31, 2009, unless the Secretary

[4]Department of the Treasury, *The Next Phase of Government Financial Stabilization and Rehabilitation Policies* (Washington, D.C.: September 2009).

submits a written certification to Congress. Thus, Treasury will need to make decisions about providing new funding for TARP programs in the next few months. A set of indicators could serve as part of an analytical basis for such a determination.

We recognize the challenges associated with implementing a program during a crisis and concurrently establishing a comprehensive system of internal control. In the last year, we have made 36 recommendations to Treasury aimed at helping to improve the accountability, integrity, and transparency of TARP. Treasury has taken actions to address almost all of them and we continue to monitor those recommendations that may require additional action. We have continued to coordinate our work with entities created under the act that also were assigned oversight responsibilities for TARP, including the Congressional Oversight Panel, the Financial Stability Oversight Board, and the Special Inspector General for TARP (SIGTARP). We are currently conducting a coordinated review with SIGTARP on U.S. government oversight over and interaction with the management of institutions, where the government is approaching or in effect has majority owner status.[5] We also have ongoing engagements reviewing the operations and activities of several TARP programs, including CPP, HAMP, PPIP, TALF, the Supervisory Capital Assessment Program ("stress tests"), AIG, and the Automobile Industry Financing Program (AIFP).

[5]This coordinated effort with SIGTARP will cover organizations receiving TARP funds, such as AIG, General Motors, Chrysler, GMAC, Bank of America, and Citigroup. It will also review the federal government's involvement in Fannie Mae and Freddie Mac.

TARP Strategy Has Evolved From Capitalizing Institutions to Stabilizing Securitization Markets and Preserving Homeownership

In the past year, Treasury has implemented a range of TARP programs to stabilize the financial system. As of September 11, 2009, it had disbursed just over $363 billion for TARP loans and equity investments (table 1). In addition to disbursements, participating institutions have paid Treasury billions of dollars in repurchases of preferred shares and warrants, dividend payments, and loan repayments. In particular, Treasury has received almost $7 billion in dividend payments, about $2.9 billion in warrant liquidations, and over $70 billion in repurchases from institutions participating in CPP, as of August 31, 2009.

Table 1. TARP Program Description and Total Disbursements, as of September 11, 2009 (dollars in billions)

Program and Purpose	Total Disbursed[a]
Capital Purchase Program. To provide capital to viable banks through the purchase of preferred shares and subordinated debentures.	$204.5
Targeted Investment Program. To foster market stability and thereby strengthen the economy by making case-by-case investments in institutions that Treasury deems are critical to the functioning of the financial system.	40.0
Capital Assistance Program. To restore confidence throughout the financial system that the nation's largest banking institutions have sufficient capital to cushion themselves against larger-than-expected future losses, and to support lending to creditworthy borrowers.	TBD
Systemically Significant Failing Institutions. To provide stability in financial markets and avoid disruptions to the markets from the failure of a systemically significant institution. Treasury determines participation in this program on a case-by-case basis.	43.2
Asset Guarantee Program. To provide government assurances for assets held by financial institutions that are viewed as critical to the functioning of the nation's financial system.	0.0
Automotive Industry Financing Program. To prevent a significant disruption of the American automotive industry.	75.9
Home Affordable Modification Program. To offer assistance to an estimated 3 to 4 million homeowners through a cost-sharing arrangement with mortgage holders and investors to reduce the monthly mortgage payment amounts of homeowners at risk of foreclosure to affordable levels.	0.0[b]
Consumer & Business Lending Initiative.[c] To support consumer and business credit markets by providing financing to private investors to issue new securitizations to help unfreeze and lower interest rates for auto, student, and small business loans; credit cards; commercial mortgages; and other consumer and business credit.	0.1
Public-Private Investment Program. To address the challenge of "legacy assets" as part of Treasury's efforts to repair balance sheets throughout the financial system and increase the availability of credit to households and businesses.	0.0
Total	**$363.7**

Source: Treasury OFS, unaudited.

[a]Disbursement amounts do not reflect repurchases, dividend payments, and other receipts.

[b]Treasury has disbursed $276,000 in HAMP incentive payments to participating servicers.

[c]The Consumer & Business Lending Initiative includes TALF and the former Small Business and Community Lending Program.

CPP continues to be the largest and most widely used program under Treasury's TARP authority for stabilizing the financial system. Over the last year, CPP has made significant capital investments in financial institutions, and although Treasury has made progress in monitoring the activities of CPP participants, challenges remain in ensuring that participants comply with program requirements. As of September 11, 2009, CPP had provided more than $204 billion in capital to more than 670 institutions, about 56 percent of total TARP disbursements. The amount of disbursements has slowed significantly, in part, because the institutions receiving CPP capital in recent months are generally smaller than those that received capital in the beginning of the program. Also, many CPP applicants have withdrawn their applications from consideration because of uncertainties about program requirements and improving economic conditions.

Consistent with our recommendations, Treasury began to collect detailed information for the largest institutions in February 2009 and basic information through monthly lending surveys from all CPP participating institutions later in June. These monthly surveys are an important step toward greater transparency and accountability for institutions of all sizes. We have also made recommendations that Treasury strengthen its oversight of participants' compliance with the act's program requirements (e.g., restrictions on executive compensation, dividend payments, and stock repurchases), and Treasury continues to make progress in these areas. For example, Treasury has hired three asset management firms to provide market advice about its portfolio of investments and to oversee compliance with the terms of CPP agreements. However, Treasury has yet to finalize the specific guidance and performance measures for the asset managers' oversight responsibilities and has not established a process for monitoring asset managers' performance.

Early in the implementation of TARP, Treasury provided what it now refers to as "exceptional assistance" to three institutions—AIG, Citigroup and Bank of America. For example, Treasury, along with the Board of Governors of the Federal Reserve System (Federal Reserve), and the Federal Reserve Bank of New York (FRBNY), provided assistance to AIG, the sole participant in TARP's Systemically Significant Failing Institutions (SSFI) program. As discussed in our recently issued report, Treasury committed $70 billion in TARP funds to AIG and, together with the Federal Reserve, had made over $182 billion available to assist the company between September 2008 and April 2009.[6] As of September 2, 2009, the outstanding balance of federal government assistance used by AIG was $120.7 billion. In providing the assistance, Treasury and the Federal Reserve have taken several steps intended to protect the federal government's interest. These include making loans that are secured with collateral, instituting certain controls over management, and obtaining compensation for risks such as charging interest, requiring dividend payments, and obtaining warrants. Moreover, Treasury and the FRBNY staff routinely monitor AIG's operations and receive reports on AIG's condition and restructuring. While these efforts are being made, however, the government remains exposed to risks, including credit and investment risk. As a result, Treasury and FRNYB may not be repaid in full. We recently reported that, as of September 21, 2009, AIG had not declared and paid the three scheduled dividend payments since the inception of the preferred equity investments.[7] According to Treasury, if AIG fails to make its next dividend payment due on November 1, Treasury will be able to directly elect at least two board members. GAO-developed indicators of AIG's repayment of federal assistance show some progress in AIG's ability to repay the federal assistance; however, any improvement in the stability of AIG's business depends on the long-term health of the company, market conditions, and continued federal government support. For this reason, the ultimate success of federal efforts to aid AIG's restructuring and the scope of possible repayments remain unclear at this point.

Also during the early phase of TARP (December 2008), Treasury established the Automotive Industry Financing Program (AIFP) to help stabilize the U.S. automotive industry and avoid disruptions that would pose systemic risk to the nation's economy. Under this program, Treasury has committed a total of about $82.6 billion to help support automakers, automotive suppliers, consumers, and auto finance companies.[8] Chrysler and GM have received a sizeable amount of funding to support their reorganization.[9] In exchange, Treasury received a substantial ownership interest in the companies and debt obligations. Over the last year, Chrysler and GM filed for bankruptcy and streamlined their operations by closing factories and reducing the number of dealerships. However, whether the

[6]GAO-09-975.

[7]AIG only has to make dividend payments when it declares dividends.

[8]We reported previously on this program. See GAO-09-553.

[9]Ford Motor Company did not seek assistance from AIFP.

new Chrysler and new GM will achieve long-term financial viability remains unclear. As we have previously reported, Treasury should have a plan for ending its financial involvement with Chrysler and GM that indicates how it will divest itself of its ownership shares. In developing and implementing such a plan, Treasury should weigh the objective of expeditiously ending the federal government's financial involvement in the companies with the objective of recovering an acceptable amount of the funding provided to them. We will report later this fall on Treasury's approach to managing its ownership interests in the companies, how it plans to divest itself of these interests, and the progress the companies have made in restructuring since receiving federal government assistance. We also plan to report this winter on how Chrysler and GM's restructuring efforts have affected their pension plan assets and what the federal government's potential exposure will be should the companies terminate their plans.

Following the early months of TARP implementation, which largely focused on capital investments and amid concerns about the overall strategic direction of the program and lack of transparency, the new administration has attempted to provide a more strategic direction for using the remaining funds and creating a number of programs aimed at stabilizing the securitization markets and preserving homeownership. For example, TALF, a program launched by Treasury and the Federal Reserve, has been mostly used for credit card and auto loan securitization and was extended through March 2010 for more asset classes.[10] As of September 17, 2009, TALF loan requests are only about a quarter of the $200 billion maximum that Treasury currently anticipates being made by FRBNY, which is much less than the $1 trillion potential expansion that the Federal Reserve and Treasury initially announced.[11] The relatively low loan volume could be attributed to recent improvements in securitization and credit markets that make the financing terms of TALF loans less attractive, according to agency officials and certain market participants. Because the Banking Agency Audit Act (31 U.S.C. § 714) prohibits GAO from auditing certain Federal Reserve activities, we are limited in our ability to review the Federal Reserve's actions with respect to TALF. In May 2009,

[10]The TALF extension is through March 2010 for all asset classes except new commercial mortgage-backed securities (CMBS), which will be accepted through July 2010.

[11]FRBNY currently plans to provide up to $200 billion in TALF loans using non-TARP funds, and Treasury currently plans to provide up to $20 billion in TARP funds to purchase collateral surrendered in the event TALF loans are not repaid.

legislation was passed that gave GAO authority to audit Federal Reserve actions taken with respect to three entities also assisted under TARP—AIG, Citigroup and Bank of America—but not TALF. To enable us to audit TARP support for TALF most effectively, we would support legislation to provide GAO with audit authority over Federal Reserve actions taken with respect to TALF, together with appropriate access.

While TALF has been implemented, HAMP and PPIP face ongoing implementation and operational challenges. For example,

- HAMP faces a significant challenge that centers on uncertainty over the number of homeowners it will ultimately help. Residential mortgage defaults and foreclosures are at historical highs and Treasury officials and others have identified reducing the number of unnecessary foreclosures as critical to the current economic recovery. In our July 2009 report, we noted that Treasury's estimate of the 3 to 4 million homeowners who would likely be helped under the HAMP loan modification program may have been overstated.[12] Further, concerns have been raised about the capacity and consistency of servicers participating in HAMP in offering loan modifications to qualified homeowners facing potential foreclosure. Treasury has taken some actions to encourage servicers to increase the number of modifications made, including sending a letter to participating HAMP servicers and meeting with them to discuss challenges to making modifications. However, the ultimate result of Treasury's actions to increase the number of HAMP loan modifications and the corresponding impact on stabilizing the housing market remains to be seen. Treasury faces other challenges in implementing HAMP, including ensuring that decisions to deny or approve a loan modification are transparent to borrowers and establishing an effective system of operational controls to oversee the compliance of participating servicers with HAMP guidelines. In July 2009, we made six recommendations to Treasury to help improve the transparency and accountability of HAMP, which included recommending actions to monitor particular program requirements, reevaluate and review certain program components and assumptions, and strengthen internal controls over HAMP. Treasury noted that it will take various actions in response to our recommendations, such as exploring options to monitor counseling requirements and working to refine its internal controls over HAMP. We plan to continue to monitor Treasury's responses to our recommendations as part of our ongoing work on HAMP.

[12] GAO-09-837.

- Treasury announced PPIP in March 2009, but as of September 2009 many elements of the program remain unimplemented and some have questioned whether the program is actually needed.[13] While Treasury continues to take steps to implement the legacy securities program, the legacy loans program has been on hold since early June.[14] Some market participants and observers we spoke with questioned the necessity and timing of PPIP, noting that while the problem of toxic assets remains, the program is less important now than when the crisis first began, for several reasons. One main reason cited by these individuals and by Treasury and the FDIC is that rising investor confidence following the stress test results and successful capital-raising by financial institutions reduced the need for the legacy loans portion of PPIP. In addition, banks have increasing incentives to hold troubled assets in the hopes that such assets will perform better in the future, rather than taking losses now.

Treasury Has Made Progress in Developing OFS's Management Infrastructure, but Effective Communication Has Been an Ongoing Challenge

Treasury has continued to make progress in establishing OFS's management infrastructure, overseeing of contractors and financial agents, and developing a system of internal control for financial reporting. However, some challenges remain—for example, in staffing some key positions.

- In accordance with our prior recommendation that it expeditiously hire personnel to OFS, Treasury continued to use direct-hire and various other appointments to bring a number of staff on board quickly and has 197 staff as of September 15, 2009. However, it has yet to fill several key senior positions. For example, in our July 2009 report we recommended that Treasury give high priority to filling the Chief Homeownership Preservation Officer position. Treasury has also been seeking to fill the Chief Investment Officer position since June 2009. Neither position has

[13] PPIP was created to help restart the market for legacy assets (both securities and loans), to allow banks and other financial institutions to free up capital, and to stimulate the extension of new credit.

[14] For the legacy securities program, Treasury publicly named 9 fund managers for the public-private investment funds (PPIFs) in July 2009, but the selections are preliminary, awaiting final agreements between Treasury and the managers. Until the final agreements are in place, the PPIFs cannot receive firm investor commitments, begin investing, or receive funding from Treasury. For legacy loans, FDIC has tested a pilot program on assets it acquired through a bank failure that could form the basis of a fully implemented legacy loans program. For FDIC to fully implement the legacy loan program, however, Treasury (with a recommendation from the Federal Reserve Board) needs to make a systemic risk determination, and FDIC officials think this is unlikely unless economic conditions deteriorate significantly.

been filled with permanent staff as of September 15, 2009.

- Treasury has strengthened management and oversight as reliance on contractors to support TARP grew over the past year. Treasury is using contracts and financial agency agreements with several private sector firms to obtain a wide range of professional services and other support. In starting up TARP a year ago, OFS's management infrastructure lacked many of the necessary oversight procedures and internal controls for its growing number of contractors and financial agents, including a comprehensive and complete compliance system to monitor and appropriately address vendor-related conflicts of interest. However, Treasury has taken a number of steps toward overcoming a challenging contracting environment and has implemented or substantially implemented all of our contracting- and conflicts-of-interest recommendations we have made over the past year.

- OFS has also made progress in developing a comprehensive system of internal control, as we recommended. As required by section 116(b) of the act, we are currently performing the audit of TARP's financial statements and the related internal controls. Our objectives are to render opinions on (1) the financial statements as of and for the period ending September 30, 2009, and (2) internal control over financial reporting and compliance with applicable laws and regulations as of September 30, 2009. We will also be reporting on the results of our tests of TARP's compliance with selected provisions of laws and regulations related to financial reporting. The results of our financial statement audit will be published in a separate report.

We also made a series of recommendations aimed at improving the transparency of TARP including that Treasury establish more effective communication with Congress and the public and develop a clearly articulated strategy for the program, among other things. Consistent with our recommendations, OFS has taken steps over the last year to formalize its communication strategy and improve its communications with Congress and the public about TARP activities and the strategy for using TARP funds. Consistent and timely communication will continue to be an important focus for Treasury as it makes key decisions on the remaining use of TARP funds.

Indicators Suggest Positive Developments in Credit Markets, but Isolating TARP's Impact Continues to Present Challenges

While isolating and estimating the effect of TARP programs continues to present a number of challenges, indicators of the cost of credit and perceptions of risk in credit markets suggest broad improvement since the announcement of CPP in October 2008. As we have noted in prior reports, if TARP is having its intended effect, a number of developments might be observed in credit and other markets over time, such as reduced risk spreads, declining borrowing costs, and more lending activity than there would have been in its absence. However, a slow recovery does not necessarily mean that TARP is failing, because it is not clear what would have happened without the programs. In particular, several market factors helping to explain slow growth in lending include weaknesses in securitization markets and the balance sheets of financial intermediaries, a decline in the demand for credit, and the reduced creditworthiness among borrowers. Nevertheless, as shown in table 2, credit market indicators we have been monitoring suggest there has been broad improvement in interbank, mortgage, and corporate debt markets in terms of the cost of credit and perceptions of risk (as measured by premiums over Treasury securities). In addition, empirical analysis of the interbank market, which showed signs of significant stress in 2008, suggests that CPP and other programs outside TARP that were announced in October 2008 have resulted in a statistically significant improvement in risk spreads even in the presence of other important factors. Although rising foreclosures continue to highlight the challenges facing the U.S. economy, total mortgage originations in the second quarter of 2009 have more than doubled since the fourth quarter of 2008.

Table 2. Select Credit Market Indicators as of September 15, 2009

Credit market rates and spreads

Indicator	Description	Basis point change since October 13, 2008
LIBOR	3-month London interbank offered rate (an average of interest rates offered on dollar-denominated loans)	Down 446
TED Spread	Spread between 3-month LIBOR and 3-month Treasury yield	Down 434
Aaa bond rate	Rate on highest quality corporate bonds	Down 130
Aaa bond spread	Spread between Aaa bond rate and 10-year Treasury yield	Down 83
Baa bond rate	Rate on corporate bonds subject to moderate credit risk	Down 239
Baa bond spread	Spread between Baa bond rate and 10-year Treasury yield	Down 192
Mortgage rates	30-year conforming loans rate	Down 139
Mortgage spread	Spread between 30-year conforming loans rate and 10-year Treasury yield	Down 78

Quarterly mortgage volume and defaults

Indicator	Description	Change from December 31, 2008 to June 30, 2009
Mortgage originations	New mortgage loans	Up $290 billion to $550 billion
Foreclosure rate	Percentage of homes in foreclosure	Up 100 basis points to 4.30 percent

Sources: GAO analysis of data from Global Insight, the Federal Reserve, Thomson Reuters Datastream, and Inside Mortgage Finance.

Note: Rates and yields are daily except mortgage rates, which are weekly. Higher spreads (measured as premiums over Treasury securities of comparable maturity) represent higher perceived risk in lending to certain borrowers. Higher rates represent increases in the cost of borrowing for relevant borrowers. As a result, "Down" suggests improvement in market conditions for credit market rates and spreads. Foreclosure rate and mortgage origination data are quarterly. See previous TARP reports for a more detailed discussion (GAO-09-161 and GAO-09-296).

Though it is difficult to isolate the impact of TARP, economic and credit market indicators will provide important information as Treasury makes decisions about the future of the program. Treasury has recently released a report that begins to discuss the next phase of its stabilization and rehabilitation efforts and includes several indicators. Treasury's authority to purchase or insure additional troubled assets will expire on December 31, 2009, unless the Secretary submits a written certification to Congress describing "why the extension is necessary to assist American families and stabilize financial markets, as well as the expected cost to the taxpayers for such an extension." In the next few months, Treasury will need to make decisions about providing new funding for TARP programs. A set of indicators could serve as part of an analytical basis for such a determination.

Mr. Chairman, Ranking Member Shelby, and Members of the Committee, I appreciate the opportunity to discuss these critically important issues and would be happy to answer any questions that you may have. Thank you.

For further information on this testimony, please contact Thomas J. McCool on (202) 512-2642 or mccoolt@gao.gov.

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