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GAO
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Highlights

Highlights of GAO-10-16, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

One Year Later, Actions Are Needed to Address Remaining Transparency and Accountability Challenges

Why GAO Did This Study

GAO's eighth report assesses the Troubled Asset Relief Program's (TARP) impact over the last year. Specifically, it addresses (1) the evolution of TARP's strategy and the status of TARP programs as of September 25, 2009; (2) the Department of the Treasury's (Treasury) progress in creating an effective management structure, including hiring for the Office of Financial Stability (OFS), overseeing contractors, and establishing a comprehensive system of internal control; and (3) indicators of TARP's performance that could help Treasury decide whether to extend the program. GAO reviewed relevant documentation and met with officials from OFS, contractors, and financial regulators.

What GAO Recommends

While Treasury has been generally responsive to GAO's prior 35 recommendations, GAO reiterates the importance of fully implementing several previous recommendations. GAO also makes three new recommendations. Specifically, the Secretary should (1) coordinate with the Federal Reserve and FDIC to help ensure that the decision to extend or terminate TARP is considered in a broader market context, (2) document and communicate the results of its determination, and (3) update its projected use of funds. Treasury agreed with the first two recommendations. With the third, it stated that Treasury regularly re-evaluates its funding needs. However, GAO found that a thorough review of its estimates is warranted.

View GAO-10-16 or key components.

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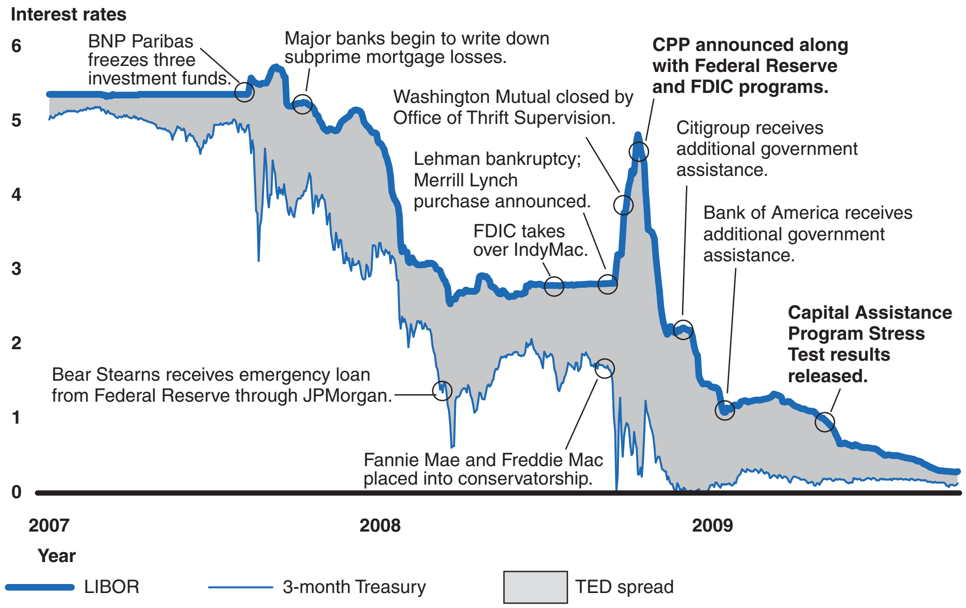
What GAO Found

Over the last year, TARP in general, and the Capital Purchase Program (CPP) in particular, along with other efforts by the Board of Governors of the Federal Reserve System (Federal Reserve) and Federal Deposit Insurance Corporation (FDIC), have made important contributions to helping stabilize credit markets. To illustrate, figure 1 shows that while it is difficult to isolate the impact of TARP, the TED spread—a key indicator of credit risk that gauges the willingness of banks to lend to other banks—has narrowed to levels not seen since market turmoil began in late 2007. However, TARP is still a work in progress, and many uncertainties and challenges remain. For example, while some CPP participants had repurchased over $70 billion in preferred shares and warrants as of September 25, 2009, whether Treasury will fully recoup TARP assistance to the automobile industry and American International Group Inc., among others, remains uncertain. Moreover, other programs, such as the Public-Private Investment Program and the Home Affordable Modification Program (HAMP) are still in varying stages of implementation.

Figure 1: TED Spread, 3-Month LIBOR, and 3-Month Treasury Bill Yield, as of September 29, 2009



Source: GAO analysis of data from Thomson Reuters Datastream.

Note: Rates and yields are daily percentages. The area between the LIBOR and Treasury yield is the TED spread.

As of September 25, 2009, Treasury had disbursed almost $364 billion in TARP funds; however, Treasury has yet to update its projected use of funds for most programs in light of current market conditions, program participation rates, and repurchases. Without more current estimates about expected uses of the remaining funds, Treasury's ability to plan for and effectively execute the next steps of the program will be limited. Amid concerns about the direction and transparency of TARP, the new administration has attempted to provide a more strategic direction for using the remaining funds. TARP has moved from investment-based initiatives to programs aimed at stabilizing the securitization markets and preserving homeownership, and most recently at providing assistance to community banks and small businesses. While some programs, such as the Term Asset-Backed Securities Loan Facility, appear to have generated market interest, others, such as HAMP, face ongoing implementation and operational challenges. Related to transparency, Treasury has taken a number of steps to improve communication with the public and Congress, including launching a Web site and preparing to hire a communications director for OFS to support these efforts.

Treasury has also made significant progress in establishing and staffing OFS; however, it must continue to focus on filling critical leadership positions, including the Chief Homeownership Preservation Officer and Chief Investment Officer, with permanent staff. Treasury's network of contractors and financial agents that support TARP administration and operations has grown from 11 to 52. While Treasury has an appropriate infrastructure in place, it must remain vigilant in managing and monitoring conflicts of interests that may arise with the use of private sector sources.

GAO again notes that isolating and estimating the effect of TARP programs remains a challenging endeavor. As shown in table below, the indicators that GAO has been monitoring over the last year suggest that there have been broad improvements in credit markets since the announcement of the first TARP program (CPP) and that a number of anticipated effects of TARP have materialized, although not necessarily due to TARP actions alone. Specifically, the cost of credit and perceptions of risk (as measured by premiums over Treasury securities) have declined significantly in interbank, corporate debt, and mortgage markets. Further, our analysis of Treasury's loan survey results over most of the past year shows that collectively the largest CPP participants have reported extending almost $2.3 trillion in new loans since receiving $160 billion in CPP capital. While Treasury has not fully developed a comprehensive framework for assessing the need for additional actions and evaluating program results in a transparent manner, in a recent report Treasury began to lay the foundation for such a framework and provided a number of financial indicators. A framework that utilizes indicators or measures of program effectiveness would help in weighing the benefits of TARP programs against the cost of employing additional taxpayer resources. Also, as Treasury considers further action under TARP and considers whether to extend the program beyond December 31, 2009, it will need to evaluate TARP in the broader context of efforts by the Federal Reserve and FDIC to stabilize the financial system. Finally, Treasury will need to document its analysis and effectively communicate its reasoning to Congress and the American people for its decisions to be viewed as credible.

Changes in Select Credit Market Indicators, October 13, 2008, to September 30, 2009

Credit market rates and spreads		
Indicator	**Description**	**Basis point change from October 13, 2008, to September 30, 2009**
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 443
Aaa bond rate	Rate on highest-quality corporate bonds	Down 143
Aaa bond spread	Spread between Aaa bond rate and 10-year Treasury yield	Down 85
Baa bond rate	Rate on corporate bonds subject to moderate credit risk	Down 263
Baa bond spread	Spread between Baa bond rate and 10-year Treasury yield	Down 205
Mortgage rates	30-year conforming loans rate	Down 142
Mortgage spread	Spread between 30-year conforming loans rate and 10-year Treasury yield	Down 83
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

Source: 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 GAO-09-161, GAO-09-296, GAO-09-504, and GAO-09-658.