RESPONDING to the GLOBAL FINANCIAL CRISIS
What We Did and Why We Did It

Implementing TARP:
The Administrative Architecture of the Troubled Assets Relief Program

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Note: The views expressed in this draft are strictly those of the author(s).

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Introduction: Racing into the Unknown

There was no time to waste once Congress passed the law that created the Troubled Assets Relief Program (TARP) in early October 2008. Although we were not certain how the funds would be used, we knew we needed to quickly create an organization that could implement whatever those uses were, wisely and efficiently, and with the highest standards of transparency, fairness and accountability—and one that could successfully straddle Presidential administrations.

The Emergency Economic Stabilization Act of 2008 (EESA) authorized the Treasury Secretary to establish TARP and provided $700 billion in funding, half of which was available immediately. The law did not define exactly how the money should be used. Instead, it stated a broad purpose—to "provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system"—while setting parameters and limitations on the use of that authority. It also provided that an Office of Financial Stability (OFS) be created within Treasury to administer TARP. It was otherwise left to Treasury to determine TARP's substance and structure.

Treasury had no existing division that could handle the job. The department could provide some support functions but lacked the capability to implement programs involving the disbursement of hundreds of billions of dollars.

There was no good historical precedent, either. The Resolution Trust Corporation was not a relevant model: it was established in 1989 to sell the assets of savings and loan associations that had already failed and been seized by the Federal Deposit Insurance Corporation (FDIC). In 2008, we were seeking to stop a crisis as it was intensifying—one that was already causing a panic and was far worse than the S&L crisis, and had the potential to be worse than the Great Depression.[2]

Over the next two years, we designed the administrative structure and processes for a variety of investment programs—as well as programs to help alleviate the housing crisis—and then managed and implemented them. The investments involved capital injections into financial institutions, support for the credit markets and restructurings of the auto industry. We also planned for exiting programs as the need for them ended.

It is not surprising that we believe that TARP was a success. People may continue to debate the merits of the various policies and programs that addressed the consequences of the financial crisis, including whether the government should have done more—or less. But the work of the staff that created, managed and then wound down TARP is an example of outstanding execution:

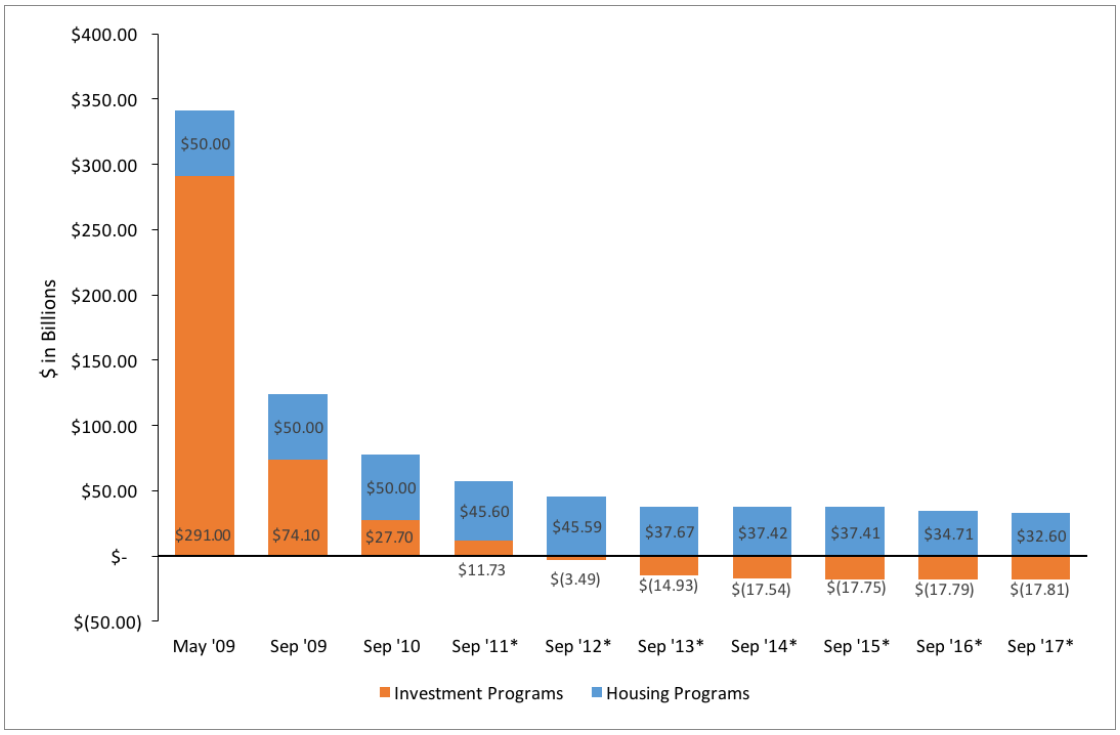
- In the face of an accelerating crisis, we rapidly built an administrative structure that supported a wide range of untested programs while enabling a seamless transition from one Administration to the next. Ultimately, TARP

[2] We did not feel that there was a good international precedent, either. For example, Sweden had a banking crisis in the early 1990s, but its financial system was much smaller and less diverse than the U.S. system.

will have disbursed $445 billion—$412 billion on the investment side and $33 billion for housing.[3] More than $250 billion of the authorized $700 billion never had to be disbursed.

- We put together a small army of financial, legal and other specialists that handled thousands of transactions in the investment programs in just two years—and by the end of 2013 had recovered $433 billion, $21 billion *more* than those programs disbursed. (The separate distribution of $33 billion for housing assistance was never meant to be repaid.) (See Figure 1 for program descriptions, disbursements and recovery amounts.)[4]
- We provided full transparency: Anyone can find out when and how each dollar was spent, and whether it was recovered, and review every investment contract. We produced audited financial statements for TARP as a whole and extensive reporting for all programs. Moreover, we were subject to oversight by four agencies, in addition to Congress—which often meant there were more people overseeing TARP than were working for it. (We ramped up from no personnel in October 2008 to 220 by 2010, and then back down to just a handful today.)

Figure 1: Historical TARP Lifetime Cost Estimates



*Includes proceeds from Treasury's additional AIG shares.

Source: OFS Annual Agency Financial Reports.

[3] As of July 1, 2018, $440 billion was disbursed; an additional $5 billion is expected to be disbursed under existing mortgage modifications.

[4] The amount recovered includes proceeds from "additional" shares Treasury held in American International Group (AIG). See note 34.

TARP did not exist in a vacuum; it succeeded in part because of the cumulative impact of the overall response to the crisis. Some luck also was involved. And there were things we could have done better. At the top of that list would be communicating more effectively why we did what we did—a shortcoming that characterized the effort to combat the crisis generally. Many Americans thought of TARP as a bailout for Wall Street, not something that helped Main Street. We did not successfully communicate why stabilization of the financial sector was so important to the health of the American economy, and how TARP and the other interventions likely prevented another Great Depression.

TARP was unusual. Any future crisis will be different yet may require a similar rapid deployment of people and resources in an environment of extreme uncertainty.

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We begin with a review of key features of the law that affected what we did and how we did it. We then discuss how we recruited the people and designed the organization, followed by how we implemented, managed and wound down the programs. Finally, we discuss some critical operational issues such as accounting and financial controls and reporting, and dealing with oversight agencies.

TARP's implementation can be divided into three phases, marked not by dates but rather by changes in the nature of the challenges we faced. The initial phase was from the passage of the law until shortly after the Obama Administration took office in late January 2009; the urgent need was to get the organization up and running. The second phase ran from the early days of the Obama Administration until September 2010, when we expanded the range of programs and the portfolio of investments. The third phase was from October 2010 onward, when the authority to make new investments expired and we focused on exiting the investment portfolio and downsizing the administrative operation, while continuing to implement the housing programs.

The authors' terms in office did not overlap and we did not work together.[5] But we speak collectively in a unified voice because the story we tell was the work of a terrific team of people, many of whom served with us both, and because TARP's implementation was essentially nonpartisan. Where necessary, we have noted differences in our views. But the challenges each of us faced, and the choices each of us and our teams made, were more similar than dissimilar.

I. TARP's Legal Underpinning: Understanding the Scope, Dealing with the Constraints

TARP was a creature of a complex law, one that Congress initially voted down. It was only after the Dow Jones Industrial Average dropped more than 700 points, or 7%, that the law passed, on a second vote just days later. TARP was often seen as a $700 billion

[5] Mr. Massad joined the OFS as its Chief Counsel in the spring of 2009, just as Mr. Kashkari was leaving and Herbert Allison was succeeding him as Assistant Secretary for Financial Stability. Mr. Allison served until September 2010, when Mr. Massad became Assistant Secretary. We wish to note our deep respect and admiration for Mr. Allison, who passed away in 2013.

fund that Treasury could use however it saw fit. That was not the case. We had broad authority but also specific constraints on what we could do and how we could do it. It is therefore important to understand key provisions of the law that shaped the administrative architecture.

Scope of Authority. EESA gave Treasury authority to "purchase … troubled assets from any financial institution,"[6] a mandate that gave rise to three key considerations.

First, the breadth of authority, coupled with uncertainty about how the crisis would evolve and what we would do to end it, meant that we had to build an organization from the start that had great expertise but also great flexibility.

Second, the term "troubled assets"[7] was broad enough to allow Treasury to make the critical decision shortly after EESA became effective to infuse capital in banks through the purchase of preferred stock (the Capital Purchase Program or CPP). The decision was made to focus on capital infusions rather than purchases of mortgage-related assets for two reasons. One was that the markets were deteriorating too quickly; we were on the cusp of an all-out run on the financial system. Treasury would not be able to implement an asset-buying program fast enough. The other reason: a program of capital infusions would stretch the TARP dollars further than would purchases of mortgage-related assets, particularly because the objective was to support healthy institutions rather than rescue failing ones.

The decision to create CPP and allocate $250 billion of the $350 billion initially available[8] had profound effects on the administrative architecture. The country had more than 8,000 FDIC-insured banks at the time. We didn't know how many would apply for capital, but we assumed and hoped that hundreds if not thousands would. We had to establish an organization that could quickly evaluate those applications, make decisions and then disburse and track billions of dollars in investments, while avoiding conflicts of interest that could undermine the program's integrity or interference that could delay its impact.

The decision to invest in the banks meant we had to develop the capability to exit the investments because not all banks would repay on their own, and we could not force them to do so. The preferred shares we received were not traded; we were the only holder. There was no market price and it was not clear who the buyers would be. There would need to be ways to exit that not only maximized price but were fair and transparent.

As for the third consideration regarding scope of authority, although "troubled assets" was broadly defined, the law required that the purchase be from a "financial

[6] See Section 101. Treasury was also given the authority to guarantee troubled assets in Section 102 but this tool was not used extensively, as discussed below.

[7] The definition had two parts. One part pertained to mortgage-related securities and obligations issued before March 14, 2008. The second—added late in the legislative process—covered "any financial instrument that the Secretary [of the Treasury], in consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability." This determination had to be transmitted to Congress.

[8] Treasury had to request the second $350 billion, and Congress had the ability to block its use.

institution." The Treasury Secretary and the Chairman of the Federal Reserve had to certify that element to Congress in the case of the purchase of "any financial instrument" (as opposed to a purchase of a mortgage-related asset described in the first paragraph of the definition of "troubled asset"). This meant that we had to create a process to determine the legal authority for each program idea or amendment.

Many ideas for programs or modifications might have been helpful but could not meet these requirements. The challenge was to create an operation that had the capability of using all the authority at our disposal, particularly as we could not predict all the actions we would take at the outset.

Warrants and Guarantee Provisions. EESA's requirements with respect to warrants and guarantees also had significant influence on program design and administrative architecture.

The law required that Treasury receive warrants for common or preferred stock (or in some cases "senior debt instruments") in connection with any purchase of a troubled asset. Every program had to incorporate a warrants provision, in order to provide taxpayers with potential upside from the investments. While incorporating a warrant feature was straightforward for publicly traded banks in the CPP, it was more complex for the many non-publicly traded banks (including smaller, community institutions) and for many other programs, such as the Public Private Investment Partnership (PPIP). We needed staff who could solve these issues. We also needed to create the appropriate process to sell the warrants, which like the preferred stocks in the CPP were not traded securities.[9]

The law also provided that Treasury could guarantee troubled assets in lieu of purchasing them. Initially, some thought this provision would be used widely in order to stretch TARP dollars, and one program was launched early on that relied on it.[10] However, the law required that TARP-available funds be reduced by the amount of the guaranteed liabilities. This rule, coupled with premium requirements and the difficulty in valuing guaranteed assets, restricted the provision's use.[11]

Executive Compensation. The compensation of executives at banks receiving capital was one of the most challenging administrative issues. The original TARP legislation contained very limited compensation restrictions, and the CPP contracts did not expand these. The Bush Administration team believed that doing so might cause banks not to participate. If banks declined to use the program, the financial system could collapse, devastating Main Street and undermining the entire purpose of the legislation. We viewed our highest priority as preventing a financial collapse, even if that meant we would take substantial criticism for our actions.

By the time the Obama Administration took office, there was widespread public outrage over executive compensation at financial institutions that had received taxpayer support. In February 2009, Congress substantially increased the executive compensation

[9] EESA section 113(d).
[10] This authority was used for additional assistance for Citigroup and Bank of America, though the latter decided not to use the guarantee program after the terms were agreed upon and announced publicly.
[11] EESA section 102.

restrictions contained in the original law.[12] The anger grew further following the news in March 2009 that AIG had paid large bonuses to employees of AIG Financial Products.

The Obama Administration had to devise the best way to implement the new restrictions imposed by Congress. In June 2009, Treasury issued regulations and appointed Kenneth Feinberg as a "special master" to implement them. Mr. Feinberg, well known for devising compensation schemes in mass tort incidents, created a process that we believe worked well. His participation also helped minimize the time and effort that Treasury leadership and the rest of the OFS staff had to spend on the issue.[13]

However, many financial institutions refused to take TARP funds because of the expanded restrictions, especially smaller institutions, as feared. Their top officers were not compensated nearly as generously as those at large banks, and for institutions that had few employees, the restrictions reached well down the organizational chart. The restrictions also contributed to the decisions of many banks to repay TARP funds as quickly as possible.[14]

They also affected program design. For example, the Obama Administration spent a lot of time exploring whether TARP funds could be used to support small business lending. We were unable to come up with a viable approach; one principal reason was that potential recipients did not wish to comply with the compensation restrictions.[15]

Provisions Affecting the Exit from Investments. The law gave us discretion in how and when we could dispose of or recover investments. General provisions relating to asset sales required, among other things, that Treasury maximize returns.[16] The American Recovery and Reinvestment Act (ARRA) added a provision that effectively allowed banks to repay earlier than CPP contracts stipulated.

Provisions Otherwise Affecting Program Management. The law affected how we designed and implemented the administrative structure. For example, it gave the Secretary "direct hiring authority," which allowed us to expedite hiring (because certain standard governmental procedures were not required), as well as authority to determine the administrative budget. It required production of stand-alone financial statements and cost accounting, as well as extensive and frequent reporting of transactions and other matters. In addition, as mentioned above, it authorized four oversight agencies to review what we were doing.

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[12] The tougher compensation restrictions were contained in the American Recovery and Reinvestment Act (ARRA), Division B, Title VII.

[13] For further information on administration of these regulations, see Office of The Special Master for Executive Compensation, Final Report of Special Master Kenneth Feinberg, September 10, 2010, available at https://www.treasury.gov/initiatives/financial-stability/exec_comp/Documents/Final Report of Kenneth Feinberg - FINAL.PDF.

[14] See infra, "Repayments, Restructurings and Sales."

[15] Congress later passed separate legislation—the Small Business Lending Fund (SBLF)—that provided capital to community banks and community development loan funds to encourage small business lending. It did not contain executive compensation restrictions, and it permitted small banks that had received CPP funds to refinance into the SBLF, subject to certain conditions. Many did. See **Figures 4** and **5**.

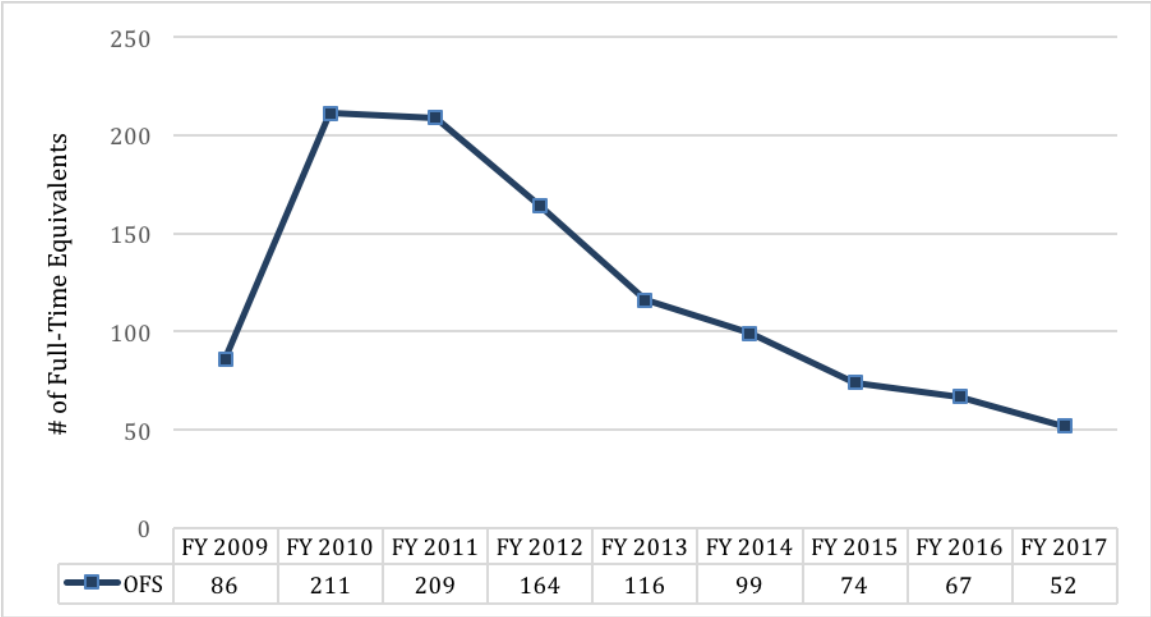
[16] See infra, "Exiting Investments."

These provisions made it essential, from the start, to establish strong financial accounting and control procedures, as well as overall mechanisms, to ensure accurate and timely record-keeping and reporting.[17]

II. Staffing Up—and Down

The task of staffing up the Office of Financial Stability in the fall of 2008 was daunting. Many of our staff would later refer to TARP as the world's largest start-up in the world's largest bureaucracy. Within a few months, we had to transition the operation to a new administration, and two years later, we began to wind it down. This section discusses those challenges. (See **Figures 2** and **3** for OFS staffing levels and annual budgets.)

Figure 2: OFS Staffing History (Full-Time Equivalents)

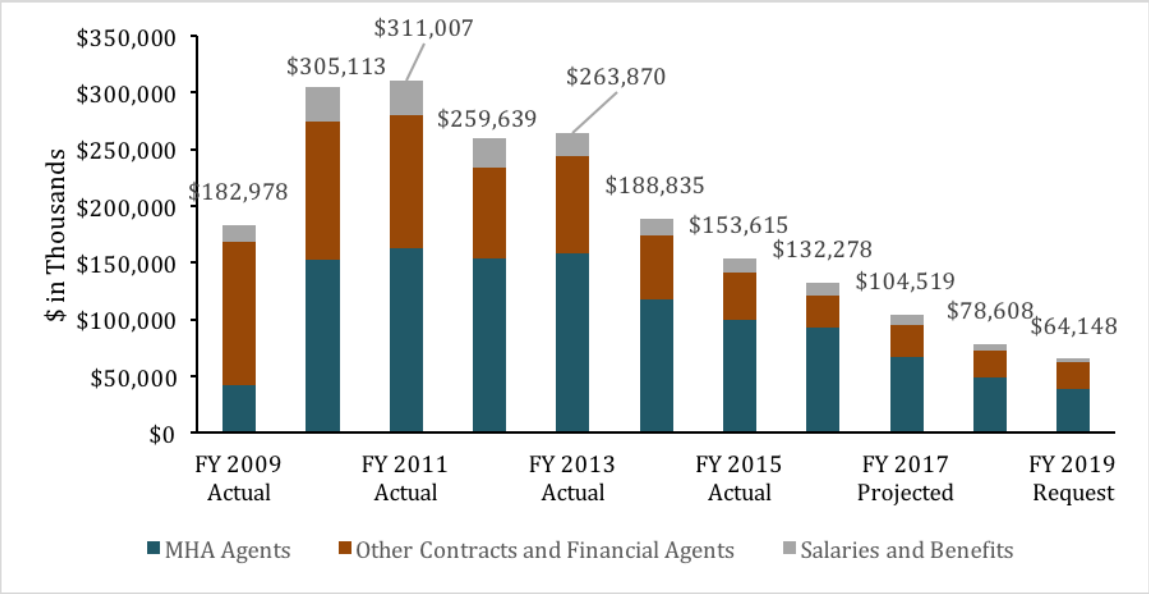


	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
OFS	86	211	209	164	116	99	74	67	52

Source: President's Budget Appendices.

[17] See infra, "Transparency and Accountability: Financial Controls and Reporting."

Figure 3: TARP Budget History



Source: OFS Quarterly Administrative Activity Reports.

The Initial Phase—Staffing Up

On October 13, 2008, Treasury Secretary Paulson, Federal Reserve Chair Bernanke, New York Federal Reserve President Geithner, FDIC Chair Sheila Bair and Comptroller of the Currency John Dugan met with the CEOs of the nation's nine largest banks. The next day, the Treasury announced the CPP. Treasury was providing a total of $125 billion in capital to these nine institutions, and setting aside an additional $125 billion for any other bank that wished to apply and met the program criteria.

Now the challenge was implementation.

We needed to create a system for reviewing and approving bank applications, to develop the governing contracts for the investments and to create the infrastructure for disbursing and monitoring investments as well as related financial and operational controls. And it all needed to be done "yesterday."

We also needed highly talented people, from both the private sector and government, with a wide range of special skills and experience. People with expertise in credit and investment analysis and investment management, as well as legal expertise in transactional and regulatory matters. And, oh yes, expertise in government accounting and financial control requirements. The fact that the program was under intense public scrutiny made it all the more critical to find top-notch staff.

The "direct hiring authority" meant we did not have to follow procedures otherwise required in the federal government, such as competitive rating and ranking. This

expedited hiring.[18] Employees still had to meet strict conflict of interest and financial disclosure rules, which deterred a number of otherwise qualified candidates. Treasury hired almost 100 people within about three months. Staffing reached its highest level of 220 in March 2010.[19]

Many of the early employees were "detailed" (borrowed) from other agencies—the Federal Reserve, FDIC, Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Internal Revenue Service (IRS) and the Securities and Exchange Commission (SEC). Interagency cooperation was strong and was critical to success, with agencies offering some of their best people for the initial effort. We could not have staffed up nearly as quickly without this cooperation.

We emphasized the following principles, among others, in hiring:

- Nonpartisanship—it did not matter if candidates were Republicans or Democrats
- Candidates needed to be *self-starters* capable of "figuring it out" on the fly; *flexible* because responsibilities would change; yet still *humble*—able to put aside their egos and work closely with others regardless of age, position or experience.
- High personal integrity—there was simply no room for even the appearance of unethical or questionable behavior
- Endurance and resilience—employees had to work hard in an extremely stressful environment, and tolerate a high degree of public scrutiny and criticism

We sought to build a culture from the start that emphasized these principles, particularly the themes of nonpartisanship, high integrity and working for the common goal of stabilizing the financial system.

Responsibilities were divided among a number of "chiefs" who reported to the Assistant Secretary for Financial Stability. The Bush Administration decided at the outset that the Assistant Secretary would be the only position filled by a political appointee. All other positions were career, to set a tone that emphasized performance and to ease the transition to a new administration. The Obama Administration maintained this approach. The "chief" positions included, for example, chief investment, chief financial and chief administrative officers.

In all phases of the operation, we relied on outside contractors to provide expertise. Initially, this enabled us to obtain the skills we needed faster; later, it made it easier to wind down operations. In particular, in the early days, it was critical to retain outside firms to set up the accounting systems and internal controls and prepare legal

[18] EESA, section 101(c).

[19] The number on board for that month. The full-time equivalent basis for the year was 211.

documentation for the initial investments. Some firms chose not to work with us because of our strict conflict-of-interest requirements.[20]

The first phase of operations under the Bush Administration was marked by the need to maintain morale amidst extremely long days, intense pressure and uncertainty about whether our efforts would succeed. We needed to keep our staff operating at a high level of performance and collaboration without getting burned out. We held frequent meetings with all employees to keep everyone informed and did small things, like inviting staff to bring their children into the building on Halloween, to make the environment as "human" as possible.

It was also essential in those early days to give people a sense that their jobs would not end just because a new administration would be coming in soon, and to create an atmosphere where employees felt they might have opportunities to advance. These objectives reinforced the importance of keeping a nonpartisan culture.

The Second Phase—Transition and Expansion

As the Obama Administration took office, the second phase of operations was marked by more continuity than change in staffing. Mr. Kashkari stayed on as interim Assistant Secretary until May 2009, when President Obama's nominee began work as a counselor to the Secretary. There were few staffing changes—turnover throughout the program was driven by individual circumstances.

The second phase, particularly in 2009, was as frenetic and exhausting as the first. We were implementing new programs, including the restructurings (through bankruptcy) of General Motors and Chrysler, the credit market programs (TALF, PPIP and SBA 7(a)) and HAMP.[21] Recruitment and maintaining morale were still huge challenges.

A significant difference in the second phase, particularly over time, was the intensifying criticism and scrutiny of TARP. The oversight agencies ramped up their staffing and activities, and were constantly requesting information and conducting investigations. In addition, Congress continued to exercise vigorous oversight. The staff frequently repeated the story that a pollster had found "TARP" to be second only to "Guantanamo" as the most unpopular word in America.[22]

During this period, we made changes to the initial organizational structure—which had largely been built around the CPP program—to accommodate the greater diversity of programs and complexity of operations.

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[20] EESA gave the Secretary the authority to waive certain Federal government requirements in order to expedite contracting if the circumstances were "urgent and compelling." We rarely if ever used this authority because we felt it was important for transparency to abide by the standard contracting rules. Still, it was nice to know we had it. In a few cases, we were able to identify qualified advisors who already had contracts with the government. This helped accelerate the procurement process.

[21] Term Asset-Backed Securities Loan Facility, Public Private Investment Partnership, the SBA 7(a) Securities Lending Program and the Home Affordable Modification Program.

[22] We have not been able to verify whether there was such a poll.

The Third Phase—Winding Down

As the Obama Administration moved into the third phase, where we no longer had the authority to make new investments or disbursements (unless previously approved), we focused on winding down the operation as we reduced the portfolio of investments.

We were able to reduce staffing fairly quickly. Some employees left on their own, as they recognized that their work was largely completed. We did not extend employment for many of the workers who had been hired as "term" rather than "permanent" staff. Instead, we shifted their responsibilities to others. Many employees on detail were not extended, either. We helped others find new jobs, including offering outplacement services.

Because OFS was funded through a mandatory authorization, its employees were exempt from furloughs and could continue working during the government shutdown of October 2013. This was helpful to morale as well as program efficacy.

Lessons Learned

Principal staffing and human resources lessons:

- Direct hiring authority is essential for a large program that must be implemented immediately and that requires diverse expertise from both the public and private sectors
- Detailees from other agencies greatly enable speed of implementation, interagency collaboration and the gathering of expertise
- Outside contractors are another immediate source of expertise, provided that strong standards are in place to avoid conflicts (and appearances of conflicts) and to ensure appropriate fees
- Relying on term employees (rather than permanent ones) greatly facilitates the winding-down process
- A nonpartisan, performance-oriented culture is key

II. The Devil in the Details: Program Implementation

This section examines the central operational issues we faced in implementing the various TARP programs. The focus is on the bank capital and housing programs because of their scale, involving hundreds of banks and millions of homeowners.

The Bank Programs

The Capital Purchase Program was the principal bank initiative and perhaps TARP's best-known effort. To launch it, we had to build systems for potentially hundreds or even thousands of applicants.

We incorporated peer review to make sure each regulator did not simply lobby for those applicants under its supervision. To obtain help, banks applied first to their primary regulator. If a bank had strong CAMELS ratings[23] and its application was endorsed by the primary regulator, the application was given a "presumptive yes" and sent directly to the Investment Committee, which would decide whether to recommend approval by the Assistant Secretary.

Applications that did not receive a presumptive yes or had other factors warranting discussion were referred to the CPP Council, composed of representatives of all the bank regulators, with the CPP director facilitating. The Council decided which applications to recommend to the Investment Committee. This process ensured consistent standards, regardless of the applicant's primary regulator.

An application that was likely to be denied was referred back to the relevant primary regulator, who would encourage the bank to withdraw its name. (We did not announce denials or withdrawals as that might adversely affect a bank.)

Structural differences in smaller banks required minor adjustments in applications and procedures, producing still another challenge to get materials and processes up and running quickly.[24]

We used similar procedures for the Community Development Capital Initiative (CDCI), which provided capital to 84 community development financial institutions (CDFI).

[23] CAMELS is a widely used system to rate a bank's overall financial condition, assessing capital, assets, management, earnings, liquidity and sensitivity to risk.

[24] For example, many of the nation's community banks are privately held "S Corporations" for tax purposes, the shares of which must be held by a limited number of natural persons to qualify for certain tax benefits. As a result, we had to devise a substitute for the preferred equity with warrants structure that was used generally. We also modified the dividend rate in light of differences in tax treatment. Adjustments were also needed for institutions owned by depositors rather than shareholders.

The Capital Assistance Program (CAP) was designed only for the 19 banks that went through stress testing, as a backstop in the event they needed to raise private capital to meet testing minimums but could not do so. While 10 banks were found to need more capital, all but one were able to raise it privately. The one that could not, Ally Financial (formerly GMAC, a division of General Motors), was assisted through TARP's Automotive Industry Financing Program (AIFP). Thus, CAP was never drawn on. Nonetheless, the fact that capital was available likely enhanced market support for the stress test process.

Lessons Learned

- The goal was to have a process for awarding TARP funds among competing applicants that was fair and fast and that could stand up to intense scrutiny. Not every applicant would receive funds. That meant it was important to design uniform application materials and consistent review procedures
- We sought to make sure decision-making processes were free from political influence while remaining open and transparent with Congress. To that end, all Congressional calls and input were directed to the Assistant Secretary, and kept away from those reviewing applications
- The rich diversity in types of banking institutions in our country created great complexity in implementing CPP. Having staff that could creatively adapt a program that was straightforward in concept so that it could be quickly available to different types of institutions was essential
- The mere announcement of a new program was critical to stabilizing the system. It helped calm markets and boost confidence even before the program itself was implemented. We saw this with CPP, CAP and other programs, such as the Public Private Investment Program

Other Investment Programs

Although the CPP was the largest vehicle for the use of TARP funds, all the other programs—which include the credit market programs such as PPIP and TALF, the programs supporting the auto industry and AIG—collectively invested slightly more. Because each had its own implementation issues, it is beyond the scope of this chapter to discuss them all. But the principles noted in the Lessons Learned box are equally applicable.

Housing

Because we did not have the resources to directly buy troubled mortgages on a scale that would have made an impact, the Obama Administration developed the Home Affordable

Modification Program, which used TARP funds to make mortgage modifications.[25] The first obstacle in HAMP's way was the fact that EESA referred to the importance of helping homeowners, but did not provide specific authority to do so. A program had to be structured as the "purchase" of a "troubled asset" from a financial institution. Ultimately, we implemented the program by entering into contracts with mortgage servicers that incentivized those servicers to modify loans.[26]

The operational challenge was that the mortgage servicing industry was not equipped, at the beginning of the crisis and for quite some time thereafter, to implement the program effectively. The industry was structured for high volume, technology-driven payment collections on performing loans, not to work with millions of homeowners to restructure their mortgages.

Mortgage modifications required a case-by-case understanding of a homeowner's situation. The servicers did not have the systems, staffing or knowledge to engage directly with homeowners on a large scale. Moreover, they lacked basic information about their customers, because documentation was limited to begin with (as in the case of "low-doc" loans) or was missing or not transferred on the sale of the loan. Servicers in private securitizations were further constrained by contractual language that required them to maximize returns and did not address the possibility of widespread delinquencies.

We did not realize at the outset just how serious this problem was nor how long it would take the servicers to restructure their operations. As a result, implementation of the program suffered. But it is not clear to us in hindsight that there was a good alternative as long as the program required extensive screening of borrowers, one at a time.

It would have taken even longer for Treasury to build such an operation from scratch. And it is unlikely we could have crafted a solution involving third parties because the servicers had legal responsibilities to the investors.

Looking back, a key question is whether we should have been less discriminating in choosing whom to help, thereby increasing the number of modifications. That is, we could have eliminated upfront documentation and/or not screened applications for owner-occupied status or ability to sustain the modification. That might have intensified the already considerable public opposition to the program growing out of the perception that people were receiving assistance who had not acted "responsibly" or were not "deserving." It might have also led to higher re-default rates and possibly higher losses, but it might have still helped more people. (See also the separate paper on housing.)

[25] Making Home Affordable (MHA) was the name of the collection of programs launched by the Obama Administration to address the housing crisis. HAMP was the largest program within MHA and its largest conduit of TARP funds. Other MHA programs included the Home Affordable Refinancing Program (HARP), which was funded by government-sponsored enterprises (GSEs). See https://www.treasury.gov/press-center/press-releases/Pages/200934145912322.aspx.

[26] Treasury counsel considered the entering into these contracts as a purchase of a financial instrument from a financial institution.

We knew we needed agents to get the money to servicers, and to oversee implementation and ensure consistency. Treasury did not have the resources nor did we believe we could build operations quickly. Therefore, we retained Fannie Mae as financial agent. Its responsibilities were to work with the servicers on implementation and administer the payments. We retained a division of Freddie Mac for compliance. Its job was to ensure that the servicers followed our standards and met their responsibilities to homeowners and to us.

We performed regular compliance reviews and met with the servicers frequently to pressure them to improve procedures and fix problems. In the spring of 2011, we began issuing public "servicer assessments"—simplified scorecards—based on our compliance examinations. This rating system got public attention and may have motivated the servicers to move faster to correct problems. We heard anecdotal evidence that the scorecards drew the attention of the servicers' boards. In retrospect, we probably should have done this sooner.

We also required servicers to establish a single point of contact so that a knowledgeable case manager would guide a homeowner through the application process.

Over time, we relaxed certain program criteria, increasing eligibility and simplifying implementation slightly. For example, documentation standards were reduced, the debt-to-income ratio was relaxed and we broadened eligibility criteria to include non-owner occupied houses, subject to certain limits. However, we had only limited ability to make changes, regardless of what we learned on the ground, due to legislative restrictions. Under EESA, no new programs could be implemented after October 3, 2010. Therefore, any change after that date had to be evaluated to make sure it did not constitute a "new program." This restriction prohibited a variety of changes we considered.

Notwithstanding these problems, HAMP funded more than 2.5 million temporary and 1.7 million permanent modifications. Equally important, the program changed industry practices and set new standards, which contributed to many more private modifications.

Among the other housing assistance programs, the largest was the Hardest Hit Fund, which was simpler to implement. We provided funds to state housing agencies, which helped hardest-hit neighborhoods in ways chosen by the agencies and approved by us.[27] Quality and speed of implementation varied. We performed compliance reviews on the states as well, and worked to get underperforming states to improve.

[27] The state housing agencies were financial institutions and these contracts were considered financial instruments.

III. Managing (and Exiting) One of the World's Largest Investment Portfolios

Only a short time after ramping up the program, a new reality set in: Treasury was responsible for an investment portfolio that exceeded most sovereign wealth and private equity funds. The fact that Treasury held these investments only because of the need to stabilize the financial system shaped how we managed and exited them.

Managing Investments

Use of Third-Party Advisors. Treasury retained third-party advisors to assist in managing almost all the investment programs. They provided industry expertise and experienced staff who could help value and monitor investments on an ongoing basis. They also helped plan and execute disposition strategies. The tasks of advisors varied by program. The CPP and CDCI together involved investments in close to 800 banks, so we needed help in tracking and exiting multiple similar investments. AIG and the auto industry investments, on the other hand, were much larger individually but involved businesses engaged in complex restructurings, and our advisors helped evaluate restructuring strategies and progress. To avoid conflicts in incentives, we sought to retain as advisors firms that would not serve as underwriters or agents for sales of securities.

Transfer Investments to a Separate Entity? We considered whether to transfer investments to a separate entity, such as a newly formed limited liability company that Treasury would own, for purposes of management and disposition. EESA permitted this and some in Congress urged us to do it. Within Treasury, some felt TARP was adversely affecting the ability of the department to focus on other important priorities. We concluded, however, that the disadvantages of such a transfer outweighed any advantages. For one thing, such a transfer would not discharge Treasury from any responsibilities under the law for the management or sale of the investments, and we believed Treasury would retain the blame if poor decisions were made by a third party. Treasury would also still be subject to oversight scrutiny. Moreover, a transfer would likely increase costs to the taxpayer because we would pay greater fees to third parties yet still need to retain a substantial staff to carry out our core responsibilities. Therefore, we decided it was preferable to hire third parties as advisors but to retain decision-making.

Exercising Voting Rights. We had to decide how to exercise voting rights that came with our equity ownership. Treasury's rights were limited because in most investments it purchased preferred stock rather than common, and the preferred had voting rights only in limited circumstances (such as failure to pay dividends). This was by design: Treasury generally did not seek voting rights because our purpose was not to manage the firms. However, Treasury held common stock in some cases as a result of exchanges or restructurings or other events.

In the spring of 2009, the Obama Administration developed a policy based on Treasury's status as a "reluctant shareholder," its holdings arising only as an unfortunate consequence of the financial crisis. It had no interest in ownership interests in private companies over the long term. Its overarching goal was to promote

financial stability and foster economic growth. Therefore, it should not interfere in the management of these companies.

Instead, the government would pursue upfront conditions at the time of investment to ensure that financial assistance promoted financial stability. These conditions might include changes to the board or management. Any voting rights would be exercised only in four areas: election and removal of directors; major corporate transactions; issuance of securities; and amendments to charter and by-laws. This policy was consistently followed. Even when Treasury had a large investment and the company required restructuring, it observed this policy although it interacted more with management. Similarly, while some in Congress and in the public urged us to use our ownership informally to advance other policy goals (such as limits on offshoring or the production of more fuel-efficient cars), we declined.

Finding Directors. We had to find new board directors at some companies, such as AIG, GM and Ally, where we owned voting stock. Because Treasury staff were prohibited by law from serving on outside boards, we chose unaffiliated persons as our nominees. While we were able to recruit highly qualified candidates, there were situations where it would have benefited the program and taxpayer return to nominate a Treasury employee. We did not direct how our nominees voted or acted nor did we request information from them.

The CPP preferred stock gave Treasury the right to designate two directors in the event that a bank did not pay dividends for several quarters. In many cases where banks failed to pay, we worked out arrangements to send observers to board meetings who were Treasury employees. This was a way to have some oversight and input without recruiting a candidate for director, although we retained the right to designate directors.

Refusing to Interfere in Regulatory and Policy Matters. Many companies in which we had investments sought Treasury's help with matters before other agencies, particularly independent regulatory bodies. They assumed that maximizing Treasury's interest as a shareholder was more important to the government than the particular regulatory matter and therefore expected us to intervene on their behalf. We refused, explaining that each agency had to carry out its responsibilities.

Restructurings. Restructuring was planned from the start with the auto investments, and we also restructured some CPP investments as part of our overall strategy for winding down the portfolio. Banks would seek our assistance for a restructuring, or our own monitoring of the investment led us to raise the possibility. This issue posed some policy questions, particularly in the early cases. Do we decide our strategy based solely on the individual restructuring at hand (as a private investor would) and hold out for every dollar we could get? Or does our overall goal of restoring financial stability and getting out of private ownership by attracting private capital into the system generally require thinking about strategy differently? We decided the latter was the right principle, but still sought to maximize return within those parameters. In a few cases, restructurings involved third-party acquisitions in which we were able to exit the investment.

Minority Ownership Issues. We worked with the FDIC and representatives of minority groups to insure that recipients of CPP funds that qualified as Minority Depositary Institutions (MDI) and that were not able to pay back the funds did not lose that

qualification as a result of our disposition of the investment.[28] We are not aware of any cases where MDI status was lost.

Use of Funds. We did not direct or restrict how bank recipients "used" TARP funds, as the capital was fungible with all other capital. But we tracked lending levels. As the economy weakened further, lending continued to contract from the unsustainably high levels that caused the crisis. From 2009, we published monthly reports on the lending levels of each CPP bank participant (by consumer, commercial and other categories). But one oversight agency insisted that we should also know what each bank did with "these" particular funds. We therefore developed a "Uses of Capital" questionnaire requiring banks to check one or more broadly described uses.

Prohibited Trading. The risk existed that a Treasury employee might trade on the basis of inside information obtained from the management of investments, which would have been very damaging to the perception of the program. Our employees were prohibited from holding investments in entities in which Treasury was invested. But how to ensure compliance, beyond just relying on an honor code and standard procedures, including periodic financial disclosures? Once we had a little breathing room from the crisis, we explored building a system to require more sophisticated monitoring and clearance of security trades. But this was too difficult to accomplish quickly. Our solution was to restrict access to nonpublic information as much as possible and to vigorously enforce existing policies. We are not aware of any violations.

Exiting Investments

One of the biggest challenges was exiting investments. While some recipients paid back TARP funds quickly, many did not. We had to decide whether to wait until an issuer could repay—which was difficult to predict—or sell to a third party. Moreover, if the form of the investment was common stock, the issuer had no obligation to repay; we had to sell to a third party (or to the issuer in a negotiated transaction). The form of the investment, as well as the condition of the issuer, thus could affect when and how we exited and whether we recovered 100% of TARP funds. (We recovered significantly more than our investment overall in the bank programs, and less in the auto industry program.)[29]

Repayments, Restructurings and Sales. CPP contracts originally forbade repayments for three years (unless a bank made a qualified equity offering). The Bush team felt it was important that banks not pay back the funds until the financial system had fully recovered. The ARRA legislation overruled this provision and required Treasury to accept repayments regardless of waiting period. Many banks, particularly larger ones, wanted to repay as quickly as possible to avoid the executive compensation restrictions. In addition, being a TARP recipient was seen as a negative and banks did not want the government as an investor.

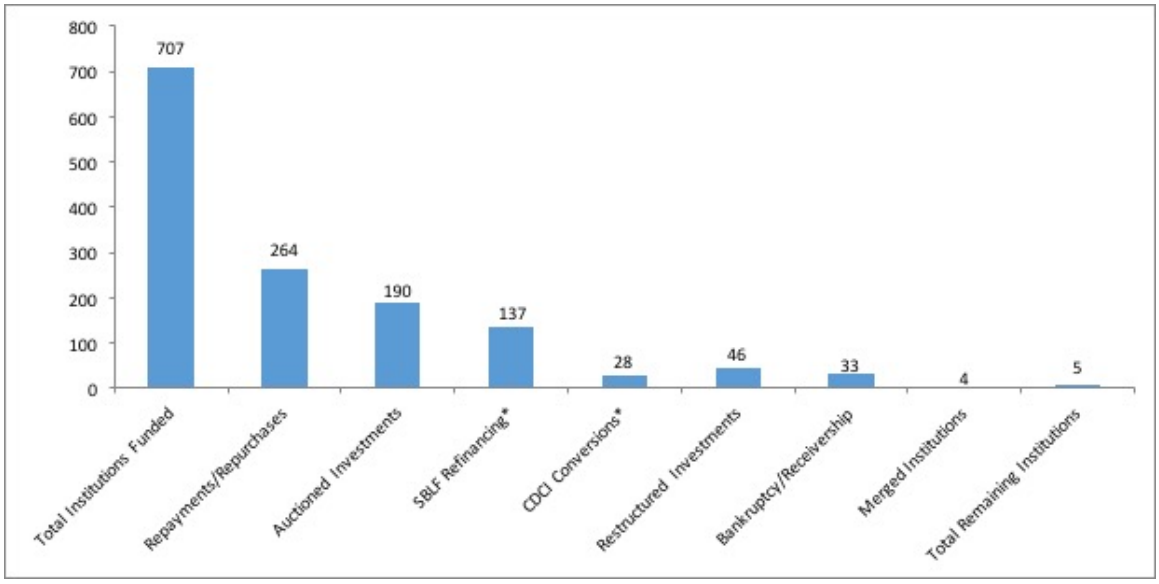
[28] The Financial Institutions Reform, Recovery and Enforcement Act of 1989 "requires Treasury to consult with bank regulators to determine the best methods of preserving and encouraging minority ownership of depository institutions." See www.fdic.gov/news/news/financial/2002/fil0234.html

[29] Infra, note 31.

Banks needed regulatory approval to repay TARP, however, including, in the case of the largest banks, passing the stress tests. We coordinated with the appropriate regulator on whether a bank could repay.

We sold or restructured almost as many CPP investments as there were repayments, when measured by number of banks. (See **Figures 4** and **5**, which show the method of exit in the case of CPP, measured both by dollars recovered and by number of banks.)

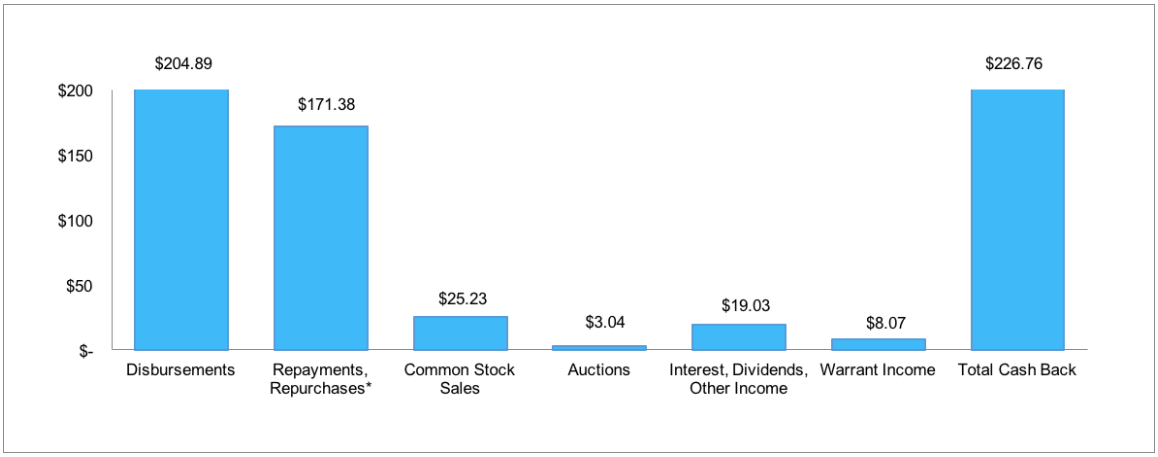
Figure 4: Exit Method by Number of Capital Purchase Program (CPP) Institutions



*137 institutions refinanced from Capital Purchase Program (CPP) to the Small Business Lending Fund (SBLF) representing $2.21 billion. In addition, 28 institutions exchanged their securities from CPP to the Community Development Capital Initiative program totaling $363 million.

Source: Congressional Monthly report.

Figure 5: Exit Method by Dollar Volume—Capital Purchase Program (CPP) ($ billions)



*137 institutions refinanced from Capital Purchase Program (CPP) to the Small Business Lending Fund (SBLF) representing $2.21 billion. In addition, 28 institutions exchanged their securities from CPP to the Community Development Capital Initiative program totaling $363 million.

Common Stock dribble: Citibank and First Bank of Puerto Rico (FBPR).

Note: Final disposition of FBPR ($57.7M in proceeds) on 5/15/2017 was underwritten.

Source: Congressional Monthly Report and Transaction Report.

Determining the strategies to sell these and other investments, including the large stakes in the auto industry, AIG and Citigroup, was the major focus in the third phase. The law required Treasury to maximize returns but otherwise did not specify price, process or timing.

General Exit Principles. Treasury's publicly stated goal was to exit TARP investments as quickly as possible subject to the following principles:

- "Protect taxpayer investments and maximize overall investment returns within competing constraints"
- "Promote financial stability and prevent disruption of financial markets and the economy"
- "Bolster market confidence to increase private capital investments"
- "Dispose of investments as soon as practicable, in a timely and orderly manner that minimizes the impact on the market and economy"[30]

Timing of Exit. With respect to each investment, we had to decide whether the advantages of a more rapid disposition outweighed the potential price discounts (or

[30] OFS 2009 Annual Report at page 47. https://www.treasury.gov/initiatives/financial-stability/reports/Documents/OFS%20AFR%2009.pdf.

adverse consequences to financial stability) that might be realized from exiting too quickly. Our timing decisions were also based on our analysis of each company's health. We did not try to be market timers in the standard sense of that term.

With our advisors, we developed schedules for base case and accelerated exit strategies, and estimated returns on these trajectories on a program-by-program (and often investment-by-investment) basis. These estimates were frequently revised over time, in light of the results of our exit strategies as well as changes in financial markets and company conditions.

Public Offerings, Auctions and Other Exit Strategies. We developed different strategies for sales depending on characteristics of the investments, including, in particular, liquidity. In each case we sought market-driven and/or competitive pricing, so that the process was fair and defensible and to avoid forced selling. Our methods included public offerings, private offerings, at-the-market "dribble out" programs, negotiated repurchases and auctions. As noted earlier, some restructurings also resulted in sales to an acquirer.

Where a public market for an investment existed, we typically chose to sell into that market. For example, we made six public offerings of AIG common stock, the first being a "re-IPO" in light of AIG's absence from the public markets. Two of these offerings included concurrent issuer repurchases at the same price, which we believe were critical to the overall success. Our second-to-last AIG offering constituted the largest equity offering ever done as of that date ($21 billion). The AIG exit was complex because of the company's ongoing restructuring and because we assisted the Federal Reserve on the exit from its additional investments in AIG, the so-called Maiden Lane investments. (See box, "A Time for Dynamite?")

A Time for Dynamite?

We knew getting out of our investment in AIG would be difficult, but we didn't anticipate what would happen on October 22, 2010, when AIG launched the offering to sell AIA, its Asian subsidiary. The Hong Kong underwriters contacted us to get the share certificates, which were pledged to Treasury. They wanted them flown to Hong Kong that Friday night so they could be delivered at the closing early the next week. But the certificates were in a vault at the Bank of New York (BONY), which had already closed for the weekend. The vault was on an automatic timer and would not open again until Monday morning.

"We have to blow the door off the vault," said a Treasury attorney. Others said that was crazy. But how else could we get the certificates to Hong Kong on time?

After much discussion and consultation with the vault manufacturer, BONY officials agreed to blow off the door, provided Treasury would reimburse the cost to repair or replace the vault, whatever it was. That made the Treasury lawyers pause. Even though $18 billion was at stake, no one wanted to sign off on an uncertain expense that was likely to be tens of thousands of dollars. They knew how frugal we were.

They tracked down Tony Salvatore, the OFS director of investment operations, figuring he would take responsibility. Tony was at a hospital in New Jersey because his father-in-law had just suffered a heart attack. His response was understandably terse, and surprisingly negative: "It's too expensive. Tell the Hong Kong people they will have to close on the basis of a pdf copy, and we will deliver the share certificates later." He turned off his Blackberry and went back to his father-in-law.

The lawyers advising Treasury doubted this would work. But they dutifully followed their client's instructions, and after many phone calls, the Hong Kong underwriters agreed. "We just kept telling them, 'we are the U.S. Treasury; you have to trust us on this one.'"

In the end, the deal closed on time, $18 billion was transferred and the certificates arrived a few days later.

The public trading of GM stock had ceased as a result of the company's bankruptcy. We conducted an initial public offering of GM stock, which was the largest IPO at the time. We also negotiated a repurchase by GM of some shares. Chrysler repaid debt and bought back our remaining position in a negotiated transaction. Ally involved private and public offerings. In the case of GM as well as Citigroup, we also established "dribble out" programs where incremental sales were made into the public market at the market price over time. We negotiated for very low underwriting fees by comparison to market standards in all of these transactions.

To dispose of the warrants, which were severable, we created a process under which a company had the option to repurchase them when it repaid TARP funds. We established criteria for determining price to ensure consistency across issuers.

If an issuer could not repay the CPP preferred stock, or repaid but chose not to repurchase the warrants, we established auction platforms in which third parties could bid to purchase the securities. We worked with the bank regulators to ensure that regulatory ownership restrictions were observed.

Avoiding Premature Disclosure of Exit. We did not announce any schedules or plans for the sale of specific investments to the market until we were ready to make a sale (beyond articulating the general exit principles noted earlier). In this way, we sought to minimize the risk that market participants might "front run," or trade against us. This allowed us to retain flexibility when there were different methods for exit. Nevertheless, some of the oversight agencies pressed us to announce our strategies and timetables in advance.[31]

Coordination with Regulators. While we notified bank regulators whenever we planned to sell a bank investment, they did not share confidential supervisory information with us nor offer advice on exit strategies, such as when we should sell or how we should restructure a troubled investment. Although sharing information might have been useful to our decision making, the principle of keeping supervisory information confidential was more important.

Unique Securities Law Challenges. We implemented special procedures to comply with securities laws in dispositions. The concern was not simply whether an offer and sale needed to be registered under the Securities Act, but also was it compliant with the requirement that a selling shareholder not have material nonpublic information. Even though there were potential exceptions to the applicability of that standard in Treasury's case (including defenses based on sovereign immunity), we used our best efforts to make sure Treasury complied.

Before each sale, we implemented a process to confirm that no employee of OFS or officials up the chain, including the Secretary, had any such knowledge. We decided it was not appropriate or necessary, however, to go beyond that—so as to include the Office of the Comptroller of the Currency or the IRS, both of which are independent bureaus within Treasury. We faced a related concern as to whether one of the four agencies overseeing us—the Special Inspector General for TARP (SIGTARP), which was also part of Treasury and obviously closer to TARP—had such information. But SIGTARP was unwilling to share confidential information about its investigations so we made the best decisions we could as to whether a serious probe of a company was pending.

[31] See infra, note 36.

IV. Transparency and Accountability: Financial Controls and Reporting

The desire to maintain high standards of transparency and accountability affected all aspects of our operations. A critical part of achieving that goal was to build and maintain strong accounting and financial reporting systems. In addition, we made it a priority to provide timely and accurate reports about the program and post detailed information on our website.

Building an operation with strong controls was critical given the size of TARP, the discretion afforded Treasury in how to spend the money and the public controversy over the program. Accurate financial statements and credible cost estimates, as well as processes to prevent misappropriation or abuse of funds, were essential to establishing and maintaining public confidence.

We retained an accounting firm to establish and document internal controls for each program as it was built. Accounting and reporting flowed directly from the program documentation. We retained a separate accounting firm to serve as internal auditor to review transactions as soon as they were booked. Although we used Treasury's general ledger system for top-line reporting, we created internal systems (transaction processing and accounting sub-ledgers that held all the material terms of the transactions). This also allowed us to transmit data directly to the cost models discussed below, which was key.

The law required the production of stand-alone financial statements for TARP that were audited by the Government Accountability Office (GAO). Our goal was to achieve unqualified audit opinions on those financial statements with no material weakness, including in the first year. We met that goal in every year.

Estimates as to what would be the fiscal cost of TARP were a flash point in the public debate. For example, the Congressional Budget Office (CBO) estimated in January 2009 a subsidy cost of $64.9 billion, or about 26% of the initial $247 billion in investments. Many thought Treasury would lose even more.[32] EESA required that TARP's cost be calculated in accordance with the Federal Credit Reform Act of 1990 (FCRA), but using a discount rate adjusted to reflect market risk. This rate requirement was highly unusual for FCRA accounting. Moreover, there was no precedent nor any applicable government guidance on how to apply these FCRA requirements to TARP's complex loan and equity investment transactions. There was also not enough time to seek a ruling from the Federal Accounting Standards Advisory Board. We had to build cost models in accordance with FCRA concepts and this rate requirement that could withstand substantial scrutiny from GAO, Office of Management and Budget (OMB) and others.

Given the lack of expertise or precedents in this area, we put together a team that combined people from the public sector (who understood FCRA) and private sector, who understood how to translate the complex transaction agreements into budget (cost) models and accounting records. We developed and revised these models over time.

[32] Congressional Budget Office, The Troubled Assets Relief Program: Report on Transactions Through December 31, 2008 (January 16, 2009). Available at www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/01-16-tarp.pdf.

V. Reporting to Congress and the Public

In addition to our obligation to produce audited financial statements and cost accounting in accordance with FCRA, Treasury was required by EESA to provide several reports to Congress. These reports included notifications of asset purchases within two days, extensively detailed monthly reports on all programs as well as operating expenses, and periodic "tranche" reports providing, among other things, pricing information.

In addition, we produced a publicly available annual report that was more like that of a large corporation than a typical government agency. Besides the audited financial statements, this report contained detailed accounting and cost reporting data as well as an extensive section on management's discussion and analysis. The report won a government-wide award for clear presentation of complex information.[33]

We provided extensive additional reporting and information beyond what was required by law. Our website contained all program documentation forms, all executed program contracts and related documentation, and a list of all contracts entered into with third parties for services (such as law firms and accounting firms) and their material terms. The website also contained a daily TARP Update providing a snapshot of the amounts disbursed and recovered for each program. Anyone could see exactly what had been disbursed to whom for any investment, and the status of repayment or return of such funds. We created an interactive "TARP Tracker" that showed disbursements and collections for each program and contained descriptions and links to program details. We issued annual retrospective reports on the program that provided extensive detail. We produced additional reports on the disposition of warrants. The website lists more than 3,400 reports as of July 1, 2018.

For the housing program, we posted all program-related documentation on the website (including a lengthy MHA Handbook setting forth all relevant requirements and guidance) as well as several periodic reports. These included the quarterly housing compliance scorecards described earlier, a monthly report on HAMP metrics, a monthly report on HAMP servicer activity by area, and reports on the Hardest Hit program. We also made available the HAMP loan-level data files on an anonymous basis.

Although we posted a lot of information about disbursements, collections and cost estimates, there was a great deal of misunderstanding of basic facts. Communicating the *fiscal cost* of TARP, as well as its *value* to the economy, was difficult, and it's probably fair to say we never succeeded.

Many people saw the program simply as a bailout for Wall Street; our explanations that stabilizing the financial system helped, even saved, Main Street did not resonate. And many assumed that the full amount authorized—$700 billion—was spent and was never coming back. (Numerous media stories began with a reference to "the $700 billion bailout.") The reality is that the net cost to taxpayers was just $12 billion after recovering $433 billion of the expected total disbursements of about $445 billion, even including

[33] The Office of Financial Stability was awarded the Certificate of Excellence in Accountability Reporting by the Association of Government Accountants in 2010, 2011 and 2012. See www.treasury.gov/initiatives/financial-stability/reports/Documents/April Monthly Report to Congress.pdf.

the $33 billion for housing assistance that was never intended to be repaid.[34] These fiscal cost numbers, of course, do not take into account the incalculable value of stabilizing the financial system and the economy.

Lesson Learned

We did not create a communications unit within OFS and instead relied on Treasury's public affairs department. The White House also had views about TARP communications. In retrospect, more resources devoted to communications might have been helpful, though we cannot say whether this would have changed the fundamental perceptions of TARP.

VI. An Overdose of Oversight?

TARP was the subject of excessive oversight.

As noted, EESA provided for oversight by four entities: the Congressional Oversight Panel (COP), SIGTARP, the GAO and the Financial Stability Oversight Board (FINSOB).[35] In addition, numerous committees of Congress had extensive oversight roles, including the Senate Banking Committee, House Financial Services Committee and House Oversight and Government Reform Committee, as well as many subcommittees.

We believe strongly that oversight of TARP was essential. It contributed to accountability and transparency and certainly kept us on our toes. But the fact that we were monitored by four agencies, which had largely overlapping responsibilities, created layers of duplication and put enormous demands on our staff. At times, it made implementation of the program more difficult.

The FINSOB, created by EESA, consisted of five senior officials involved in the crisis response, including the Treasury Secretary and the Chairman of the Federal Reserve. It

[34] While achieving a positive return is not necessarily a measure of success, we note the amount here because there was so much confusion about it. The total recovery of $433 billion includes amounts repaid, interest, dividends, gains on sales of warrants and $17.55 billion in proceeds received by Treasury from its additional shares in AIG. Because those AIG shares originally came from the trust created by the Federal Reserve in connection with its initial loan to AIG rather than from a TARP disbursement, the proceeds are not included in official cost estimates for TARP. The most recent CBO estimate, which does not include the proceeds, is a net cost of $32 billion, or essentially the amount spent on the housing programs. Although the authority to obligate funds expired on October 3, 2010, Congress authorized an additional $2 billion in unspent TARP money for the Hardest Hit Fund in December 2015, which is included in these totals.

[35] Secretary Paulson recounted in his book, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (2010), pages 307-08, how the members of Congress with whom he negotiated the legislation all agreed there were too many oversight agencies, but no one wanted to give up a favorite. To get the legislation passed, he reluctantly accepted all of the agencies.

met monthly with OFS leadership to review the program's progress and to provide advice on design and implementation. It did not have its own staff.

COP and SIGTARP were created by EESA specifically for TARP. Both built up significant staffs and operations. COP was required by law to produce one report a month. SIGTARP produced a quarterly report as well as additional reports and audits. COP, SIGTARP and GAO issued a total of more than 160 reports (including audits) on TARP.

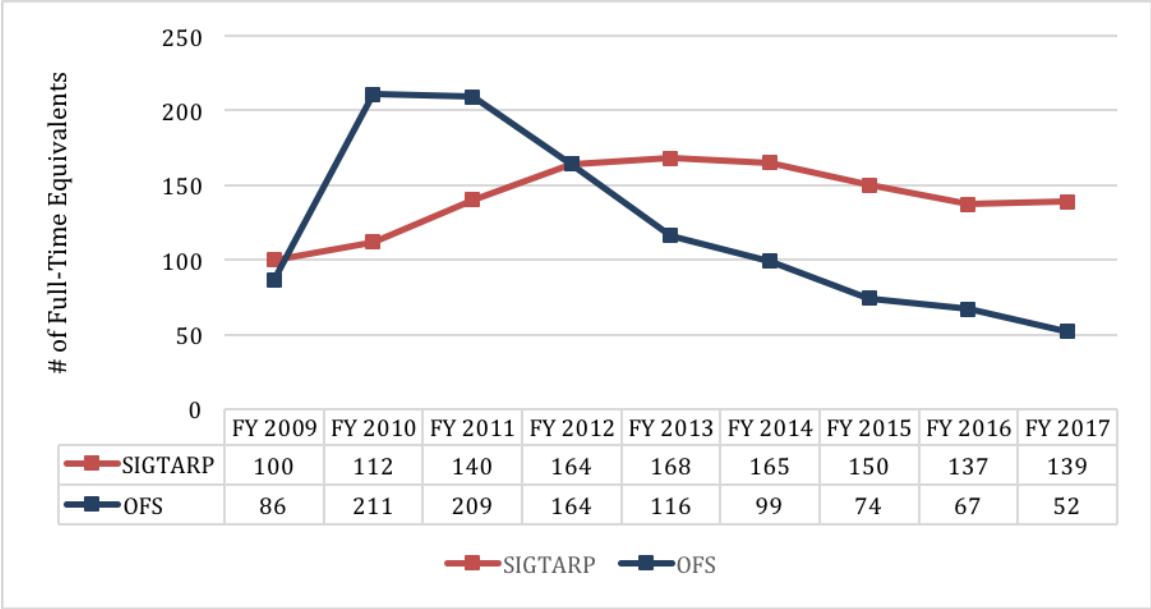
Each of these three entities operated independently and generally did not coordinate their work. They wrote reports on the same subjects and often proposed different and conflicting recommendations. We often disagreed with the merits of those recommendations.[36]

Our staff spent significant time responding to extensive and often duplicative document production and interview requests from the oversight agencies and Congress. And we also had moments of contention. At one point SIGTARP sought to prevent OFS employees whom it wished to interview from bringing a lawyer, if they wanted one. We believed this led to intimidation of our employees that was not constructive.

At times, there were more overseers than employees implementing TARP. Indeed, SIGTARP alone had more full-time equivalent staff than OFS from FY 2012 onward. Even now, SIGTARP has well over 100 employees, while OFS has about 50.

[36] For example, the housing programs were criticized for not reaching more people, yet one of the few specific recommendations made by one oversight agency was that we require notarized signatures and thumbprints of all applicants. That would have surely intimidated some applicants, slowed down administration and resulted in fewer modifications. When it came to exiting investments, some of the oversight agencies called on us to commit to and disclose specific strategies before we struck a deal or made an arrangement to sell. We believed this would have only reduced our flexibility and leverage, thereby likely reducing returns to the taxpayer. We felt public transparency was properly served by disclosure of our general plans followed by specific disclosures once a transaction was agreed to or executed.

Figure 6: Staffing History (Full-Time Equivalents)—OFS and SIGTARP



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
SIGTARP	100	112	140	164	168	165	150	137	139
OFS	86	211	209	164	116	99	74	67	52

Source: President's Budget Appendices.

VII. Conclusion

TARP worked. Its implementation was efficient and nonpartisan. Its fiscal cost was minimal. Its value—by helping prevent another Great Depression—was enormous.

While the circumstances that led to the creation of TARP were deeply regrettable, we have no reservations about declaring its administration a success. There were mistakes and failings—we have noted some and undoubtedly there were others. But in the middle of the worst financial crisis since the Great Depression, a group of people came together to create a program of enormous scale and complexity from scratch. They designed it to operate seamlessly across two Administrations, to be flexible enough to accommodate wide-ranging programs in a rapidly changing economic environment, to be temporary and to protect taxpayers, first by stabilizing the financial system, and then by getting their money back. And they succeeded—in the best tradition of public service.

We close by thanking again the terrific group of people from the public and private sectors with whom we worked. They stepped forward and put in long and hard hours because they wanted to help the country. It was a privilege to work with them. We do not wish to repeat the experience, but we are grateful and proud to have been part of this effort to respond to a national crisis.