UNITED STATES DEPARTMENT OF THE TREASURY
SECTION 105(a) TROUBLED ASSETS RELIEF PROGRAM
REPORT TO CONGRESS
FOR THE PERIOD
JANUARY 1, 2009 TO JANUARY 31, 2009

I. OVERVIEW

In this unprecedented period of market instability, Treasury continues to develop and implement programs under the Troubled Assets Relief Program (TARP) designed to restore liquidity and stability to the U.S. financial system while safeguarding taxpayer interests. As new challenges have arisen, Treasury has responded quickly to adapt to market events and provide support to U.S. financial institutions and automotive companies in order to prevent disruption to the financial markets and restore business and household confidence.

Between January 1, 2009 and January 31, 2009, Treasury invested $17.8 billion in financial institutions across the nation as part of its Capital Purchase Program (CPP), directly infusing capital into healthy, viable banks in order to increase the capacity of these institutions to lend to U.S. businesses and consumers and support the U.S. economy. Since the inception of the CPP in October 2008, Treasury has invested $195.3 billion through the CPP in small and large, regional and national, financial institutions as well as Community Development Financial Institutions, in 45 states and Puerto Rico. To date, the largest investment was $25 billion and the smallest investment was approximately $1 million.

On January 16, 2009, Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) completed a guarantee agreement with Citigroup, Inc. (Citigroup), which was previously announced in November 2008. Under the agreement, Treasury agreed to assume a second-loss position and absorb up to $5 billion of losses on a selected group of mortgage-related assets held by Citigroup. Similarly, Treasury and the FDIC will provide protection to Bank of America Corporation (Bank of America) against the possibility of unusually large losses on an asset pool of approximately $118 billion of loans and securities. This asset pool is backed by residential and commercial real estate and other such assets. Treasury also announced a $4 billion loan to Chrysler Holding LLC (Chrysler) on January 2, 2009, and a $1.5 billion loan to a special purpose entity created by Chrysler Financial Services Americas LLC (Chrysler Financial) on January 16, 2009, as part of a broader program to support the domestic automotive industry in becoming financially viable. The terms of each of these investments require the companies to comply with enhanced restrictions on executive compensation designed to protect taxpayers.

Treasury is committed to implementing the TARP with the highest degree of accountability and transparency possible. In January, Treasury collaborated with bank regulators and CPP participants to develop a survey of the 20 largest participating institutions that will collect and disseminate monthly data on lending and other activities. In addition, the Office of Financial Stability (OFS) will analyze quarterly monitoring data (call reports) and report on the results.

As part of Treasury's effort to keep taxpayers informed about TARP activities, Treasury announced on January 28, 2009, that it will begin posting redacted investment contracts for future transactions on Treasury's web site within five to ten business days of a transaction's

closing. For transactions that have already closed, Treasury will publicly post contracts on a rolling basis until all investment agreements are available on the web site. As of January 31, 2009, 14 investment contracts were available on Treasury's web site. In addition to these actions, the OFS has developed a productive working relationship with TARP oversight bodies including the Government Accountability Office, the TARP Special Inspector General, the Congressional Oversight Panel, and the Financial Stability Oversight Board.

In January 2009, Treasury also announced additional voluntary actions to bolster transparency and ensure that TARP investment decisions are protected from lobbyist influence. For example, under one measure, Treasury will begin certifying to Congress that each TARP investment decision is based solely on objective investment criteria.

Since the passage of the Emergency Economic Stability Act of 2008 (EESA) in October 2008, Treasury has made tremendous strides in developing and implementing programs aimed at restoring liquidity and stability to the U.S. financial system. In furtherance of these programs, the OFS continues to build its infrastructure by hiring highly-qualified staff, developing robust internal controls, and promoting transparency. While many challenges lie ahead, we are confident that these efforts will lay a strong foundation for economic recovery and market stability.

II. REPORTING REQUIREMENTS

This is Treasury's third *Section 105(a) Troubled Assets Relief Program Report to Congress* (TARP Report) required by EESA. Treasury transmitted its second TARP Report to Congress on January 5, 2009, covering activities through December 31, 2008. This TARP Report covers the following activities listed in EESA section 105(a) occurring through the end of January:

- An overview of actions taken by the Secretary, including the considerations required by section 103 and the efforts under section 109.
- The actual obligation and expenditure of the funds provided for administrative expenses by section 118.
- A detailed financial statement with respect to the exercise of authority, including:
  1. all agreements made or renewed;
  2. all insurance contracts entered into pursuant to section 102;
  3. all transactions occurring during the initial 60-day period, including the types of parties involved;
  4. the nature of the assets purchased;
  5. all projected costs and liabilities;
  6. operating expenses, including compensation for financial agents;
  7. the valuation or pricing method used for each transaction; and
  8. a description of the vehicles established to exercise such authority.

III. INDIVIDUAL PROGRAMS AND INITIATIVES

The Capital Purchase Program

The purpose of the Capital Purchase Program (CPP) is to stabilize the financial system by building the capital base of healthy, viable U.S. financial institutions, which in turn will increase the capacity of those institutions to lend to U.S. businesses and consumers and support the U.S. economy. Under this program, Treasury is purchasing senior preferred shares from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. Between January 1, 2009 and January 31, 2009, Treasury purchased $17.8 billion in senior preferred shares from 147 financial institutions under the CPP. Since the launch of the CPP in October 2008 through January 31, 2009, Treasury has invested a total of $195.3 billion in senior preferred shares in 359 financial institutions in 45 states and Puerto Rico. The application deadline for publicly-held institutions was November 14, 2008, and the deadline for applications from eligible privately-held financial institutions was December 8, 2008. On January 14, 2009, Treasury issued a term sheet for S corporations with an application deadline of February 13, 2009. The federal banking regulators are evaluating all submitted CPP applications and continue to send qualifying applications to Treasury for final approval.

Complete details about the Capital Purchase Program are available on Treasury's web site at: http://www.treas.gov/initiatives/eesa/.

The Automotive Industry Financing Program

The objective of the Automotive Industry Financing Program (AIFP) is to prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States. The program requires participating institutions to implement plans that will achieve long-term viability. Participating institutions must also adhere to rigorous executive compensation standards and other measures to protect the taxpayer's interests, including limits on the institution's expenditures and other corporate governance requirements. Guidelines for the AIFP are published on Treasury's web site.

On January 2, 2009, Treasury provided a three-year $4 billion loan to Chrysler under the AIFP. The loan is secured by various collateral, including parts inventory, real estate, and certain equity interests held by Chrysler. The agreement requires Chrysler to submit a restructuring plan to achieve long-term viability for review by the President's designee and provides for acceleration of the loan if those goals are not met. Under the agreement, Chrysler must comply with other binding terms and conditions designed to protect taxpayer funds, including compliance with certain enhanced executive compensation and expense-control requirements. In lieu of warrants, Treasury received a senior unsecured note of Chrysler payable to Treasury in the principal amount of $267 million.

On January 16, 2009, Treasury announced that it will make a loan under the AIFP of up to $1.5 billion to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. The five-year loan is secured by a senior secured interest in a pool of newly originated consumer automotive loans, and Chrysler will serve as a guarantor for certain covenants of Chrysler Financial. Under the agreement, Chrysler Financial must comply with the executive compensation and corporate governance requirements of section 111(b) of EESA, as well as enhanced restrictions on

executive compensation including the need to reduce by 40 percent its bonus pool for Senior Executive Officers and Senior Employees. In lieu of warrants, Treasury received additional notes in an amount equal to 5 percent of the maximum loan amount. The additional notes will vest 20 percent on the closing date and 20 percent on each anniversary of the closing date and will have other terms similar to the loan.

On January 21, 2009, Treasury funded $5.4 billion of a maximum $13.4 billion loan to General Motors Corporation (GM) that was discussed in detail in Treasury's second TARP Report to Congress. Treasury funded $4 billion of this loan on December 31, 2008, and will fund an additional $4 billion on February 17, 2009, subject to GM meeting certain conditions.

The Targeted Investment Program

The Targeted Investment Program (TIP) is designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. Treasury will consider institutions as candidates for the TIP on a case-by-case basis, based on a number of factors described in the program guidelines. These factors include the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy. Program guidelines for the TIP are published on Treasury's web site.

On January 16, 2009, Treasury completed its second transaction under the TIP, investing $20 billion in Bank of America. Under the agreement with Bank of America, Treasury purchased $20 billion of preferred stock and warrants and will receive an 8 percent dividend, payable quarterly. As part of this agreement, Bank of America must implement rigorous executive compensation standards and other restrictions on corporate expenditures. As previously disclosed, Treasury has also invested in Bank of America through the CPP.

The Asset Guarantee Program

The Asset Guarantee Program (AGP) provides guarantees for assets held by systemically significant financial institutions that face a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. The AGP will be applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly. Treasury does not anticipate that the program will be made widely available, and notes that the EESA requires that premiums under section 102 be set to ensure that taxpayers are fully protected. Details on the AGP are available on Treasury's web site.

Treasury completed its first transaction under the AGP on January 16, 2009, when it finalized the terms of a guarantee agreement with Citigroup that was previously announced on November 23, 2008. Under the agreement, Treasury, the Federal Reserve, and the FDIC will provide protection against the possibility of large losses on an asset pool of approximately $301 billion of loans and securities backed by residential and commercial real estate and other such assets, which will

remain on Citigroup's balance sheet. The following loss-sharing protocol will apply: Citigroup will absorb the first $39.5 billion in losses[1]; losses over $39.5 billion are shared by Treasury (90 percent) and Citigroup (10 percent) (the "second loss"). Treasury absorbs the second loss up to $5 billion, the FDIC absorbs the third loss up to $10 billion, and the Federal Reserve funds any residual loss through a non-recourse loan. The guarantee is in place for ten years for residential assets and five years for non-residential assets. As a fee for the guarantee, Citigroup will issue $7 billion of preferred stock with an 8 percent dividend rate; $4 billion will be issued to Treasury and $3 billion to the FDIC. As part of the agreement, Citigroup must submit an executive compensation plan to Treasury and the FDIC for approval and must comply with certain common stock dividend restrictions. As previously announced, Treasury has also invested in Citigroup through the CPP and the TIP.

In addition, Treasury and the FDIC announced that they will provide protection to Bank of America against the possibility of unusually large losses on an asset pool of approximately $118 billion of loans and securities backed by residential and commercial real estate loans, and other trading book assets that have been marked to current market value. The large majority of these assets were assumed by Bank of America as a result of its recent acquisition of Merrill Lynch & Co. The assets will remain on Bank of America's balance sheet. As a fee for this arrangement, Bank of America will issue preferred shares to Treasury and the FDIC. In addition and if necessary, the Federal Reserve is prepared to backstop residual risk in the asset pool through a non-recourse loan. As part of the agreement, Bank of America will be required to submit an executive compensation plan to Treasury and the FDIC for approval and to adhere to certain common stock dividend restrictions. The Bank of America guarantee was announced on January 16, 2009, but has not yet been finalized.

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[1] This represents $29 billion as a "first loss" amount, $9.5 billion in reserves, and $1 billion related to an agreement on hedging procedures.