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GAO

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Highlights

Highlights of GAO-10-531, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

Treasury's Framework for Deciding to Extend TARP Was Sufficient, but Could be Strengthened for Future Decisions

Why GAO Did This Study

The Department of the Treasury's (Treasury) authority to purchase, commit to purchase, or commit to guarantee troubled assets was set to expire on December 31, 2009. This important authority has allowed Treasury to undertake a number of programs to help stabilize the financial system. In December 2009, the Secretary of the Treasury extended the authority to October 3, 2010. In our October 2009 report on the Troubled Asset Relief Program (TARP), GAO suggested as part of a framework for decision making that Treasury should coordinate with relevant federal agencies, communicate with Congress and the public, and link the decisions related to the next phase of the TARP program to quantitative analysis. This report discusses (1) the process Treasury used to decide to extend TARP and the extent of coordination with relevant agencies and (2) the analytical framework and quantitative indicators Treasury used to decide to extend TARP. To meet the report objectives, GAO reviewed key documents related to the decision to extend TARP, interviewed agency officials and analyzed financial data.

What GAO Recommends

GAO recommends that the Secretary of the Treasury (1) formalize coordination with FDIC for future TARP decisions and (2) improve the transparency and analytical basis for TARP program decisions. Treasury generally agreed with our recommendations.

View GAO-10-531 or key components.

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What GAO Found

The extension of TARP involved winding down programs while extending others, transforming the program to one focused primarily on preserving homeownership, and improving financial conditions for small banks and businesses. While the extension of TARP was solely the Treasury's decision, it was taken after significant deliberation and involved interagency coordination. Although sufficient for the decision to extend, the extent of coordination could be enhanced and formalized for any upcoming decisions that would benefit from interagency collaboration, especially with FDIC.

Treasury considered a number qualitative and quantitative factors for key decisions associated with the TARP extension (see table). Important factors considered for the extension of new commitments centered on ongoing weaknesses in key areas of the economy. Treasury underscored that while analysis was possible on the needs or success of individual programs, the fragile state of the economy and remaining downside risks were difficult to know with certainty. Considering this uncertainty, Treasury wanted to extend TARP through October 2010 in order to retain resources to respond to financial instability. Going forward, Treasury could strengthen its current analytical framework by identifying clear objectives for small business programs and providing explicit linkages between TARP program decisions and the quantitative analysis or indicators used to motivate those decisions.

Status of select TARP Programs and Key Factors Driving Treasury's Decisions

Program type	Treasury's decision	Key factor driving Treasury's decision	Key indicators identified by Treasury
Mortgage modification	Program extended, $10 billion available for new commitments	Weakness in housing market and recent implementation of the program	Foreclosures, delinquencies, trial and permanent mortgage modifications, and housing prices
Small business lending	Programs extended, $32 billion available for new commitments	Contraction in bank lending and multiple indicators pointing to tight conditions for small business credit	Business and commercial real estate loans, Senior Loan Officer Opinion Survey, and Small Business Economic Trends
Bank capital	Programs closed	Banks' ability to raise capital on private markets	Common equity issuance
Asset-backed security (ABS) markets	Program closed	Recovery in ABS markets	ABS pricing spreads, program utilization, and ABS issuances
Legacy ("troubled") assets	Program closed	Recovery of mortgage-related securities	Prices and spreads for certain mortgage-related securities

Source: GAO analysis of Treasury documents and interviews.