1-7-2009

UNITED STATES DEPARTMENT OF THE TREASURY FOURTH TRANCHE REPORT TO CONGRESS (JANUARY 7, 2009)

U. S. Department of the Treasury

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I. INTRODUCTION

This *Fourth Tranche Report to Congress* meets the requirement for reporting at the $250 billion commitment level under section 105(b) of the Emergency Economic Stabilization Act of 2008 (EESA). The recent transactions under the newly established Automotive Industry Financing Program and Targeted Investment Program, when combined with $187.5 billion of transactions under the Capital Purchase Program and the $40 billion transaction under the program for Systemically Significant Failing Institutions, bring the total amount of transactions to $266.9 billion. Treasury will submit the next report when transaction levels reach the $300 billion level.

The Report addresses the following six areas:

- A description of all the transactions made during the reporting period.
- A description of the pricing mechanism for the transactions.
- A justification of the price paid for, and other financial terms associated with, the transactions.
- A description of the impact of the exercise of such authority on the financial system.
- A description of the challenges that remain in the financial system, including any benchmarks yet to be achieved.
- An estimate of additional actions under the authority provided pursuant to the EESA that may be necessary to address such challenges.

II. TRANSACTION INFORMATION BY PROGRAM

This *Fourth Tranche Report* discusses transactions under three programs: the Capital Purchase Program (CPP), the Automotive Industry Financing Program (AIFP), and the Targeted Investment Program (TIP). Since the last tranche report, submitted to Congress on December 2, 2008, Treasury has closed $65.4 billion in transactions under these three programs. A report listing all transactions under the Troubled Asset Relief Program is attached as Appendix 1, and has been posted on our web site.

Capital Purchase Program

Treasury continues to invest funds in financial institutions across the United States through the CPP, in order to build these institutions' capital base and increase their capacity to lend to businesses and consumers. Since the last tranche report, Treasury has closed $26 billion in transactions under the CPP, bringing the total amount of funds disbursed under the CPP to $177.54 billion, with an additional $10 billion scheduled to settle at a later date. Treasury has completed CPP transactions with 215 United States financial institutions and Community Development Financial Institutions in over 40 states and Puerto Rico.

Under the CPP, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms. The Program is available to qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies engaged solely or predominately in financial activities permitted under the relevant law. We reported in detail on the CPP in Treasury's *First Tranche Report to Congress* and *Second Tranche Report to Congress*, and provided an update in Treasury's *Third Tranche Report to Congress*, and there have been no changes to the purpose or use of the CPP since the submission of these reports.

Automotive Industry Financing Program

Treasury announced a new program in December, the AIFP, 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. Between December 29 and January 2, Treasury committed to provide $19.4 billion in TARP funds under this program, with an additional $4 billion subject to certain conditions.

On December 29, 2008, Treasury purchased $5 billion of senior preferred equity with an 8% annual distribution right from GMAC LLC (GMAC) through the AIFP. Under the agreement, GMAC issued warrants to Treasury to purchase, for a nominal price, additional preferred equity in an amount equal to 5% of the preferred equity purchased. These warrants were exercised at closing of the investment transaction. The additional preferred equity provides for a 9% annual distribution right. Additionally, Treasury committed to lend up to $1 billion of TARP funds to GM so that GM can participate in a rights offering by GMAC in support of GMAC's reorganization as a bank holding company. The rights offering is expected to close, and the loan to GM is expected to be funded, on January 16, 2009. The loan will be secured by GMAC equity interests owned by GM and those being acquired by GM in the rights offering, and it will be exchangeable at any time, at Treasury's option, for the GMAC equity interests being acquired by GM in the rights offering. The ultimate level of funding under this facility will depend upon the level of current investor participation in GMAC's rights offering.

Treasury completed an additional transaction with GM on December 31. Under the GM agreement, Treasury will provide GM with up to a total of $13.4 billion in a three-year loan from the TARP, secured by various collateral. Treasury funded $4 billion of this loan immediately, and committed to fund an additional $5.4 billion on January 16, 2009. Treasury will provide an additional $4 billion on February 17, 2009, subject to certain conditions. To protect taxpayers, the agreement requires GM to develop and implement a restructuring plan to achieve long-term financial viability. The restructuring plan is to be reviewed by a designee of the President, who will determine whether the goals of the restructuring have been met. If the President's Designee does not find that the goals have been met, the loan will be automatically accelerated and will come due 30 days thereafter. This agreement also includes other binding terms and conditions designed to protect taxpayer funds, including compliance with certain enhanced executive compensation and expense control requirements. Furthermore, Treasury received a warrant for shares of GM common stock and an additional senior unsecured note in the principal amount of $748.6 million.

On January 2, 2009, Treasury provided a three-year $4 billion loan to Chrysler Holding LLC (Chrysler) under the new AIFP. The loan is secured by various collateral, including parts inventory, real estate, and certain equity interests held by Chrysler. Like the GM agreement, this 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. The agreement includes other binding terms and conditions designed to protect taxpayer funds, including compliance with certain enhanced executive compensation and expense-control requirements. Furthermore, Treasury received a senior unsecured note of Chrysler payable to Treasury in the principal amount of $267 million.

Targeted Investment Program

Treasury also announced the Targeted Investment Program (TIP) in December. The 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. Institutions will be considered for this program 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 were published on Treasury's web site on January 2, as required by section 101(d) of the EESA.

Treasury completed the first transaction under the TIP on December 31, 2008, when it invested $20 billion in Citigroup perpetual preferred stock and warrants. Under the agreement with Citigroup, Treasury will receive an 8% annual dividend, payable quarterly. As part of this agreement, Citigroup must implement rigorous executive compensation standards and other restrictions on corporate expenditures. As previously disclosed on October 28, 2008, Treasury invested $25 billion in Citigroup through the CPP.

III. ASSESSMENT OF CURRENT MEASURES AND THE CHALLENGES AHEAD

Impact of the Transactions

The measures Treasury has taken under EESA have been part of a comprehensive strategy to stabilize the financial system and housing markets, and strengthen our financial institutions. The strategy is working. Treasury's actions, in concert with the work of other regulators, has stemmed a series of financial institution failures and made the financial system fundamentally more stable than it was when Congress passed EESA.

Treasury is monitoring the effects our strategy is having on lending and is working with banking regulators to develop appropriate ways of measuring these effects. Through the CPP, Treasury has moved rapidly to move capital into the system, with funds placed in large and small institutions in over 40 states and Puerto Rico. By injecting capital into healthy banks, the CPP has helped banks maintain strong balance sheets and eased the pressure on them to scale back their lending and investment activities while enabling greater lending capacity. We are still at a point of low confidence, due to the financial crisis and the economic downturn. As long as confidence remains low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, Treasury expects to see more credit demanded and extended.

Treasury's investment in GM, GMAC, and Chrysler prevented significant disruption to the economy, while putting the companies on a path to the major restructuring necessary to achieve long-term viability. GM and Chrysler had issued a substantial amount of debt that is widely distributed throughout the global financial system. A disorderly bankruptcy filing by GM and Chrysler would have called into question not only this debt, but also debt issued by other automotive companies. Potential losses on this debt would have impacted financial institutions, which are already suffering losses in this credit environment. In addition, GM and Chrysler employ over 150,000 people in 48 states, and provide healthcare and pension benefits for a large number of people. A disorderly bankruptcy could have negatively affected these individuals, as well as ancillary businesses such as auto dealers, part suppliers, and service providers.

Treasury's investment in Citigroup was necessary to prevent a significant adverse effect on U.S. and global financial markets. Citigroup is one of the nation's largest financial institutions, providing commercial and retail banking services and other financial services in the United States and internationally. The company has some 200 million customer accounts and does business in more than 100 countries. At the end of the third quarter of 2008, Citigroup had assets of $2.05 trillion, making it the second largest banking organization in the United States in terms of assets. In an environment of high volatility and severe financial market strains, the loss of confidence in a major financial institution could result in significant market disruptions and threaten the financial strength of similarly situated financial institutions and thus broader financial markets and pose a threat to the overall economy. Treasury's investment in Citigroup provided additional liquidity and has helped restore confidence in that institution.

Challenges That Lie Ahead

Treasury is actively engaged in developing additional programs to strengthen our financial system so that credit flows to our communities. We have made significant progress, but recognize there is no single action the federal government can take to end the financial market turmoil and the economic downturn. Treasury is confident that it is pursuing the right strategy to stabilize the financial system and support the flow of credit into the U.S. economy.

As a result of Treasury's decision to support GM, GMAC, and Chrysler, Treasury has effectively allocated the first $350 billion from the TARP. The actual disbursement of allocated but undisbursed funds is subject, in the case of the CPP, to approval of bank capital applications, many of which remain with the regulators and will not reach Treasury for review for some weeks, and to closing of CPP transactions, which in turn remain subject to documentation, shareholder approvals in certain cases, and other closing procedures. Further, disbursement is also subject to finalizing the structure of the Federal Reserve-Treasury consumer credit program (TALF), which we discussed in the *Third Tranche Report to Congress*. In the very short term, the allocated but not yet disbursed TARP balances, in conjunction with the powers of the Federal Reserve and the FDIC, are likely to provide the necessary resources to address a significant financial market event. Treasury believes, however, that the remainder of the TARP funds will be needed to support financial market stability.