Introduction

In the fall of 2008, our economy faced challenges on a scale not seen since the Great Depression. The crisis was caused by many factors. Among them were an unsustainable housing boom fueled in part by the easy availability of mortgages, financial institutions taking on too much risk, and the rapid growth of the nation’s financial system with regulations that were designed for a different era. Forces built up over many years until the crisis reached its apex in September of 2008.

In the span of a few weeks, many of our nation’s largest financial institutions failed or were forced to merge to avoid insolvency. Capital markets—essential for helping families and businesses meet their everyday financing needs—were freezing up, dramatically reducing the availability of credit, such as student, auto, and small business loans. Market participants, consumers, and investors were rapidly losing trust in the stability of America’s financial system. Faced with this reality, the federal government moved with overwhelming speed and force to stem the panic.

The first series of actions, including broad-based guarantees of bank accounts, money market funds and liquidity by the Federal Reserve, were not enough. Realizing that additional tools were needed to address a rapidly deteriorating situation, the Bush Administration proposed the law creating the Troubled Asset Relief Program (TARP). That measure, which was passed by Congress with bipartisan support, was signed into law by President Bush on October 3, 2008. Some of the programs under TARP were implemented by the Bush Administration. The Obama Administration continued these and added others, utilizing its authority under TARP to keep credit flowing to consumers and businesses, help struggling homeowners avoid foreclosure, and prevent the collapse of the American automotive industry, which alone is estimated to have saved one million jobs.

But putting out the fires of the crisis was not enough. To address the underlying causes of the crisis, we had to modernize our regulatory framework and put powerful consumer financial protections in place. That is why President Obama took up the mantle of financial reform by championing and enacting the Dodd-Frank Wall Street Reform and Consumer Protection Act. Americans now have a dedicated consumer financial protection watchdog, financial markets are more transparent, and the government has more tools to monitor risk, and resolve firms whose failure could threaten the entire financial system.

As we approach the five-year anniversary of the height of the crisis, the financial system is safer, stronger, and more resilient than it was beforehand. We are still living with the broader economic consequences, and we still have more work to do to repair the damage. But without the government's forceful response, that damage would have been far worse and the ultimate cost to repair the damage would have been far higher.

The financial crisis reminds us that we must remain vigilant to emerging risks in the system. The financial system is dynamic and firms are innovative. And as sources of risk change, regulation and oversight must keep pace.
A BRIEF HISTORY OF THE Financial Crisis
The financial crisis triggered the worst recession since the Great Depression, which ultimately destroyed almost 9 million jobs and shrank the economy by hundreds of billions of dollars. The crisis was caused by, among other things, an unsustainable housing boom as shown below. The severity of the crisis is also illustrated by the rapid increase in corporate bond spreads in the fall of 2008 as well as the dramatic fall in household net worth.
While unemployment has declined to 7.3 percent from its October 2009 peak of 10 percent, it is still too high, and long-term unemployment remains a concern.

Business lending has increased by 21 percent since Wall Street Reform was enacted in July 2010.

Household wealth has grown since the recession, but has further to go before reaching pre-crisis levels.

The federal budget deficit rose as a result of the recession, but since then it has fallen at the fastest pace in 60 years and is projected to continue falling under the President’s Budget.

* SEE NOTES.
SOURCE: FEDERAL RESERVE, TREASURY, CBO.
THE GOVERNMENT'S
Crisis Response
The Crisis Response: Overview of the Government Response

Federal Reserve financing programs
- Asset-backed commercial paper money-market mutual fund liquidity facility
- Commercial paper funding facility
- Currency swap lines with international central banks
- Money-market investor funding facility
- Primary dealer credit facility
- Term auction facility
- Term securities lending facility

Large bank stress tests

TARP bank investment programs
- Capital Assistance Program (CAP)
- Capital Purchase Program (CPP)
- Community Development Capital Initiative (CDCI)
- Asset Guarantee Program (AGP)
- Targeted Investment Program (TIP)

Recovery Act

TALF credit market program

FDIC bank debt insurance program (TLGP)

TARP auto industry programs
- GM/Chrysler restructurings
- Auto supplier support program
- Auto warranty commitment program

FDIC deposit insurance limit increase to $250,000

Treasury money market fund guarantee program

AIG stabilization effort

We tackled the financial crisis on several different fronts, supporting many facets of the economy so as to prevent further declines and restart growth.

WHAT DID IT SUPPORT?

Small Business
- Helped support companies that need credit to hire and grow.

Autos
- Helped support a crucial manufacturing industry and save American jobs.

Financial Markets
- Helped restart markets that provide credit to consumers and businesses.

Consumers
- Helped support families that need auto, credit card, and student loans.

Retirement
- Helped protect savers with 401(k) plans, money market funds, and other investments.

Housing
- Helped support Americans seeking to obtain or refinance a mortgage, or avoid foreclosure.

Fannie Mae/Freddie Mac stabilization effort

Foreclosure-prevention and refinancing initiatives
- Making Home Affordable (MHA)
- Home Affordable Modification Program (HAMP)
- Home Affordable Refinance Program (HARP)
- Other federal loan modification programs
- Hardest Hit Fund
- Neighborhood Stabilization Program

Legacy Securities Public-Private Investment Program (PPIP)

Small Business Administration 7(a) lending program, Small Business Lending Fund (SBLF), State Small Business Credit Initiative (SSBCI)

Treasury mortgage-backed securities purchase program
TARP bank investment programs helped stabilize the financial system by providing capital to more than 700 banks throughout the country so they would continue supporting local economies with credit and investment. Today, banks have paid back 99 percent of the funds Treasury invested, and Treasury has already realized a gain from dividends, warrants, and other income. And whereas banks participating in TARP once held more than 98 percent of all U.S. banking assets, now that number is less than one percent.

At the peak of the crisis, banks participating in TARP held more than 98 percent of the assets of all banks in the country. Today, that number is less than one percent.

2009: 98.6%
2013: 0.8%

* TARP COLLECTIONS INCLUDE $2 BILLION FROM LOANS REFINANCED UNDER SBLF. SEE NOTES.
SOURCE: TREASURY.
The crisis response saved the auto industry and more than one million American jobs. According to independent estimates, the rescue of the auto industry saved more than one million jobs in the United States. And since the rescue, the auto industry has added more than 300,000 jobs. While the auto industry rescue is currently estimated to cost about $15 billion*, the cost of a disorderly liquidation to families and businesses across the country that rely on the auto industry would have been far higher.

* SEE NOTES FOR SLIDE 22.
SOURCE: BUREAU OF ECONOMIC ANALYSIS, BUREAU OF LABOR STATISTICS.
The crisis response helped stabilize the housing market. Beginning in February 2009, the Obama Administration took several steps to strengthen the housing market and help struggling homeowners avoid foreclosure. Additional assistance was provided to the hardest hit areas of the country, allowing those states to implement programs that meet their needs.

While there is still more work to do, these initiatives have directly and indirectly helped millions of homeowners avoid foreclosure. Moreover, considering that the mortgage industry was ill-equipped to respond adequately to the crisis, the Administration’s housing initiatives have also set new industry standards and introduced important consumer protections for homeowners.

Since April 2009, there have been almost 7 million permanent loan modifications and other homeowner assistance actions between private and public sources, twice the number of foreclosure completions.

The Home Affordable Refinance Program (HARP) has to date helped more than 2.7 million families refinance underwater mortgages and lower their monthly payments.

SOURCE: TREASURY.
The crisis response included numerous measures intended to keep credit flowing so small businesses could hire workers and make new investments necessary to grow. While there is still more work to do, borrowing costs for businesses have declined and the volume of small business lending has increased.

**Small Business Lending Fund**
To provide capital and incentivize small banks and community development loan funds to increase lending to small businesses.

**TARP Bank Investments**
To provide capital to more than 700 banks, including community development financial institutions, in order to support lending to small businesses and underserved communities.

**State Small Business Credit Initiative**
To fund state programs that provide credit support to private sector lending and investment in small business.

**Expanded FDIC Deposit Insurance**
To stabilize banks and help maintain confidence in the financial system, the Federal Deposit Insurance Corporation temporarily eliminated coverage limits on noninterest-bearing transaction accounts.

**Auto Supplier Support Program and Auto Warranty Commitment Program**
To support small auto parts makers and other vendors with TARP funds, saving thousands of jobs.

**SBA 7(a) Securities Purchase Program**
To facilitate the recovery of the market for small business loans, which finance a wide range of needs, including working capital, machinery, equipment, furniture, and fixtures.

**Temporary Liquidity Guarantee Program (TLGP)**
To decrease the cost of bank funding, including small banks, and to encourage liquidity in the banking system.

**Small Business Tax Cuts and Incentives**
Since 2009, 18 small business tax cuts have been signed into law, including expanded capital investment expensing, accelerated depreciation, and an increased deduction for start-up costs.

* DOES NOT INCLUDE FUNDS TO BANKS REFINANCED INTO CDCI OR SBLF.
SOURCE: TREASURY.
REFORMING Wall Street AND PROTECTING Main Street
Wall Street Reform: Overview

The financial crisis laid bare the vulnerability of our financial system on a scale not seen in generations. It exposed fragmented and antiquated regulations that allowed large parts of our economy to operate with little or no oversight, including some irresponsible lenders, who used hidden fees and fine print to take advantage of consumers.

Wall Street Reform has changed that. In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, establishing new rules of the road that make our financial system safer for consumers, investors, and other market participants. Since then, we have completed or made significant progress implementing reforms that address each of the tenets of the law outlined in its preamble.

We are...

- **Improving accountability and transparency**
  - ✔️

- **Ending “too big to fail”**
  - ✔️

- **Ending taxpayer bailouts**
  - ✔️

- **Protecting consumers**
  - ✔️

### Dodd-Frank Rule Making Progress on Passed Deadlines

- **77%** Proposed or finalized
- **23%** Not proposed

Deadlines before Sep. 3, 2013

SEE NOTES.
Wall Street Reform puts large financial firms and markets that once operated outside of federal oversight under greater scrutiny, establishes new ways to identify potential threats to the financial system, and creates new tools to wind down large financial firms so that taxpayers do not bear the burden of the firms’ mistakes.

Before the passage of Wall Street Reform, there was federal oversight primarily of traditional banks. Other types of nonbank financial institutions, even if very large, received little or no consolidated federal supervision. Wall Street Reform created the means to make sure that other large financial firms do not threaten the safety of our entire financial system, as they did in 2008.

Financial Stability Oversight Council (FSOC)
- Established as a central forum for senior government officials to identify risks and monitor developments in the financial markets.
- Although the FSOC is required to convene only four times per year, the FSOC has met more than 30 times since its creation in July 2010.
- Designated financial market utilities and nonbank financial companies for heightened federal oversight.

Office of Financial Research (OFR)
- Supports the work of the FSOC, and its director serves as one of its members.
- Identifies and monitors emerging risks in the financial system.
- Fills gaps in financial data and addresses deficiencies in our understanding of the financial system that were revealed by the financial crisis.
Wall Street Reform is ending the notion that any firm is too big to fail. Large financial firms must now have plans in place for how they could be resolved in an orderly manner in the event of their failure. In addition, regulators now have new tools to better monitor the system and to wind down firms whose failure could threaten the larger economy.

**Stress Tests and Higher Capital**
- Requires the Federal Reserve to conduct annual reviews of the nation’s largest banks to assess their ability to weather a severe financial storm.
- Helps maintain investor confidence and encourages the flow of private capital into the banking system.
- Higher capital levels for financial institutions required.

**Living Wills**
- Provide a blueprint for the bankruptcy of large financial institutions so that these firms and their regulators can make informed decisions in the event of serious financial distress or failure.
- As of today, fifteen of the largest U.S. and foreign financial firms have submitted living wills to the Federal Reserve and FDIC.
- More than 100 additional firms are expected to submit plans by the end of this year.

**Resolution**
- Orderly liquidation authority gives regulators legal tools for winding down large financial firms that are similar to the ones they have long used to wind down traditional banks in order to:
  - Prevent serious adverse effects on financial stability in the United States.
  - Prevent taxpayers from ultimately bearing the losses.
In the wake of the financial crisis, senior unsecured borrowing costs for large bank holding companies have risen more than for smaller, regional bank holding companies. If investors perceive large bank holding companies as “too big to fail,” we would expect these borrowing costs to be low and vary little by the size of the institution or its activities, as was the case before the crisis. But today, senior unsecured borrowing costs have increased significantly for the largest, most complex institutions, especially relative to smaller institutions.

Large and Regional U.S. Bank Holding Company Five-Year Funding Spreads
Spreads over Treasury Yields

Since 2006, five-year funding spreads have risen more for larger institutions than for smaller ones.

SOURCE: TREASURY ANALYSIS...
Consumers are empowered to make more informed financial choices because of Wall Street Reform. The new Consumer Financial Protection Bureau (CFPB): 1) helps make consumer financial products clearer and more understandable, 2) makes it easier for homebuyers to choose a mortgage that is right for them, and 3) will now supervise consumer financial products and services that once operated outside of federal oversight.

Protecting Consumers from Irresponsible Mortgage Lending

The CFPB finalized rules requiring lenders to ensure prospective buyers have the ability to repay their mortgage...

- Financial information has to be supplied and verified.
- A borrower has to have sufficient assets or income to pay back the loan.
- Teaser rates can no longer mask the true cost of a mortgage.

...and protects borrowers from risky lending practices (Qualified Mortgages).

- No excess upfront points and fees.
- No toxic loan features.
- Cap on how much income can go toward debt.

New student loan assessment tools

- A "Financial Aid Shopping Sheet" that helps students and their families evaluate the cost of college.
- Already adopted by 750 colleges representing millions of students and families.

Holding Mortgage Servicers Accountable

The CFPB put in place rules that will require servicers to:

- Provide borrowers with clear monthly statements.
- Give borrowers earlier warnings about adjustments in interest rates.
- Inform struggling borrowers about mortgage modifications and other foreclosure alternatives.

CFPB By the Numbers
As of August 7, 2013

$432 Million: Amount of money refunded as a result of CFPB enforcement actions to consumers who had been subjected to deceptive practices.

200 Million: Number of consumers who have files at the major consumer reporting agencies, which are now subject to federal supervision for the first time.

30 Million: Number of consumers currently subject to debt collection agencies, which are now subject to federal supervision for the first time.

12 Million: Number of consumers who use loans from payday lenders, which are now subject to federal supervision for the first time.

2 Million: Number of households for which nonbanks originated mortgage loans in 2011 and which are now subject to federal supervision for the first time.
Progress AND Cost
Our financial system is safer and stronger since the crisis, and business conditions are rapidly improving, although we need faster economic growth.

Our banks have added nearly $450 billion* of capital over the last four years to:

- Cushion against unexpected losses.
- Support lending to consumers and businesses.
- Reduce overall leverage in the banking system.

The Tier 1 capital ratio, a measure of the amount of safe, high-quality capital in the financial system, is up significantly from its pre-crisis lows. Tier 1 capital serves as a basic measure of a financial institution’s strength and ability to absorb losses.

Short-term wholesale funding, a less stable source of funding, is down. Short-term wholesale funding is funding with a maturity of less than one year that financial institutions, including banks, rely upon to finance their operations and assets. The source of this funding is typically other institutions and its form varies, including interbank lending, brokered deposits, repurchase agreements, and commercial paper.

* SEE NOTES
SOURCE: FDIC, FEDERAL RESERVE, BUREAU OF ECONOMIC ANALYSIS
The cost of the financial crisis is properly measured by its human impact: the jobs lost, the wealth destroyed, and the hardship that fell upon millions of American families.

From the very beginning, the primary purpose of the government’s response was to arrest the economy’s free fall and limit the recession’s devastation—not to make money.

Nevertheless, five years after TARP was enacted, we have a clearer sense of its ultimate fiscal impact. To date, cumulative collections under TARP, including all of Treasury’s proceeds from AIG, have exceeded total disbursements. And the projected lifetime cost of TARP alone has fallen significantly since the depths of the crisis.

Both disbursements and cash back include $2.21 billion in CPP investments in 137 institutions that were refinanced under the Small Business Lending Fund (SBLF). Congress created the SBLF outside of TARP and required Treasury to let CPP institutions repay TARP funds by borrowing under that program.

See notes for further details.

SOURCE: TREASURY, OMB.
Progress and Cost: AIG

The crisis response helped prevent the collapse of the financial system and stabilized AIG. In the fall of 2008, one of the most difficult decisions faced by the government was whether to provide assistance to AIG. The government concluded that the consequences of a company of AIG’s size and scope failing at that time, in those circumstances would have been catastrophic for American families and businesses. Therefore, Treasury and the Federal Reserve provided assistance. Today, the government no longer holds any residual interest in AIG and taxpayers have earned nearly $23 billion in positive returns from the assistance provided to the company. The government also now has powers it did not have before to prevent a similar financial firm from posing such catastrophic risks to our economy.

Max. Combined Commitment: $182.3B

Recoveries to Date As of March 2013:

- Repayments to Federal Reserve and Treasury, and Reduced or Canceled Commitments to Date: $182.3B
- Positive Return to Taxpayers: $22.7B

SEE AIG NOTES TO SLIDE 22 FOR FURTHER DETAILS.
The government will likely earn a significant profit on the financial crisis response.

The federal government’s crisis response was designed to stop the panic and stabilize the financial system with a series of measures, including government guarantees, emergency financial programs, and capital investments. It succeeded in doing so.

Estimates of the potential losses at the time exceeded $1 trillion dollars. By mid-2013, with most of the emergency programs wound down and most of the funds disbursed under the Troubled Asset Relief Program (TARP) recovered, we can more realistically measure the potential losses and gains on the overall effort.

This chart shows current budget estimates for most of the financial stability programs. The methodology and source of the various estimates is described in the attached notes. Any estimate of potential loss or gain carries significant uncertainty. This is particularly true for the auto program because we have not completed the wind down of these investments, and it is true for the housing programs because they will continue to provide assistance to homeowners for the next few years. The other programs are closed or have few assets remaining.

This chart does not include excess earnings from the Federal Reserve or any cost or gain related to the conservatorship of Fannie Mae and Freddie Mac. It also does not include figures related to the Recovery Act or tax revenues lost from the crisis.

<table>
<thead>
<tr>
<th>Treasury and Federal Reserve Programs*</th>
<th>Estimated Losses/Gains</th>
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</thead>
<tbody>
<tr>
<td>TARP Bank Investments</td>
<td>+$24B</td>
</tr>
<tr>
<td>AIG (Fed &amp; Treasury Commitments)</td>
<td>+$23B</td>
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<tr>
<td>Fed Emergency Credit &amp; Liquidity Programs</td>
<td>+$19B</td>
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<tr>
<td>Treasury MBS Purchases</td>
<td>+$12B</td>
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<tr>
<td>TARP Credit Market Programs</td>
<td>+$3B</td>
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<tr>
<td>Bear Stearns (Fed Commitment)</td>
<td>+$2B</td>
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<td>Treasury Money Market Fund Guarantee Program</td>
<td>+$1B</td>
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<td>Treasury HFA Initiative</td>
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<td>TARP Auto Industry Investments</td>
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<tr>
<td>TARP Housing Programs</td>
<td>-$16B</td>
</tr>
</tbody>
</table>

* SEE NOTES.
SOURCE: TREASURY, FEDERAL RESERVE, OMB, CBO.
SLIDE 22 CONT.

**TARP Credit Market Programs** Represents Treasury’s latest official TARP estimate of lifetime gains or costs for all credit market programs under TARP, consisting of the Public Private Investment Program (PPIP), the TARP portion of the Term Asset-Backed Securities Loan Facility (TALF) program, and the Small Business Administration 7(a) securities purchase program. As of June 4, 2013, Treasury has no outstanding investments in any of the credit market programs.

**Bear Stearns (Fed Commitment)** Federal Reserve Bank of New York data. Represents mark-to-market value of remaining portfolio ($1.4 billion) and profits realized to date ($765 million) since inception of the commitment in March 2008. Does not include administrative or financing costs, which would not materially change this analysis.

**Treasury Money Market Fund Guarantee Program** Treasury data, reflecting realized gains. Treasury incurred no losses on the guarantees and earned approximately $1.2 billion in participation fees over the life of the program from September 2008 to September 2009. There were no financing costs associated with this program.

**Treasury Housing Finance Agency (HFA) Initiative** Treasury projections of budgetary costs associated with the New Issue Bond Program (NIBP) and Temporary Credit and Liquidity Program (TCLP), calculated under the Federal Credit Reform Act of 1990 based upon risk-free discount rates.

**TARP Housing Programs** The CBO number is its estimate as of May 2013 of total cost disbursed over the programs’ lifetimes. The OMB number assumes all funds currently allocated to the programs are disbursed.

**TARP Auto Investments** This estimate is from the most recent official TARP estimate for the Automotive Industry Financing Program (AIFP), included in Treasury’s published reports. The Estimated Lifetime Cost assumes completion of the recently announced transaction in which Ally will repurchase $5.9 billion mandatorily convertible stock held by Treasury.

**TARP Overall** The most recent Treasury published estimate for the overall cost of TARP is $42 billion (down by approximately $3 billion from the May 31 estimate due to improvements in the auto industry program cost estimate). This uses the “AIG TARP shares” alone in the cost estimate for AIG discussed in the AIG note above rather than what is presented on Slide 22. For more details on Treasury’s lifetime cost estimate for TARP programs, please visit Treasury’s Monthly 105(a) Reports to Congress on TARP at this link.