

# Financial Stability Plan

Sponsor: U.S. Treasury

## Summary:

- New Administration's Stability Plan, partner to stimulus package
- Programs to be launched in close partnership with FDIC and Federal Reserve
- Announced coordination effort with OCC, OTS as well
- Six components of plan
  - Financial Stability Trust (capital management for banking system)
  - Public-Private Investments Trust (managing toxic assets out of the core financial system)
  - Making Home Affordable (mortgage modification and foreclosure prevention)
  - Small Business and Community Lending Initiative (restore extensions of credit to small businesses)
  - Consumer and Business Lending Initiative (restore availability of affordable credit to consumers)
  - Transparency and Accountability Agenda (increased reporting by participants and by Treasury)

### Financial Stability Trust

- Entity to hold investments in financial institutions
- Federal banking regulators perform balance sheet "stress tests" on largest banking institutions with over \$100 billion assets as of December 31, 2008 (Supervisory Capital Assessment Program); results released May 6th
- Institutions needing additional capital will have access to federal capital pending receipt of private investments
- "CAP" program will provide capital, held by the trust
- Entities receiving CAP funds would be subject to executive compensation rules

### Public-Private Investment Fund

- Acquire "troubled assets" from financial institutions
- Private – public partners with Treasury
- Treasury seeking input from market participants
- Asset managers will establish funds, seek private investors and purchase legacy private-label RMBS and CMBS
- Legacy Loans program initially proposed has been suspended by the FDIC and Treasury pending market interest/need
- See PPIP reference guide

### Consumer and Business Lending Initiative

- Expansion of Term Asset-based Securities Lending Facility (TALF) (see TALF reference guide)
- Program size (up to \$1 trillion) and scope (to include commercial real estate assets) to be expanded

### Small Business and Community Lending Initiative

- Purchase AAA-rated SBA loans to unfreeze secondary market (TALF)
- Treasury to conduct direct market purchases of 504 program first lien mortgage loans and 7(a) loans originated on/after July 1, 2008
- Increase SBA guarantee from 75% to 90% for 7(a) loans
- Reduce fees for two SBA programs (eliminate borrower and lender fees for 504 loans and eliminate up-front fees for 7(a) loans – effective Feb 17th)
- Increase SBA funding
- Reduce burden of loan review process at SBA

### Homeowner Affordability and Stability Plan: Making Home Affordable

- Plan to reduce mortgage rates, reduce mortgage payments
  - Ongoing purchases of GSE debt and GSE MBS by Treasury and Federal Reserve (Treasury purchases are under pre-existing authority, do not deplete TARP funds) (Federal Reserve increased purchase goal to \$1.25 trillion)
  - Treasury extended its commitments to each of Fannie Mae and Freddie Mac from \$100 billion each to \$200 billion
- Rebuild Hope for Homeowners and FHA rules
- Making Home Affordable Refinance
  - Reduce equity requirements for current borrowers to refinance into lower-cost mortgages through Fannie Mae and Freddie Mac
  - Target audience is 4 to 5 million homeowners
- Making Home Affordable Modification
  - \$75 billion commitment
  - Target audience is 3 to 4 million homeowners
  - Goal of debt-to-income ratio of 31%
  - Detailed modification guidelines released for use by all governmental bodies
  - Funds to be used for "Pay for Success" incentives to servicers, borrowers and lenders/investors under Home Affordable Modification program
  - Includes a second lien program with incentives
  - Dollar-for-dollar loss sharing with investors/lenders for reductions in DTI ratio from 38% to 31% using Treasury modification guidelines
  - Fannie Mae to coordinate program and Freddie Mac to manage compliance audits and oversight
  - As of July 17<sup>th</sup>, 27 servicers have entered the program (Treasury has allocated \$18.6 billion for payments)