THE FINANCIAL CRISIS: FIVE YEARS LATER

Executive Office of the President

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This report was prepared by the National Economic Council, the President’s Council of Economic Advisers, the Domestic Policy Council, and the Office of Management and Budget.
EXECUTIVE SUMMARY

Five years ago this week, a financial crisis unlike any in generations rocked Wall Street, turning a recession that was already hammering Main Street into the worst economic crisis since the Great Depression. In the months before President Obama took office, the economy was shrinking at a rate of over 8%. Businesses were shedding 800,000 jobs a month. Banks had stopped lending to families and small businesses. The iconic American auto industry – the heartbeat of American manufacturing – was on the brink of collapse. It was a crisis that would ultimately cost millions of Americans their jobs, their homes, and their savings – and the decades-long erosion of middle-class security was laid bare for all to see and feel.

President Obama acted quickly to rescue the auto industry, cut taxes for middle-class families, and keep teachers in the classrooms and first responders on our streets. He took on Wall Street, ending taxpayer bailouts, putting in place tough new rules on big banks, and establishing new consumer protections that cracked down on the worst practices of mortgage lenders and credit card companies. He changed a tax code too skewed in favor of the wealthiest Americans, locking in tax cuts for 98% of working Americans, and asked those at the top to pay a little more. And he took on a broken health care system and invested in new American technologies to reverse our addiction to foreign oil.

Five years later, America has fought our way back. Because of these tough choices, over the past three and a half years, our businesses have created seven and a half million new jobs. Manufacturers are adding jobs for the first time since the mid-1990’s. We generate more renewable energy than ever, and our exports are at all-time highs. Health care costs are growing at the slowest rate in 50 years – and our deficit has fallen by 50% since the President took office.

Thanks to the grit and resilience of the American people, we’ve cleared away the rubble from the financial crisis and begun to lay a new foundation for stronger, more durable economic growth. And the last thing we can afford right now is a decision from a minority of Republicans in Congress to throw our economy back into crisis by refusing to pay our country’s bills or shutting down the government. As President Obama has said, we’re not where we need to be yet – the challenges facing the middle class weren’t created overnight, and they won’t be solved overnight. That’s why we need to keep building on that foundation by focusing on the cornerstones of a strong, secure middle-class life: a good job, a quality education, a home of your own, affordable health care when you need it, and a secure retirement. That’s the conviction that has driven President Obama since he first ran for this office – that our economy works best when it grows not from the top-down, but from the middle-class out – that we are stronger when everyone who works hard has a chance to get ahead.

This report describes 15 key elements of the response to the financial crises – providing an overview of the state of the economy and the financial system, the actions the Administration took in conjunction with the Federal Reserve and other regulators, and where we are now:
I. **The Administration’s Responded to the Crisis With Speed and Comprehensiveness:** Within six months of taking office, President Obama had acted with nearly unprecedented speed and force, by taking the following key actions:

- Signing the Recovery Act into law within 30 days of taking office
- Announcing a framework for a new financial stability plan within three weeks of taking office
- Implementing the key steps of that plan within four months of taking office, including the stress test, new housing measures, support for small businesses and small banks and efforts to restart securities markets that support consumer lending
- Taking action to support the American automotive industry within five months of taking office

II. **The Administration’s Efforts Stabilized the Financial System While Recovering Taxpayers’ Investments:** When President Obama took office, the financial system was still on the brink, despite the initial implementation of the Troubled Asset Relief Program (TARP). Upon taking office, the President continued to use TARP resources to support our financial system, but also meaningfully expanded its use to help millions of families impacted by the housing crisis, restructure the auto industry and support small businesses.

- **The Federal Government Is Expected to Receive a Profit on the Response to the Financial Crisis:** While initial estimates by the Congressional Budget Office projected the TARP program would cost over $350 billion, Treasury has already received nearly $422 billion in total cash payments back from the government’s investments in TARP and support for AIG, more than the $421 billion it disbursed through TARP – with further repayments expected. Broader measures of the Federal government’s response to the crisis also project that the government will receive an overall profit.

III. **Treasury Has More Than Recovered Its Investments in Banks:** Treasury aggressively managed the TARP bank investment portfolio in a manner that balanced the desire to exit these investments as soon as possible with the goal of maximizing returns for taxpayers.

- **Federal Government Has Made a Nearly $28 Billion Return on TARP Bank Investments:** Despite initial fears that TARP investments in banks would cost taxpayers hundreds of billions of dollars, Treasury has recovered $28 billion more than was disbursed on its bank investments so far – receiving $273 billion back after investing $245 billion – while achieving the original policy goals of stabilizing the banks and preserving lending.

IV. **Stress Tests Built Confidence in the Banking System without Putting New Taxpayer Funds at Risk:** In February 2009, the Administration and the Federal bank regulators announced comprehensive stress tests of the nation’s largest banks to reduce uncertainty regarding their solvency, help stabilize the financial system, and ensure they were able to continue lending.
• **The Stress Tests Resulted in the Banks Raising More than $80 Billion in New Private Capital Without Additional Government Support:** Within months of the release of the results, the largest banks in the country raised over $80 billion of equity capital from private sources, with no major banks requiring additional government support outside General Motors Acceptance Corporation’s (GMAC) participation in the auto program.

• **Stress Tests Are Now a Model in the United States and Around the World:** Today, stress tests modeled after the crisis-era stress tests have been adopted as part of the regular supervisory framework in the United States, and stress tests have been adopted as a norm in the global regulatory community.

V. **The Government Has Achieved a Profit on Its Investments in AIG:** After intervening to stabilize AIG during the financial crisis to prevent a greater shock through the global economy, the Administration took immediate steps to restructure AIG and accelerate the timeline for AIG’s repayment of the government’s support.

• **Rather than Lose Tens of Billions of Dollars, the Government Turned a $22.7 Billion Return on Its Investments in AIG:** Despite widespread predictions that the American taxpayers stood to lose billions on its $182.3 billion of assistance to AIG, the Administration successfully recouped $205 billion, for a total positive return to the taxpayers of $22.7 billion, and AIG’s loan to the Federal Reserve was fully repaid.

VI. **The Auto Industry Is Growing Again:** When President Obama took office, the auto industry was on the brink of collapse – and as access to credit for car loans dried up, auto sales plunged by 40 percent. The Administration promptly took key steps to stabilize the auto industry and return it to viability.

• **The American Auto Industry Is Profitable, Gaining Market Share, and Creating Jobs Again:** Over 1 million people are working in the auto industry as a direct result of the auto rescue, according to the non-partisan Center for Automotive Research. Today, the Big Three are profitable and gaining market share for first time in 20 years. Auto sales were higher in August than any month in over 6 years. The auto industry is creating jobs at the fastest pace in 15 years, with over 340,000 jobs created since June 2009 when GM and Chrysler emerged from bankruptcy.

• **American Taxpayers are Being Paid Back Significantly More Than Expected.** Despite the chorus of warnings that the government would not recoup the vast majority of its investments in the auto companies, American taxpayers are seeing progress, having recovered 90% of the total invested in Chrysler and a substantial portion of its investments in GM. Ally, formerly known as GMAC, also recently announced a plan to pay the government back another $6 billion; Treasury is continuing to work with the company to recover its remaining investment.
VII. **The President’s Policies Supported Homeowners and Helped Heal Our Housing Market:** To stabilize the housing market and help families avoid foreclosure, the President took bold action through an array of programs.

- **The President’s Efforts Have Helped Nearly 7 Million Families Modify their Mortgages and 2.7 Million More Refinance Their Mortgages:** Among other programs, the President launched the Home Affordable Modification Program (HAMP), which has led to 7 million households getting government and private sector relief, and Home Affordable Refinancing Program (HARP), a refinancing program that nearly tripled in volume after further changes to the program, rising from 400,000 homeowners in 2011 to 1.1 million in 2012, helping over 2.7 million in total.

- **The Housing Market Is Now Coming Back, with Prices Increasing 12% in the Last Year:** Today, the housing market is coming back thanks in part to the extensive measures taken by the President. House prices have been rising at the fastest pace in seven years, resulting in 5 million homeowners coming out from underwater in the last six quarters. The President continues to fight for additional measures to ensure every responsible family has a fair shot to refinance and no community is left behind by the recovery.

VIII. **The Obama Administration’s Efforts Supported Small Business:** With small businesses struggling from an inability to access credit, the Administration took action to support small businesses.

- **The Administration Provided Critical Support for Small Businesses:** Among many other steps, the Administration provided capital to small banks, backstopped liquidity in the market for SBA loans and passed a Small Business Jobs Act that included tax relief and supported access to credit for entrepreneurs. While much has been accomplished, there is more to do to ensure small businesses continue to have broad access to credit and that they remain the engine of growth for our economy.

IX. **Immediate Action Helped Restart the Flow of Credit to American Families:** When capital markets froze and funding dried up, banks reduced lending to consumers and businesses to conserve liquidity. By unfreezing securities markets that play a crucial role in consumer and business lending, the Administration’s response unblocked the credit pipes of the financial system.

- **Consumers Are Better Able to Access Affordable Credit:** Since the recession, the price of auto loans and credit card borrowing has improved substantially and banks have begun easing their lending standards, while also reporting stronger consumer demand in most loan categories.

X. **Household Wealth Has Begun to Recover:** As a result of the financial crisis, household wealth fell by $19 trillion — with the value of retirement accounts alone dropping $2.8 trillion between September 2007 and December 2008. While many families still have not recovered from the
impact of the financial crisis, the Administration’s response has helped start putting families on the road to recovery.

- **Americans have Recovered Nearly $15 Trillion in Household Net Worth:** Although there is still far to go to recover from the impact of the financial crisis and progress has been uneven so far, by the end of 2012, Americans had recovered $14.7 trillion of aggregate household net worth, recouping 91% of the recession losses.

X1. **The Strongest Consumer Financial Protections in History Are Being Implemented:** The financial crisis demonstrated one of the most glaring gaps in our regulatory framework – the absence of a watchdog agency to protect consumers for consumer financial products and services. The President fought for and signed into law the strongest consumer financial protections in history with the Dodd-Frank Wall Street Reform and Consumer Protection Act, which created the Consumer Financial Protection Bureau (CFPB) and tasked it with one job: to protect families when they make important financial decisions.

  - **Substantial New Consumer Protections Have Been Rolled Out:** The Bureau has already launched a number of new requirements and initiatives to ensure that mortgage and other consumer lending processes are transparent and straightforward, and empower consumers with the financial information necessary for borrowing decisions.

XII. **Financial Reform Has Helped Rein in Excessive Risk-Taking:** In the run-up to the financial crisis, many of the largest banks took on excessive risks without appropriate safeguards, while large-scale bank-like activities outside the regulated banking system grew significantly.

  - **Wall Street Reform is Closing Gaps in Regulation:** Reforms put the toughest standards on the largest firms, directly limit interconnectedness, and allow regulators to identify risks building up outside of the banking system. In addition, many of the elements of the “shadow banking” system have become smaller and pose less risk. The impact of these reforms underscores the importance of finishing the work of Dodd-Frank implementation to ensure that the mistakes of the Great Recession never occur again.

XIII. **New Tools Have Been Put in Place to Ensure the Failure of a Large, Interconnected Firm No Longer Puts the System at Risk:** When the financial crisis hit, regulators lacked effective tools to resolve large failing firms. Key reforms will help ensure no institution is “too big to fail.”

  - **Large Institutions File “Living Wills” and Won’t Be Bailed Out Again:** Large banks and designated firms are now required to create “living wills” to provide a roadmap for resolving the firm through bankruptcy, and new tools are now available to orderly and responsibly resolve failed financial institutions. Internationally, regulators have worked together to align standards and coordinate actions in the event of the failure of a large global firm.
XIV. **Banks Are Significantly Better Capitalized – Making Them Better Able to Withstand Future Shocks:** The crisis proved that most banks maintained an unacceptably low cushion of Tier 1 capital – a measure of high quality, loss-absorbing capital.

- **Bank Capital Has More Than Doubled:** As a result of new bank capital standards and the stress tests, bank capital has doubled from a Tier 1 common equity ratio of 5.6 percent to 11.1 percent over the last five years, substantially increasing the stability of the U.S. banking system. Banks now hold sufficient capital so that, even under adverse stress test scenarios, they would hold more of it than their actual capital levels in 2008.

XV. **Wall Street Reform Has Reduced Risk in the Derivatives Market:** To address the risks posed by derivatives, the President pushed for fundamental domestic and international reforms to strengthen the derivatives market and oversight of its participants.

- **Wall Street Reform Addresses Risks from Derivatives:** The Dodd-Frank Act establishes requirements for major swap dealers and participants to be subject to greater supervision, and requires standardized OTC derivatives to be traded on swap execution facilities and centrally cleared, and for data to be reported to repositories to increase transparency and price discovery.
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I. SPEED AND COMPREHENSIVENESS OF CRISIS RESPONSE

FIVE YEARS AGO

- In 2008, the American economy was on the brink of collapse. In the autumn of 2008, the American financial system was teetering on the edge, with numerous banks and other financial institutions failing, auto companies struggling, the housing market in free fall, and the economy in a severe downturn.

- The American economy had not faced such a severe economic downturn since the Great Depression. Job losses averaged nearly 800,000 per month between November 2008 and April 2009 as the unemployment rate climbed substantially. The economy contracted at a staggering rate of 8.3% between the 4th quarter of 2008 and the 1st quarter of 2009, and the Dow fell as low as 6,400 in March of 2009. Middle class families were hit hard, losing $7 trillion in homeowners’ equity by January 2009 due to plummeting home prices and $19 trillion of household wealth. Millions lost their homes to foreclosure, while consumers and businesses lost access to credit.

- Though several specific events triggered the financial crisis, it was years in the making. Though the financial crisis came to a head in September 2008 with the failure of Lehman Brothers, the primary causes of the crisis had been building for years, including predatory lending by many lenders, reckless business models on Wall Street, excessive financial leverage, increased complexity through existing and new channels like structured products and derivatives, and an outdated regulatory system.

- The financial crisis took a huge toll on middle class families and Main Street. Families suffered from falling home prices, retirement savings were wiped out, and qualified borrowers had trouble getting access to student, auto, and consumer loans as well as mortgages. Meanwhile, both small businesses and larger corporations found their access to financing cut-off, often unable to invest in growth or access working capital.

- Along with the Federal Reserve and the FDIC, the Bush Administration had taken a number of key steps in response to the deepening crisis – including its successful proposal to Congress for $700 billion in rescue funding and subsequent investment in the banks – but the system still remained on the brink. Support from the Federal Reserve’s liquidity facilities to various credit markets and the government’s support for AIG, loans to the auto companies, and guarantee programs for money market funds and bank debt had been essential but were not sufficient to stabilize the broader system.

OBAMA ADMINISTRATION ACTIONS

Upon taking office, the President moved with nearly unprecedented speed and force

- Signed into law the $800 billion Recovery Act within 30 days of taking office. With leadership and support from the President, Congress passed the American Recovery and
Reinvestment Act, which was signed into law by President Obama on February 17. The Act was necessary to stem the tide as demand in the U.S. and around the world continued to contract.

- **Put in place a comprehensive Financial Stability Plan within four months of taking office – even though it required unprecedented policy actions.** The President announced the framework for his Financial Stability plan within three weeks of taking office, and put in place the major elements shortly thereafter, even though it involved designing and implementing many original but necessary policy interventions.
  
  - **Stress Test and Capital Assistance Program (CAP):** Treasury and the regulatory agencies announced comprehensive stress tests of the nation’s largest banks to reduce uncertainty regarding their solvency and to help stabilize the financial system by requiring banks to raise more capital if they were found to have an insufficient amount of equity. The stress test was designed to ensure that banks had the capital to continue lending even in adverse economic conditions and restore market confidence in the financial system. Treasury also announced a program for those banks found to need additional capital but unable to access the private markets. However, the program was designed to encourage the institutions to replace public assistance with private capital as soon as possible, rather than relying on the government.

  - **Housing:** On February 18, less than a month after taking office, the President launched the Homeowners Affordability and Stability Plan including the Home Affordable Modification Program (HAMP), which has directly and indirectly helped millions of homeowners avoid foreclosures. At a time when the mortgage industry was ill-equipped to respond adequately to the crisis, the Administration’s initiatives introduced important consumer protections for homeowners, setting new industry standards. Recognizing that more Americans could be helped by refinancing, President Obama also worked with independent regulators to set up the Home Affordable Refinancing Program (HARP) and then acted to expand it further when it became clear that more families could benefit.

  - **The Term Asset-Backed Securities Loan Facility (TALF):** Treasury, jointly with the Federal Reserve, expanded the TALF program established in November 2008 to offer financing to investors to buy securities backed by student loans, auto loans, and other consumer loans, kick-starting secondary lending markets to bring down borrowing costs and help get credit flowing again. This in turn helped give consumers access to auto and student loans more easily and at more affordable terms.

  - **Public-Private Investment Program (PPIP):** This program provided government capital and financing to help leverage private capital to create active markets for the legacy securities and real estate related assets that were at the center of the crisis. By helping to stabilize the market for these assets, PPIP helped contribute to ensuring the broader credit markets remained open for households and businesses.

- **Intervened to save the American auto industry and protect manufacturing, despite vocal opposition from public commentators.** After initially rejecting the companies’ viability plans and demanding a more rigorous strategy for recovery, the President ultimately made the tough choice to support the American automotive industry by extending additional financial support.
Specifically, the Obama Administration committed additional assistance to Chrysler and General Motors contingent on them executing a swift, comprehensive restructuring of their operations, which involved difficult but necessary sacrifices from all involved stakeholders.

- **Supported small businesses.** Small banks, the lifeline of small business credit, needed more focused support. Treasury established two programs, CPP and CDCI, in 2008 and 2010 to stabilize small and large banks across the country. Over 90% of CPP and CDCI participants were banks with less than $10 billion in assets, nearly 70% were small banks with assets under $1 billion, and the median size of CPP banks was approximately $500 million in assets. The President also supported the creation of new programs, including the Small Business Lending Fund (SBLF) to support bank lending to small business and the State Small Business Credit Initiative (SSBCI) to support state and local programs that make credit available to small businesses.

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**FIVE YEARS LATER**

- **The unprecedented response to the crisis stabilized our system and set our economy on the path to recovery.** Since the crisis, bank capital is at record highs, credit is flowing again, auto sales are booming, the housing market is recovering, and millions of jobs have been created. While we still have a long way to go to make up lost ground in some key areas, the progress is considerable.

- **To date, Treasury has received more in total cash payments, including AIG proceeds, than the amount it disbursed through TARP, defying the critics’ predictions.** Of the $700 billion originally approved for TARP by Congress, as of August 31, 2013, Treasury has disbursed $421 billion. Already, Treasury has received nearly $422 billion in payments recovered on the TARP-related rescue programs together with Treasury’s additional proceeds from AIG. Treasury continues to disburse funds related to its housing programs, and recoup additional repayments on its outstanding investments.

- **Through Wall Street Reform, the President has laid the foundation for a better future.** The passage of the Dodd-Frank Act has strengthened the recovery and helped prevent a future crisis, implementing some of the strongest Wall Street reforms and consumer protections in our nation’s history.
II. TROUBLED ASSET RELIEF PROGRAM (TARP)

**FIVE YEARS AGO**

- Over the course of 2007 and 2008, the housing market increasingly weakened, contributing to the failure of Bear Stearns, Fannie Mae, and Freddie Mac.

- The failure of Lehman Brothers in September 2008 led to a widespread panic that initially affected Wall Street firms but quickly impacted non-financial businesses as they lost access to funding. Losses on Lehman debt led to immediate withdrawals from money market mutual funds (MMFs), in turn leading to a contraction in the commercial paper market used by corporations to finance their businesses. Meanwhile, banks saw substantial deposit withdrawals and runs by counterparties, pushing these banks to the brink and threatening broader access to credit.

- In response to the deepening crisis, Congress approved a Bush Administration proposal for $700 billion in funding to provide extraordinary support to the financial markets and firms. As the crisis worsened, in October 2008 the Treasury shifted from its proposed focus on buying toxic assets and asked 9 major financial institutions to accept capital injections before announcing a broader $250 billion bank investment program the next day. These investments were then followed by an initial restructuring of the investment in AIG and bridge loans to the automakers.

- In January 2009, despite the initial round of TARP investments in various sectors and essential liquidity provided to the system by the Federal Reserve, the financial system was still on the brink. Many observers still believed the banking system was at risk of collapsing, credit markets were largely frozen, the automakers were headed toward an uncontrolled failure, and many other challenges remained.

- Observers estimated that the cost of the support provided would end up being enormous, with CBO estimating the cost of TARP would be $356 billion, and many claiming the broader financial rescue would cost in the trillions of dollars.
**OBAMA ADMINISTRATION ACTIONS**

- On taking office, the President continued to use TARP resources to support our financial system, but also meaningfully expanded its use to help millions of families impacted by the housing crisis, restructure the auto industry and support small businesses. The President announced the framework for his Financial Stability plan within three weeks of taking office and put in place the major elements shortly thereafter, including the implementation of many original policy actions. The Financial Stability Plan targeted consumer lending (TALF and PPIP), the stability of the banking sector (the stress tests and CAP), and keeping millions of people in their homes (HAMP and HARP). Other programs later rolled out included support for GM and Chrysler and the Hardest Hit Fund for states most burdened by the housing crisis.

- By taking such quick action and stabilizing the system, the President helped turn the corner on the crisis and avoided substantial additional costs that could have piled up.

**FIVE YEARS LATER**

- Taxpayers have already received more in total cash payments (including AIG proceeds) than the amount disbursed through TARP, even though many critics expected TARP to lose hundreds of billions of dollars. To date, the Government has collected nearly $422 billion in repayments, dividends, interest, and other income recovered on TARP-related programs and proceeds from the rescue of AIG – compared to $421 billion it has disbursed to date through TARP. Treasury is continuing to disburse funds related to its housing programs, while recouping its outstanding investments.

![Chart 2.1: Disposition of TARP Funds as of August 31, 2013](chart)

Source: U.S. Department of the Treasury
The policies pursued through TARP, along with other extraordinary measures taken by the government and the Federal Reserve, helped stabilize the financial system and facilitate the recovery. The banking sector was shored up through the bank investment program and the stress tests, while capital has doubled – up nearly $450 billion – and the banks are lending again. The auto sector is thriving again with 340,000 jobs created and 1 million cars and trucks exported in 2012. Housing is recovering, with nearly 7 million helped through modifications and other homeowner assistance actions and home prices up 12 percent year-over-year. And the cost of borrowing for small businesses has fallen for 10 straight quarters and is the lowest since 2009, while more and more lenders are easing borrowing terms for consumers.
III. TARP BANK INVESTMENTS

**Five Years Ago**

- In the wake of the collapse of Lehman Brothers on September 15, 2008, numerous large financial institutions faced a “run on the bank” as counterparties refused to extend financing. Key regulators feared that nearly all of the nation’s major financial institutions were at risk of failure within a period of a week or two. In particular, investors and uninsured depositors withdrew tens of billions of dollars from commercial banks of all types, while investors and other market participants withdrew tens of billions of assets in custody from investment banks, leading to a huge net outflow of liquidity from these firms.

- Reflecting these developments, bank credit spreads widened to all-time highs and the funding markets began to shut down.

- The Bush Administration intervened with a round of bank investments through TARP that helped begin to stabilize the system, though many observers believed that much of these bank investments would be lost.

- In January 2009, despite the initial efforts, markets remained leery of the continued potential for bank failures, with continued write-downs and losses at banks unnerving investors and counterparties and exacerbating the severe funding pressures faced by many institutions.

**Obama Administration Actions**

- In February 2009, the Administration and regulators announced comprehensive stress tests of the nation’s largest banks in order to stabilize the banks and help shore up their ability to lend, substantially increasing the effectiveness of the original TARP bank
The stress tests, administered by the Federal Reserve and other bank regulators, included a more adverse economic scenario to help ensure that even under the worst conditions the banks would remain solvent and in a position to continue lending.

- The Administration aggressively managed the TARP bank investment portfolio in a manner that balanced the desire to exit these investments as soon as possible with the goal of maximizing returns for taxpayers. Banking investments under TARP were designed to give taxpayers additional returns through the sale of warrants that Treasury received in addition to dividends and interest payments on those investments.

**Five Years Later**

- Federal government has made a $28 billion return to date on TARP investments in banks. Despite initial fears that TARP investments in banks would cost taxpayers hundreds of billions of dollars, as of today, Treasury has recovered $28 billion more than the $245 billion disbursed, collecting $273 billion from TARP bank investments so far. Treasury is continuing to recover funds from the remaining $3.2 billion of bank investments, and every additional dollar collected represents an additional gain for taxpayers.

- In addition, the combination of the TARP capital support program and the stress test motivated banks to raise significant capital in 2009 through private sources, which helped achieve the original policy goals of stabilizing the banks and preserving bank lending.

- Ultimately, TARP’s bank programs provided capital to more than 700 banks throughout the country, including more than 450 small, community banks. These capital injections stabilized these institutions and helped preserve access to credit to the economy.

**Chart 3.2: Disposition of TARP Bank Funds**

Source: U.S. Department of the Treasury
IV. STRESS TESTS

**FIVE YEARS AGO**

- Despite the initial round of TARP bank investments in fall of 2008, markets remained leery of the potential for significant bank failures as continued write-downs and losses at banks unnerved investors and counterparties and exacerbated the severe funding pressures institutions faced in the capital markets.

- After billions of dollars in losses, core capital ratios at many of the largest U.S. banks fell to levels at which investors and counterparties had little confidence that they could withstand the tough economic environment and ongoing market challenges.

- This lack of certainty and transparency about the financial health of these banks made it extremely difficult for them to raise capital from private sources. Accordingly, policymakers worried that – even if these banks survived – they would hoard capital and withhold lending as an alternative to raising capital. In particular, many observers were concerned that this cycle would be exacerbated if the economy weakened further and home prices continued falling.

**OBAMA ADMINISTRATION ACTIONS**

*The Administration took immediate action to stabilize and strengthen the financial system through comprehensive stress tests*

- In February 2009, the Administration and regulators announced comprehensive stress tests of the nation’s largest banks to reduce uncertainty regarding their solvency and to help stabilize the financial system. Treasury indicated any bank found to have an insufficient amount of capital to continue normal operations would be forced to raise capital, preferably from private sources but, if necessary, through a government backstop program that was established.

- The stress tests, designed and administered by the Federal Reserve and other bank regulators, were intended to reassure markets that banks would have the capital to continue lending even if economic conditions continued to deteriorate, as it tested bank finances against an adverse economic scenario to help ensure that banks would remain solvent and in a position to continue extending credit to the real economy even under severe conditions. This rigorous stress testing concluded under the more adverse scenario that losses at the largest banks could be $600 billion, or 9.1 percent of loan balances – a two-year loss rate higher than during the historical peak loss years of the 1930s.

- The results of the stress tests were viewed as credible, restoring investor confidence. The results indicated that 10 of the 19 stress tested banks would need to raise a total of $75 billion in capital under the more adverse scenario in order to be appropriately capitalized and serve their customers.
Five Years Later

- **The stress tests worked.** Shortly after the release of the results, the largest banks in the country raised over $80 billion of equity capital from private sources, with no major banks requiring additional government support outside of an investment through the auto program in GMAC.

- **The increased capital and certainty resulting from the stress tests proved a turning point in the crisis,** encouraging many market participants, investors, and businesses to conclude the worst was behind us and that the banking system would remain solvent and functioning. This in turn increased market participants’ comfort with making investments in the financial markets and the broader US economy.

- **Today, stress tests modeled after the crisis-era stress tests have been adopted as part of the regular supervisory framework in the United States and help ensure banks have enough capital to weather future downturns.** Dodd-Frank requires stress tests that quantitatively assess how bank capital levels would fare in stressful economic and financial scenarios, and the Federal Reserve combines the quantitative results from those stress tests with more qualitative assessments of the capital planning processes used by banks.

- **Stress tests have been increasingly adopted as a norm in the global regulatory community** as central banks and banking regulators throughout the world have recognized their value in helping ensure a safe banking system and in maintaining market confidence.
V. AMERICAN INTERNATIONAL GROUP (AIG)

**Five Years Ago**

*AMIG – the world’s largest insurer – was on the brink of collapse*

- **AIG’s derivatives trading led to substantial losses, placing the entire company at risk.** As a result of AIG's significant involvement in credit default swaps (CDSs) – a contract that provides protection against losses on bonds – the company lost nearly $18 billion in the first 9 months of 2008. As expectations of borrower defaults rose and its credit ratings fell, AIG had to post additional cash collateral against potential losses on its CDS trades and other insurance policies, which further weakened the company.

- **As the financial crisis worsened and the markets froze, AIG was unable to borrow to meet its cash needs, bringing it to the brink of collapse.** Mounting losses in its CDS and securities lending businesses and growing demand for cash collateral against future losses created a dire need for additional capital at AIG. With the credit markets frozen amid the worst financial crisis since the Great Depression, AIG had no sources of funding to meet its obligations and was faced with certain bankruptcy.

- **Regulatory gaps in derivatives complicated the response to the AIG crisis.** The widespread use of derivatives, such as CDS, had allowed many firms to build up substantial off-balance sheet leverage and hidden risks. These derivatives were largely unregulated, which not only led to direct losses, but created uncertainty among counterparties, investors, and regulators concerning exposures to AIG.

- **As the world’s largest insurer, AIG was too interconnected with other major financial firms and the consequences of its failure during a period of acute financial stress would have sent a tremendous shock through the global economy.** The collapse of AIG at that time would have triggered billions of dollars in losses at other financial firms that purchased CDS protection and insurance from AIG, potentially sending many of these firms into failure as well. Lacking the tools for an orderly resolution, policy makers feared that using bankruptcy to resolve a company of AIG’s scale could lead to additional market disruptions that would have further undermined the safety and soundness of the financial system.

- **Observers predicted any federal bailout of AIG would have resulted in substantial losses to the American taxpayers from $36-$45 billion.** CBO at one point estimated that the AIG bailout would cost taxpayers $36 billion, while other estimates showed losses north of $45 billion.

- **Lacking any viable alternatives, the federal government stepped in to commit more than $182 billion to stabilize AIG during the financial crisis.** Without existing tools to resolve a large, complex financial firm like AIG, the Federal Reserve provided up to $85 billion of funding support through a credit facility to prevent the collapse of AIG in the fall of 2008, and an additional $37.8 billion was committed to AIG less than a month later. In addition, Treasury committed $70 billion in two TARP investment transactions in AIG.
**Obama Administration Actions**

- The Administration took immediate steps to restructure AIG and accelerate the timeline for AIG’s repayment of the government’s support. Under its restructuring plan, Treasury and the Federal Reserve Bank of New York (FRBNY) worked with AIG to fundamentally restructure AIG’s balance sheet and its business operations, winding down riskier parts of the business, and selling non-core assets.

- The Administration pursued reforms to ensure that this type of bailout never occurs again. As part of Wall Street Reform, the Administration sought to put in place a comprehensive regulatory framework for derivatives, ensure policy makers and regulators have an effective resolution regime for winding down failed financial institutions, reduce the complexity and interconnectedness of the largest institutions, and give regulators the authority to better regulate institutions whose failure would threaten the system.

**Five Years Later**

*The Obama Administration turned a profit on its support for AIG, and is taking steps to ensure that this type of bailout never occurs again*

- Rather than lose tens of billions of dollars, the Administration successfully recouped the federal government’s full support for AIG, along with positive returns of nearly $23 billion. Despite widespread predictions that the American taxpayers stood to lose billions on its $182.3 billion of assistance to AIG, the Administration successfully recouped more than $205 billion, for a total positive return to the taxpayers of $22.7 billion, while AIG’s loan to the Federal Reserve was fully repaid.

- Key Wall Street reforms have been passed into law and are being implemented to prevent the problems that arose with AIG from happening again, including the FSOC designation of AIG for enhanced standards and oversight by the Federal Reserve. The Financial Stability Oversight Council (FSOC) designation of AIG will subject it to enhanced prudential standards and Federal Reserve regulation including tough capital, liquidity, and stress testing requirements. In addition, the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) have made substantial progress in implementing new OTC derivative reform requirements like central clearing of standardized OTC derivatives as well as better reporting and transparency. The U.S. has led international bank and securities regulators to agree to adopt similar rules globally. The FDIC has also made substantial progress in implementing its new resolution regime that will ensure that firms like AIG can be resolved without posing a threat to financial stability.
VI. AUTOMOTIVE INDUSTRY

FIVE YEARS AGO

When President Obama took office, the American automobile industry was in crisis

• In late 2008, the combination of a historic recession and financial crisis combined with earlier struggles pushed the American auto industry to the brink of collapse. Access to credit for car loans dried up and auto sales plunged 40 percent. As a result, auto manufacturers and suppliers dramatically curtailed production and shed jobs.

• The Bush Administration extended short-term loans to GM and Chrysler to keep the companies afloat. Amid the worst financial crisis since the Great Depression, credit markets were frozen and alternative sources of financing dried up, forcing GM and Chrysler to either seek government support or face near certain liquidations. In response, the Bush Administration extended short-term bridge loans to GM and Chrysler but left open key decisions on how to address the crisis, in part to preserve flexibility for the incoming Administration.

• There was significant public opposition to government intervention. Many public commentators urged inaction, arguing that the federal government should let the auto companies fail. Some observers warned that government intervention would hurt the overall economy and result in even higher unemployment.

• The collapse of GM and Chrysler would have had a cascading effect through the American economy. Similar to other parts of our economy, the American automotive industry has grown increasingly interconnected. The survival of the American auto manufacturers was critical to the health of its suppliers, auto dealers, and the thousands of small businesses in communities with high concentrations of auto workers. And because Ford and other auto companies depended on those same suppliers, the collapse of GM and Chrysler could have caused the failure of other auto companies as well. In fact, observers estimated that the bankruptcy of GM and Chrysler could have resulted in 1 million jobs lost.

• The failure of GM and Chrysler would have also resulted in significant government liabilities. Had GM and Chrysler failed, the government and the American taxpayers would have borne substantial costs in providing social safety support and healthcare to workers and communities devastated by the crisis.

OBAMA ADMINISTRATION ACTIONS

To avoid the collapse of the auto industry, the Administration intervened to stabilize GM and Chrysler and protect American manufacturing jobs

• Against the vocal opposition from public commentators, the President decided to stand behind the American auto industry and protect manufacturing jobs through additional
financial support. The Administration rejected initial restructuring plans from GM and Chrysler, challenging them to develop more aggressive blueprints to return to viability. In response, both GM and Chrysler developed substantially more forward-leaning plans to restore financial viability even in a challenging economic environment.

- Launched “Cash for Clunkers” to support demand for the auto industry: In July 2009, the Administration launched “Cash for Clunkers,” which provided $3,500 or $4,500 rebates to auto buyers. The program provided critical support to the auto industry at the height of the crisis, sparking nearly 700,000 in auto sales that some analysts estimate generated more than $25 billion in economic activity.

**FIVE YEARS LATER**

*As a result of actions taken to stabilize the auto industry, auto manufacturers are once again profitable, competitive, and growing*

- **The big three American automakers are profitable.** In 2011, the auto industry reached an important milestone when all three major American automakers posted net profits for the first time since 2004. In fact, each of the Big Three have posted positive net income every year since. The growing profitability of the American auto industry is reflected in the growing value of GM and Ford, which are both up more than 50% over the past year.

- **The American auto sales are growing – with GM sales at their highest level since 2008 and Chrysler reporting 41 straight months of improving sales.** Supported by the orderly restructuring enabled by federal assistance, the American auto industry is growing again. In August 2013, GM posted its best month of sales since 2008 and Ford its best month since 2006, while Chrysler reported its 41st straight month of year-over-year sales gains. In fact, overall American auto sales in August 2013 were higher and grew faster than any month since 2007.

- **The Big Three automakers all gained market share for the first time in 23 years.** After years of steady market share declines, in 2011, Ford, GM, and Chrysler gained market shares in the United States for the first time since 1988. This represented an incredible resurgence of the American auto industry, just two years after the near collapse of GM and Chrysler.

- **Exports of American autos are higher now than ever.** In 2012, more than 1 million cars and trucks were exported from US factories, the highest recorded in history and more than a threefold increase from 2003.

- **The number of American auto manufacturing jobs is growing again.** Since June 2009, the American auto industry has created more than 340,000 jobs. In fact, since 2009, 1 in every 4 manufacturing jobs added in the U.S. came from the auto industry. The non-partisan Center for Automotive Research estimated that 1.45 million Americans are working as a direct result of the auto bailout both at the automakers and associated businesses downstream in the economy.
American taxpayers are being paid back significantly more than expected. Despite the chorus of warnings that the government would not recoup the vast majority of its investments in the auto companies, American taxpayers are seeing progress. Chrysler repaid its loans to the government 6 years ahead of schedule, returning 90% of the total invested. The Treasury has also recovered a substantial portion of its investments in GM and plans to fully exit the company in the coming year. Ally, formerly known as GMAC, also recently announced a plan to pay the government back another $6 billion; Treasury is continuing to work with the company to recover its remaining investment.
VII. HOUSING

**FIVE YEARS AGO**

- **Home prices had fallen by 19% since a year earlier,** the largest one year drop in home prices ever measured, and leaving over 10 million borrowers underwater. Some cities were hit even worse, with areas like Phoenix and Las Vegas seeing declines of greater than 50 percent.

- **Housing starts had plummeted nearly 80 percent from their peak** to a level below 500,000.

- **Both new and existing home sales were near all-time lows** under 500,000 and 4 million respectively.

- **Millions of homeowners faced distress,** with around three million seriously delinquent borrowers.

- **More than 100,000 construction jobs were being lost each month,** with the fall in residential construction reducing GDP by 1 percent in the prior year.

![Chart 7.1: U.S. Foreclosure Filings per Month](image)

Source: RealtyTrac, Inc., Bloomberg

**OBAMA ADMINISTRATION ACTIONS**

*The Administration took immediate action to stabilize and heal our housing market*

- **Home Affordable Modification Program (HAMP)** was launched to help borrowers avoid foreclosure by making their payments more affordable through permanent loan modifications.

- The Administration worked with regulators to help responsible underwater borrowers refinance through the Home Affordable Refinancing Program (HARP) and FHA’s Streamline and Short Refinance Programs.
• As private lenders exited the mortgage market, the Federal Housing Administration (FHA) stepped up its lending, playing a critical counter-cyclical role that helped ensure the continued flow of mortgage credit to consumers all while taking steps to strengthen the program and rebuild its reserves for the long term. According to independent analysis, absent FHA interventions, mortgage interest rates would have doubled and home prices would have fallen by an additional 25 percent.

• The Hardest Hit Fund (HHF) committed $7.6 billion in resources to states to develop locally-tailored programs that assist struggling homeowners.

• A number of programs targeted the uneven recovery to help communities stabilize. The Neighborhood Stabilization Program (NSP) allocated $7 billion to thousands of neighborhoods to address foreclosed and abandoned homes, HUD's Homeless Prevention and Rapid Rehousing Program helped Americans that were homeless or at risk of becoming homeless due to the financial crisis get promptly rehoused or access assistance to remain housed, and HUD's Tax Credit Assistance Program and Treasury's Credit Exchange Program protected the affordable rental housing market, ensuring development continued when markets froze.

• HUD launched an Office of Housing Counseling and worked with HUD-approved housing counselors to assist over 9 million families in making smart and informed financial decisions.

• The Administration created the Consumer Financial Protection Bureau (CFPB) to better protect borrowers and make buying a home a simpler and safer process.

• Expanded refinancing for underwater borrowers through additional flexibilities in Home Affordable Refinancing Program 2.0 (HARP) and FHA Streamline Refinance Program.

• The Administration tripled incentives for principal reduction in HAMP to help underwater homeowners.

• The National Mortgage Servicing Settlement was negotiated along with 49 state Attorneys General to hold banks accountable and assist struggling homeowners. Over 1.5 million homeowners have received more than $50 billion in committed relief due to the National Mortgage Servicing Settlement.

• DOJ has brought 1,600 mortgage fraud cases against 3,000 defendants over last three years, and has collected more money for victims of housing discrimination in the last fiscal year than in the previous 23 years combined.

• Through HAMP and FHA, unemployed borrowers can delay payments on their mortgages for up to 12 months while they are looking for a job, up from a 3 month limitation.

• The Administration continued to help state and local housing finance agencies through the New Issue Bond Program to extend affordable mortgage credit to more than 135,000 working families and enable the development and rehabilitation of 40,000 affordable rental units.
• The Administration partnered with 3,000 American Jobs Centers to provide housing counseling to help unemployed homeowners avoid foreclosure.

• The HUD Distressed Asset Stabilization Program was launched to require investors who purchase FHA non-performing loans in hardest hit areas to commit to managing the property in a manner that avoids foreclosure, vacancy and abandonment.

• The FHA “Back to Work Initiative” was established to create a path to homeownership for borrowers whose credit suffered during the crisis because of circumstances beyond their control.

**Five Years Later**

• HAMP led to 7 million homeowners getting government or private mortgage modifications – twice as many as those who went through foreclosure during the Obama Presidency. The program has directly helped more than 1.2 million borrowers to date and an additional 1.9 million homeowners have received foreclosure prevention assistance through the Federal Housing Administration (FHA). The Administration’s programs continue to encourage improved standards and processes in the industry, with private sector lenders offering families and individuals more than 3.7 million proprietary mortgage modifications. Collectively, nearly 7 million homeowners have received some form of relief since April 2009.

**Chart 7.2: Cumulative Mortgages Receiving Aid and Mortgages Foreclosed Since April 1, 2009**

![Chart 7.2: Cumulative Mortgages Receiving Aid and Mortgages Foreclosed Since April 1, 2009](image)

- FHA Loss Mitigation
- HAMP Modifications
- Hope Now Modifications
- Foreclosure Completions

Source: Source: U.S. Department of Housing and Urban Development, U.S. Department of the Treasury, Hope Now Alliance, and RealtyTrac

• Tripled incentives for principal reduction in HAMP to help underwater homeowners. In recent months, approximately 70 percent of eligible borrowers in HAMP have received some form of principal reduction. Prior to the introduction of principal reduction in HAMP, only about 1 percent of all loan modifications included principal reduction.
• **Worked with states to use HHF for blight elimination.** Michigan plans to use $100 million of its existing HHF allocation for demolition and greening of blighted properties, and Ohio plans to use $60 million to support blight elimination in their communities.

• **Refinancing nearly tripled after the introduction of HARP 2.0, from 400,000 in 2011 to 1.1 million in 2012,** bringing the total number of families that have refinanced under HARP to more than 2.8 million through July 2013 and saving the average family $3,000 a year.

• **Home building is coming back, leading to an upswing in construction jobs.** Recent housing starts are up roughly 75 percent from their April 2009 bottom of 478,000, while the number of residential construction jobs is on the rebound.

• **Existing home sales have increased 47.2 percent** from their crisis low and are approaching historical norms of about 5.0 million units.

• **Housing wealth is growing again, with owners’ equity up $2.8 trillion** since hitting a low at the beginning of 2009. This in turn has contributed to increased economic activity through consumer spending, small business investment, and more.

• **Home prices are rising at the fastest pace in seven years,** up more than 12 percent in the past year. Rising prices have brought nearly 5 million families out from being underwater in the last 6 quarters.

![](chart7.3.png)

- Chart 7.3: Case-Shiller 20 City Home Prices YoY % Δ

  Source: Bloomberg

• **Still, more work remains to be done to improve wider access to affordable mortgage credit,** address the uneven recovery across communities, and move to a more sustainable equilibrium where government does not back such a high percentage of the mortgage market.

• **Going forward, we also need to end the failed business model of Fannie Mae and Freddie Mac,** putting private capital at the center of the housing finance system while preserving access to a 30 year fixed rate mortgage for creditworthy borrowers.
VIII. SMALL BUSINESS

**FIVE YEARS AGO**

*With banks on the edge of collapse and weak consumer demand, small businesses, the traditional engine of our economy, struggled under the weight of the Great Recession*

- **Reduction in credit availability had a disproportionate impact on small businesses.** Collapse in bank lending dramatically reduced credit availability for small businesses, even when loans were Small Business Administration (SBA) guaranteed. From their peak in 2007 through 2010, the number of small business loans declined by 68 percent.

- **Declining home and asset value dramatically reduced availability of collateral.** With falling commercial and residential real estate values, traditional sources of small business collateral disappeared. This further reduced small businesses' ability to obtain needed capital.

- **Small businesses experienced a spike in bankruptcies.** In 2006, fewer than 20,000 US companies filed for bankruptcy protection while in 2009 the number of firms declaring bankruptcy jumped to 61,000. Many of these firms were small businesses. In fact, small businesses lost 40 percent more jobs than larger firms during the Great Recession.

- **American economy lost a critical driver of growth.** Over the last two decades, small and new businesses have been responsible for creating two out of every three net new jobs. The decline in small business creation and growth undermined an important engine of growth for the American economy.

**OBAMA ADMINISTRATION ACTIONS**

*The Administration took immediate actions to invest in entrepreneurship and small businesses*

- **Supported small businesses through TARP programs.** Treasury established the Community Development Capital Initiative (CDCI) and administered the Capital Purchase Program (CPP) to stabilize small and large banks across the country. Over 90 percent of CPP and CDCI participants were banks with less than $10 billion in assets, nearly 70 percent were small banks with assets under $1 billion, and the median size of CPP banks was approximately $500 million in assets.

- **Treasury supported the liquidity of key SBA lending program.** At the depth of the Great Recession, even government guaranteed small business lending was frozen. To ensure that small business continued to access needed capital, Treasury stepped in to support liquidity by purchasing the government guaranteed portion of SBA 7(a) loans. Treasury also increased the level of guarantees it provided in SBA 7(a) and decreased the fees paid by small businesses. By
January 2012, when Treasury closed the program, $367 million of small business loans were supported through the program and taxpayers earned a return of $9 million.

- **The President championed key legislation to cut taxes and support small businesses.** The President championed and signed key legislation to support the growth of small businesses, including the American Recovery and Reinvestment Act of 2009 as well as the most significant small business legislation in over a decade (Small Business Jobs Act of 2010) and legislation to make it easier for small businesses to raise capital (Jumpstart Our Business Startups Act of 2012). These bills supported the record expansion of SBA’s lending programs, and created critical new programs, including the Small Business Lending Fund (SBLF) to support bank lending to small business and the State Small Business Credit Initiative (SSBCI) to bolster state and local programs that help small businesses access credit.

- **Increased the number of lenders that participate in SBA programs.** SBA lending programs today include more than 1,000 additional community banks, and many more mission-based lenders that are supporting more small businesses and entrepreneurs across the country, oftentimes in the communities hit hardest by the financial crisis.

### Five Years Later

**Today small businesses are making a remarkable comeback, and are once again the engine of job and economic growth**

- **SBLF successfully increased the amount of capital available for small business.** As of March 31, 2013, SBLF participants increased their small business lending by $9.0 billion over a $36.3 billion pre-program baseline. Over 80 percent of these participants had increased their lending by 10 percent or more.

- **SSBCI successfully leveraged state and local resources to support lending to small businesses.** As of September 2013, Treasury disbursed over $870 million in SSBCI funds, which supported $1.9 billion in private loans and investments in small businesses as of the end of 2012. These funds have helped support thousands of small businesses, with nearly 80 percent of SSBCI loans or investments going to businesses with fewer than 10 employees.

- **President championed critical tax relief to small business owners.** The President championed and signed a total of 18 tax cuts for small businesses. These tax cuts have helped more small businesses invest in expanding their businesses and create new jobs.

- **The cost of borrowing for small business is coming down.** Cost of borrowing for small business relative to larger businesses has declined for 10 straight quarters.

- **More small businesses are getting approved for loans.** Approvals for small business lending have been making a comeback. In November 2012, small banks approved more small business loans than they rejected for the first time since the recession. Over the last 4 years, SBA supported more than $106 billion in lending to more than 193,000 small businesses and
entrepreneurs. This includes two record years of delivering over $30 billion in loan guarantees annually.

- **Terms of small business loans are easing.** Loan officers reported easing of credit terms in nine of the past 10 quarters. And demand for loans from small businesses either increased or stayed flat in seven of the past eight quarters, with the highest recorded demand since 2005 coming in the first half of 2012.

- **Administration put focus on small business contracting.** In the last three years, small businesses accessed more than $286.3 billion dollars in federal contracts. That is $32 billion more than the previous three years, despite an overall decline in spending during those years.

- **1 million small businesses and entrepreneurs are receiving training each year.** SBA's national network of district offices, Small Business Development Centers, and Women's Business Centers help train 1 million small business owners and entrepreneurs every single year.
IX. CONSUMER LENDING

FIVE YEARS AGO

- The collapse of Lehman Brothers in September 2008 led to widespread panic and a “run” on many of the key sources of funding for financial institutions. Losses on Lehman debt led to withdrawals from money market mutual funds (MMFs) and a contraction in the commercial paper market used by corporations to finance their businesses.

- As capital markets froze and funding dried up, banks reduced lending to consumers and businesses to conserve liquidity. The nation’s largest banks reduced loans to consumers by 79 percent in 2008, and consumer credit became virtually inaccessible. Nearly $2 trillion in lending capacity – half of all money loaned to business and consumers in 2007 – disappeared. Americans were unable to finance necessities like mortgages, automobiles, education, or credit cards.

- Increasing job loss and decline in income as a result of the Great Recession made it more difficult for millions of Americans to meet their debt obligations. By 2009, the delinquency rate and severe delinquency rates on consumer loans had roughly tripled and quadrupled, respectively, in just 3 years.

OBAMA ADMINISTRATION ACTIONS

The Administration took immediate action to increase the flow of credit and to provide help to struggling Americans

- The Administration took steps to restart frozen credit markets. The expanded Term Asset-Backed Securities Loan Facility (TALF), jointly announced with the Federal Reserve, helped revitalize securitization markets by encouraging investors to buy securities backed by consumer loans. Independent analysis has found that TALF played a crucial role in restoring liquidity and thus preventing the shutdown of consumer credit markets during the brunt of the crisis. Aiding TALF was the new Public-Private Investment Program (PPIP), which successfully supported the markets for legacy mortgage-backed securities and contributed to ensuring credit markets remained open for households and businesses.

- The Helping Families Save their Homes Act of 2009 reinvigorated the flow of credit in the economy by extending temporary increases in deposit insurance and increasing the borrowing authority of the Federal Deposit Insurance Corporation (FDIC). The act also ensured credit unions could continue to make credit available by increasing the borrowing authority of the National Credit Union Administration (NCUA).

- As private lenders exited the mortgage market, the Federal Housing Administration (FHA) stepped up its lending, playing a critical counter-cyclical role that helped ensure the continued flow of mortgage credit to consumers. According to independent analysis, absent
FHA interventions, mortgage interest rates would have doubled and home prices would have fallen by an additional 25 percent.

- **TARP’s Auto Industry Financing Program (AIFP) stepped in to support the financing arms of the auto industry.** The support of General Motors Acceptance Corporation (GMAC) and other auto financing firms ensured that consumers had access to financing when making auto purchases and further bolstered the auto industry during a critical time. This program also provided support for dealers and enabled them to be able to keep cars on their lots.

**FIVE YEARS LATER**

- **The Administration’s response unclogged the credit pipes of the financial system, improving credit access for borrowers while lowering borrowing costs.** Since the recession, the prices of auto loans and credit card borrowing have improved substantially.

![Chart 9.1: Net Percentage of Banks Easing Lending Standards by Loan Type](chart.png)

**Source:** Federal Reserve Senior Loan Officer Opinion Survey.

- **Banks have begun easing their lending standards and have reported stronger consumer demand in most loan categories.**

- **Since 2009, the percentage of delinquent household debts has significantly decreased, from 11.9 percent to 8.6 percent.** However, more work remains to be done, as this remains significantly above pre-crisis levels and the share of seriously delinquent debts remains stubbornly high.
• Low interest rates, less borrowing, and increases in employment and income have reduced the **household debt service ratio to a historic low**, reducing households’ debt repayments and freeing up income for other spending.

[Chart 9.2: Share of Household Debt by Delinquency Status]

- **30 Days Late**
- **60 Days Late**
- **90 Days Late**
- **120+ Days Late**
- **Derogatory**

Source: FRBNY Consumer Credit Panel, Equifax, Haver Analytics

Note: Derogatory loans are loans for which there are reports of a repossession, charge off to bad debt, or foreclosure.

• Non-mortgage consumer credit growth has picked up, with auto loans and student loans accounting for most of this increase. In the former case, the widespread availability of credit and rising consumer demand for motor vehicles has led to the strong recovery of auto loans. However, the high rate of student loan delinquencies means that more work is required to stop growing student debt burdens.
X. HOUSEHOLD WEALTH

**FIVE YEARS AGO**

- In the two years before the President took office, U.S. households lost a staggering $17 trillion dollars in wealth. The median family’s net wealth dropped by $11,400 in this two year period, a loss of 18.1 percent. This loss was broad-based, with over 60 percent of American families seeing their wealth decline between 2007 and 2009 as the recession took its toll.

- Americans lost $5.6 trillion in home equity during the same period. Across the nation, home prices plummeted, dropping approximately one-third from their peak in 2006 to the beginning of 2009.

- Assets in retirement accounts such as 401(k)s dropped $2.8 trillion between September 2007 and December 2008. Equity indices worldwide fell by more than 40 percent in 2008, with the S&P 500 dropping by 688 points from 1,496 in 2007 to 808 in early 2009 – the largest single-year decline in decades.

- While the majority of American families were hit by the recession, vulnerable groups were especially devastated. Young people, those with less education, and members of historically disadvantaged minority groups were particularly hard-hit.

![Chart 10.1: Household Net Worth](chart.png)

Source: Federal Reserve, Bloomberg

**OBAMA ADMINISTRATION ACTIONS**

The Administration took immediate actions to help struggling families

- Signed into law the $800 billion Recovery Act within 30 days of taking office. With leadership and support from the President, Congress passed the American Recovery and
Reinvestment Act, which was signed into law by President Obama on February 17. The Act was necessary to stem the tide as demand in the U.S. and around the world continued to contract.

- In addition to Administration efforts to stabilize the financial system and the economy, the President prioritized further help for middle class and working families by signing into law tax relief legislation.
  - The President signed into law the American Opportunity Tax Credit, worth $10,000 over four years and currently helping 9 million families cover the cost of college.
  - By increasing the Earned Income Tax Credit, the Administration helped moderate-income working families make ends meet. The Recovery Act increased the credit for families with three or more children, bringing the maximum amount to $5,657.
  - The Child Tax Credit was expanded, helping low- and moderate-income families with children, by reducing the minimum amount of earned income used to calculate the additional child tax credit to $3,000 from $12,550.
  - The Administration negotiated a bipartisan agreement that led to a payroll tax cut for 160 million working Americans, giving them in effect a 2 percent raise through the end of 2012. A family earning $50,000 got a tax cut of $1,000.

- The Administration took unprecedented actions to stabilize housing markets and prevent further loss in home equity. The government’s foreclosure prevention efforts kept millions of families in their homes through programs such as the Home Affordable Modification Program (HAMP), the Hardest Hit Fund (HHF), and the Home Affordable Refinancing Program (HARP).

- The Affordable Care Act gave families additional security during difficult financial times. Nearly 17 million children can no longer be denied care due to a pre-existing condition, 6.6 million young adults can stay on their parent’s insurance through age 26, and more than 5 million seniors have saved an average of $768 each on the cost of their prescription drugs. The Act also ends lifetime caps on how much care insurers will pay for and requires insurance companies to spend at least 80 cents of a premium dollar on health care or improvements to care.

**FIVE YEARS LATER**

- By the end of 2012, Americans had recovered $14.7 trillion of aggregate household net worth, recouping 91 percent of the recession losses.

- Housing wealth is up $2.8 trillion since hitting a low at the beginning of 2009. This in turn has contributed to increased economic activity through consumer spending, small business investment, and more. Home prices are rising at the fastest pace in seven years, up more than 12 percent in the past year. Rising prices brought 5 million families out from being underwater in the last 6 quarters.
• **Retirement assets and other financial assets have made significant gains since 2009.** Stock markets continue to rally, with the S&P 500 up over 100 percent during President Obama’s Administration.

• **Strong employment growth has also aided in household wealth recovery; as of July 2013, the economy had added private sector jobs for 42 consecutive months,** and a total of 7.5 million jobs have been added over that period. American manufacturers have added more than 500,000 jobs since January 2010, the strongest period of job growth since 1989.

• **While much has been accomplished, there is still work left to do.** While the majority of wealth lost during the recession has been recovered, that recovery has not been felt equally across the socioeconomic spectrum. Adjusted for inflation and population growth, only 45 percent of wealth lost during the recession has been recovered, and many of the hardest hit households did not benefit as much from the rebound in financial assets prices.
XI. CONSUMER PROTECTIONS & CFPB

FIVE YEARS AGO

The financial crisis demonstrated one of the most glaring gaps in our regulatory framework – the absence of a watchdog agency to protect consumers for financial products and services

- In the lead-up to the foreclosure crisis, some lenders engaged in predatory lending practices that misled families to take on mortgages for homes they could not afford. These practices included offering “no doc” and “low doc” mortgages, where a borrower's financial situation and ability to repay a loan was not appropriately taken into account. Some banks also offered “interest only” mortgages that resulted in unpredictable and fluctuating monthly payments. And in other instances, hidden fees and misleading marketing tactics were used against the interest of the borrower.

- Regulation of certain consumer financial industries, including payday lenders, consumer reporting agencies and debt collection agencies was inadequate. Many financial activities fell outside of a rigorous regulatory framework. As a result, some consumer financial industries, including payday lending and debt collection, operated without adequate safeguards for consumers.

- Federal agencies and state agencies lacked a regulatory system of cooperation to enforce consumer financial protection laws. The lack of collaboration resulted in counterproductive regulatory actions undermining the impact of consumer financial protection laws.

- No single federal agency existed whose primary mission was to protect consumers from irresponsible financial practices.

OBAMA ADMINISTRATION ACTIONS

- The President fought for and signed into law the strongest consumer financial protections in history with the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act consolidated the consumer protection authorities of seven regulators into one agency, the Consumer Financial Protection Bureau (CFPB) and tasked it with a single job: to protect families when they make important financial decisions.

- The Administration acted aggressively to hold financial firms accountable for their actions, including:
  - The largest mortgage settlement in history that have helped 1.5 million homeowners receive more than $50 billion in relief
  - More money for victims of housing discrimination in the last fiscal year than in the previous 23 years combined
More than 1,600 mortgage and financial fraud cases brought by DOJ against 3,000 defendants over last three years

**FIVE YEARS LATER**

The CFPB established safer lending standards, is working to make financial education, assistance, and disclosures more accessible, and provides federal supervision and accountability

- **The CFPB established safer national mortgage standards to protect middle class families.** The CFPB created safe mortgage standards for loans that meet Ability-to-Repay requirements by requiring lenders to determine that a borrower can repay both the principal and interest of a mortgage loan over the long term, based upon the borrower’s income, debt, and other factors.

- **The Bureau has launched new requirements and initiatives to help ensure that the mortgage and other consumer lending processes are transparent and straightforward, and empowered consumers with the financial information necessary for borrowing decisions.** Efforts by the CFPB include:
  - New requirements to provide consumers with clear monthly mortgage statements, warnings before interest rates adjust for adjustable rate mortgages and the right to dispute errors.
  - A “Know Before You Owe” campaign so consumers and lenders are able to view the costs and risks before closing on a mortgage.
  - A requirement that borrowers receive housing counseling before a high-cost mortgage is made.
  - A single, simple mortgage disclosure form to guarantee that integrated mortgage disclosures are transparent and improve consumers’ understanding of their mortgage loans.
  - A complaint hotline, which has handled 175,000 complaints from consumers in every state around the country.
  - Assistance for consumers by working with their financial institution to solve specific problems.
  - Caps on fees and points that can be charged by lenders for mortgages.
  - Qualification standards on lenders including criminal record checks and training requirements.

- **Federal supervision of lenders became an institutional component of federal lending regulation to foster compliance with newly imposed restrictions, standards, and federal consumer financial laws.** Consumer reporting agencies, debt collection agencies, and payday lenders are subjected to federal supervision for the first time, affecting over 200 million
consumers. Additionally, all banks with $10 billion or more in assets and all nonbank financial institutions that participate in the mortgage market are all federally supervised.

- **The President improved governmental cooperation in enforcing consumer financial protection laws**, by leading the Department of Justice to execute agreements with various federal and state agencies to address overlapping authorities and regulatory powers.

- **The CFPB took enforcement actions resulting in companies refunding over $400 million to over 6 million consumers** so that money is returned to consumers for deceptive marketing and unreasonable fees. The CFPB has brought enforcement actions and obtained consent orders from the banks for unfair, deceptive, and abusive card practices. The Department of Justice has brought over 1,600 mortgage fraud cases against almost 3,000 defendants.
XII. PREVENTING EXCESSIVE RISK TAKING

**Five Years Ago**

- **The increasing use of securitization to fund loans without appropriate safeguards led to a decline in underwriting standards.** Originators made loans that were then packaged by securitizers, who in turn sold them as securities to investors. Because these securities could be readily sold, originators and securitizers had little interest in whether the borrowers would be able to repay their loans. Without a financial incentive to perform due diligence or verify underwriting quality, underwriting standards for new loans fell and excessively risky asset-backed securities flooded the market.

- **Other, large-scale bank-like activities outside of the regulated banking system grew significantly prior to the crisis.** In the lead up to the financial crisis, firms that were not subject to banking regulations became large sources of mortgage, consumer, and corporate credit. These entities included asset back commercial paper conduits, structured investment vehicles (SIVs), and some hedge funds. These “shadow-banking” entities often made money by borrowing short and lending on a longer-term, higher-yield basis, much like banks. But unlike banks, such activities were funded by the short-term debt markets, not deposits, and lacked the supervisory and regulatory standards of the traditional banking system. When the recession hit, these entities were forced to liquidate as the markets were no longer willing to lend to them. This resulted in a rapid contraction in credit and often “fire sales” of assets at depressed prices.

- **Many of the largest banks took on excessive risks, relied on less stable forms of funding, and lacked sufficient capital and liquidity.** As losses mounted in housing related assets, particularly in subprime asset backed securities and off-balance sheet vehicles in 2007 and 2008, market participants feared that bank capital levels would prove inadequate to absorb ongoing losses. This was exacerbated by speculative positions banks took prior to the financial crisis that suffered losses and sponsored investment vehicles that were sold to their clients and required extraordinary support.

- **In addition to engaging in risky, non-traditional banking activities, many banks were overly reliant on other financial institutions as counterparties to their funding and risk management activities.** This resulted in excessive risk concentration as numerous financial institutions were too reliant on other large financial institutions for critical operational aspects of their businesses.

- **The failure of Lehman Brothers in September 2008 led to a widespread panic that initially affected Wall Street firms but quickly impacted non-financial businesses as many lost access to funding.** Lehman’s deep interconnectedness as a derivatives dealer and uncertainty about potential losses to counterparties led to a broad freeze in markets. Losses on Lehman debt further exacerbated the crisis as it led to a large money market mutual fund (MMF) “breaking the buck” and significant withdrawal requests across the MMF industry. The large withdrawals from MMFs resulted in these entities no longer being able to provide the funding used by many corporations to finance their businesses. Meanwhile, banks saw substantial deposit withdrawals.
and runs by counterparties. This led to stress that rippled through the financial system and the broader economy.

**Obama Administration Actions**

*The Administration is taking decisive action to prevent and mitigate excessive risk-taking across the financial system*

- **Regulators are shining a light on the shadow banking system.** Reforms under the Dodd-Frank Act include expanded reporting regarding hedge funds and private equity funds and asset-level disclosures for securitizations. New accounting standards moved off-balance sheet exposures out of the shadows and onto firms’ balance sheets. These reforms also allow regulators and investors to better understand the risks that develop in financial firms and across the markets.

- **Reforms put the toughest standards on the largest firms and directly limit interconnectedness.** Wall Street reforms require that the largest, most complex firms meet higher capital, liquidity and risk management standards, giving them incentives to reduce their size and risk. These institutions also must now prepare resolution plans (i.e. living wills) and undergo regular stress tests.

- **The Administration pushed for and the Dodd Frank Act adopted the Volcker Rule to prohibit banks from risky proprietary trading and sponsoring investment funds that are unrelated to serving the bank’s core customers’ needs.** Recent failures in risk management show the importance of not allowing banks to engage in higher risk, more speculative activities.

- **The FSOC helped create momentum for implementing structural reforms to MMFs.** The FSOC issued for public comment a set of proposed recommendations for MMF reform that was followed by an SEC rule proposal to address risks posed by MMFs.

**Five Years Later**

- **Many of the elements of the “shadow banking” system have become smaller, posing less risk.** For example, special-purpose investment vehicles (SIVs) used prior to the financial crisis to fund long-term investments by borrowing through short-term commercial paper issuance have virtually disappeared and CDO issuance has fallen materially. Furthermore, the overall asset-backed commercial paper market has shrunk by 78 percent since its peak in 2007 and the tri-party repo market has shrunk by nearly 41 percent since its peak in 2008.
• **Financial firms have reduced their reliance on short term funding by nearly half since 2007.** The share of financial firms’ assets supported by less stable wholesale short-term funding has dropped from a peak of 31 percent in 2007 to 17 percent this year.

• **Wall Street Reform is closing gaps in regulation.** The FSOC has now designated two nonbank financial companies – subjecting them to enhanced prudential standards and comprehensive oversight imposed by the Federal Reserve. This standing authority allows the FSOC to identify risks building up outside of the banking system and to require regulation of any nonbank financial company, if the FSOC determines that the company could pose a threat to U.S. financial stability. In addition, the FSOC has designated eight financial market utilities as systemically important subjecting them to enhanced risk-management standards and supervision.

• **The banking regulators remain focused on reducing interconnectedness in the financial sector and reducing complexity at large financial institutions.** The Federal Reserve System has proposed rules covering single counterparty credit limits that are far more robust than the framework that was in place prior to the crisis. In addition, the Dodd Frank mandate that large firms must develop “living wills” has motivated large financial institutions to reduce their operational complexity.
XIII. LIMITING THE IMPACT OF FAILING FIRMS

**Five Years Ago**

- Poor visibility into financial institutions’ exposures to complex structured products made it difficult to accurately assess the risks and liabilities of many financial firms. The widespread use of derivatives and other shadow banking products allowed many firms to build up substantial off-balance sheet leverage and hidden risks. When the crisis hit, this opaqueness complicated efforts of counterparties, investors, and regulators to understand the risks posed by these financial institutions, and undermined confidence in the broader system.

- The institutions in our financial system were increasingly interconnected. As a result, weakness in one institution had the potential to quickly spread to other institutions, including nonbanks such as insurance companies and certain asset managers.

- Regulators lacked effective resolution tools for large financial institutions facing failure. Due to the interconnectedness of our financial firms, regulators feared the collapse of a large financial institution could lead to further market disruption and additional failures. This rendered some firms too interconnected and “too big to fail.”

- Without tools to handle the failure of large, complex financial firms, the government facilitated a number of sizable mergers in 2008, further increasing concentration in the sector. Regulators facilitated a number of bank mergers through the FDIC to avoid disorderly failures of Washington Mutual, Wachovia, and Countrywide. Lacking any resolution authority for nonbank firms, regulators also facilitated the acquisitions of Bear Stearns and Merrill Lynch.

- The collapse of Lehman Brothers showed the damage that could be caused by the disorderly failure of a complex, interconnected firm. The September 2008 failure of Lehman Brothers contributed to widespread panic in the markets and a wholesale run on banks and other sources of funding, including the money market mutual fund (MMF) industry. The collapse of Lehman disrupted short-term funding markets (e.g., MMFs, repo, commercial paper) that were critical to bank operations, and contributed to further declines in asset values that put additional strains on the solvency of our financial system.

**Obama Administration Actions**

- The Administration’s very first public proposal for Wall Street Reform was for new tools to make sure that no financial firm would be considered “too big to fail.” The Administration’s proposal became the Dodd-Frank orderly liquidation authority – a bankruptcy-like approach that allows any financial firm to be liquidated without a threat to financial stability.

- The Administration worked with Congress to make sure that bailouts would not be allowed by law. Under the Dodd-Frank orderly liquidation authority, a firm’s shareholders are wiped out, culpable management is fired, and creditors, executives, and the financial industry
bear the costs – not taxpayers. Dodd-Frank explicitly prohibits the use of taxpayer money to bail out a failing firm.

- **The Administration pursued reforms to prevent further consolidation among U.S. banking firms through acquisitions.** Dodd-Frank incorporates provisions regarding banking acquisitions, including a requirement that the appropriate federal banking agency consider the risks to U.S. financial stability in its review of a banking organization merger, and prohibits banks from merging with or acquiring control of another company if the total consolidated liabilities of the acquiring company upon consummation of the transaction would exceed 10 percent of the liabilities of all financial companies.

### Five Years Later

- **Large banks are now required to create “living wills” to provide a roadmap for resolving the firm through bankruptcy.** These comprehensive plans will help regulators wind them down in a rapid and orderly fashion in the event of failure. If the plans are not credible, regulators have the authority to force firms to revise the plans, simplify their businesses, and reduce the risks they pose.

- **New tools have also been put in place to orderly and responsibly resolve failed financial institutions.** Wall Street reforms also established a framework to address the failure of large financial firms when regular bankruptcy is inadequate to mitigate the potential impact on other financial firms and the economy. The FDIC now has the tools to liquidate the assets of a large firm in a responsible manner, similar to the authorities that they have historically been used to successfully resolve insured banks.

- **International regulators have worked together to align standards and coordinate actions in the event of the failure of a large global firm.** Authorities have agreed to key principles for resolving large, complex firms in a coordinated manner. The FDIC has also outlined a resolution strategy intended to minimize global disruptions and facilitate cooperation among international authorities.
XIV. BANK CAPITAL

**FIVE YEARS AGO**

- The crisis proved that most banks maintained an unacceptably low capital cushion of Tier 1 capital (a measure of high quality, loss absorbing capital). International bank regulatory agreements required a minimum of 4 percent Tier 1 capital while U.S. capital standards required a minimum of 6 percent Tier 1 to be considered well capitalized.

- After banks suffered billions of dollars in losses beginning in mid-2007, market participants feared that bank capital levels would prove inadequate to absorb ongoing losses. In response to the deepening crisis, Treasury deployed TARP resources to inject nearly $250 billion into U.S. banks. However, despite the initial round of TARP bank investments in fall of 2008, markets remained leery of the continued potential for bank failures.

**OBAMA ADMINISTRATION ACTIONS**

- In February 2009, the Administration announced comprehensive stress tests of the nation’s largest banks to ensure that these banks had sufficient capital in order to help stabilize the financial system. Alongside the stress tests – designed and administered by the Federal Reserve, the FDIC, and the OCC – Treasury indicated any bank found to have an insufficient amount of capital to continue normal operations would be forced to raise capital, preferably from private sources but, if necessary, through a government backstop program that was established.

- Financial reform has further strengthened capital standards. The Administration also pushed for higher prudential standards for the largest banks as part of financial reform while also seeking higher capital standards as part of new international banking rules (Basel III).

**FIVE YEARS LATER**

- Bank capital has doubled over the last five years, substantially increasing the stability of the U.S. banking system. As a result of the combination of stress tests and increasing capital requirements, the largest banks have increased Tier 1 common equity by nearly $450 billion since 2008, doubling their aggregate Tier 1 common equity ratio, from 5.6 percent of risk-weighted assets to 11.1 percent as of mid-2013.
• **U.S. and international standards have significantly increased the quality and quantity of capital banks must now hold.** For example:

  o Basel III has raised the minimum Tier 1 capital ratio from 4 percent to 6 percent, while adding an additional capital buffer of 2.5 percent and a surcharge for the largest, most interconnected firms. It also created a minimum Tier 1 common capital ratio of 4.5 percent, or 7 percent with the capital buffer. The Dodd-Frank Act also subjects the largest banks to enhanced prudential standards, including additional capital and liquidity requirements.

  o The U.S. banking regulators also went a step further by requiring more stringent risk-weights for various categories of assets, which will require banks to hold more capital against the same types and amounts of assets.

  o The United States has gone beyond Basel III by proposing supplemental leverage ratios for the largest banks.

• **Banks now hold sufficient capital so that, even under adverse stress test scenarios, they would hold more of it than their actual capital levels in 2008.** Under the severely adverse scenario of the latest stress tests, the estimate of firms’ post-stress Tier 1 common capital ratio is more than 2 percentage points higher than their actual capital levels at the end of 2008.
XV. DERIVATIVES

Five Years Ago

- In the years prior to the financial crisis, over-the-counter (OTC) derivatives, or swaps that are not traded on exchanges, exploded from $95.2 trillion in notional amount at year-end 2000 to $672.6 trillion in June 2008. In particular, credit default swaps (CDS), a type of derivatives that allows companies to hedge or make bets on certain credit exposures, had grown even more dramatically during this period.

![Chart 15.1: Credit Default Swaps Market](chart)

Source: BIS, Haver Analytics  
Note: Notional Amounts Outstanding

- OTC derivatives were generally not subject to regulation or transaction reporting, having been exempted from CFTC and SEC regulation by statute.

- In September 2008, the failure of Lehman Brothers created substantial disruption in the derivatives markets. Even more concerning, the substantial CDS exposures of AIG threatened widespread reverberations throughout the marketplace.

Obama Administration Actions

- To address the risks posed by derivatives, the Administration pushed for fundamental reforms to strengthen the market and oversight of its participants. Dodd-Frank establishes requirements for major swap dealers and participants to be subject to greater supervision, and requires standardized OTC derivatives be traded on swap execution facilities and centrally cleared, and for data to be reported to repositories to increase transparency and price discovery.
• Internationally, the Administration pushed, via the G-20, for international agreements to mandate reporting and require central clearing of standardized derivatives, as well as to set capital and margin requirements for non-centrally cleared derivatives.

**FIVE YEARS LATER**

• The SEC and CFTC have both made substantial progress in implementing the OTC derivatives reforms required by Dodd-Frank by proposing and finalizing key rules. Swaps trade data repositories have been established, swap execution facilities are forming and the majority of the swaps market in the US is subject to mandatory clearing. These steps have increased transparency and reduced risk in the financial system.

• International efforts to implement the G-20’s commitments to mandate central clearing of standardized OTC derivatives and to require margin requirements for non-centrally cleared derivatives have made substantial progress. International groups such as the Financial Stability Board (FSB), the Basel Committee, and the International Organization of Securities Commissions (IOSCO) reached agreements on standards regarding the trading and central clearing of OTC derivatives and trade reporting, and the FSB reports that many jurisdictions have adopted legislation implementing some or all of these standards. Furthermore, the global regulatory community just adopted universal standards for margin requirements on non-cleared derivative contracts.