Federal Assistance to Troubled Industries: Selected Examples

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Federal Assistance to Troubled Industries: Selected Examples

Serious disruptions for certain industries caused by the COVID-19 (coronavirus) pandemic have led to calls for federal government assistance to affected industries. Direct federal financial assistance to the private sector on a large scale is unusual, except for geographically narrow assistance following natural disasters. Nonetheless, assistance to business sectors affected by COVID-19 would not be the first occasion on which the federal government has aided troubled or financially distressed industries. Historically, aid—sometimes popularly referred to as "government bailouts"—has taken many forms and has occurred under a wide variety of circumstances. Past assistance has involved such instruments as loan guarantees, asset purchases, capital injections, direct loans, and regulatory changes, with the specific mix of policies varying significantly from case to case. These differences make it somewhat subjective as to what should be defined as a "bailout."

To help inform congressional debate, this report examines selected past instances in which the government has aided troubled industries, providing information about the way in which such assistance was structured, the role of Congress, and the eventual cost. In order to provide greater detail, the examples all involve cases in which federal assistance was (1) widely available to firms within an industry rather than being targeted to a particular firm; (2) extraordinary in nature rather than a type of assistance that is routinely provided; and (3) motivated primarily by a desire to prevent industry-wide business failures. The coverage is not exhaustive, and excludes cases in which assistance was targeted at individual firms rather than at entire industries. In some of these cases, the government was able to recoup much or all of its assistance through fees, interest, warrants, and loan or principal repayments. In others, there were no arrangements made for recoupment or repayment. The episodes considered include the following:

- Railroad Restructuring (1957-1987)
- Farm Credit System Crisis (1980s)
- Savings and Loan Crisis (1980s-1990s)
- Airline Industry (2001-2014)
- Auto Industry (2008-2014)
- Troubled Asset Relief Program (TARP) Bank Support (2008-present)
- Money Market Mutual Fund Guarantee (2008-2009)
- Agricultural Trade-Aid (2018-2019)

Assessing extraordinary assistance can be difficult as particular episodes may play out over decades and full data about assistance may be difficult to collect and analyze. Congress has sometimes included particular oversight and reporting requirements in statutes authorizing aid. In addition, there are broader policy concerns raised by government assistance that may be impossible to quantify and do not get captured in tallies of the government's income and expenses.

Possible benefits of assistance may include avoiding potentially long-lasting disruptions to consumers, workers, local communities, and the overall economy; averting losses to federally guaranteed retirement funds; and maintaining federal tax revenues. Potential drawbacks to assistance include the possibility that it may reduce competition by rewarding incumbents over new entrants and distort the affected product market by causing (or prolonging) overproduction; that it may cause "moral hazard" if firms respond to government assistance by acting with less financial prudence in the future; and that it can delay an industry's adjustment to structural problems such as high production cost and excess capacity. In every case, federal assistance to certain industries may raise questions about the fairness of providing assistance to some businesses but not to others.

SUMMARY

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Introduction

Serious disruptions for certain industries caused by the COVID-19 (coronavirus) pandemic have led to calls for federal government assistance to affected industries. Although out of the ordinary, this would not be the first occasion on which the federal government has provided aid to troubled or financially distressed industries. To help inform congressional debate, this report examines selected past instances in which the government has aided troubled industries, providing information about the way in which such assistance was structured, the role of Congress, and the eventual cost.

Assistance for distressed industries or businesses—sometimes popularly referred to as "government bailouts"—historically has taken different forms and has occurred under varying circumstances. Assistance has not been limited to outlays by the Treasury,[1] or to actions explicitly authorized by Congress,[2] or to measures which imposed a net cost on taxpayers on an unadjusted cash-flow basis. Sometimes, the industry distress was being driven by external shocks, such as the 9/11 terrorist attacks or the 2007-2009 financial crisis, and other times it was driven by long-term secular trends, such as changes in the economic outlook for the railroad industry. Past assistance has involved such instruments as loan guarantees,[3] asset purchases, capital injections, direct loans, and regulatory changes, with the specific mix of policies varying significantly from case to case. These differences make it somewhat subjective what should be defined as a "bailout."

In order to provide greater detail, the examples discussed in this report all involve cases in which federal assistance was (1) widely available to firms within an industry rather than being targeted to a particular firm; (2) extraordinary in nature rather than a type of assistance that is routinely provided; and (3) motivated primarily by a desire to prevent industry-wide business failures. For each case, the report provides data on the costs and income to government, to the extent that they are available.

In some of the cases reviewed in this report, the government was able to recoup much or all of its assistance through fees, interest, warrants, and loan or principal repayments. In others, there were no arrangements made for recoupment or repayment. But the fact that a beneficiary of government assistance repaid a loan or gave the government shares that ultimately increased in value does not necessarily mean that the government "broke even" or "made a profit." The government had to borrow, incurring interest payments, to finance these programs, and adjusting federal outlays and receipts for inflation may not account fully for this.[4] In most cases, although not all, government assistance was provided under the assumption that it would be repaid,

[1] For example, in some cases assistance was provided through the Federal Reserve or Federal Deposit Insurance Corporation.

[2] In some cases, assistance was justified under an agency's broad discretionary authority.

[3] In the past, loan guarantees were politically attractive because the budget was reported on a cash basis. Unless and until the guaranteed loan defaulted, the government would never outlay any expenditures and it would appear to have zero cost on the budget. Since passage of the Federal Credit Reform Act (Title V of P.L. 101-508) in 1990, loan guarantees have received the same budgetary treatment as loans—the estimated implied subsidy cost is counted as an outlay at the time the guarantee is made. For additional information, see CRS Report R43811, *Cash Versus Accrual Basis of Accounting: An Introduction*, by Raj Gnanarajah.

[4] Compared to the nominal estimates, adjusting for inflation has two general effects—it makes episodes in the distant past larger relative to more recent episodes and it worsens the net outcome for the government, since recoupment of funds typically occurs in later years than the initial disbursement.

exposing the government to risk of credit loss that is not accounted for simply by adding up expenditures and receipts.

An economist would typically determine whether the government received full compensation for credit assistance by comparing the government's terms to what a private investor would have required for the loan or loan guarantee. Making such adjustments would increase the reported value of federal assistance and in some instances would indicate that taxpayers were not fully compensated—although it is fair to question what terms would have been required, for example, by a hypothetical commercial lender in the depths of the 2007-2009 financial crisis, when private credit markets were not functioning normally. In any case, if such a standard were used, it would be a more demanding one than the government typically uses to measure the costs of federal credit and guarantee programs.[5] The Congressional Budget Office (CBO) has provided assessments of the Troubled Asset Relief Program (TARP) adjusting for borrowing costs and market risk,[6] but CBO has not offered such estimates of other government assistance.

The final disposition of assets and liabilities arising from assistance often can take years. But not all sources continued to consistently report data long after the initial intervention. Thus, while the cost estimates presented here are based on official sources, they sometimes involve a degree of uncertainty. In some cases, precise information on the timing of outlays and recoupments is unclear and assumptions are necessary in order to compute the inflation adjustments. Where there is uncertainty about the timing of payments, we present a range of possible inflation-adjusted outcomes.

There are broader policy concerns raised by government assistance that are difficult to quantify and do not get captured in tallies of the government's income and expenses. Potential benefits of assistance can include avoiding potentially long-lasting disruptions to consumers, workers, local communities, and the overall economy; averting losses to federally guaranteed retirement funds; and maintaining federal tax revenues. Potential drawbacks to assistance include the possibility that it may reduce competition by rewarding incumbents over new entrants and distort the affected product market by causing (or prolonging) overproduction; that it may cause "moral hazard" if firms respond to government assistance by acting with less financial prudence in the future; and that it can delay an industry's adjustment to structural problems such as high production cost and excess capacity. In every case, federal assistance to certain industries may raise questions about the fairness of providing assistance to some businesses but not to others.

Sources

Information on the various assistance programs comes primarily from reports from the Government Accountability Office (GAO), Congressional Research Service (CRS), and executive branch agencies involved in the assistance. Specific sources are cited in the individual sections. Reporting on the programs has varied significantly over the years as different agencies have undertaken the assistance under different statutory authority. In some cases, Congress has included specific reporting requirements when assistance is authorized or other specific oversight mechanisms.

[5] Under the Federal Credit Reform Act (P.L. 101-508), the government counts the cost of government borrowing but does not make any adjustment for risk (which a private creditor would require) when calculating the cost of federal credit programs. For more information, see CRS Report R44193, *Federal Credit Programs: Comparing Fair Value and the Federal Credit Reform Act (FCRA)*, by Raj Gnanarajah.

[6] The latest assessment can be found at Congressional Budget Office (CBO), *Report on the Troubled Asset Relief Program*, April 2019, at https://www.cbo.gov/publication/55124.

Historical vote totals are included from http://www.congress.gov and from Congressional Quarterly, *CQ Almanac* (various years). Various iterations of some bills received multiple votes; for brevity, we only include the final vote taken.

Stock prices and market information are from *the Wall Street Journal* print and online versions.

Inflation adjustments are based on gross domestic product (GDP) price index data from the Bureau of Economic Analysis.

Railroad Restructuring (1957-1987)[7]

What Happened to the Company/Industry

Throughout the 1950s, the rail industry was in decline as federal spending on highways and the growth of the airline industry ate into railroads' ability to compete with those other modes of transportation. One large railroad, the New York, Ontario and Western, which had been in financial distress since the 1930s, was liquidated in 1957. Rail industry leaders advocated for one or more of the following in order to counter this trend: permission to shut down unprofitable routes, especially passenger routes; direct subsidies to continue operations; and/or encouragement of large-scale mergers to create economies of scale.[8] Congress' initial legislative response, the Transportation Act of 1958 (P.L. 85-625), created a loan guarantee program for railroads and gave the Interstate Commerce Commission (ICC) sole authority over proposals to curtail service, circumventing the previous role of state agencies. Still, the industry underwent a wave of mergers, consolidating from 110 Class I railroads in 1957 to 71 in 1970. The process culminated in the 1968 merger of arch-rivals Pennsylvania Railroad and New York Central Railroad into the Penn Central, the largest railroad in the world at the time.

By this time, a wave of bankruptcies was well underway. The New York, New Haven and Hartford Railroad had gone into bankruptcy in 1961 and was merged into the Penn Central in 1969, its inclusion having been a condition of the Penn Central-New York Central merger's approval by the ICC. The Central Railroad of New Jersey failed in 1967. Then, in declining financial condition due to falling revenues, badly rundown infrastructure, high property taxes, incompatible systems, and high labor costs, the Penn Central itself declared bankruptcy in June 1970, less than three years after its creation. Other railroads operating in the Northeast and Midwest also went bankrupt and could not be reorganized, some having suffered severe damage caused by Hurricane Agnes in 1972. The other troubled carriers included the Ann Arbor Railroad, the Reading Railroad, the Lehigh Valley Railroad, the Boston and Maine Railroad, and the Erie Lackawanna Railroad, itself the result of a merger of former competitors completed in 1960.

In addition to disrupting passenger and freight transportation, the railroad industry's distress exposed a number of major banks and financial institutions to large potential losses. The commercial paper market, in which firms issue short-term securities to meet near-term financial needs, experienced disruptions following the Penn Central bankruptcy, leading to concerns that the Penn Central's problems could endanger companies in other industries.

[7] Authored by Ben Goldman.

[8] Robert Sobel, *The Fallen Colossus* (New York: Weybright and Talley, 1977), p. 223.

Executive or Regulatory Agency Action and Assistance

Several federal agencies, including the Department of Transportation, the Department of Defense, and the Federal Reserve, were unwilling or unable to assist troubled railroads with loan guarantees. The ICC sought to assist railroads by expediting approval of applications for mergers or abandonment of unprofitable lines, but this was not enough to forestall bankruptcies.

Congressional Action and Assistance

Congress enacted several measures throughout the 1970s to avert the collapse of the rail industry. These actions combined federal financial assistance, deregulation, and the creation of new quasi-governmental private companies.

The Rail Passenger Service and Emergency Rail Services Acts of 1970

The Rail Passenger Service Act of 1970 (P.L. 91-518), which was passed by voice vote in both Houses of Congress, relieved all railroad companies of the obligation to provide intercity passenger service, creating a quasi-governmental private company called the National Railroad Passenger Corporation—Amtrak—to operate passenger trains over freight railroads' tracks with federal support. The act called for a "basic system" of key routes that the railroads would continue to operate until Amtrak began operations on May 1, 1971, and provided for railroad companies to transfer unneeded passenger rail equipment to Amtrak.

The Emergency Rail Services Act of 1970 (P.L. 91-663) provided up to $125 million in loan guarantees to railroads to preserve essential service until a more permanent restructuring plan could be put in place. The law was passed in the Senate on a vote of 47-29 and in the House on a vote of 165-121.

The Regional Rail Reorganization Act of 1973

In March 1973, the bankruptcy court handling the Penn Central's case found that its finances were so precarious that it would likely need to cease all operations before October of that year.[9] In December 1973, the Regional Rail Reorganization Act (P.L. 93-236), also called the 3R Act, created the United States Railway Association (USRA) to provide additional emergency funding and prepare the restructuring and rehabilitation of Penn Central and other bankrupt railroads. The law passed the Senate on a vote of 45-16 and the House on a vote of 284-59. It provided for the creation of Conrail—officially the Consolidated Rail Corporation—as a quasi-private for-profit corporation that would take over operations of various bankrupt railroads in the Northeast and Midwest. USRA was charged with creating a "Final System Plan" that identified the lines that would be transferred to Conrail.

The Railroad Revitalization and Regulatory Reform Act of 1976

The Railroad Revitalization and Regulatory Reform (4R) Act of 1976 (P.L. 94-210), which approved the USRA's "Final System Plan," was enacted on February 5, 1976. It passed the House on a vote of 353-62 and the Senate on a vote of 58-26. Conrail was incorporated five days later, beginning operations on April 1, 1976, at which point its predecessors—including the Penn Central—ceased to exist as railroad companies. In addition to taking responsibility for those

[9] *In the Matter of Penn Central Transportation Company, Debtor*, 355 F. Supp. 1343 (E.D. Pa. 1973).

railroads' physical infrastructure and freight operations, Conrail operated commuter services in several states.

The 4R Act provided funding for Conrail, permitted and approved additional property designations under 3R, and facilitated the transfer of ownership of the Penn Central's Northeast Corridor line to Amtrak. Direct federal subsidies to Conrail took several forms including remuneration of direct operating losses, approximately $2.1 billion; capital rehabilitation, approximately $1.2 billion; and "lifetime protection" payments to employees of Conrail and its predecessors, approximately $650 million. Much of this flowed through USRA purchases of Conrail equity instruments. In addition, approximately $3 billion was paid to the estates of bankrupt railroads for property taken to create Conrail. Total assistance for Conrail was estimated at approximately $7 billion.

The 4R Act also contained reforms aimed at easing ICC regulation of the railroad industry more broadly. Railroads were given greater flexibility to set shipping rates and were allowed for the first time to sign contracts with large shippers specifying rates and terms of service. The act gave the ICC the power to exempt certain types of freight traffic from rate regulation altogether. The act also created the Railroad Rehabilitation and Improvement Financing (RRIF) loan program, currently codified at 45 U.S.C. §§821-838, to offer long-term, low-cost loans to railroad operators. The RRIF program was intended to assist "short line" railroads, which took over many small lines that were being abandoned by larger railroads, to finance improvements to infrastructure and investments in equipment.[10]

Restructuring the Milwaukee and Rock Island Railroads

The restructuring of the eastern railroads did not put an end to the industry's difficulties. In the Midwest, the Chicago, Rock Island and Pacific Railroad filed for bankruptcy in 1975, and the Chicago, Milwaukee, St. Paul and Pacific Railroad in 1977. They were not incorporated into Conrail, but were the subject of separate federal legislation. Congress passed the Milwaukee Railroad Restructuring Act (P.L. 96-101) in both the House and the Senate by voice vote in 1979 and the Rock Island Railroad Transition and Employee Assistance Act (P.L. 96-254) in both the House and Senate by voice vote in 1980. Each law contained worker protection provisions and empowered bankruptcy courts to accelerate the sale or abandonment of parts of their networks as part of restructuring.

The Chicago, Milwaukee, St. Paul and Pacific Railroad abandoned or sold roughly two-thirds of its network, with the rest ultimately acquired in 1985 by the Canadian Pacific Railroad through an American subsidiary.[11] The case of the Chicago, Rock Island and Pacific Railroad was direr; by March 1980, before Congress had a chance to pass its transition assistance law, the railroad had been deemed incapable of continuing rail operations by the ICC, declared the property of a neutral party (pursuant to 3R), and ceased operations.[12] Its former property was acquired by multiple buyers.

[10] For more, see CRS Report R44028, *The Railroad Rehabilitation and Improvement Financing (RRIF) Program*, by David Randall Peterman.

[11] Jim Scribbins, "Chicago, Milwaukee, St. Paul and Pacific Railroad (Milwaukee Road)," in *Encyclopedia of North American Railroads*, ed. William D. Middleton, George M. Smerk, and Roberta L. Diehl (Bloomington: Indiana University Press, 2007), p. 224.

[12] Bill Fahrenwald, "Chicago, Rock Island and Pacific Railroad (Rock Island)," in *Encyclopedia of North American Railroads*, ed. William D. Middleton, George M. Smerk, and Roberta L. Diehl (Bloomington: Indiana University Press, 2007), p. 229.

The Staggers Rail Act of 1980

With Conrail's profitability still not much improved, Congress passed the Staggers Rail Act of 1980 (P.L. 96-448), by a 61-8 vote in the Senate and a voice vote in the House. The law expanded upon the deregulation begun in the 3R and 4R Acts. Among other provisions, the Staggers Act prevented the ICC from setting maximum shipping rates, permitted railroads to keep their rate agreements with customers secret, broadened the ICC's power to declare exemptions, and required the submissions of proposals for the future of Conrail. While many of its provisions were unpopular with some shippers, particularly those who could not readily move their freight by truck or barge if they found rail rates excessive, the law helped restore the freight rail sector to profitability and eventually led to increased capital investment in the industry.

The Northeast Rail Services Act of 1981

While the duty to provide intercity passenger rail had been transferred to Amtrak by the Rail Passenger Service Act of 1970, Conrail was still bound to operate the local commuter routes previously run by its predecessor railroads. The Northeast Rail Services Act of 1981 (NERSA; P.L. 97-35) was enacted as Subtitle E of the Omnibus Budget Reconciliation Act of 1981, approved by the Senate on a vote of 80-15 and by the House on a vote of 232-195. NERSA relieved Conrail of all obligations to provide commuter rail service beginning January 1, 1983, in order to improve its profitability.[13] To ensure continuity of operations, however, NERSA required state- or locally-chartered commuter authorities to continue to operate all commuter rail lines previously operated by Conrail, and created a new subsidiary of Amtrak to take over such lines if any state declined to do so (none did). NERSA also stipulated that Conrail's status as a quasi-governmental corporation should be temporary and that the government's stake in the company should eventually be sold to one or more private buyers.[14]

Repayment or Recoupment of Assistance

Following the reforms in the 3R and 4R Acts, the Staggers Act, and NERSA, Conrail reported a profit in 1981 and in subsequent years. The government's 85% stake in the company was sold through an initial public offering in 1987 after the government rebuffed attempts by other railroads to acquire it in ways that could have reduced rail competition in the Northeast. (The other 15% was owned by Conrail employees.) The government recouped a total of approximately $2 billion, including a $300 million dividend from Conrail and $1.65 billion from the public offering. This was approximately $5 billion less than total government outlays, when measured in nominal dollars, or $20 billion to $24 billion less than the government's outlays when adjusted for inflation (**Table 1**).

[13] P.L. 97-35 §1136, 95 Stat. 647.

[14] Archived CRS Report IB84142, *Issue Brief: Conrail*, by Stephen J. Thompson.

Table 1. Summary of Assistance to Penn Central/Conrail, 1970s and 1980s

($ billions)

Type of Assistance	Maximum Amount Actually Disbursed	Amount Recouped	Gain (+) or Loss (-) on Assistance
Equity and Asset Purchases Totals (nominal $)	$7	$2	-$5
Totals (inflation-adjusted 2019 $)	$24-28	$4	-($20-24)

Sources: CRS calculations based on various CRS and GAO reports. Figures for value of loan guarantees under Transportation Act of 1958 and subsidies involved in Amtrak assumption of passenger rail services are not available.

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete).

Final Outcomes

Railroad profitability increased following implementation of the Staggers Act, and railroad companies, devoting themselves entirely to freight traffic, continued to consolidate and shed unprofitable lines. Some 70,000 miles of railroad have been abandoned since 1980, and the number of large railroads—known as Class I railroads—operating in the United States now stands at seven.

Following its privatization, Conrail continued as an independent company until 1997, when it was acquired by Norfolk Southern Corporation and CSX Corporation in a joint stock purchase valued at approximately $10.3 billion. Norfolk Southern and CSX split most of the Conrail assets after the purchase.

Amtrak has never generated an operating profit, and has received federal operating support every year since its creation.

Farm Credit System Crisis (1980s)[15]

What Happened to the Industry

The federal government has a long history of assisting farmers with real estate and operating loans. This intervention has been justified by the presence of asymmetric information between lenders and farmers, lack of competition and resources in rural areas, and policies to target assistance to disadvantaged groups. The two agricultural lenders with the greatest federal connection are the Farm Service Agency (FSA) and the Farm Credit System (FCS), a private cooperative. The first, FSA, is part of the U.S. Department of Agriculture (USDA) and receives federal appropriations to make direct loans and guarantees to farmers who do not qualify for commercial credit. The second, FCS, is privately funded without federal appropriation as a cooperatively owned entity with a statutory mandate to serve only agriculture-related borrowers. The FCS is regulated by the Farm Credit Administration, an independent agency funded by assessments on system institutions.[16]

[15] Authored by Jim Monke.

[16] See CRS Report RS21977, *Agricultural Credit: Institutions and Issues*, by Jim Monke.

A severe downturn in the agricultural economy beginning in the early 1980s contributed to a financial crisis among many agricultural lenders and their farmer borrowers (the result of low farm income, high interest rates, and declining land prices). Since the FCS had exposure to only a single industry, it held a loan portfolio that developed large delinquencies, much of which was eventually written off as uncollectible. The farm financial crisis caused the FCS to experience operating losses of $2.7 billion in 1985 and $1.9 billion in 1986, for example, which jeopardized its financial stability, including its ability to repay bondholders in private capital markets. While FCS debt is not a government obligation nor guaranteed, many investors perceive its government-sponsored enterprise (GSE) status to imply that the Treasury would not allow FCS default. Moreover, FCS was an important lender to agriculture and held one-third of farm debt at the time.[17]

Congressional Action and Assistance

The Agricultural Credit Act of 1987

The Agricultural Credit Act of 1987 (P.L. 100-233) was enacted on January 6, 1988, after being approved by the Senate by a vote of 85-2 and the House on a vote of 365-18. The law authorized a $4 billion financial assistance package. It created a new FCS entity, the FCS Financial Assistance Corporation, which utilized $1.26 billion in loans from the U.S. Treasury. The assistance stabilized the FCS by allowing it to repay its bonds and meet its debt obligations.[18] The act required the FCS to work out a schedule for repaying the Treasury, mandated FCS organizational changes, protected FCS borrowers' stock investments in FCS institutions, and specified requirements for restructuring FCS problem farm loans.

Among the notable organizational changes, FCS banks became jointly and severally liable for each other's debts (that is, the FCS banks together would be responsible for the cumulative debts of the individual FCS banks if any become insolvent). The act also created an FCS Insurance Corporation, similar to the Federal Deposit Insurance Corporation, to further ensure the ability of the FCS to repay its bonds.

Although the primary purpose of the 1987 Act was to rescue and restructure the FCS, the act also led to the creation of a system of borrower rights for the FCS and the FSA. These borrower rights are somewhat unique to agriculture, compared to what was available to homeowners during the 2008 housing crisis. Before the FCS and FSA can initiate foreclosure proceedings, it must offer options to restructure delinquent farm loans when it would be less costly than taking foreclosure action, and it must offer rights of first refusal for an individual or extended family to repay a delinquent loan to avoid foreclosure and preserve a farm homestead.

Repayment or Recoupment of Government Assistance

The FCS Financial Assistance Corporation borrowed $1.26 billion from the U.S. Treasury during the farm financial crisis of the 1980s. The FCS made provisions in the early 1990s to systematically repay all of its financial assistance by collecting assessments on system banks and associations. The arrangement for the 15-year debt by the FCS Financial Assistance Corporation

[17] For more information, see CRS Report Issue Brief IB91126, *Agricultural Credit Issues*, by Ralph Chite, November 1992. Available upon request.

[18] Marvin Duncan and Jerome Stam, eds., *Financing Agriculture into the Twenty-first Century*, (Boulder, CO: Westview Press, 1998).

to the Treasury was that the government paid the interest for the first five years, FCS and the Treasury split the interest during the second five years, and FCS bore all of the interest during the final five years.[19] In June 2005, the last of the bonds and interest was repaid on schedule to the U.S. Treasury. The FCS Financial Assistance Corporation was dissolved in December 2006.

Final Outcome

Farm Credit System financial performance steadily improved throughout the 1990s and into the present day. The Farm Credit System Insurance Corporation is fully funded to its capitalization goals. The borrowers' rights provisions continue to provide protection to farmers facing new financial difficulties, such as through the financial crisis in 2007-2009 and during the current period of lower farm income.

Savings and Loan Crisis (1980s-1990s)[20]

What Happened to the Industry[21]

Savings and loan institutions (S&Ls) were state- or federally chartered deposit-taking institutions whose loans mainly took the form of residential mortgages. Some were mutual institutions owned by their depositors, while others had publicly traded shares. Federally chartered S&Ls were authorized in the 1930s to promote mortgage lending and were regulated by a separate regulator, the Federal Home Loan Bank Board (FHLBB), rather than by the agencies responsible for regulating commercial banks.[22]

The industry suffered a solvency crisis in the 1980s. When interest rates rose, S&Ls' floating-rate liabilities (e.g., deposits) had a higher interest cost than the industry was earning on fixed-rate assets that had been issued before rates rose (e.g., mortgages). In the presence of government deposit insurance, depositors had little incentive to withdraw their deposits from unprofitable S&Ls, since their deposits were safe even if their S&L failed. This allowed insolvent S&Ls to continue to access the funds needed to keep operating.

According to a study by the Federal Deposit Insurance Corporation, "Net S&L income, which totaled $781 million in 1980, fell to negative $4.6 billion and $4.1 billion in 1981 and 1982…. In fact, tangible net worth for the entire S&L industry was virtually zero, having fallen from 5.3 percent of assets in 1980 to only 0.5 percent of assets in 1982."[23]

Regulatory Agency Action and Assistance

Policymakers were slow to address the crisis because of concerns that resolving large numbers of S&Ls would have a negative effect on homeownership by disrupting mortgage lending. Government policy is generally viewed as exacerbating the crisis in two ways.

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[19] Farm Credit Administration, "Financial Assistance to the Farm Credit System," *1994 Annual Report*, pp. 43-44.

[20] Authored by Marc Labonte.

[21] For more information, see archived CRS Report 90-522, *Origins and Development of the Savings and Loan Situation*, by G. Thomas Woodward. Available upon request.

[22] Their predecessors pre-date the 1930s. The first "building association" in the United States dates to the 1830s.

[23] Federal Deposit Insurance Corporation (FDIC), "The Savings and Loan Crisis and Its Relationship to Banking, in *An Examination of the Banking Crises of the 1980s and Early 1990s*, Ch. 4, at https://www.fdic.gov/bank/historical/history/167_188.pdf.

First, the S&L regulator, the FHLBB, practiced "regulatory forbearance," allowing insolvent firms to keep operating in the hopes that they would eventually become profitable again. Forbearance made the problem larger because it arguably encouraged such "zombie S&Ls" to take on more risks, undermining more conservatively run competitors. Regulatory forbearance was motivated in part by the fact that the Federal Savings and Loan Insurance Corporation (FSLIC), the agency responsible for insuring S&L customers' deposits, lacked the funds to honor deposit insurance claims if all the undercapitalized S&Ls were rescued or closed down. Almost 1,000 thrifts still in operation, holding half of total industry assets, were insolvent or nearly insolvent by 1986.[24] By 1987, the FSLIC itself was insolvent. In the meantime, zombie S&Ls incurred additional losses, which increased the ultimate cost to the government.

Second, deregulation in the early 1980s gave the industry new opportunities to take risks that increased ultimate losses, which arguably occurred because deregulation took place in the context of an already undercapitalized industry with inadequate prudential regulation.

Congressional Action and Assistance

Deposit insurance is self-financing only if insurance premiums match expected losses. Because the FSLIC deposit insurance scheme was inadequate, a government "bailout" could only have been avoided if the government had reneged on its promise to guarantee deposits.

The congressional response to the S&L crisis can be divided into two phases. From 1980 to 1982, legislation was enacted to attempt to restore industry solvency (or buy time to restore industry solvency) through forbearance and the removal of legal restrictions on industry activities.[25] From 1987 on, legislation was enacted to attempt to resolve insolvent S&Ls by granting financial resources and to prevent future losses through new regulatory powers.

Many of these bills contained wide-ranging provisions, and only the provisions relevant to the S&L crisis are highlighted here.

Competitive Equality Banking Act of 1987 (CEBA)

The Competitive Equality Banking Act of 1987 (P.L. 100-86) was passed in the Senate on a vote of 96-2 and in House on a vote of 382-12. The law created the Financing Corporation (FICO) to provide funding to FSLIC by issuing $10.8 billion in long-term bonds to be repaid by assessments on savings and loans and the Federal Home Loan Banks. It also eased regulatory requirements for savings and loans in economically depressed areas.

According to the FDIC study, "Although the Competitive Equality Banking Act of 1987 provided the FSLIC with resources to resolve insolvent institutions, the amount was clearly inadequate. Nevertheless, under the new FHLBB chairman, Danny Wall, the FSLIC resolved 222 S&Ls, with assets of $116 billion, in 1988.... But despite these resolutions, at year-end 1988 there were still 250 S&Ls, with $80.8 billion in assets that were insolvent based on regulatory accounting principles."[26]

[24] Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis," *FDIC Banking Review*, January 2000, at http://www.workingre.com/wp-content/uploads/2013/08/cost-of-SL.pdf.

[25] For example, P.L. 96-221 and P.L. 97-320 reduced S&L net worth requirements and removed investment restrictions.

[26] FDIC, "The Savings and Loan Crisis and Its Relationship to Banking, in *An Examination of the Banking Crises of the 1980s and Early 1990s*, Ch. 4, at https://www.fdic.gov/bank/historical/history/167_188.pdf.

Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (P.L. 101-73) was passed by the House on a vote of 201-175 and by the Senate by division vote (individual votes not recorded). The law abolished FSLIC and transferred its assets, liabilities, and operations to the FSLIC Resolution Fund (FRF). The act abolished FHLBB and transferred its authority to the newly created Office of Thrift Supervision with new regulatory powers, created the Savings Association Insurance Fund, administered by FDIC, created the Resolution Trust Corporation (RTC) to resolve troubled thrifts, and created the Resolution Funding Corporation (REFCORP) to issue debt to finance RTC to be repaid by industry assessments and the federal government.

Resolution Trust Corporation Funding Act of 1991

The Resolution Trust Corporation Funding Act of 1991 (P.L. 102-18), passed by the House on a vote of 225-188 and passed by the Senate by voice vote, provided $30 billion to the RTC to cover losses of failed thrifts in FY1991.

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991

The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (P.L. 102-233), passed by the Senate on a vote of 44-33 and passed in the House by division vote 112-63, provided the RTC up to $25 billion until April 1, 1992, to resolve failed savings and loan institutions. The law also restructured the RTC and terminated FICO.

Resolution Trust Corporation Completion Act of 1993

The Resolution Trust Corporation Completion Act of 1993 (P.L. 103-204) passed the House on vote of 235-191 (with 1 Member voting present), and passed the Senate on a vote of 54-45. The law provided $18.3 billion to finish the savings and loan cleanup. It terminated the RTC on December 31, 1995, and authorized $8.5 billion for the Saving Association Insurance Fund (SAIF), to be spent only if the savings and loan industry could not pay for future failures itself through higher insurance premiums.[27]

Repayment or Recoupment of Government Assistance

The cost of the S&L cleanup was spread among the federal government (through appropriations), government-sponsored enterprises (the Federal Home Loan Bank system), and the industry (through deposit insurance premiums). Two quasi-governmental entities (FICO and REFCORP) were created to provide financing.

Measuring the cost of the S&L crisis poses unique challenges compared to the other episodes discussed in this report. The resolution of failing thrifts was not a one-time event. Thrifts may fail at any time, even when economic conditions are generally good, and the insurance fund may be

[27] The SAIF and Bank Insurance Fund were combined into the Deposit Insurance Fund by the Federal Deposit Insurance Reform Act of 2005 (P.L. 109-171). That act also provided an insurance premium credit to banks and thrifts in existence as of 1996 to offset premiums they paid toward the S&L cleanup. This provision effectively shifted some of that cost to new banks through future premiums to offset the credit.

called upon to repay depositors.[28] What was unique during the crisis was the magnitude of the failures, which caused premiums to be inadequate for addressing the problem. Thus, a somewhat arbitrary date must be chosen for the beginning and the end of the cleanup.

Different sources vary slightly on the overall net cost. In January 1995, CBO estimated the cost at $150 billion in 1990 dollars.[29] In 1996, GAO estimated the cost at $160.1 billion.[30] **Table 2** presents an estimate from the *FDIC Banking Review*, as this source provides the most detailed information.[31] It estimated expenses paid by the FRF and RTC to be $152.7 billion, with an additional $7.3 billion in indirect costs from 1986 to 1995.[32] Of the $152.7 billion, direct appropriations covered $99.4 billion and FICO and REFCORP bond proceeds covered $38.3 billion. The government recouped $30.1 billion through industry assessments, interest on bonds paid by the industry, and the value of remaining assets seized from failed S&Ls as of the end of 1999, putting the net direct costs at $122.6 billion and the net total costs at $129.9 billion. (CRS classified the FHLBs as industry for purposes of this table, so their contributions are considered a recoupment rather than a government expense.) It should be noted that this source does not include interest costs on the federal debt used to finance appropriations or the FICO and REFCORP bonds issued to finance the cleanup.

[28] To be consistent with the other cases in this report, we include levies on the industry as a government recoupment for the cost of the bailout.

[29] Based on projections to 2000. They projected that activities between 1995 and 2000 would reduce the overall cost by $20 billion in nominal dollars. Congressional Budget Office (CBO), *The Economic and Budget* Outlook, January 1995, https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/55xx/doc5506/doc07-entire.pdf.

[30] GAO broke down the cost as $152.6 billion in direct costs and $7.5 billion in tax benefits, with $132.1 billion borne by taxpayers and $28 billion borne by private sources. It estimated an additional $320.8 billion in interest on bonds—issued by FICO and REFCORP or by the U.S. Treasury to finance appropriations—to finance the bailout (of which, $35.6 billion of the interest was paid by the private sector and $285.2 billion by taxpayers). All but $33 billion of the interest was projected to be paid in the future, and thus would be highly sensitive to future interest rates. GAO also noted that their estimate did not include an additional $5.5 billion in future insurance premiums that would be needed to fully recapitalize SAIF. GAO, *Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements*, July 1996, at https://www.gao.gov/archive/1996/ai96123.pdf.

[31] Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis," *FDIC Banking Review*, January 2000, at http://www.workingre.com/wp-content/uploads/2013/08/cost-of-SL.pdf.

[32] The FDIC article classified what we call recoupments to be a cost to the private sector. As a result, it reported the cost at $152.9 billion, with $145.7 billion in direct costs and $7.3 billion in indirect costs. Of the $152.9 billion, it estimated that $123.8 billion were borne by the public sector and $29.1 billion were borne by the private sector; for consistency with the other cases in this report, we consider the private sector costs between 1986 and 1995 to be recoupments and consider the FSLIC balance at the end of 1985 to be a public sector expense rather than a private sector cost in the table below.

Table 2. Federal Costs Associated with the S&L Cleanup, 1986-1995

($ billions)

	Federal Expenses	Federal Recoupment	Gain (+) or Loss (-) on Assistance
Direct Costs			
FRF payouts/appropriations	$65.5[a]	$2.5 in assets as of 12/99	-$63
FSLIC insurance premiums/SAIF assessments		$7.8	+$7.8
FICO bond proceeds		$8.2	+$8.2
RTC payouts from REFCORP bond proceeds	$30.1[a]	$5.9	-$24.2
RTC payouts from appropriations	$55.9[a]	$4.5 value of remaining assets as of 12/99	-$51.4
RTC payouts from FHLB contribution	$1.2[a]	$1.2	$0
Total direct costs (nominal $)	**$152.7**	**$30.1**	**-$122.6**
Total direct costs (inflation-adjusted 2019 $)	**$271.3-$277.5**	**$45.1-$49.3**	**-$226.1-$228.2**
Indirect Costs			
Tax Benefits to Acquirers from FSLIC assistance	$6.3		-$6.3
Interest premium on REFCORP bonds	$1.0		-$1.0
Total all costs (nominal $)	**$160.0**	**$30.1**	**-$129.9**

Source: CRS calculations based on Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis," *FDIC Banking Review*, January 2000, http://www.workingre.com/wp-content/uploads/2013/08/cost-of-SL.pdf.

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete). For purposes of this table, $8 billion in FHLB contributions are categorized as a recoupment. Does not include $0.4 billion in FDIC legal costs associated with goodwill legislation through 12/99.

a. FRF and RTC payouts are net of asset recoveries, as of December 1999.

Final Outcome

Cumulatively, 1,043 insolvent firms holding $519 billion in assets were resolved between 1986 and 1995.[33] The industry's finances stabilized by the mid-1990s, by which time the number of S&Ls had fallen by half compared to 1986. The RTC ceased operations at the end of 1995. Some special bonds issued to finance the cleanup remain outstanding until 2030.

S&Ls were renamed savings associations or thrifts and their regulation was reformed by FIRREA. Further problems with the regulation of the thrift industry in the 2007-2009 financial crisis led to the elimination of the Office of Thrift Supervision and the shifting of its powers to

[33] Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis," *FDIC Banking Review*, January 2000, at http://www.workingre.com/wp-content/uploads/2013/08/cost-of-SL.pdf.

the federal banking regulators by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203).

Airline Industry (2001-2014)[34]

What Happened to the Company/Industry

The use of commercial airplanes as assault vehicles to wreak havoc on the United States has no precedent in aviation history. At the time of the September 11, 2001, terrorist attacks on the World Trade Center in New York and the Pentagon in Washington,[35] the airline industry was already experiencing a difficult financial situation due to the recession. In the wake of the attacks, the federal government temporarily grounded all civil air traffic in the United States, including all commercial flights. The attacks contributed to a significant decline in both domestic and international passenger traffic in 2001 that resulted in major financial losses.

Congressional Action and Assistance

The Air Transportation Safety and System Stabilization Act

In the aftermath of the 9/11 attacks, Congress moved to provide the airline industry with federal financial support. The Air Transportation Safety and System Stabilization Act (Stabilization Act; P.L. 107-42) passed in the House by a vote of 356-54, with two Members voting present, and in the Senate by a unanimous vote. It was signed into law on September 22, 2001, providing the airlines access to up to $15 billion in short-term assistance. This included $5 billion in emergency assistance to compensate the air carriers for losses incurred as a result of the attacks, and $10 billion in the form of guaranteed loans designed to provide longer-term stability to the industry and make it more creditworthy in private markets. The Stabilization Act also supported the airline industry by providing premium war risk insurance for 180 days. This insurance was extended multiple times until it expired in 2014.

Executive or Regulatory Agency Action and Assistance

The Secretary of Transportation and the Comptroller General were in charge of the $5 billion direct compensation to air carriers, while the distribution of the loan guarantees was controlled by an "air transportation stabilization board" (ATSB) consisting of three voting members—the Chairman of the Federal Reserve Board, the Secretary of the Treasury, and the Secretary of Transportation, or their designees—and a non-voting member, the Comptroller General.[36]

According to the April 2011 report of the President to the U.S. Congress, as required by the Stabilization Act, 407 air carriers were compensated for direct operating losses as the result of federal ground stop orders as well as any incremental losses incurred between September 11,

[34] Authored by Rachel Tang. Primary source: Report of the President to the United States Congress Pursuant to Section 106 (a) of the Air Transportation Safety and System Stabilization Act (P.L. 107-42), *Final Report To Congress Assessing The Financial Status Of The Airline Industry*, April 2011.

[35] The attacks involved terrorist hijackings of four domestic passenger flights. Two of the planes were crashed into the North and South towers of the World Trade Center, and a third was crashed into the Pentagon. A fourth was heading towards Washington, DC, but after passengers and crew members attempted to regain control, the plane crashed in a field in Pennsylvania.

[36] P.L. 107-42, §102 and §103.

2001, and December 31, 2001. Payments totaled nearly $4.6 billion of the $5 billion initially made available. Portions of the remaining balance in the account were rescinded by Congress at various points, with all unobligated balances permanently rescinded by the Omnibus Appropriations Act, 2009 (P.L. 111-8, Title I).

The ATSB was established to review and decide on airlines' applications for loan guarantee assistance. The ATSB received 16 loan guarantee applications from a range of air carriers, including large airlines, small airlines, low-fare airlines, and charter and cargo carriers. It approved and closed on six loan guarantee applications: American West, ATA Airlines (formerly American Trans Air), Aloha Airlines, Frontier Airlines, US Airways, and World Airways. The total amount of loan guarantees was $1,558,600,000.

Repayment or Recoupment of Assistance

Five of the six guaranteed loans were fully repaid by the carriers, while the ATA Airlines loan guarantee had to be exercised when ATA Airlines filed for bankruptcy under Chapter 11. In 2005, the ATSB paid approximately $125 million, the outstanding balance on the ATA loan which the ATSB had guaranteed, but eventually recouped $97.2 million of that amount.

The ATSB also established that the government was to be compensated for the risks associated with the guarantees through fees and stock warrants. The six airlines paid more than $240 million in fees and interest; while proceeds of warrant sales totaled $142.6 million. Overall, after deducting ATSB expenses, the 2011 report of the President to the U.S. Congress concluded that the government recovered a net of $338.8 million from the carriers as a result of the ATSB loan guarantee activities (see **Table 3**).

According to the Federal Aviation Administration's estimate, between September 2001 and December 2014, $1.8 billion in premiums were collected and the total amount of claims paid for three war risk occurrences was $10,107,874.[37] The remaining balance in the Aviation Insurance Revolving Fund is used to back more than $20 billion of the non-premium aviation insurance program that provides critical support to national security and defense by making insurance available to air carriers contracted by the Department of Defense to support military operations.

[37] Email correspondence between CRS and the Federal Aviation Administration, August 15, 2014.

Table 3. Summary of Post-9/11 Airline Assistance

($ billions)

Type of Assistance	Maximum Amount Committed	Maximum Amount Actually Disbursed/Guaranteed	Amount Recouped	Gain (+) or Loss (-) on Assistance
Direct assistance for losses	$5	$4.6	n/a	-$4.6
Loan Guarantees	$10	$0.125 paid out/ $1.6 guaranteed	$0.464	+$0.338
War Risk Insurance Program		$0.010 paid out	$1.8	+$1.79
Totals (nominal $)	**N/A**	**$4.8**	**$2.3**	**-$2.5**
Totals (inflation-adjusted 2019 $)	**N/A**	**$6.6**	**$2.5-3.2**	**-$3.4-4.1**

Source: Report of the President to the United States Congress Pursuant to Section 106 (a) of the Air Transportation Safety and System Stabilization Act (P.L. 107-42), *Final Report To Congress Assessing The Financial Status Of The Airline Industry*, April 20ll and FAA summary of war risk insurance program provided to CRS in August 2014.

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete). Amount recouped is net of legal reimbursements and administrative expenses.

Final Outcome

The uncommitted balance of the ATSB loan guarantee authority was $8,441,400,000 on June 28, 2002, the deadline for submitting applications. The Consolidated Appropriations Act of 2008 (P.L. 110-161, Division D, Title I) rescinded the unobligated balance of program funds. The War Risk Insurance program expansion expired in 2014.

If direct assistance is excluded, the government recouped more than was paid out on both the loan guarantees and the war risk insurance program. Nevertheless, it was exposed to significant financial risks from both programs.

Troubled Asset Relief Program (TARP) Bank Support (2008-Present)[38]

What Happened to the Industry

The financial crisis of 2007-2009 grew out of an unprecedented housing boom that turned into a housing bust. Much of the lending for housing during the boom was based on asset-backed securities that used the repayment of housing loans as the basis of these securities. As housing prices fell and mortgage defaults increased, these securities became illiquid and fell sharply in value. This caused capital losses for firms holding them, which threated many firms with insolvency. There was widespread lack of trust in financial markets as participants were unsure

[38] Authored by Baird Webel. Primary sources are U.S. Treasury monthly TARP reports. Adapted from CRS Report R41427, *Troubled Asset Relief Program (TARP): Implementation and Status*, by Baird Webel. For more information, see also CRS Report R43413, *Costs of Government Interventions in Response to the Financial Crisis: A Retrospective*, by Baird Webel and Marc Labonte.

which firms might be holding so-called toxic assets that might now be worth much less than previously estimated, thus making these firms unreliable counterparties in financial transactions. This uncertainty prevented firms from accessing credit markets to meet their liquidity needs. The banking industry was at the center of the crisis, both as holders of mortgage backed securities and as lenders making mortgage loans.

Executive or Regulatory Agency Action and Assistance

The Federal Reserve was created in 1913 largely to act as a lender of last resort in liquidity crises, and its authority was augmented during the Great Depression. As the crisis developed in 2007 and 2008, the Federal Reserve took a variety of steps under its statutory authority to inject liquidity into the financial system. To the degree that the crisis caused solvency problems in financial firms, however, the Federal Reserve was unable to assist, as its authority is limited to lending funds, which offered little assistance to firms that were already highly leveraged and suffering from capital shortfalls.

Congressional Action and Assistance

Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA), was brought to the floor of the House as a substitute amendment to H.R. 3997 on September 29, 2008; this amendment failed in the House by a vote of 205-228. Another version of EESA, which included the original EESA plus several other provisions not in the first bill, was offered on October 1 in the Senate as an amendment (S.Amdt. 5685) to an unrelated bill, H.R. 1424, which had previously passed the House. The amendment to H.R. 1424 was approved by a Senate vote of 74-25; it was then taken up by the House and passed by a vote of 263-171, on October 3, 2008. The President signed the amended version of H.R. 1424, now P.L. 110-343, the same day as House passage. EESA gave the Treasury Department broad authority under the newly created Troubled Asset Relief Program to use up to $700 billion to address the crises. The congressional debate was focused on purchasing the "toxic" assets from firms, thus replacing them with safer assets, but the statute also allowed the Treasury to guarantee assets or to directly augment firms' capital.

Among the programs under the EESA authority,[39] the Treasury created the Capital Purchase Program (CPP) to purchase up to $250 billion in preferred shares from banks, thus adding this amount to capital levels. More than 700 banks participated in the CPP and approximately $205 billion was actually disbursed. In addition, there was a relatively small ($570 million) Community Development Financial Institution program that also purchased preferred shares, but on less stringent terms than the CPP.

The CPP was augmented with an additional Targeted Investment Program (TIP) preferred share purchases and asset guarantees for two of the most troubled banks, Bank of America and Citigroup. The share purchases were $20 billion to each bank. The asset guarantees were more complicated. Any losses were to be shared between the Treasury, FDIC, and Federal Reserve. The guarantee for Bank of America on $118 billion in assets was offered, but never officially closed. The Citibank guarantee was on $301 billion in assets, but funds were never paid out on any losses.

[39] The EESA authority was very broad and was also used to support capital markets and for foreclosure assistance, but the bank support was the largest of the programs.

EESA was amended in early 2009, specifically allowing earlier repayment of assistance than originally foreseen and adding additional executive compensation requirements on firms with outstanding assistance. P.L. 111-5 passed the House on a vote of 246-183 and the Senate on a vote of 60-38.

Repayment or Recoupment of Assistance

In most cases, the Treasury recouped money from sales of preferred shares, primarily back to the issuing banks, as dividends and from warrants that were issued along with the preferred shares and fees paid for the asset guarantees. The Citigroup preferred shares were converted into common equity and sold on the open market. Recoupment from the general TARP bank assistance was completed relatively quickly. For example, by the end of 2011, approximately $255.4 billion had been recouped in total with $17.35 billion of $245.5 billion still outstanding. By 2020, $271.4 billion had been recouped, with $0.04 billion of preferred shares still outstanding. The special assistance for Bank of America was completed by the end of 2009, with a $425 million termination fee paid for the uncompleted asset guarantee and repurchase of the $20 billion in TIP shares resulting in $22.7 billion in recoupment. Citigroup's special assistance finished in December 2009 with $21.8 billion in recoupment from the TIP shares and $3.9 billion in premiums paid for the asset guarantees. Despite the default risk that TARP was exposed to, the government recouped $30.5 billion more than it disbursed on the bank programs (see **Table 4**).

Table 4. Summary of TARP Bank Support Assistance

($ billions)

Type of Assistance	TARP Funds Committed	TARP Funds Disbursed	Recoupment of Principal and Income	Gain (+) or Loss (-) on Assistance
Preferred Share Purchases	$245.5	$245.1	$271.4; $0.04 still outstanding	+$26.3
Asset Guarantees	$5.0	$0	$4.1	+$4.1
Totals (nominal $)	**$250.5**	**$245.1**	**$275.6**	**+$30.5**
Totals (inflation-adjusted 2019 $)	**$297.9**	**$291.1**	**$321.9**	**+$30.8**

Source: U.S. Treasury, *Monthly TARP Updates*, various dates.

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete). The Treasury accounts for the guarantee as $5 billion in TARP funds committed. Total guarantee was for over $300 billion in conjunction with the Fed and the FDIC.

Final Outcome

The financial crisis passed relatively quickly for the banking industry once the panic conditions of fall 2008 passed. One marker of this is that originally banks were to be required to hold the CPP capital on their books for a minimum of three years, whereas banks began repurchasing CPP preferred shares by March 2009 when the program was still disbursing funds. The overall profitability levels in the banking system returned relatively quickly.

Auto Industry (2008-2014)[40]

What Happened to the Industry

In 2008 and 2009, the financial crisis, rising gasoline prices, and a contracting global economy combined to create the worst market in decades for production and sale of motor vehicles in the United States and other industrial countries. While Ford Motor Company had negotiated an $18 billion line of credit in 2007, General Motors (GM) and Chrysler did not have similar long-term financing available when the financial crisis hit, which temporarily made it difficult for most firms to access borrowing markets. In 2009, GM's production dropped by 47% (compared to 2008), and Chrysler's by 57%; total U.S. production among all automakers fell by 34%. The prospect of GM and Chrysler bankruptcies raised other concerns: the failure of their parts suppliers—also used by most other automakers—could cascade financial difficulties throughout the sector; and those supplier failures could overwhelm the federal Pension Benefit Guaranty Corporation with abandoned pension plans. In addition, large affiliated financial companies (which provided auto loans to consumers and dealers) could fail if the automakers entered bankruptcy.[41]

Congressional Action and Assistance

Congress never passed specific legislation to address auto industry issues. The George W. Bush Administration and congressional leaders differed on the type of assistance that should be offered the automakers: initially, the Administration recommended reprogramming a Department of Energy motor vehicle loan program to provide bridge loans. In December 2008, the House of Representatives passed H.R. 7321, which would have authorized funds from the DOE Advanced Technology Vehicles Manufacturing program (ATVM)[42] as bridge loans to GM and Chrysler. Although that bill passed the House 237-170, the Senate did not vote on it. When this legislation stalled, the George W. Bush Administration announced that it would use the Troubled Asset Relief Program to support the automakers, arguing that failure to provide assistance could make the recession worse and impose other federal costs, such as unemployment insurance for many displaced auto and auto parts employees.

Executive or Regulatory Agency Action and Assistance

The Bush Administration made initial TARP loans of $24.8 billion to GM, Chrysler, and two auto financing companies (GMAC and Chrysler Financial) in December 2008 and January 2009. When the Obama Administration took office in January 2009, it continued this loan program, bringing total loans to the auto industry to $79.7 billion. In addition, the Obama Administration established an Auto Task Force chaired by the Secretary of the Treasury to work with GM and

[40] Authored by Bill Canis. Adapted from CRS Report R41978, *The Role of TARP Assistance in the Restructuring of General Motors*, by Bill Canis and Baird Webel; and CRS Report R41940, *TARP Assistance for Chrysler: Restructuring and Repayment Issues*, by Baird Webel and Bill Canis.

[41] GMAC and Chrysler Financial were once "captive" financing companies owned by GM and Chrysler, respectively, for the purpose of financing their customers' purchases. In 2008, Cerberus Capital Management owned majority shares in both units; Cerberus also owned Chrysler's manufacturing operations.

[42] The ATVM program was established in 2007 as a $25 billion loan program to assist U.S. automakers in developing more fuel-efficient cars and light trucks; it was enacted as part of the Energy Independence and Security Act (P.L. 110-140).

Chrysler on restructuring plans with creditors, unions, dealers, and other stakeholders. The goal of the spring 2009 restructurings was to avoid bankruptcy filings, but all stakeholders did not agree to the major changes in the companies. Chrysler and GM filed for bankruptcy in April and June 2009, respectively. After about a month, both companies emerged from bankruptcy court, with new owners: the U.S. Treasury owned about 10% of Chrysler and nearly 61% of GM in return for forfeiting repayment of the previous loans. Other owners included the Canadian government, bondholders, and the United Auto Workers.[43] The federal ownership was sold off over the following years.

Repayment or Recoupment of Assistance

The assistance was repaid or recouped beginning in 2009 in a variety of ways, including initial public offerings, gradual public offerings of other federal shares, and private sales of stock. **Table 5** summarizes the amounts of government assistance and the amount of recoupment for auto industry assistance.

Table 5. Summary of TARP Support for the Auto Industry

($ billions)

Company	Total Assistance at Peak	Recoupment of Principal and Income	Gain (+) or Loss (-) on Assistance
General Motors	$50.2 loans[a]	$39.7	-$10.5
Chrysler	$10.9 loan	$9.6	-$1.3
GMAC/Ally Financial	$16.3 (preferred equity) and $0.884 loan through GM	$19.8	+$2.6
Chrysler Financial	$1.5 loan	$1.5	0
Totals (nominal $)	**$79.7**	**$70.6**	**-$9.1**
Totals (inflation-adjusted 2019 $)	**$94.2**	**$80.5**	**-$13.7**

Source: U.S. Treasury, *Monthly TARP Reports,* various dates.

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete). Totals may not sum due to rounding.

a. Does not include $884 million federal loan for GMAC.

Final Outcome

The U.S. Treasury sold its last holdings of Chrysler in June 2011 and GM in December 2013. The proceeds from the sales were not enough to cover the original loans to Chrysler and GM. Chrysler Financial fully repaid its loan, and the federal government's recoupment from GMAC was greater than the amount of its assistance. After restructuring and bankruptcy, GM and Chrysler recovered their positions as major U.S. automakers; GM is independent and Chrysler is part of Fiat Chrysler

[43] Fiat initially owned 20% of Chrysler and eventually purchased all the new shares; it directly owns those assets as Fiat Chrysler Automobiles N.V. (FCA).

Automobiles (FCA), a corporation based in Great Britain. **Table 6** shows comparisons before and after restructuring and bankruptcy.

Table 6. Comparison of GM and Chrysler

Before and after bankruptcy

Benchmarks	GM	Chrysler
U.S. vehicle production		
2017	2.1 million	1.2 million
2007	2.3 million	1.1 million
Worldwide employment		
2014[a]	216,000	78,000
2007	266,000	73,000
Stock price		
2018	range of $35-44 per share	N/A[b]
2007	annual average $32.47 per share	

Sources: Production and employment: Ward's Database; stock prices from Wall Street Journal (2018) and GM bankruptcy filing (2007).

Notes: See introduction and this section for methodology and assumptions underlying estimates and ranges (used where source information is incomplete).

a. 2014 was the last year that Chrysler data were reported separately.

b. Chrysler stock has not been traded publicly since 1998, when Chrysler Corp. merged with Daimler.

Money Market Mutual Fund Guarantee (2008-2009)[44]

What Happened to the Industry

Money market mutual funds[45] are a type of mutual fund that generally invest in high-quality, short-term assets. Often the value of a share is held at $1 per share and fund gains are paid out as dividends mimicking interest payment. Thus, they are seen as largely analogous to bank deposits, but are not guaranteed by the Federal Deposit Insurance Corporation (FDIC). As part of the market turmoil resulting from the bursting of a nationwide housing bubble, on September 16, 2008, a money market mutual fund called the Reserve Fund "broke the buck," meaning that the value of its shares had fallen below $1. This occurred because of losses it had taken on short-term debt issued by the investment bank Lehman Brothers, which filed for bankruptcy on September 15, 2008. Money market investors had perceived "breaking the buck" to be highly unlikely, and its occurrence set off a generalized run on money market mutual funds, as investors simultaneously attempted to withdraw an estimated $250 billion of their investments—even from funds without exposure to Lehman Brothers.[46]

[44] Authored by Baird Webel. . For more information, see also CRS Report R43413, *Costs of Government Interventions in Response to the Financial Crisis: A Retrospective*, by Baird Webel and Marc Labonte.

[45] For more information, see CRS In Focus IF11320, *Money Market Mutual Funds: A Financial Stability Case Study*, by Eva Su.

[46] Figure cited in Federal Reserve Chairman Ben Bernanke, "Financial Reform to Address Systemic Risk," speech at

Executive or Regulatory Agency Action and Assistance

To stop the run, the Treasury announced an optional program to guarantee deposits in participating money market funds. The Treasury would finance any losses from this guarantee with assets in the Exchange Stabilization Fund (ESF), funds intended to protect the value of the dollar. The Treasury announced this program without seeking specific congressional authorization, justifying the program on the grounds that guaranteeing money market funds would protect the value of the dollar. The program expired after one year in September 2009.

Congressional Action and Assistance

The Emergency Economic Stabilization Act of 2008 included language (Section 131) that directed the Treasury Secretary to reimburse the Exchange Stabilization Fund for any funds used for the money market guarantee program and prohibited usage of the ESF in the future for such a program.

Repayment or Recoupment of Assistance

Funds utilizing the guarantee program paid fees for the guarantee of between 0.015% and 0.022% of the amount guaranteed by the program.[47]

Table 7. Summary of U.S. Treasury Money Market Mutual Fund Guarantee

($ billions)

Type of Assistance	Total Guaranteed	Treasury Funds Disbursed	Guarantee Fee Income	Gain (+) or Loss (-) on Assistance
Asset Guarantees	Over $3 Trillion	$0	$1.2	+$1.2
Totals (inflation-adjusted 2019 $)	**Over $3.6 Trillion**	**$0**	**$1.4**	**+$1.4**

Source: CBO, *Budget and Economic Outlook*, January 2009; U.S. Department of the Treasury, "Treasury Department Releases Text of Letter from Secretary Geithner to Hill Leadership on Administration's Exit Strategy for TARP," press release, December 9, 2009; U.S. Department of the Treasury, "Treasury Announces Temporary Guarantee Program for Money Market Funds," and "Frequently Asked Questions About Treasury's Temporary Guarantee Program for Money Market Funds," press release, September 29, 2008.

Final Outcome

Over the life of the program, the Treasury reported that no money market mutual fund guarantees were invoked and $1.2 billion in fees had been collected (see **Table 7**). More than $3 trillion of deposits were guaranteed and, according to the Bank for International Settlements, 98% of U.S. money market mutual funds were covered by the guarantee, with most exceptions being funds that invested only in Treasury securities.[48]

the Council on Foreign Relations, March 10, 2009, at http://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm.

[47] CBO, *Budget and Economic* Outlook, January 2009, p. 40, at https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/01-07-outlook.pdf.

[48] Naohiko Baba, Robert N McCauley, and Srichander Ramaswamy, "US Dollar Money Market Funds and Non-US Banks," *BIS Quarterly Review*, March 2009, at http://www.bis.org/publ/qtrpdf/r_qt0903g.pdf.

Agricultural Trade Aid (2018-2019)[49]

What Happened to the Sector

In early 2018, the Trump Administration—citing concerns over national security and unfair trade practices—imposed increased tariffs on steel and aluminum from a number of countries and on a broad range of U.S. imports from China.[50] Several of the affected foreign trading partners—including China, Canada, Mexico, the European Union, and Turkey—responded to the U.S. tariffs with their own retaliatory tariffs targeting various U.S. products, especially agricultural commodities.[51]

As a result of these retaliatory tariffs, both market prices and exports of affected U.S. agricultural products dropped sharply in the immediate aftermath of retaliation before gradually recovering as trade shifted to alternate markets. The most notable result of this trade dispute was a decline in trade between the United States and China.[52] From 2010 through 2016, China was the top destination for U.S. agricultural exports based on value. In 2018, U.S. agricultural exports to China declined 53% in value to $9 billion from $19 billion in calendar year 2017. The retaliatory tariffs affected producers of several major U.S. commodities, including field crops like soybeans and sorghum, livestock products like milk and pork, and many fruits, nuts, and other specialty crops.

Following the imposition of retaliatory tariffs in 2018, the United States began negotiations with several of the retaliating trade partners to resolve the disputes.[53] However, several of the negotiations were protracted—particularly the U.S.-China trade talks—and trade failed to return to normal patterns during 2018 and 2019.

Executive or Regulatory Agency Action and Assistance

The Secretary of Agriculture used his authority under Section 5 of the Commodity Credit Corporation (CCC) Charter Act of 1948 (P.L. 80-806; 15 U.S.C. 714 et seq.), as amended, to initiate two ad hoc trade assistance programs in 2018 and 2019.[54] Referred to as "trade-aid packages," these two initiatives represented the Administration's effort to provide short-term assistance to farmers in response to the foreign trade retaliation targeting U.S. agricultural products. The first trade-aid package was announced on July 24, 2018.[55] It targeted production for nine agricultural commodities in 2018 and was valued at up to $12 billion. The second trade-aid package was announced on May 23, 2019.[56] It targeted production for an expanded list of 41 commodities and was valued at up to an additional $16 billion.

[49] Authored by Randy Schnepf. Primary sources are various U.S. Department of Agriculture (USDA) reports and news releases. Adapted from CRS Reports CRS Report R45865, *Farm Policy: USDA's 2019 Trade Aid Package*, by Randy Schnepf, and CRS Report R45310, *Farm Policy: USDA's 2018 Trade Aid Package*, by Randy Schnepf et al.

[50] See CRS Insight IN10943, *Escalating U.S. Tariffs: Timeline*, coordinated by Brock R. Williams.

[51] See CRS Report R45903, *Retaliatory Tariffs and U.S. Agriculture*, by Anita Regmi.

[52] See CRS Report R45929, *China's Retaliatory Tariffs on U.S. Agriculture: In Brief*, by Anita Regmi.

[53] See CRS Report R46242, *Major Agricultural Trade Issues in 2020*, coordinated by Anita Regmi.

[54] See CRS Report R44606, *The Commodity Credit Corporation: In Brief*, by Megan Stubbs.

[55] See CRS Report R45310, *Farm Policy: USDA's 2018 Trade Aid Package*, by Randy Schnepf et al.

[56] See CRS Report R45865, *Farm Policy: USDA's 2019 Trade Aid Package*, by Randy Schnepf at al.

According to the U.S. Department of Agriculture (USDA), the two trade-aid packages are structured in a similar manner and include three principal components (**Table 8**):

- The **Market Facilitation Program (MFP)** provides direct payments to producers of USDA-specified "trade damaged" commodities. USDA used different payment rate formulas to determine the MFP payment distribution for each of the 2018 and 2019 programs (described below). MFP payments are administered by USDA's Farm Service Agency (FSA).
- The **Food Purchase and Distribution Program (FPDP)** is for purchases of unexpected surpluses of affected commodities such as fruits, nuts, rice, legumes, beef, pork, milk, and other specified products for redistribution by USDA's Food and Nutrition Service through federal nutrition assistance programs including food banks, schools, and other outlets serving low-income individuals. It is administered by USDA's Agricultural Marketing Service.
- The **Agricultural Trade Promotion (ATP) program** provides cost-share assistance to eligible U.S. organizations for activities—such as consumer advertising, public relations, point-of-sale demonstrations, participation in trade fairs and exhibits, market research, and technical assistance—to boost exports for U.S. agriculture, including food, fish, and forestry products. It is administered by USDA's Foreign Agriculture Service in conjunction with the private sector.

The two years of trade assistance, as announced by the Secretary of Agriculture, were valued at a potential combined $28 billion, the largest component being the MFP direct payments to producers valued at a combined $24.5 billion (**Table 8**).

Table 8. Summary of USDA Trade-Aid Packages: 2018 and 2019

(Announced funding allocations and outlays to date in $ billions)

	2018 Package		2019 Package	
Trade Aid Component	**Initial Allocations**	**Outlays to date[a]**	**Initial Allocations**	**Outlays to date[a]**
Market Facilitation Payments (MFP)	$10.0	$8.6	$14.5	$14.4
Food Purchase and Distribution Program (FPDP)	$1.2	$1.2	$1.4	$1.4
Agricultural Trade Promotion (ATP)	$0.2	$0.2	$0.1	$0.1
Total Funding	$11.4[b]	$10.0	$16.0	$15.9

Source: Compiled by CRS from USDA, various news releases and program documentation; https://www.farmers.gov/manage/mfp. For program details, see CRS Report R45310, *Farm Policy: USDA's 2018 Trade Aid Package*, by Randy Schnepf et al., and CRS Report R45865, *Farm Policy: USDA's 2019 Trade Aid Package*, by Randy Schnepf.

Notes: The funding allocations cited in this table represent maximum potential outlays as announced by the Secretary of Agriculture with each of the trade aid packages.

a. The outlays are from USDA's Farm Service Agency as of March 10, 2020.

b. Secretary of Agriculture announced total funding of up to $12.0 billion, but the announced funding of individual components came to $11.4 billion.

The broad discretionary authority granted to the Secretary under the CCC Charter Act to implement the trade-aid package also allowed the Secretary to determine how the aid was calculated and distributed. Some important differences between the 2018 and 2019 trade aid packages include the following:

- Although the 2018 and 2019 MFP programs focused payments on the same three commodity groups—non-specialty crops (grains and oilseeds), specialty crops (nuts and fruit), and animal products (hogs and dairy)—the 2019 MFP included an expanded list of eligible commodities (41 eligible commodities in 2019 compared with nine in 2018).
- The 2018 MFP payments for eligible specialty and non-specialty crops were based on physical production in 2018, and calculated as per-unit payment rates. The 2019 MFP program based its payment rates for specialty crops on harvested acres, and non-specialty crops on planted acres. This change was done to avoid having MFP payments reduced by the lower yields that were expected to occur across major growing regions due to the widespread wet spring and delayed plantings. Then a weighted-average MFP payment-rate-per-acre was calculated at the county level. This was done to minimize influencing producer crop choices and avoid large payment-rate discrepancies across commodities grown within the same county. The end result was a single 2019 MFP payment rate for each county with eligible commodities. Under both 2018 and 2019 MFP programs, payments to dairy producers were based on historical production, while those to hog producers used mid-year inventory data.
- Payments were made in three tranches under both the 2018 and 2019 MFP programs; cumulative program receipts were subject to annual payment limits and adjusted gross income (AGI) eligibility requirements. The 2018 MFP payments were capped on a per-person or per-legal-entity basis at a combined $125,000 for eligible non-specialty crops, a combined $125,000 for animal products, and, separately, a combined $125,000 for specialty crops. In contrast, the 2019 package used expanded payment limits per individual per commodity group ($250,000) and an expanded maximum combined payment limit across commodity groups ($500,000 versus $375,000 in 2018). Both 2018 and 2019 MFP payment recipients were subject to an AGI eligibility threshold of $900,000, but with an exemption from the AGI criteria if at least 75% of a farm's AGI was from farming operations.

There is a general consensus among farm policy analysts that the MFP payments provided a substantial income boost to the U.S. agricultural sector in the aggregate during what otherwise would have been a period of low commodity prices and low net farm income.[57] However, an examination of MFP payments data reveals that they were unevenly distributed across both commodities and regions.[58]

Congressional Action and Assistance

No congressional action was involved in the establishment, funding, or implementation of the 2018 and 2019 MFP programs. The ranking member of the Senate Committee on Agriculture, Nutrition, and Forestry, Debbie Stabenow of Michigan, has raised concerns about the

[57] For MFP payments impact on individual farm operations, see Bart L. Fischer, Joe L. Outlaw, J. Marc Raulston, and Brian K. Herbst, "Overview of Trade Aid and Its Impact on AFPC's Representative Farms," Agricultural and Food Policy Center, The Texas A&M University System, Briefing Paper 20-2, March 2020. For MFP payments as a share of net farm income, see CRS Report R46249, *U.S. Farm Income Outlook: February 2020 Forecast*, by Randy Schnepf.

[58] Paulson, N., J. Coppess, G. Schnitkey, K. Swanson, and C. Zulauf. "Mapping the Market Facilitation Program," *farmdoc daily* (9): 232, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 12, 2019.

methodology used to determine payment rates and the resultant distribution of payments across both commodities and regions.[59] In January 2020, Senator Stabenow requested a comprehensive investigation by GAO into the integrity of USDA's trade aid to farmers affected by the Trump Administration's trade policies.[60]

Repayment or Recoupment of Assistance

There is no provision for repayment or recoupment of any of the funds disbursed under the 2018 and 2019 trade-aid packages. President Trump has claimed that the tariffs imposed on products imported into the United States increased U.S. government revenue, and that these amounts, mainly paid by Chinese exporters, were used to offset the cost of the trade-aid packages.[61] However, economic studies have generally found that the cost of tariffs on imported goods is borne largely by U.S. firms and consumers, not by foreign trading partners.[62]

Final Outcome

USDA's use of CCC authority to initiate and fund agricultural support programs without congressional involvement is not without precedent, but the scope and scale of its use for the two trade-aid packages—at a potential cost of up to $28 billion—have increased congressional and public interest. On February 11, 2020, USDA Inspector General Phyllis Fong told the House Agriculture Appropriations Subcommittee that her office would be undertaking an investigation of the Administration's trade assistance programs, starting with whether USDA had the proper legal authority to make direct payments to farmers.[63] It is also possible that other countries may challenge MFP payments as a violation of U.S. trade commitments to the World Trade Organization.[64]

[59] See Senate Agriculture, Nutrition, and Forestry Committee, Minority Staff Report, "President Trump's "Aid Not Trade" Policy: Skewed Payments Choose Winners and Losers, Fail to Help Farmers Hit the Hardest," November 2019, at https://www.agriculture.senate.gov/imo/media/doc/MFP%20Report%20FINAL.pdf.

[60] U.S. Senate Committee on Agriculture, Nutrition, and Forestry, "GAO Launches Stabenow-Requested Investigation into USDA Trade Aid," newsroom, February 18, 2020, at https://www.agriculture.senate.gov/newsroom/dem/press/release/gao-launches-stabenow-requested-investigation-into-usda-trade-aid.

[61] John W. Schoen, "Trump claims 'billions of dollars are pouring into the coffers of the USA' because of his tariffs, but that's just a drop in the bucket," *CNBC*, November 29, 2018, at https://www.cnbc.com/2018/11/29/trump-claims-money-pours-in-because-of-tariffs-but-they-are-not-much.html.

[62] See, for example, Mary Amiti, Stephen J. Redding, and David E. Weinstein, *Who's Paying for the U.S. Tariffs? A Longer-Term Perspective*, National Bureau of Economic Research, Working Paper No. 26610, January 2020.

[63] Phillip Brasher, "USDA IG investigating MFP payments" *AgriPulse*, February 12, 2020.

[64] See CRS Report R45940, *U.S. Farm Support: Compliance with WTO Commitments*, by Randy Schnepf.

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