



Returning Liquidity to The Commercial Mortgage Market

Executive Summary

As explained in greater detail below, we recommend that the following critical steps should be taken in order to help enhance liquidity and facilitate lending in the private commercial mortgage market:

1. The Investor Incentive Issue Must Be Resolved – Extend TALF To CMBS With A 5-Year Term.

CMSA believes that extending TALF to CMBS (as envisioned by Treasury and the Federal Reserve) should help bring investors back into the market. *We strongly believe, however, that the financing term should be at a minimum 5 years (with a possible extension), that the financing be non-recourse and free of mark-to-market provisions.*

2. The Lender “Legacy Assets” Issue Must Be Resolved.

Lenders are saddled with “legacy assets” that were intended for securitization, taken as security for the extension of credit or otherwise retained on book. Such legacy assets now constrain lenders’ capacity to provide new financing, as they clog their balance sheets and inflict unprecedented levels of valuation volatility. Before lending can restart, lenders need to liquidate these legacy assets. *We recommend doing so through two mechanisms:*

a. ***Extend TALF To Encompass Outstanding Legacy CMBS.*** The volatility of existing CMBS can be somewhat alleviated by including outstanding CMBS as “eligible assets” under TALF provided that the ratings of outstanding CMBS have been affirmed after January 1, 2009 to be eligible.

b. ***Create A Public-Private Investment Fund To Offer An Outlet For Other Existing Legacy Assets.***

Overall, having a sound and well-functioning commercial and multifamily real estate sector is critical to our country’s economic growth and development, and to millions of U.S. businesses of all sizes that provide local communities with jobs and services.

Many of the Country’s banks and insurance companies have substantial exposures to commercial real estate, and are facing increased capital pressures as the sector struggles amid the current credit crisis. These recommendations are intended to restore this private market sector in the most effective and efficient manner.

Background

While the commercial and multifamily real estate industry plays a vital role in the economy, it now faces its worst liquidity challenge since the Great Depression. It is estimated that the commercial real estate (CRE) sector supports more than 9 million jobs and generates hundreds of millions of dollars in federal, regional and local tax revenue.

Over the past year, the broader credit crisis has permeated the world's capital markets and has severely curtailed commercial lending activity. This is particularly true for the \$6 trillion commercial real estate market, which is financed in part through more than \$3 trillion of debt. Currently, banks, life insurance companies and the CMBS market represent 75% of all outstanding commercial real estate loans.

Banks and insurers, however, have tightened their credit standards and reduced loan volume in reaction to pressure to increase reserve levels and decrease commercial real estate exposure. The CMBS market has ceased to function with respect to new issuance, and the market valuations of existing bonds are extremely volatile making them very unappealing for investors. As evidence of that, the CMBS market provided approximately \$240 billion in financing in 2007 (nearly 50% of all commercial lending), but provided less than \$13 billion in issuance in 2008, despite enormous demand from borrowers.

Hundreds of billions of dollars of commercial real estate loans from a variety of sources are expected to mature in 2009 and over \$1 trillion in the next few years. Under current conditions, however, there is insufficient credit capacity to refinance this wave of loan maturities. With no liquidity and credit frozen, banks, insurance companies and the CMBS market will experience a dramatic increase in defaults and losses, which will further depress commercial real estate values. Such an outcome would place additional pressure on the already-strained credit markets, prompting additional need for government intervention and financial assistance.

Recommendations

1. Solving The Investor Incentive Problem – TALF

The expansion of TALF to CMBS (as discussed by both Treasury and the Federal Reserve in their recent announcements) would stimulate investor demand if –

- The permissible term of TALF loans to finance the purchase of CMBS is at minimum 5 years (with possible extension) instead of the 3 year term allowed for other ABS classes (to address the longer term nature of CRE lending and to allow newly originated loans to perform throughout the current real estate market cycle) with permissible extensions (as allowed for the other ABS classes) and

- The financing rates are set at the same rate as for the other ABS classes (L +100) with appropriate haircuts.

Such financing, by replacing private financing that has historically been available for CMBS investments, would expand the investor base for lower LTV (implied AAA-rated) CMBS as it would attract sidelined private equity funds with yield targets in excess of 12%.

2. Solving The Legacy Asset Problem – More TALF (for Legacy CMBS) and the Public-Private Investor Fund (for other Legacy Assets)

- Legacy assets on bank and insurer balance sheets (including CMBS, whole loans, B-Notes, mezzanine loans, bridge loans, etc.) represent a significant obstacle to new lending because banks and insurers are unwilling/unable to commit new capital when they have not addressed the balance sheet drag of the outstanding assets.

- Financial institutions have been unable to shed legacy assets for a number of reasons, including:

- The unprecedented price volatility in the market for outstanding CMBS;

- An inability to sell large floating rate loans that were originated for securitization or syndication. Buyers of this product have been hesitant to buy because there is no financing market available for their purchases, which in part causes the underlying asset values to be extremely volatile;

- The dearth of debt capital available for financing potential purchases of whole loans, securities or other structured finance products;

- The ripple effects that a few deeply discounted asset sales by a bank or insurer would have on the balance of the institution's portfolio, regardless of the underlying credit quality of the sold or remaining assets; and

- Unlike residential mortgages, most loans backing seasoned CMBS issues are fixed-rate, long-term loans subject to onerous call provisions and thus are not easily refinaneable.

The lender legacy asset problem can be alleviated through the utilization of two separate Mechanisms – one for legacy CMBS and the other for other legacy assets.

a. Legacy CMBS – Extend TALF

The easiest, most straight-forward mechanism to partially address the legacy CMBS issue is simply to expand TALF eligibility to encompass existing CMBS in addition to new issuances. The current outstanding universe of CMBS, totaling approximately \$900 billion, needs to tighten, and volatility needs to decrease in order for any new loan program to succeed; extending TALF in this manner should address this need.

To ensure that the TALF remains limited to properly rated AAA bonds, the ratings of outstanding CMBS could be required to have been affirmed after January 1, 2009 to be eligible for TALF financing.

b. Other Legacy Assets – The Public-Private Investment Fund

The Financial Stability Plan's "Public-Private Investment Fund" could be employed to purchase other legacy assets. The fund should be made available to private equity funds, money managers, banks, pension funds, insurance companies and private investors. Qualified assets would include both rated and unrated securities, whole loans and other structured finance instruments.

A public-private investment fund could be structured in several ways:

- Investments in legacy assets could be structured in a manner similar to private equity transactions, where private financial sponsors would provide 20-30% equity as a general partner, and the government would provide the balance of the capital as a limited partner. The limited partner would receive a preferred return (at an appropriate spread over the federal cost of funds) after which the general partner would be permitted to receive some level of promoted return, with any upside beyond that shared between public limited partner and private general partner. By making its investment in the form of equity without a required current return, the government would facilitate the liquidation of a wide variety of illiquid assets, including land and development loans.

- Alternatively, the government could provide long-term, non-recourse, non mark-to-market financing at a conservative advance rate and at a spread to its cost of funds (arguably lower than the preferred return hurdle described above). In order to be effective for most commercial assets, the financing should have a term of 3 to 7 years with extension(s) and be fully prepayable at par.

The two approaches are not mutually exclusive. The government could provide both debt and equity options to potential private-side partners, so that the capital structure can be tailored to best fit the investment opportunity.

Utilizing both the TALF to resolve the legacy CMBS issue and a public-private investment fund to address other legacy assets should have the benefit of (a) encouraging private capital to make investments in existing assets, (b) increasing the “market price” of legacy assets, which enhances bank balance sheets and minimizes mark-to-market consequences, and (c) potentially providing current and/or long term returns to taxpayers for their side-by-side investments in financial assets.

Conclusion

Market participants support decisions by the Treasury and Federal Reserve to address the commercial real estate sector in the recent Financial Stability Plan. The creation of mechanisms to encourage both new mortgage origination and investment in commercial mortgage securities is critical to establishing stability in the capital markets. By enhancing liquidity in both new issue and legacy CMBS assets, the government will allow lenders and investors to take calculated risks on commercial real estate assets, without undue concerns about volatility or broader market disruption.

In order for this plan to work and to encourage lenders to underwrite new loans, however, we must also allow financial institutions to shed their non-CMBS legacy assets, in addition to their CMBS assets, so that they have the necessary capital and balance sheet capacity to warehouse loans for ultimate disposition in the capital markets. The current supply of loans, including large floating rate loans, development loans, land and commercial real estate business loans, thus must be cleared from the books of life insurance companies, banks and investment banks.

The Financial Stability Plan broadly provides programs to achieve both of these objectives, and we are happy to offer these suggestions for the successful implementation of that plan.

Summary of Details Regarding the Public-Private Investment Programs

The following chart provides details of interest concerning the U.S. Treasury

Department/FDIC public-private initiatives for legacy securities and legacy loans:

<u>Parameter</u>		<u>Legacy Securities</u>	<u>Legacy Loans</u>
Funding Source	·Private	Treasury-approved Private Fund Managers responsible for raising at least \$500 million in capital from private investors within a specific time period	Private investors in the PPIF will provide at least 50% of equity capital
	· Public	<ul style="list-style-type: none"> · Treasury will match equity funds based on amount of private capital raised; · Fund will have option to obtain secured non-recourse loan from Treasury of up to 50% of Fund's total equity capital subject to certain restrictions, and Treasury will consider requests for additional Treasury Debt financing of up to 100% of fund's total equity capital subject to certain additional restrictions 	<ul style="list-style-type: none"> · Treasury will match private equity capital; · FDIC will guarantee debt issued by PPIF, collateralized by assets purchased by each PPIF. Leverage will be determined on a pool-by-pool basis at the FDIC's sole discretion with input from a third-party valuation firm, with debt-to-equity ratio not to exceed 6-to-1.
Investment Details		<ul style="list-style-type: none"> · Public and private funds invest and divest pro rata at the same time and on the same terms; · Managers expected to adopt buy-and-hold strategy though Treasury will consider approaches involving limited trading; · Public and private investment will share gains and losses pro rata; · Treasury will take warrants in the PPIF 	<ul style="list-style-type: none"> · FDIC will oversee multiple PPIFs which will own and manage pools of assets; · Public and private capital will invest proportionately at the same time in the PPIF; · Public and private investment will share gains and losses pro rata; · Treasury will take warrants in the PPIF

<u>Parameter</u>		<u>Legacy Securities</u>	<u>Legacy Loans</u>
Eligible Assets		<ul style="list-style-type: none"> · CMBS and non-agency RMBS issued prior to January 1, 2009; · Assets must originally have had AAA rating or equivalent from two or more NRSROs without rating enhancement; · Assets generally must be secured directly by the actual mortgage loans, leases or other assets and not other securities; · Underlying loans or assets must be situated predominately in the U.S.; · Eligible assets can be purchased solely from “financial institutions” as described in Section 101(a)(1) of EESA (i.e., not from foreign central banks or foreign government-owned banks). 	<ul style="list-style-type: none"> · Assets are expected to be pools of loans, which will be identified by banks interested in selling them and their primary regulators; more details to be provided by FDIC after rulemaking; FDIC will publish qualification criteria for eligible assets; · Eligible assets and any supporting collateral must be situated predominately in the U.S.
Eligible Participants	· Sellers	<ul style="list-style-type: none"> · “Financial institutions” as described in Section 101(a)(1) of EESA (i.e., not from foreign central banks or foreign government-owned banks); · Sellers cannot be affiliates of Fund Managers in the program, or any private investor that has contributed at least 10% of the aggregate capital raised by the Fund Manager. 	<ul style="list-style-type: none"> · Eligible sellers include any insured U.S. bank or savings association; those owned or controlled by foreign banks are ineligible.
	· Investors	See above re Sellers	<ul style="list-style-type: none"> · Private investors are expected to include financial institutions, individuals, insurance companies, pension funds, and private equity funds; · Private investor groups must be approved by FDIC, and cooperation between them will be prohibited once auction process begins; · Private investors may not participate in any PPIF

<u>Parameter</u>		<u>Legacy Securities</u>	<u>Legacy Loans</u>
Eligible Participants cont'd	Investors cont'd		purchasing assets from affiliates of the investors or that represent 10% or more of the aggregate private capital in the PPIF
Price Discovery Mechanism		Private Fund Managers will control asset selection and pricing	Auction of eligible asset pools, with FDIC supervising the valuation process that will facilitate bidding, and the auctions; sellers may accept or reject the offered price that is based on the winning bid.
PPIF Management		Treasury will initially select 5 private sector Fund Managers based on criteria that will include demonstrated capacity to raise at least \$500 million of private capital, experience and track record in investing in eligible assets, a minimum of \$10 billion under management, and having a U.S. headquarters. Fund manager applications are currently available and are due April 10, 2009.	Once the initial transaction has been completed, the private capital partners will control and manage the assets until final liquidation, subject to “strict” oversight by, and reporting obligations to, the FDIC.
Oversight		Funds will be managed by the private managers, but managers must provide detailed monthly reports to Treasury, must publicly report prices paid for assets and have annual audited valuations, and must agree to open their books to Treasury, the TARP IG and GAO, among other oversight requirements.	Funds will be managed by the private capital partners, subject to “strict” oversight by the FDIC in accordance with pre-established parameters, and must agree to open their books to Treasury, the TARP IG and GAO, among other oversight requirements.
Executive Compensation Restrictions		None for passive investors in the PPIF; unclear for sellers and for Fund Managers, although there should be none if the rules are consistent with those for TALF	None for passive investors in the PPIF; unclear for sellers and for private capital partners, although there should be none if the rules are consistent with those for TALF

Legacy Securities Public-Private Investment Funds (PPIFs) Frequently Asked Questions

What are Legacy Securities?

Legacy securities include commercial mortgage backed securities and residential mortgage backed securities originally issued prior to 2009.

What are Legacy Securities PPIFs?

Legacy Securities PPIFs are investment funds that will invest in legacy securities on behalf of Treasury and private investors. They will be managed by qualifying private sector asset managers (“Fund Mangers”), which will raise equity capital from private investors and receive matching equity funds and leverage from Treasury. The goal of the Legacy Securities PPIFs is to maximize returns for taxpayers and private investors.

What are the benefits of Legacy Securities PPIFs?

Treasury is establishing the Legacy Securities PPIFs under the Financial Stability Plan in order to address the issues raised by troubled assets. These Legacy Securities PPIFs are specifically focused on legacy securities and are part of a plan that directs both equity capital and debt financing into the market for legacy assets. This program is designed to draw in private capital to these markets by providing matching equity capital from Treasury and debt financing from the Federal Reserve via the TALF and Treasury. The benefits of the program include restarting the market for these legacy securities, freeing up balance sheets of financial institutions and enabling the extension of new credit. The resulting process of price discovery is expected to reduce the uncertainty about the condition of financial institutions holding these securities, potentially enabling them to raise new private capital.

What will be the structure of the Legacy Securities PPIFs?

The Legacy Securities PPIFs will be investment funds that will be managed by pre-qualified private sector Fund Managers. The Treasury will initially select approximately 5 potential partners to participate in the program and may increase this number depending on applications received. Approved managers will have a period of time to raise private capital to target the designated asset class, and approved managers that raise private capital will receive matching equity funds from Treasury based on the amount of private capital raised. Treasury equity capital will be invested on a pro rata basis with equity capital from private investors. Treasury will also receive warrants in the Legacy Securities PPIFs as required pursuant to Section 113(d) of the Emergency Economic Stabilization Act of 2008 (“EESA”). Furthermore, asset managers will

have the ability, to the extent their fund structures meet certain guidelines, to obtain debt financing for a fund from Treasury in the amount of up to 50% of total equity capital in such fund. Treasury will consider requests for loans from Treasury in amounts of up to 100% of the total equity capital of a Legacy Securities PPIF subject to restrictions on asset level leverage, withdrawal rights, disposition priorities and other factors Treasury deems relevant. Fund Managers will have the opportunity to request this additional Treasury Leverage and propose additional terms in their applications.

How will TARP's equity investment be structured?

Treasury will invest alongside private capital in the Legacy Securities PPIFs. The Fund Managers will make control decisions, including buying and selling assets.

How will Treasury's equity investment be counted against the limit on Treasury's purchase of troubled assets in EESA?

The purchase price of Treasury's equity investment in the Legacy Securities PPIFs, and the cost of any Treasury loan to the Legacy Securities PPIFs for leverage, will count against the \$700 billion cap.

What are "Eligible Assets" that may be purchased by Legacy Securities PPIFs?

Eligible Assets include commercial mortgage backed securities and residential mortgage backed securities originally issued prior to 2009. These securities must have been originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without ratings enhancement. The eligible assets must be secured directly by the actual mortgage loans, leases or other assets, and not by other securities (other than certain swap positions, as determined by the Treasury). The loans and other assets underlying any Eligible Asset must be situated predominantly in the United States. This limitation is subject to further clarification by Treasury. Eligible Assets may be purchased solely from financial institutions from which the Secretary of the Treasury may purchase assets pursuant to Section 101(a)(1) of the EESA.

How will Treasury qualify Fund Managers for the Legacy Securities PPIFs?

Treasury has published an application for interested private sector fund managers to apply to become qualifying Fund Managers. Treasury will qualify Fund Managers based upon criteria that include the following:

- Demonstrated capacity to raise at least \$500 million of private capital.
- Demonstrated experience investing in Eligible Assets, including through performance track records.
- A minimum of \$10 billion (market value) of Eligible Assets under management.
- Demonstrated operational capacity to manage Legacy Securities PPIFs in a manner consistent with Treasury's stated Investment Objective while also protecting taxpayers.
- Headquarters in the United States.

Other criteria are identified in the application. Treasury will consider suggestions from Fund Managers to raise equity capital from retail investors.

How can interested parties apply to qualify as Fund Managers?

To be considered for pre-qualification as a Fund Manager, the interested private sector asset manager must submit an application to Treasury by 5:00 p.m. ET on April 10, 2009. Applications can be found on <http://www.financialstability.gov/> and should be submitted to:

U.S. DEPARTMENT OF THE TREASURY

Office Of Financial Stability: Legacy Securities Public-Private Investment Funds

1500 PENNSYLVANIA AVENUE NW

WASHINGTON, DC 20220

Phone Number: 202-622-9911

E-mail Address: SecuritiesPPIF@do.treas.gov

**When will applicants be notified if they have been pre-qualified to be Fund Managers?
How long will they then have to raise private capital?**

Treasury expects to inform an applicant of its preliminary qualification on or prior to May 1, 2009. Applicants will have a limited period of time from preliminary approval to raise at least \$500 million of private equity capital and demonstrate committed capital before receiving final approval from Treasury. Applicants will be asked to describe the amount of time they anticipate needing to raise the private capital in their applications. Treasury reserves the right to qualify additional managers in the future.

Will the Legacy Securities PPIFs be subject to executive compensation restrictions?

The executive compensation restrictions will not apply to passive private investors in Legacy Securities PPIFs.

Legacy Loans Program Summary of Terms

The Federal Deposit Insurance Corporation (“FDIC”) and the United States Department of the Treasury (“UST”) will coordinate public-private investment funds (“PPIFs”) to purchase troubled and illiquid loans and other assets in substantially sized pools from insured banks and thrifts. These PPIFs are designed to facilitate buy and hold investment strategies.

Summary of Public-Private Investment Funds

- The FDIC will oversee multiple PPIFs which will be established to own and manage pools of assets. These PPIFs will be vehicles established to purchase pools of loans and other assets from insured depository institutions (“Participant Banks”) under criteria established by the FDIC. Equity in the PPIFs will come from private investors (“Private Investors”) and the UST. The PPIFs will issue FDIC-guaranteed debt to expand purchasing power.
- The FDIC will provide oversight for the formation, funding, and operation of new PPIFs that will purchase assets from banks.
- The UST will be responsible for overseeing and managing its equity contributions to the PPIF. The FDIC will be responsible for overseeing the formation, funding, and operation of PPIFs and for overseeing and managing its debt guarantees to the PPIFs. In its oversight role, the FDIC will ensure that the same information is provided to the FDIC and to the UST.
- The FDIC and UST will enter into an agreement governing allocation of costs and responsibilities for the functions provided. The FDIC will be reimbursed for its expenses incurred in providing oversight.
- PPIFs will finance the purchase of eligible asset pools (“Eligible Asset Pools”) and the assets comprising such pools, “Eligible Assets”) from Participant Banks by issuing debt guaranteed by the FDIC. The FDIC guarantee will be secured by the Eligible Assets purchased by the PPIFs.
- The FDIC will work with Participant Banks, UST, Private Investors and contractors to administer the auctions of Eligible Asset Pools.
- Proposed financing terms and leverage ratios for each PPIF will be established by the FDIC and disclosed to potential investors as part of the auction process (prior to bid submission).
- The sale of equity stakes in the PPIFs to Private Investors will determine the total value of a specific Eligible Asset Pool (in conjunction with allowed leverage as discussed below).
- Consideration paid to Participant Banks in exchange for purchased Eligible Asset Pools will be in the form of cash or cash and debt issued by the PPIFs. PPIF debt will be guaranteed by the FDIC. Terms of the debt and debt guarantee will be as stipulated in the FDIC Guaranteed Secured Debt for PPIF Term Sheet.
- Debt and equity funding for each PPIF will occur at the closing of each Eligible Asset Pool purchase.
- PPIFs will have asset managers for asset management, and servicing within parameters established by the FDIC and UST. UST and Private Investors will share profits and losses in proportion to equity invested.

- The FDIC and UST shall establish governance procedures on the management, servicing agreement, financial and operating reporting requirements, exit timing and alternatives for each of the Eligible Asset Pools. To the extent practicable, standard documentation will be used for this purpose.

PPIF Capital Structure

- UST capital and private capital will invest proportionately at the same time in the PPIF.

Eligible Private Investors

- Private Investors are expected to include an array of different investors, including, but not be limited to, financial institutions, individuals, insurance companies, mutual funds, publicly managed investment funds and pension funds.
- Private Investor groups must be approved by the FDIC, and cooperation between Private Investor groups will be prohibited once the auction process begins to maintain fairness.
- UST and the FDIC will encourage participation by small, veteran-, minority- and women-owned firms.

Selling Bank Application Process/Asset Eligibility

- Interested banks should work with their primary bank regulators to identify and evaluate the Eligible Asset Pools to be sold to the PPIF and the corresponding financial impact on the Participant Bank from the sale of such asset pools. Regulators and Participant Banks should seek to identify and sell assets with a view to restoring maximum confidence for depositors, creditors, investors and other counterparties.
- After identifying a pool of assets to sell, Participant Banks and Regulators should contact the FDIC to express interest in participating in the program.
- Eligible banks include any insured U.S. bank or U.S. savings association. Banks or savings associations owned or controlled by a foreign bank or company are not eligible. For purposes of this program, “U.S. bank” and “U.S. savings association” means a bank or savings association organized under the laws of the United States or any State of the United States, the District of Columbia, any territory or possession of the United States, Puerto Rico, Northern Mariana Islands, Guam, American Samoa, or the Virgin Islands. UST and FDIC will determine eligibility and allocation for institutions after consultation with the appropriate Federal banking agency.
- Participant Banks must demonstrate to the satisfaction of the UST and FDIC that the contemplated loan pools qualify based upon UST and FDIC agreed upon minimum requirements.
- Eligible Assets and any collateral supporting those assets must be situated predominantly in the United States.

Asset Purchases & Pricing

- Upon determination of an Eligible Asset Pool for sale by a Participant Bank, the FDIC will oversee initial due diligence, preparation of required marketing materials and conduct the auction process. The Participant Bank will make information available to the FDIC and Private Investors to facilitate the bidding process. FDIC responsibilities will include the review of received bids and selection of the winning bids.
- A third party valuation firm (“Third Party Valuation Firm”) selected by the FDIC will provide independent valuation advice to the FDIC on each Eligible Asset Pool. The Third Party Valuation Firm’s analysis will assist the FDIC in discussions with Participant Banks to determine the valuation of Eligible Asset Pools, inform initial views on appropriate leverage and provide information about the structure and value of bids.
- Eligible Asset Pools will be purchased from Participant Banks at prices determined through the auction process for the private capital component of the PPIF. The price received from the private capital component will be used to calculate the cash equivalent price of the Eligible Asset Pool, using the framework provided by the PPIF’s capital structure and leverage.
- Potential Private Investors will be pre-qualified by the FDIC to participate in an Eligible Asset Pool auction. For a bid to be considered in the auction process, the bid must be accompanied by a refundable cash deposit (“Deposit”) for 5 percent of the bid value. In the event that a bid is unsuccessful, or is ultimately rejected by the Participant Bank, the Deposit will be refunded to the unsuccessful bidders (subject to their adherence to material terms of the auction procedures).
- Auctions for the private capital component of the PPIF equity will be conducted by the FDIC. FDIC responsibilities will include the review of received bids and selection of the winning bid(s). The Participant Bank will make information available to the FDIC and potential Private Investors to facilitate the bidding process according to pre-established criteria.
- Once a bid(s) is selected, the Participant Bank will have the option of accepting or rejecting the bid within a pre-established timeframe.

Governance & Management

- PPIFs will be managed within parameters pre-established by the FDIC and UST, with reporting to the FDIC and oversight by FDIC. The FDIC will be responsible for providing information required by UST.
- Private Investors may not participate in any PPIF that purchases assets from sellers that are affiliates of such investors or that represent 10% or more of the aggregate private capital in the PPIF.
- Each PPIF must agree to waste, fraud and abuse protections to be defined by UST and the FDIC in order to protect taxpayers.
- Each PPIF will be required to make certain representations, warranties and covenants regarding the conduct of their business and compliance with applicable law.
- Each PPIF will provide information to the FDIC in performance of its oversight role for the benefit of the UST and FDIC. The FDIC will provide duplicate reports to the UST.

- The PPIF also must agree to provide access, as needed, to information required by the Special Inspector General of the TARP, and the Government Accountability Office.
- Equity Capital**
- Initially target 50 percent of equity capital of each PPIF to be funded by the UST. Alternatives for USG capital may be adopted so long as such alternatives do not diminish the collateral protection securing the FDIC guarantee and are capital neutral compared with the currently contemplated investment. The UST will not have control rights.
 - Investors can choose to take less UST equity subject to a minimum to be determined.
- Treasury Warrants**
- Consistent with requirements under EESA, UST shall receive warrants in the PPIF.
- Non-Recourse Debt**
- Third Party Valuation Firm will estimate Eligible Asset Pool values and advise the FDIC on loan-to-value and debt service coverage for each PPIF. In assessing the supportable leverage of the asset pool, the Third Party Valuation Firm will analyze characteristics including expected cash flows based on type of interest rates, risk of underlying assets, expected lifetime losses, geographic exposures, maturity profiles and other relevant factors.
 - Leverage will be determined on a pool-by-pool basis at the FDIC's sole discretion, with input from the Third Party Valuation Firm. It is anticipated that the debt to equity ratio will not exceed 6 to 1 for each PPIF.
 - FDIC will provide credit support for PPIF financing through guarantees of debt issued by the PPIF. The FDIC guarantee is collateralized by assets purchased by each PPIF.
 - Financing terms will be as set forth in the FDIC Guaranteed Secured Debt for PPIF term sheet.
 - The PPIF will be required to maintain a Debt Service Coverage Account ("DSCA") (as stipulated in the FDIC Guaranteed Secured Debt for PPIF Term Sheet) to ensure that working capital for each PPIF is sufficient to meet anticipated debt servicing obligations, interest expenses and operating expenses. A portion of cash proceeds from the sale of Eligible Asset Pools will be retained until cash flow from Eligible Asset Pools has fully funded the DSCA, at which point the escrowed cash will be released to the Participant Bank.
- Servicing**
- Servicing will be provided by the Participant Bank, unless otherwise defined.
 - The PPIF retains control of servicing throughout operations, subject to relevant agreements.

FDIC Fees and Expenses

- The FDIC will be reimbursed for all expenses related to conducting Eligible Asset Pool auctions.
- Ongoing administration fees (“Administrative Fees”) will be paid to the FDIC by PPIFs for oversight functions performed by the FDIC.
- The FDIC will guarantee debt issued by the PPIFs to Participant Banks or the market as consideration for Eligible Asset Pool purchases. In exchange for the debt guarantee, the FDIC will charge the PPIFs an annual guarantee fee (“Guarantee Fee”). The Guarantee Fee will be charged based on outstanding debt balances and will be payable to the FDIC annually upon the anniversary date of the transaction closing date. The FDIC guarantee will be secured by the assets in the pool which will be issued as senior debt of the PPIF and will be senior to the equity provided by the private investors and the UST.
- A portion of the Guarantee Fee will be allocated to the Deposit Insurance Fund.

Reservation of Rights

- The release of this Proposed Summary of Terms and the FDIC’s and UST’s receipt of any information from a Participant Bank or Private Investor shall not, in any manner, obligate UST or the FDIC to perform any act or otherwise incur any liabilities.
- UST and the FDIC assume no obligation to reimburse or otherwise compensate Participant Banks or Private Investors for expenses or losses incurred in connection with this Proposed Summary of Terms or the submission of an application.
- UST and the FDIC reserves the right to: (1) modify the requirements in this Proposed Summary of Proposed Terms or withdraw this Proposed Summary of Terms at any time; (2) decide not to select any Participant Bank or Private Investors; (3) reject an application without inviting the Participant Bank or Private Investors to submit a new application; (4) negotiate with and select any Participant Bank Private Investors considered qualified; (5) request, orally or in writing, clarification of or additional information on an application; (6) waive minor informalities or irregularities, or a requirement of this Proposed Summary of Terms; (7) accept any application in part or in total; and (8) reject an application that does not conform to the specified format of the application or other requirements of this Proposed Summary of Terms.

FACT SHEET
PUBLIC-PRIVATE INVESTMENT PROGRAM

The Financial Stability Plan – Progress So Far: Over the past six weeks, the Treasury Department has implemented a series of initiatives as part of its Financial Stability Plan that – alongside the American Recovery and Reinvestment Act – lay the foundations for economic recovery:

- ***Efforts to Improve Affordability for Responsible Homeowners:*** Treasury has implemented programs to allow families to save on their mortgage payments by refinancing, assist responsible homeowners in avoiding foreclosure through a loan modification plan, and, alongside the Federal Reserve, help bring mortgage interest rates down to near historic lows. This past month, the 30% increase in mortgage refinancing demonstrated that working families are benefiting from the savings due to these lower rates.
- ***Consumer and Business Lending Initiative to Unlock Frozen Credit Markets:*** Treasury and the Federal Reserve are expanding the TALF in conjunction with the Federal Reserve to jumpstart the secondary markets that support consumer and business lending. Last week, Treasury announced its plans to purchase up to \$15 billion in securities backed by Small Business Administration loans.
- ***Capital Assistance Program:*** Treasury has also launched a new capital program, including a forward-looking capital assessment undertaken by bank supervisors to ensure that banks have the capital they need in the event of a worse-than-expected recession. If banks are confident that they will have sufficient capital to weather a severe economic storm, they are more likely to lend now – making it less likely that a more serious downturn will occur.

The Challenge of Legacy Assets: Despite these efforts, the financial system is still working against economic recovery. One major reason is the problem of “legacy assets” – both real estate loans held directly on the books of banks (“legacy loans”) and securities backed by loan portfolios (“legacy securities”). These assets create uncertainty around the balance sheets of these financial institutions, compromising their ability to raise capital and their willingness to increase lending.

- ***Origins of the Problem:*** The challenge posed by these legacy assets began with an initial shock due to the bursting of the housing bubble in 2007, which generated losses for investors and banks. Losses were compounded by the lax underwriting standards that had been used by some lenders and by the proliferation of complex securitization products, some of whose risks were not fully understood. The resulting need by investors and banks to reduce risk triggered a wide-scale deleveraging in these markets and led to fire sales. As prices declined, many traditional investors exited these markets, causing declines in market liquidity.
- ***Creation of a Negative Economic Cycle:*** As a result, a negative cycle has developed where declining asset prices have triggered further deleveraging, which has in turn led to further price declines. The excessive discounts embedded in some legacy asset prices are now straining the capital of U.S. financial institutions, limiting their ability to lend and increasing the cost of credit throughout the financial system. The lack of clarity about the value of these legacy assets has also made it difficult for some financial institutions to raise new private capital on their own.

The Public-Private Investment Program for Legacy Assets

To address the challenge of legacy assets, Treasury – in conjunction with the Federal Deposit Insurance Corporation and the Federal Reserve – is announcing the Public-Private Investment Program as part of its efforts to repair balance sheets throughout our financial system and ensure that credit is available to the households and businesses, large and small, that will help drive us toward recovery.

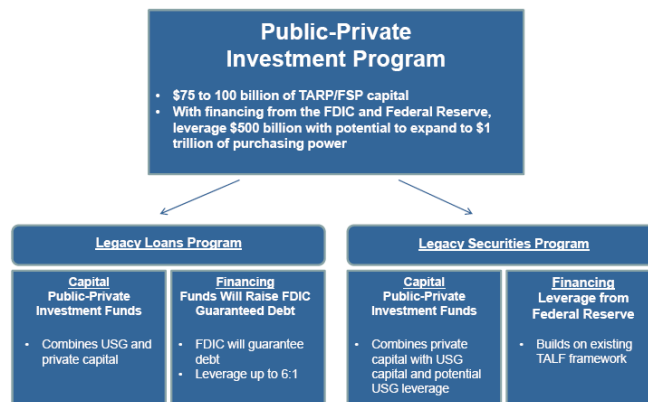
Three Basic Principles: Using \$75 to \$100 billion in TARP capital and capital from private investors, the Public-Private Investment Program will generate \$500 billion in purchasing power to buy legacy assets – with the potential to expand to \$1 trillion over time. The Public-Private Investment Program will be designed around three basic principles:

- ***Maximizing the Impact of Each Taxpayer Dollar:*** First, by using government financing in partnership with the FDIC and Federal Reserve and co-investment with private sector investors, substantial purchasing power will be created, making the most of taxpayer resources.
- ***Shared Risk and Profits With Private Sector Participants:*** Second, the Public-Private Investment Program ensures that private sector participants invest alongside the taxpayer, with the private sector investors standing to lose their entire investment in a downside scenario and the taxpayer sharing in profitable returns.
- ***Private Sector Price Discovery:*** Third, to reduce the likelihood that the government will overpay for these assets, private sector investors competing with one another will establish the price of the loans and securities purchased under the program.

The Merits of This Approach: This approach is superior to the alternatives of either hoping for banks to gradually work these assets off their books or of the government purchasing the assets directly. Simply hoping for banks to work legacy assets off over time risks prolonging a financial crisis, as in the case of the Japanese experience. But if the government acts alone in directly purchasing legacy assets, taxpayers will take on all the risk of such purchases – along with the additional risk that taxpayers will overpay if government employees are setting the price for those assets.

Two Components for Two Types of Assets: The Public-Private Investment Program has two parts, addressing both the legacy loans and legacy securities clogging the balance sheets of financial firms:

- ***Legacy Loans:*** The overhang of troubled legacy loans stuck on bank balance sheets has made it difficult for banks to access private markets for new capital and limited their ability to lend.
- ***Legacy Securities:*** Secondary markets have become highly illiquid, and are trading at prices below where they would be in normally functioning markets. These securities are held by banks as well as insurance companies, pension funds, mutual funds, and funds held in individual retirement accounts.



The Legacy Loans Program: To cleanse bank balance sheets of troubled legacy loans and reduce the overhang of uncertainty associated with these assets, the Federal Deposit Insurance Corporation and Treasury are launching a program to attract private capital to purchase eligible legacy loans from participating banks through the provision of FDIC debt guarantees and Treasury equity co-investment. Treasury currently anticipates that approximately half of the TARP resources for legacy assets will be devoted to the Legacy Loans Program, but our approach will allow for flexibility to allocate resources where we see the greatest impact.

- ***Involving Private Investors to Set Prices:*** A broad array of investors are expected to participate in the Legacy Loans Program. The participation of individual investors, pension plans, insurance companies and other long-term investors is particularly encouraged. The Legacy Loans Program will facilitate the creation of individual Public-Private Investment Funds which will purchase asset pools on a discrete basis. The program will boost private demand for distressed assets that are currently held by banks and facilitate market-priced sales of troubled assets.
- ***Using FDIC Expertise to Provide Oversight:*** The FDIC will provide oversight for the formation, funding, and operation of these new funds that will purchase assets from banks.
- ***Joint Financing from Treasury, Private Capital and FDIC:*** Treasury and private capital will provide equity financing and the FDIC will provide a guarantee for debt financing issued by the Public-Private Investment Funds to fund asset purchases. The Treasury will manage its investment on behalf of taxpayers to ensure the public interest is protected. The Treasury intends to provide 50 percent of the equity capital for each fund, but private managers will retain control of asset management subject to rigorous oversight from the FDIC.
- ***The Process for Purchasing Assets Through The Legacy Loans Program:*** Purchasing assets in the Legacy Loans Program will occur through the following process:
 - ***Banks Identify the Assets They Wish to Sell:*** To start the process, banks will decide which assets – usually a pool of loans – they would like to sell. The FDIC will conduct an analysis to determine the amount of funding it is willing to guarantee. Leverage will not exceed a 6-to-1 debt-to-equity ratio. Assets eligible for purchase will be determined by the participating banks, their primary regulators, the FDIC and Treasury. Financial institutions of all sizes will be eligible to sell assets.
 - ***Pools Are Auctioned Off to the Highest Bidder:*** The FDIC will conduct an auction for these pools of loans. The highest bidder will have access to the Public-Private Investment Program to fund 50 percent of the equity requirement of their purchase.
 - ***Financing Is Provided Through FDIC Guarantee:*** If the seller accepts the purchase price, the buyer would receive financing by issuing debt guaranteed by the FDIC. The FDIC-guaranteed debt would be collateralized by the purchased assets and the FDIC would receive a fee in return for its guarantee.
 - ***Private Sector Partners Manage the Assets:*** Once the assets have been sold, private fund managers will control and manage the assets until final liquidation, subject to strict FDIC oversight.

Sample Investment Under the Legacy Loans Program

Step 1: If a bank has a pool of residential mortgages with \$100 face value that it is seeking to divest, the bank would approach the FDIC.

Step 2: The FDIC would determine, according to the above process, that they would be willing to leverage the pool at a 6-to-1 debt-to-equity ratio.

Step 3: The pool would then be auctioned by the FDIC, with several private sector bidders submitting bids. The highest bid from the private sector – in this example, \$84 – would be the winner and would form a Public-Private Investment Fund to purchase the pool of mortgages.

Step 4: Of this \$84 purchase price, the FDIC would provide guarantees for \$72 of financing, leaving \$12 of equity.

Step 5: The Treasury would then provide 50% of the equity funding required on a side-by-side basis with the investor. In this example, Treasury would invest approximately \$6, with the private investor contributing \$6.

Step 6: The private investor would then manage the servicing of the asset pool and the timing of its disposition on an ongoing basis – using asset managers approved and subject to oversight by the FDIC.

The Legacy Securities Program: The goal of this program is to restart the market for legacy securities, allowing banks and other financial institutions to free up capital and stimulate the extension of new credit. The resulting process of price discovery will also reduce the uncertainty surrounding the financial institutions holding these securities, potentially enabling them to raise new private capital. The Legacy Securities Program consists of two related parts designed to draw private capital into these markets by providing debt financing from the Federal Reserve under the Term Asset-Backed Securities Loan Facility (TALF) and through matching private capital raised for dedicated funds targeting legacy securities.

1. **Expanding TALF to Legacy Securities to Bring Private Investors Back into the Market:**

The Treasury and the Federal Reserve are today announcing their plans to create a lending program that will address the broken markets for securities tied to residential and commercial real estate and consumer credit. The intention is to incorporate this program into the previously announced Term Asset-Backed Securities Facility (TALF).

- **Providing Investors Greater Confidence to Purchase Legacy Assets:** As with securitizations backed by new originations of consumer and business credit already included in the TALF, we expect that the provision of leverage through this program will give investors greater confidence to purchase these assets, thus increasing market liquidity.
- **Funding Purchase of Legacy Securities:** Through this new program, non-recourse loans will be made available to investors to fund purchases of legacy securitization assets. Eligible assets are expected to include certain non-agency residential mortgage backed securities (RMBS) that were originally rated AAA and outstanding commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) that are rated AAA.
- **Working with Market Participants:** Borrowers will need to meet eligibility criteria. Haircuts will be determined at a later date and will reflect the riskiness of the assets

provided as collateral. Lending rates, minimum loan sizes, and loan durations have not been determined. These and other terms of the programs will be informed by discussions with market participants. However, the Federal Reserve is working to ensure that the duration of these loans takes into account the duration of the underlying assets.

2. **Partnering Side-by-Side with Private Investors in Legacy Securities Investment Funds:**

Treasury will make co-investment/leverage available to partner with private capital providers to immediately support the market for legacy mortgage- and asset-backed securities originated prior to 2009 with a rating of AAA at origination.

- ***Side-by-Side Investment with Qualified Fund Managers:*** Treasury will approve up to five asset managers with a demonstrated track record of purchasing legacy assets though we may consider adding more depending on the quality of applications received. Managers whose proposals have been approved will have a period of time to raise private capital to target the designated asset classes and will receive matching Treasury funds under the Public-Private Investment Program. Treasury funds will be invested one-for-one on a fully side-by-side basis with these investors.
- ***Offer of Senior Debt to Leverage More Financing:*** Asset managers will have the ability, if their investment fund structures meet certain guidelines, to subscribe for senior debt for the Public-Private Investment Fund from the Treasury Department in the amount of 50% of total equity capital of the fund. The Treasury Department will consider requests for senior debt for the fund in the amount of 100% of its total equity capital subject to further restrictions.

Sample Investment Under the Legacy Securities Program

Step 1: Treasury will launch the application process for managers interested in the Legacy Securities Program.

Step 2: A fund manager submits a proposal and is pre-qualified to raise private capital to participate in joint investment programs with Treasury.

Step 3: The Government agrees to provide a one-for-one match for every dollar of private capital that the fund manager raises and to provide fund-level leverage for the proposed Public-Private Investment Fund.

Step 4: The fund manager commences the sales process for the investment fund and is able to raise \$100 of private capital for the fund. Treasury provides \$100 equity co-investment on a side-by-side basis with private capital and will provide a \$100 loan to the Public-Private Investment Fund. Treasury will also consider requests from the fund manager for an additional loan of up to \$100 to the fund.

Step 5: As a result, the fund manager has \$300 (or, in some cases, up to \$400) in total capital and commences a purchase program for targeted securities.

Step 6: The fund manager has full discretion in investment decisions, although it will predominately follow a long-term buy-and-hold strategy. The Public-Private Investment Fund, if the fund manager so determines, would also be eligible to take advantage of the expanded TALF program for legacy securities when it is launched.

Public-Private Investment Program

\$500 Billion to \$1 Trillion Plan to Purchase Legacy Assets

Overview

Troubled real estate-related assets, comprised of legacy loans and securities, are at the center of the problems currently impacting the U.S. financial system. The Financial Stability Plan, announced on February 10th, outlined a broad approach to address this issue via the formation of Public-Private Investment Funds (“PPIFs”). Today Treasury is announcing the Public-Private Investment Program under which it will make targeted investments in multiple PPIFs that will purchase legacy real estate-related assets.

Addressing the problems created by legacy assets should help to improve the health of the financial institutions where they are held, leading to an increased flow of credit throughout the economy, and helping improve market functioning in the near-term. Investments made by Treasury under the Public-Private Investment Program are intended to complement the other components of the Financial Stability Plan that have been announced, including the Capital Assistance Program, the Homeowner Affordability and Stability Plan, and the Consumer and Business Lending Initiative, continuing the Obama Administration’s efforts to improve the stability and functioning of the financial system.

The Legacy Asset Problem

A variety of troubled legacy assets are currently congesting the U.S. financial system. An initial fundamental shock associated with the bursting of the housing bubble and deteriorating economic conditions generated losses for leveraged investors including banks. This shock was compounded by the fact that loan underwriting standards used by some originators had become far too lax and by the proliferation of structured credit products, some of which were ill-understood by some market participants.

The resulting need to reduce risk triggered a wide-scale deleveraging in these markets and led to fire sales. As prices declined further, many traditional sources of capital exited these markets, causing declines in secondary market liquidity. As a result, we have been in a vicious cycle in which declining asset prices have triggered further deleveraging and reductions in market liquidity, which in turn have led to further price declines. While fundamentals have surely deteriorated over the past 18-24 months, there is evidence that current prices for some legacy assets embed substantial liquidity discounts.

The discounts currently embedded in some legacy asset prices are a significant strain on the economic capital of U.S. financial institutions and have reduced their ability to engage in new credit formation. At the same time, the difficulty of obtaining private financing on reasonable terms to purchase these assets has limited the ability of investors to reduce these discounts. The lack of clarity about the value of these legacy assets has made it difficult for some financial institutions to raise new private capital.

The Public-Private Investment Program is designed to draw new private capital into the market for these assets by providing government equity co-investment and attractive public financing. This program should facilitate price discovery and should help, over time, to reduce the

excessive liquidity discounts embedded in current legacy asset prices. This in turn should free up capital and allow U.S. financial institutions to engage in new credit formation. Furthermore, enhanced clarity about the value of legacy assets should increase investor confidence and enhance the ability of financial institutions to raise new capital from private investors.

The primary areas of focus for the government's troubled legacy asset programs are the residential and commercial mortgage sectors, including both whole loans and securitizations backed by loan portfolios. These troubled assets are held by all types of financial institutions, including those that predominantly hold them in the form of loans, such as banks, and those that predominantly hold securities, such as insurers, pension funds, mutual funds and individual retirement accounts. While the program may initially target real estate-related assets, it can evolve, based on market demand, to include other asset classes.

The Public-Private Investment Plan: A Comprehensive Solution

A key principle of the chosen approach is to use private capital and private fund managers to help provide a market mechanism for valuing the troubled assets. By creating partnerships with private investors, this approach should serve to both protect the interests of taxpayers over the long-term and help restore liquidity and enable price discovery in the markets for troubled assets in the short-term.

The two key elements of the plan are:

- **Legacy Loans Program:** a program to combine an FDIC guarantee of debt financing with equity capital from the private sector and the Treasury to support the purchase of troubled loans from insured depository institutions.
- **Legacy Securities Program:** a program to combine financing from the Federal Reserve and Treasury through the Term Asset-Backed Securities Loan Facility ("TALF") with equity capital from the private sector and the Treasury to address the problem of troubled securities.

The equity co-investment component of these programs has been designed to well align public and private investor interests in order to maximize the long-run value for U.S. taxpayers. Specifically, while the plan is designed to help reduce the liquidity discounts contained in legacy asset prices in the near-term, the most important way to protect taxpayers is to ensure that the government is not paying more for assets than their long-run value as determined by private investors. Since TARP funds will be invested alongside private capital on similar terms, this reduces the likelihood that taxpayers will be overpaying. At the same time, taxpayers will have the opportunity to participate in the asset's upside along with private investors. Similarly, the debt financing components of these programs have been structured to protect taxpayer dollars and the FDIC's Deposit Insurance Fund from credit losses to the greatest extent possible.

Together, these two programs should help to restart markets for troubled assets, begin the process of repairing balance sheets, and eventually lead to increased lending in comparison with levels that would have occurred without this effort.

The Legacy Loans Program

In order to help cleanse bank balance sheets of troubled legacy loans and reduce the overhang of uncertainty associated with these assets, the FDIC and Treasury are launching the Legacy Loans Program. This program will attract private capital to purchase eligible loan assets from participating banks through the provision of FDIC debt guarantees and Treasury equity co-investment. A wide array of investors are expected to participate. The program will particularly encourage the participation of individuals, mutual funds, pension plans, insurance companies, and other long-term investors. The program is intended to boost private demand for distressed assets that are currently held by banks and facilitate market-priced sales of troubled assets.

The FDIC will provide oversight for the formation, funding, and operation of a number of PPIFs that will purchase assets from banks. The Treasury and private investors will invest equity capital in Legacy Loans PPIFs and the FDIC will provide a guarantee for debt financing issued by the PPIFs to fund asset purchases. The FDIC's guarantee will be collateralized by the purchased assets and the FDIC will receive a fee in return for its guarantee. The Treasury will manage its investment on behalf of taxpayers to ensure the public interest is protected. The Treasury intends to provide 50% of the equity capital for each PPIF, but private investors will retain control of asset management, subject to rigorous oversight from the FDIC.

Institutions of all sizes will be eligible to sell assets under the Legacy Loans Program. To start the process, banks will identify to the FDIC the assets, typically a pool of loans, that they wish to sell. Assets eligible for purchase will be determined by the participating banking organizations, including the primary banking regulators, the FDIC, and the Treasury. In order to protect taxpayer dollars from credit losses, the FDIC will employ contractors to analyze the pools and will determine the level of debt to be issued by the PPIF that it is willing to guarantee. This will not exceed a 6-to-1 debt-to-equity ratio. An eligible pool of loans, with committed financing, will then be auctioned by the FDIC to qualified bidders. Private investors will bid for the opportunity to contribute 50% of the equity for the PPIF with the Treasury contributing the remainder. The winning bid for this equity stake together with the amount of debt the FDIC is willing to guarantee (based on a predetermined debt-to-equity ratio), will define the price offered to the selling bank. The bank would then decide whether to accept the offer price.

Once the initial transaction has been completed, the private capital partners will control and manage the assets until final liquidation, subject to strict oversight from the FDIC. The FDIC will play an ongoing reporting, oversight and accounting role on behalf of the FDIC and Treasury. The exact requirements and structure of the Legacy Loans Program will be subject to notice and comment rulemaking.

Example

If a bank has a pool of residential mortgages with \$100 face value that they are seeking to divest, the bank would approach the FDIC. The FDIC would determine, according to the above process, that they would be willing to leverage the pool at a 6-to-1 debt-to-equity ratio. The pool would then be auctioned by the FDIC, with several private buyers submitting bids. The highest bid from the private sector – in this example, \$84 – would define the total price paid by the private investors and the Treasury for the mortgages. Of this \$84 purchase price, the Treasury and the private investors would split the \$12 equity portion. The new PPIF would issue debt for the remaining \$72 of the price and the debt would be guaranteed by the FDIC. This guarantee would be secured by the purchased assets. The private investor would then manage the servicing of the

asset pool and the timing of its disposition on an ongoing basis – using asset managers approved and subject to oversight by the FDIC. Through transactions like this, the Legacy Loans Program is designed to use private sector pricing to cleanse banks’ balance sheets of troubled assets and create a more healthy banking system.

The Legacy Securities Program

The Legacy Securities Program consists of two related parts. This program is designed to draw private capital into the markets for legacy securities by providing matching equity capital under the Treasury’s Public-Private Investment Program and debt financing from the Federal Reserve and Treasury under the TALF. However, any private investor, even those who do not partner with Treasury under the Public-Private Investment Program, will also be able to access the TALF to purchase legacy securities. The goal is to restart the market for these legacy securities, which will allow banks and other financial institutions to free up economic capital and stimulate the extension of new credit. The resulting process of price discovery should also reduce the uncertainty surrounding financial institutions holding these securities, potentially enabling them to raise new private capital.

Expansion of TALF for Legacy Securities

The Treasury and the Federal Reserve are creating a lending program that is targeted at the broken market for legacy securities tied to residential real estate, commercial real estate, and consumer credit. The intention is to incorporate this program into the previously announced TALF, which may total as much as \$1 trillion.

Through this expansion of the TALF, non-recourse loans will be made available to investors to fund purchases of legacy securitization assets. Eligible assets are expected to include certain non-agency residential mortgage-backed securities (“RMBS”) that were originally rated AAA, and outstanding and commercial mortgage-back securities (“CMBS”) and ABS that are rated AAA. Borrowers will need to meet certain eligibility criteria. Haircuts will be determined at a later date and will reflect the riskiness of the assets provided as collateral. Lending rates, minimum loan sizes, and loan durations have not yet been determined. These and other terms of the program will be informed by discussions with market participants. As with securitizations backed by new originations of consumer and business credit already included in the TALF, the provision of leverage through this program should give investors greater confidence to purchase these assets, thus increasing market liquidity.

Legacy Securities PPIFs

In conjunction with these efforts, the Treasury is also announcing a program to partner with private fund managers to support the market for legacy securities.

Under this program, private investment managers will have the opportunity to apply for qualification as a Fund Manager (“FM”). Applicants will be pre-qualified based upon criteria that are expected to include a demonstrable historical track record in the targeted asset classes, a minimum amount of assets under management in the targeted asset classes, and detailed structural proposals for the proposed Legacy Securities PPIF. Treasury expects to approve approximately 5 FMs and may consider adding more depending on the quality of applications received. Approved FMs will have a period of time to raise private capital to target the

designated asset classes and will receive matching equity capital from Treasury. FMs will be required to submit a fundraising plan to include retail investors, if possible. Treasury equity capital will be invested on a fully side-by-side basis with these private investors in each PPIF.

Furthermore, FMs will have the ability, to the extent their fund structures meet certain guidelines, to subscribe to Treasury for senior debt for the PPIFs in the amount of up to 50% of a fund's total equity capital, and Treasury will consider requests for senior debt for the PPIFs in the amount of up to 100% of a fund's total equity capital subject to further restrictions on asset level leverage, redemption rights, disposition priorities, and other factors Treasury deems relevant. This senior debt will have the same duration as the underlying fund and will be repaid on a pro-rata basis as principal repayments or disposition proceeds are realized by the PPIF. These senior loans will be structurally subordinated to any financing extended by the Federal Reserve to these PPIFs via the TALF.

Treasury expects the PPIFs to initially target non-agency RMBS and CMBS originated prior to 2009 with a rating of "AAA" at origination.

Example

Treasury will launch the application process for managers interested in the Legacy Securities Program. An interested FM would submit an application and be pre-qualified to raise private capital to participate in joint investment programs with Treasury. Treasury would agree to provide a one-for-one equity match for every dollar of private capital that the FM raises and provide fund-level leverage for the proposed PPIF. The FM would commence the sales process for the PPIF and raise \$100 of private capital for the PPIF. Treasury would provide \$100 of equity capital to be invested on side-by-side basis with private capital and would provide up to a \$100 loan to the PPIF if the fund met certain guidelines. Treasury would also consider requests from the FM for an additional loan of up to \$100 subject to further restrictions. As a result, the FM would have \$300 (or, in some cases, up to \$400) in total capital and would commence a purchase program for targeted securities. The FM would have full discretion in investment decisions, although the PPIFs will predominately follow a long-term buy and hold strategy. Depending on the amount of loans provided directly from Treasury, the PPIF would also be eligible to take advantage of the expanded TALF program for legacy securities when that program is operational.