



Public-Private Investment Program (PPIP)

Partnering with the private sector to buy and manage
Legacy Loans and Legacy Securities

United States Department of the Treasury (Treasury)
Federal Deposit Insurance Corporation (FDIC)

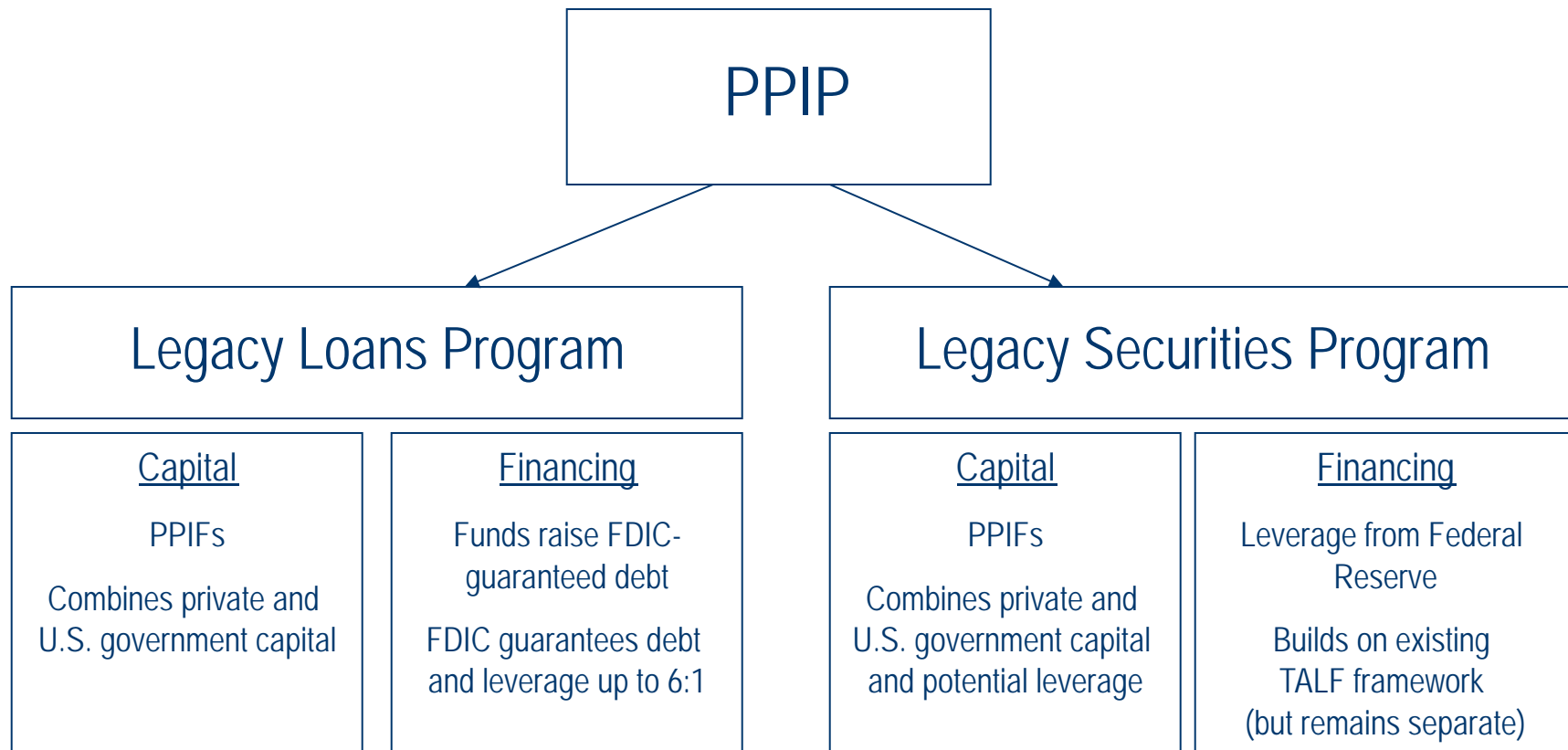
Three Basic Principles

1. Maximize the impact of taxpayer dollars by leveraging \$75-100 billion of TARP funds to generate \$500 billion in purchasing power of Legacy Loans and Legacy Securities. Could be expanded to \$1 trillion.
2. Share risk and profits with private sector.
3. Utilize private sector to establish prices for all Legacy Loans and Legacy Securities, reducing the possibility the government will overpay.

PPIP Basics

- Two programs:
 - Legacy Loans Program
 - Legacy Securities Program
- PPIP initially expected to focus on Legacy Loans and Securities in the residential and commercial mortgage sectors.
- After selection of Fund Managers (FMs), multiple Public-Private Investment Funds (PPIFs) will be launched under each of the Legacy Loans Program and Legacy Securities Program.

PPIP – Structural Chart



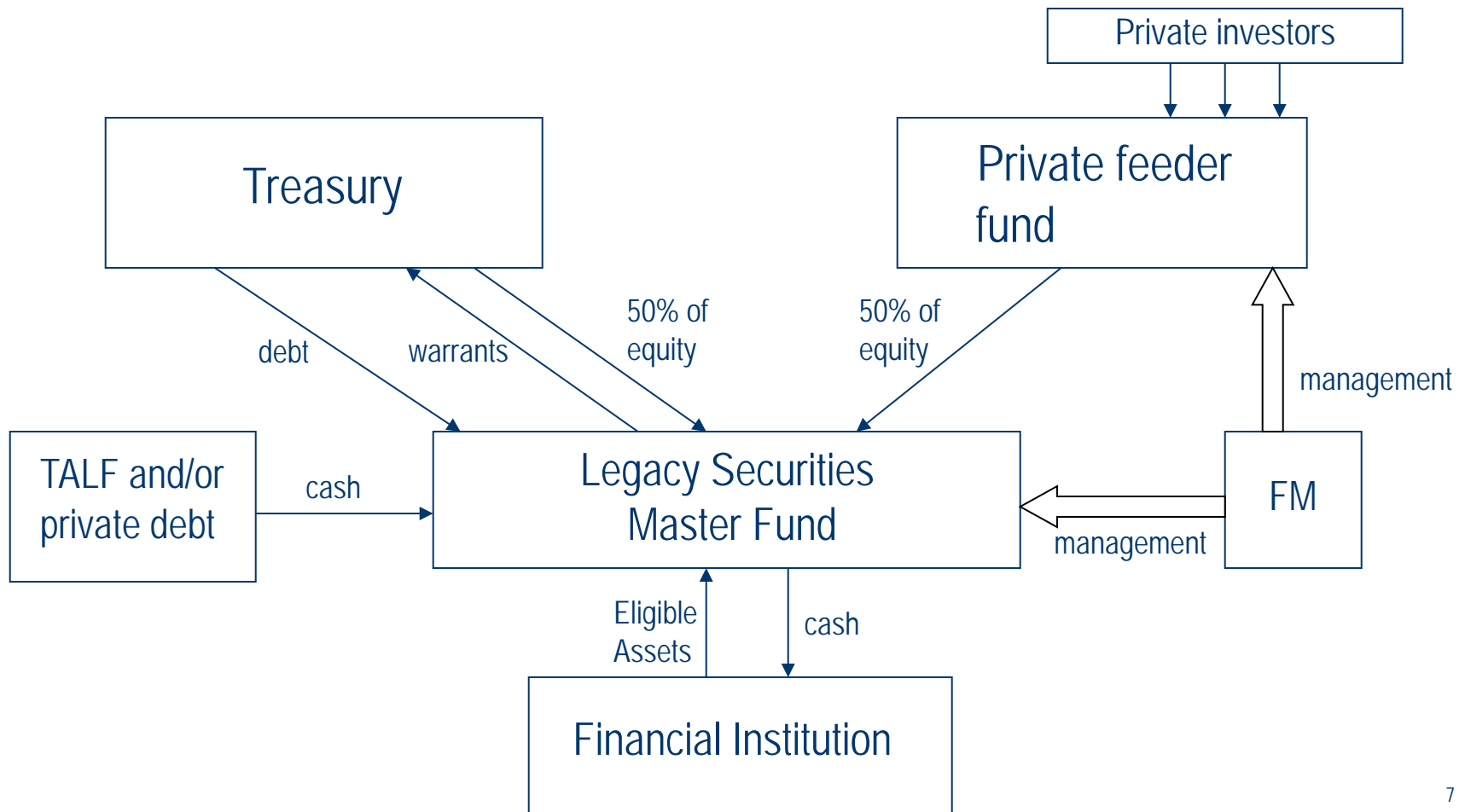
Legacy Securities – Basic Process (1 of 2)

- Treasury will initially select five (5) private sector Fund Managers (FMs) to establish and manage master funds formed to invest in Legacy Securities (Legacy Securities Funds).
- FMs or their affiliates will also sponsor and manage a private “feeder fund,” through which private investors may invest in Legacy Securities Funds. Government and private feeder funds will be the sole equity investors in the Legacy Securities Funds.
- Treasury will match the private capital in Legacy Securities Funds dollar-for-dollar and take warrants as required by the Emergency Economic Stabilization Act of 2008 (EESA).

Legacy Securities – Basic Process (2 of 2)

- FMs may subscribe for non-recourse senior debt from the Treasury in the amount of 50% of the equity in each Legacy Security Fund and may request additional debt up to 100% of equity at a maximum debt-to-equity ratio of 1:1, provided that private investors have no withdrawal rights.
- Treasury debts will be secured by Eligible Assets.
- FMs may also finance purchases through TALF or other debt financing sources.
- FMs will control the process of asset selection and pricing as well as asset liquidation, trading and disposition.
- Unclear whether assets will be acquired by bid at auction conducted by FDIC or privately.

Legacy Securities – Flow Chart



Legacy Securities – Eligible Assets

- Initially, only commercial backed and residential mortgage backed securities issued prior to 2009.
 - Originally rated AAA or equivalent by two or more nationally recognized rating agencies, without ratings enhancement.
 - Secured directly by actual mortgage loans, leases or other assets and not other securities (other than swap positions, as determined by the Treasury).
 - Underlying assets must be situated predominantly in U.S.
 - Purchased from financial institutions, as specified in §101(a)(1) of EESA. Generally means regulated entities of same sort.
 - Treasury will solicit comment from FMs regarding potential expansion to include other asset classes.

Legacy Securities – FM Qualifications

- Demonstrated capacity to raise \$500M in private capital.
- Demonstrated experience investing in Eligible Assets.
- Minimum of \$10B of Eligible Assets under management.
- Demonstrated operational capacity to manage the Legacy Securities Funds consistent with Treasury's Investment Objective (i.e., generate attractive returns for taxpayers and private investors through long-term hold but opportunistic investments) while protecting taxpayers.
- Headquartered in U.S.
- These criteria will be viewed holistically – it is anticipated that failure to meet any one criteria will not necessarily disqualify a proposal.

Legacy Securities – Other Terms

- Drawdown: Treasury equity capital will be drawn down in tranches to provide for anticipated investments at the same time and in the same proportion as private capital is drawn down. Debt financing will be funded concurrently with drawdowns.
- Treasury's right to refuse a drawdown: Treasury has the right in its sole discretion to cease funding of committed but undrawn Treasury equity capital and debt financing.
- Fees: FMs will earn fixed management fee on Treasury equity and are free to propose other fee arrangements for private equity, subject to approval of Treasury. Ability of FM to earn carried return on private equity is unclear.
- Affiliate restriction: No Legacy Securities Fund may purchase assets from an affiliate or from a private investor that has committed more than 10% of the Loan Securities Fund's aggregate private capital.
- Withdrawal: Private investors may not voluntarily withdraw from a private vehicle for three years beginning on date of first investment in a Legacy Securities Fund.

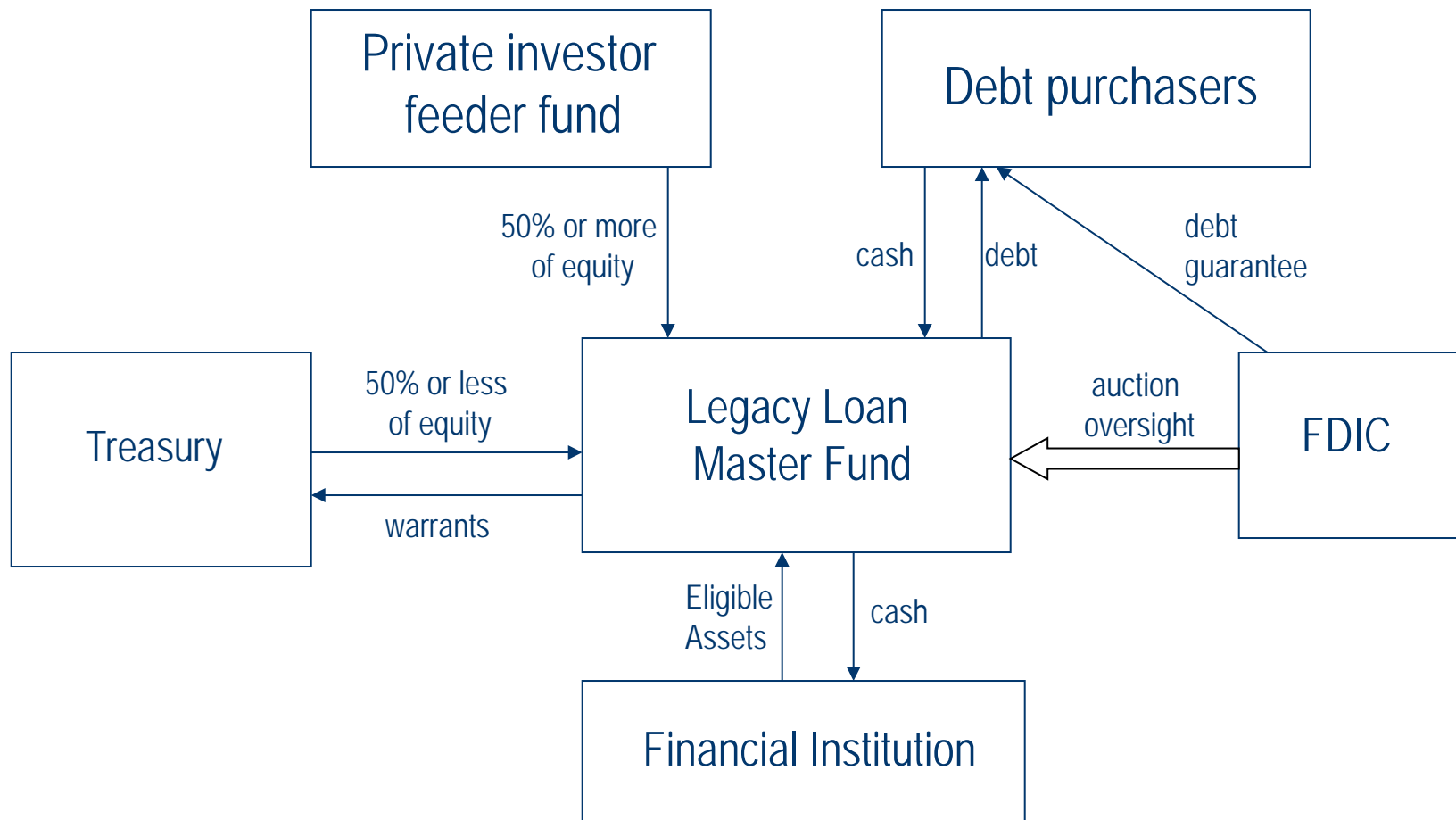
Legacy Securities and TALF

- Separate programs; investors may utilize either or both.
 - PPIP Legacy Securities Program will be operated by the Treasury.
 - TALF will soon expand to allow the use of certain legacy assets as collateral, but will continue to be operated by the New York Federal Reserve and use separate terms, conditions and eligibility requirements.
- The meaning of legacy assets under TALF is currently unclear, but newly eligible assets are expected to include certain non-agency residential mortgage-backed securities that were originally rated AAA and outstanding and commercial mortgage-backed securities and asset-backed securities that are currently rated AAA.
- Not all assets under the Legacy Securities Program will qualify as collateral under TALF unless TALF is modified by the New York Federal Reserve.

Legacy Loans – Basic Process

- FDIC will establish PPIFs under the Legacy Loans Program (Legacy Loans Funds) that will be capitalized (i) with equity contributions from private investors and matched dollar-for-dollar by Treasury equity and (ii) with guaranteed debt from the FDIC.
- Treasury will be issued warrants as required by the EESA.
- Insured U.S. banks or thrifts of any size will identify assets they wish to sell and Treasury, FDIC and primary banking regulators will determine eligibility of assets.
- FDIC will hire third-party valuation firms to produce an initial valuation. FDIC will use initial valuations to determine the degree of leverage it believes the asset can support and that the FDIC will guarantee.
- FDIC will conduct an auction and select the highest bidder.
- If the bank accepts the bid, the Legacy Loans Fund would receive financing by issuing debt guaranteed by the FDIC. FDIC will leverage debt to equity up to a 6:1 ratio.

Legacy Loans – Flow Chart



Legacy Loans – Eligible Assets

- Includes, but not limited to, whole loans and pools of loans in the residential and commercial mortgage sectors. Also includes corporate loans, but expectation is that pricing will not be acceptable to potential sellers.
- Assets and any collateral supporting them must be located predominantly in the U.S.
- Must satisfy “minimum requirements” as determined by the FDIC and Treasury. These requirements have not been announced.

Legacy Loans – FDIC Guarantee

- Capped per fund according to a leverage ratio established by the FDIC before auction. The leverage ratio will in no event exceed 6:1.
- FDIC will receive a pledge of the Legacy Loans Fund's assets to secure the guarantee.
- Legacy Loans Funds will be required to maintain a debt service coverage account, initially funded by a holdback of a portion of a selling bank's cash proceeds.
- FDIC will be reimbursed for auction expenses and paid an administrative fees.
- Additional terms of guarantee have not been announced.

PPIP – Initial Concerns

- Lack of bank incentive to sell loans.
- Whether executive compensation rules will apply to institutions selling Eligible Assets pursuant to the Legacy Loans Program and Legacy Securities Program (less of a concern for institutions that are TARP participants, but may become a greater concern as institutions return TARP funds).
- Political risk of future excess profit tax if the PPIP is successful.
- Proper valuations of Eligible Assets.



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For questions concerning this presentation, please contact:

- any member of our Asset Securitization Group
- any member of our Investment Fund Group

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