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U P D A T E

News of Developments in the Financial Sector and Related Areas

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Public-Private Investment Program

Earlier this year the United States Treasury Department announced the preliminary details of the Public-Private Investment Program ("PPIP"). The program is designed to purchase mortgage-backed securities and certain troubled loans from banks in this country, with the goal of cleansing the balance sheets of banks with troubled assets in order to create access to liquidity for banks. The PPIP is divided into two programs known as the "Legacy Loan Program" and the "Legacy Securities Program". The Legacy Loan Program is coordinated by the Federal Deposit Insurance Corporation ("FDIC") to assist banks in devesting themselves of distressed mortgage assets and in improving the private demand for distressed assets. The Legacy Securities Program is coordinated by the Treasury Department to facilitate the sale of mortgage-backed securities held by banks. The primary purpose of the Legacy Loan Program is to provide liquidity for participating banks, and the primary purpose of the Legacy Securities Program is to provide liquidity to the general market for mortgage-backed securities.

The Legacy Loan Program is intended to boost private demand for distressed assets and facilitate market-priced sales of troubled assets. The FDIC is to provide oversight for the formation, funding and operation of a number of vehicles that would purchase these assets from banks or directly from the FDIC. Private investors would invest equity capital, and the FDIC would provide a guarantee for debt financing issued by these vehicles to fund asset purchases. The FDIC's guarantee would be collateralized by the purchased assets, and the FDIC would receive a fee in return for its guarantee. The FDIC has been testing the funding mechanism contemplated by the Legacy Loan Program in the sale of receivership assets. This funding mechanism draws upon concepts successfully employed by the Resolution Trust Corporation during the 1990's, which routinely assisted in the financing of assets through responsible use of leverage. The FDIC continues to work on ways to increase the utilization of this program by banks and investors. At this time, the FDIC has not announced the timing of implementation or scope of the Legacy Loan Program.

The Legacy Securities Program is designed to support market functioning and facilitate price discovery in the asset-backed securities markets allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses. The Legacy Securities Program consists of two related parts, each of which is designed to draw private capital into these markets.

Under the Legacy Securities Public-Private Investment Program, the Treasury will invest up to $30 billion in equity and debt in PPIPs established with private sector fund managers and private investors with the purpose of purchasing legacy securities. The Legacy Securities PPIP allows the Treasury to partner with leading investment management firms in a way that increases the flow of private capital into these markets while maintaining equity "upside" for taxpayers. Initially, the Legacy Securities PPIP will participate in the market for commercial mortgage-backed securities and non-agency residential mortgage-backed securities. To qualify for purchase by a Legacy Securities PPIP, these securities must have been issued prior to 2009 and have originally been rated AAA or an equivalent by two or more nationally recognized statistical rating organizations and must by secured directly by the actual mortgage loans, leases or other assets ("Eligible Assets").

The Treasury has pre-qualified firms to participate as fund managers in the initial round of the program. These firms were selected based on criteria demonstrated by them as follows: (i) the capacity to raise at least $500 million of private capital; (ii) experience in investing in Eligible Assets; (iii) having a minimum of $10 billion in market value of Eligible Assets under management; (iv) having operational capacity to manage the Legacy Securities PPIP funds in a manner consistent with the Treasury's stated investment objective while also protecting taxpayers; and (v) being headquartered in the United States.

Each fund manager must raise at least $500 million of capital from investors for the PPIP. The equity capital raised from private investors will be matched by the Treasury. Each fund manager will also invest a minimum of $20 million of its capital into a PPIP fund. Upon raising this private capital, each fund manager can begin purchasing Eligible Assets. The Treasury will also provide debt financing up to 100% of the total equity of a PPIP fund.

The second part of the Legacy Securities Program consists of the Legacy Securities and the Term Asset-Backed Securities Loan Facility ("TALF"). The Federal Reserve Board has announced that certain high-quality commercial mortgage-backed securities issued before January 1, 2009 ("Legacy CMBS") are eligible collateral under the TALF. The Legacy CMBS is intended to promote price discovery and liquidity for mortgage-backed securities.

Both the Legacy Loan Program (if implemented) and the Legacy Securities Program will be altered based on the needs of the financial markets. These programs will be helpful in alleviating some of the problems in the financial sector.

TARP Survey Results

The Office of the Special Inspector General for the Trouble Asset Relief Program ("SIGTARP") was established by the Emergency Economic Stabilization Act of 2008. Under the Act, the Special Inspector General has the responsibility to conduct, supervise and coordinate audits and investigations of the purchase, management and sell of assets under the Trouble Asset Relief Program ("TARP"). Earlier this year, SIGTARP sent survey letters to more than 360 institutions that had completed TARP funding agreements with the Treasury Department. More than 80 percent of the responses cited the use of funds for lending or how it helped them to avoid reduced lending. More than 40 percent of the responses reported the use of some TARP funds to help maintain capital cushions and reserves required by their banking regulators in order to absorb unanticipated losses. The results of the survey, along with the responses, are available on website of SIGTARP at *www.sigtarp.gov*.

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