

# Public-Private Investment Program

Sponsor: Treasury

## Key Information

### Summary: Purchase of toxic mortgage-related securities

**Announced: March 23, 2009**  
**Asset Managers under Legacy Securities Program Announced: July 8, 2008**

- Originally two programs: Legacy Loans Program and Legacy Securities Program
- FDIC is developing a Legacy Loans program for receivership assets and will launch a program for open institutions if needed
- Focus now on Legacy Securities Program
- Treasury to invest up to \$30 billion
- Indicative Terms and Conditions have been published and final agreements with managers are being negotiated
- Purchases will be made through Public-Private Investment Funds, or PPIFs
- Treasury details at: [www.financialstability.gov.html](http://www.financialstability.gov.html)
- TALF details at: [www.newyorkfed.org/markets/talf.html](http://www.newyorkfed.org/markets/talf.html)

**First Purchases: Early August**

**Legacy Loans Program Update:  
FDIC Currently Using for  
Receivership Assets Only**

## Eligibility

- Eligible Sellers: "Financial Institutions" defined under TARP:
  - US institutions subject to US regulation (includes, at least, banks, savings associations, credit unions, security brokers or dealers and insurance companies)
  - US branches of foreign financial institutions with significant US operations should qualify
  - Institutions owned by foreign governments or central banks excluded with limited exception: if foreign government ownership arises from extending financing and a subsequent default by a failed institution or default or other prudential action
- Eligible Purchasers: No restrictions, but may not own more than 9.9% of PPIP or have conflicts of interest
- Eligible Assets: private-label residential MBS or commercial MBS, issued prior to January 1, 2009, originally rated AAA or equivalent by two or more NRSROs, secured by assets predominantly (90%) in US, backed by loans (not synthetic, not backed by other securities or derivatives)
- Temporary Investments (pending purchase of eligible assets): UST securities, cash or registered money market funds investing exclusively in direct government obligations
- Prohibited Investments/Transactions: (1) REMIC residuals, (2) derivatives other than interest rate hedges, (3) credit risk hedges, and (4) lending of assets

## Asset Managers

- Have up to 12 weeks to raise \$500 million
- Treasury will match equity investments
- Manager must invest \$20 million minimum of capital (max 9.9%)
- Current managers:
  - Alliance Bernstein (with Greenfield Partners and Rialto Capital Mgmt)
  - Angelo, Gordon with GE Capital Real Estate
  - BlackRock
  - Invesco
  - Marathon Asset Mgmt
  - Oaktree Capital Mgmt
  - RLJ Western Asset Mgmt
  - The TCW Group
  - Wellington Management Co.
- Must retain (1) valuation agent for market value calculations, and (2) custodian/collateral administrator for reporting

## Fund Management

- Drawdowns: Capital commitments called pro rata with minimum drawdown of 10% of capital commitment with minimum of 10 days notice
- Reinvestment permitted; however, proceeds distributed to Treasury cannot be recalled
- Investment period (revolving period) permits reinvestment of proceeds; thereafter, proceeds to repay debt and make allocations to investors
- Distributions (priority of payments):
  - Expenses
  - Payments on permitted interest rate hedges (if any)
  - Current interest
  - Interest Reserve Account
  - Repay principal to satisfy Asset Coverage Test
  - Early termination payments under permitted interest rate hedges (if any)
  - Purchases of assets during Investment Period
  - Capped distributions to partners beginning January 2010
  - Repayment of principal
  - Distributions to partners

## Debt Financing

- Loans available from Treasury:
  - Non-recourse (collateralized by all PPIP assets)
  - 10 year maturity; monthly interest
  - 100% of Capital – "Full Turn Election"
  - 50% of Capital – "Half Turn Election"
- Full Turn Election:
  - No other debt permitted
  - Warrant percentage equal to 2.5%
  - Can be converted to a Half Turn Election (no change to warrant %)
  - Interest: Prime or LIBOR + 1.00%
- Half Turn Election
  - Limited third-party debt permitted (e.g., TALF loans)
  - Third-party debt financing through financing SPVs w/no recourse to PPIP
  - Warrant percentage equal to 1.5%
  - Leverage Ratio Test
  - Interest (no other debt): Prime + 1.00% or LIBOR + 2.00%
  - Interest (with third-party debt): Prime or LIBOR + greater of 2.005 and 100 bps higher than weighted average applicable margin of third party debt
- Interest Reserve Account (3 months interest)
- Asset Coverage Test:
  - Ratio = Market value of assets (less third party financing) divided by principal and accrued and unpaid interest
  - Must be: 225% if Half Turn Election, 150% if Full Turn Election

## Home Affordable Modification Program

- Asset Managers agreed to consent, on behalf of the PPIP, to reasonable requests for modifications
- Where PPIP acquires 100% of RMBS pool, will instruct participating servicer to modify according to HAMP

## Requirements

- Executive compensation restrictions will **not** apply to PPIP managers or investors
- Fund manager must comply with know-your-customer and AML and federal securities laws screening requirements