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TARP, TALF and a Dash of Private Capital

The New Public Private Investment Program and TALF Expansion

TARP, TALF & a Dash of Private Capital

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The Problem

- **Loans on books of large U.S. banks:**
 - Current market pricing of loan portfolios is well below the accrued/amortized value on bank balance sheets
 - Not Mark-to-Market: Most banks have not taken reserves on their loan portfolios nearly equivalent with reduction in current market value, particularly real estate-related loans. Thus delaying financial statement impact and reducing investor confidence in bank balance sheets.
 - If banks sell loans at depressed prices, creates necessity for further loss reserves, reducing bank capital and forcing them to raise capital not readily available in markets today
- **Asset-backed securities**
 - Illiquid secondary market for legacy ABS and little new issuance since mid-2008 reducing credit availability
 - Same issue for banks holding such assets (although a smaller % of bank assets than loans)



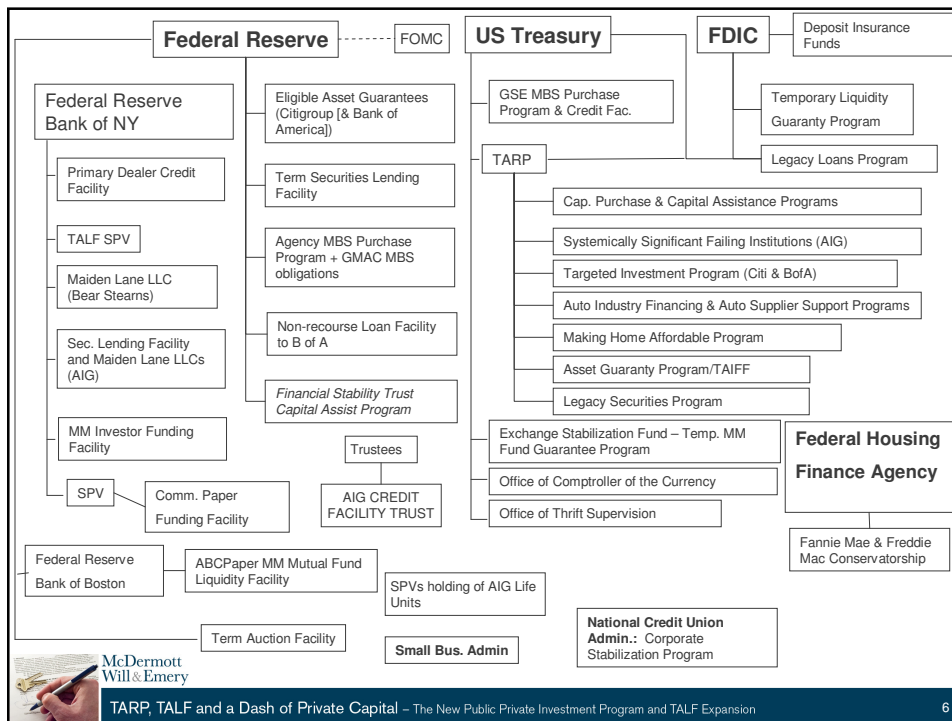
U.S. Stabilization & Liquidity Programs by Type

- **Bank Liquidity & Stability:**
 - Temporary Ban on Short Sales of Financial Stocks
 - Accelerated Approvals of Bank Holding Company Status
 - Increase FDIC insurance on deposit and non-interest bearing transaction accounts
 - Guarantee of new unsecured bank debt (FDIC)
 - Capital Purchase & Assistance Programs, including 2009-2010 stress testing
 - Citigroup and B of A Bailouts and announced Asset Pool Guarantees
 - FED Programs: Discount window expansion; Commercial Paper Funding Facility, Term Auction Facility, Term Asset Backed Securities Loan Facility (TALF), Primary Dealer Credit Facility, Asset Backed Comm. Paper MM Fund Liquidity Facility, Term Securities Lending Facility and Money Market Investor Funding Facility, Agency MBS Purchase Program, GSE Debt Purchase Program
 - Troubled Bank Dispositions and New Shelf Charter Process; proposed increase in Depository Insurance Fund
 - Guidance on Fair Value/mark-to-market accounting in disorderly markets
 - Legacy Loans Program and Legacy Securities Program



U.S. Stabilization & Liquidity Programs by Type

- Housing & Mortgage Markets: Conservatorship of GSEs; Agency MBS Purchases, Home Refinance, Affordability & 2nd Lien Plans; Treasury purchases
- Money Market Funds: Temporary guarantee of funds held on 9/19/08
- Corporate Debt Market & Liquidity: New corporate CP purchased by FED
- Credit Card Industry: American Express conv. to BHC; TALF loans for new ABS buyers; Legacy Securities Program
- Insurance Industry: AIG, life insurer-related entities eligible for TARP
- Auto Industry: Loans/investment in GM, Chrysler, GMAC, Chrysler Financial; Auto Supplier Support program; TALF
- Credit Unions: Temporary Corporate Credit Union Share Guarantee Program
- Small Business Loans: Increased funding and guarantee levels for SBA loans; TALF and Legacy Securities Program
- Commercial Real Estate: TALF and Legacy Securities Program



Financial Stability Plan (CAP & PPIP)

Announced by UST on Feb 10, 2009, March 23, 2009

- **Public-Private Investment Program (PPIP):** addressing legacy loans and legacy securities clogging balance sheets of financial firms. Legacy Loans Program to cleanse bank balance sheets of underperforming real estate-related loans and reduce associated overhang of uncertainty. Legacy Securities Program to restart legacy securities markets to allow banks and other financial institutions to sell troubled RMBS, CMBS and other asset-backed securities.
- **Capital Assistance Program (CAP) and Stress Testing:** Implementing uniform regulatory and testing standards, stress/capital assessment testing of 19 largest banks, holding two-thirds of assets and over half the loans in U.S. banks. They booked approx. \$400 B of losses by year end 2008. Other listed banks can apply under CAP. Banks that require buffer capital to withstand downturn have three choices:
 - Raise the funds privately within 6 months (impractical for most);
 - Apply to exchange existing Preferred Stock owned by U.S. into Common Stock; and/or
 - Apply for additional government Preferred Stock investment under CAP.



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Supervisory Capital Assessment Program (Stress Testing)

Provider: Led by Federal Reserve, with FDIC and OCC

Market Targeted: The 19 largest bank holding companies, including GMAC

- **Objective:** Banking supervisors **determined capital buffer needed** for each of the largest banks to remain appropriately capitalized at the end of 2010 even if economy proves weaker than expected. It is *“not a measure of the current solvency or viability”* of the banks
- **Process:** Based on 2 macro economic scenarios, developed range of loss estimates and conducted review of the banks' lending portfolios, investment portfolios and trading-related exposures, and revenue opportunities, examining bank data and loss projections, comparing loss projections across banks, and developing independent benchmarks against which to evaluate banks' estimates
- **Forward looking Loan Losses:** Included assessment of loan loss reserves for 2009-2010, including 2011 expected losses. *“This horizon seems likely to capture a large portion of losses from positions held as of the end of 2008”*
- **Trading –related Losses if Another Shock Occurs:** Firms with over \$100 B in trading assets asked to estimate potential trading –related market and counterparty losses *“under a market stress scenario ... based on market shocks that occurred in the second half of 2008”*
- **Baseline Scenario:** 2009: - 2.0 % economic contraction, 8.4 % unemployment and - 14% housing prices. 2010: 2.1 % growth, 8.8 % unemployment and - 4% housing prices
- **“More adverse” scenario:** 2009: 3.3% economic contraction, 8.9 % unemployment and - 22% housing prices. 2010: 0.5 % growth, 10.3 % unemployment and - 7% housing prices; and according to WSJ, 2 year losses of up to 8.5% on 1st lien mortgages, 11% on Home equity lines and 8% on commercial and industrial loans, 12% on commercial realty loans and 20% on credit card portfolios
- **Results:** Banks briefed Friday, 4 banks reportedly disputing need for buffer (Citi, BofA, PNC and WF); results announced next week



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Term Asset-Backed Securities Loan Facility (TALF)

- Initially designed to stimulate consumer lending
- Loans provided to investors in AAA-rated securitization transactions
 - Must be rated by two rating agencies
- Asset classes expanded on March 19
- Discussion about further expansion of asset classes

Asset-classes covered by TALF

- Auto Loans and Leases
- Credit Card Receivables
- Equipment Loans and Leases
- Floorplan Loans
- Servicing Advances for Residential Mortgages
- Small Business Loans
- Student Loans

Terms of TALF Loans

- Non-recourse
- Interest payable monthly
- Maturity 3 years
- Only available to Eligible Borrowers
- ABS collateral must be delivered
- Haircuts apply to collateral
- Must be made by application through a Primary Dealer



Eligible Borrowers

- Business entity or institution that is organized under U.S. law and conducts significant operations or activities in the United States
 - Applies whether or not any such entity has a parent company that is not U.S.-organized.
- U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank.
- Investment fund that is U.S.-organized and managed by an investment manager that has its principal place of business in the United States.
 - Entities controlled by foreign government not eligible



Haircuts for TALF Loans

<u>Sector</u>	<u>Subsector</u>	<u>ABS Expected Life (years)</u>				
		<u>0-1</u>	<u>>1-2</u>	<u>>2-3</u>	<u>>3-4</u>	<u>>4-5</u>
Auto	Prime retail lease	10%	11%	12%	13%	14%
Auto	Prime retail loan	6%	7%	8%	9%	10%
Auto	Subprime retail loan	9%	10%	11%	12%	13%
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%
Auto	Commercial and government fleets	9%	10%	11%	12%	13%
Auto	Rental fleets	12%	13%	14%	15%	16%
Credit Card	Prime	5%	5%	6%	7%	8%
Credit Card	Subprime	6%	7%	8%	9%	10%



Haircuts for TALF Loans

Continued

<u>Sector</u>	<u>Subsector</u>	<u>ABS Expected Life (years)</u>						
		<u>0-1</u>	<u>>1-2</u>	<u>>2-3</u>	<u>>3-4</u>	<u>>4-5</u>	<u>>5-6</u>	<u>>6-7</u>
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Government guaranteed	5%	5%	5%	5%	5%	6%	6%
Servicing Advances	Residential mortgages	12%	13%	14%	15%	16%		



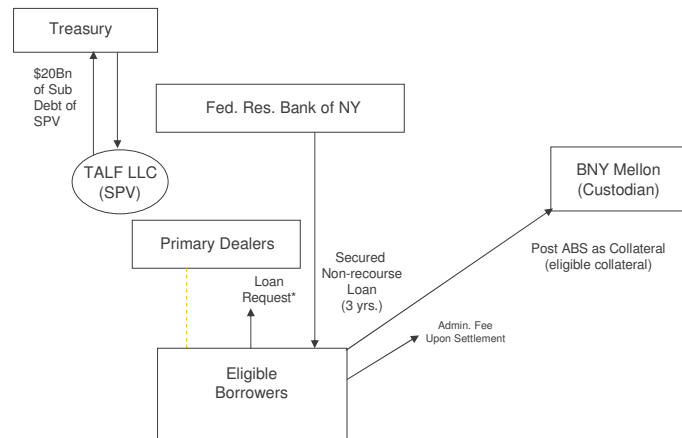
Interest Rates for Loans

The FRBNY announced that the interest rates for the TALF loans to be made on the second settlement/closing date (May 12, 2009) are as follows:

Sector	Subsector	Fixed Rate ABS (Weighted Average Life in years)			Floating Rate ABS
		<1	1-<2	>=2	
Auto	N/A	1-year LIBOR swap rate + 100 BPS	2-year LIBOR swap rate + 100 BPS	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Credit Card	N/A	1-year LIBOR swap rate + 100 BPS	2-year LIBOR swap rate + 100 BPS	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Equipment		1-year LIBOR swap rate + 100 BPS	2-year LIBOR swap rate + 100 BPS	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Floorplan		1-year LIBOR swap rate + 100 BPS	2-year LIBOR swap rate + 100 BPS	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Servicing Advances	Residential Mortgages	1-year LIBOR swap rate + 100 BPS	2-year LIBOR swap rate + 100 BPS	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Small Business	SBA 7(a) loan	N/A	N/A	N/A	Fed Funds Target + 75 BPS
Small Business	SBA 504 loan	N/A	N/A	3-year LIBOR swap rate + 50 BPS	N/A
Student Loan	Private	N/A	N/A	N/A	1-month LIBOR + 100 BPS
Student Loan	Government Guaranteed	N/A	N/A	N/A	1-month LIBOR + 50 BPS



TALF



Summary of Key Dates for the Third TALF Financing (May 2009)

Date	Event
April 21, 2009	Announcement of details of May operation
April 21 to May 5, 2009	Marketing second funding to investors
TBD	To be determined: deadline for eligible borrower to submit loan requests and materials to its Primary Dealer
May 5, 2009	Initial and follow-up loan requests and ABS offering materials delivered to Custodian
May 6 to 7, 2009	Supplementary information, Sponsor Indemnity Undertaking & Eligible Collateral Schedule submission deadlines
May 8, 2009	Deadline for Custodian to confirm to Primary Dealers which loans will be made
May 12, 2009	Third TALF loans closing/settlement date (fee, margin and collateral delivered, TALF funds disbursed and final confirm issued)



Public Private Partnership Investment Program (PPIP)

Provider: UST, FDIC & Federal Reserve

Market Targeted: Legacy loans and legacy securities, primarily real estate-related

- **Legacy Loans Program:**
 - Program to attract private capital to purchase eligible legacy loans from US banks and thrifts. PPIFs in the Loans Program will purchase real estate-related loans using private and TARP equity capital and FDIC-guaranteed debt.
- **Legacy Securities Program:**
 - Creation of Public-Private Funds - TARP equity co-investment with 5+ private fund managers & TARP/UST debt financing for the Funds; initial focus on non-agency RMBS and CMBS originally rated AAA.
 - TALF Separate: UST clarified that the LSP works with the expansion of TALF to legacy AAA ABS, but that TALF remains a separate program run by the Fed. Fed has not released terms yet but is “refin[ing] the design of an expanded TALF” (April 10).



Legacy Loans Program - Overview

Provider: FDIC and US Treasury

Market Targeted: Bank balance sheets

- **Eligible Sellers:** US banks and savings assoc. (may not include those under foreign ownership/control)
- **Eligible Assets:** Currently targeted to mortgage related loans (residential & commercial), assets and collateral must be situated predominantly in U.S. Asset categories may be expanded.
- Bank regulator (OCC/OTS) works with banks to identify assets for sale (“Eligible Asset Pool” determination) and then contacts FDIC and demonstrate that pools qualify.
- FDIC oversees due diligence and bank provides info. to FDIC and private investors; FDIC hires 3rd party valuation firm to advise FDIC on the pool to assist in determining leverage ratios to be set. Pool-by-pool assets and leverage ratios disclosed to potential bidders.



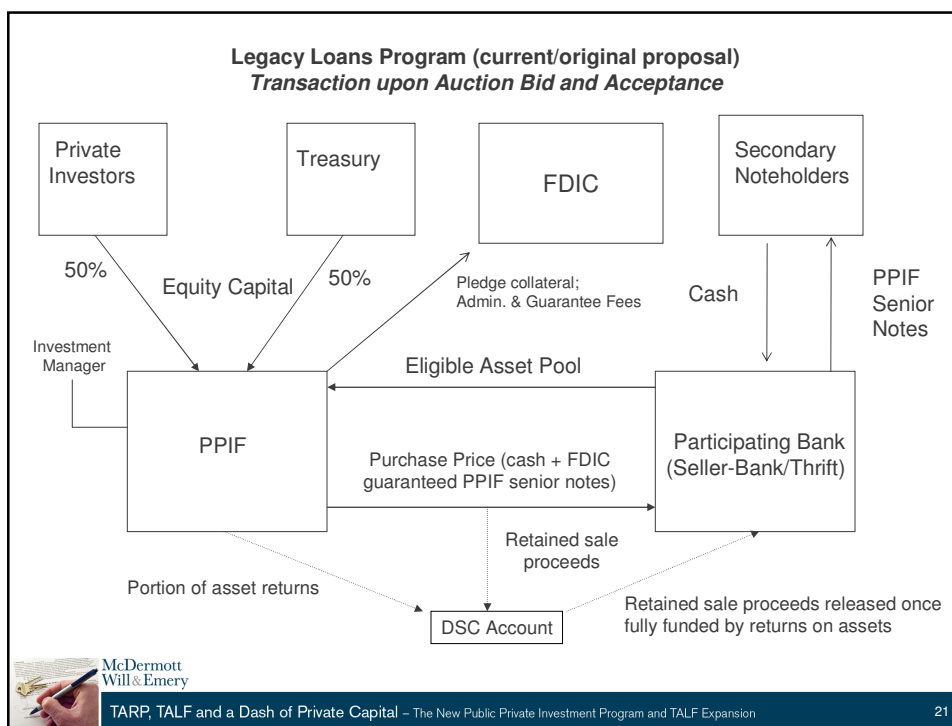
Legacy Loans Program - Overview

Provider: FDIC and US Treasury

Market Targeted: Bank balance sheets

- Private investors apply to FDIC for approval of public-private investment funds (PPIF) to bid on Eligible Asset Pool in auction conducted by FDIC
- PPIF financing: 50% equity from private investors, 50% from UST; successful PPIF can issue seller-financed FDIC guaranteed debt to finance successful auction bid. Debt ratio TBD by FDIC on pool-by-pool basis, with 6-1 being maximum leverage.
- Auctions/Closing/Reporting:
 - Bid requires 5% cash deposit; FDIC determines high bid
 - Bank has option to accept or reject bid within specified (TBD) time frame – Unless a minimum bid/reserve price permitted as banks requesting
 - If bid accepted, equity and debt funding of PPIF occurs
 - Private asset manager - subject to FDIC oversight and info. access for IG of TARP and GAO





Legacy Loans Program – Start up matters

Provider: FDIC and US Treasury

Market Targeted: Bank balance sheets

- Comments: Comment Period Ended April 10; 2 Conference Calls Held
- Pilot Auction: FDIC plans “pilot” auction in June. “In addition to testing the mechanics, this pilot program will allow for public observation and input - consistent with the FDIC's commitment to openness and transparency throughout this process.”
- Reluctant Banks: Will the large banks participate? GAO said that OFS suggested that they would participate, but JPM has said it will not.
- Unintended Consequences: Bank sales of loans have slowed as banks await PPIF implementation.

Legacy Loans Program – Many unresolved questions

Comments Received:

- Permit banks to set minimum bid/reserve price
- If reserve price not met and bank doesn't sell assets, don't require bank to write down that pool of assets
- Don't require bank to write down similar loans not offered for sale
- Limit to real estate loans initially
- If the bank takes notes, must have market terms & secondary market must exist so bank can sell the note to replenish capital; ABA wants "maximum flexibility" in consideration banks take as payment
- Broaden asset categories to include trust preferred securities (TPS), all real estate loans, and "real estate owned" (REO) assets.
- Banks should be able to buy assets in the program
- Create multiple seller pools
- Banks should be able to take equity stake in buyer/PPIF
- Participation must not subject selling banks to TARP comp limits



Legacy Securities Program

- Establish public-private investment funds
- Equity capitalized with 50% equity from private investors, 50% from Treasury
- Loans from Treasury and/or TALF
 - Maximum leverage 1:1
- Treasury will be issued warrants as required by Economic Stabilization Act of 2008
- Exec. Comp.: UST has attempted to clarify that exec. comp. restrictions will not apply to asset managers or private investors provided PPIFs are structured so that asset managers themselves and their employees are not employees of or controlling investors in the PPIFs, and other investors are purely passive.



Eligible Assets

- Residential mortgage-backed securities
- Commercial mortgage-backed securities
- Must be purchased from “financial institutions” (as defined in Economic Stabilization Act of 2008)
- Must have initially been rated AAA
- Underlying assets must be situated predominantly in USA
- May expand program to consumer assets



Eligible Investors

- “Private vehicle” needs to be created
- No limits on investors in the private vehicle
- May allow investment by retail investors



Eligible Fund Managers

- Stringent criteria
- Fund Managers must have the following characteristics:
 - A demonstrated track record of purchasing eligible assets
 - A demonstrated capacity to raise at least \$500 million of private capital
 - A minimum of \$10 billion of eligible assets under management
 - A demonstrated operational capacity to manage the eligible assets in a manner consistent with Treasury's stated objectives
 - Headquarters in the United States
- Treasury has said it would be viewing these criteria on a "holistic basis". Therefore, it is anticipated that the failure to meet any one criteria will not necessarily disqualify a prospective asset manager from being approved by Treasury to serve as a Fund Manager
- Application was due by April 24 (last Friday)
- Application process very detailed

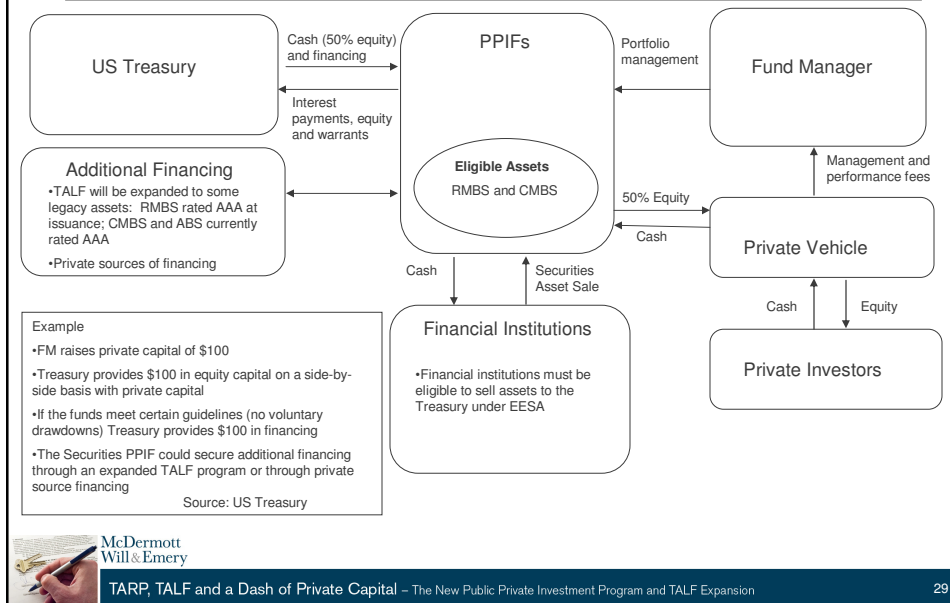


Eligible Fund Managers

- Five will be selected initially; however, the Treasury has stated that it will consider selecting additional Fund Managers after the initial five are selected
- Although Treasury did not specify the exact number of applications it received, they did announce that they had received more than 100 applications from potential fund managers



Legacy Securities PPIF



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Expansion of TALF to Legacy Assets

- Fund Manager will have access to TALF
- Expected to include:
 - Non-agency RMBS originally rated AAA
 - CMBS now rated AAA
 - Asset-backed securities now rated AAA
- TALF will have to be amended to allow expansion
 - Details are vague, e.g. current maturity of TALF loans (3 years) will not match maturities of underlying RMBS or CMBS
 - This may mean double-leverage
 - Treasury considering 3 alternatives regarding leverage

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Questions and Concerns

- Questions on Possible Application of TARP Executive Compensation Restrictions
- Valuation/How will auctions work
- Mark to Market Impact and impact of changes to FAS 157
- Investment Company Act Registration
 - 3(c)(7)
 - 3a-7
- Securities Act Registration
- Political Impact
 - Wall Street upside
 - Taxpayer downside

