

What's New with the Financial Stability Plan?

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As part of its continuing efforts to promote financial stability and restore the health of the economy, the United States Treasury has continued to develop new applications for the funds allocated to the Troubled Asset Relief Program (**TARP**), established in October 2008 by the Emergency Economic Stabilization Act of 2008 (**EESA**). In mid-October 2008, the Treasury announced it would forgo its initial plan to buy troubled assets from financial institutions and would instead use the TARP funds to inject capital directly into banks. As of March 30, 2009, \$198.8 billion has been invested directly into qualifying financial institutions, both publicly traded and non-public, under the Treasury's Capital Purchase Program (**CPP**)¹.

On February 10, 2009, the Treasury unveiled a re-framing of TARP, called the "Financial Stability Plan." The Financial Stability Plan includes a plan to purchase troubled assets from financial institutions, as originally contemplated by the EESA. It also further developed the Term Asset-Backed Securities Loan Facility (**TALF**) under TARP. The anticipated expenditures under the Financial Stability Plan show a marked increase from prior Treasury initiatives, and are expected to far exceed the remaining \$398.8 billion of TARP funds. Full implementation of the Financial Stability Plan could involve up to \$1.5 trillion or more.

The EESA was amended by the American Recovery and Reinvestment Act of 2009 (**ARRA**), which was signed into law on February 17, 2009 by President Obama. Among other undertakings, the ARRA expands the scope of executive compensation restrictions imposed on the recipients of TARP funds.

On February 25, 2009, the Treasury announced the terms and conditions for its Capital Assistance Program (**CAP**), one of the main components of the Financial Stability Plan. Details regarding another important piece of the Financial Stability Plan, the Public-Private Investment Program (**PPIP**), were published by the Treasury on March 23, 2009.

This article describes the latest updates to TARP as of March 30, 2009, including the terms and conditions published to date regarding TALF, CAP and the PPIP under TARP.

Recent TARP Developments

Term Asset-Backed Securities Loan Facility (TALF)

On November 25, 2008, the Treasury unveiled the Term Asset-Backed Securities Loan Facility (**TALF**) program under TARP. From March 17, 2009 through March 19, 2009, the Federal Reserve Bank of New York received requests for \$4.7 billion in loans for the initial subscription of TALF, and those initial loans were closed on March 25, 2009.

¹ Under the Capital Purchase Program, or CPP, the Treasury provides Tier 1 capital to qualified financial institutions in exchange for senior nonconvertible preferred stock and warrants issued by such financial institutions on standard terms. Cumulative dividends on the preferred stock issued under the CPP are payable quarterly, and the dividend rate is 5% for the first 3 years, at which time the dividend rate steps up to 9%. Financial institutions receiving CPP funds must comply with the executive compensation restrictions set forth in the EESA, and are subject to certain other conditions and restrictions relating to stock repurchases and payment of dividends. The deadline for financial institutions to apply for participation in the CPP has passed for both publicly traded and non-public qualified financial institutions.

Under the TALF, the Federal Reserve Bank of New York (**New York Fed**) lends to investors the funds to purchase eligible asset-backed securities. The TALF was originally designed to finance only certain newly issued, highly rated asset-backed securities collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. TARP funds were to be used to purchase subordinated debt in a special purpose entity created by the New York Fed to purchase and manage any assets received by the New York Fed in connection with any TALF loans. The purpose of the TALF is to provide incentives for investors to resume purchase of loans on the secondary market so as to free up the flow of credit to consumers.

As part of the Financial Stability Plan, the TALF will be dramatically expanded to increase the investment by the Treasury and to encompass commercial mortgage-backed securities. Previously, the Treasury was anticipated to use \$20 billion to leverage \$200 billion of lending from the Federal Reserve. Under the Financial Stability Plan, the Treasury will use \$100 billion to leverage up to \$1 trillion of lending from the Federal Reserve.

Also pursuant to the Financial Stability Plan, the initial reach of the TALF is expected to be expanded beyond securities collateralized by consumer and small business loans to include commercial mortgage-backed securities (**CMBS**). Further expansion is possible in the future to include other asset classes, such as non-Agency residential mortgage-based securities and assets collateralized by corporate debt. The Treasury and the New York Fed are still in the process of analyzing the proposed expansion of the TALF.

Subscriptions for the second funding of the TALF will be recorded on April 7, 2009 and funds will be disbursed April 14, 2009.

The table below summarizes the key terms of the TALF released to date.

Initial Facility Size	The New York Fed will make up to \$200 billion ² in loans under the TALF until December 31, 2009, unless extended by the Board of Governors of the Federal Reserve.
Loan Terms	<ul style="list-style-type: none">• The minimum loan amount is \$10 million for each fixed and floating rate loan. There is no maximum loan amount.• Each borrower will receive an amount equal to the lesser of the par or market value of the pledged ABS minus a "haircut" – a percentage subtracted from the par value of assets to reflect the underlying risk associated with those assets. If the pledged ABS has a market value above par, the New York Fed will lend an amount equal to the market value -- subject to a cap of 110 percent of par value -- minus a haircut, and the borrower will periodically prepay a portion of the loan. See attached <u>Exhibit A</u> for the New York Fed's preliminary haircut schedule of which none has yet been determined for CMBS.• Borrowers will be able to choose either a fixed or a floating rate on each TALF loan. The interest rate on floating-rate loans will be 100 basis points over 1-month LIBOR. The interest rate on fixed rate loans will be 100 basis points over the 3-year LIBOR swap rate. Interest rates will be set two days prior to each TALF loan settlement date.• In certain cases, TALF loans will be eligible for reduced interest rates. TALF loans against ABS backed by Government guaranteed student loans may be eligible for a reduced interest rate of 50 basis points over 1-month LIBOR. TALF loans

² The Financial Stability Plan includes an increase in this amount to a total of up to \$1 trillion available to TALF borrowers.

against ABS backed by SBA pool certificates may be eligible for a reduced interest rate of 75 basis points over the federal funds rate. TALF loans against ABS backed by SBA development company participation certificates may have a reduced interest rate of 50 basis points over the 3-year LIBOR swap rate.

- On each loan's settlement date, the borrower must pay to the New York Fed an administrative fee equal to 5 basis points of the loan amount.
- Loans under the TALF will have 3-year terms. There is no minimum maturity for a pledged ABS. However, if an ABS's maturity is shorter than the 3-year maturity of the TALF loan, the loan will mature upon maturity of the ABS collateral for that loan.
- A borrower may prepay a TALF loan in full or in part at any time without penalty.
- The loans will be non-recourse (subject to certain exceptions for misrepresentation) to the borrower and secured by eligible collateral.

Eligible Collateral

- Eligible collateral will include U.S. dollar-denominated cash ABS that have a short-term or long-term credit rating in the highest investment-grade rating (e.g., AAA) from two or more nationally recognized statistical rating organizations. Collateral with a rating dependent upon third-party guarantees will not qualify. In order to be eligible, an ABS cannot be on review or watch for downgrade by a rating agency. If an ABS is downgraded, the ABS may not be used as collateral for any new TALF loans until it regains its status as eligible collateral.
- All or substantially all of the underlying credit exposure in the ABS must be exposures to U.S.-domiciled obligors.
- Collateral must have an underlying exposure to auto loans, student loans, credit card loans, or small business loans guaranteed by the U.S. Small Business Administration, and must not include exposures that are themselves cash or synthetic ABS.
- On March 19, 2009, the New York Fed added four new asset classes to the definition of Eligible Assets, including ABS backed by mortgage servicing advances, ABS backed by loans or leases relating to business equipment, ABS backed by leases of vehicle fleets, and ABS backed by floorplan loans. These four new asset classes will be eligible for the second round of funding under the TALF.
- Collateral for a particular borrower must not be backed by loans originated or securitized by the borrower or by an affiliate of the borrower.
- An investor may borrow against any eligible ABS, even against an ABS it already owns. The eligible ABS must be issued on or after January 1, 2009 (except for SBA Pool Certificates or Development Company Participation Certificates), but need not be issued on the same day the investor borrows from the TALF. Eligible ABS must also be cleared through the Depository Trust Company.

- A borrower may pledge any combination of eligible ABS as collateral for a single TALF loan; however, a fixed rate ABS must be pledged against a fixed rate loan and a floating rate ABS against a floating rate loan.
- An accounting firm retained by the sponsor must provide a certification, in a form acceptable to the New York Fed, indicating that the collateral is TALF eligible.
- Any remittance of principal on eligible collateral must be used immediately to reduce the principal amount of the TALF loan in proportion to the original loan-to-value ratio.

Eligible Borrowers

Borrower must be:

- (i) a U.S. company organized under the laws of the United States or a political subdivision or territory thereof (U.S.-organized) and conducting significant operations or activities in the U.S. (regardless of whether any such entity has a parent company that is not U.S.-organized) including any U.S.-organized subsidiary of such an entity,
- (ii) a U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank, or
- (iii) an investment fund (i.e., any type of pooled investment vehicle (including newly-formed funds), including a hedge fund, a private equity fund, and a mutual fund, or any vehicle that primarily invests in eligible collateral and borrows from the TALF) that is U.S.-organized and managed by an investment manager that has its principal place of business in the U.S.

Any entity that is controlled by a foreign government or that is managed by an investment manager controlled by a foreign government is not considered a U.S. company.

Additional Borrowing Requirements

All borrowers must use a primary dealer (i.e., a bank or securities broker-dealer that may trade directly with the Federal Reserve) to access the TALF and must deliver the eligible collateral to a clearing bank. The primary dealer must be given authority to execute the Master Loan and Security Agreement as agent for the borrower and to perform all actions required on its behalf.

Additional Details

The New York Fed will create a Special Purpose Vehicle (**SPV**) to purchase and manage assets received in connection with TALF loans. The Treasury will purchase subordinated debt issued by the SPV to finance \$20 billion³ of asset purchases. Additional purchases will be financed by the New York Fed. New York Fed loans to the SPV will be senior to TARP subordinated loans, with recourse to the SPV and secured by all assets of the SPV.

³ The Financial Stability Plan includes an increase in this amount to \$100 billion.

Potential Advantages and Disadvantages of TALF

Advantages	Executive compensation restrictions have been removed for all parties involved in TALF subscriptions. Low interest rates available depending upon asset class.
Disadvantages	TALF is for new securitizations, which have been shunned since last fall, so it was off to a bumpy start. Investors were apprehensive and the deadline for subscriptions for the first round had to be extended to allow investors to figure out the details once they decided to subscribe. Treasury and the New York Fed have yet to determine how to apply it to CMBS, together with what additional restrictions may apply to TALF loans against CMBS. Program details are constantly evolving at a very fast pace, and have already changed significantly between the first and second subscriptions.

Capital Assistance Program (CAP)

Under the Capital Assistance Program (**CAP**), the Treasury will provide Tier 1 capital to qualified financial institutions in exchange for senior convertible preferred stock and warrants issued by such financial institutions on standard terms.

The CAP is integrated with the financial institutions "stress test," a coordinated supervisory assessment required of banking institutions with assets in excess of \$100 billion on a consolidated basis. The stress test will evaluate a financial institution's expected losses and resources available to absorb these losses under two different economic scenarios, a baseline scenario and a more adverse scenario. The goal of the stress test is for banking regulators to determine whether an additional capital buffer today is needed for an institution to absorb losses and continue lending if the economy continues to decline.

If the supervisor determines that an additional capital buffer is needed, then the bank will be given 6 months to raise private capital or access the CAP. This additional capital buffer is not expected to be maintained on an ongoing basis. If the regulators determine that an additional capital buffer is required and the financial institution is unable to raise private capital within 6 months will result in mandatory access of CAP funds. Financial institutions that are not required to participate in the stress test may also be eligible to obtain capital from the CAP.

Cumulative dividends on the preferred stock issued under the CAP are payable quarterly, and the dividend rate is 9% for the first 7 years, at which time the convertible preferred shares are automatically converted to common stock. Financial institutions receiving CAP funds must comply with the more stringent executive compensation restrictions as set forth in the EESA as amended by the ARRA, and are subject to certain other conditions and restrictions relating to stock repurchases and payment of dividends.

The application process for CAP is substantially similar to the process for applying for CPP funds, although there is a separate application. Publicly traded financial institutions must apply through their primary regulator. The deadline to apply for funding under the CAP is May 25, 2009. The table below summarizes the material terms of the CAP.

General Investment Terms

Eligible Institutions	Qualifying financial institutions (QFIs) are publicly-traded US bank holding companies, certain US savings and loan holding companies and certain stand-alone US banks and thrifts.
Investment Amount	The amount of Convertible Preferred that Treasury may purchase from any QFI must equal at least one percent of its risk-weighted assets and not more than two percent of its risk-weighted assets. The investment limit may be increased to the extent of any CAP proceeds that will be

used to redeem preferred shares sold under the CPP or the Treasury's Targeted Investment Program.

If a QFI requires a capital buffer greater than 2% of its risk-weighted assets, as determined following the stress test, then the QFI is deemed to need "exceptional assistance" which must be approved by the QFI's primary regulator. A recipient of "exceptional assistance" under CAP will be subject to additional terms and conditions, including more stringent executive compensation restrictions as described below under "Executive Compensation Restrictions Under CAP."

Convertible Preferred Stock

General Terms	<p>The Treasury will purchase preferred equity that is convertible (Convertible Preferred) to common stock of the QFI.</p> <p>The Convertible Preferred will be treated as Tier 1 capital for regulatory capital purposes.</p>
Conversion Price	<p>The Conversion Price for the Convertible Preferred is 90% of the average closing price for the QFI's common stock for the 20 trading day period ending February 9, 2009, subject to certain customary anti-dilution adjustments.</p> <p>The Conversion Price will also be subject to three successive penalty reductions, each in the amount of 15% of the initial Conversion Price. These reductions will be applied on the 6, 12 and 18 month anniversaries of the issue date if any needed stockholder approval to authorize common stock underlying the Convertible Preferred or the Warrants has not been obtained by the QFI, subject to a maximum reduction of 45% of the initial Conversion Price.</p>
Ranking	<p>Senior to common stock and <i>pari passu</i> with any other preferred stock, other than junior preferred stock.</p>
Dividends	<p><u>Rate</u>: 9%, compounding quarterly.</p> <p><u>Cumulative</u>: Dividends not only accumulate, but unpaid dividends compound at the dividend rate then in effect.</p> <p><u>Increase</u>: The rate will step up to 20% (and remain at that rate until the required approvals are obtained) if required stockholder approvals are not received within 6 months after issuance.</p>
Liquidation Preference	<p>The Convertible Preferred will carry a liquidation preference of \$1,000 per share. The Treasury will consider a higher liquidation preference based upon the recipient's available authorized preferred shares.</p>
Conversion	<p>Conversion will occur at the option of the QFI (subject to approval of its primary banking regulator).</p> <p>At conversion, the QFI must pay accrued but unpaid dividends in cash or shares (valued at the closing price for the second preceding trading day).</p> <p>Conversion may occur earlier upon specified significant corporate events such as</p>

sales, M&A or changes in control of the QFI.

After 7 years, the Convertible Preferred is automatically converted to common stock.

The QFI can repurchase Converted shares at the greater of the Conversion Price or market price on the date of repurchase (based upon the average price for the 20 trading day period beginning on the day after notice of repurchase). Repurchases must be made with an issuance of common stock for cash or additional retained earnings in the amount of 25% of the issue price of the Convertible Preferred.

Mandatory Sale

After the 7th year following the Treasury's investment, the Treasury must sell 20% of securities owned by the Treasury per year until the Treasury owns 0%.

Redemption

Redeemable with the proceeds of one or more issuances of common stock for cash which results in aggregate gross proceeds of at least 25% of the issue price of the Convertible Preferred, or additions to retained earnings.

Before the Second Anniversary. Redeemable at par, plus any accrued and unpaid dividends.

After the Second Anniversary. Redeemable at the greater of par plus accrued and unpaid dividends and the as-converted value.

Voting Rights

Nonvoting except for customary consents and the right to elect two directors if the dividend is not paid for six quarters, whether or not consecutive.

The right to elect directors ends when all dividends have been paid for four consecutive dividend periods.

Right to elect directors is not in addition to any director election rights of other preferred stockholders with like voting rights (i.e., Treasury will be required to vote with the holders of other voting parity preferred stock to appoint two directors).

Upon conversion to common stock, the Treasury will have voting rights.

Negative Covenants

Dividend Restrictions. No dividends may be declared or paid unless all accrued and unpaid dividends for all past dividend periods on the Convertible Preferred are fully paid.

Dividends on common stock must be no greater than \$0.01 per share per quarter unless consented to by the Treasury.

Share Repurchase Restrictions. No privately held shares may be repurchased unless all accrued and unpaid dividends for all past dividend periods on the Convertible Preferred are fully paid. So long as any Convertible Preferred is outstanding, the Treasury's consent will be required for any repurchases of equity securities or trust preferred securities, subject to certain exceptions similar to those under the CPP.

Qualified Equity Offering

CAP funding will be a Qualified Equity Offering under CPP and therefore suitable to redeem preferred stock issued under the CPP to the extent CAP funds are used for that purpose.

Warrants

Coverage	Treasury will receive warrants to purchase a number of shares having an aggregate market value equal to 20% of the amount of the Convertible Preferred on the date of investment.
Exercise Price	Equal to the Conversion Price (described above) for the Convertible Preferred, and subject to the same reductions as the Conversion Price.
Exercisability	The warrant is immediately exercisable in full and has a 10 year term.
Substitution	The warrant must be substituted for another economic interest if the common stock is no longer listed on a national securities exchange or any necessary stockholder approval is not obtained within 18 months of the issue date of the warrant.
Voting the Underlying Common Stock	Treasury will not vote any common stock it receives on exercise of the warrants.
Registration Rights	Treasury will be granted registration rights so that it may sell the common stock via a resale shelf registration statement
Repurchase	Warrant may be repurchased at fair market value following repurchase or redemption of all of the stock held by the Treasury.

Transparency and Accountability

CAP recipients must agree to comply with all executive compensation, transparency, accountability and monitoring rules published and in effect as of the date of investment. According to the Financial Stability Plan, these rules include:

Monitoring. A recipient of "exceptional assistance" is required to show how "every dollar of capital" received enabled it to preserve or generate new lending compared to what would have been possible without the government's assistance.

Planned Use. All recipients must submit a plan during the application process of how they intend to use the capital to "preserve and strengthen their lending capacity." Such plans will be publicly available upon completion of the government's investment.

Monthly Reports. Recipients must provide the Treasury with monthly lending reports. Among other things, the reports must show how many new loans the recipient made to businesses and consumers and how many asset-backed and mortgage-backed securities the recipient purchased.

Transparency. All information disclosed or reported to the Treasury by recipients will be posted on www.financialstability.gov. CAP applicants may request confidential treatment from the Treasury for certain portions of their applications.

Foreclosure Mitigation. All recipients will be required to commit to participate in industry standard best practices for foreclosure mitigation programs.

Executive Compensation Requirements Under CAP

Financial institutions receiving CAP funds are required to modify existing executive compensation arrangements to comply with the mandated restrictions imposed by Section 111(b) of the EESA, including agreements to:

- ensure that compensation does not encourage excessive risk taking;
- impose a claw back on compensation paid based on financial results or performance metrics later proved to be materially inaccurate;
- limit severance benefits to not more than three times the executive's average taxable compensation for the prior five years; and
- not deduct annual compensation to any senior executive in excess of \$500,000.

The EESA requirements have been updated pursuant to the ARRA. The table below summarizes the new restrictions on executive compensation.

Executive Compensation – Compliance and Certification

General Chief executive officers of financial institutions that receive government assistance must annually certify that their companies have strictly complied with statutory, Treasury, and contractual executive compensation restrictions.

In addition, the compensation committees of such companies must explain how their senior executive compensation arrangements do not encourage excessive and unnecessary risk-taking.

Financial Institutions Receiving Exceptional Assistance

\$500,000 Cap Senior executives may not receive total compensation in excess of \$500,000, except for restricted stock awards, discussed below.

Restricted Stock Any pay to a senior executive over \$500,000 must be made in restricted stock (or other similar long-term incentive arrangement), which generally may vest only after the government has been repaid (including the contractual dividend payments).

"Say on Pay" Shareholder Resolution A financial institution's executive compensation structure and the rationale for how compensation is tied to sound risk management must be submitted to a non-binding shareholder resolution.

Claw back Bonuses Under existing programs, only the bonuses and incentive compensation awarded to the top five senior executives were subject to a claw back. Under the new guidelines, a financial institution must have in place mechanisms to claw back bonuses and incentive compensation from any of the next 20 senior executives if they are "found to have knowingly engaged in providing inaccurate information relating to financial statements or performance metrics used to calculate their own incentive pay."

Ban on Golden Parachutes The existing programs prohibited the top five senior executives from receiving any golden parachute payment. Under the new guidelines, the ban will be expanded to include the top 10 senior executives. In addition, and at a minimum, the next 25 executives will be prohibited from receiving any golden parachute payment greater than one year's compensation.

Luxury Expenditures The boards of directors must adopt a company-wide policy on any expenditures related to aviation services, office and facility renovations, entertainment and holiday parties, and conferences and events. In addition, any expenditures that could be viewed as excessive or luxury items will require certification from the chief executive officer. It is not yet clear what the content of the certification will be.

Financial institutions are also to post the text of the expenditures policy on their web sites.

Financial Institutions Not Receiving "Exceptional Assistance"

General These new guidelines will be subject to public comment. The guidelines discussed above for financial institutions receiving "exceptional assistance" are not expected to be subject to public comment.

\$500,000 Cap & Restricted Stock Limits The \$500,000 cap on executive compensation and the restricted stock limitations discussed above may be waived for financial institutions receiving "exceptional assistance" only by "disclosure of their compensation and, if requested, a non-binding "say on pay" shareholder resolution."

All financial institutions must review and disclose the reasons that compensation arrangements of both the senior executives and other employees do not encourage excessive and unnecessary risk taking. Under CPP, this requirement only applied to the top five executives' compensation arrangements.

Claw back Bonuses The same claw back provisions that apply to financial institutions receiving "exceptional assistance" will apply to financial institutions participating in generally available capital access programs.

Ban on Golden Parachutes The top five senior executives will not be allowed a golden parachute payment greater than one year's compensation. Under CPP, the limit was three years' compensation.

Luxury Expenditures The same luxury expenditure provisions that apply to financial institutions receiving "exceptional assistance" will apply to financial institutions participating in generally available capital access programs.

Advantages and Disadvantages of CAP

Advantages Readily available source of capital for qualified financial institutions.

Disadvantages Available only to qualified financial institutions as defined under the CPP. Holding company application deadline for CAP eligibility is same as for CPP – January 15, 2009. The Treasury is expected to publish terms for participation in CAP by non-public qualified financial institutions at a later date.

Public-Private Investment Program

This program is divided into two sub-programs: the "Legacy Loans Program" to facilitate the sale of troubled loans; and the "Legacy Securities Public-Private Investment Funds" to facilitate the sale of securities backed by mortgages on residential and commercial properties.

Public-Private Investment Fund –Legacy Loans Program

General Participant Banks will identify Eligible Assets. The FDIC will administer auctions of pools of Eligible Assets. Public-Private Investment Funds (**PPIFs**) will submit bids to purchase pools of Eligible Assets.

The FDIC will submit the winning bid to the Participant Bank, who will have a specific time frame within which to accept or reject the bid.

The Purchase Price for the Eligible Assets will be paid in cash or a combination of cash and debt.

Eligible Assets "Eligible Assets" will be "legacy" real estate assets: high-risk mortgages and commercial real estate, and will be sold in pools of loans and other assets (swaps).

The Eligible Assets will be part of President Obama's loan modification program, and must qualify for minimum Treasury and FDIC standards.

Collateral for all Eligible Assets must be U.S. property.

The Eligible Assets to be sold will be identified by Participant Banks in consultation with their primary regulators.

Participant Banks "Participant Banks" must be insured depository institutions under criteria established by the FDIC.

Participant Banks may be subject to executive compensation restrictions if they have previously accepted TARP funds.

Initially, Participant Banks are expected to continue as servicers of the Eligible Assets, although the PPIFs will have the right to act as servicers once they have purchased the Eligible Assets.

Private Investment Private investors may be financial institutions, individuals, insurance companies, mutual funds, investment funds, pension funds. The FDIC and the Treasury particularly encourage participation by mutual funds, pension plans, insurance companies and other long-term investors.

Private investor groups must be pre-approved by the FDIC, and will not be asked to adhere to executive compensation restrictions imposed by TARP.

Private investors may not invest in PPIFs that purchase assets from sellers that are affiliates of such investors or that represent 10% or more of the aggregate private capital in the PPIF.

PPIFs PPIFs will be established for the purpose of owning and managing Eligible Assets they purchase.

The equity investment in PPIFs by the Treasury and private investors will be made at the closing of the purchase and sale of Eligible Assets.

The FDIC will oversee the formation, funding and operation of the PPIFs. PPIFs participating in the Legacy Loans Program may be required to use standardized governance documentation.

PPIFs will make certain representations and warranties to the FDIC, and PPIFs will agree to certain waste, fraud and abuse protections for taxpayers.

Equity Investment by Treasury Treasury will have no control rights as equity holder.

The initial target will be 50-50 Treasury and private capital investment. Treasury and Private Investors will share in profits and losses in proportion to the amount invested.

Treasury will receive Warrants for its investment in addition to its equity stake, as required by EESA.

Private investors may choose a lower proportion of Treasury equity, subject to a minimum amount which is still to be determined. The Treasury will consider alternatives for its capital contribution that do not diminish the pari passu sharing of profits and losses, the collateral protections securing the FDIC guarantee and capital neutrality compared with the currently contemplated investment.

Debt Financing The FDIC will provide credit support for PPIF debt financing by guaranteeing debt issued by the PPIF.

The FDIC's guarantee will be secured by the Eligible Assets purchased by the PPIF.

Debt issued by a PPIF will initially be placed with the Participant Bank selling the Eligible Assets. The Participant Bank will then be able to resell this debt into the market.

The FDIC will determine financing terms and leverage ratios for each individual PPIF. Leverage and financing terms will be disclosed to private investors prior to bid submissions.

Leverage ratios will not exceed 6 to 1, and will be determined by the credit characteristics and cash flow of the assets comprising the Eligible Asset Pool, and will be established on a pool-by-pool basis upon evaluation of the Eligible Assets by the FDIC and a Third Party Valuation Firm. This Third Party Valuation Firm will also estimate Loan-to-Value Ratio and Debt Service Coverage Ratio.

The FDIC is expected to publish a term sheet for FDIC Guaranteed Secured Debt for PPIFs.

Fees and Expenses PPIFs must reimburse the FDIC for their expenses and pay ongoing fees and a debt guarantee fee to the FDIC.

Bids must be accompanied by a 5% deposit in cash.

Additional Requirements PPIFs will periodically report to FDIC who will also provide these reports to the Treasury.

PPIFs must maintain a Debt Service Coverage Account as a condition to the FDIC guarantee. Some cash will be escrowed in the Debt Service Coverage Account until cash flow from the Eligible Assets has fully funded the required DSCA, at which time the required cash will be released to the Participant Bank.

Advantages and Disadvantages of Legacy Loans Program

Advantages FDIC expects this program to be profitable for investors as well as taxpayers. The FDIC stated on an investor call on March 23, 2009, that it did not intend for executive compensation restrictions to apply to Participant Banks selling assets under the Legacy Loans Program. Thus, if a bank did not participate in the CPP it may not have to comply with TARP executive compensation restrictions. If a bank did not participate in CPP, then it may still sell legacy assets via the Legacy Loans Program and would not be required to comply with executive compensation restrictions.

Disadvantages There is inherent risk in the program that despite the auction format, the bid process may not result in a price for the Legacy Loans that the Participant Bank is willing to accept.

The details of the program are currently the subject of a request for public comment, so they are subject to change. The comment period ends April 10, 2009. In particular, the FDIC is seeking comment regarding the division of equity capital investment between the Treasury and Private Investors, the definition of Eligible Assets, the potential application of executive compensation restrictions solely by virtue of participation in the Legacy Loans Program as a seller of Eligible Assets.

Public-Private Investment Fund –Legacy Securities Program

Eligible Securities Eligible Securities for purchase and sale under this program will initially include securities backed by residential and commercial mortgages. The securities must have been issued prior to 2009 and must have been originally rated AAA or equivalent by two or more nationally recognized statistical rating organizations – without ratings enhancements.

Eligible Securities must have been secured directly by actual mortgage loans, leases or other assets and not other securities (other than certain swap positions as determined by the Treasury). The loans and other assets underlying the Eligible Securities must be situated in the United States.

Financial Institutions Eligible Assets must be purchased from financial institutions as defined in the EESA.⁴

⁴ This means "any institution, including, but not limited to, any bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States or any State, territory, or possession of the United States, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, Guam, American Samoa, or the United States Virgin Islands, and having significant operations in the United States, but excluding any central bank of, or institution owned by, a foreign government.

Fund Managers The Treasury will pre-qualify approximately 5 private asset managers to raise private capital to invest in Public-Private Investment Funds (**Funds**) with the Treasury. Treasury will select only 5 Fund Managers to start, and this number may be increased as determined by the Treasury.

Private asset managers may apply to the Treasury and be pre-qualified to act as Fund Managers for the Funds. An application for Fund Managers is available on the Treasury's website. The deadline for application is April 10, 2009. Preliminary approvals are expected by May 1, 2009.

The application includes minimum criteria for consideration as a Fund Manager. These minimum criteria include: (i) demonstrated capacity to raise at least \$500 million of private capital; (ii) demonstrated experience investing in Eligible Securities, including performance track records; (iii) a minimum of \$10 billion (market value) of Eligible Securities currently under management; (iv) demonstrated operational capacity to manage the Funds in a manner consistent with Treasury's stated investment objective while also protecting taxpayers; and (v) headquartered in the United States.

Fund Managers control the process of asset selection and pricing.

Fund Managers also control asset liquidation, trading and disposition.

Funds will be managed by the Fund Managers and not the Treasury.

Funds may only purchase Eligible Securities from sellers that are not affiliates of the Fund Manager, any other Fund Manager, or any private investor that has committed at least 10% of the aggregate private capital raised by such Fund Manager.

Fundraising Following receipt of preliminary approval from the Treasury, Fund Managers will have a brief period of time in which to raise and demonstrate committed capital from private investors. Treasury will further define terms and conditions for the Funds prior to fundraising.

Private Capital Investment Investments of private capital will be made through separate "Private Vehicles" which will be controlled by a Fund Manager.

Each Private Vehicle will raise equity capital from private investors. That equity capital will then be matched by the Treasury.

The Private Vehicle and the Treasury will be the sole investors in the Fund, and will share pro rata in profits and losses flowing from the Fund, except that Treasury will be granted a warrant as required by the EESA. The term and amount of Treasury warrants will be determined based in part on the amount of Treasury debt financing involved.

Each Fund will employ a long-term buy & hold strategy. The Treasury will consider other strategies that involve limited trading.

Private investors may not be informed of potential acquisitions of specific Eligible Securities prior to acquisition.

Treasury Equity Investment Treasury capital may be drawn down in tranches in proportion to and concurrently with private capital. Term of the Treasury's investment will be proposed by Fund Managers and will be no greater than 10 years.

The Treasury will reserve the right to cease funding of committed but undrawn equity capital and debt financing in its sole discretion.

Debt Financing Debt financing in an aggregate amount of up to 50% of a Fund's total equity capital will be available to Fund Managers in the form of secured non-recourse loans from the Treasury, provided that the private investors in the Fund do not have voluntary withdrawal rights. The Treasury will consider debt financing of up to 100% of a Fund's total equity capital subject to restrictions on asset-level leverage, withdrawal rights, disposition priorities and other factors determined by the Treasury.

Treasury debt financing will be secured by the Eligible Securities held by the Fund.

Funds may also finance the purchase of Eligible Securities through TALF, any other Treasury program, or debt financing from private sources.

Fund Structure Detail Private investors may be given voluntary withdrawal rights at the level of a Private Vehicle, subject to limitations approved by the Treasury. No private investor may have the right to voluntarily withdraw from a Private Vehicle prior to the third anniversary of the first investment by such Private Vehicle.

The Treasury will request suggestions on structure from Fund Managers, including the possibility of recycling realized capital.

It is expected that Private Vehicles will be structured so that ERISA benefit plan investors will be eligible to participate as indirect investors in the Funds.

Governance Treasury expects to define final terms and conditions for the Funds prior to fundraising.

Fund Managers will submit monthly reports to the Treasury of Eligible Securities purchased, Eligible Securities disposed, current valuations and profits/losses in each Fund. Prices of Eligible Securities must be tracked using third party sources and annual audited valuations.

Fund Managers must agree to waste, fraud and abuse protections for the Fund to be defined by Treasury in order to protect taxpayers.

Fund Managers must provide access to relevant books and records of the Fund for Treasury, the Special Inspector General of the TARP and the Government Accountability Office and their respective advisors.

Advantages and Disadvantages of Legacy Securities Program

Advantages Limited participation by Fund Managers. However, "financial institutions" as defined by the EESA is a broad group.

Disadvantages The Terms for the Legacy Securities Program are unclear regarding how Fund Managers will locate and select Eligible Securities for purchase and sale.

Exhibit A

TALF - Current Collateral Haircut Schedule

Sector	Subsector	ABS Expected Life (years)						
		0-1	>1-2	>2-3	>3-4	>4-5	>5-6	>6-7
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%		
Equipment	Loans and leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-auto	11%	12%	13%	14%	15%		
Servicing Advances	Residential mortgage	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	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%

Notes:

**The expected life of credit card or auto loan ABS cannot be greater than five years.*

**For ABS with expected lives beyond seven years, haircuts will increase by one percentage point for each additional year of expected life beyond seven years.*

**Haircut schedule for commercial mortgage-backed securities has not yet been published. These rates are subject to change as the TALF is further developed.*