PPIP DESCRIPTION

2009
ANATOMY OF PUBLIC-PRIVATE INVESTMENT PROGRAM

Public-Private Investment Program
$75 to $100bn of TARP Funding
With Financing From The FDIC & Federal Reserve, Leverage
Up To $500bn With The Potential To Expand To $1TN of Purchasing Power

Legacy Loan Program
Capital Financing
PPI Funds FDIC Guaranteed Debt
Govt & Private Leverage of 6 to 1

Legacy Securities Program
Capital Financing
PPI Funds Fed Reserve Leverage
Govt & Private Existing TALF Framework

Timing
The FDIC will be seeking public comment and communicating with stakeholders expeditiously. The FDIC will launch the Legacy Loans Program as quickly as possible.

Asset Manager Applications Due 4/10

Assets For Sale
Identification of individual asset pools will be an iterative process, involving input from participating banks, as well as primary federal banking regulators. In addition, banks will approach the FDIC with potential asset pools.

Asset Manager Qualifications
- Demonstrated capacity to raise at least $500 million of private capital.
- Demonstrated experience investing in Eligible Assets, including through performance track records.
- A minimum of $10 billion (market value) of Eligible Assets under management.
- Demonstrated operational capacity to manage Legacy Securities PPIFs in a manner consistent with Treasury’s stated Investment Objective while also protecting taxpayers.

Headquarters in the United States.

Eligible Bidders
Potential Private Investors will be pre-qualified by the FDIC to participate in an eligible asset pool auction. Joint bids from pre-qualified investor groups are acceptable, but group/investors will be prohibited once the auction process begins to maintain fairness.
ANATOMY OF TREASURY’S BANK LOAN PLAN:

- Bank “stress-test” is coming, so banks want to sell some loans (or get their arms twisted).
- Bank identifies a pool of loans they want to sell, say the face value is 100.
- FDIC gets bids: say the winning bid is 84.
- Private investor puts in some equity (say 6). The FDIC matches the equity (another 6) and will provide up to 6:1 nonrecourse, at an interest rate that is probably consistent with current TALF program levels 1.5-3%.

So the split is:

Assets = 100
Winning bid = 84

Anatomy of Bid
Bidder = 6
Govt = 6
FDIC-backed leverage = 72 (6:1 leverage)
Sum = 6+6+72 = 84 buys the pool of loans

- The profits are split 50-50 between public and private investors.

Unintended Consequences & Pitfalls:

- **Feast or Famine?** Banks may flood market with assets at subsidized price or may be unwilling to take the loss given capital concerns.
- Capital injections could help with this issue, but *does the Treasury have enough money?* It isn’t inconceivable that $1 trillion won’t be enough.
- What will reaction of Congress and the public be if the private sector realizes large gains? Will private sector funds be willing to risk an AIG-type reaction down the road?
SIMPLIFIED PROFIT & LOSS SCENARIOS UNDER TREASURY’S BANK LOAN PLAN

Profit & Loss Scenarios Using Example on Page 1:

Assets = 100
Winning Bid = 84
Private Bidder Equity = 6
Gov’t Equity = 6
FDIC-backed leverage = 72 (6:1 leverage)
Sum = 6+6+72 = 84 buys the pool of loans

Profit Example:

• After period of time, assets are sold for $88, a profit of $4 from original winning bid of $84.

• The profit of $4 is split equally, 50-50, between government and private investor.

• So, the winning bidder who pledged $6, now has $8 (half of total profit), equaling a return of +33.3%.

• ROIC for Federal government is 2.6% gross of interest.

Key Takeaway: Private Upside Return Maximized

Loss Example:

• After period of time, assets are sold for $70, a loss of $14 from original winning bid of $84.

• The private investor is only responsible for the loss of $6 he committed after winning the bid at $84.

• The Federal government covers the remaining $8, equaling the total loss of $14 (6+8). The potential loss for the government, however, is everything except the initial private sector equity investment (in this case, $78).

Key Takeaway: Private Downside Loss Minimized