Legacy Loans Program – Winning Bidder Announced in Pilot Sale

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The FDIC has signed a bid confirmation letter with Residential Credit Solutions (RCS), the winning bidder in a pilot sale of receivership assets that the FDIC is conducting to test the funding mechanism for the Legacy Loans Program (LLP). The pilot sale was conducted on a competitive bid basis, and final bids were received on Monday, August 31, 2009. A total of 12 consortiums bid to purchase an ownership interest in a limited liability company (LLC), to which the FDIC will convey a portfolio of residential mortgage loans with an unpaid principal balance of approximately $1.3 billion owned by the FDIC as Receiver of Franklin Bank, SSB, Houston, Texas. The pilot sale involves financing offered by the receivership to the LLC using an amortizing note guaranteed by the FDIC. Bidders for the pilot sale were given the chance to bid two different leverage options, 6-to-1 or 4-1, or to submit a cash bid for a 20 percent ownership interest.

The bid received from RCS for the financed sale of assets to the LLC using 6-to-1 leverage was determined to be the offer that would result in the greatest return for the receivership of all competing bids. RCS will pay a total of $64,215,000 in cash for a 50 percent equity stake in the LLC, and the LLC will issue a note of $727,770,000 to the FDIC as Receiver. The note will be guaranteed by FDIC in its corporate capacity. Based on the FDIC’s analysis and assumptions, the present value of this bid equals 70.63 percent of the outstanding principal balance of this portfolio. The FDIC received various other bids that were very competitive. The FDIC anticipates selling the note at a future date. After the closing, which is expected to occur later this month, RCS will manage the portfolio and service the loans under the Home Affordable Modification Program (HAMP) guidelines.

The LLP is part of the Public-Private Investment Program announced in March by the Secretary of the Treasury, the Federal Reserve, and the FDIC, and is being developed to help banks remove troubled loans and other assets from their balance sheets so that banks can raise new capital and be better positioned to provide lending to further the recovery of the U.S. economy. FDIC conducted the pilot sale to test this funding mechanism as part of the development of the LLP. The FDIC will analyze the results of this test sale to determine whether the LLP can be used to remove troubled assets from the balance sheets of open banks, and in turn spur lending to further support the credit needs of the economy.

Further details about the sale will be published after the closing later this month.
Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,195 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC.

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