U.S. Department of the Treasury
Public-Private Investment Program

FAQS

Legacy Securities Public Private Investment Program (PPIP)

July 8, 2009

Set forth below is an update to the FAQs released on May 13, April 21, April 6 and March 23, 2009 (included as Exhibits A, B, C and D, respectively). Treasury anticipates providing updated FAQs throughout the Legacy Securities PPIP process. Any subsequent updates shall supersede previously released FAQs as applicable.

How did Treasury select the nine pre-qualified Legacy Securities PPIP fund managers?

Treasury received over 100 unique applications to participate in the Legacy Securities PPIP. These applications were evaluated according to established criteria, including: (i) demonstrated capacity to raise at least $500 million of private sector capital; (ii) demonstrated experience investing in Eligible Assets, including through performance track records; (iii) a minimum of $10 billion (market value) of Eligible Assets 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. To ensure robust participation by both small and large firms, these criteria were viewed on a holistic basis and failure to meet any one criterion did not necessarily disqualify an application.

In addition to the evaluation of fund manager applications, Treasury has conducted legal, compliance and business due diligence on each pre-qualified Legacy Securities PPIP fund manager. The due diligence process encompassed, among other things, in-person management presentations and limited partner reference calls. Treasury has negotiated equity and debt term sheets (please see FAQ below titled "What are the terms of Treasury's equity and debt investments in a PPIF?") for each pre-qualified Legacy Securities PPIP fund manager. Treasury will continue its due diligence during final documentation and expects the first closing to take place in early August.

How will small-, veteran-, minority-, and women-owned businesses participate in the Legacy Securities PPIP?

Pre-qualified Legacy Securities PPIP fund managers have established meaningful partnership roles for small-, veteran-, minority-, and women-owned businesses. These roles include, among others, asset management, capital raising, broker-dealer, investment sourcing, research, advisory, cash management and fund administration services. Collectively, the nine pre-qualified Legacy Securities PPIP fund managers have established 10 unique relationships with leading small-, veteran-, minority-, and women-owned financial services businesses, located in five different states. Moreover, as Treasury previously announced, small-, veteran-, minority-, and women-owned businesses will continue have the opportunity to partner with selected Legacy Securities PPIP fund managers following pre-qualification.

How did Treasury develop conflict of interest rules for the Legacy Securities PPIP?

Treasury's conflict of interest rules are the product of a rigorous and thorough development process that included extensive interaction with the staff of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"), as well as with prospective Legacy Securities PPIP fund managers and the compliance professionals at the Federal Reserve Bank of New York ("FRBNY").

Set forth below is a summary of the process Treasury followed to investigate and mitigate actual and potential conflicts of interests that could affect a Legacy Securities Public-Private Investment Fund ("PPIF"). This process was conducted in connection with the evaluation of Legacy Securities PPIP fund manager applicants. Treasury worked closely with the SIGTARP in this process, which included the following steps:

- Treasury required applicants to identify all conflicts of interest and how they would adopt to avoid or mitigate those conflicts in its publicly-released application for prospective Legacy Securities PPIP fund managers;
- Treasury assessed each potential Legacy Securities PPIP fund manager's response for thoroughness (noting any deficiencies) and identified best practices with respect to governance and conflicts mitigation controls;
- For those applicants selected as finalists, Treasury developed extensive legal and compliance diligence questionnaires that addressed detailed questions regarding governance and conflicts of interest issues, including:
  - Internal audit methodology, accounting policies/procedures and internal controls;
  - Mechanisms in place to identify, track, eliminate, mitigate, and monitor organizational and personal conflicts of interest;
  - Policies and procedures regarding affiliates, "round-tripping," valuation, trade allocations and proper handling of material non-public / sensitive information;
  - Responsibilities, authorities and independence of the Chief Compliance Officer; and
  - Other governance and management policies and procedures.
- Treasury evaluated the responses of each finalist for thoughtfulness, feasibility and completeness and benchmarked these responses across several key compliance and conflicts related metrics;
- Treasury then compiled subsequent legal, governance and conflicts of interest questions for each finalist, as necessary; and
- Treasury discussed several key questions with finalists during in-person presentations made to Treasury. A representative from SIGTARP was invited to attend and observe and was present at most of these meetings.

After completion of the evaluation process, Treasury held numerous discussions focused specifically on conflict of interest issues with representatives from potential Legacy Securities PPIP fund managers; the SIGTARP team; and FRBNY staff, including FRBNY's Chief Compliance Officer, several professionals in its compliance and risk departments, and several individuals responsible for administering various governance-related portions of FRBNY's recovery programs.

This process resulted in the development of conflicts of interest standards and procedures that Treasury believes will ensure that the Legacy Securities PPIP can attract private capital and investment expertise to markets that have been substantially frozen for many months and protect taxpayers' interests at the same time.

How much time will pre-qualified Legacy Securities PPIP fund managers have to raise capital?
Each pre-qualified Legacy Securities PPIP fund manager will have up to 12 weeks to raise at least $500 million of capital from private sector investors for the PPIF. The equity capital raised from private sector investors will be matched by Treasury (up to certain limits). Each pre-qualified Legacy Securities PPIP fund manager will also invest a minimum of $20 million of firm capital in the PPIF. Upon raising this private sector capital, pre-qualified Legacy Securities PPIP fund managers can begin purchasing Eligible Assets.

Will retail investors be able to invest in PPIFs?

Treasury believes that appropriate retail participation (both indirectly through public pension fund investors and directly through individual investors) would enhance the Legacy Securities PPIP primarily through increased capital availability to purchase legacy assets which will help to increase liquidity and functioning of markets for these securities. Treasury has encouraged fund managers to propose structures that enable retail investors to participate in the Legacy Securities PPIP. Any such participation must be structured to comply with applicable securities laws and requires approval by the Securities and Exchange Commission.

Are foreign institutions eligible to participate in the Legacy Securities PPIP?

The goal of the Legacy Securities PPIP is to improve the health of financial institutions through removal of legacy assets from their balance sheets and by helping to increase the liquidity and functioning of markets for these securities. In order to achieve this goal, Treasury seeks broad participation in the Legacy Securities PPIP from both

U.S. and foreign institutions. Set forth below are eligibility requirements for sellers of Eligible Assets to a PPIF, Legacy Securities PPIP fund managers and passive private PPIF investors:

- Sellers of Eligible Assets to a PPIF: Eligible Assets may be purchased solely from financial institutions from which the Secretary of the Treasury may purchase troubled assets pursuant to Section 101(a)(1) of the EESA. Generally, sellers of Eligible Assets must be established and regulated in the U.S. (including territories or possessions of the U.S.) and have significant operations in the U.S. Any central bank of, or institution owned by a foreign government generally cannot be a seller of Eligible Assets. However if foreign government ownership of otherwise Eligible Assets results from extending financing to financial institutions that then failed or defaulted on such financing or from other prudential action that results in government ownership of a financial institution, such assets remain eligible for sale to a PPIF.
- Legacy Securities PPIP Fund Managers: Legacy Securities PPIP fund managers must be headquartered in the U.S., but its ultimate parent company need not be headquartered in the U.S. For purposes of this criteria, "headquartered" means the Legacy Securities PPIP fund manager is established, licensed, and maintains a commercial presence in the U.S.
- Passive Private PPIF Investors: Treasury seeks broad investor participation from both U.S. and foreign investors in the Legacy Securities PPIP to maximize the program's impact on the liquidity and functioning of markets for legacy securities. As such, there is no limitation on foreign investor participation. However, any private investor in a PPIF will be subject to a maximum investment of 9.9% of the PPIF.

What are the terms of Treasury's equity and debt investments in a PPIF?

Treasury has negotiated equity and debt term sheets with each pre-qualified Legacy Securities PPIP fund manager. Term sheets for Treasury's equity and debt investments in the PPIFs can be found at http://www.financialstability.gov.

How will Legacy Securities PPIP interact with the Making Home Affordable Program?

Subject to its analysis and judgment and the overall objective of maximizing the value of the PPIF's investments and the Legacy Securities PPIP fund manager's fiduciary duties, Legacy Securities PPIP fund managers that acquire interests in securities backed by residential mortgage loans in the PPIF have agreed (i) to consent, on behalf of the PPIF, to reasonable requests from servicers or trustees for approval to participate in Treasury's Making Home Affordable Program ("Making Home Affordable"), or for approval to implement other reasonable loss mitigation measures (including, but not limited to, term extensions, rate reductions, principal write downs, or removal of caps on the percentage of loans that may be modified within the securitization structure) and (ii) where the PPIF acquires 100% of the residential mortgage backed securities that are backed by a particular pool of residential mortgage loans, to instruct the servicer or trustee of such securities, if such servicer or trustee is participating in Making Home Affordable, to include such pool of residential mortgage loans in Making Home Affordable. The General Partner shall only be required to so consent, or instruct (as applicable) if it receives reasonably requested information from the servicer or the trustee (as applicable) and access to appropriate individuals at the servicer or the trustee (as applicable) which allow the General Partner to make an independent analysis that the consent or instruction (as applicable) is consistent with the General Partner's duties to the partnership. For the avoidance of doubt, PPIFs are eligible to receive their share of any standard investor subsidies payable to them under Making Home Affordable and Treasury's Home Affordable Modification Program.