U.S. DEPARTMENT OF THE TREASURY

NOTICE TO FINANCIAL INSTITUTIONS

INTERESTED IN PROVIDING
WHOLE LOAN ASSET MANAGEMENT SERVICES
FOR A PORTFOLIO OF
TROUBLED MORTGAGE-RELATED ASSETS

I. INTRODUCTION

The U.S. Department of the Treasury ("Treasury") issues this notice to Financial Institutions interested in providing asset management services for a portfolio of mortgage whole loans.

This notice describes services sought by the Treasury, sets forth the rules for submitting a response, and lists the factors that will be considered in selecting Financial Institutions to provide the services.

This notice is for asset managers of mortgage whole loans (i.e., individual mortgage loans), and not for asset managers of mortgage-related securities. The Treasury is issuing a separate notice for managers of securities acquired for the portfolio of troubled assets.

If your Financial Institution is interested, and meets the eligibility and minimum requirements in Sections V and VI, you may submit a response in accordance with this notice **no later than 5:00 p.m. ET on October 8, 2008.**

II. OVERVIEW AND POLICY GOALS

In furtherance of its mission to ensure the safety and soundness of the U.S. financial system, and to implement the Emergency Economic Stabilization Act of 2008 (Act), the Treasury is establishing a program to purchase a variety of troubled assets. Accordingly, the Treasury seeks one or more Financial Institutions to provide asset management services for a portfolio of dollar-denominated mortgage whole loans that the Treasury will acquire from Financial Institutions.

For purposes of this notice, whole loans include residential first mortgages, home equity loans, second liens, commercial mortgage loans, and possibly other types of mortgage loans acquired to promote market stability, that were originated or issued on or before March 14, 2008. This notice does not cover securitized mortgage-related assets.

Consistent with the purposes of the Act, the Treasury's policy goals for the portfolio of mortgage whole loans are to (1) provide stability and prevent further disruption to the financial markets and banking system, (2) ensure mortgage availability, and (3) protect the interests of taxpayers. The portfolio mandate and specific investment strategies may change over time but will always be consistent with these policy goals.

By acquiring, managing, and orderly liquidating the mortgage loans over time, the Treasury seeks to improve the capital positions of Financial Institutions, improve liquidity and credit extension in the financial system, increase investor confidence, and provide market participants with more price transparency.

III. WHOLE LOAN PORTFOLIO

Pursuant to this notice, the Treasury intends to designate one or more asset managers to handle different types of mortgage whole loans that may be acquired for the portfolio, such as residential and commercial loans. The asset managers will be required to provide a suite of services, ranging from pre-transactional diligence on loans offered for sale, through determination of fundamental loan values and loan acquisition, through loan servicing and foreclosure mitigation, to liquidation of physical assets and underlying property, if necessary. Through a separate process, however, the Treasury will engage a financial agent to provide central loan custody and trustee services, to provide the Treasury with one master record keeper and to support visibility and controls over the entire loan portfolio across all asset managers. Whole loan asset managers will be required to work in good faith with the central custodian.

The size of the loan portfolio may reach several hundred billion dollars. The portfolio mandate and composition will be driven by the aforementioned policy objectives rather than the pursuit of income or diversification. To the maximum extent practicable, the loan portfolio's credit and market risks will be managed to limit the potential for capital losses.

The Treasury expects asset managers to acquire loans through market-based or other competitive mechanisms. The acquisition process may entail the review of individual loans for valuation purposes. Consistent with the policy goals, the portfolio is expected to hold loans until market conditions improve and stabilize, but the specific holding period of particular loan types may vary from months to years. Given current market conditions, an asset manager's initial activities may focus on risk management versus more active portfolio management.

Asset managers will be expected to provide the fundamental real estate judgments and loan level analysis to support management, servicing, modifications, restructurings, re-sales, and loss mitigation over time. The Treasury will likely establish central servicing and loss mitigation guidelines, as well as standard risk management parameters, across all asset managers. In addition, the Treasury may decide to hedge interest rate and convexity risks and will establish parameters for any such hedging activity. The performance of individual asset managers will be measured by a dashboard of custom metrics linked to the Treasury's policy goals. The Treasury will require asset manages to direct servicers to maximize assistance for homeowners, considering net present value to the taxpayer, and to facilitate re-financings under the HOPE for Homeowners Program.

IV. SERVICES AND REQUIREMENTS

Through this notice, the Treasury seeks responses from Financial Institutions qualified to provide asset management services for a highly complex portfolio of mortgage whole loans. The selected Financial Institutions must provide, subcontract, or otherwise source the asset management services identified in this notice, and will be required to:

Pre- and Post-Transactional Diligence

- Conduct preliminary pre-transaction diligence on loans and portfolios of loans, and report on actual and represented loan characteristics and exceptions to transaction guidelines.
- Conduct deeper post-transaction reviews of purchased loans and portfolios of loans.

Whole Loan Transactional Infrastructure

- Receive and process data files with descriptions of loans and portfolios of loans from potentially hundreds or thousands of Financial Institutions offering loans.
- Ensure that smaller Financial Institutions, including but not limited to community banks and credit unions, have access to the infrastructure and can proffer loans for sale to the Treasury.
- Analyze, standardize, and convey the data into systems and reports as necessary.
- Execute the whole loan acquisition transactions.

Whole Loan Valuation

- Value loans and portfolios of loans offered for sale according to product and performance characteristics.

Whole Loan Asset Management

- Act as the Treasury's appointed asset manager with authority to control loans, consistent with the Treasury's policies and guidelines.
- Provide integrated asset management services for loans and portfolios of loans including acquisition, management, reporting, risk management, and asset disposition capabilities.
- Devise, document, and execute loan strategies to meet the Treasury's policies and guidelines.

Cooperation with Whole Loan Trustee and Custodian

- Work in good faith with the Treasury's central loan custodian and trustee to execute and settle loan and portfolio transactions.
- Work in good faith with the Treasury's central loan custodian and trustee for loan and portfolio cash management, reporting, warehousing of title and legal documents, and other central administrative services.
- Work in good faith to help the central monitoring of servicer compliance with the Treasury's servicing and loss mitigation guidelines across the entire portfolio.

Whole Loan Servicing and Loss Mitigation

- Service loans and portfolios of loans in accordance with the Treasury's servicing and loss mitigation guidelines.

Surveillance

- Monitor the ongoing performance of purchased loans and portfolios of loans, and provide detailed reporting to Treasury

Physical Asset Management

- Manage liquidation of physical assets and underlying property, as necessary.

Cross-Cutting Operations and Reporting

- Interface with the custodian's and the Treasury's management and accounting systems and provide data feeds as necessary.
- Reconcile books and records with the custodian and the Treasury.
- Maintain records of all loans acquired and cash flow projections of principal and interest.
- Provide for all necessary operational and analytical hardware and software to support the services in this notice.
- Identify, document, and enforce internal controls on an on-going basis.
- Permit the Treasury's internal and external auditors, or other governmental oversight entities, to audit books and records related to the services in this notice.
- Report on loan and portfolio holdings, valuations, and characteristics
- Report on loan and portfolio performance against the Treasury's benchmarks or success metrics.
- Assist with the preparation of reports to oversight bodies.
- Retain all documentation and reports related to the services in this notice.

Given the end-to-end requirements identified above, the Financial Institution may provide all services directly, or in combination with third party subcontractors identified by the Financial Institution. However, the Treasury reserves the right to hire other contractors as necessary to support the full suite of services needed to manage the portfolio of mortgage whole loans efficiently and effectively. The Financial Institution will be required to work in good faith with any such contractors.

If selected as an asset manager, the Financial Institution must be prepared to provide resources immediately to begin developing and executing an aggressive work plan.

As a financial agent, the Financial Institution will have a fiduciary responsibility to perform all services in the best interests of the United States.

V. ORGANIZATIONAL ELIGIBILITY

To be eligible to be selected as a financial agent pursuant to this notice, an organization:

- Must be a “Financial Institution” as defined in the Act. Specifically ‘‘Financial Institution’’ 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.

- Must not be on the Federal Debarment and/or Suspension List;

- Must not be delinquent on any debts owed to the Government;

- Must not be subject to any pending or current enforcement actions or regulatory investigations;

- If currently doing business with the Treasury or another Federal agency, must not be in any kind of probationary status, and must be addressing and resolving any identified deficiencies in performance, if any.

VI. MINIMUM QUALIFICATIONS

The Treasury has established the following minimum qualifications for considering responses from interested and organizationally eligible Financial Institutions:

- The Financial Institution must be continuously engaged as a principal business in managing whole loan assets, comparable to the services described in Section IV, for the last 5 years.

- The Financial Institution must currently manage a portfolio of at least $25 billion in mortgage loans, or provide clear and credible evidence that the Financial Institution can scale its capacity to manage a portfolio of at least this size.

- The Financial Institution must covenant to disclose all potential conflicts of interest, and to avoid, mitigate, or neutralize to the extent feasible and to the Treasury’s satisfaction any personal or organizational conflicts of interest that may be identified by the Treasury or the Financial Institution.

- The Financial Institution must be able and willing to partner with the Treasury’s central whole loan custodian and trustee.

- The Financial Institution must be able and willing to partner with other Financial Institutions selected to be sub-managers of the portfolio, as directed by the Treasury, and to work in good faith with small and minority- and women-owned businesses hired as direct contractors to the Treasury to support the portfolio of mortgage whole loans.

- The Financial Institution must be able and willing to work with Federal agencies, governmental entities, and other organizations when the Treasury determines it to be in the best interest of the Government.

- The Financial Institution must meet all organizational eligibility standards in Section V.

VII. SMALL AND MINORITY- AND WOMEN-OWNED BUSINESSES

In accordance with Section VIII(6) below, the Financial Institution must identify an approach to provide meaningful opportunities to small and minority- and women-owned businesses as subcontractors to the Financial Institution during performance as a financial agent of the United States. To ensure such participation in the portfolio of mortgage whole loans, the Treasury may at a future date issue a separate notice for small and minority- and women-owned businesses, or for smaller Financial Institutions that may not meet the minimum qualifications for the size of assets under management identified in Section VI above. Such businesses and smaller Financial Institutions may be hired as contractors or sub-managers within the portfolio.

VIII. INFORMATION REQUESTED

This section identifies the primary information the Financial Institution must provide in its response to this notice.

1. Organization and Staffing. Provide information or charts showing your business entities or units, and the composition and expertise of your personnel, with particular detail on mortgage loan asset management.

2. Loan Portfolios. Provide information or tables showing the characteristics of your mortgage loan portfolios under management, with any relevant totals and subtotals, including data on portfolio returns for each of the past 5 years ending June 30, 2008.

3. Expertise. Describe your specific organizational expertise in analyzing mortgage credit quality, determining fundamental loan values, and in managing distressed mortgage assets.

4. Personnel. Provide the names and experience of the primary asset managers or responsible executives that would be assigned to the Treasury's portfolio.

5. Affiliates and Third Party Contractors. In providing the end-to-end suite of services in this notice, identify any services which you would propose to provide through affiliates or third party subcontractors, why you would outsource the services, what expertise the third party or affiliate would provide, and how you would oversee and manage the activities of the affiliates or third parties.

6. Small and Minority- and Women Owned Businesses. Provide information on how you expect to provide meaningful opportunities to small and minority- and women-owned businesses as subcontractors to the Financial Institution during performance as a financial agent of the United States.

7. Integration. Describe how you would integrate the various services and requirements described in this notice to provide a coherent end-to-end asset management service.

8. Operational Capacity. Provide the most relevant and compelling facts and figures to demonstrate you can provide or obtain the necessary operational capacity to deal with potentially thousands of Financial Institutions offering to sell thousands of loans to the Treasury.

9. Outreach to Smaller Financial Institutions. Explain how you would ensure that smaller Financial Institutions, including but not limited to community banks and credit unions, have access to your infrastructure to proffer loans for sale to the Treasury.

10. Timeline. Identify a viable timeline and sequence of events for assembling all of the services identified in this notice, including any potential third party subcontractors.

11. Strategy. Given the end-to-end suite of asset manager services described in this notice, as well as the public policy goals of the portfolio, provide <u>two</u> strategic recommendations or key insights for acquiring and managing the portfolio.

12. Performance Measurement. Given the Treasury's stated policy goals for the portfolio of whole loans, describe <u>three</u> effective metrics for measuring your performance in providing the suite of services in this notice. Also describe how these metrics would serve to align your incentives with the Treasury's interests.

13. Risk Management. Describe the risk management and oversight approach you would use in managing a whole loan portfolio for the Treasury.

14. Conflicts of Interest. Identify any real or potential conflicts of interest you would have in managing a loan portfolio as described in this notice, and explain how you would avoid, mitigate, or neutralize any such conflicts. Include the interests of your corporate parents, subsidiaries, and affiliates in your answer. Also, describe your philosophy in fulfilling your duty to the Treasury and the U.S. taxpayer in light of your proprietary interests and those of other clients. Among other situations, conflicts of interest may exist if you, any entity that owns or controls you, or any entity that you own or control (1) has a personal, business, or financial interest or relationship that relates to the services in this notice, (2) is or represents a party in litigation with the Treasury, (3) may be participating in the Troubled Assets Relief Program as defined in the Act, or (4) engages in any activity that would cause the Treasury to question the integrity of your services.

15. Proposed Fee. Describe your proposed fee schedule, encompassing all of the services identified in Section IV, and provide all necessary information on the all-in costs associated with your services. Your fee structure must be aligned with the Treasury's policy goals of providing stability and preventing further disruption to the financial system, and must reflect a prudent portfolio liquidation strategy to protect the taxpayer.

IX. SELECTION PROCESS

The Treasury will evaluate the responses to this notice from all interested and qualified Financial Institutions, and will invite certain candidates to continue to the second phase of the financial agent selection process. The second phase, and subsequent phases, may be conducted under confidentiality agreements to facilitate information exchange, but consistent with the public disclosure and transparency provisions of the Act. In the second phase, the prospective financial agents will provide additional information about their expertise and the expertise of proposed subcontractors, as well as information on audited financial statements and filings, potential conflicts of interest, asset management strategies, risk management, and performance measurement. This phase may include telephone conversations to allow questioning by and of the Treasury.

The Treasury will evaluate the responses from the second phase candidates, and will determine whether a candidate will continue to be considered. In this last stage, a Financial Institution may be required to conduct face-to-face discussions on portfolio scenarios, public policy goals, and statutory requirements, and to respond to interview questions to assess the capabilities of primary individuals managing the portfolio. Following any face-to-face meetings, the Treasury will make final selections of one or more Financial Institutions to be designated as asset managers.

A Financial Institution selected to be an asset manager must sign a Financial Agency Agreement with the Treasury, a copy of which will be provided for review during the second stage of the selection process. The Financial Institution’s willingness to enter into the standard Financial Agency Agreement, with the established terms and conditions currently applied to financial agents of the United States, will be among the factors used in evaluating the Financial Institution.

The Treasury will notify the Financial Institution if its response to this notice is selected, rejected, or requires further information. However, the Treasury shall have no requirement to discuss the reasons, in either general or specific terms, or at any stage in the selection process, that the Financial Institution’s response was not accepted or that the selection process may have been terminated.

Given the urgent need to implement the Troubled Asset Relief Program, the financial agent selection process may involve extremely short deadlines for submitting additional information, participating in conference calls, and for traveling to Washington, D.C. for meetings or interviews. Financial Institutions and their proposed subcontractors must be prepared to respond immediately during the selection process.

X. DEADLINE AND COMMUNICATIONS

To be considered to provide the services in this notice, the Financial Institution must submit a response by 5:00 p.m. ET on October 8, 2008.

The Financial Institution is responsible for seeking clarification on any issues in this notice that the Financial Institution does not fully understand. All questions should be directed to the following:

Treasury Contact:

SETH WHEELER
DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE
U.S. DEPARTMENT OF THE TREASURY
DOMESTIC FINANCE
ROOM 1209, 1500 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20220
Phone Number: 202-622-1244
Fax Number: 202-622-0265
E-mail Address: wholeloans@do.treas.gov

The Treasury, in its sole discretion, may respond orally to any questions about the response requested in this notice. Substantive questions should be submitted as soon as possible consistent with the schedule above. No other channel of communication between the Financial Institution and an officer, employee, or agent of the Treasury regarding this notice is permitted, and no information gained from any such communication may be considered in any way binding or limiting on the Treasury.

The Treasury, in its sole discretion, may change the deadline for submission of responses.

XI. SUBMISSION OF RESPONSE

The Financial Institution must submit its response by courier, or in PDF format via email, to the Treasury contact by the deadline.

The Treasury has no obligation to consider a response received after the deadline provided above. The only acceptable evidence of the time of receipt is the Treasury’s time/date stamp on the response or other evidence of receipt maintained by the Treasury.

The Financial Institution, by submitting a response to this notice, warrants and represents that it understands and agrees to all terms of this notice and the selection process, including the following:

- The Treasury, in its sole discretion, will select Financial Institutions to perform the services in this notice, based on its determination of what is in the best interests of the United States.

- No communication, question, response, or clarification, whether oral or written, about the requirements of this notice shall in any way serve to limit the Treasury’s complete and sole discretion in selecting a Financial Institution and in making decisions in connection with this notice.

- The Treasury may select, reject, or request additional clarifying information about the Financial Institution’s response without further discussion with the Financial Institution.

Because the Treasury may select or reject the response without engaging in discussion, the Financial Institution must present its most favorable technical and pricing response.

XII. RESPONSE FORMAT

The response must include a 1-page cover letter, executed by a person legally authorized to represent the Financial Institution, that includes the name, title, address, and office and cell phone numbers of the individual to receive communications from the Treasury, and a certification statement that the Financial Institution (i) meets the organizational eligibility requirements of Section V, (ii) meets the minimum qualifications in Section VI, (iii) understands and agrees to the terms and selection process set forth in this notice, (iv) understands and agrees to the confidentiality provisions in Section XV, (v) understands and agrees that as a financial agent it will have a fiduciary duty to perform all services in the best interests of the United States, and (vi) is capable of providing or obtaining the suite of services identified in this notice.

The response must include a document not to exceed 25 one-sided pages, in 12-point font with 1-inch margins, addressing the items in Section VIII above.

As an attachment, and not included in the 25 page limit, the response must include additional relevant information for any proposed third party to which services will be subcontracted, but not to exceed 3 pages per subcontractor.

The response must not include any other documents or attachments. The response must not include any generic marketing or sales information, or rely on cross-references to other documents.

XIII. EVALUATION OF RESPONSE

The Treasury's overarching objective in evaluating the Financial Institution's response and selecting asset managers is to ensure that the troubled assets portfolio will be managed in the most ethical, transparent, accountable, and cost effective manner possible.

The Treasury will use the following non-exclusive factors in evaluating the Financial Institution's response:

- The Financial Institution's specific experience in managing loan portfolios and in mortgage credit analysis.

- Evidence that the Financial Institution can support the full suite of services in this notice, including through the use of subcontractors and affiliates, and can integrate the end-to-end services to provide a comprehensive asset manager solution.

- The extent to which the Financial Institution proposes to provide meaningful subcontracting opportunities for small and minority- and women-owned businesses.

- The qualifications of key staff that would provide asset management services to the Treasury.

- The quality and cogency of the written response in answering the questions directly and supplying the most relevant information.

- The value and rigor of ideas and recommendations in the written response.

- The Financial Institution's fees and all-in costs.

- The Financial Institution's overall financial and management stability.

The Treasury will notify the Financial Institution if its response is selected, rejected, or requires further information. However, the Treasury shall have no requirement to discuss the reasons, in either general or specific terms, that the Financial Institution's response was not accepted or that the selection process may have been terminated.

XIV. AUTHORITY

The Secretary of the Treasury has statutory authority to designate Financial Institutions as financial agents of the United States to perform reasonable duties as determined by the Secretary, pursuant to the Act. The Financial Institution, if designated to provide services pursuant to this notice, shall be financial agent of the United States, and not a contractor. Neither this notice, nor the services sought by the Treasury, is procurement subject to the Federal Acquisition Regulation.

XV. CONFIDENTIALITY

The Treasury considers any information provided to a Financial Institution in evaluating its response to this notice to be strictly confidential and must not be disclosed to any third party outside the Financial Institution's corporate organization, nor duplicated, used, or disclosed in whole or in part for any purpose other than to prepare a response. Under no circumstances shall any information received in connection with this notice be disclosed to any third party outside the Financial Institution's corporate organization without the express prior written consent of the Treasury.

XVI. RESERVATION OF RIGHTS

The release of this notice and the Treasury's receipt of any information or responses shall not, in any manner, obligate the Treasury to perform any act or otherwise incur any liabilities.

The Treasury assumes no obligation to reimburse or otherwise compensate the Financial Institution for expenses or losses incurred in connection with this notice.

The Treasury shall have the unlimited right to use, for any governmental purpose, any information submitted in connection with this notice.

The Treasury reserves the right to: (1) modify the requirements in this notice or withdraw this notice at any time; (2) decide not to select any Financial Institution; (3) reject a response without inviting the Financial Institution to submit a new response; (4) negotiate with and select any Financial Institution considered qualified; (5) request, orally or in writing, clarification of or additional information on a response; (6) waive minor informalities or irregularities, or a requirement of this notice; (7) accept any response or service offering in part or in total; and (8) reject a response that does not conform to the specified format or other requirements of this notice.

Any selection and designation of a financial agent pursuant to this notice shall be contingent upon and subject to availability of funding.