

U.S. DEPARTMENT OF THE TREASURY
NOTICE TO FINANCIAL INSTITUTIONS
INTERESTED IN PROVIDING
CUSTODIAN, ACCOUNTING, AUCTION MANAGEMENT
AND OTHER INFRASTRUCTURE 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 custodian, accounting, auction management, and other infrastructure services for a portfolio of troubled mortgage-related assets.

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

This notice is not for asset managers who will control assets acquired for the portfolio and implement investment management or loan portfolio strategies, which will be handled through separate notices specifically for securities and whole loan asset managers.

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. PORTFOLIO 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 Financial Institution to provide custodian, accounting, auction management and other infrastructure services for a portfolio of dollar-denominated mortgage-related assets that the Treasury will acquire from Financial Institutions having significant operations in the United States.

For purposes of this notice, troubled assets include residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued by on or before March 14, 2008. Troubled assets, for purposes of this notice, do not include securities issued and/or fully guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Federal National Mortgage Association (“Fannie Mae”).

Specific assets acquired for the portfolio may include (i) securitized products, including Prime, Alt-A, and Subprime residential mortgage backed securities (MBS), commercial MBS, and MBS collateralized debt obligations, and (ii) whole loans, including residential first mortgages, home equity loans, second liens, and commercial mortgage loans. In addition, the Treasury may decide to include other types of securities and mortgage loans in the portfolio as necessary to promote market stability.

Consistent with the purposes of the Act, the Treasury’s policy goals for the portfolio of troubled mortgage-related assets 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 troubled assets 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. PORTFOLIO INFRASTRUCTURE

Pursuant to this notice, the Treasury intends to designate one financial agent to provide infrastructure services for the entire portfolio of troubled mortgage-related securities and whole mortgage loans, including custody, asset tagging, asset pricing and valuation, cash management, accounting, management reporting, Federal Government financial reporting, and auction management services for reverse auctions and for other asset acquisition mechanisms (collectively “infrastructure services”).

This notice is not for engaging asset managers who will control the assets acquired for the portfolio and implement investment management and loan portfolio strategies. Through separate notices, the Treasury will identify and designate multiple asset managers and sub-managers to handle different asset classes, including all types of securities and whole loans, that may be acquired for the portfolio.

The selected financial agent will provide infrastructure services for the portfolio of up to \$700 billion and of moderate and possibly long duration. The portfolio mandate and composition will be driven by the aforementioned policy objectives rather than the pursuit of yield or diversification.

The selected financial agent will provide the accounting of record for the portfolio, hold all cash and assets in the portfolio, produce reports to support Federal Credit Reform accounting, produce reports for the Treasury's general ledger accounting system, manage cash balances generated by the portfolio, and provide for pricing and asset valuation services. The financial agent must track unique asset attributes as required by the Act, such as linkages to executive compensation limits and to warrants received from selling institutions. In addition, the financial agent will support the acquisition of securitized assets by serving as auction manager and conducting reverse auctions designed to allow efficient and effective purchases.

IV. SERVICES AND REQUIREMENTS

Through this notice, the Treasury seeks responses from Financial Institutions qualified to provide infrastructure services for a highly complex, multi-manager portfolio of troubled mortgage-related assets. The Financial Institution selected to provide infrastructure services will be required to:

Custodian

- Provide custody accounts and cash accounts for the portfolio and multiple asset managers.
- Receive, hold, safe keep, and track cash and assets.
- Collect income and principal distributions.
- Release assets and disburse cash upon instructions.
- Manage credits and debits to the cash and custody accounts for all income, receipts, purchases, and outlays
- Confirm all settlements, trades, and other transactions with asset managers.

Asset Tagging

- Provide asset tagging for unique attributes of assets in the portfolio, including but not limited to tracking warrants linked to the counterparties that sold assets, executive compensation triggers linked to counterparties that sold assets, and tax law triggers linked to counterparty trading volumes.

Auctions

- Serve as auction manager for reverse auctions (one or more buyers, multiple sellers) to acquire mortgage-related securities for the portfolio.
- Design, implement, and test complex auction formats under highly compressed deadlines.
- Conduct multiple simultaneous auctions with multiple rounds and with up to thousands of interested sellers.
- Provide the technical infrastructure to collect and process bids from participants, provide appropriate results to participants during auctions, and provide customer service to auction participants before, during, and after auctions.

- Work with brokers, dealers, and book entry systems providers to authenticate beneficial owners, protect against collusion by auction participants, conduct pre- and post-auction validations, and clear and settle transactions.
- Provide the Treasury with expert advice on the detailed design of auctions to achieve the policy goal of fostering price discovery and observable valuations.

Accounting and Reporting

- Provide accounting and footnote disclosure for the portfolio in accordance with GAAP and FAS 157.
- Produce management and operational reports on transactions, positions, valuations, cash flows, portfolio characteristics, and counterparties.
- Provide for public transparency reports on the Internet for all transactions and assets.
- Reconcile activities daily with the Treasury and with asset managers.
- Produce reports to support Federal Credit Reform accounting
- Assist with the preparation of reports to oversight bodies.
- Provide a SAS No. 70 Service Organization Type II report, on an annual basis, for the services required in this notice.

Cash Management

- Sweep all end of day cash balances in accordance with the Treasury's instructions.

Pricing, Valuation, and Market Information

- Provide asset pricing and valuation services for all types of mortgage-related securitized assets, including all necessary analytics, models, and reports.
- Provide valuations of whole mortgage loans, and portfolios of whole mortgage loans, according to different product and performance characteristics, including residential first liens (non-agency Prime, Alt-A, Subprime), residential second liens, commercial mortgages, and other loans.
- Produce reference prices, pricing curves, and CUSIP-level asset valuations using widely accepted software, hardware, and data resources to support the acquisition of assets through reverse auctions and subscription sales.
- Determine the economic value of equity-based warrants obtained from Financial Institutions selling assets to the Treasury.
- Provide detailed information on the number, values, and characteristics of mortgage backed securities in the market, as necessary to develop auction and acquisition strategies.

Operations

- Confirm all trades and settlements with asset managers.
- Maintain records of (i) trades executed, including all pertinent financial and settlement information, (ii) principal and interest (P&I) payments, and (iii) cash flow projections of new trades and principal and interest payments.
- Track, maintain records of, and promptly resolve notification and settlement fails.
- Maintain settlement tolerance thresholds consistent with best practices.
- Provide for straight-through-processing with asset managers for trading and post-trading processing.

- Provide data feeds to the Treasury’s management and accounting systems.
- Enforce internal controls
- Provide for all necessary operational and analytical hardware and software to support the services in this notice.
- 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.
- Retain all documentation and reports related to the services in this notice.

Whole Mortgage Loan Custodian and Trustee

- Provide a platform for executing the purchase, sale, and holding of whole loans and whole loan portfolios, to be provided for use across multiple whole loan asset managers.
- Provide master cash management services necessary for the central custody of whole loans.
- Warehouse title and legal documents and provide other similar central administrative custody services.
- Monitor third party servicer compliance with the Treasury’s servicing and loss mitigation guidelines

The Financial Institution must be prepared to provide resources and services immediately if selected as the portfolio’s infrastructure service provider.

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 have at least \$500 billion in domestic assets under custody.
- 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.
- As the central infrastructure provider for the portfolio, the Financial Institution must be able and willing to work with and coordinate other Financial Institutions, Federal Reserve Banks, 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. 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 relevant business entities or units, and the composition and expertise of your personnel, for the different infrastructure services identified in this notice, including the number of both technical and support employees in each case.
2. **Domestic Assets Under Custody.** Provide a table showing in detail all domestic assets under custody by asset class with relevant totals and sub-totals, with particular detail for mortgage-related assets.
3. **Operational Capacity.** Provide the most relevant and compelling facts and figures on the scale, scope, and diversity of your Financial Institution's current operational capacity to provide the portfolio infrastructures services, to include technical equipment, facilities, infrastructural and trading interfaces, licenses, operating authority, insurance coverage, specialty subcontractors, and the like.
4. **Performance Measurement.** Describe the three most effective metrics that should be used to measure your performance as a portfolio infrastructure provider for the Treasury and for ensuring that your performance is aligned with the Treasury's interests.

5. **Strategy.** Given the scale and complexity of the portfolio, as well as the public policy goals associated with the portfolio, provide two strategic recommendations or key insights for the portfolio infrastructure services sought by the Treasury.
6. **Asset Tagging.** Discuss your Financial Institution's technical ability to provide for unique asset tagging, including but not limited to tracking warrants linked to the counterparties that sold assets, executive compensation triggers linked to counterparties that sold assets, tax law triggers linked to counterparty trading volumes, asset performance against original valuations, and differentiated interests of multiple rights holders.
7. **Whole Loan Custody and Trustee.** Discuss your experience and ability to provide custody and trustee services for whole mortgage loans, including platforms for settling loan acquisitions, holding loans, providing master cash management services, and monitoring servicer compliance with the Treasury's loan servicing and loss mitigation guidelines.
8. **Pricing and Valuation.** Describe your technical capabilities (analytics, models, services) for generating asset prices and valuations for (i) specific private label mortgage backed securities across the entire capital structure, (ii) whole mortgage loans with different product and performance characteristics, and (iv) equity-based warrants issued by firms selling assets to the Treasury.
9. **Auctions Processing.** Describe your experience in conducting securities auctions and reverse auctions, including types of securities, platforms used, dollar size, number of participants, and auction formats.
10. **Auctions Timeline.** Identify a viable timeline and sequence of events for conducting – as soon as possible – an initial set of multiple reverse auctions of classes of non-agency mortgage-backed securities using complex auction formats.
11. **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.
12. **Public Transparency.** Describe your ability to produce public reports on the Internet for all transactions and holding across the portfolio, and to provide the Treasury with information needed for public disclosure of pricing and valuation methods.
13. **Conflicts of Interest.** Identify any real or potential conflicts of interest you would have in providing the portfolio infrastructure services 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.

14. **Third Parties.** Identify any services in this notice which you would propose to subcontract to third parties, why you would subcontract the services, and what expertise the third party or affiliate would provide.

15. **Proposed Fee.** Describe your proposed fee schedule and declare 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 tax payer.

VIII. 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, 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, as well as information on audited financial statements and filings, potential conflicts of interest, codes of conduct and ethics, 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, the Financial Institution may be required to conduct face-to-face discussions on public policy goals and statutory requirements, and to respond to interview questions to assess the capabilities of specific individuals. Following any face-to-face meetings, the Treasury will make a final selection of the Financial Institution to be designated as the portfolio infrastructure provider.

The Financial Institution selected to be the portfolio infrastructure provider 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. A 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 must be prepared to respond immediately during the selection process.

IX. 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 following schedule will guide the process of selecting a custodian:

<u>Event</u>	<u>Date/Time</u>
Deadline for Submission of Response	OCTOBER 8, 2008, 5:00 PM ET
Treasury Selection of Financial Agent	OCTOBER 10, 2008
Signing of Financial Agency Agreement.....	OCTOBER 11, 2008
Services Begin and Personnel Available	OCTOBER 11, 2008

The Treasury reserves the right, in its sole discretion, to modify the schedule at any time and will notify Financial Institutions of any such changes.

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:

GARY GRIPPO
 DEPUTY ASSISTANT SECRETARY FOR FISCAL OPERATIONS AND POLICY
 U.S. DEPARTMENT OF THE TREASURY
 DOMESTIC FINANCE
 ROOM 2112, 1500 PENNSYLVANIA AVENUE NW
 WASHINGTON, DC 20220
 Phone Number: 202-622-0570
 Fax Number: 202-622-0962
 E-mail Address: custodian@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.

X. 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 a Financial Institution 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.

XI. 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 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 XIV, (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 the 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 IV above.

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

XII. EVALUATION OF RESPONSE

The Treasury's overarching objective in evaluating the Financial Institution's response and selecting a financial agent 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 experience in providing domestic fixed income and loan custodian services.
- Evidence that the Financial Institution can support reverse auctions in a compressed time period.
- The qualifications of staff to be assigned 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 extent to which the Financial Institution proposes to provide meaningful opportunities for small and minority- and women-owned businesses.
- Evidence that the Financial Institution can provide the full scope of infrastructure services, including through the judicious and targeted use of subcontractors with specialized experience.
- The Financial Institution's fees and all-in costs.

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.

XIII. 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 a procurement subject to the Federal Acquisition Regulation.

XIV. 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.

XV. 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 in part or in total; (8) reject a response that does not conform to the specified format or other requirements of this notice; and (9) designate more than one Financial Institution to provide the services in this notice.

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