U.S. DEPARTMENT OF THE TREASURY

NOTICE TO FINANCIAL INSTITUTIONS

INTERESTED IN PROVIDING
SECURITIES 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 troubled mortgage-related securities.

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-related securities and <u>not</u> for asset managers of mortgage whole loans. The Treasury is issuing a separate notice for managers of whole loans 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 **<u>no later than 5:00 p.m. ET on October 8, 2008.</u>**

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 multiple Financial Institutions to provide asset management services for a portfolio of dollar-denominated mortgage-related securities that the Treasury will acquire from Financial Institutions.

For purposes of this notice, troubled assets include securities, obligations, or other instruments that are based on or related to residential and commercial mortgages and that were in each case originated or issued 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").

The specific securities to be acquired for the portfolio described in this notice include Prime, Alt-A, and Subprime residential mortgage backed securities (MBS), commercial MBS, and MBS collateralized debt obligations. In addition, the Treasury may decide to include other types of securities 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 securities 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 securities 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. SECURITIES PORTFOLIO

Pursuant to this notice, the Treasury intends to designate multiple asset managers and sub-managers to handle different asset classes that may be acquired for the securities portfolio. Through separate processes, the Treasury expects to engage other providers for custodian services, risk management, and other portfolio services.

The size of the securities 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 yield or diversification. To the maximum extent practicable, the portfolio's credit and market risks will be managed to limit the potential for capital losses.

Assets will likely be acquired through reverse auctions and other market mechanisms designed to support efficient and effective price discovery and generate observable market-based valuations, to the maximum extent practicable. Consistent with the policy goals, the portfolio is expected to hold assets until market conditions improve and stabilize, but the specific holding period of particular assets will vary from months to years, and the Treasury may over time provide guidance on re-balancing assets. Accordingly, portfolio management is expected to be relatively passive, but may be relatively active at certain times, depending on market conditions. The

Treasury will also provide on-going guidance on how positions may be liquidated or re-monetized.

The portfolio may be benchmarked to established indices, but more likely will be measured by a dashboard of custom metrics linked to the Treasury's policy goals. In addition, the Treasury will establish guidelines on managing the risks of the portfolio, on eligible trading counterparties and counterparty risk management, on the disposition of cash flows, and on managing temporary cash holdings generated by the portfolio. The Treasury may decide to hedge convexity and other risks within the portfolio and will establish parameters for any such hedging activity.

IV. SERVICES AND REQUIREMENTS

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

Portfolio Management and Trade Execution

- Act as the Treasury's appointed asset manager with authority to control assets, consistent with the Treasury's investment policy and guidelines.

- Manage assets (i) acquired by the Treasury and segregated to the Financial Institution, and/or (ii) acquired by the Financial Institution in accordance with the Treasury's instructions.

- Devise, document, and execute strategies to meet the Treasury's investment policy and guidelines.

- Adhere to, measure, and report on standards for best execution with brokers, dealers, and other counterparties in compliance with the Treasury's investment policy and guidelines.

- Execute trades as agent for a disclosed or undisclosed principal, as determined by the Treasury, at market prices or another pricing basis, as determined by the Treasury.

- Execute large trades, potentially of multi-billions of dollars as required, on a single day using approved counterparties.

- Provide a dedicated team of individuals (full or part-time) to undertake the services required in this notice.

Operations

- Confirm all trades with approved counterparties promptly.

- 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.

- Interface with an independent custodian, selected by the Treasury, that will have possession and safekeeping of all cash and assets, process transactions, collect P&I distributions, disburse cash and remit funds to the Treasury as required, and provide GAAP accounting of record.

- Interface with the Treasury's management and accounting systems and provide data feeds.

- Reconcile, on a daily basis, its own books and records with the custodian's cash and custody accounts and with the Treasury's accounting systems.

- 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.

Portfolio Analytics and Reporting

- Report portfolio performance and status against the Treasury's benchmarks and/or success metrics.

- Report on (i) securities holdings, (ii) positions in assets and asset classes, (iii) securities characteristics, such as maturity distributions, and (iv) transactions.

- Forecast expected P&I payments given a range of interest rate scenarios using industry standard prepayment models.

- Produce portfolio valuation reports, incorporating pricing and relative value measures from external sources and models, as appropriate.

- Produce risk management reports to monitor and assess the portfolio against risk constraints and metrics to be established by the Treasury.

- 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.

- Retain all documentation and reports related to the services in this notice.

- Respond to the Treasury's reasonable verbal inquiries on trading activity and market conditions during the business day, and provide end of day commentary on trading decisions and activity as requested the Treasury.

The Financial Institution must be prepared to provide services immediately if selected as an asset manager.

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 be a registered investment advisor under the Investment Advisers Act of 1940, as amended;

- 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.

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 assets, comparable to the services described in Section IV, for the last 5 years.

- The Financial Institution must have received an unqualified auditor's opinion for the last 5 years.

- The Financial Institution must have at least $100 billion in dollar-denominated fixed income assets under management.

- The Financial Institution's primary portfolio manager assigned to the Treasury's account must have at least 10 years of experience in managing fixed income assets.

- 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 other Financial Institutions selected to be sub-managers and with subcontractors, as directed by the Treasury.

- The Financial Institution must be able and willing to work with 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. SMALL AND MINORITY- AND WOMEN-OWNED BUSINESSES

To ensure a diversity of participation as securities asset managers, the Treasury will at a future date issue a separate notice for smaller and minority- and women-owned Financial Institutions that may not meet the minimum qualifications for the size of assets under management identified in Section VI above. Such Financial Institutions will be designated as 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 fixed income and mortgage-related asset management. Describe any changes in ownership or major changes in corporate structures in the last 3 years, and any anticipated future changes to your corporate organization or ownership.

2. Assets Under Management. Provide information or a table showing your number of clients and the total assets under management, with relevant totals and subtotals. Include particular detail on fixed income assets, and on mortgage-related assets under management across the firm and in dedicated portfolios.

3. Past Performance. Provide a table showing the best and worst returns for your mortgage-related portfolios for each of the past 5 years ending June 30, 2008.

4. References. Provide reference contacts for the three customers with the largest fixed income assets under your management over the last 3 years, including name, title, organization, and phone number.

5. Expertise. Describe your specific organizational expertise in the mortgage credit market and in managing distressed assets and mortgage-related assets.

6. Personnel. Provide the names and experience of the primary asset managers and traders that would be assigned to the Treasury's account.

7. 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.

8. Performance Measurement. Given the lack of industry benchmarks or indices for a portfolio of distressed assets, and the Treasury's stated policy goals, describe the most effective metric for measuring your performance as an asset manager for the Treasury.

9. Risk Management. Describe the risk metrics and limits you would use in managing a portfolio of troubled mortgage-related assets for the Treasury.

10. Oversight. Indicate if your organization has a risk oversight officer who operates independently from portfolio managers and other investment-policy decision makers. Identify the two most important attributes of your particular risk oversight framework.

11. Investment Policy and Guidelines. Given the complexity and public policy goals of the portfolio, provide two specific recommendations for the investment policy to govern the assets you would manage for the Treasury, consistent with the Act.

12. Conflicts of Interest. Identify any real or potential conflicts of interest you would have in managing a securities 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.

13. Regulatory and Legal Actions. Identify any Federal or State citations or enforcement actions your organization or any affiliate has received or been warned of, and any litigation or legal proceeding involving your asset management or investment consulting services involving fraud, negligence, criminal activity, or breach of fiduciary duty.

14. Custodians. List the top 3 custodians with which you are currently processing assets.

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 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, 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, 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 and trading scenarios, public policy goals, and statutory requirements, and to respond to interview questions to assess the capabilities of prospective individuals to be assigned to manage assets. Following any face-to-face meetings, the Treasury will make final selections of the Financial Institutions to be designated as asset managers.

Financial Institutions selected to be asset managers 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 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:

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: securities@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 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.

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 the services identified in this notice. The cover letter must also indicate whether the Financial Institution is minority- or woman-owned.

The response must include a document <u>not to exceed 20 one-sided pages</u>, in 12-point font with 1-inch margins, addressing the items in Section VIII above.

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 a provider 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 managing mortgage-related and troubled assets.
- 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.
- 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 a 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 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.