Public-Private Investment Program for Legacy Loans
Frequently Asked Questions

What is the Legacy Loans Program?
In order to cleanse bank balance sheets of distressed loans and other assets and reduce the associated market overhang, the FDIC and Treasury are launching the Legacy Loans Program. The FDIC will provide oversight for the formation, funding, and operation of new public-private investment funds ("PPIFs") that will purchase loans and other assets from depository institutions. The Legacy Loans Program will attract private capital through an FDIC debt guarantee and Treasury equity co-investment. Private market equity investors ("Private Investors') are expected to include but are not limited to financial institutions, individuals, insurance companies, mutual funds, publicly managed investment funds, pension funds, foreign investors with a headquarters in the United States, private equity funds, and hedge funds. The participation of mutual funds, pension plans, insurance companies, and other long term investors is particularly encouraged. The FDIC will staff operations relating to the formation, funding, and operation of PPIFs and will work with participant banks, the Treasury, Private Investors and contractors to administer the asset pool auctions. The Treasury will be responsible for overseeing and managing its equity contribution in the PPIFs, while the FDIC will be responsible for overseeing and managing its debt guarantees to the PPIFs.

What is the structure of the Legacy Loans Program?
Individual PPIFs will be established to own and manage each pool of assets that is sold from participating banks. With predetermined asset pools, the FDIC will conduct asset portfolio auctions with private bidder participants to determine the most attractive bid and ultimate purchase price. An independent valuation firm will provide valuation advice to inform the Legacy Loans Program in its bidder selection. Through the Legacy Loans Program, the FDIC will provide a debt guarantee to the PPIF, and the Treasury will provide co-investment equity to the PPIF alongside private market investor equity. For each asset pool transaction, the Legacy Loans Program will determine appropriate leverage levels and equity funding based on the unique asset pool profile. Treasury will consider alternatives for its capital contribution that do not diminish the pari passu sharing of profits and losses, the collateral protection securing the FDIC guarantee, and capital neutrality compared with the currently contemplated investment. Consistent with EESA requirements, the Treasury will have warrants in the PPIFs.

The exact requirements and structure of the Legacy Loans Program will be subject to notice and comment rulemaking

What are the primary benefits of the Legacy Loans Program?
These programs are designed to provide taxpayers with benefits associated with the public-private partnerships. By applying market-based pricing to the asset purchases, the PPIFs will ensure that

purchases are at prices that give taxpayers and private investors substantial opportunities to benefit. In addition, by offering a structure that allows banks to clear these assets off their books, the PPIFs will complement other government programs designed to enable greater lending and restore economic growth. These programs will help open lending channels by facilitating a market for the distressed assets currently clogging the system. The equity contribution from Treasury provides the foundation for this program and the benefits to taxpayers. The financing support provided by the FDIC, under the Legacy Loans Program, and the Federal Reserve, under the Term Asset-Backed Securities Loan Facility (TALF), will provide the liquidity that has been missing from the market so far to achieve these purchases for the public

What is the FDIC's role in the Legacy Loans Program?
The FDIC will provide oversight for the formation, funding, and operation of new PPIFs that will purchase loan and other asset pools from participating banks. Such functions include approving the asset pools from the participating banks, determining asset pool leverage levels, and conducting the auctions. In addition, the FDIC will provide credit support for PPIF debt financing through a debt guarantee issued by the PPIF. The FDIC will be responsible for managing such PPIF debt guarantees. In its broad oversight function, the FDIC will ensure that both the FDIC and the Treasury are provided with sufficient asset pool data to effectively oversee the investment pools.

What is Treasury's role in the Legacy Loans Program?
The Treasury will invest alongside the private sector initially targeting 50 percent of the equity position in each PPIF in a non-controlling position. In addition, the Treasury will be responsible for overseeing and managing its equity position in PPIFs.

What is the private investor's role in the Legacy Loans Program?
The private investor will provide 50 percent or more of the PPIF equity capital (subject to a minimum government subscription right to be determined).

What assets are eligible for the Legacy Loans Program?
Loans and other assets from depository institutions under criteria established by the FDIC are eligible. Participant banks must demonstrate to the satisfaction of the Treasury and the FDIC that the contemplated asset pools qualify based upon Treasury and FDIC agreed upon minimum requirements.

How will Treasury's equity investment be counted against the limit on Treasury's purchases of troubled assets in the Emergency Economic Stabilization Act?
The purchase price of the Treasury equity investment in the PPIFs will count against the $700 billion cap.

Will warrants be issued as part of the structure?
As required by the EESA, the Treasury will be receiving warrants in the transaction.

How will the PPIFs' debt be structured?
The PPIF will issue debt that is guaranteed by the FDIC. This debt will initially be placed at the participant bank. The participant banks will be able to resell this debt into the market if they choose. PPIF leverage will not exceed a 6 to 1 debt to equity ratio and will vary from pool to pool based upon analyses performed by the FDIC with input from a Third Party Valuation Firm. The FDIC will provide a debt guarantee collateralized by PPIF assets and charge a debt guarantee fee, a portion of which will be allocated to the Deposit Insurance Fund.

Where does the Legacy Loans Program obtain operational funds?
The FDIC and the Treasury will be governed by a cost sharing arrangement. The FDIC will be reimbursed for its expenses incurred in the FDIC's program oversight function. Ongoing administration fees will be paid to the FDIC by PPIFs. In exchange for a debt guarantee, the FDIC will charge the PPIFs a debt guarantee fee, a portion of which will be allocated to the Deposit Insurance Fund.

When will a Legacy Loans PPIF close its first loan or asset pool purchase?
The FDIC will be seeking public comment and communicating with stakeholders expeditiously. The FDIC will launch the Legacy Loans Program as quickly as possible.

What type of financial institution is eligible to participate?
Banks of all sizes will be eligible to participate in the Legacy Loans Program. Participant banks must demonstrate to the satisfaction of the FDIC that the contemplated asset pools qualify based upon the FDIC's minimum requirements.

How will banks decide which assets to sell?
Identification of individual asset pools will be an iterative process, involving input from participating banks, as well as primary federal banking regulators. In addition, banks will approach the FDIC with potential asset pools.

Who will bid for the assets?
Potential Private Investors will be pre-qualified by the FDIC to participate in an eligible asset pool auction. Joint bids from pre-qualified investor groups are acceptable, but group/investors will be prohibited once the auction process begins to maintain fairness.

Will the Legacy Loans Program be subject to executive compensation restrictions?
The executive compensation restrictions will not apply to passive Private Investors.