Legacy Securities Public-Private Investment Funds (PPIFs)
Frequently Asked Questions

What are Legacy Securities?

Legacy securities include commercial mortgage backed securities and residential mortgage backed securities originally issued prior to 2009.

What are Legacy Securities PPIFs?

Legacy Securities PPIFs are investment funds that will invest in legacy securities on behalf of Treasury and private investors. They will be managed by qualifying private sector asset managers ("Fund Mangers"), which will raise equity capital from private investors and receive matching equity funds and leverage from Treasury. The goal of the Legacy Securities PPIFs is to maximize returns for taxpayers and private investors.

What are the benefits of Legacy Securities PPIFs?

Treasury is establishing the Legacy Securities PPIFs under the Financial Stability Plan in order to address the issues raised by troubled assets. These Legacy Securities PPIFs are specifically focused on legacy securities and are part of a plan that directs both equity capital and debt financing into the market for legacy assets. This program is designed to draw in private capital to these markets by providing matching equity capital from Treasury and debt financing from the Federal Reserve via the TALF and Treasury. The benefits of the program include restarting the market for these legacy securities, freeing up balance sheets of financial institutions and enabling the extension of new credit. The resulting process of price discovery is expected to reduce the uncertainty about the condition of financial institutions holding these securities, potentially enabling them to raise new private capital.

What will be the structure of the Legacy Securities PPIFs?

The Legacy Securities PPIFs will be investment funds that will be managed by pre-qualified private sector Fund Managers. The Treasury will initially select approximately 5 potential partners to participate in the program and may increase this number depending on applications received. Approved managers will have a period of time to raise private capital to target the designated asset class, and approved managers that raise private capital will receive matching equity funds from Treasury based on the amount of private capital raised. Treasury equity capital will be invested on a pro rata basis with equity capital from private investors. Treasury will also receive warrants in the Legacy Securities PPIFs as required pursuant to Section 113(d) of the Emergency Economic Stabilization Act of 2008 ("EESA"). Furthermore, asset managers will have the ability, to the extent their fund structures meet certain guidelines, to obtain debt financing for a fund from Treasury in the amount of up to 50% of total equity capital in such fund. Treasury will consider requests for loans from Treasury in amounts of up to 100% of the total equity capital of a Legacy Securities PPIF subject to restrictions on asset level leverage, withdrawal rights, disposition priorities and other factors Treasury deems relevant. Fund Managers will have the opportunity to request this additional Treasury Leverage and propose additional terms in their applications.

How will TARP's equity investment be structured?

Treasury will invest alongside private capital in the Legacy Securities PPIFs. The Fund Managers will make control decisions, including buying and selling assets.

How will Treasury's equity investment be counted against the limit on Treasury's purchase of troubled assets in EESA?

The purchase price of Treasury's equity investment in the Legacy Securities PPIFs, and the cost of any Treasury loan to the Legacy Securities PPIFs for leverage, will count against the $700 billion cap.

What are "Eligible Assets" that may be purchased by Legacy Securities PPIFs?

Eligible Assets include commercial mortgage backed securities and residential mortgage backed securities originally issued prior to 2009. These securities must have been originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without ratings enhancement. The eligible assets must be secured directly by the actual mortgage loans, leases or other assets, and not by other securities (other than certain swap positions, as determined by the Treasury). The loans and other assets underlying any Eligible Asset must be situated predominantly in the United States. This limitation is subject to further clarification by Treasury. Eligible Assets may be purchased solely from financial institutions from which the Secretary of the Treasury may purchase assets pursuant to Section 101(a)(1) of the EESA.

How will Treasury qualify Fund Managers for the Legacy Securities PPIFs?

Treasury has published an application for interested private sector fund managers to apply to become qualifying Fund Managers. Treasury will qualify Fund Managers based upon criteria that include the following:

- Demonstrated capacity to raise at least $500 million of private capital.
- Demonstrated experience investing in Eligible Assets, including through performance track records.
- A minimum of $10 billion (market value) of Eligible Assets under management.
- Demonstrated operational capacity to manage Legacy Securities PPIFs in a manner consistent with Treasury's stated Investment Objective while also protecting taxpayers.
- Headquarters in the United States.

Other criteria are identified in the application. Treasury will consider suggestions from Fund Managers to raise equity capital from retail investors.

How can interested parties apply to qualify as Fund Managers?

To be considered for pre-qualification as a Fund Manager, the interested private sector asset manager must submit an application to Treasury by 5:00 p.m. ET on April 10, 2009. Applications can be found on http://www.financialstability.gov/ and should submitted to:

U.S. DEPARTMENT OF THE TREASURY
Office Of Financial Stability: Legacy Securities Public-Private Investment Funds
1500 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20220
Phone Number: 202-622-9911
E-mail Address: SecuritiesPPIF@do.treas.gov

When will applicants be notified if they have been pre-qualified to be Fund Managers? How long will they then have to raise private capital?

Treasury expects to inform an applicant of its preliminary qualification on or prior to May 1, 2009. Applicants will have a limited period of time from preliminary approval to raise at least $500 million of private equity capital and demonstrate committed capital before receiving final approval from Treasury. Applicants will be asked to describe the amount of time they anticipate needing to raise the private capital in their applications. Treasury reserves the right to qualify additional managers in the future.

Will the Legacy Securities PPIFs be subject to executive compensation restrictions?

The executive compensation restrictions will not apply to passive private investors in Legacy Securities PPIFs.