

## SAMPLE INVESTMENT PROGRAMS<sup>1</sup>

### Sample Investment Under the Legacy Loans Program

**Step 1:** If a bank has a pool of residential mortgages with \$100 face value that it is seeking to divest, the bank would approach the FDIC.

**Step 2:** The FDIC would determine, according to the above process, that they would be willing to leverage the pool at a 6-to-1 debt-to-equity ratio.

**Step 3:** The pool would then be auctioned by the FDIC, with several private sector bidders submitting bids. The highest bid from the private sector—in this example, \$84—would be the winner and would form a Public-Private Investment Fund to purchase the pool of mortgages.

**Step 4:** Of this \$84 purchase price, the FDIC would provide guarantees for \$72 of financing, leaving \$12 of equity.

**Step 5:** The Treasury would then provide 50% of the equity funding required on a side-by-side basis with the investor. In this example, Treasury would invest approximately \$6, with the private investor contributing \$6.

**Step 6:** The private investor would then manage the servicing of the asset pool and the timing of its disposition on an ongoing basis—using asset managers approved and subject to oversight by the FDIC.

### Sample Investment Under the Legacy Securities Program

**Step 1:** Treasury will launch the application process for managers interested in the Legacy Securities Program.

**Step 2:** A fund manager submits a proposal and is pre-qualified to raise private capital to participate in joint investment programs with Treasury.

**Step 3:** The Government agrees to provide a one-for-one match for every dollar of private capital that the fund manager raises and to provide fund-level leverage for the proposed Public-Private Investment Fund.

**Step 4:** The fund manager commences the sales process for the investment fund and is able to raise \$100 of private capital for the fund. Treasury provides \$100 equity co-investment on a side-by-side basis with private capital and will provide a \$100 loan to the Public-Private Investment Fund. Treasury will also consider requests from the fund manager for an additional loan of up to \$100 to the fund.

**Step 5:** As a result, the fund manager has \$300 (or, in some cases, up to \$400) in total capital and commences a purchase program for targeted securities.

**Step 6:** The fund manager has full discretion in investment decisions, although it will predominately follow a long-term buy-and-hold strategy. The Public-Private Investment Fund, if the fund manager so determines, would also be eligible to take advantage of the expanded TALF program for legacy securities when it is launched.

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<sup>1</sup> "Treasury Department Releases Details on Public Private Partnership Investment Program," US Treasury Press Release 3/23/09