

### **1. What is the Legacy Loans Program?**

The FDIC and Treasury are launching the Legacy Loans Program in an effort to reduce the amount of distressed loans and other assets on bank balance sheets. The FDIC will provide oversight for new public-private investment funds (“PPIFs”) consisting of Private Investors such as financial institutions, individuals, insurance companies, mutual funds, publicly managed investment funds, private equity funds, hedge funds and others that will purchase loans and other assets from depository institutions. The private investor will provide 50 percent or more of the PPIF equity capital and the Treasury will provide 50 percent co-investment equity to the PPIF alongside private market investor equity.

### **2. How is the Legacy Loans Program structured?**

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. Through the Legacy Loans Program, the FDIC will provide a debt guarantee to the PPIF. 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

The Legacy Loan Program would encourage private investors to buy loans from banks in the following way:

- A bank would assemble a pool of residential mortgage loans it is seeking to divest. For example, assume the mortgages have a face value of \$100.
- The FDIC would determine the amount of funding it would guarantee, not to exceed a 6-to-1 debt-to-equity ratio.
- The pool would be auctioned by the FDIC to private sector bidders. The highest bidder -- in this example, \$84 -- would form a Public-Private Investment Fund to purchase the pool.
- Of the \$84 purchase price, the buyer would receive financing by issuing debt guaranteed by the FDIC of \$72, leaving \$12 of equity.
- Treasury would then provide 50 percent of the equity funding required on a side-by-side basis with the investor. In this example, Treasury and the investor would each invest \$6.
- The private investor would manage the servicing of the asset pool and the timing of the sale of the pool, with oversight by the FDIC.

### **3. What are the primary benefits of the Legacy Loans Program?**

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.

### **4. 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.

**5. 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.

**6. 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.

**7. When will a Legacy Loans PPIF close its first loan or asset pool purchase?**

The FDIC will be seeking public comment and will launch the Legacy Loans Program as quickly as possible.

**8. 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.

**9. How will banks decide which assets to sell?**

Identification of individual asset pools will involve input from participating banks as well as their primary federal banking regulators. In addition, banks will approach the FDIC with potential asset pools.

**10. 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.

**11. Will the Legacy Loans Program be subject to executive compensation restrictions?**

The executive compensation restrictions will not apply to passive Private Investors.