



March 25, 2009

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**Treasury's Public-Private Investment Program:
*Federal Government to Partner with Private Investors
to Tackle Troubled Real Estate Assets***

On Monday, March 23, 2009, in another significant attempt to ease the U.S. financial crisis, the U.S. Treasury Department (Treasury) presented its plan to remove troubled real estate assets from bank balance sheets. Treasury's proposed "Public-Private Investment Program" (PPIP) is designed to attract new private capital to the market for purchasing distressed real estate assets and asset-backed securities by providing government-sponsored equity and by guaranteeing third-party debt financing.

Treasury predicts that the PPIP will trigger participation by investors ranging from individuals and pension plans to insurance companies and other long-term investors. As the U.S. government will shoulder much of the financial risk, many private investors, and banks with distressed assets, may stand to benefit greatly from the PPIP.

The PPIP is comprised of two distinct programs—a Legacy Loans Program and a Legacy Securities Program.

Legacy Loans Program

Under the Legacy Loans Program, public-private investment funds (PPIFs) would purchase bank-owned real estate assets through a federally overseen auction process. As proposed, Treasury and private investors will invest equity capital in PPIFs and will obtain debt financing guaranteed by the Federal Deposit Insurance Corporation (FDIC). The FDIC's guarantee will be secured by the purchased assets.

To begin the process, banks will identify the assets they wish to divest, and asset eligibility will be approved by the FDIC and Treasury. The FDIC will then determine the level of debt that it will guarantee for each asset or pool of assets to be sold, up to a 6-to-1 debt-to-equity ratio. Private investors will have the opportunity to bid, taking the FDIC's financing package into consideration, and the winning bidder will contribute 50% of the equity for the PPIF, with



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Treasury contributing the remaining 50%. In essence, Treasury will match private investors' equity dollar-for-dollar and share in profits equally. Banks are not required to sell to the highest bidder, but will have the ultimate ability to decide whether or not to accept any particular offer.

Legacy Securities Program

The Legacy Securities Program is designed to draw private capital into the markets to purchase securities backed by commercial and residential mortgages. The program consists of two related parts.

First, Treasury and the Federal Reserve are creating a lending program to finance the acquisition of these securities. Borrowers who meet certain eligibility criteria will have the opportunity to apply for non-recourse loans to fund purchases of legacy securities.

Second, Treasury will partner with private fund managers to purchase legacy securities. Private fund managers (FMs) will be selected and approved to raise private capital to buy the securities in a fund. Treasury will match the equity raised by the FMs and invest it in the fund side-by-side with the private investors. Additionally, subject to certain restrictions and guidelines, FMs may apply to Treasury for senior debt for the funds. At this time, Treasury expects to approve approximately five FMs for this program.

King & Spalding will continue to monitor PPIP regulations and other details as they are unveiled in the coming weeks and will partner with its clients to formulate ways to take advantage of the opportunities that the PPIP will create. Please contact King & Spalding should you have further questions.

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