

Clients & Friends Memo

Treasury Extends Deadline for PPIP Fund Manager Applications; Releases Additional Guidance on Legacy Securities Portion of PPIPs

April 6, 2009 This morning the U.S. Treasury Department (“Treasury”) released additional guidance for the legacy securities portion of its Public Private Investment Program (“PPIP”). The PPIP, initially announced on March 23, 2009, is designed to repair balance sheets throughout the U.S. financial system and ensure that credit is available to both large and small businesses and households. The program addresses two categories of assets referred to as “Legacy Loans” and “Legacy Securities”. The initial terms of the PPIP were described in our memo dated March 26, 2009 and can be viewed [here](#). This morning’s release addresses the Legacy Securities Program, and provides guidance on a number of important provisions.

Extended Deadline for Fund Manager Applications

To accommodate increased participation in the Legacy Securities Program, the deadline for prospective fund managers to submit applications has been extended from April 10, 2009 to 5 p.m. ET on Friday, April 24, 2009. Treasury has indicated that it expects to inform applicants of their preliminary qualification on or prior to Friday, May 15, 2009.

Selection of Fund Managers

Treasury has previously announced that it intends for the Legacy Securities Program to be managed by approximately five fund managers who will raise private capital to invest in joint investment programs with Treasury. The fund managers will be pre-qualified by Treasury based on criteria that are anticipated to include various elements, including a proven ability to raise capital, demonstrated experience investing in the eligible asset classes and minimum threshold of eligible assets under management.

In today’s release Treasury clarified that:

1. Treasury will review satisfaction of its criteria on a “holistic basis”, and the failure to meet any one criterion will not necessarily disqualify an applicant;

2. for purposes of satisfying the requirement that a fund manager have “headquarters in the United States”, it is sufficient for the applicant to be headquartered in the United States even if its ultimate parent is not headquartered in the United States; and
3. after the initial pre-qualification of fund managers, it is considering opening the program to additional fund managers, including smaller fund managers (i.e., those that do not have \$10 billion (market value) under management).

Expansion of Legacy Securities Program

Treasury also announced that it will be soliciting comments from fund managers regarding the expansion of the Legacy Securities Program to additional asset classes. Currently, eligible assets are limited to non-agency residential and commercial mortgage-backed securities that were originated prior to 2009 and originally rated AAA by at least two rating agencies.

Business Partnerships

In order to ensure broad based participation in the program, Treasury is encouraging small, veteran, minority- and women-owned businesses to partner with private asset managers. Smaller firms can partner with fund managers by acting as an asset manager, an equity partner, a fund raising partner or as a provider of services such as trade execution, valuation and other financial services. Treasury will allow smaller firms to partner prior to or after the application deadline, including after the selection of the initial group of fund managers. Treasury is requesting innovative proposals from fund managers that facilitate the participation of small, veteran, minority- and women-owned businesses.

Interaction with TALF

Treasury clarified that although the Term Asset-Backed Securities Loan Facility (“TALF”) and the Legacy Securities PPIP are two separate programs, a Legacy Securities fund may utilize leverage pursuant to the Legacy TALF program. Qualified investors and Legacy Securities funds borrowing under TALF will be subject to the same terms and conditions.

Treasury presented the following three options to aid fund managers in the analysis of capital structure alternatives:

1. Fund takes no debt financing from Treasury and limits itself to financing from Legacy TALF, other Treasury programs or debt financing raised from private sources.
2. Fund receives senior secured financing from Treasury under the PPIP (up to 100% of a fund's total equity capital); no additional leverage permitted.

3. Fund receives unsecured financing from Treasury under PPIP (up to 50% of fund's total equity capital) and additional leverage through TALF, other Treasury programs or debt financing raised from private sources; total leverage requirements and covenants to be agreed upon.

Additional Manager Related Provisions

Treasury clarified the following additional points in its FAQs:

4. If a fund manager fails to raise \$500 million of private capital, the fund manager would not be eligible for the equity match or debt financing provided by the Treasury.
5. Treasury anticipates that fund managers will have twelve weeks after being selected as a fund manager to complete the fund raising process and close the fund.

Additional Resources

[CWT Financial Recovery Resource Center](#)

[Frequently Asked Questions, April 6, 2009](#)

[Legacy Securities Summary of Terms , April 6, 2009](#)

[Application for Private Asset Managers, April 6, 2009](#)

Please feel free to contact any of the following if you have any questions about this memorandum.

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