

FAQ on the Public Private Investment Plan

What is this program?

- A plan through which the US government will facilitate private investors purchasing distressed assets from banks.

Which assets are being purchased?

- Loans and securities backed by leases, assets, or residential/commercial mortgages, will be the initial assets eligible. Additionally, said assets must have been issued prior to 2009, and originally rated AAA by two or more organizations.

Who is going to contribute?

- The Treasury will provide \$75 to \$100 billion from the TARP plan, which will serve as half the equity in purchases of distressed assets.
- The FDIC will provide up to \$820 Billion in debt to facilitate the purchases of distressed bank assets.

Who are the Private Investors?

- Large scale Fund managers, approved by the Treasury, will run the funds and contribute up to a combined \$30 billion. Several of the largest private sector money managers have already indicated willingness to participate.

Why involve them?

- Currently there is very little demand for distressed assets. Having multiple private sector managers involved will boost demand and create a functioning market for these assets. With economic efficiency at work, a fair price for these assets, which would otherwise remain unknown, will emerge.

How will the assets be priced and the funds managed?

- The FDIC will conduct auctions for pools of loans and securities. The highest bidder will have access to the Public-Private Investment Fund to finance the purchase.
- The funds will run on a 6 to 1 leverage ratio. Thus, roughly 85% of the purchase price will be financed through debt backed, for a fee, by the FDIC. This debt will be collateralized by the purchased asset.
- The remaining portion will be financed through equity. Of said equity, 50% will be provided by the private investor and 50% from the Treasury.
- After the sale, private fund managers, under the oversight of the FDIC, will control and manage the asset until final liquidation.

Why will this program help the economy?

- This program seeks to revive the market for distressed assets, which are essentially clogging up the financial system.
- So long as these assets are on their balance sheets, banks have a limited willingness to provide loans. By selling these assets for cash, banks will have increased liquidity and be able to provide businesses with the loans needed to operate.
- While this program is necessary to remove toxic assets and revitalize banks, it alone can not restore the US economy. When combined with other Federal Reserve and government actions, it will play an important role in economic recovery.

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