PRESS RELEASE
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Legacy Loans Program – Test of Funding Mechanism

The FDIC is taking the next step in the development of the Legacy Loans Program (LLP). The LLP is part of the Public-Private Investment Program announced in March by the Secretary of the Treasury, the Federal Reserve, and the FDIC, and was designed to help banks remove troubled loans and other assets from their balance sheets so that banks could raise new capital and be better-positioned to provide lending to further the recovery of the U.S. economy.

In June, the FDIC indicated that it would continue to develop this program by testing the LLP's funding mechanism through the sale of receivership assets. This step will allow the FDIC to be ready to offer the LLP to open banks as needed.

The first test using the LLP funding mechanism commenced this week. In the transaction to be offered, the receivership will transfer a portfolio of residential mortgage loans on a servicing released basis to a limited liability company (LLC) in exchange for an ownership interest in the LLC. The LLC also will sell an equity interest to an accredited investor, who will be responsible for managing the portfolio of mortgage loans. Loan servicing must conform to either the Home Affordable Modification Program (HAMP) guidelines or FDIC's loan modification program.

Accredited investors will be offered an equity interest in the LLC under two different options. The first option is on an all cash basis, which is how the FDIC has recently sold receivership assets, with an equity split of 80 percent (FDIC) and 20 percent (accredited investor). The second option is a sale with leverage, under which the equity split will be 50 percent (FDIC) and 50 percent (accredited investor).

The funding mechanism is financing offered by the receivership to the LLC using an amortizing note that is guaranteed by the FDIC. Financing will be offered with leverage of either 4-to-1 or 6-to-1, depending upon certain elections made in the bid submitted by the private investor. If the bid incorporates the 6-to-1 leverage alternative, then performance of the underlying assets will be subject to certain performance thresholds including delinquency status, loss severities, and principal repayments. If any one of the performance thresholds is triggered over the life of the note, then all of the principal cash flows that would have been distributed to the equity investors would be applied instead to the reduction of the note until the balance is zero. The performance thresholds will not apply if the bid is based on the lower leverage option.

The FDIC will be protected against losses on the note guarantee by the limits on the amount of leverage (both in terms of a maximum ratio and dollar amount), the mortgage loans collateralizing the guarantee, and the guarantee fee. The FDIC will analyze the results of this sale to see how the LLP can best further the removal of troubled assets from bank balance sheets, and in turn spur lending to further support the credit needs of the economy.

This announcement is for informational purposes only and is not an offer for the sale of securities. An offering to accredited investors, containing additional technical details of the offering, including an offering memorandum describing fully the details of such offering, will be made available to these investors in accordance with securities laws applicable to sale of securities to accredited investors.

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