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Application for Treasury Investment in a Legacy Securities Public-Private Investment Fund

United States: Department of the Treasury

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Application for Treasury Investment in a Legacy Securities Public-Private Investment Fund

This application (this “Application”) is for private assets managers (“Applicants”) to apply to the U.S. Department of the Treasury (“Treasury”) to be pre-qualified to serve as a manager (a “Fund Manager”) of a Legacy Securities Public-Private Investment Fund (each, a “Fund”) that will invest in legacy securities (“Eligible Assets”) on behalf of taxpayers and private investors pursuant to terms set forth in Attachment I.

Fund Managers will be pre-qualified based upon criteria that are anticipated to include:

- Demonstrated capacity to raise at least \$500 million of private capital.
- Demonstrated experience investing in Eligible Assets, including through performance track records.
- A minimum of \$10 billion (market value) of Eligible Assets currently under management.
- Demonstrated operational capacity to manage the Funds in a manner consistent with Treasury’s stated Investment Objective while also protecting taxpayers.
- Headquarters in the United States.

All Applications must be submitted in PDF format via email **no later than 5:00 p.m. ET on April 24, 2009**.

I INFORMATION REQUIRED

This section identifies the primary information the Applicant must provide.

A. Qualifications and Performance History

1. Organizational Background. The Applicant must provide information and/or charts showing its business entities or units, with particular detail on entities or units that currently manage portfolios of Eligible Assets. The Applicant must describe any changes in ownership or major changes in corporate structure in the last 3 years, and any anticipated future changes to its ownership or corporate structure.

2. Personnel. The Applicant must provide information regarding the relevant expertise of its personnel. In particular, the Applicant must provide specific detail on personnel that currently manage funds, accounts or other investment vehicles managing portfolios of Eligible Assets, the names and experience of the personnel who will be assigned to manage the Fund and the percentage of business time that each such person will devote to the Fund.

3. Assets Under Management. The Applicant must provide information showing in detail the number of funds, accounts or other investment vehicles it manages and the total assets under management, with relevant totals and subtotals. The Applicant must include particular details on Eligible Assets under management.
4. Fundraising. The Applicant must describe its expectations for fundraising from private investors for equity capital commitments to the Fund (including the amount of equity capital proposed to be raised and anticipated timing). The Applicant must note whether, and if so how, it plans to structure the Fund to facilitate the participation of retail investors in the Fund. In addition, the Applicant must provide examples of its experience fundraising for funds, accounts or other investment vehicles that primarily invest in Eligible Assets within the past 5 years. The Applicant must include its expectations as to the composition of the private investor base (e.g. financial institutions, foundations, public pension plans, university and other endowments, high net worth investors and/or retail investors).
5. Past Performance. The Applicant must provide a table showing the gross and net returns for its funds, accounts or other investment vehicles that invest primarily in Eligible Assets for each of the past 5 years ending December 31, 2008. The Applicant must describe in detail how its returns are calculated.
6. References. The Applicant must provide reference contacts for the 3 largest limited partners in aggregate invested in its funds, accounts or other investment vehicles that invest primarily in Eligible Assets over the last 3 years, including name, title, organization and phone number.
7. Custodians. The Applicant must list the top 3 custodians with which it currently processes assets.
8. Small, Veteran-, Minority- and Women-Owned Businesses. If the Applicant is a small, veteran-, minority- or women-owned business, it must provide evidence of such status and describe the structure of the partnership it expects to form with other private asset managers, if necessary, in order to meet the criteria outlined in Attachment I, if applicable.

B. Proposed Fund

1. Structure. The Applicant must describe the proposed structure of the Fund and include a proposed structure chart.
2. Summary of Terms. The Applicant must provide a summary of proposed material terms of the Fund, including a proposed drawdown schedule and whether it plans to (i) recycle realized capital; (ii) have voluntary withdrawal rights (which withdrawal rights will be subject to limitations agreed with Treasury); (iii) make use of Treasury Debt Financing as defined in Attachment I and (iv) finance the purchase of Eligible Assets through Legacy TALF, any other Treasury program or debt financing raised from private sources, subject to the restrictions described in Attachment I. In addition, the Applicant must describe proposed covenants relating to allocation of investment opportunities, competing funds and investments away from the Fund.

3. Debt Financing. The program currently contemplates the Treasury will provide Treasury Debt Financing in an amount up to 50% of a Fund's total equity capital; provided that Treasury Debt Financing will not be available to any Fund Manager in respect of a Fund in which the private investors have voluntary withdrawal rights. Treasury will consider requests for Treasury Debt Financing of up to 100% of a Fund's total equity capital subject to restrictions on asset level leverage, withdrawal rights, disposition priorities and other factors Treasury deems relevant. To the extent the Applicant is interested in receiving Treasury Debt Financing above 50% of total equity capital, it must provide a description of the amount of the leverage requested along with the terms as noted above.

4. Proposed Fees. The Applicant must describe any fees it proposes to charge to private investors in the Fund, including but not limited to management fees and incentive fees. Additionally, the Applicant must provide information on a proposed fee structure for Treasury consistent with the terms in Attachment I.

5. Tax Considerations. The applicant must describe significant intended tax consequences for private investors participating in the PPIF.

C. **Investment Strategy**

1. Asset Management Strategies. The Applicant must describe the asset management strategies it utilizes to manage its existing portfolios of Eligible Assets. In addition, the Applicant must describe the following: (i) the application of its asset management strategies to the management of the Fund in furtherance of the Investment Objective of the Fund pursuant to the Investment Strategy (each as described in Attachment I); (ii) Applicant's methodology for evaluating, pricing and purchasing Eligible Assets, (iii) Applicant's expectations as to the use of leverage and (iv) potential considerations that may argue for a deviation from a long-term buy and hold strategy.

2. Risk Management. The Applicant must describe the risk metrics and limits it employs to manage portfolios of Eligible Assets. The Applicant must include particular details on the risk metrics and limits to be employed in managing a Fund investing in Eligible Assets on behalf of taxpayers and private investors.

D. **Governance and Management**

1. Principal Transactions. The Applicant must describe the safeguards it intends to employ to ensure that the Fund does not, directly or indirectly, acquire Eligible Assets from or sell Eligible Assets to its affiliates, any other Fund or any private investor that has committed 10% or more of the aggregate private capital raised by the Fund.

2. Other Conflicts of Interest. The Applicant must identify any other real or potential conflicts of interest it may have in managing a Fund as described in Attachment I, and explain how it will avoid or ameliorate any such conflicts. The Applicant must include the interests of its affiliates in the answer. In addition, the Applicant must describe its philosophy for fulfilling its duty to the Treasury and the taxpayers as investors in the Fund in light of its proprietary interests,

those of the private investors in the Fund and those of its other clients. The Applicant must describe any covenants it has to allocate purchases of Eligible Assets to existing funds, accounts or other investment vehicles it manages.

3. Prevention of Waste, Fraud and Abuse. The Applicant must describe its proposals to minimize waste, fraud and abuse.

4. Alignment of Incentives. The Applicant must describe any additional proposals to ensure that incentives for investing private capital and Treasury capital are aligned.

5. Oversight. The Applicant must indicate if its organization employs a risk oversight officer that operates independently from private asset managers and other investment-policy decision makers. The Applicant must identify the most important attributes of its particular risk oversight framework.

6. Taxes. The Applicant must indicate the following: (i) whether it and each of its affiliates have paid all material federal, state and local taxes in the United States (“Taxes”) and filed all material Tax returns required to be filed through the date hereof; and (ii) that there is no material Tax deficiency that has been, or could reasonably be expected to be, asserted against it or any of its affiliates, except any Taxes the amount or validity of which are currently being contested in good faith.

7. Regulatory and Legal Actions. The Applicant must identify any Federal or State citations or enforcement actions its organization or any affiliate has received or been warned of, and any litigation or legal proceeding involving its asset management or investment consulting services involving fraud, negligence, criminal activity, or breach of fiduciary duty.

8. Investor Due Diligence. The Applicant must describe its due diligence process for assessing potential investors. In particular, the Applicant must describe its anti-money laundering and “know your client” policies and procedures.

E. Valuation, Monitoring and Reporting

1. Valuation. The Applicant must describe the methodology it intends to employ for determining the fair market value of the Fund’s Eligible Assets.

2. Monitoring. The Applicant must describe the methodology it intends to employ for monitoring acquisitions and dispositions of Eligible Assets on behalf of the Fund, including tracking and maintaining records of (i) trades executed (all pertinent financial and settlement information) and (ii) notifications of principal and interest payments.

3. Reporting. The Applicant must describe the format whereby it intends to provide the reporting information required by the Treasury, as described in Attachment I (including transaction reports, monthly reports and audited and unaudited financial statements). In particular, describe how it will ensure sufficient transparency while protecting the commercial interest of its investors.

II DEADLINE AND COMMUNICATIONS

All Applications for investment by Treasury must be submitted in PDF format via email by 5:00 p.m. ET on April 24, 2009.

All Applicants are responsible for seeking clarification on any issues in this Application that the Applicant does not fully understand. All questions should be directed to the following:

Treasury Contact:

U.S. DEPARTMENT OF THE TREASURY
Office of Financial Stability: Legacy Securities Public-Private Investment Fund
1500 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20220
Phone Number: 202-622-9911
E-mail Address: SecuritiesPPIF@do.treas.gov

Treasury, in its sole discretion, may respond orally to any questions about the Application. Substantive questions should be submitted as soon as possible. No other channel of communication between the Applicant and an officer, employee, or agent of Treasury regarding this Application is permitted, and no information gained from any such communication may be considered in any way binding or limiting on the Treasury.

The Treasury, in its sole discretion, may change the deadline for submission of Applications.

III SUBMISSION OF APPLICATIONS

All Applications must be delivered in PDF format via email to Treasury by the deadline.

Treasury has no obligation to consider an Application received after the deadline provided above. The only acceptable evidence of the time of receipt is the Treasury's time/date stamp on the Application or other evidence of receipt maintained by the Treasury.

The Applicant, by submitting an Application to be a Fund Manager, warrants and represents that it understands and agrees to all terms of this Application and the selection process, including the following:

1. Treasury, in its sole discretion, will select a Fund Manager based on its determination of what is in the best interests of the United States.
2. No communication, question, response or clarification, whether oral or written, about the requirements of this Application shall in any way serve to limit the Treasury's complete and sole discretion in selecting a Fund Manager and in making decisions in connection with this Application.

3. Treasury may select, reject, or request additional clarifying information about an Applicant's Application without further discussion with the Applicant.

IV APPLICATION FORMAT

All Applications must include a 1 page cover letter, executed by a person legally authorized to represent the Applicant, that includes the following information: name, title, address, e-mail, and office and mobile phone numbers of the individual designated to receive communications from Treasury and a certification statement that the Applicant (i) understands and agrees to the terms and selection process set forth in this Application; (ii) understands and agrees to the confidentiality provisions in Section V; and (iii) understands and agrees that it will have a fiduciary duty to act in the best interests of the Fund. The cover letter must also indicate whether the Applicant is a small, veteran-, minority- or women-owned business.

All Applications must include a document not to exceed 40 one-sided pages, in 12-point font with 1 inch margins, addressing the items in Section I above.

Applications must not include any other documents or attachments. Applications must not include any generic marketing or sales information, or rely on cross-references to other documents.

V CONFIDENTIALITY

Treasury considers any information provided to an Applicant in evaluating its Application to be strictly confidential and must not be disclosed to any third party outside the Applicant's corporate organization, nor duplicated, used or disclosed in whole or in part for any purpose other than to prepare an Application. Under no circumstances shall any information received in connection with an Application be disclosed to any third party outside the Applicant's corporate organization without the express prior written consent of the Treasury.

VI RESERVATION OF RIGHTS

The release of an Application and Treasury's receipt of any information or responses shall not, in any manner, obligate the Treasury to perform any act or otherwise incur any liabilities.

Treasury assumes no obligation to reimburse or otherwise compensate the Applicant for expenses or losses incurred in connection with this Application.

Treasury shall have the unlimited right to use, for any governmental purpose, any information submitted in connection with this Application.

Treasury reserves the right to: (1) modify the requirements in this Application or withdraw this Application at any time; (2) decide not to select any Applicants; (3) reject an Application without inviting the Applicant to submit a new Application; (4) negotiate with and select any Applicant considered qualified; (5) request, orally or in writing, clarification of or additional information on a response; (6) waive minor informalities or irregularities, or a requirement of this Application; (7) accept any Application in part or in total; and (8) reject an Application that does not conform to the specified format or other requirements of this Application.

Any selection and designation of a private manager pursuant to this Application shall be contingent upon and subject to availability of funding.

OMB Control No. 1505-0215

An agency is not authorized to conduct, and persons are not required to respond to, an information collection request unless it displays a valid control number.

Attachment I:

Legacy Securities Public-Private Investment Funds Summary of Proposed Terms

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| Summary of Program | <p>The United States Department of the Treasury (“Treasury”) will participate in Legacy Securities Public-Private Investment Funds (“Funds”) that will invest in legacy securities that will initially include securities backed by mortgages on residential and commercial properties (“Eligible Assets”) on behalf of taxpayers and private investors.</p> <p>The Funds are one component of a broader array of measures targeting legacy assets in order to encourage new credit formation. This program contributes to that effort by improving the health of financial institutions through removal of legacy assets from their balance sheets and by helping to increase the liquidity and functioning of markets for these securities.</p> <p>Private asset managers (“Fund Managers”) will apply to be pre-qualified to raise private capital to invest in joint investment programs with Treasury.</p> <p>Fund Managers will raise equity capital from private investors and receive matching Treasury equity funding (as described below).</p> <p>Taxpayers (through the Treasury) and private investors will generally share any profits or losses on a <i>pro rata</i> basis in accordance with equity capital investments, except as described under “Treasury Warrants” below.</p> |
| Investment Objective | <p>To generate attractive returns for taxpayers and private investors through long-term opportunistic investments in accordance with the Investment Strategy.</p> |
| Investment Strategy | <p>The Funds will seek to achieve the Investment Objective by following predominantly a long-term buy and hold strategy, but Treasury will consider other strategies involving limited trading.</p> |
| Fund Structure | <p>Treasury and a vehicle controlled by the applicable Fund Manager through which private investors will invest in a Fund (each, a “Private Vehicle”) will be the sole investors in a Fund. Additional detail with respect to Fund Structure can be found under “Fund Structure Detail” below.</p> |
| Pre-Qualification of Fund Managers | <p>Private asset managers wishing to participate in this program should submit the application found at http://www.financialstability.gov/ to Treasury as part of the selection process. Fund Managers will be pre-qualified based upon criteria that are anticipated to include:</p> |

- Demonstrated capacity to raise at least \$500 million of private capital.
- Demonstrated experience investing in Eligible Assets, including through performance track records.
- A minimum of \$10 billion (market value) of Eligible Assets under management.
- Demonstrated operational capacity to manage the Funds in a manner consistent with Treasury's stated Investment Objective while also protecting taxpayers.
- Headquarters in the United States.

Other criteria are identified in the application. Treasury will consider suggestions from Fund Managers to raise equity capital from retail investors.

Application Deadlines

An applicant must submit its application to Treasury no later than April 24, 2009.

Treasury expects to inform an applicant of its preliminary approval on or prior to May 15, 2009.

Applicants will have a limited period of time from preliminary approval to raise at least \$500 million of private capital and demonstrate committed capital before receiving final approval from Treasury. Applicants will be asked to describe the amount of time they anticipate needing to raise private capital in their applications. In the event applicants are not able to so demonstrate, Treasury will consider other applications.

Treasury Funding

Treasury expects to approve approximately 5 Fund Managers to raise private capital to invest in joint investment programs with Treasury. The number of Fund Managers may be increased depending on Treasury's evaluation of the applications received and determination of what is in the best interests of taxpayers. Treasury will consider expanding the program through additional fundings in the future.

Eligible Assets

The Eligible Assets will initially be commercial mortgage backed securities and residential mortgage backed securities issued prior to 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without ratings enhancement and that are secured directly by the actual mortgage loans, leases or other assets and not other securities (other than certain swap positions, as determined by the Treasury). The loans and other assets underlying any Eligible Asset must be situated predominantly in the United States, which limitation is subject to further clarification by Treasury. The Eligible Assets must be purchased solely from financial institutions from which the Secretary of the Treasury may purchase assets pursuant to Section 101(a)(1) of the Emergency Economic

Stabilization Act of 2008 (“EESA”).

Drawdowns

Treasury equity capital will be drawn down in tranches to provide for anticipated investments (subject to limitations to be agreed with Treasury); *provided* that, except as otherwise agreed by Treasury, Treasury equity capital may only be drawn down at the same time and in the same proportion as private capital is drawn down. Debt financing (as described below) will be funded concurrently with drawdowns of equity commitments.

**Asset Purchases /
Dispositions**

Fund Managers will control the process of asset selection and pricing.

Fund Managers will also control the process of asset liquidation, trading, and disposition.

**Governance and
Management**

Treasury expects to define final terms and conditions for the Funds prior to fundraising.

Funds will be managed by Fund Managers, not the Treasury.

Treasury will retain the right to cease funding of committed but undrawn Treasury equity capital and debt financing in its sole discretion.

Fund Managers will be required to present monthly reports to Treasury on Eligible Assets purchased, Eligible Assets disposed, current valuations of Eligible Assets and profits/losses on Eligible Assets included in each Fund.

Prices of Eligible Assets for reporting purposes must be tracked using third party sources and annual audited valuations by a nationally recognized accounting firm.

A Fund Manager may not, directly or indirectly, acquire Eligible Assets from or sell Eligible Assets to its affiliates, any other Fund or any private investor that has committed 10% or more of the aggregate private capital raised by the Fund. Private investors may not be informed of potential acquisitions of specific Eligible Assets prior to acquisition.

Fund Managers must agree to waste, fraud and abuse protections for the Fund to be defined by Treasury in order to protect taxpayers.

Fund Managers must agree to provide access to relevant books and records of the Fund for Treasury, the Special Inspector General of the TARP, the Government Accountability Office and their respective advisors and representatives to enable appropriate oversight and taxpayer protection.

Treasury Capital Term

Fund Managers will make proposals for the term of a Fund with the intention to maximize returns for taxpayers and private investors, but no greater than 10 years, subject to extension with Treasury’s consent.

Debt Financing

Each Fund Manager will have the option to obtain for each Fund secured non-recourse loans from Treasury (“Treasury Debt Financing”) in an aggregate amount of up to 50% of a Fund’s total equity capital; *provided* that Treasury Debt Financing will not be available to any Fund Manager in respect of a Fund in which the private investors have voluntary withdrawal rights. Treasury will consider requests for Treasury Debt Financing of up to 100% of a Fund’s total equity capital subject to restrictions on asset level leverage, withdrawal rights, disposition priorities and other factors Treasury deems relevant. Fund Managers will have the opportunity to request this additional Treasury Leverage and propose additional terms in their applications.

Funds may also finance the purchase of Eligible Assets through Legacy TALF, any other Treasury program or debt financing raised from private sources; *provided* that Treasury equity capital and Private Vehicle capital must be leveraged proportionately from such private debt financing sources.

The Treasury Debt Financing will be secured by the Eligible Assets held by the applicable Fund.

Loans made by Treasury to any Fund will accrue interest at an annual rate to be determined by the Treasury and will be payable in full on the date of termination of the Treasury Capital Term.

Treasury Warrants

Proceeds received by a Fund will be divided between the Treasury and the applicable Private Vehicle based on equity contributions, except that Treasury will take warrants as required by EESA to protect the interests of taxpayers. The terms and amounts of such warrants will be determined in part based on the amount of Treasury Debt Financing taken.

Fees

Fund Managers may charge private investors fees in their discretion. The Treasury will consider the fees proposed to be charged to private investors when evaluating applications by private asset managers.

For Treasury equity capital, the Treasury will accept proposals for fixed management fees (“Treasury Fees”) to apply as a percentage of equity capital contributions for invested equity capital. Treasury Fees and Treasury’s share of Fund expenses will be paid solely out of distributions with respect to Treasury equity capital.

Any fees paid to a Fund Manager or its affiliates in connection with a Fund other than Treasury Fees and management or incentive fees charged to private investors should accrue to the benefit of the Treasury and private investors on a *pari passu* basis based on equity capital commitments.

Small, Veteran-,

To ensure a diversity of participation, the Treasury will encourage small,

**Minority- and
Women-Owned
Businesses**

veteran-, minority- and women-owned private asset managers to partner with other private asset managers, if necessary, in order to meet the criteria identified above for assets under management and ability to raise private capital.

Fund Structure Detail

Private investors may be given voluntary withdrawal rights at the level of a Private Vehicle, subject to limitations to be agreed with Treasury including that no private investor may have the right to voluntarily withdraw from a Private Vehicle prior to the third anniversary of the first investment by such Private Vehicle.

The Treasury will request suggestions on structure from Fund Managers, including with respect to possible recycling of realized capital.

It is anticipated that Private Vehicles will be structured so that benefit plan investors, within the meaning of Section 3(42) of the United States Employee Retirement Income Security Act of 1974, as amended, will be eligible to participate as indirect investors in the Funds.