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Legacy Securities Public-Private Investment Program: Program Update – Quarter Ended September 30, 2013

United States: Department of the Treasury

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UNITED STATES
**DEPARTMENT OF
THE TREASURY**



LEGACY SECURITIES PUBLIC-PRIVATE INVESTMENT PROGRAM

Program Update – Quarter Ended September 30, 2013

October 28, 2013

OVERVIEW

Introduction

This is the sixteenth quarterly report on the Legacy Securities Public-Private Investment Program (PPIP). This report includes a summary of PPIP capital activity and program and fund performance.

PPIP Overview

PPIP was designed to help restart the market for non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), thereby allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses.

As the financial crisis reached its peak, many of the markets that keep credit available for families and small businesses were nearly frozen. Since it was launched in March of 2009, PPIP has helped restore the availability of credit by facilitating the purchase of these troubled legacy securities. PPIP did so by providing financing on attractive terms as well as matching the equity investment made by private investors.

The investment objective of PPIP has been to generate attractive returns for taxpayers and private investors through long-term opportunistic investments in Eligible Assets (as defined below) by following predominantly a buy and hold strategy. Under the program, Treasury originally committed \$22.4 billion of equity and debt in public-private investment funds (PPIFs) established by private sector fund managers for the purpose of purchasing Eligible Assets, ultimately dispersing \$18.6 billion in debt and equity to the funds. The fund managers and private investors also committed capital to the funds. PPIFs had eight-year terms, which were designed to be extendable for consecutive periods of up to one-year each, up to a maximum of two years. To qualify for purchase by a PPIF, the securities (Eligible Assets) must have been issued prior to 2009 and have originally been rated AAA – or an equivalent rating by two or more nationally recognized statistical rating organizations – without ratings enhancement and must be secured directly by the actual mortgage loans, leases, or other assets.



OVERVIEW

Where Things Stand

The investment period has now ended for all PPIFs. All the funds have now been effectively wound down (i.e., either they hold no eligible assets or have closed the fund after distributing all proceeds) and have repaid all outstanding Treasury equity and debt.

As of September 30, Treasury has fully recovered its original investment of \$18.6 billion in the PPIP, plus a positive return of over \$3.8 billion through equity and debt repayments, interest, and proceeds in excess of original equity capital, including warrant proceeds. Future equity proceeds from the outstanding PPIFs will provide an additional positive return for taxpayers.

Additional information on the performance of various markets and key indicators of the availability of credit since PPIP was launched can be found in the History of the Financial Crisis in the Financial Crisis Five Years Later: Response, Reform, and Progress report.

The Financial Crisis Five Years Later: Response, Reform, and Progress report can be found at:
http://www.treasury.gov/connect/blog/Documents/FinancialCrisis5Yr_vFINAL.pdf



CAPITAL ACTIVITY

The following is a summary of the original equity and debt capital commitments by PPIF. The PPIFs completed their fundraising and closed on approximately \$7.5 billion of private sector equity capital commitments, which were matched 100 percent by Treasury, representing \$15 billion of total original equity capital commitments. Treasury also provided \$14.9 billion of debt capital commitments, representing \$29.9 billion of total original purchasing power. Of the original \$29.9 billion committed to the PPIFs the PPIFs drew-down approximately \$24.9 billion of the total original capital committed (83.2% percent of total original purchasing power), which has been invested in Eligible Assets and cash equivalents. Of this amount, \$18.6 billion represents Treasury's total investment in the program.

Summary of Original Capital Commitments and Paid in Capital by PPIF (\$ in Millions)

| Fund | Closing Date | Original Equity and Debt Capital Commitments ⁽¹⁾ | | | | Gross Paid in Capital ⁽¹⁾ | | | | |
|--|--------------|---|-----------------|------------------|------------------|--------------------------------------|-----------------|------------------|------------------|------------------|
| | | Private Equity | Treasury Equity | Treasury Debt | Purchasing Power | Private Equity | Treasury Equity | Treasury Debt | Total | Treasury Total |
| AG GECC PPIF Master Fund, L.P. | 10/30/09 | \$ 1,243 | \$ 1,243 | \$ 2,487 | \$ 4,973 | \$ 1,117 | \$ 1,117 | \$ 2,235 | \$ 4,470 | \$ 3,352 |
| AllianceBernstein Legacy Securities Master Fund, L.P. | 10/02/09 | 1,150 | 1,150 | 2,301 | 4,602 | 1,064 | 1,064 | 2,128 | 4,256 | 3,192 |
| Blackrock PPIF, L.P. | 10/02/09 | 695 | 695 | 1,390 | 2,780 | 528 | 528 | 1,053 | 2,109 | 1,581 |
| Invesco Legacy Securities Master Fund, L.P. | 09/30/09 | 856 | 856 | 1,712 | 3,424 | 581 | 581 | 1,162 | 2,324 | 1,743 |
| Marathon Legacy Securities Public-Private Investment Partnership, L.P. | 11/25/09 | 475 | 475 | 949 | 1,898 | 475 | 475 | 949 | 1,898 | 1,424 |
| Oaktree PPIP Fund, L.P. | 12/18/09 | 1,161 | 1,161 | 2,322 | 4,643 | 556 | 556 | 1,111 | 2,223 | 1,667 |
| RLJ Western Asset Public/Private Master Fund, L.P. | 11/05/09 | 621 | 621 | 1,241 | 2,482 | 621 | 621 | 1,241 | 2,482 | 1,862 |
| UST/TCW Senior Mortgage Securities Fund, L.P. | 09/30/09 | 156 | 156 | 200 | 513 | 156 | 156 | 200 | 513 | 356 |
| Wellington Management Legacy Securities PPIF Master Fund, LP | 10/01/09 | 1,149 | 1,149 | 2,299 | 4,598 | 1,149 | 1,149 | 2,299 | 4,598 | 3,448 |
| Total Original Program Commitments | | \$ 7,506 | \$ 7,506 | \$ 14,900 | \$ 29,913 | \$ 6,248 | \$ 6,247 | \$ 12,378 | \$ 24,873 | \$ 18,625 |

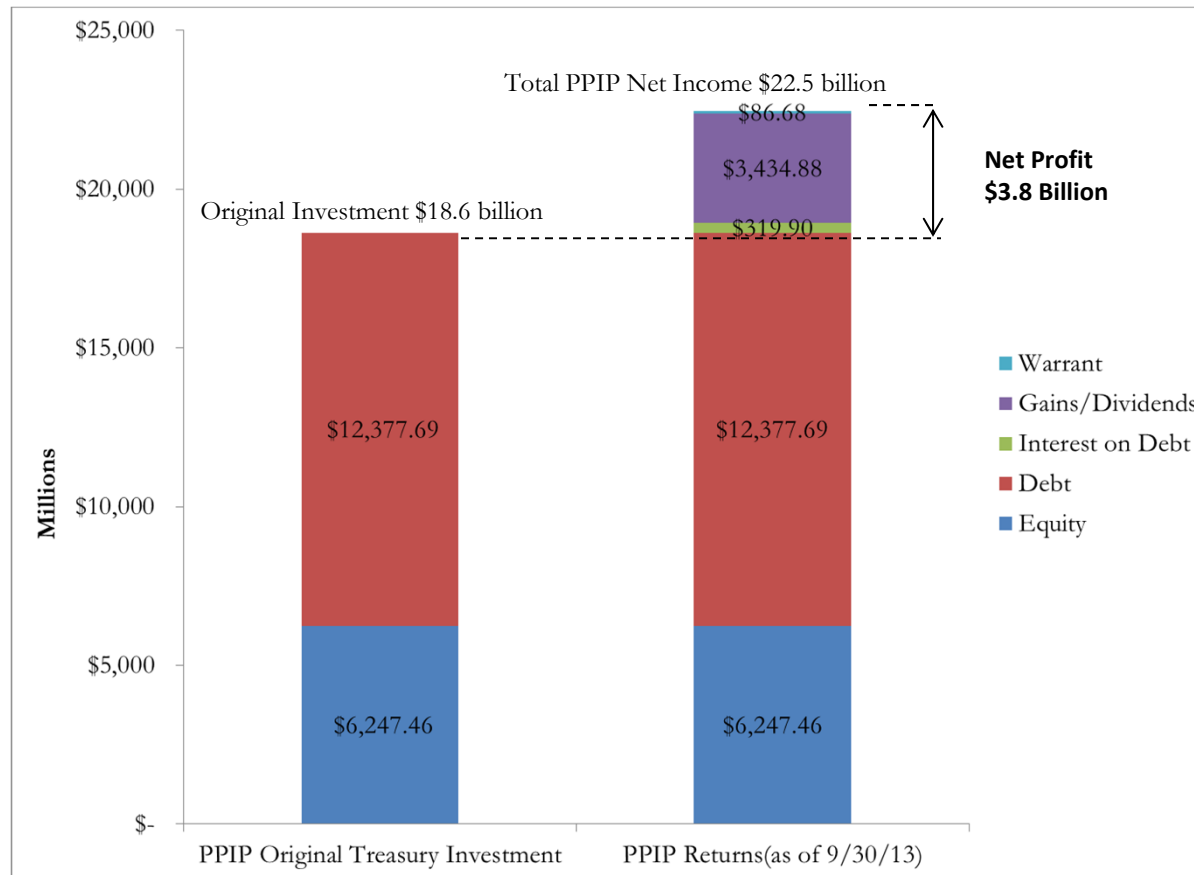
⁽¹⁾ Excludes the effect of any repayments or reductions in the amount of outstanding obligations.



CAPITAL RETURNS

The following is a summary of the total capital returned to PPIP. Treasury's total investment in PPIP was \$18.6 billion which consisted of \$6.2 billion in equity capital and \$12.4 billion in debt. As of September 30, 2013 Treasury had realized net income of \$22.5 billion on the original investment, resulting in a realized net profit of over \$3.8 billion. As of September 30, 2013 Treasury had received \$12.7 billion in total debt and interest payments and \$9.8 billion in net equity payments which consists of equity repayments, dividends, gains and warrant payments. All future PPIP payments will be an additional profit for taxpayers. As of September 30, 2013, all treasury equity and debt has been repaid and all eligible assets sold.

Summary of Total PPIP Capital Returned (\$ in Millions)



Note: Some numbers may not sum due to rounding



CAPITAL RETURNS

The following is a summary of the equity and debt that was paid in capital and gross distributions by each PPIF. As of September 30, 2013 Treasury had received total gross distributions of \$22.5 billion, made up of approximately \$9.6 billion in net cumulative equity distributions, \$12.4 billion in cumulative debt principal payments, \$320 million in cumulative interest payments, and \$87 million in warrant payments.

Summary of Paid in Capital and Gross Distributions by PPIF (\$ in Millions)

| Fund | Gross Paid in Capital ⁽¹⁾ | | | | | Gross Distributions ⁽²⁾ | | | | | | |
|--|--------------------------------------|-----------------|-----------------|-----------------|-----------------|------------------------------------|-----------------|-----------------|-------------------|------------------|-----------------|------------------|
| | Private Equity | Treasury Equity | Treasury Debt | Treasury Total | Treasury Total | Private Equity | Treasury Equity | Treasury Debt | Treasury Interest | Treasury Warrant | Treasury Total | Treasury Total |
| AG GECC PPIF Master Fund, L.P. | 1,117 | 1,117 | 2,235 | 4,470 | 3,352 | 1,874 | 1,893 | 2,235 | 66 | 19 | 6,087 | 4,213 |
| AllianceBernstein Legacy Securities Master Fund, L.P. | 1,064 | 1,064 | 2,128 | 4,256 | 3,192 | 1,533 | 1,545 | 2,128 | 58 | 12 | 5,277 | 3,744 |
| Blackrock PPIF, L.P. | 528 | 528 | 1,053 | 2,109 | 1,581 | 911 | 921 | 1,053 | 34 | 10 | 2,930 | 2,018 |
| Invesco Legacy Securities Master Fund, L.P. | 581 | 581 | 1,162 | 2,324 | 1,743 | 717 | 720 | 1,162 | 18 | 3 | 2,620 | 1,904 |
| Marathon Legacy Securities Public-Private Investment Partnership, L.P. | 475 | 475 | 949 | 1,898 | 1,424 | 824 | 833 | 949 | 28 | 9 | 2,642 | 1,819 |
| Oaktree PPIF Fund, L.P. | 556 | 556 | 1,111 | 2,223 | 1,667 | 782 | 788 | 1,111 | 17 | 6 | 2,704 | 1,922 |
| RLJ Western Asset Public/Private Master Fund, L.P. | 621 | 621 | 1,241 | 2,482 | 1,862 | 1,031 | 1,041 | 1,241 | 37 | 11 | 3,361 | 2,330 |
| UST/TCW Senior Mortgage Securities Fund, L.P. | 156 | 156 | 200 | 513 | 356 | 176 | 176 | 200 | 0 | 1 | 553 | 377 |
| Wellington Management Legacy Securities PPIF Master Fund, LP | 1,149 | 1,149 | 2,299 | 4,598 | 3,448 | 1,784 | 1,800 | 2,299 | 61 | 16 | 5,960 | 4,176 |
| Total PPIF - Total Paid in Capital ⁽¹⁾ | \$6,248 | \$ 6,247 | \$12,378 | \$24,873 | \$18,625 | \$ 9,632 | \$ 9,719 | \$12,378 | \$ 320 | \$ 87 | \$32,135 | \$ 22,503 |

⁽¹⁾ Excludes the effect of any repayments or reductions in the amount of outstanding obligations.

⁽²⁾ Excludes the effects of management fees and expenses attributable to either Private Equity or Treasury Equity.

Note: Some numbers may not sum due to rounding



PERFORMANCE

The following is a summary of Treasury's equity performance by fund manager since the program's inception. Performance will vary among PPIFs due to different risk/return objectives, leverage ratios, and sector allocations among other reasons.

Performance Since Inception as of September 30, 2013 (\$ in Millions)

| Program - Cumulative Performance | Original Capital Commitment ⁽¹⁾ | Paid in Capital | Net Cumulative Distributions ⁽²⁾ | Net Ending Capital ⁽²⁾ | Net Multiple of Paid in Capital ⁽²⁾⁽³⁾ |
|----------------------------------|--|-----------------|---|-----------------------------------|---|
| Total - Treasury Equity | \$ 7,506 | \$ 6,247 | \$ 9,693 | \$ 8 | 1.55x |

⁽¹⁾ Excludes the effect of any repayments or reductions in the amount of outstanding obligations.

⁽²⁾ Net of management fees, warrants and expenses attributable to Treasury's equity.

⁽³⁾ Calculated as the sum of Net Cumulative Distributions received and Ending Capital balance of Treasury's equity position as a multiple of Paid in Capital.

| Fund | Investment Inception Date | Investment Period End Date ⁽¹⁾ | Net Time Weighted Cumulative Return Since Inception ⁽²⁾⁽³⁾ | Net Internal Rate of Return Since Inception ⁽²⁾⁽⁴⁾ | Net Multiple of Paid in Capital ⁽²⁾⁽⁵⁾ |
|--|---------------------------|---|---|---|---|
| AG GECC PPIF Master Fund, L.P. | 11/12/09 | 10/30/12 | 260.0% | 24.8% | 1.69x |
| AllianceBernstein Legacy Securities Master Fund, L.P. | 10/23/09 | 10/02/12 | 177.6% | 18.7% | 1.45x |
| Blackrock PPIF, L.P. | 10/16/09 | 10/02/12 | 93.9% | 23.1% | 1.74x |
| Invesco Legacy Securities Master Fund, L.P. | 10/13/09 | 09/26/11 | 33.5% | 18.2% | 1.23x |
| Marathon Legacy Securities Public-Private Investment Partnership, L.P. | 12/15/09 | 11/25/12 | 132.0% | 24.6% | 1.76x |
| Oaktree PPIF Fund, L.P. | 02/19/10 | 12/18/12 | 73.9% | 26.3% | 1.42x |
| RLJ Western Asset Public/Private Master Fund, L.P. | 11/23/09 | 07/15/12 | 106.3% | 24.1% | 1.69x |
| UST/TCW Senior Mortgage Securities Fund, L.P. | 10/19/09 | 12/04/09 | N/A ⁽⁶⁾ | N/A ⁽⁶⁾ | 1.13x |
| Wellington Management Legacy Securities PPIF Master Fund, LP | 10/19/09 | 10/01/12 | 94.9% | 20.1% | 1.56x |

⁽¹⁾ Expires on or before the third anniversary of the PPIF's Initial Closing.

⁽²⁾ Net of management fees and expenses attributable to Treasury's equity.

⁽³⁾ Time-weighted geometrically linked return calculated on a consistent basis across all PPIFs.

⁽⁴⁾ Dollar-weighted rate of return calculated on a consistent basis across all PPIFs.

⁽⁵⁾ Calculated as the sum of Net Cumulative Distributions received and Ending Capital balance of Treasury's equity position as a multiple of Paid in Capital.

⁽⁶⁾ Not materially significant



GLOSSARY OF TERMS

Non-Agency Residential Mortgage-Backed Securities (RMBS)

Non-Agency Residential Mortgage Backed Securities (RMBS): Type of mortgage-backed security that is secured by loans on residential properties that are not issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, or any other United States federal government-sponsored enterprise (GSE) or a United States federal government agency. Non-Agency RMBS are typically classified by underlying collateral / type of mortgage.

Commercial Mortgage-Backed Securities (CMBS)

Commercial Mortgage Backed Securities (CMBS): Type of mortgage-backed security that is secured by loans on commercial properties such as office buildings, retail buildings, apartment buildings, hotels, etc. CMBS are typically classified by position in the capital structure.

Neither this report nor the information contained herein constitutes an offer to sell or the solicitation of an offer to buy any securities. Any such offer or solicitation with respect to any PPIF may only be made by the applicable fund manager. This presentation has not been reviewed by any of the fund managers.

The performance-related returns and valuations in this report are calculated using an independent third-party market methodology and are not official Treasury estimates as reported in the Financial Statements or the President's Budget. Furthermore, performance-related returns, as used in this report, may differ materially from estimates reported in the Financial Statements or the President's Budget, which are calculated pursuant to the requirements of the Federal Credit Reform Act of 1990. Treasury's Financial Statements and the President's Budget can be found at www.treasury.gov/initiatives/financial-stability/Pages/default.aspx and www.whitehouse.gov/omb/budget, respectively.

