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Summary of Certain U.S. Government Programs Initiated in Response to the Financial Crisis

Overview

The Federal Reserve Banks (**"FRBs"**) have long provided primary credit, secondary credit, and seasonal credit to banks through the "discount window" subject to certain collateral requirements. Since the start of the financial crisis the Board of Governors of the Federal Reserve System (the **"Board"**), working through the individual FRBs, has expanded access to the discount window and established additional and innovative lending facilities to provide credit to banks and other market participants.

In addition, in October 2008, the Emergency Economic Stabilization Act (**"EESA"**) authorized the U.S. Department of the Treasury (**"Treasury"**) to establish the Troubled Asset Relief Program (**"TARP"**) to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary [of the Treasury]." Relying on its authority under EESA, Treasury subsequently established a number of programs to assist banks and other institutions.

Below is a summary of several of the more significant initiatives undertaken by the Board and Treasury.

Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF")

AMLF is a lending facility through the FRB of Boston (**"FRBB"**) that provides funding to U.S. depository institutions, bank holding companies (parent companies or U.S. broker-dealer affiliates), and U.S. branches and agencies of foreign banks to finance the purchases of high-quality asset-backed commercial paper (**"ABCP"**) from money market mutual funds (**"MMMF"**) under certain conditions. The program was announced September 19, 2008, and was scheduled to end October 30, 2009, but on June 25, 2009, citing continued impairment and strains in the credit markets, the FRB extended the program to February 1, 2010. Advances under the program are non-recourse and participants in the program must provide collateral to the FRBB.

The collateral must: (1) have been purchased by the borrower on or after September 19, 2008 from a registered investment company that holds itself out as a MMMF; (2) have been purchased by the borrower at the fund's acquisition cost as adjusted for amortization of premium or accretion of discount on the ABCP through the date of its purchase by the borrower; (3) have been rated at the time it was pledged to the FRBB, not lower than A1, F1, or P1 by at least two major nationally recognized statistical rating organizations (**"NRSRO"**) or, if rated by only one major rating agency, the ABCP must have been rated within the top rating category by that NRSRO; (4) have been issued by an entity organized under the laws of the United States or a political subdivision thereof under a program that was in existence on September 18, 2008; and (5) have a stated maturity that does not exceed 120 days if the borrower is a bank or 270 days for non-bank borrowers. The MMMF must be a fund that qualifies as a money market mutual fund under Securities and Exchange Commission Rule 2a-7 (17 CFR 270.2a-7) issued pursuant to the Investment Company Act of 1940 (Rule 2a-7).

Also, due to existing regulatory limits on leverage and restrictions on affiliate transactions, the Board issued two rules to provide a temporary limited exception from (i) its leverage and risk-based capital rules for ABCP purchased by bank holding companies and state member banks; and (ii) sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between a bank and its affiliates.

On June 25, 2009, the FRB established a redemption threshold to help ensure that the AMLF is being used

for its intended purpose – i.e. providing a temporary liquidity backstop to MMMFs. Accordingly, before it could sell ABCP that would be eligible collateral for AMLF loans to depository institutions and bank holding companies, a MMMF would have to experience material outflows – defined as at least five per cent. of net assets in a single day or at least ten per cent. of net assets within the prior five business days. Any eligible ABCP purchased from a MMMF that has experienced redemptions at these thresholds could be pledged to AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

This program is authorized under Section 13(3) and 10B of the Federal Reserve Act.

Commercial Paper Funding Facility ("CPFF")

The CPFF provides a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (**"SPV"**) – the Commercial Paper Funding Facility LLC – to purchase three-month unsecured and ABCP directly from eligible issuers.

Eligible issuers include any entity organized under the laws of the United States or a political subdivision or territory thereof or a U.S. branch of a foreign bank, provided the foreign banking organization had commercial paper outstanding between January 1 and August 30, 2008. The U.S. branch may not sell to the SPV commercial paper issued by other parts of its banking organization.

Commercial paper sold to the SPV must be U.S. dollar-denominated and rated at least A-1/P-1/F1 by a major NRSRO, and the maximum amount of a single issuer's commercial paper that the SPV may own at any time is the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding on any day between January 1 and August 31, 2008.

The SPV is financed by the FRB of New York (**"FRBNY"**), and the FRBNY's financing is secured by all of the assets of the SPV. In the case of commercial paper that is not ABCP, the financing is secured by the retention of up-front fees paid by the issuers or by other forms of security acceptable to the FRBNY in consultation with market participants.

The program was announced on October 7, 2008, and was scheduled to end on October 30, 2009, but despite declining use of the CPFF due to improving market conditions, the FRB announced on June 25, 2009, that overall impairment of the credit markets warranted extending the program to February 1, 2010. Beginning January 23, 2009, the program stopped purchasing commercial paper from "inactive issuers," which are issuers that did not issue commercial paper to institutions other than the sponsoring institution for any three-month period or longer between January 1 and August 31, 2008.

The program is authorized under Section 13(3) of the Federal Reserve Act.

Term Asset Backed Securities Loan Facility ("TALF")

TALF is a lending program through which the FRBNY makes up to USD 200bn of loans available on a monthly basis to U.S. companies. The loans originally were limited to three-year terms but on May 1, 2009, the FRB announced that as of the June 2009 funding period it would allow loans with five-year maturities to finance purchases of commercial mortgage-backed securities (**"CMBS"**), asset-backed securities (**"ABS"**) backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration. The FRB also said that it would only allow up to USD 100bn of TALF loans to have five-year maturities, but it would continue to review and evaluate the limit. In addition, the FRB said that some of the interest on collateral financed with a five-year loan could be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years. TALF loans are non-recourse to the borrower and must be fully secured by eligible collateral. The FRBNY assesses a loan fee at the inception of each loan transaction.

A U.S. company is (1) a business entity or institution that is organized under the laws of the United States or a political subdivision or territory thereof (**"U.S.-organized"**) and conducts significant operations or activities in the United States, including any U.S.-organized subsidiary of such an entity; (2) a U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a FRB; (3) a U.S.

insured depository institution; or (4) an investment fund that is U.S.-organized and managed by an investment manager that has its principal place of business in the United States. Excluded from this definition is any entity that is controlled by a foreign government (other than an insured depository institution or U.S. branch or agency of a foreign bank), or is managed by an investment manager, other than those described in (2) and (3) above. An entity that satisfies any of the four criteria above but which is also owned, controlled, or managed by a foreign entity would still be deemed a U.S. company.

Eligible collateral includes: (1) U.S. dollar-denominated cash (that is, not synthetic); (2) ABS that have a credit rating in the highest long-term or short-term investment-grade rating category from two or more NRSROs and do not have a credit rating below the highest investment-grade rating category from a major NRSRO. On May 15, 2009, the FRB identified DBRS, Fitch Ratings, Moody's Investors Service, Realpoint, and Standard & Poor's as the NRSROs whose ratings it would accept with respect to various types of eligible collateral in its credit programs. In addition, the FRB said that eligible newly issued and legacy CMBS (see below) must have at least two triple-A ratings and must not have a rating below triple-A from any of these rating agencies. In the case of small businesses, ABS also includes U.S. dollar-denominated cash ABS that are, or for which all of the underlying credit exposures are, fully guaranteed as to principal and interest by the full faith and credit of the U.S. government.

On March 19, 2009, the FRB expanded the eligible collateral to include: (1) ABS backed by mortgage servicing advances; (2) ABS backed by loans or leases relating to business equipment; (3) ABS backed by leases of vehicle fleets; and (4) ABS backed by floor-plan loans. Residential mortgage-backed securities that were originally rated AAA and CMBS and ABS currently rated "AAA" are included in the latest expansion of TALF. On May 1, 2009, the FRB further expanded eligible collateral (effective June 2009) to include CMBS and securities backed by insurance premium finance loans, and on May 15, 2009, the FRB said in it would also include in July certain high-quality CMBS issued before January 1, 2009 (**"legacy CMBS"**). To be eligible as collateral, legacy CMBS must be senior in payment priority to all other interests in the underlying pool of commercial mortgages and meet certain other criteria designed to protect the FRB and Treasury from credit risk. The FRBNY will review and reject as collateral any CMBS that does not meet the published terms or otherwise poses unacceptable risk.

All or substantially all (95 per cent. or more of the dollar amount) of the credit exposures underlying eligible ABS must be exposures to U.S.-domiciled obligors. The underlying credit exposures of eligible ABS must also be auto loans, student loans, credit card loans, or small business loans fully guaranteed as to principal and interest by the SBA. The underlying credit exposures must not include exposures that are themselves cash or synthetic ABS. The expected life for credit card or auto loan ABS cannot be greater than five years. The set of permissible underlying credit exposures of eligible ABS will also be expanded over time.

TALF is authorized under Section 13(3) of the Federal Reserve Act., and it was announced on November, 25, 2008, and launched on March 3, 2009. It ends December 31, 2009. As part of the Financial Stability Plan announced by President Obama, Treasury agreed to allocate an additional USD 80bn of funds to TALF, which could enable the FRBNY to lend up to USD 1tn.

Troubled Asset Relief Program ("TARP") – Capital Purchase Program ("CPP")

Treasury established the CPP to provide capital to qualified financial institutions (**"QFIs"**) pursuant to the TARP authority it received under EESA. It announced the program on October 14, 2008, following enactment of EESA.

Under the CPP, Treasury may purchase up to USD 250bn of senior preferred shares from QFIs on standardized terms, including a five per cent. dividend for five years that increases to nice per cent. thereafter. The senior preferred shares qualify as tier 1 capital and are non-voting, other than with respect to class voting rights on matters that could adversely affect the shares. The senior preferred shares are callable at par after three years. Prior to the end of three years, the senior preferred shares may be redeemed with the proceeds from a qualifying equity offering of any tier 1 perpetual preferred or common stock. Treasury also may transfer

the senior preferred shares to a third party at any time. The government also receives warrants for common shares in participating institutions.

Any bank, savings association, bank holding company and savings and loan holding company organized under the laws of the United States is a QFI; however, Treasury ultimately determines eligibility and allocations for interested QFIs after consulting with the QFI's appropriate federal banking regulator. Financial institutions controlled by a foreign entity are not eligible to participate in the CPP, and QFI's participating in the program must adopt the Treasury's standards for executive compensation and corporate governance for the duration that Treasury holds equity issued under this program.

Some of the QFIs participating in the program have subsequently repurchased the preferred shares and warrants from the Treasury. Those QFIs seeking to exit the program are required to satisfy certain criteria established by Treasury.

Public-Private-Partnership Investment Program ("PPIP")

As part of the Financial Stability Plan, Treasury established the PPIP to create a more liquid market for "troubled legacy assets." The program seeks to combine private sector investments, government capital, and government supported leverage to create as much as USD 1tn in purchasing power. PPIP includes two components: the Legacy Loans Program and the Legacy Securities Program.

The Legacy Loans Program will allow eligible sellers to sell whole loans and other assets (eligible assets) through an FDIC-managed auction process to public-private investment funds (**"PPIFs"**) established specifically to own and manage those assets.

With the exception of U.S. banks or thrifts owned or controlled by a foreign entity, eligible sellers are insured U.S. banks or thrifts, and although the class of eligible private sector investors is broad, the investors are subject to pre-approval by the FDIC. It is expected that real estate loans and supporting collateral (e.g., residential mortgages) situated "predominantly" in the United States will constitute the eligible asset class, but the exact structure and requirements of the Legacy Loans Program were subject to a rulemaking proceeding that allowed for public comment. On March 26, 2009, the FDIC released a proposal and has now incorporated the feedback it received into the design of the program. The FDIC has said that it will test the funding mechanism contemplated by the Legacy Loan Program in a sale of receivership assets this summer.

The Legacy Securities Program consists of two separate components: (i) an expansion of the TALF to include eligible securities (please refer to the section on TALF with respect to the inclusion of legacy CMBS); and (ii) the use of PPIFs set-up and managed by qualifying private sector asset managers (approved by Treasury through an application process) to purchase eligible securities from eligible sellers. Applications for fund managers had to be submitted by April 24, 2009, and on July 8, Treasury announced that it had pre-qualified nine firms to participate as fund managers in the initial round of the program and each fund manager will receive an equal allocation of capital from Treasury.

Each pre-qualified Legacy Securities PPIP fund manager will have up to 12 weeks to raise at least USD 500m of capital from private investors for the PPIF. The equity capital raised from private investors will be matched by Treasury. Each pre-qualified Legacy Securities PPIP fund manager will also invest a minimum of USD 20m of firm capital into the PPIF. Upon raising this private capital, pre-qualified Legacy Securities PPIP fund managers can begin purchasing Eligible Assets. Treasury will also provide debt financing up to 100 per cent. of the total equity of the PPIF. In addition, PPIFs will be able to obtain debt financing raised from private sources, and leverage through the TALF, for those assets eligible for that program, subject to total leverage limits and covenants.

Eligible Securities initially will be CMBS and RMBS issued prior to 2009 that were originally rated "AAA" (or an equivalent rating) by two or more NRSROs without ratings enhancement, and are secured directly by the actual mortgage loans, leases or other assets but not other securities (other than certain swap positions, as determined by the Treasury). As a result of this limitation, collateralized debt obligations, "synthetic" asset-backed securities, and asset-backed securities

that received a AAA rating as the result of a guarantee (e.g., by a monoline insurer) or other rating enhancement will not be eligible securities for purposes of the Legacy Securities Program. As in the case of the Legacy Loans Program, the loans and other assets underlying any eligible securities must be situated "predominantly" in the United States.

Eligible sellers are "financial institutions," as broadly defined under the EESA.

Generally there is no limit to the scope of eligible investors but in practice, the scope may be limited by the structure of the fund.

The PPIP was announced February 10, 2009, and additional details were released on March 23, 2009. In recent Congressional testimony Treasury Secretary Geithner said that he expected the program to begin helping banks dispose of illiquid assets by early July. However, many significant questions remain regarding the two components and the practical consequences of participating in the program as a seller, asset manager, or investor. The program is authorized under EESA.

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