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Public-Private Investment Program

Program Purpose & Overview

On March 23, 2009, Treasury announced the Legacy Securities Public-Private Investment Program (PPIP), which was designed to support market functioning and facilitate price discovery in the markets for legacy Commercial Mortgage-Backed Securities (CMBS) and non-agency Residential Mortgage-Backed Securities (RMBS).

During the crisis, many financial institutions and investors were under extreme pressure to reduce their debt. This de-leveraging process pushed down the market prices for many financial assets, including troubled legacy RMBS and CMBS, well below their fundamental value. Institutions and investors were trapped with hard-to-value assets, marked at distressed prices on their balance sheets, which constrained liquidity and the availability of credit.

The purpose of PPIP is to draw new private capital into the market for legacy RMBS and CMBS by providing financing on attractive terms as well as a matching equity investment from Treasury. By providing this financing, PPIP was designed to help restart the market for these securities, thereby helping financial institutions begin to remove these assets from their balance sheets and allowing for a general increase in credit availability to consumers and small businesses.

Three Basic Principles

Using capital allocated from TARP, alongside capital raised from private investors, PPIP is designed to generate a significant purchasing power and demand for legacy securities from the market. PPIP is organized around three basic principles:

- *Maximize the Impact of Each Taxpayer Dollar*: First, by using government financing as well as a co-investment with private sector investors, substantial purchasing power has been created, making the most of taxpayer resources.
- *Shared Risk and Profits with Private Sector Participants*: Second, PPIP ensures that private sector fund managers and market participants invest alongside the taxpayer, with these investors standing to lose their entire investment in a downside scenario and the taxpayer sharing in any profitable returns.
- *Private Sector Price Discovery*: Third, to reduce the likelihood that the government will overpay for these assets, private sector fund managers competing with one another established the prices that they were willing to pay for such securities purchased under the program.

Program Design

In addition to the policy objectives, the investment objective of PPIP is to generate attractive returns for taxpayers and private investors through long-term opportunistic investments in legacy RMBS and CMBS by following predominantly a buy-and-hold strategy.

Under the program, Public-Private Investment Funds (PPIFs) are established by private sector fund managers for the purpose of purchasing eligible legacy securities from banks, insurance companies, mutual funds, pension funds, and other eligible sellers as defined under EESA.

To qualify for purchase by a PPIF, the securities 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 (eligible assets).

The equity capital fund managers raised from private investors has been matched by Treasury, which originally committed $22.1 billion of equity and debt to the program. PPIFs have eight-year terms that may be extended for consecutive periods of up to one year each, up to a maximum of two years.

Public-Private Investment Funds

PPIP originally consisted of nine PPIFs. The original list of fund managers included:

- AllianceBernstein, LP and its sub-advisors Greenfield Partners, LLC and Rialto Capital Management, LLC;
- Angelo, Gordon & Co., LP and GE Capital Real Estate;
- BlackRock, Inc;
- Invesco Ltd.;
- Marathon Asset Management, LP;
- Oaktree Capital Management, LP;
- RLJ Western Asset Management, LP;
- The TCW Group, Inc[1]; and
- Wellington Management Company, LLP.

These fund managers were carefully selected. Treasury completed comprehensive legal, compliance, and business due diligence on each pre-qualified fund manager. This included but was not limited to, in-person management presentations, limited partner reference calls, on-site visits, and background checks.

PPIP fund managers established meaningful partnership roles for small, minority-, and women-owned businesses. These roles include, among others, asset management, capital raising, broker-dealer, investment sourcing, research, advisory, cash management, and fund administration services. Collectively, the pre-qualified PPIP fund managers established 10 unique relationships with leading small, veteran-, minority-, and women-owned financial services businesses:

Fund Manager	Partner	Service	City	State
AllianceBernstein	Altura Capital Group	Capital raising, investment sourcing	New York	NY
Angelo Gordon/GE Capital	CastleOak Securities	Broker dealer, capital raising and advisory	New York	NY
	Park Madison Partners	Capital raising and advisory	New York	NY
BlackRock	Utendahl Capital Management	Asset management (managed 5% of total funded investment)	New York	NY
Invesco	Jackson Securities, LLC	Capital Raising	Atlanta	GA
	Muriel Siebert & Co	Capital Raising	New York	NY
	The Williams Capital Group	Capital Raising	New York	NY
Marathon	Blaylock Robert Van	Capital Raising	New York	NY
Oaktree	Arctic Slope Regional Corporation	Participate in investment process	Barrow	AK
Wellington	Advent Capital Management	Capital raising and asset management	New York	NY
	The Williams Capital Group	Cash Management	Durham	NC

The PPIF Structure

Fund managers retain control of asset selection, pricing, trading, and disposition. Income that a PPIF earns from its investments is distributed in accordance with the PPIP legal agreements. The proceeds of a PPIF, net of fees and expenses, are distributed to the investors, including Treasury, in proportion to their equity capital investments after satisfying the requirements with respect to Treasury's debt financing in each of the funds. In accordance with the requirements of EESA, Treasury also received warrants from the PPIFs, which gives Treasury the right to receive a percentage of the profits that would otherwise be distributed to the private partners in excess of their contributed capital.

The prices for all eligible assets in the PPIFs are independently derived by expert third-party pricing sources according to a valuation hierarchy overseen by an independent valuation agent to ensure consistency of valuations across eligible assets and as an additional protection to taxpayers' investments in the PPIFs.

PPIP fund managers' stringent compliance obligations are defined in a set of rules attached to the Limited Partnership Agreements that were executed as part of establishing the PPIFs. Treasury has also implemented a rigorous oversight framework to vet fund managers compliance with their obligations under the terms of the PPIP legal agreements.

[1] *In the fourth quarter of 2009, The TCW Group, Inc. terminated the employment of individuals identified as "Key Persons" under the Limited Partnership Agreement for the TCW PPIF. As a result, the TCW PPIF was wound up and liquidated at a profit to Treasury and the private sector investors during the first quarter of 2010.*

Read more about program status.

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