UK and US Financial Rescue Packages

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This survey provides an overview of the various measures and programs for the financial sector which have been adopted or announced, or are currently being discussed, by the governments of the United States and the United Kingdom in response to the financial crisis. The first chart, on the next page, contains a summary of various tools. The charts which follow compare the different tools as well as provide references to government and news sources on a program by program basis.

The survey is current as of January 26, 2009. Davis Polk is monitoring new developments and will issue newsflashes and memoranda as appropriate.

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This is a summary that we believe may be of interest to you for general information. The information in this summary is based upon publicly available data as of the date above, in some cases drawn from news sources. It is not a full analysis of the matters presented and should not be relied upon as legal advice.

Summary of UK and US Toolkit

Initiatives	United Kingdom	United States
Asset Purchases: *Good Assets*	✓	✓
Asset Purchases: *Toxic Assets*		Discussions - in the political air
Good Bank/Bad Bank	Discussions - in the political air	Discussions - in the political air
Toxic Asset Guarantee	✓	✓
Unsecured Debt Guarantee	✓	✓
Asset-Backed Securities Guarantee	✓	✓
Increase in Deposit Insurance Limits	✓	✓
Money Market Guarantee		✓
Non-Recourse Lending		✓
Liquidity Facilities	✓	✓
Capital Injections	✓	✓
Government Takeover	✓	✓

Note: This survey focuses solely on capital market interventions in the financial sector as well as guarantee and liquidity programs. Other aspects of the responses of the UK and US government, respectively, are not covered. For instance, on January 19, 2009, the UK Financial Services Authority published a statement clarifying its expectations around bank capital ratios. While we view this statement as important, it is outside the scope of this survey.

Asset Purchase: Good Assets

	United Kingdom	United States
Basics	***Bank of England Asset Purchase Facility***: The Bank of England, authorized by HM Treasury, will purchase "high quality private sector assets" with initial purchases up to £50 bn financed by the issue of HM Treasury bills. As this program has yet to be implemented, the HM Treasury press release provides the main source of information currently available.	There are three separate US programs for the purchase of good assets: ***Commercial Paper Funding Facility***: A special purpose vehicle, funded by the Federal Reserve, that purchases three-month commercial paper at a pre-determined rate to provide liquidity to the commercial paper market. ***Money Market Investor Funding Facility***: After a money market fund's "breaking of the buck" (a decline in net asset value below par) in September 2008, investors began to withdraw large amounts of funds. In response, fund managers liquidated assets and invested at only the shortest of maturities. The Money Market Investor Funding Facility, a series of special purpose vehicles funded by the Federal Reserve, purchases up to $600 bn of money market assets from money market mutual funds to encourage the funds and other investors to extend the term of their investments from short-term, frequently overnight, assets (see also Money Market Guarantee and Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility below). ***Purchases from Government Sponsored Enterprises***: The Federal Reserve is purchasing up to $100 bn in direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks to reduce the cost and increase the availability of credit for the purchase of houses, and purchasing up to $500 bn in mortgage-backed securities backed by Fannie Mae, Freddie Mac and Ginnie Mae, to be conducted by asset managers.
Start Date	February 2, 2009 (expected)	» ***Commercial Paper Funding Facility***: October 2008 » ***Money Market Investor Funding Facility***: November 2008 » ***Purchases from Government Sponsored Enterprises***: December 2008 (direct obligations); January 2009 (mortgage-backed securities)

Asset Purchase: Good Assets (continued)

	United Kingdom	United States
Eligibility		» ***Commercial Paper Funding Facility***: US issuers of commercial paper, including US issuers with a foreign parent » ***Money Market Investor Funding Facility***: US money market mutual funds and certain other money market investors » ***Purchases from Government Sponsored Enterprises***: Primary dealers submit offers for themselves and their customers
Assets/Liabilities/Equity Covered	High quality private sector assets, including debt issued under the Credit Guarantee Scheme, corporate bonds, commercial paper, syndicated loans and a limited range of asset backed securities created in viable securitization structures. Quote from Mervyn King, Governor of the Bank of England and Chairman of the Monetary Policy Committee, on which assets are considered "high quality": "There is a fine dividing line between helping to oil the wheels in markets which are temporarily impaired, and artificially supporting markets in which there is no underlying demand. Therefore, the Bank will need to be satisfied that there is a genuine private demand for an asset in normal conditions before it would be eligible for the asset purchase facility." (CNBC)	» ***Commercial Paper Funding Facility***: Certain unsecured and asset-backed commercial paper » ***Money Market Investor Funding Facility***: Certain highly rated US dollar-denominated certificates of deposit, bank notes, and commercial paper with a remaining maturity of at least seven days and no more than 90 days issued by a list of 50 of the largest North American and European financial institutions » ***Purchases from Government Sponsored Enterprises***: • Direct Obligations: Will initially focus on fixed-rate, non-callable senior benchmark securities issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks; Federal Reserve may change the scope of purchasable securities • Mortgage-Backed Securities: Fixed-rate agency mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae

Asset Purchase: Good Assets (continued)

	United Kingdom	United States
End Date	Monetary Policy Committee of the Bank of England has the option to extend the scheme and to request that the assets be purchased with newly created money instead of HM Treasury bills. (Telegraph Article)	» ***Commercial Paper Funding Facility***: April 30, 2009 unless Federal Reserve extends facility » ***Money Market Investor Funding Facility***: April 30, 2009 unless Federal Reserve extends facility » ***Purchases from Government Sponsored Enterprises***: The programs "will be in place for the next several quarters" after commencement
Costs	Currently unknown	» ***Commercial Paper Funding Facility***: Facility fee equal to 10 bps of the maximum amount of its commercial paper the special purpose vehicle may own » ***Money Market Investor Funding Facility***: Assets sold at amortized cost. 10% of the purchase price is paid for by the special purpose vehicle via subordinated asset-backed commercial paper (first loss). The asset-backed commercial paper carry an interest rate below the market rate of the assets sold to the special purpose vehicle. » ***Purchases from Government Sponsored Enterprises***: • Direct obligations: Prices will be determined via auction. • Mortgage-Backed Securities: Purchases by the investment managers will be guided by commonly referenced market indices.
Other Aspects		» ***Purchases from Government Sponsored Enterprises***: Operations will be financed through creation of additional bank reserves (*i.e.*, not reserve neutral)

Asset Purchase: Good Assets (continued)

	United Kingdom	United States
Links	» HM Treasury Statement on Financial Intervention to Support Lending in the Economy	» Commercial Paper Funding Facility Terms and Conditions » Commercial Paper Funding Facility FAQs » Money Market Investor Funding Facility Terms and Conditions » Money Market Investor Funding Facility FAQs » Government Sponsored Enterprises Press Release » Government Sponsored Enterprises: Direct Obligations FAQs » Government Sponsored Enterprises: Mortgage-Backed FAQs

Asset Purchase: Toxic Assets

	United Kingdom	United States
Basics		As enacted, the Emergency Economic Stabilization Act of 2008 gives the US Treasury authority to use TARP funds to purchase troubled assets from financial institutions. The proposal was discarded by Secretary Paulson in November 2008 in favor of purchasing equity in financial institutions, but recently many observers are debating the need for a new asset purchase structure, including a bad bank structure.
Links		» Paulson Press Release Discarding Proposal » Pensions & Investments and Fortune Articles on Possible Revival

Good Bank/Bad Bank

	United Kingdom	United States
Basics	Before the most recent UK announcement, there was press speculation that the UK Government was planning a good bank/bad bank structure.	As yet, there has been no official action on creating a good bank/bad bank structure in the US, although US Treasury Secretary Geithner and FDIC Chairman Bair have both publicly discussed the possibility of using the structure. Bair's comments included the following points: » Suggesting the creation of an "aggregator bank" capitalized with TARP and private funds to purchase the toxic assets » Those selling assets to the bad bank might receive a portion of the sale proceeds (in Bair's example, 20%) in equity of the bank to "provide an additional cushion" » Assets could be held, securitized or issued as covered bonds » Bair views guarantees for toxic assets (an "insurance wrap") or a bad bank structure as a means to create certainty about the fail risks of some of the toxic assets currently held by banks » Bair also noted that some form of troubled asset relief is "beyond hypothetical" » According to Bair, the assets would be purchased at "fair value" to provide some "rational pricing" of the assets

Good Bank / Bad Bank (continued)

	United Kingdom	United States
Basics (continued)		Geithner's comments included the following points: » Geithner stated that good bank/bad bank structures are possible as "part of the solution going forward" but added that good bank/bad bank solutions "are enormously complicated to get right." » Geithner sees several methods to price bad assets, including looking at how the market is pricing the assets, using a third-party to evaluate their value or getting a financial institution's supervisors to assess what the assets are worth, noting that "[a]ll of the [pricing processes] have risks, all of them are imperfect, [and] they all have limitations." Georges Soros says that, according to reports from Washington, the plan would be to devote as much as $100 bn of TARP funds, leveraged 10-fold using the Federal Reserve's balance sheet.
Links	» Telegraph Article: UK » Irish Times Article	» Bair Interview » Geithner Statements » Roche Editorial in WSJ » Krugman Editorial » Soros Editorial in FT

Toxic Asset Guarantee

	United Kingdom	United States
Basics	***Asset Protection Scheme***: HM Treasury will provide protection against losses on a defined asset pool above a certain threshold.	***Interventions***: Citigroup, Bank of America In these one-off transactions, the US Government agreed to provide protection against losses above a certain threshold on a defined asset pool in the form of a guarantee from the US Treasury and FDIC and a non-recourse loan from the Federal Reserve to backstop residual losses beyond the guarantee amount. ***Asset Guarantee Program***: The US Treasury has established the Asset Guarantee Program, described below, and has suggested that at least part of the one-off asset guarantee transactions with Citigroup and Bank of America were related to the Asset Guarantee Program.
Start Date	Announced January 19, 2009. Further details are not expected before the last week of February.	» ***Interventions***: Citigroup announced November 23, 2008, finalized January 16, 2009; Bank of America announced January 16, 2009, yet to be finalized » ***Asset Guarantee Program***: Announced December 31, 2008
Terms of the Guarantee	» Assets remain on the books of the institution, are “ring-fenced” and are managed by the institution subject to requirements imposed by HM Treasury; HM Treasury may take over ownership/management of the assets in certain defined circumstances » Deductible/first loss • Deductible/first loss absorbed by institution • Losses in excess of deductible/first loss shared by HM Treasury and the institution; institution’s loss-sharing expected to be around 10%	» ***Interventions*** • Assets remain on the books of the institution, are “ring-fenced” and are managed by the institution in compliance with “asset management template” provided by US Government • Deductible/first loss ▪ Deductible/first loss absorbed by the institution (~9.5% and ~8.5%, respectively) ▪ Losses in excess of deductible/first loss shared by US Government (90%, up to $10 bn) and the institution (10%) • US Government portion of losses is further distributed between the US Treasury and FDIC (second loss, allocated

Toxic Asset Guarantee (continued)

	United Kingdom	United States
		among them), and Federal Reserve (third loss in form of a non-recourse loan arrangement). » ***Asset Guarantee Program*** • US Treasury guarantees pool of selected assets and assumes a loss position with specified attachment and detachment points on certain assets held by the institution • US Government to provide a set of portfolio management guidelines
Eligibility	» Initially, UK-incorporated depository institutions, including UK subsidiaries of foreign institutions with more than £25 bn in eligible assets; subject to expansion to other UK depository institutions and beyond » Applicant must satisfy HM Treasury that: "it is adequately capitalised and funded or has a realistic plan for accessing adequate capital and funding; it has a sustainable business model and delivery plan; its funding profile, sources and mix are clear, broad-based and sustainable; and its senior management team is credible, with demonstrable ability to deliver its business model and delivery plan."	» ***Interventions***: Citigroup, Bank of America » ***Asset Guarantee Program***: Systemically significant financial institutions
Assets/Liabilities/Equity Covered	» "Portfolios of commercial and residential property loans most affected by current economic conditions; structured credit assets, including certain asset-backed securities; certain other corporate and leveraged loans; and any closely related hedges, in each case, held by the participating institution or an affiliate as at 31st December 2008" • Assets may be denominated in any currency • Other asset classes may be included, as determined by HM Treasury	» ***Interventions*** • Securities backed by residential and commercial real estate loans and corporate debt, derivative transactions that reference such securities, loans and associated hedges, as agreed • Bank of America guarantee excludes certain financial instruments, including "foreign assets", assets originated or issued after March 14, 2008 and equity securities » ***Asset Guarantee Program***: Legacy assets, originated before

Toxic Asset Guarantee (continued)

	United Kingdom	United States
	» Program is intended to target those asset classes "most affected by current economic conditions."	March 14, 2008, selected by the US Treasury that face a high risk of losing market confidence due in large part to an underlying portfolio of distressed or illiquid assets
End Date	» Determined following examination of the assets » Expected to be not less than 5 years, and consistent with the tenor of eligible assets	» ***Interventions***: Guarantee expires after 10 years for residential assets; 5 years for non-residential assets » ***Asset Guarantee Program***: Presumably December 31, 2009 as suggested by EESA, with possibility for extension to October 3, 2010
Costs	» Fee, as well as first loss, will be set following estimation of performance of the assets » Fee will usually be paid by issuance of capital instruments of the institution; not expected to include ordinary shares » Could include other forms of payment, including cash	***Interventions*** » ***Citigroup*** • Preferred Stock: $7 bn at 8% dividend • Interest rate on non-recourse loan: floating rate of OIS + 3% » ***Bank of America*** • Preferred Stock: $4 bn at 8% dividend • Warrants: aggregate exercise value of 10% of total amount of preferred • Interest rate on non-recourse loan: undrawn amounts at 20 bps, drawn amounts at floating rate of OIS +3% » ***Asset Guarantee Program***: The premium is set by actuarial analysis to ensure that the expected value of the premium is no less than the expected value of the losses to TARP from the guarantee.
Conditions	» Lending agreement between the institution and UK Government including binding lending commitments; according to statements made by HM Treasury officials,	» ***Interventions*** • Asset management template provided by US Government

Toxic Asset Guarantee (continued)

	United Kingdom	United States
	such agreements will likely be similar to the agreement entered into by Royal Bank of Scotland in exchange for conversion of the preferred shares held by HM Treasury. » Other conditions, including relating to compensation » Applicant must satisfy HM Treasury that it is adequately capitalized and funded, that its business model and funding are sustainable and that its senior management is credible.	includes adoption of FDIC's mortgage modification procedures. • No common dividend above $.01 per share for three years without consent of US Treasury • Executive compensation restrictions, presumably in addition to those already imposed as a condition of previous capital injections, to be agreed with the US Treasury; scope of these restrictions have not been made public.
Other Aspects	» Proposed international coordination before terms are finalized	» ***Asset Guarantee Program*** • US Treasury was "exploring use of the Asset Guarantee Program to address the guarantee provisions of the agreement with Citigroup" described above. • US Treasury has stated that the Asset Guarantee Program will be applied with "extreme discretion."
Links	» HM Treasury Statement on Financial Intervention to Support Lending in the Economy » HM Treasury Statement on the Government's Asset Protection Scheme » Chancellor's Statement to the House of Commons on Bank Lending	» Citigroup Term Sheet » Bank of America Term Sheet » US Treasury Report on the Asset Guarantee Program

Unsecured Debt Guarantee

	United Kingdom	United States
Basics	***Credit Guarantee Scheme***: Guarantee of new short and medium term senior unsecured debt issued by participating institutions	***FDIC's Temporary Liquidity Guarantee Program***: Guarantee of certain senior unsecured debt issued by participating institutions. A proposal mentioned in a recent FDIC press release would extend the maturity of the debt guarantee under the Temporary Liquidity Guarantee Program from 3 to up to 10 years "where the debt is supported by collateral and the issuance supports new consumer lending" (link). No other details have been released to date, but are expected by the end of January.
Start Date	October 13, 2008	October 14, 2008
Terms of the Guarantee	» The debt guarantee limit is based at the discretion of HM Treasury on an institution's "Eligible Liabilities" as calculated by the Bank of England. » HM Treasury provides unconditional, irrevocable and timely payment on guaranteed debt. » The issuer may not trigger early redemption, either in full or in part, ahead of the scheduled maturity date.	» Generally, the maximum amount of guaranteed debt a participating institution may issue is 125% of the institution's senior outstanding debt at September 30, 2008 scheduled to mature before June 30, 2009. Special rules apply where an institution has no qualifying debt at September 30, 2008. » FDIC guarantees payment of interest and principal when due through maturity, unless the debt matures after June 30, 2012, in which case the FDIC may choose to prepay without penalty. » Participating institutions must enter into the Master Agreement with the FDIC, which includes a prohibition on cross-default clauses, certain notice and reporting requirements and subrogation/assignment rights.
Eligibility	UK-incorporated banks, including UK subsidiaries of foreign institutions, with "substantial business" in the UK.	FDIC-insured banks and thrifts, certain US holding companies, as well as affiliates of FDIC-insured banks and thrifts if so designated

Unsecured Debt Guarantee (continued)

	United Kingdom	United States
Assets/Liabilities/Equity Covered	Senior unsecured debt, including certain certificates of deposit, commercial paper, senior unsecured bonds and notes, denominated in certain currencies; excludes complex instruments	Senior unsecured debt, including but not limited to: certain CDs and deposits owed to certain institutions, commercial paper and promissory notes, zero coupon bonds and other senior unsecured bonds, denominated in any currency; excludes complex instruments such as structured notes or other debt with embedded derivatives. Also excludes debt with maturity of less than 30 days. Retail securities (*i.e.*, targeted and marketed exclusively to retail customers) not covered.
End Date	Eligible institutions can issue new guaranteed debt until December 31, 2009. There is a three year maximum term on individual instruments. Once issued, issuers can keep rolling guaranteed debt over after the issuance window closes, whereby all of the issued debt can be rolled until April 13, 2012, and up to one-third of the total debt until April 9, 2014, the final maturity date of the guarantee.	Final maturity date of the guarantee is June 30, 2012, rendering the guarantee of limited use for longer term debt. Participating institutions may elect to issue long-term non-guaranteed debt. Final date for issuance of guaranteed debt is June 30, 2009. As noted above, the FDIC has indicated that it plans to expand the maximum maturity of the debt guarantee to 10 years "where the debt is supported by collateral and the issuance supports new consumer lending" (link).
Costs	50 bps plus 100% of institution's median five-year credit default swap spread from July 2, 2007 to July 1, 2008 - applies retrospectively	Generally, 50-100 bps, depending on maturity of debt, with other fees associated with certain specified conditions.
Other Aspects	The FSA has determined the risk weighting to be zero for capital adequacy purposes.	The Federal Reserve has determined the risk weighting to be 20% for capital adequacy purposes. Pursuant to the FDIC proposal which would expand the guarantee to 10 years, issuance would have to support new consumer lending. Details are not yet available.
Links	» UK Credit Guarantee Scheme	» FDIC's Final Rule on Temporary Liquidity Guarantee Program

Asset-Backed Securities Guarantee

	United Kingdom	United States
Basics	***Guarantee Scheme for Asset-Backed Securities***: Provide full or partial guarantees for eligible triple-A rated asset-backed securities, including those backed by mortgages and corporate and consumer debt. Further details will be announced by the UK Debt Management Office "in due course." The Guarantee Scheme for Asset-Backed Securities draws from the recommendations of Sir James Crosby, which contain further details as to how such a guarantee could operate.	The US has pre-existing programs that provide implied and explicit government guarantees for certain mortgage backed securities through the government sponsored enterprises Fannie Mae, Freddie Mac and Ginnie Mae.
Start Date	April 2009, subject to European Union state aid approval	» ***Ginnie Mae***: Pre-dating financial crisis » ***Fannie Mae/Freddie Mac***: Pre-dating financial crisis
Eligibility	UK banks and building societies eligible for the credit guarantee, subject to fulfilling certain conditions	» ***Ginnie Mae***: Generally, issuers who underwrite, originate and service mortgage loans in good standing with relevant agencies, and who meet net worth requirements » ***Fannie Mae/Freddie Mac***: Approved mortgage lending institutions, including mortgage banking companies, investment banks, savings and loan associations, savings banks, commercial banks, credit unions, community banks, insurance companies and state and local housing finance agencies
Assets/Liabilities/Equity Covered	Eligible triple-A rated asset-backed securities, including those backed by mortgages and corporate and consumer debt	» ***Ginnie Mae***: Mortgage-backed securities, backed by mortgages originated and issued by approved private institutions that are insured or guaranteed by certain designated agencies » ***Fannie Mae/Freddie Mac***: Qualifying mortgages, mortgage-backed securities and mortgage-related assets

Asset-Backed Securities Guarantee (continued)

	United Kingdom	United States
End Date		» ***Ginnie Mae***: No expiration date – pre-dates financial crisis » ***Fannie Mae/Freddie Mac***: No expiration date – pre-dates financial crisis; discussions on future of Fannie/Freddie following conservatorship are ongoing; see, for example, Bernanke Speech at LSE (January 2009).
Costs		» ***Ginnie Mae***: Guarantee fees range depending on the nature of the mortgages pooled in the mortgage-backed securities. » ***Fannie Mae/Freddie Mac***: Generally, fees reflect the credit risk in the market. Fannie Mae's average guarantee fee rate was 23.7 bps in 2007 whereas Freddie Mac's total management and guarantee fee rate was 16.6 bps in 2007, and fees have subsequently increased.
Other Aspects	Institutions must follow international standards and best practice on underwriting, disclosure, reporting and valuation, along with other as yet undisclosed conforming criteria to ensure transparent structures and high quality assets.	
Links	» HM Treasury Statement on Financial Intervention to Support Lending in the Economy	» Ginnie Mae Mortgage-Backed Securities Guide » Fannie Mae Annual Report » Freddie Mac Annual Report » Bernanke Speech at LSE (January 2009)

Increase in Deposit Insurance Limits

	United Kingdom	United States
Basics	***Deposit Insurance Increase***: Increase in the deposit compensation limit from £35,000 to £50,000 per person and FSA-authorized entity. Customers with joint accounts are eligible to claim up to £100,000. Chancellor Darling has indicated that the Government is offering an implicit 100% guarantee on all deposits in a failing bank, and has made statements suggesting that the government would do whatever is necessary to maintain financial stability and protect depositors. (link)	***Temporary Deposit Insurance Increase***: Temporary increase of the maximum federal deposit insurance amount from \$100,000 to \$250,000 per person and FDIC–insured depository institution. Customers with joint accounts are eligible to claim up to \$500,000. ***Transaction Account Guarantee***: In addition to the increase in deposit insurance, the FDIC also introduced a transaction account guarantee under the Temporary Liquidity Guarantee Program to provide full deposit insurance coverage for certain deposit transaction accounts regardless of the dollar amount. This was mainly to provide coverage to payment processing accounts like payroll accounts used by businesses, which often exceed the insurance limit of \$250,000. Chairman Bair stated that this was introduced as many smaller, healthy banks were losing these accounts to their larger competitors due to the uncertainties in the financial system.
Start Date	October 2008	October 2008
Eligibility	UK authorized depository institutions	» FDIC-insured US banks and thrifts » FDIC-insured branches of foreign banks, of which there are very few
Assets/Liabilities/Equity Covered	Deposits which are otherwise subject to deposit insurance	» ***Temporary Deposit Insurance Increase***: Deposits which are otherwise subject to deposit insurance. » ***Transaction Account Guarantee***: Transaction accounts on which interest is neither accrued nor paid. A limited set of interest-bearing accounts are also covered.
End Date	Permanent until amended	December 31, 2009 for both the deposit insurance increase and transaction account guarantee. The TARP Reform and Accountability Bill introduced in January 2009 would seek to make permanent the increase in deposit insurance coverage.

Increase in Deposit Insurance Limits (continued)

	United Kingdom	United States
Costs	A fee increase is contemplated.	***Temporary Deposit Insurance Increase***: No increase in fee because of the insurance increase to $250,000, but a general increase in the fee charged for deposit insurance has become effective January 1, 2009 to enable the FDIC to meet its resolution costs in light of higher levels of bank failures. A further increase has been announced. ***Transaction Account Guarantee***: Annualized fee of 10 bps on balances in insured transaction accounts in excess of the deposit insurance limit of $250,000 is assessed on a quarterly basis.
Other Aspects	A policy statement with final rules is expected later in 2009	
Links	» FSA's Financial Services Compensation Scheme- Review of Limits Newsletter	» FDIC's Final Rule on Temporary Liquidity Guarantee Program

Money Market Guarantee

	United Kingdom	United States
Basics		***Temporary Guarantee Program for Money Market Funds***: Following a money market fund's "breaking of the buck" (a decline in net asset value below par) in September 2008, investors started to withdraw large amounts of funds from money market mutual funds, and the US Treasury stepped in to guarantee the share price of any publicly offered eligible money market mutual fund – both retail and institutional – that enrolls and pays a fee.
Start Date		September 29, 2008
Eligibility		» Publicly traded money market funds with a policy of maintaining stable net asset value or share price of $1.00 per share; and with a net asset value per share on September 19, 2008 of at least $0.995. » Enrollment ended October 10, 2008.
Assets/Liabilities/Equity Covered		Shares of participating money market funds
End Date		April 30, 2009 extended from the original termination date of December 18, 2008. May be extended by US Treasury to September 18, 2009.
Costs		» Initial payment: 1 bp per share (1.5 bps for funds with a net asset value below $0.9975 as of September 19, 2008). » Extension payment if fund continues to participate in the program during extension period: 1.5 bps per share (2.2 bps for funds with a net asset value per share below $0.9975 as of 9/19/2008).
Links		» Program Homepage » Initial Press Release and Extension Press Release

Non-Recourse Lending

	United Kingdom	United States
Basics		The toxic asset guarantees for Citibank and Bank of America described above include a non-recourse loan by the Federal Reserve. A \$30 bn non-recourse loan was also part of the assisted takeover of Bear Stearns by JPMorgan Chase & Co. In addition, the following programs by the Federal Reserve offer this feature: » ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: The Federal Reserve makes non-recourse loans to eligible institutions to finance their purchases of high-quality asset-backed commercial paper from money market mutual funds. » ***Term Asset-Backed Securities Loan Facility***: The Federal Reserve will make up to \$200 bn of non-recourse loans. The non-recourse loans will have a term of three years and will be fully secured by eligible asset-backed securities. If the borrower does not repay the loan, the Federal Reserve will enforce its rights in the collateral and sell the collateral to a special purpose vehicle established specifically for the purpose of managing such assets. The Federal Reserve's credit risk exposure is mitigated by haircuts on the collateral it takes. The Treasury provides \$20 bn of first loss protection.
Start Date		» ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: September 2008. » ***Term Asset-Backed Securities Loan Facility***: Expected to start in February 2009.
Eligibility		» ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: US depository institutions, bank holding companies (parent companies or U.S. broker-dealer affiliates) or U.S. branches and agencies of foreign banks. » ***Term Asset-Backed Securities Loan Facility***: All US companies – business entities organized under the laws of the US or a political

Non-Recourse Lending (continued)

	United Kingdom	United States
		subdivision or territory thereof, or US branches or agencies of foreign banks – that own eligible collateral may participate.
Assets/Liabilities/Equity Covered		» ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: US dollar-denominated issues from a US issuer rated "First-Tier Securities." The asset-backed commercial paper issuer must be issued by an entity organized under the laws of the United States, or subdivision thereof, under a program in existence on September 18, 2008, and the purchase must occur on or after September 19, 2008 at amortized cost. » ***Term Asset-Backed Securities Loan Facility***: Eligible asset-backed securities will include US dollar-denominated cash (that is, not synthetic) asset-backed securities that have a long-term credit rating that satisfies certain ratings criteria. Eligible asset-backed securities must be issued on or after January 1, 2009.
End Date		» ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: Facility currently scheduled to stop making loans on April 30, 2009. » ***Term Asset-Backed Securities Loan Facility***: Facility will stop making loans on December 31, 2009, unless the Federal Reserve extends the facility.
Costs		» ***Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility***: Loans are made at the primary credit rate. Purchase of asset-backed commercial paper must occur at amortized cost. » ***Term Asset-Backed Securities Loan Facility***: The Federal Reserve will assess a non-recourse loan fee at the inception of each loan transaction and will set interest rates on the facility. The Federal Reserve will determine collateral haircuts based on the riskiness of each type of eligible collateral and the maturity of the

Non-Recourse Lending (continued)

	United Kingdom	United States
		eligible collateral pledged to the Federal Reserve.
Conditions		» ***Term Asset-Backed Securities Loan Facility***: The originator of the eligible asset-backed securities must have agreed to comply with, or already be subject to, the executive compensation requirements applicable under the capital purchase program.
Other Aspects		» ***Term Asset-Backed Securities Loan Facility***: Federal Reserve will enter into a forward purchase agreement with the special purpose vehicle under which the special purpose vehicle will commit, for a fee, to purchase all assets securing a Term Asset-Backed Securities Loan Facility loan that are received by the Federal Reserve at a price equal to the Term Asset-Backed Securities Loan Facility loan amount plus accrued but unpaid interest. US Treasury will fund the special purpose vehicle with TARP funds, on a subordinated basis, to finance the first $20 bn of asset purchases. If more than $20 bn in assets are purchased by the special purpose vehicle, the Federal Reserve will lend additional funds to the special purpose vehicle to finance such additional purchases.
Links		» Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility Terms and Conditions » Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility FAQs » Term Asset-Backed Securities Loan Facility Terms and Conditions » Term Asset-Backed Securities Loan Facility FAQs

Liquidity Facilities

	United Kingdom	United States
Basics	The Bank of England has lowered its official Bank Rate over time to 1.5%, the lowest rate since the creation of the central bank in 1694. In addition to the tools described earlier in this survey, it has substantially expanded its credit lending facilities in response to the financial crisis. The measures include: » Increasing, with respect to its ***long-term repo operations***, the amount and frequency of its three-month lending and expanding the range of collateral eligible in those operations to include asset-backed securities, among other things » Launching the ***Special Liquidity Scheme*** » Concluding reciprocal swap agreement with Federal Reserve » Launching the ***Discount Window Facility***, which became operational in October 2008 and its further expansion, effective February 2, 2009. ***Special Liquidity Scheme***: The Special Liquidity Scheme allows authorized institutions to swap illiquid assets of sufficiently high quality for HM Treasury Bills. The swaps are available only for legacy assets existing at the end of 2007. New issuances secured by underlying assets held as of December 31, 2007 are also eligible. The expiration date for swapping the assets is January 30, 2009, but the Special Liquidity Scheme will remain operational for 3 years thereafter. ***Discount Window Facility***: Under Discount Window Facility, gilts are lent against collateral. Cash can also be lent at the discretion of the Bank of England. Under the Discount Window Facility, effective February 2, 2009, the Bank of England permits drawings for a period up to 364 days from the current 30 days for an incremental fee. Other measures for improving liquidity include the introduction of the ***Term Auction Facility*** in September 2007.	Beyond lowering the target Federal Funds Rate over time to an unprecedented range of zero to 25 bps in December 2008 and introducing other lending and asset purchase tools, many of which are described earlier in this survey, the Federal Reserve has significantly broadened its role of providing short-term liquidity to sound financial institutions. In Chairman Bernanke's words: "Over the course of the crisis, the Fed has taken a number of extraordinary actions to ensure that financial institutions have adequate access to short-term credit. These actions include creating new facilities for auctioning credit and making primary securities dealers, as well as banks, eligible to borrow at the Fed's discount window. For example, since August 2007 we have lowered the spread between the discount rate and the federal funds rate target from 100 bps to 25 bps; increased the term of ***discount window*** loans from overnight to 90 days; created the ***Term Auction Facility***, which auctions credit to depository institutions for terms up to three months; put into place the ***Term Securities Lending Facility***, which allows primary dealers to borrow Treasury securities from the Fed against less-liquid collateral; and initiated the ***Primary Dealer Credit Facility*** as a source of liquidity for those firms, among other actions. Because interbank markets are global in scope, the Federal Reserve has also approved bilateral currency swap agreements with 14 foreign central banks. The swap facilities have allowed these central banks to acquire dollars from the Federal Reserve to lend to banks in their jurisdictions, which has served to ease conditions in dollar funding markets globally. " (Bernanke Speech at the LSE (January 2009)) The Primary Dealer Credit Facility, the Term Securities Lending Facility and the currency swap agreements are currently set to expire on April 30, 2009.

Liquidity Facilities (continued)

	United Kingdom	United States
Links	» Bank of England's Website for Special Liquidity Scheme » Bank of England's Website for Discount Window Facility » Bank of England's Website for Term Auctions	» The Federal Reserve's Term Auction Facility – Terms and Conditions » The Federal Reserve's Term Securities Lending Facility – Terms and Conditions » The Federal Reserve's Primary Dealer Credit Facility – Terms and Conditions

Capital Injection

	United Kingdom	United States
Basics	***Bank Recapitalisation Fund***: Capital injection of up to £50 bn in eligible institutions. Participating institutions, including seven major UK banks and the largest building society, have committed to increasing their total Tier I capital, but are not required to do so with assistance from the UK Government. So far, £37 bn in injections have been made into RBS, HBOS and Lloyds TSB. Barclays, HSBC Bank and other major UK banks have thus far not drawn on such funds. ***Additional Assistance to Royal Bank of Scotland***: Conversion of preferred shares acquired in the capital injection under the Bank Recapitalisation Fund into common shares; according to the press, the conversion gives the bank an additional £5 bn in capital and eliminates £600 million per year in dividends.	***Capital Purchase Program***: Capital injection of up to $250 bn in eligible institutions. The first $125 bn was earmarked for nine systemically important financial institutions whose participation was effectively mandatory. To date, 258 firms have received capital injections of over $245 bn under the Capital Purchase Program. Firms that have participated in the program that were not among the nine systemically important financial institutions include CIT Group and American Express Company, who qualified for capital injections under the program after obtaining approval from the Federal Reserve to become bank holding companies. ***Targeted Investment Program***: Capital injections in important financial institutions to foster financial market stability. » Applications to Date: Citigroup (November 2008), Bank of America (January 2009) ***Systemically Significant Failing Institutions Program***: Capital injections in systemically significant institutions facing a substantial risk of failure to provide stability and prevent disruption to financial markets. ***Other Interventions***: Capital injections into Government Sponsored Enterprises (Fannie Mae and Freddie Mac) and American International Group. The Government Sponsored Enterprises were placed into conservatorship and, among other measures, the US Treasury agreed to purchase preferred shares to make up for any quarterly losses, up to $100 bn for each firm. With respect to American International Group, the Federal Reserve initially made an $85 bn loan in exchange for warrants for nearly 80% of the company; in November, the US Treasury agreed to purchase $40 bn of preferred shares in American International Group to restructure the US Government's support to the company.
Start Date	» ***Bank Recapitalisation Fund***: October 2008 • December 2008: UK Government acquired 58% of Royal Bank of Scotland.	» ***Capital Purchase Program***: October 2008 » ***Targeted Investment Program***: November 2008 » ***Systemically Significant Failing Institutions Program***:

Capital Injection (continued)

	United Kingdom	United States
	• January 2009: UK Government acquired 43% of Lloyds Banking Group following merger of Lloyds TSB and Halifax Bank of Scotland. » ***Additional Assistance to Royal Bank of Scotland***: January 19, 2009	November 2008 » ***Interventions***: September and November 2008
Eligibility	» ***Bank Recapitalisation Fund***: UK incorporated banks (including UK subsidiaries of foreign institutions) which have a substantial business in the UK and building societies	» ***Capital Purchase Program***: Qualifying US controlled bank holding companies, financial holding companies, banks, thrifts and savings and loan holding companies. » ***Targeted Investment Program***: Case-by-case » ***Systemically Significant Failing Institutions Program***: Systemically significant financial institutions facing a substantial risk of failure » ***Interventions***: Government Sponsored Enterprises and American International Group
Assets/Liabilities/Equity Covered	» ***Bank Recapitalisation Fund***: Preferred shares (12% dividend in capital injections thus far) and common shares » ***Additional Assistance to Royal Bank of Scotland***: Conversion of preferred shares into common shares, resulting in increase in UK Government ownership from ~58% to nearly 70%	» ***Capital Purchase Program***: Preferred shares, generally (5% dividend for first 5 years, 9% thereafter) » ***Targeted Investment Program***: Preferred shares (8% dividend) » ***Systemically Significant Failing Institutions Program***: US Treasury may invest in any financial instrument, including debt, equity or warrants, that the Secretary determines to be a troubled asset, after consultation with the Federal Reserve and notice to Congress. » ***Interventions***: Preferred shares (10% dividend)
End Date		» ***Capital Purchase Program***: December 31, 2009; can be extended to October 3, 2010 » ***Targeted Investment Program***: December 31, 2009; can be

Capital Injection (continued)

	United Kingdom	United States
		extended to October 3, 2010 » ***Systemically Significant Failing Institutions Program***: December 31, 2009; can be extended to October 3, 2010 » ***Government Sponsored Enterprises***: December 31, 2009
Costs		» ***Capital Purchase Program***: Generally, warrants (aggregate exercise value of 15% of the preferred); see also dividend payable on preferred » ***Targeted Investment Program***: Warrants (aggregate exercise value of 10% of the preferred); see also dividend payable on preferred » ***Interventions***: Warrants for an ~80% fully diluted ownership interest; see also dividend payable on preferred
Conditions	» ***Bank Recapitalisation Fund*** • Dividend payments prohibited until preferred shares are redeemed; • Agreement to work with HM Treasury on its appointment of new independent directors; • Limits on executive and board compensation; • Agreement to maintain, over the next three years, the availability and active marketing of competitively-priced lending to homeowners and to small businesses at 2007 levels or above; and • Agreement to provide funds for the next twelve months for shared equity/shared ownership schemes to prevent foreclosures. » ***Additional Assistance to Royal Bank of Scotland***: A binding	» ***Capital Purchase Program*** • No dividends on or repurchases of junior shares unless all dividends on the senior preferred have been paid; US Treasury consent required for any increase in common dividends or most repurchases of junior shares for 3 years. • Executive compensation restrictions (generally applicable to the CEO, CFO and the next three most highly compensated executive officers): ▪ Ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution ▪ Required claw-back of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria

Capital Injection (continued)

	United Kingdom	United States
	lending agreement, as suggested by the Chancellor to the House of Commons on January 19, 2009, that the Government intends "to negotiate with each bank a lending agreement. . . just as we have done with RBS today." (link)	that are later proven to be materially inaccurate ▪ Prohibition on the financial institution from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision ▪ Agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive • Board members appointed by holders of the senior preferred if dividends on the senior preferred are not paid in full for six dividend periods, whether or not consecutive, until full dividends have been paid for four consecutive dividend periods. • No directors appointed by US Government at present time. » ***Targeted Investment Program***: Restrictions on executive compensation, corporate expenditures and dividends beyond Capital Purchase Program; repurchase restrictions consistent with terms of Capital Purchase Program. » ***Systemically Significant Failing Institutions Program***: Similar to, but likely more stringent than, conditions of participation in Capital Purchase Program; also may include limitations on corporate expenditures and corporate governance provisions. » ***Interventions*** • ***Government Sponsored Enterprises***: conservatorship, management replaced • ***American International Group***: significant dividend, governance, expenditure and executive compensation restrictions.

Capital Injection (continued)

	United Kingdom	United States
Other Aspects	Bank of England and FSA officials have indicated that additional capital injections may be necessary (link). » The Wall Street Journal has reported that any potential injection into Barclays may be complicated by an antidilution clause in the convertible notes held by Qatar's sovereign wealth fund (link). Lloyds Banking Group has thus far rejected a conversion similar to the additional assistance to Royal Bank of Scotland that would increase the UK Government's ownership in Lloyds Banking Group from ~43% to over 50%. The chief executive of Royal Bank of Scotland resigned in October 2008. The chairman of Royal Bank of Scotland has also announced his resignation effective April 2009 (link). The January 19, 2009 press release by HM Treasury states that "the Government intends to negotiate with the banks participating in certain facilities lending responsibility agreements." (link)	Future capital injections (and other TARP-funded assistance) drawn from the second $350 bn tranche of TARP funds are likely to be subject to additional conditions and restrictions, some of which may be both prospective and retrospective in nature. The position of the Obama administration has been outlined in two letters sent to Congress by Lawrence Summers, Director-Designate of the National Economic Council. These letters indicate that receipt of future assistance will be conditioned on the following, where appropriate: » implementation of foreclosure mitigation programs; » increased lending as a condition of assistance; » no use of government funds to purchase healthy institutions; » executive compensation above a certain threshold to be in restricted stock until the government has been repaid; and » increased monitoring and transparency. In addition to executive compensation restrictions, many senior executives have agreed to forego 2008 bonuses; however, for the most part, senior management has not been replaced. General Motors and Chrysler, as well as GMAC Financial Services and Chrysler Financial, have received capital injections from the Treasury under a separate TARP program, the Automotive Industry Financing Program. The only Systemically Significant Failing Institutions Program investment to date is the US Treasury's investment in American International Group in connection with the restructuring of the US Government's support to that company.

Capital Injection (continued)

	United Kingdom	United States
Links	***Bank Recapitalisation Fund*** » HM Treasury Press Release (October 8, 2008) » HM Treasury Press Release (October 13, 2008) ***Additional Assistance to Royal Bank of Scotland*** » Chancellor's Statement to the House of Commons on Bank Lending » Article on Lloyds Banking Group's Rejection » Bloomberg Article	***Lawrence Summers' Letters to Congress*** » Letter of January 12 » Letter of January 15 ***Capital Purchase Program*** » US Treasury Capital Purchase Program Description » Capital Purchase Program Public Institution Term Sheet ***Targeted Investment Program*** » Guidelines for Targeted Investment Program » Citigroup Term Sheet » Bank of America Term Sheet ***Systemically Significant Failing Institutions Program*** » US Treasury Description of Systemically Significant Failing Institutions Program » American International Group Term Sheet

Government Takeover

	United Kingdom	United States
Basics	» ***Nationalization*** • Northern Rock (February 2008): nationalized pursuant to Banking (Special Provisions) Act 2008 • Bradford & Bingley (September 2008): mortgage book nationalized pursuant to Banking (Special Provisions) Act 2008; branch network sold to Santander » ***Special Resolution Regime*** • The creation of a "special resolution regime" is currently under consideration in the UK Parliament as part of the proposed Banking Bill. This regime would allow the HM Treasury, Bank of England and FSA to intervene when a bank is threatened with failure. HM Treasury has released consultative documents outlining the Government's proposal, under which HM Treasury and the Bank of England will have the power to transfer all or part of a failing bank to a private sector purchaser or a bridge bank owned by the Bank of England, or alternatively to take the bank into temporary public ownership.	» ***Nationalization***: As reported in the New York Times on January 26, 2009, there are rumors that some in the US are considering nationalization although the Obama administration has thus far avoided use of the word. » ***Bank and Thrift Receivership/Conservatorship***: The US has a well-established system for resolving failed banks and thrifts • Recent prominent example of a thrift conservatorship with the creation of a bridge bank: Indymac Bank (July 2008). » ***Government Sponsored Enterprise Conservatorship***: Government Sponsored Enterprises (Fannie Mae and Freddie Mac) were placed into conservatorship in September 2008, based on newly created authority in the Housing and Economic Recovery Act of 2008. The process of placing Government Sponsored Enterprises into conservatorship or receivership is generally similar to the Federal bank regulators' handling of insolvent banks or thrifts, without the obligation to resolve the entities at the lowest possible cost (link). Concurrent with the conservatorships, the US Treasury entered into a senior preferred stock agreement with each of Fannie Mae and Freddie Mac to ensure that both maintain positive net worth going forward. If either institution's liabilities exceed assets under GAAP, Treasury will contribute cash capital equal to the difference in exchange for senior preferred stock, up to $100 bn. In exchange for the senior preferred stock agreements, Treasury received $1 bn of senior preferred shares and warrants for the purchase of common stock representing 79.9% of each institution on a fully diluted basis.

Government Takeover (continued)

	United Kingdom	United States
Links	***Nationalization*** » HM Treasury Press Release on Northern Rock » HM Treasury Press Release on Bradford & Bingley ***Special Resolution Regime*** » Financial Stability and Depositor Protection: Special Resolution Regime » Text of the Banking Bill	***Nationalization*** » New York Times Article ***Government Sponsored Enterprise Conservatorship*** » Statement by Paulson on Government Sponsored Enterprises » Speech on Government Sponsored Enterprise Conservatorship