

**STATUS UPDATE ON TREASURY, FEDERAL RESERVE AND FDIC
FINANCIAL MARKET INITIATIVES**

On November 18, 2008, Secretary Paulson, Chairman Bernanke and Chairman Bair outlined to the Committee on Financial Services of the U.S. House of Representatives the steps taken to date by the U.S. Treasury Department (“Treasury”), the Board of Governors of the Federal Reserve (the “Board”) and the Federal Deposit Insurance Corporation (the “FDIC”) to bolster financial markets amid the ongoing international credit crisis. Treasury has announced the development of three separate programs pursuant to the Emergency Economic Stabilization Act (the “EESA”): the Capital Purchase Program, the Troubled Asset Auction Program and the Program for Systemically Significant Failing Institutions; the FDIC has announced the development of an initiative to guarantee certain senior unsecured debt issued by U.S. entities and certain deposits in non-interest-bearing deposit transaction accounts held at FDIC-insured institutions; and the Board has created a Commercial Paper Funding Facility to purchase commercial paper from qualified issuers; a program to guarantee money market mutual funds; a Money Market Investor Funding Facility to purchase certificates of deposit, bank notes and commercial paper of short maturity from money market funds; and an Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility to finance the purchase of asset-backed commercial paper from qualifying money market mutual funds. Additionally, since the time of Treasury’s, the Board’s and FDIC’s announcement, Treasury and the Board have announced the creation of Term Asset-Backed Securities Loan Facility, and the Board has announced the creation of a program to purchase direct obligations of government-sponsored enterprises and mortgage-backed securities. The primary details and latest developments of each announced program are summarized below, and Web links are provided to the information and any application forms necessary for participation in these programs.

Capital Purchase Program

Treasury has created, and is in the process of implementing, a Capital Purchase Program (the “Capital Program”), under which Treasury will purchase up to \$250 billion¹ in the aggregate of the senior preferred stock of certain U.S. controlled banks, savings associations and bank and savings

¹ This amount will count against the \$350 billion aggregate amount Treasury is currently authorized to invest in troubled assets outstanding at any one time. Treasury was authorized by the EESA to invest up to \$250 billion initially; to invest up to \$350 million upon a written certification from the President to the Congress that the Treasury Secretary needs to exercise such expanded authority; and to invest up to \$700 billion upon submission from the President to the Congress of a written report detailing a plan of the Treasury Secretary to exercise such expanded authority, unless a joint resolution of Congress were to be enacted within 15 days after the submission of such report disapproving such plan.

Of Treasury’s current \$350 million authority, \$250 million has been committed to the Capital Program; \$40 billion has been committed to the purchase of preferred stock in American International Group, Inc. (as described below); \$20 billion has been committed to the purchase of additional preferred stock in Citigroup Inc., an additional amount has been committed to a Treasury backstop of a \$306 billion pool of mortgage-backed securities held by Citigroup, Inc., on which securities Citigroup, Inc. remains subject to the first \$29 billion of losses and additional losses are to be absorbed by Treasury and the FDIC; and \$20 billion has been reserved to backstop \$200 billion of non-recourse loans to be made by the New York Fed to purchasers of high-quality asset-backed securities (as described below). It is not presently clear how much of Treasury’s \$350 billion allotment remains uncommitted following the Citigroup, Inc. transactions.

and loan holding companies that are engaged solely in financial activities.² While participation in the program is purely voluntary for individual financial institutions, each institution that does participate must sell shares to Treasury in an amount equal to at least one percent of its risk-weighted assets but no more than the lesser of \$25 billion or three percent of its risk-weighted assets. Elections by public institutions to participate in the program were required to have been made by November 14, 2008, and elections by nonpublic institutions must be made by **December 8, 2008**. Treasury may conduct subsequent purchases following the conclusion of the initial purchases, depending upon its evaluation of the success of the initial purchases. Treasury will fund its obligations under the initial round of purchases before the end of 2008.

According to the documentation issued by Treasury to date, including initial term sheets, a form of securities purchase agreement, forms of warrant, a form of certificate of designations and other form documents published for use by public institutions applying for the Capital Program,³ any senior preferred shares Treasury purchases pursuant to the program will:

- rank senior to any common stock and pari passu with any existing preferred stock that is not by its terms junior to other existing preferred stock;
- constitute Tier 1 capital;
- have a perpetual term;
- pay a cumulative dividend at the rate of five percent per year for five years and nine percent per each year thereafter or, if issued by a bank that is not a subsidiary of a bank or savings and loan holding company, a noncumulative dividend at identical rates;
- be nonvoting, except with respect to any matter that may affect their rights, in which case the shares will have class voting rights;
- be redeemable (i) at any time after the three year anniversary of their purchase or (ii) at an earlier date, if redeemed with the cash proceeds of a sale of common stock or Tier 1 qualifying perpetual preferred stock made after the issuance of stock to Treasury (a “Qualified Offering”). Any redemption of shares held by Treasury will be made at the shares’ issue price plus accrued and unpaid dividends or, in the case of noncumulative preferred stock, plus accrued and unpaid dividends for the then current dividend period;
- restrict (i) the declaration or payment of dividends on common shares or junior preferred shares, or on preferred shares pari passu with those held by Treasury other than pro rata with the shares held by Treasury; and (ii) the redemption of any common shares, junior preferred shares or preferred shares ranking pari passu with those held by Treasury; in each case unless all accrued and unpaid dividends have been paid with respect to the senior preferred shares or, in the case of noncumulative shares, all accrued and unpaid dividends have been paid for the latest completed dividend period;

² Treasury’s proposed Capital Program term sheets, available at www.treasury.gov/initiatives/eesa/application-documents.shtml, provide greater specifics as to which types of financial entities are eligible to participate in the Capital Program.

³ These documents are available at www.treasury.gov/initiatives/eesa/application-documents.shtml.

- further restrict any share repurchases, except for repurchases of senior preferred shares or repurchases of junior preferred shares in connection with benefit plans in the ordinary course of business and in accordance with past practice, until the third (in the case of public institutions) or tenth (in the case of nonpublic institutions) anniversary of Treasury's investment, unless Treasury consents, has been redeemed in full or has transferred all of its preferred shares to third parties. Nonpublic institutions are further prohibited from paying common dividends or repurchasing any equity securities, from and after the tenth anniversary of the date of Treasury's investment, until all equity securities held by Treasury are redeemed in whole or have been transferred to third parties;
- restrict any increase in common dividends prior to the third anniversary of Treasury's investment and, in the case of nonpublic institutions, any increase in dividends by more than three percent per year, between the third and tenth anniversary of Treasury's investment (provided that no increase in common dividends may be made as a result of any stock dividend, stock split or similar transaction), unless Treasury either consents, has been redeemed in full or has transferred all of its preferred shares to third parties; and
- be freely transferable by Treasury, except, in the case of a nonpublic institution, where such transfer would subject the institution to the periodic reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act").

Treasury will receive, from each participating public financial institution, in addition to the preferred shares it purchases, warrants to purchase shares of common stock. The number of common shares Treasury may purchase with such warrants will be such that the aggregate value of such underlying common shares on the date of receipt of the warrants equals fifteen percent of the total purchase price Treasury paid for its preferred shares. This number remains subject to reduction by half in the event that the financial institution raises an aggregate amount, pursuant to Qualified Offerings prior to December 31, 2009, at least equal to the amount of Treasury's preferred investment. The exercise price of the warrants will equal the average price of the common stock on the twenty days prior to and including the date of Treasury's preferred stock investment, subject to customary anti-dilution adjustments and to a reduction of up to forty-five percent upon the continued failure of the financial institution to obtain any stockholder consent necessary for the issuance of common stock upon conversion. The term of the warrants will be ten years, and, in the event that any financial institution is unable to obtain any stockholder consents needed for conversion, Treasury may exchange its warrants for senior term debt or another security such that it is made whole for the value of its warrant.

Treasury will receive from each participating nonpublic financial institution, in addition to the preferred shares it purchases, warrants to purchase additional preferred shares (the "Warrant Preferred Shares"), having an aggregate liquidation preference of five percent of the amount of preferred shares initially purchased by Treasury.⁴ The warrants' initial exercise price will be \$0.01

⁴ Treasury will exempt from the warrant requirements certain financial institutions that qualify as Community Development Financial Institutions ("CDFIs") and receive less than \$50 million in Treasury funds pursuant to the Capital Program. A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. For more information on what entities may qualify as CDFIs, please see Treasury's Private Bank Program Q&A, available at www.treasury.gov/initiatives/eesa/docs/FAQ%2011-17-08%20-%20Private.pdf.

per share, or a greater amount if required by the financial institution's charter, and Treasury expects to exercise the warrants immediately. The Warrant Preferred Shares will have the same rights, preferences and privileges, voting rights and other terms, as the preferred shares purchased directly by Treasury, except that the Warrant Preferred Shares will pay dividends at the rate of nine percent per year and may not be redeemed until the preferred shares purchased directly are fully redeemed. The warrants may not be transferred if any such transfer would subject the financial institution to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act.

Amounts furnished to financial institutions pursuant to the Capital Purchase Program or Treasury's other EESA programs will be excluded from the definition of "Federal financial assistance" within the meaning of Section 597 of the Internal Revenue Code (the "Code"), which assistance generally is taxable under the Code. The Internal Revenue Service made this exclusion pursuant to Notice 2008-101, so as to encourage participation in the programs.

As required by the EESA and further described in our client memorandum entitled "Domestic Compensation Limitations Under the Emergency Economic Stabilization Act", dated October 6, 2008, participating financial institutions must meet certain executive compensation and corporate governance requirements, including: (i) avoiding compensation incentives that would encourage senior executives to take excessive and unnecessary risks; (ii) clawing back any incentive compensation paid to senior executives based upon criteria later determined not to have been satisfied; (iii) not making golden parachute payments to senior executives; and (iv) foregoing tax deductions for compensation in excess of \$500,000 per senior executive. Additionally, any participating financial institution and its senior executive officers must agree to waive any claims they may have against Treasury as a result of the modification of any benefit arrangements so as to eliminate terms that are not in accordance with the EESA or Treasury's guidance thereunder.

Nine large financial institutions agreed to participate in the Capital Program prior to the time of its announcement, for a total government investment of \$125 billion, and a number of regional banks have since announced their participation in the program as well. As of November 17, 2008, Treasury has committed nearly \$160 billion in total under the program. Treasury wants both small and large entities to be able to elect to participate and so has looked to facilitate access by a broad range of institutions by creating a common application for entities to use in applying for the program. While the initial round of purchases has already closed to new applications from any public entity, any qualifying private entity may still participate by submitting the common application to its primary federal regulator prior to December 8, 2008. The Board, the FDIC, the Office of the Comptroller of the Currency and the Office of Thrift Supervision, as the primary federal regulators of U.S. financial institutions, will review any applications they receive and make a recommendation to Treasury as to whether the applicant should receive Treasury funds. The common application may be found at the websites of any of these regulators.

On November 25, 2008, Treasury announced that it would provide \$20 billion of credit protection from the Troubled Asset Relief Program (the "TARP") to the Board to back up a new Board program, the Term Asset-Backed Securities Loan Facility, which is described below. Treasury also indicated that it is possible that this program will in the future be expanded to cover mortgage-related securities. Information on new or expanded programs will be posted at www.treasury.gov/initiatives/eesa/.

Troubled Asset Auction Program

Treasury initially announced the development of a Troubled Asset Auction Program (the “TAAP”) pursuant to the EESA, but Secretary Paulson has since announced that Treasury does not intend to pursue the program. Treasury initially conceived of the TAAP as a program through which to buy troubled assets, including mortgage-related securities and whole mortgages, from financial institutions, as more fully described in our memorandum entitled “U.S. Bailout Plan”, dated October 4, 2008. However, Treasury has since determined that the Capital Program will be a more effective tool for achieving the objectives of the EESA. Reactions to Treasury’s decision have been mixed, however, and the possibility that Treasury will resurrect the TAAP or a similar program should not be completely ruled out. Any information regarding any such future use of the program would be posted at www.treasury.gov/initiatives/eesa.

Programs for Failing Systemically Significant Institutions

Treasury has also announced the development of a Program for Failing Systemically Significant Institutions (the “Failing Institutions Program”), under which it will provide assistance directly to failing firms on an individually negotiated basis. Treasury has provided little detail regarding this program but has indicated that it will impose executive compensation limitations on participants similar to those imposed on participants in the Capital Program, with the exception that participants in the Failing Institutions Program will be strictly prohibited from making any payments to departing senior executives. Treasury’s first exercise of power under the Failing Institutions Program was to purchase \$40 billion of preferred stock from American International Group, Inc. as part of its restructuring earlier this month of the initial bailout package agreed to in September. Further information on the Failing Institutions Program should be posted at www.treasury.gov as it becomes available.

FDIC Temporary Liquidity Guarantee Program

The FDIC has created a Temporary Liquidity Guarantee Program (the “TLGP”) through which it guarantees certain newly issued senior unsecured debt and non-interest bearing deposit transaction accounts. The FDIC has offered to guarantee certain debt of (i) all FDIC-insured depository institutions, (ii) all U.S. bank holding companies, (iii) all U.S. financial holding companies and (iv) all U.S. savings and loan holding companies engaged solely in financial activities (collectively, the “Eligible Entities”). FDIC guarantees cover all unsecured debt securities with a maturity of greater than one month issued by any participating Eligible Entity between the inception of the TLGP and June 30, 2009, including any promissory notes, commercial paper and interbank funding and any unsecured portion of secured debt (the “Eligible Securities”), though no coverage will be provided beyond June 30, 2012, even for any debt whose maturity extends beyond that date. Every Eligible Entity was covered on all of its Eligible Securities for thirty days, free of charge, from the inception of the TLGP, but is required to elect by December 5, 2008 whether to continue to receive such coverage going forward, in exchange for a fee as described below. Each Eligible Entity is limited in the total amount of debt that the FDIC will guarantee to 125 percent of its debt outstanding as of September 30, 2008 and scheduled to mature before June 30, 2009.

The FDIC guaranteed all funds in non-interest-bearing transaction deposit accounts held at FDIC-insured institutions for thirty days, free of charge, from the commencement of the program, and guarantees all such funds thereafter only for institutions that elect to continue the coverage in exchange for the fees described below. The FDIC guarantees will extend no later than December 31, 2009.

In exchange for continuing to receive an FDIC guarantee on newly issued debt after the thirty day introductory period, each participating Eligible Entity is required to pay an annualized fee of between 50 and 100 basis points, depending upon the maturity of the debt in question,⁵ on the amount of the debt it issues under the TLGP. FDIC-insured institutions that elect to continue to receive guarantees on their deposit transaction accounts following the initial thirty day period are required to pay a ten basis point surcharge on all amounts in excess of the \$250,000 per-account coverage previously provided by the FDIC.

Information on, and the FDIC's final rule implementing, the TLGP may be found at www.fdic.gov/regulations/resources/TLGP/index.html.

Commercial Paper Funding Facility

The Board has announced the development of a Commercial Paper Funding Facility program (the "CPFF"), under which the Board has established a special purpose vehicle (the "SPV") to purchase from any issuer organized in the United States (including any such issuers that have foreign parents) certain three-month U.S. dollar-denominated unsecured and asset-backed commercial paper. The SPV purchases only commercial paper that is rated A-1/P-1/F1 by a major nationally recognized statistical rating organization (an "NRSRO") or, if rated by multiple major NRSROs, so rated by two or more such NRSROs. Each issuer may sell to the SPV at any given time only an amount of commercial paper equal to the greatest amount of U.S. dollar-denominated commercial paper the issuer had outstanding at any time between January 1 and August 31, 2008, minus any amounts already outstanding to all investors (including the SPV) at the time.

The SPV receives its funding through recourse loans from the Federal Reserve Bank of New York (the "New York Fed"), secured by all of the assets of the SPV. It will purchase commercial paper from the date of its first purchase on October 27, 2008 until the program ends on April 30, 2009, unless extended by the Board, and it will hold all commercial paper until maturity. The SPV purchases only commercial paper not already outstanding and pays a price discounted at a rate equal to 100 basis points per annum plus the three-month overnight index swap rate on the day of purchase (the "OIS rate"), for unsecured commercial paper, with a 100 basis points per annum unsecured credit surcharge; and at a rate equal to 300 basis points per annum plus the three-month OIS rate, for asset-backed commercial paper, with no surcharge. The daily CPFF discount rates are posted on the New York Fed's website, www.newyorkfed.org/markets/cpff/cpff.cfm.

⁵ The fee will be 50 basis points per year for debt with a maturity of 180 days or less and 100 basis points per year for debt with a maturity of at least one year. Debt in between these thresholds will incur fees on a sliding scale.

Issuers that wish to sell commercial paper to the SPV must register with the CPFF at least two business days prior to issuing any commercial paper to the SPV. Registration information is available at www.newyorkfed.org/markets/cpff.html.

Pacific Investment Management Co., or PIMCO, has been selected as asset manager, and State Street Bank and Trust Company has been selected as custodian and administrator, for the SPV.

Temporary Money Market Fund Guarantee Program

Treasury has created a temporary guarantee program for money market funds (the “Guarantee Program”), funded through the Exchange Stabilization Fund.⁶ The Guarantee Program provides coverage to certain shareholders of money market funds that registered for the program prior to the applicable deadline for participation. The Guarantee Program was extended to any taxable or tax exempt money market fund that (1) is publicly offered, (2) is registered under the Investment Company Act of 1940 (the “1940 Act”) and is regulated pursuant to Rule 2a-7 under the 1940 Act, (3) has a policy of maintaining a stable share price of \$1.00 (or a stable share price in excess of \$1.00), and (4) has elected to participate in the program. The program only protects shareholders’ accounts that were in existence on September 19, 2008, as discussed below.

Guarantees under the Guarantee Program will be triggered if a participating fund’s market value based net asset value falls below 99.5 percent of the fund’s stable share price or “breaks the buck” (a “Guarantee Event”), unless promptly cured, provided that the fund liquidates promptly after the Guarantee Event. The coverage provided to any fund is subject to the overall amount available under the program.

The Guarantee Program guarantees a \$1.00 share price (or other applicable stable share price) for the number of shares owned by a shareholder in any participating money market fund as of the close of business on September 19, 2008. The value attributed to an increase in the number of shares owned by a shareholder after the close of business on September 19, 2008, will not be guaranteed. If the number of shares owned by a shareholder fluctuates over the period of the program, the shareholder will be covered for the lesser of the number of shares owned as of the close of business on September 19, 2008, or the number of shares owned as of the Guarantee Event. This means that if an investor sells shares in a covered money market fund after September 19, 2008, and that fund subsequently “breaks the buck,” the Guarantee Program will compensate the investor only for the lesser number of shares owned.

⁶ The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934, as amended, and has approximately \$50 billion in assets. This Act authorizes the Secretary of the Treasury, with the approval of the President, “to deal in gold, foreign exchange, and other instruments of credit and securities” consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability. More information on the Exchange Stabilization Fund can be found at www.treas.gov/offices/international-affairs/esf/. The amount of any guarantee payment under the Program is dependent on the availability of funds in the Exchange Stabilization Fund.

Participating money market funds with a market value based net asset value greater than or equal to 99.75 percent of their stable share price as of the close of business on September 19, 2008, paid a nonrefundable up front fee of 0.01 percent, one basis point, based on the number of shares outstanding on that date. Participating funds with a market value based net asset value per share of greater than or equal to 99.5 percent and below 99.75 percent of their stable share price as of the close of business on September 19, 2008, paid a nonrefundable up front fee of 0.015 percent, 1.5 basis points, based on the number of shares outstanding on that date. Money market funds with a market value based net asset value below 99.5 percent of their stable share price as of the close of business on September 19, 2008, were not eligible to participate in the program.

The Guarantee Program and the guarantee provided initially expire on December 18, 2008. On November 24, 2008, Treasury announced an extension of the Guarantee Program until April 30, 2009. The extended program is only available to money market funds that are currently participating and that meet the following conditions, among others: (1) no Guarantee Event has occurred on or before December 19, 2008 (the "Program Extension Date"); (2) the market value based net asset value of the fund on the Program Extension Date must be at least 99.5 percent of its stable share price; and (3) the fund's board, including a majority of its members who are not "interested persons" under the 1940 Act, have determined, among other things, that the fund's continued participation in the Guarantee Program is in the best interests of the fund and its shareholders. The extended program will continue to provide coverage to shareholders up to amounts that they held in participating money market funds as of the close of business on September 19, 2008. To participate in the extension of the Guarantee Program, a money market fund must make an additional payment and submit the extension notice by 11:59 p.m. Eastern time on December 5, 2008. The fee for participating in the extension through April 30, 2009, differs depending on the fund's market value based net asset value as of the close of business on September 19, 2008. For money market funds with a market value based net asset value greater than or equal to 99.75 percent of their stable share price, the fee is 0.015 percent, 1.5 basis points, multiplied by the number of outstanding shares on September 19, 2008. For money market funds with a market value based net asset value less than 99.75 percent of their stable share price but greater than or equal to 99.50 percent of their stable share price, the fee is 0.022 percent, 2.2 basis points, multiplied by the number of shares outstanding on September 19, 2008.

The Guarantee Program may be further extended until September 18, 2009. If a fund does not participate in the extension through April 30, 2009, it will not be eligible to participate in any further extension.

The Guarantee Program applies to participating funds on a fund-by-fund basis, and the performance of one fund in a fund complex will not affect the guarantee of a different participating fund in the same complex.

The form of guarantee agreement for participating money market funds imposes a number of requirements, including the following:

- Participating money market funds must represent that they are managed in a manner that is designed to reduce the likelihood that a Guarantee Event under the program will occur.
- Participating money market funds must comply with Rule 2a-7 under the 1940 Act at all times.
- If a Guarantee Event occurs, the fund must promptly demand payment of all amounts due to the fund from any person who has agreed to make a capital contribution or other payment to the fund pursuant to any agreement to facilitate the maintenance of a stable net asset value or share price (a “NAV Support Agreement”). In effect, this means that any other credit support must be used first.
- Participating money market funds must agree that they will not terminate any NAV Support Agreement unless it is replaced with a new NAV Support Agreement approved by Treasury, will renew any such agreement subject to an extension, and will use their “best efforts” to obtain NAV Support Agreements as may be necessary and appropriate (taking into account the expenses that the fund would incur) to facilitate the maintenance of their stable share price.
- If a Guarantee Event occurs, the fund must be liquidated in an orderly manner. Specifically, after a Guarantee Event, the fund must provide notice to Treasury on the next business day, initiate liquidation of the fund within five business days, cease the declaration and payment of dividends, cease issuing new shares, suspend redemptions and complete liquidation of the fund within 30 days, unless Treasury consents to a later date.
- Participating money market funds assign to Treasury all rights to claims, demands, lawsuits and judgments with respect to the fund’s business, ownership or use or value of any asset, including, but not limited to, any rights against the fund’s investment adviser for malfeasance, breach of contract, breach of fiduciary duty or any other claim, to the extent of any guarantee payment under the program.
- Participating money market funds must consent to the appointment of any receiver, liquidation trustee or similar official designated by Treasury or the Securities and Exchange Commission to administer and oversee the liquidation of the fund.
- Treasury is not obligated to pay a guarantee to any money market fund participating in the Guarantee Program if Treasury, in its sole and absolute discretion, determines that any of the representations and warranties made by a fund or its investment adviser under the guarantee agreement and its related acknowledgements and extensions, or under any other notice delivered or any information provided under the guarantee agreement, was incorrect when made.

More information, including additional conditions of the Guarantee Program and the forms of guarantee agreements, program extension documentation, and related documents, may be found at www.treas.gov/offices/domestic-finance/key-initiatives/money-market-fund.shtml.

Money Market Investor Funding Facility

The Board has announced the development of a Money Market Investor Funding Facility (the “MMIFF”) to provide liquidity to U.S. money market funds. The MMIFF will be a credit facility to a series of newly-formed private special purpose vehicles (“PSPVs”) to be managed by JPMorgan Chase & Co. The PSPVs will purchase, at amortized cost, certain eligible assets, including U.S. dollar-denominated certificates of deposit, bank notes and commercial paper with a remaining maturity of 90 days or less, from money market funds.

The PSPVs may only purchase debt instruments meeting certain rating criteria issued by ten financial institutions, as designated in the PSPV’s operational documents. Those issuers must have a short-term debt rating of at least A-1/P-1/F1 from two or more nationally recognized statistical rating organizations. In addition, an individual financial institution’s debt instruments cannot exceed fifteen percent of the assets of the PSPV at the time of purchase by the PSPV.

To finance its purchase of eligible assets, a PSPV will issue and sell asset-backed commercial paper equal to ten percent of the eligible asset’s purchase price to the fund that is selling the eligible asset to the PSPV. A PSPV will borrow the remainder, up to \$540 million, from the New York Fed at the primary credit rate and on an overnight basis. The loans from the New York Fed will be secured by the assets of the PSPV and will be senior to the PSPV’s asset-backed commercial paper.

The MMIFF is designed to protect the Board if an issuer of debt instruments defaults. If a debt instrument held by a PSPV is downgraded so that it is no longer an eligible asset, the PSPV may not make any asset purchases until all of the PSPV’s debt instruments issued by the downgraded financial institution have matured. Upon default of any debt instrument, a PSPV must cease making any asset purchases and repayments on the PSPV’s outstanding asset-backed commercial paper. As the PSPV’s assets mature, those proceeds will be used to pay first the New York Fed, and then the principal and interest on the PSPV’s outstanding asset-backed commercial paper.

Currently, the MMIFF is only available to U.S. money market mutual funds; however, the MMIFF may become available to other money market investors over time. The New York Fed will begin funding purchases under the MMIFF the week of November 24, 2008, and the MMIFF will terminate on April 30, 2009, unless extended by the Board. Entities that wish to participate in the program should contact JPMorgan Chase at 212-834-5389 to obtain information on, the required documentation for, and the operating procedures of the MMIFF.

Additional information as to the terms and conditions of the MMIFF are available at www.newyorkfed.org/markets/mmiff.html.

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

On September 19, 2008, the Board commenced its Asset-Backed Commercial Paper (“ABCP”) Money Market Mutual Fund (“MMMF”) Liquidity Facility (the “AMLF”), under which the Board provides advances to certain qualifying borrowers that pledge certain qualifying ABCP to secure the advances. Borrowers who are eligible to participate in the AMLF include all U.S. depository institutions, bank holding companies (parent companies or U.S. broker-dealer affiliates) and U.S. branches and agencies of foreign banks. ABCP that qualifies as collateral for advances under the

AMLF includes any ABCP that (i) was purchased by the borrower on or after September 19, 2008 from a registered investment company that holds itself out as an MMMF; (ii) was purchased by the borrower at the MMMF'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; (iii) is rated at the time pledged to the Board not lower than A1, F1 or P1 by at least two major rating agencies or, if rated by only one major rating agency, within that agency's top rating category; (iv) was issued by an entity organized under the laws of the United States or a political subdivision thereof, under a program in existence on September 18, 2008; and (v) has a stated maturity of 270 days or less or, if the borrower is a bank, of 120 days or less. ABCP may only be purchased under the AMLF from MMMFs that qualify as money market mutual funds under Rule 2a-7 under the 1940 Act.

Advances are made (i) in a principal amount equal to the amortized cost of the ABCP pledged to secure the advance; (ii) at the primary credit rate offered to depository institutions by the Federal Reserve Bank of Boston at the time the advance is made; and (iii) with a maturity date equal to the maturity date of the ABCP pledged to secure the advance. The advances are non-recourse, and the collateral provided is valued at its amortized cost. The Board does not charge special fees in connection with the AMLF. It will cease to make advances after January 30, 2009 unless it elects to extend the program. Further information concerning the AMLF is available at www.federalreserve.gov/monetarypolicy/abcpmmmf.htm.

Term Asset-Backed Securities Loan Facility

As promised in testimony on November 18, 2008 and in Secretary Paulson's prior status reports on the financial markets initiatives, the Board and Treasury acted on November 25, 2008 to address consumer lending problems, a credit market that Secretary Paulson characterized as having "ground to a halt." The Board, acting under the authority of the Federal Reserve Act, established a credit facility (the "TALF") to facilitate the issuance of asset-backed securities ("ABS") and thereby attempt to restart consumer lending.

Under the TALF, the New York Fed will make up to \$200 billion of fixed term (currently set at one year), non-recourse loans, to be fully secured by eligible ABS. As noted above, Treasury will backstop these loans with \$20 billion of credit protection from the TARP. The Board announced that the terms of the TALF will be:

Eligible Collateral

U.S. dollar-denominated cash (that is, not synthetic) ABS that have a long-term credit rating in the highest investment grade rating category (for example, AAA) from two or more major NRSROs and do not have a long term credit rating of below the highest investment grade rating category from a major NRSRO. All or substantially all of the credit exposures underlying eligible ABS must be newly or recently originated exposures to U.S. domiciled obligors. The underlying credit exposures of eligible ABS initially must be auto loans, student loans, credit card loans or small business loans guaranteed by the U.S. Small Business Administration (the "SBA"). The Board indicated that it may expand the program in the future to include commercial mortgage-backed securities, non-Agency residential mortgage-backed securities or other asset classes. The underlying credit exposures must not include exposures that are themselves cash or synthetic ABS.

Eligible collateral for a particular borrower must not be backed by loans originated by the borrower or an affiliate of the borrower.

Eligible Borrowers

All “U.S. persons” that own eligible collateral may participate in the TALF. A “U.S. Person” is a natural person that is a U.S. citizen, a business entity that is organized under the laws of the United States or a political subdivision or territory thereof (including such an entity that has a non-U.S. parent company), or a U.S. branch or agency of a foreign bank.

Transaction Structure

Credit extensions under the TALF will be in the form of non-recourse loans secured by eligible collateral. Substitution of collateral during the term of the loan will not be allowed. TALF loans will have a fixed term (currently set at one year), with interest payable monthly. The term of TALF loans may be lengthened later if appropriate. TALF loans will not be subject to mark-to-market or re-margining requirements. Any remittance of principal or interest on eligible collateral must be used immediately to pay interest due on, or reduce the principal amount of, the TALF loan.

Haircuts

Collateral haircuts will be established by the New York Fed for each class of eligible collateral. Haircuts will be determined based on the price volatility of each class of eligible collateral.

Pricing and Allocations

The New York Fed will offer a fixed amount of loans under the TALF on a monthly basis. TALF loans will be awarded to borrowers each month based on a competitive, sealed bid auction process. Each bid must include a desired amount of credit and an interest rate spread over the one-year overnight index swap rate. The New York Fed will set minimum spreads for each auction. The New York Fed will reserve the right to reject or declare ineligible any bid, in whole or in part, in its discretion, and will put in place procedures for identification and review of high risk ABS. The New York Fed will assess a non-recourse loan fee at the inception of each loan transaction.

Roles of Primary Dealers and Clearing Banks

Each borrower must use a primary dealer, which will act as agent for the borrower, to access the TALF and must deliver eligible collateral to a clearing bank.

Role of Treasury

The New York Fed will create an SPV to purchase and manage any assets received by the New York Fed in connection with any TALF loans. The New York Fed will enter into a forward purchase agreement with the SPV under which the SPV will commit, for a fee, to purchase all assets securing a TALF loan that are received by the New York Fed at a price equal to the TALF loan amount plus accrued but unpaid interest. The TARP will purchase subordinated debt issued by the SPV to finance the first \$20 billion of asset purchases. If more than \$20 billion in assets are

purchased by the SPV, the New York Fed will lend additional funds to the SPV to finance such additional purchases. The New York Fed's loan to the SPV will be senior to the TARP subordinated loan, with recourse to SPV, and secured by all the assets of the SPV. All cash flows from SPV assets will be used first to repay principal and interest on the New York Fed senior loan until the loan is repaid in full. Next, cash flows from assets will be used to repay principal and interest on the TARP subordinated loan until the loan is repaid in full. Residual returns from the SPV will be shared between the New York Fed and Treasury.

Executive Compensation Requirements

Originators of the credit exposures underlying eligible ABS (or, in the case of SBA guaranteed loans, the ABS sponsor) must have agreed to comply with, or already be subject to, executive compensation standards consistent with Treasury's TARP guidelines applicable to its Capital Program, as described above.

Termination Date

The facility will cease making new loans on December 31, 2009 unless the Board agrees to extend the facility.

The Board indicated that it may change the terms and conditions of the program as conditions may dictate.

Further information on the TALF will become available at www.treasury.gov/initiatives/eesa and at www.federalreserve.gov/newsevents/recentactions.htm.

Program to Purchase Government-Sponsored Enterprise ("GSE") Direct Obligations and Mortgage-Backed Securities

On November 25, 2008, the Board also announced that in an effort to increase the availability of mortgages and assist in the recovery of the housing market, it will purchase direct obligations of GSEs--Fannie Mae, Freddie Mac and the Federal Home Loan Banks--and mortgage-backed securities ("MBS") backed by Fannie Mae, Freddie Mac and Ginnie Mae.

Beginning next week, the Board will initiate purchases of up to \$100 billion in GSE direct obligations with the Board's primary dealers through a series of competitive auctions. The Board plans, by the end of 2008, to initiate purchases of up to \$500 billion in MBS by asset managers selected via a competitive process. Purchases of both direct obligations and MBS are expected to take place over several quarters. The Board indicated that it will provide further information regarding the operational details of this program after consultation with market participants.

Further information on the Board's new program will become available at www.federalreserve.gov/newsevents/recentactions.htm.

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This memorandum was prepared by Gregory B. Astrachan, Russell L. Smith, Benjamin J. Haskin, Margery K. Neale and Douglas F. Tedeschi. If you have any questions about this memorandum, please contact any of the members of the WF&G Government Rescue and Credit Crisis Task Force listed below or the attorney with whom you regularly work. The Task Force (which includes UK insolvency professionals from our strategic ally, Dickson Minto W.S., and attorneys from our European offices) was formed to respond to client questions and provide targeted advice in connection with the proposed Government bailout and the credit crisis (including the Lehman Brothers Holdings Inc. bankruptcy).

December 2, 2008

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