Treasury Department Unveils New Financial Stability Plan

Treasury Secretary Timothy Geithner announced today a comprehensive Financial Stability Plan that substantially overhauls the federal government’s financial rescue efforts. The most significant changes include the following:

- A new $500 billion to $1 trillion Public-Private Investment Fund in which the FDIC, Federal Reserve and Treasury Department will use public financing to leverage private capital in order to make large-scale purchases of “legacy” assets currently clogging the balance sheets of financial institutions. In many ways, this represents a return to the original focus of the Troubled Asset Relief Program (TARP) while attempting to mitigate concerns raised about the valuation and pricing of legacy assets by allowing private sector buyers and sellers to determine those prices.

- A significant expansion of the Term Asset-Backed Securities Loan Facility (TALF) program. The current TALF program, which was set to begin this month, is a $200 billion lending facility to encourage the issuance of securities backed by auto, student and SBA loans and credit card receivables. The newly renamed “Consumer and Business Lending Initiative” will expand the TALF to an up to $1 trillion facility collateralized by all assets currently covered by the TALF (including those originally proposed), and also including commercial mortgage loans. The addition of CMBS is a victory for the commercial mortgage industry. Private label RMBS and corporate loans may be included at a later date but are not currently covered.

- An expansion of the Capital Purchase Program (CPP) whereby any financial institution with assets greater than $100 billion will be subject to a comprehensive stress test and, based on the results, may be offered additional capital from the Treasury. This additional capital would take the form of a purchase by the Treasury of convertible securities, which will then be held in a newly created Financial Stability Trust.

- A new $50 billion plan to prevent foreclosures considered avoidable, the details of which will be released over the next few weeks, and other efforts to drive down mortgage rates and support housing.

- Additional requirements with respect to transparency, accountability, monitoring and executive compensation.

- Measures slated to support small business and community lending initiatives.

In the coming days, as additional details become available, Katten’s TARP Task Force will prepare and distribute a more detailed advisory with respect to all aspects of the new Financial Stability Plan. In the interim, we have attached the Treasury Department’s Fact Sheet on the Financial Stability Plan which is available at the Treasury’s new website: www.financialstability.gov.

For further information on the Financial Stability Plan and related matters, please contact Katten’s TARP Task Force.