PROSKAUER ROSE LLP

Client Alert

Economic Crisis Response Group

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FDIC Announces Winning Bidder of Pilot Sale for the Legacy Loans Program

On September 16, the FDIC announced the winning bidder of a test sale of receivership assets conducted as part of the proposed funding mechanism for the Legacy Loans Program (the "Program"), a key element of the Treasury Department's Public-Private Investment Program ("PPIP") designed to enable banks to dispose of distressed loans.

The winning bidder, Residential Credit Solutions ("RCS"), purchased a 50 percent equity stake in a limited liability company ("LLC") under a 6-to-1 leverage option, to which the FDIC will convey a $1.3 billion portfolio of residential mortgage loans owned by the FDIC as Receiver of Franklin Bank, SSB, Houston, Texas. Under the terms of the sale, RCS will pay $64.2 million in cash and the LLC will issue a note of $727.8 million to the FDIC as Receiver. RCS will manage the portfolio and service the loans subject to the Home Affordable Modification Program guidelines. (Bidders were given leverage options of 6-to-1 and 4-to-1, as well as a straight cash bid for a 20% ownership interest in the LLC.)

The FDIC, in its corporate capacity, will guarantee the LLC note. It anticipates selling the note at a future date. The FDIC will analyze the results of the sale to determine its efficacy.

Proskauer's Economic Crisis Response Group includes lawyers with extensive experience representing private and public companies, institutional investors, financial services companies, private equity and hedge funds, lenders, commercial banks and individuals in the complex and interrelated areas impacted by the current financial situation. Our multidisciplinary group brings together the talents of our business and transactional lawyers with our litigation capabilities, particularly as they pertain to acquiring, managing or disposing of distressed assets; issues concerning investments in financial services companies; and complex financial instruments and transactions, including structured finance products, as well as a broad range of other areas such as corporate governance and defense, insurance coverage, reductions in force and other employment and benefit-related issues, securities regulation, and bankruptcy and restructuring matters.

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