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News Bulletin

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First Look at Treasury Plan; Money Market Fund Bailout

Given the state of the capital markets and the heretofore limited success of prior initiatives aimed at stabilizing these markets, the Bush administration has proposed legislation to grant the Treasury Secretary broad authority to purchase up to $700 billion of non-performing, hard to value real estate and mortgage related assets and securities from financial institutions in order to strengthen their financial position and allow for additional liquidity in the financial system.

In addition, in response to announcements by certain money market funds that have experienced losses threatening their ability to return investor funds based on a net asset value of $1.00, the Treasury has indicated it will begin to guaranty, on a temporary basis certain U.S. money market funds.

The Treasury Mortgage Related Asset Purchase Plan

According to a Fact Sheet (the "Fact Sheet") issued by the U.S. Department of the Treasury (the "Treasury"), the Bush administration is seeking to authorize the issuance of up to $700 billion in new Treasury securities to finance the purchase of mortgage related assets. For additional information, please see the Fact Sheet issued by the Treasury on September 20, 2008 http://www.ustreas.gov/press/releases/hp1150.htm. However, given the fluid nature of the discussions surrounding this proposed legislation, virtually all aspects of the proposed legislation remain subject to change.

Politicians and pundits alike are already commenting on the streamlined proposed legislation that would potentially repose significant authority in the hands of Secretary Paulson. It is expected that members of Congress will attempt to modify the proposed legislation by seeking relief for homeowners and by providing for stricter Treasury oversight.

While the Fact Sheet released by the Treasury anticipates the Treasury purchasing mortgage related assets from financial firms with significant U.S. operations, in an interview today, Secretary Paulson indicated that a broader group of non-U.S. financial firms may be eligible given the global nature of the credit crisis and of the international financial system.

Given the lack of liquidity for many mortgage-related instruments, it remains unclear how these assets will be priced and how Treasury will make determinations regarding disposition of the assets. Indeed, many commentators have noted that, in order for the legislation to have a meaningful effect, notwithstanding the massive scale of requested funds, assets and loans will have to be bought at significant premiums to their current values.

We will continue to provide updates regarding the proposed legislation as additional information is made available.

The Treasury's Temporary Money Market Guaranty Plan

On September 19, 2008, the Treasury announced the establishment of a temporary guaranty program for the U.S. money market mutual fund industry (the "Guaranty Program"). The Guaranty Program will insure the holdings of non-government, non-agency publicly offered Rule 2a-7 money market mutual funds. Both retail and institutional money market funds will be eligible to participate ("Eligible Money Market Funds"). Funds may choose, but are not required, to avail themselves of participation in the Guaranty Program for a fee (the amount of which is not yet known.)

The Guaranty Program has been established by Treasury action which makes up to $50 billion from the assets of the Stabilization Fund[1] available to guarantee the payment to investors of Eligible Money Market Funds with a net asset value that falls below $1.00. Relief under the Guaranty Program will be trigged once a participating Eligible Money Market Fund's board of directors acts to liquidate the fund and it is determined that shareholders would, absent the Guaranty Program, receive less than $1.00. The Guaranty Program will permit a participating Eligible Money Market Fund to liquidate in an orderly manner, with any shortfall to be covered by the Treasury. Despite the $50 billion allocation from the Exchange Stabilization Fund, the actual amount of insurance is not limited.

The Treasury has indicated that, despite the initiation of the Guaranty Program, it will not seek to regulate money market mutual funds. The U.S. Securities and Exchange Commission has been tasked with developing the Guaranty Program. The SEC is consulting with the Investment Company Institute for assistance in developing the Guaranty Program.

Contacts

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[1] The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934. 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.