

Term Asset-Backed Securities Loan Facility (TALF)

Sponsor: Federal Reserve Bank of New York (FRBNY) and Treasury

Summary: Funding of Consumer and Small Business ABS

- Three-year loans to borrowers purchasing U.S. consumer, small business and commercial real-estate asset-backed securities (ABS)
- Borrowers must be U.S. persons
- Borrowers must be unaffiliated with the originator of the ABS assets
- Treasury to provide \$20 billion first loss credit support, with increases up to \$100 billion
- Federal Reserve initially planning \$200 billion for program, may extend to \$1 trillion
- **Details at:** <http://www.newyorkfed.org/markets/talf.html>

Key Information

Announced:
November 25, 2008

**First Subscription Open:
March 17-19, 2009**

**First Purchase Date:
March 25, 2009**

Last Purchase Date:
December 31, 2009

Eligible ABS

- ABS backed by credit cards, auto loans, student loans (guaranteed and private) and small business loans guaranteed by the SBA
- Auto loans and leases: cars, light trucks, RV, motorcycles, floorplan
- ABS issued after Jan 1, 2009; SBA pool certificates or development company participation certificates issued after Jan 1, 2009
- If credit card or floorplan, must be refinancing 2009 maturities
- 95% underlying assets from U.S. domiciled obligors (all or substantially all)
- 85% of underlying assets::
 - Auto loans and leases: originated on/after Oct 1, 2007
 - Student loan: first disbursement date no later than May 1, 2007
 - SBA loans (other than pool certs and DCPCs described above) originated on/after Jan 1, 2008
- "AAA" rated by major NRSRO; not rated below AAA by a major NRSRO (Major NRSROs: S&P, Moody's, Fitch)
- U.S. dollar denominated
- No synthetics or ABS as underlying assets
- Clear through DTC

Structure

- NY Fed will loan borrowers money to invest in eligible ABS
- Loans:
 - Three-year maturity, interest due monthly
 - Borrower may elect fixed or floating (rates set by Fed) – or both
 - Non-recourse to borrower (collateralized by the ABS)
 - Haircut on ABS based on price volatility of asset class
 - May be pre-paid; no substitution of collateral
 - Minimize loan size of \$10 million
- Treasury funds \$20 billion (up to \$100 billion) first loss through ownership of sub note issued by SPV
- NY Fed holds senior interest in SPV and is repaid first
- Treasury and NY Fed would share any upside

Eligible Borrowers

- U.S. persons holding eligible collateral: U.S. citizens, any business entity that is organized under the laws of the U.S., that conducts significant operations in the U.S., including any entity with a non-U.S. parent and a U.S. branch or agency of a foreign bank that maintains reserves at a Fed bank
- An investment fund: any pooled investment vehicle, hedge fund, private equity fund, mutual fund, organized under the laws of the U.S. that is managed by an investment manager that has its principal place of business in the U.S.
- No entity or investment manager controlled by a foreign government
- Must maintain an account with a primary dealer
- Borrower cannot have as collateral ABS backed by assets originated by borrower or borrower's affiliate
- Authorize primary dealer to execute master loan and security agreement

Sponsor Eligibility

- Must certify:
 - ABS is TALF-eligible
 - Accountant certification of TALF eligibility obtained
 - Indemnification of New York Fed
 - Issuance of credit card and floorplan ABS does not exceed 2009 maturities

Interest on Loans and Fees

- Federally guaranteed student loan: 1-mo LIBOR + 50 bps
- SBA Pool Certificates: federal funds target rate + 75 bps
- SBA Development Company Participation Certs: 3-year LIBOR swap rate + 50 bps
- Other eligible fixed-rate ABS: 3-yr LIBOR swap rate + 100 bps
- Other eligible floating-rate ABS: 1-mo LIBOR + 100 bps
- **Fee:** 5bp administrative fee based on loan amount assessed on settlement date

American Recovery & Reinvestment Act

Application of prohibition against hiring non-citizens under stimulus bill being reviewed (Section 1611)

March 11, 2009 Documentation & Other Updates

- Updates to Master Loan and Security Agreement and FAQs (representations, terms and liability being fine-tuned)
- Form of Auditor Attestation – clarification that attestation is solely for benefit of NY Fed – guidance for accounting firms
- Issuer indemnity undertaking (indemnification for NY Fed)
- NY Fed due diligence policy for primary dealers
- Conflicts of Interest Guidance

Recently Announced Changes

- Executive Compensation rules under Emergency Economic Stabilization Act (TARP) will **not** apply

Additional Asset Classes Under Consideration

- Auto definition expansion (rental, commercial, government fleet leases)
- Equipment (small ticket, heavy, agricultural) loans and leases
- Commercial mortgage-backed securities
- Private-label residential mortgage-backed securities
- Non-auto floorplan
- Mortgage servicer advance backed ABS
- Corporate debt
- Standard for expansion: greatest macroeconomic impact and can most efficiently be added to the TALF at a low and manageable risk to the government