

Term Asset-Backed Securities Loan Facility (TALF)

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

Key Information

Announced: November 25, 2008

Two subscriptions each month

Last Purchase Date:
December 31, 2009

Summary: Funding of Consumer and Small Business ABS

- Loans to borrowers purchasing U.S. consumer and small business ABS and CMBS
- 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
- TARP Executive Comp rules **don't** apply
- H-1B Visa rules from Recovery Act do apply (FAQ available on TALF website)
- **Details at TALF website:** <http://www.newyorkfed.org/markets/talf.html>
- **Upcoming:** Expansion of program for "legacy" RMBS and CMBS

Eligible ABS

- ABS backed by credit cards, auto loans, student loans (guaranteed and private) and small business loans guaranteed by the SBA, mortgage servicing advances, business equipment loans or leases, floorplan loans (auto and other)
- Auto loans and leases: cars, light trucks, RVs, motorcycles, floorplan, vehicle fleet sales
- ABS issued after Jan 1, 2009; SBA pool certificates or development company participation certificates issued after Jan 1, 2009
- Revolving trusts – TALF ABS must be (1) refinancing 2009 maturities or (2) have all underlying assets originated based on the dates below
- Mortgage servicing advances from Fannie/Freddie approved servicers
- 95% underlying assets from U.S. domiciled obligors (all or substantially all)
- 85% of underlying assets:
 - Auto loans and leases, equipment loans and leases, mortgage servicing advances: 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
- ABS average life of no more than 5 years (except student and SBA loans)
- "AAA" rated by major NRSRO; not rated below AAA by a major NRSRO (S&P, Moody's, Fitch)
- U.S. dollar denominated; No synthetics or ABS as underlying assets; DTC clearing

Structure

- NY Fed will loan borrowers money to invest in eligible ABS
- Loans:
 - Three-year maturity, interest due monthly
 - Five-year loans available for CMBS and ABS backed by student loans and SBA loans
 - Borrower may elect fixed or floating, 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 by purchasing SPV issued sub note
- 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; authorize primary dealer to act under master loan and security agreement
- Borrower cannot have as collateral ABS backed by assets originated by borrower or borrower's affiliate

Sponsor Eligibility (Newly-Issued)

- Must certify: (1) ABS is TALF-eligible, (2) Accountant certification of TALF eligibility obtained, (3) Indemnification of New York Fed and (4) 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 (Private + 100 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: 1, 2, or 3-yr LIBOR swap rate+ 100 bps (swap rate term match to WAL of ABS)
- Other eligible floating-rate ABS: 1-mo LIBOR + 100 bps
- **Fee:** 5bp administrative fee based on loan amount

CMBS – Newly Issued

- Issued after Jan 1, 2009; Underlying mortgages originated on/after July 1, 2008
- Eligible borrower cannot be a borrower under a commercial mtge in CMBS unless 5% or less of pool
- Must be in highest rating category; CMBS NRSROs: DBRS, Fitch, Moody's, Realpoint and S&P
- AUP report is required (newly issued CMBS only)
- Detailed PSA requirements set forth on TALF website
- Pre-approval by New York Fed of each CMBS (both newly-issued and legacy CMBS)
- New York Fed retained collateral monitor (Trepp, LLC)
- 15% haircut if avg life 5 years or less (1% increase per additional year average life); Average life no more than 10 years
- Loan rate: 100bps over 3-yr LIBOR swap or 5-yr LIBOR swap, as applicable

CMBS – Legacy

- Must be issued prior to January 1, 2009 and purchased in a secondary market transaction
- Market prices will be validated against available market data
- Detailed PSA requirements set forth on TALF website
- Loan amount is the lesser of purchase price or market price on the loan date, less the base dollar haircut
- Loan rate and other terms the same as Newly-Issued CMBS