



Term Asset-Backed Securities Loan Facility (TALF)

Providing loans to investors in Asset-Backed Securities (ABS)
Next funding: May 2009

Federal Reserve Bank of New York (FRBNY)
Federal Reserve (Fed)

Purpose

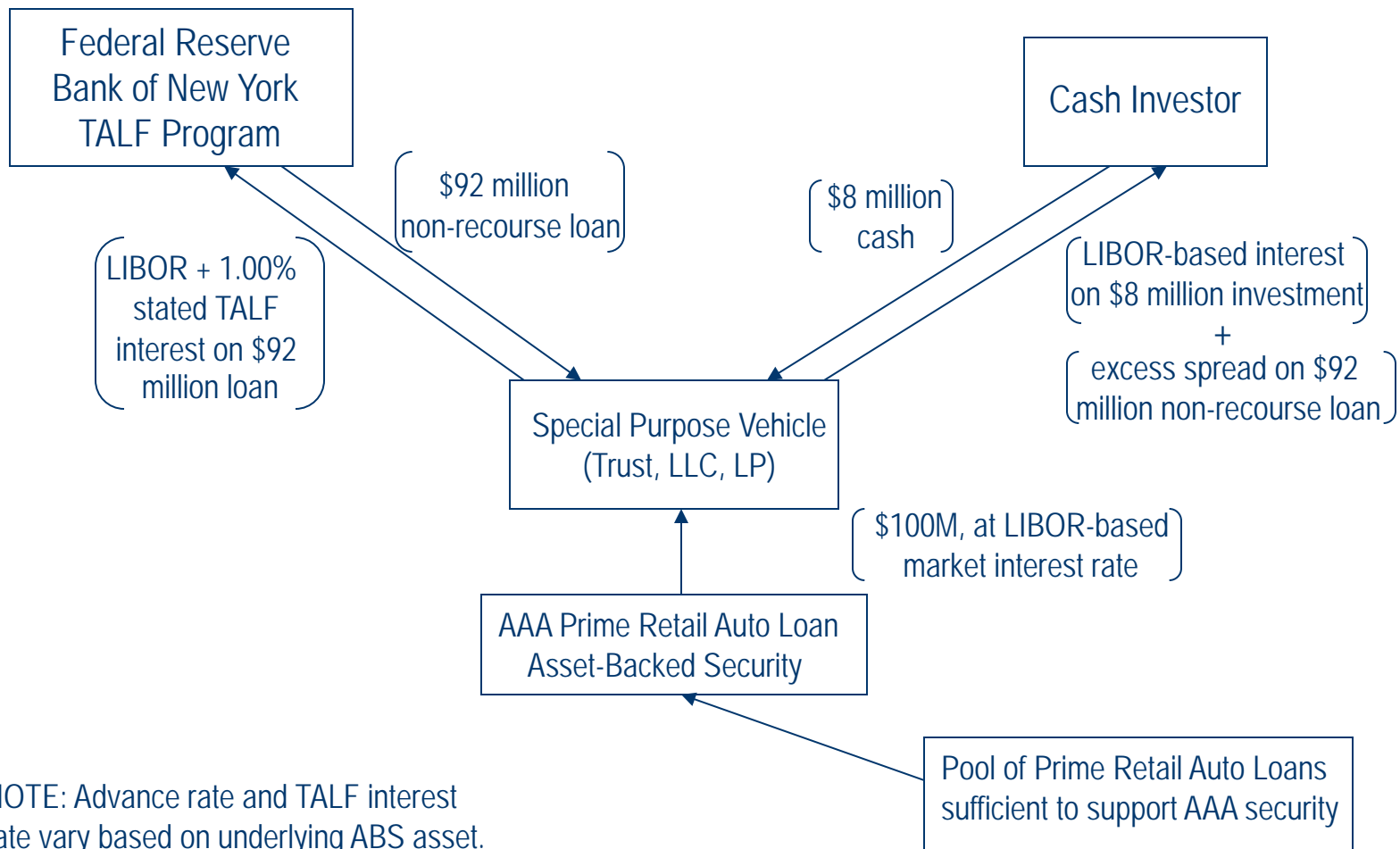
- To facilitate the issuance of new ABS at lower interest rate spreads, which will, in turn, allow for the creation of more consumer, student and business loans.

TALF Program Overview

- Each month, the FRBNY will make one or more non-recourse loans of at least \$10 million each to any Eligible Borrower (through a Primary Dealer) who pledges eligible ABS as collateral.
- Through the use of a TALF loan, an Eligible Borrower can leverage its own cash investment to purchase highly rated ABS paying a spread over the cost of the TALF funds.
- The FRBNY will make a total of up to \$1 trillion in TALF loans through December, 2009 (or later, if the facility is extended).
 - \$200 billion in funding under current terms.
 - Estimated \$800 billion more funding under potentially expanded future terms.

Sample Transaction Structure

(Prime Retail Auto Loans, 2.5-year average life)



NOTE: Advance rate and TALF interest rate vary based on underlying ABS asset.

TALF Loan Details

- Non-recourse to the borrower.
- Three-year term, fixed or floating interest rate, payable monthly (next slide).
- FRBNY administrative fee of 5 bps of loan amount on settlement date.
- Pre-payable in whole or in part at option of borrower.
- Not subject to mark-to-market or re-margining requirements.
- Substitution of collateral generally not allowed.
- Collateral haircut (future slide).

TALF Interest Rates (subject to change)

Sector	Subsector	Fixed Rate (Weighted Avg. Life in years)			Floating Rate
		<1	1-<2	>=2	
Auto		1-yr LIBOR swap rate + 100 bps	2-yr LIBOR swap rate + 100 bps	3-yr LIBOR swap rate + 100 bps	1-mo LIBOR + 100 bps
Floorplan		1-yr LIBOR swap rate + 100 bps	2-yr LIBOR swap rate + 100 bps	3-yr LIBOR swap rate + 100 bps	1-mo LIBOR + 100 bps
Equipment		1-yr LIBOR swap rate + 100 bps	2-yr LIBOR swap rate + 100 bps	3-yr LIBOR swap rate + 100 bps	1-mo LIBOR + 100 bps
Credit card		1-yr LIBOR swap rate + 100 bps	2-yr LIBOR swap rate + 100 bps	3-yr LIBOR swap rate + 100 bps	1-mo LIBOR + 100 bps
Small bus. loans	SBA loans 7(a)	N/A	N/A	N/A	Fed funds target rate + 75 bps
Small bus. loans	SBA loans 504	N/A	N/A	3-yr LIBOR swap rate + 50 bps	N/A
Student loan	Private	N/A	N/A	N/A	1-mo LIBOR + 100 bps
Student loan	Gov't guaranteed	N/A	N/A	N/A	1-mo LIBOR + 50 bps
Servicing advncs	Res. mortgages	1-yr LIBOR swap rate + 100 bps	2-yr LIBOR swap rate + 100 bps	3-yr LIBOR swap rate + 100 bps	1-mo LIBOR + 100 bps

TALF Collateral Haircuts (subject to change) (1 of 2)

<u>Sector</u>	<u>Subsector</u>	ABS Average Life (years)						
		<u>0-1</u>	<u>>1-2</u>	<u>>2-3</u>	<u>>3-4</u>	<u>>4-5</u>	<u>>5-6</u>	<u>>6-7</u>
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		
Auto	Motorcycles & rec. vehicles	7%	8%	9%	10%	11%		
Auto	Comm. & government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-auto	11%	12%	13%	14%	15%		
Equipment	Loans and leases	5%	6%	7%	8%	9%		

TALF Collateral Haircuts (subject to change) (2 of 2)

<u>Sector</u>	<u>Subsector</u>	<u>ABS Average Life (years)</u>						
		<u>0-1</u>	<u>>1-2</u>	<u>>2-3</u>	<u>>3-4</u>	<u>>4-5</u>	<u>>5-6</u>	<u>>6-7</u>
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Small-business	SBA loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Government guaranteed	5%	5%	5%	5%	5%	6%	6%
Servicing advances	Residential mortgages	12%	13%	14%	15%	16%		

** For ABS benefiting from a government guarantee with average lives beyond five years, haircuts will increase by one percentage point for every two additional years of average life beyond five years. For all others, haircuts will increase by one percentage point for each additional year.

TALF Loans Made in April

Sector	Subsector	Fixed Int Rate	Floating Int Rate	Amount
Auto		2.8725%	1.46938%	\$811 million
Credit Card		2.8725%	1.46938%	\$897 million
Equipment		2.8725%	1.46938%	–
Floorplan		2.8725%	1.46938%	–
Servicing Advances	Residential mortgages	2.8725%	1.46938%	–
Student Loan	Private	N/A	1.46938%	–
Student Loan	Gov't guaranteed	N/A	0.96938%	–
Small Business	SBA loans – 7(a)	N/A	1.000%	–
Small Business	SBA loans - 504	2.3725%	N/A	–
			Total	\$1.7 billion

March Funding: \$4.7 billion

Next Loan Subscription Date: May 5, 2009

Next Loan Funding Date: May 12, 2009

Notable Issues to Date

- In many asset categories, AAA rating may be difficult to achieve without significant reduction in advance rates. This places a premium on obtaining additional equity or subordinated financing.
- Can/will dealers require investors to buy bundled AAA and subordinated tranches of securities?
- Concern over provision allowing the Fed to inspect borrower's documents.
- Concern over provision restricting the employment of foreign workers on temporary visas.
- Political risks of future excess profits tax if program is successful.
- Political risk of future executive compensation restrictions.

Eligible Borrowers (1 of 2)

- Any U.S. company that owns Eligible Collateral, provided the company maintains an account relationship with one or more Primary Dealers.
 - This group includes:
 - 1) A business entity organized under laws of the U.S. that conducts significant operations or activities in the U.S., including any U.S.-organized subsidiary.
 - 2) A U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank.
 - 3) A U.S.-insured depository institution.
 - 4) An existing or newly formed investment fund organized in the U.S. and managed by an investment manager that has its principal place of business in the U.S.
 - 5) Any entity that satisfies any one of the requirements above, regardless of whether it is controlled by, or managed by, a company that is not U.S.-organized.
 - This group does **NOT** include:
 - Any entity (other than those described in (2) and (3) above) that is directly or indirectly controlled by a foreign government or managed by an investment manager (other than those described in (2) and (3) above) controlled by a foreign government (“control” is defined as ownership of, control over or holding with power to vote 25% or more of a class of voting securities).

Eligible Borrowers (2 of 2)

- Borrower makes an Eligible Borrower representation each time it receives a TALF loan (which representation continues during the life of the loan). The accuracy of the representation is determined on the basis of the eligibility criteria in effect on the date such loan is made.
- If such representation is breached, the loan could lose its non-recourse status.
- Each Primary Dealer must exercise reasonable care to ensure that each borrower it serves is an Eligible Borrower, and must conduct its due diligence and customer identification procedures on all potential borrowers. Primary Dealers may also borrow under the TALF, under certain circumstances.
- If a Primary Dealer breaches certain representations or warranties, the FRBNY could have recourse against such Primary Dealer.
- The Fed is developing procedures for pre-certification of certain classes of borrowers.
- The Employ American Workers Act (EAWA) applies to all borrowers, including any entity that owns or controls 25% or more of the total equity of an investment fund borrower.

Eligible Collateral (1 of 2)

- U.S.-denominated cash (i.e., not synthetic) ABS issued on or after January 1, 2009.
 - SBA Pool and Development Company Participation Certificates must have been issued on or after January 1, 2008.
- Must be rated in the highest long-term or short-term investment-grade category by two or more major nationally recognized statistical rating organizations (NRSRO).
- May NOT be rated below the highest category by a major NRSRO, be on watch for downgrade, or achieve its credit ratings based on a third-party guarantee.
- Must clear through the Depository Trust Company (DTC).
- No minimum maturity for ABS collateral. If maturity is shorter than the three-year TALF loan, the TALF loan will mature upon the ABS collateral's maturity. If maturity is longer than three years, the TALF loan must be repaid or the collateral sold or surrendered.
- May not be zero-coupon ABS.
- Other types of securities under consideration for future TALF fundings include:
 - Commercial mortgage-backed securities, private-label residential mortgage-backed securities, collateralized loan and debt obligations.

Eligible Collateral (2 of 2)

- The issuer and sponsor of ABS collateral must certify that the collateral meets eligibility requirements, and a nationally recognized, independent Public Company Accounting Oversight Board (PCAOB) registered accounting firm must attest that the certifications are fairly stated. The sponsor must indemnify the FRBNY from any losses it may suffer if such certifications are untrue.
 - Certain SBA-guaranteed loans are not subject to these requirements.
- The Primary Dealer is expected to have reviewed the relevant offering materials (including the certifications) for the ABS collateral and separately confirmed that the ratings currently applicable to the collateral meet the eligibility criteria.
- If collateral is found to be (or to have become) ineligible, the borrower will not have an obligation to provide substitute collateral or prepay the applicable loan. The FRBNY will have a right of indemnity against the sponsor for any damages suffered in relation to the collateral, and further remedy is available if there is evidence of fraudulent activity.

Loans Backing the ABS Collateral (1 of 4)

Seven current eligible loan and lease types:

- **(1) Auto loans, leases** (prime retail leases and loans, subprime retail loans, RV/motorcycle, commercial/government fleets, rental fleets)
 - Cars, light trucks, motorcycles, all recreational vehicle types designed for consumer use that have collateralized ABS transactions in the past (such as RVs, boats, trailers and sport vehicles), commercial, government and rental fleets of any type of vehicles that have collateralized fleet securitizations in the past.
 - “Prime” = weighted average FICO score of 680 or greater. Commercial receivables are limited to 15% of trust.
 - Each loan or lease may have an average life of up to five years.
 - At least 85% of the dollar amount of the loans and leases underlying eligible ABS issued by a non-revolving trust must have been originated on or after October 1, 2007.
 - Eligible ABS issued by a revolving (or master) trust must be issued to refinance existing ABS maturing in 2009 and must be issued in amounts no greater than the amount of the maturing ABS.
 - Eligible ABS may also be issued out of an existing or newly established master trust in which at least 85% of the dollar amount of the underlying loans and leases were originated on or after January 1, 2009.
- **(2) Credit card loans** (prime and subprime, consumer and corporate)
 - Each loan may have an average life of up to five years.
 - “Prime” = at least 70% of receivables with FICO score greater than 660; score must include past 120 days.
 - Eligible ABS issued by a revolving (or master) trust must be issued to refinance existing credit card ABS maturing in 2009 and must be issued in amounts no greater than the maturing ABS.

Loans Backing the ABS Collateral (2 of 4)

Seven current eligible loan and lease types (continued):

- **(3) Equipment loans, leases** (prime and subprime)
 - Business, industrial and farm equipment, including (but not limited to) agricultural, construction, manufacturing, trucks other than light trucks, small-ticket business equipment and other types of equipment that have collateralized securitized receivables in the past.
 - Eligible ABS may include a mixture of loans and leases on a mixture of equipment.
 - Each loan or lease may have an average life of up to five years.
 - At least 85% of the dollar amount of the underlying loans and leases must have been originated on or after October 1, 2007.

- **(4) Floorplan loans** (auto and non-auto)
 - Revolving lines of credit used to finance dealer inventories of a variety of vehicles, equipment, large appliances and manufactured housing.
 - Each loan may have an average life of up to five years.
 - These revolving lines of credit may be collateralized by a mixture of any inventory that has collateralized securitized floorplan loans in the past.
 - Eligible ABS issued by a revolving (or master) trust must be issued to refinance existing floorplan ABS maturing in 2009 and must be issued in amounts no greater than the maturing ABS.
 - Eligible ABS may also be issued out of an existing or newly established master trust in which at least 85% of the dollar amount of the underlying loans and leases were originated on or after January 1, 2009.

Loans Backing the ABS Collateral (3 of 4)

Seven current eligible loan and lease types (continued):

- **(5) Small business loans** (guaranteed by SBA)
 - Loans, debentures, or pools originated under the SBA's 7(a) and 504 programs, provided principal and interest are fully guaranteed by the U.S. government and meet all other TALF eligibility requirements.
 - SBA Pool and Dev. Company Participation Certificates must have been issued on or after January 1, 2008.
 - SBA-guaranteed loans underlying all other eligible ABS must have been originated on or after January 1, 2008.

- **(6) Student loans** (federally guaranteed loans, including consolidations, and private loans)
 - At least 85% of the dollar amount of loans must have had a first disbursement date on or after May 1, 2007.

- **(7) Servicing advance receivables** (residential real estate only, NOT commercial)
 - Residential mortgage loan securitizations that grant the servicer first priority in any insurance or liquidation proceeds from a loan, and, if those proceeds are insufficient, grants the servicer a first priority to general collections of the related securitization.
 - The related servicer agreement to every trust must give the servicer the right to assign, transfer, or pledge its rights to be reimbursed, and must provide that all advances are reimbursed on a "first-in, first-out" basis.
 - Each loan may have an average life of up to five years.
 - At least 85% of mortgage servicing advances must have been originated on or after January 1, 2007.
 - At least 95% of the of the dollar amount advances must be related to U.S.-domiciled residential property.

Loans Backing the ABS Collateral (4 of 4)

- List of eligible loan types may be expanded over time.
- At least 95% of the dollar amount of the loans must be to U.S.-domiciled obligors.
- ABS may not be backed by loans originated or securitized by the borrower or an affiliate or be, themselves, cash or synthetic ABS.

Monthly Loan Allocation Process (1 of 2)

Loan Subscription Date:

- The FRBNY will announce monthly TALF loan subscription and settlement dates.
- On each monthly loan subscription date, Primary Dealers may submit requests to the FRBNY on behalf of each Eligible Borrower for one or more fixed and/or floating rate loan(s) and indicate the eligible ABS collateral to be pledged for each. The Primary Dealer will also submit this information, along with prospectuses, offering memoranda or other offering materials for all ABS to be pledged, to the FRBNY's collateral Custodian, Bank of New York Mellon.

Monthly Loan Allocation Process (1 of 2)

Days Between Loan Subscription and Loan Settlement Dates:

- The Custodian will deliver to each Primary Dealer with respect to each borrower's loan(s) a schedule describing the intended collateral, and then a confirmation of loan amount, interest rate, Eligible Collateral and administrative fee for each for each loan the FRBNY agrees to make (the FRBNY reserves the right to reject any loan application, in whole or in part, at its discretion).

Loan Settlement Date:

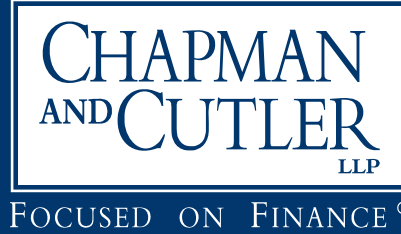
- The Primary Dealer and Custodian will deliver to each other the ABS collateral, administrative fee, applicable margin, aggregate principal amount of the TALF loan(s) and confirmations of such amounts.
 - On the loan settlement date, borrowers need not own the ABS collateral to be pledged.

Further Terms and Information (1 of 2)

- Borrower is responsible for all interest and principal payments on a TALF loan, but such obligations are payable solely from collections on the underlying TALF collateral without recourse to the borrower (except if the borrower has breached certain representations and warranties).
- The MLSA provides for the following priority of payments from collateral collections:
 1. Principal collections on the collateral are to be paid to the borrower and to the Fed pro rata based on the haircut percentage and the amount of the TALF loan; provided the amount of principal collections otherwise payable to the borrower will be diverted to pay any shortfalls in the payment of interest on the TALF loan. The resulting shortfall in principal payments to the borrower may only be repaid through payments of excess spread to the borrower (described in #2 below).
 2. All interest collections are applied first to pay interest due on the TALF loan and any prior deficiencies and second the excess, if any, is paid to the borrower.
 3. If the borrower fails to pay interest on the TALF loan and such failure results from a shortfall in expected interest collections on the underlying collateral (as opposed to timing mismatches between the TALF loan and underlying collateral), then, if such deficiency is not repaid in 30 days, the Fed may foreclose on the collateral and the borrower's haircut will be forfeited.

Further Terms and Information (2 of 2)

- The FRBNY will create a special purpose vehicle (SPV) to hold any collateral acquired in relation to TALF loans. The Treasury will finance the first \$20 billion in assets purchased by the SPV and the FRBNY will finance all additional amounts. The Treasury's backing could rise to \$100 million if the total TALF program grows.
- The FRBNY reserves the right to inspect the financial records of borrowers, limited to records relating to borrower's TALF loans and collateral.
- The Fed reserves the right to review and make adjustments to the terms and conditions of the program, including the size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements, consistent with the policy objectives of the TALF.



Corporate Finance

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M&A Focused on Financial Institutions

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Term Securitizations
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Tax-Exempt Leasing
Sports Stadium Finance

Banking

Commercial Lending
Asset-based Lending
Acquisition Finance
Syndicated Facilities



For questions concerning this presentation, please contact:

- any member of our Asset Securitization Group
- any member of our Investment Fund Group

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