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Global Finance Group Client Alert

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FIRST SUBSCRIPTIONS DUE MARCH 17 FOR THE TERM ASSET-BACKED SECURITIES LOAN FACILITY

Investors interested in borrowing at attractive rates in increments of \$10 million or more will have the opportunity to do so for the first time on March 25, 2009 under the Federal Reserve's and Treasury's recently expanded joint Term Asset Backed Securities Loan Facility ("TALF"). Access to the financing is available from the Federal Reserve Bank of New York (the "FRBNY") through primary dealers (financial institutions that trade directly with the Federal Reserve) in exchange for an administrative fee and the posting of eligible collateral in the form of highly-rated asset-backed securities ("ABS"). Borrowings are subject to a prescribed haircut depending on the exposures that back the ABS. The government is betting that investors will be sufficiently attracted to the financing that their purchase of the eligible collateral will kick-start a depressed securitization market and help get consumer credit flowing again. TALF was authorized by the Federal Reserve on November 24, 2008, described in some detail on February 6, 2009 and expanded, revised and launched on March 3. The initial subscription date is March 17, 2009, and thereafter subscriptions will be held on a monthly basis on the first Tuesday of every month through December 2009 unless extended by the Federal Reserve. Highlights are the following:

-- **Loan amount.** The market value of the eligible ABS collateral pledged with the FRBNY's custodian minus a haircut of five percent to 16 percent depending on the assets backing the ABS collateral. The minimum loan amount is \$10 million. There is no maximum loan amount.

-- **Eligible collateral.** Eligible collateral consists of U.S. dollar-denominated cash (i.e. not synthetic) ABS that have the highest long- or short-term ratings from two or more nationally-recognized rating agencies and that are backed by auto loans (including retail loans and leases and dealer floorplan loans), credit-card receivables, federal student loans or small business loans. Additional eligible collateral, such as commercial real estate mortgage backed securities, may be added in the future. Credit ratings must be obtained without the benefit of a third-party guarantee. ABS must (except in limited cases) have been issued since January 1, 2009; 95 percent of the dollar amount of the credit exposures backing the ABS must be to U.S.-domiciled obligors and 85 percent of

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the dollar amount of these exposures must have been issued since a particular origination date (depending on the type of collateral). The underlying loans may not have been originated or securitized by the borrower or by an affiliate of the borrower. The average life of the credit-card receivables or auto loans backing eligible ABS must be no greater than five years. A borrower may pledge any combination of eligible ABS as collateral for a single TALF loan, but fixed-rate ABS must be pledged against a fixed-rate loan and floating-rate ABS against a floating-rate loan. Substitution of collateral during the term of the loans is not permitted.

-- **Recourse.** The loans are non-recourse against the borrower except in the case of a breach of representation (e.g. as to collateral eligibility or other basic warranties) or collateral substitution covenants, or in the case of a borrower's failure to deliver a notice surrendering its collateral in the event of non-payment at maturity.

-- **Eligible borrowers.** Any U.S. company, including an investment fund, that conducts significant business in the United States, that owns eligible collateral and that maintains an account with a primary dealer, other than a company owned by a non-U.S. government or an investment fund managed by a company owned by a non-U.S. government. An investment fund thus must both be organized under U.S. law and be managed by a U.S. company. It may be newly formed for the purpose of investing in ABS and borrowing under the TALF, may be an existing fund that invests solely in ABS or may be an existing fund only a portion of the assets of which are ABS. A U.S. branch of a non-U.S. bank (other than a non-U.S. central bank) is an eligible borrower if it maintains reserves with a Federal Reserve Bank.

-- **Fixed or floating interest rates.** Borrowers may choose either a fixed or floating interest rate. Interest rates will be set by the FRBNY two days before each TALF loan settlement date. The rates will be set so as to provide borrowers with an incentive to purchase eligible ABS at yield spreads higher than in more normal market conditions, but lower than in the highly illiquid conditions that have prevailed during the recent turmoil in the financial markets. The initial interest rates on fixed- and floating-rate loans collateralized by ABS backed by auto and credit-card receivables will be 100 basis points over the three-year LIBOR swap rate and 100 basis points over one-month LIBOR, respectively. The initial interest-rate spreads on loans backed by collateral that benefits from a government guarantee, e.g. SBA loans and government-guaranteed student loans, will be 50 basis points. Any excess interest from eligible collateral is released to the borrower on a monthly basis after payment of interest on the related TALF loans.

-- **Number of loans.** An eligible borrower may request an unlimited number of loans at each monthly subscription and may request them through more than one primary dealer.

-- **Loan maturity.** The loans have a three-year maturity with interest paid monthly. Loans may be pre-paid without penalty. Instead of repaying a loan at maturity, the borrower may surrender the collateral by filing a notice with the FRBNY. If the borrower fails to deliver the notice, the FRBNY may exercise its recourse rights against the borrower. A ratable portion of any principal payments on eligible collateral (based on the haircut loan-to-value ratio) are applied to repay the TALF loan principal (with the balance remitted to the borrower).

-- **Administrative fee.** On each loan's settlement date the borrower must pay the FRBNY an administrative fee of five basis points on the loan amount.

-- **Executive compensation restrictions.** No executive compensation restrictions will be imposed on any person by virtue of its participation in the TALF program.

-- **Documentation.** A primary dealer acting as an agent for the borrower must execute a Master Loan and Security Agreement. The ABS issuer's offering document must include a certification that the ABS is eligible collateral, and must be backed by a similar accountant's report. The sponsor must also provide the FRBNY with an undertaking agreeing to indemnify the FRBNY from any losses if the certification is untrue.

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