

Expansion of the Term Asset-Backed Securities Loan Facility (TALF) and Update on the First TALF Funding

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On March 5, 2009, McDermott released a *White Paper* entitled “The Federal Reserve Board and Treasury Launch the Term Asset-Backed Securities Loan Facility (TALF)”, describing the implementation of the Term Asset-Backed Securities Loan Facility (TALF) by the Federal Reserve Bank of New York (FRBNY). The March 5, 2009, *White Paper* detailed the terms of the first TALF financing, which closed on March 25, 2009. This article describes the results and material developments of the first TALF financing as well as the expansion and other material changes to the TALF program since March 5, 2009. For a more detailed description of the TALF facility, including TALF processes and procedures, please read our previous *White Paper*, which can be accessed at <http://www.mwe.com/info/news/wp0309a.htm>.

On March 19, 2009, the FRBNY announced the results of the March TALF loan requests, including the final loan interest rates for the March TALF loans. Additionally, the FRBNY released new “Terms and Conditions” and “Frequently Asked Questions” pertaining to TALF, which included expanding the eligible asset classes to include loans or leases relating to business equipment, mortgage servicing advances, leases of vehicle fleets and floorplan loans.

On March 23, 2009, the U.S. Department of the Treasury (Treasury), in connection with the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, announced the implementation of the Public-Private Investment Program (PPIP), which includes the Legacy Loans Program to purchase legacy loans from U.S. banks and U.S. savings associations, and the Legacy Securities Program to purchase legacy securities from “financial institutions” as defined in the Economic Stabilization Act of 2008. Legacy loans are loans and other assets, which have not yet been specified, currently held directly on the books of U.S. banks and U.S. savings associations. Legacy securities have been defined by the FRBNY to initially include only certain residential mortgage-backed securities and commercial mortgage-backed securities. The Legacy Securities Program expands the eligible collateral under TALF to include mortgage-backed securities issued prior to 2009 that are collateralized by residential real estate or commercial real estate. Under PPIP, Treasury will make investments in multiple Public-Private Investment Funds (PPIFs), each of which will purchase legacy real estate-related assets, including legacy loans and legacy securities. Eligible assets for PPIP-TALF loans are expected to include certain non-agency residential mortgage-backed securities that were originally rated AAA, and outstanding and commercial mortgage-back securities and ABS that are currently rated AAA. The Treasury announced that the TALF eligibility criteria will apply to PPIP-TALF loans, and, although the specifics have yet to be determined, TALF concepts including collateral haircuts, lending rates, minimum loan sizes and loan durations will also apply to PPIP-TALF loans.

On March 24, 2009, the FRBNY announced the collateral haircuts and the interest rates for the second TALF financing, which is scheduled to close on April 14, 2009.

First TALF Loans

On March 19, 2009, the FRBNY released the initial results of the loan requests for the first TALF funding. The amount of TALF loans requested at the first TALF funding was \$4.7 billion. Prior to the disbursement of the TALF loans, each borrower (or its agent) must have delivered the ABS collateral, administrative fee and applicable margin to the FRBNY’s settlement account at its custodian, The Bank of New York Mellon.

The chart below indicates the TALF loans that were requested in the first TALF funding, itemized by asset class:

	Sector	TALF Loan Amount*	Total ABS Offered*
	Auto	\$1.9 billion	\$4.3 billion
	Credit Card	\$2.8 billion	\$3 billion
	Student Loan	0	0
	Small Business	0	0
Total		\$4.7 billion	\$7.3 billion

* These figures have been rounded to the nearest hundred million.

Four ABS transactions were structured in connection with the first TALF financing. Nissan Motor Co., Ford Motor Credit Co. and Huntington National Bank offered more than \$4 billion (in the aggregate) of ABS backed by auto loans in three separate transactions. Certain investors in these three auto loan ABS transactions subscribed to TALF to fund their purchases. Citigroup offered \$3 billion of ABS backed by credit-card receivables and certain prospective purchasers of the ABS subscribed to TALF to finance their purchase.

The interest rates for the TALF loans issued on the first loan settlement/closing date were as follows:

Sector	Subsector	Fixed Rate ABS	Floating Rate ABS
Auto	N/A	2.733% (3-year LIBOR swap rate + 100 BPS)	1.523% (1-month LIBOR + 100 BPS)
Credit Card	N/A	2.733% (3-year LIBOR swap rate + 100 BPS)	1.523% (1-month LIBOR + 100 BPS)
Student Loan	Private	N/A	1.523% (1-month LIBOR + 100 BPS)
Student Loan	Government Guaranteed	N/A	1.023% (1-month LIBOR + 50 BPS)
Small Business	SBA 7(a) loan	N/A	1.00% Fed Funds Target + 75 BPS
Small Business	SBA 504 loan	2.233% (3-year LIBOR swap rate + 50 BPS)	N/A

In addition to these interest rates, the FRBNY also assessed an administrative fee equal to five basis points of the loan amount on the settlement date for each transaction.

Upcoming (April) TALF Loan Terms

On March 24, 2009, the FRBNY announced the collateral haircuts and the interest rates for the second TALF financing, which is scheduled to close on April 14, 2009.

Under TALF, the FRBNY has established “collateral haircuts” for each class of eligible collateral. The haircut is a percentage that will be subtracted from the value of the underlying assets that serve as collateral.

The collateral haircuts for the April TALF financing are as follows:

Sector	Subsector	ABS EXPECTED LIFE (YEARS)						
		0-1	>1-2	>2-3	>3-4	>4-5	>5-6	>6-7
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	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%		

ABS EXPECTED LIFE (YEARS)

Sector	Subsector	0-1	>1-2	>2-3	>3-4	>4-5	>5-6	>6-7
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
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%		

The non-bold text represents haircuts that were announced by the FRBNY on March 3, 2009, none of which have changed. The bold text represents additional haircuts announced by the FRBNY on March 24, 2009. For ABS benefitting from a substantial 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 other ABS with average lives beyond five years, haircuts will increase by one percentage point for each additional year of average life beyond five years.

The FRBNY announced that the interest rates for the TALF loans to be made on the second settlement/closing date (April 14, 2009) are as follows:

Sector	Subsector	Fixed Rate ABS	Floating Rate ABS
Auto	N/A	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Credit Card	N/A	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Equipment		3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Floorplan		3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS

Sector	Subsector	Fixed Rate ABS	Floating Rate ABS
Servicing Advances	Residential Mortgages	3-year LIBOR swap rate + 100 BPS	1-month LIBOR + 100 BPS
Small Business	SBA 7(a) loan	N/A	Fed Funds Target + 75 BPS
Small Business	SBA 504 loan	3-year LIBOR swap rate + 50 BPS	N/A
Student Loan	Private	N/A	1-month LIBOR + 100 BPS
Student Loan	Government Guaranteed	N/A	1-month LIBOR + 50 BPS

The non-bold text represents interest rates that were announced by the FRBNY on March 3, 2009, none of which have changed. The bold text represents additional interest rates announced by the FRBNY on March 24, 2009.

SUMMARY OF KEY DATES FOR THE SECOND TALF FINANCING (APRIL 2009)

Date	Event
March 24, 2009	Announcement of details of April operation
March 25 to April 7, 2009	Marketing second funding to investors
TBD	To be determined: deadline for eligible borrower to submit loan requests and materials to its Primary Dealer
April 7, 2009	Initial and follow-up loan requests and ABS offering materials delivered to Custodian
April 8 to 9, 2009	Supplementary information, Sponsor Indemnity Undertaking & Eligible Collateral Schedule submission deadlines
April 10, 2009	Deadline for Custodian to confirm to Primary Dealers which loans will be made
April 14, 2009	Second TALF loans closing/settlement date (fee, margin and collateral delivered, TALF funds disbursed and final confirm issued)

Substantive Changes in the Terms and Conditions and Frequently Asked Questions

The two primary modifications to the TALF program announced on March 19, 2009, were the introduction of new ABS asset classes that are eligible to collateralize TALF financings, and the changes to the role of a primary dealer as an underwriter for TALF financings.

Expansion of Asset Classes of Eligible Collateral

The FRBNY expanded the list of asset classes that are eligible to collateralize TALF financings to include loans or leases relating to business equipment, mortgage servicing advances, leases of vehicle fleets and floorplan loans. The new asset classes are eligible for use as collateral for TALF financings beginning in April. Initially, the TALF eligible asset classes were limited to student loans, auto loans, credit card loans and loans guaranteed by the U.S. Small Business Administration (SBA).

Equipment loans will include retail loans and leases relating to business equipment. All or substantially all of the credit exposures underlying eligible equipment loan ABS must have been originated on or after October 1, 2007. Eligible servicing advance receivables will include receivables created by principal and interest, tax and insurance, and corporate advances made by Fannie Mae- or Freddie Mac-approved residential mortgage servicers under pooling and servicing agreements. Like equipment loans, mortgage servicer advances must have been originated on or after January 1, 2007. Eligible floorplan loans will include revolving lines of credit to finance dealer inventories. Similar to credit cards and auto loans, the expected life for floorplan, equipment or servicing advance receivable loan ABS cannot be greater than five years.

The FRBNY also noted that with respect to both the auto and floor plan asset classes, eligible ABS may be issued out of an existing or newly established master trust in which all or substantially all of the underlying exposures were originated on or after January 1, 2009. The FRBNY clarified that with respect to auto, credit card and floor plan, eligible ABS may be issued by either a revolving or a master trust.

The FRBNY provided additional clarification on the four initially approved asset classes. Auto loans were expanded from cars, light trucks, motorcycles and recreational vehicles to include commercial, government and rental fleet leases. Commercial, government and rental fleet ABS may include loans and/or leases related to any type of vehicle that have collateralized fleet securitizations in the past. Moreover, the FRBNY clarified that under TALF the following will constitute “recreational vehicles”: boats, trailers and sports vehicles. Additionally, all or substantially all of the credit exposures underlying eligible auto loan ABS issued by a non-revolving trust must have been originated on or after October 1, 2007. With respect to student loans specifically, TALF eligible ABS will include federally guaranteed student loans (including consolidation loans) and private student loans. Eligible credit card ABS will include both consumer and corporate credit card receivables.

Primary Dealer as Underwriter

The FRBNY noted that in the unlikely scenario that a borrower is deemed ineligible between the subscription date and the settlement date, a primary dealer who acts as a underwriter and agent for the borrower may access either the TALF facility, if certain conditions set forth below are satisfied, or the Primary Dealer Credit Facility (PDCF) using the underwritten securities as collateral. The PDCF is another credit facility provided by the FRBNY. For a description of the PDCF, please visit the FRBNY website at <http://www.newyorkfed.org/markets/pdcf.html>.

Under a TALF borrowing by a primary dealer, the following conditions must be satisfied:

- The amount borrowed is equal to the loan amount that the ineligible borrower requested on the subscription date.
- The borrowing is not used for a transaction underwritten by the primary dealer that contains assets that the primary dealer, any of its affiliates, or any entities under direct or indirect control of the primary dealer, originated.

Prospective TALF Borrowers

The FRBNY pronounced that primary dealers will be able to submit “names of prospective TALF borrowers for a pre-certification review to be conducted by New York Fed compliance in advance of a subscription date.” The FRBNY noted that by allowing primary dealers to submit names of prospective borrowers, the FRBNY was providing potential borrowers with greater confidence in the TALF program by assuaging concerns relating to the FRBNY’s ability to reject a TALF subscription.

Substitution Requirements

The FRBNY removed the requirement that a TALF borrower must substitute collateral that has become ineligible after the TALF financing with eligible collateral or face default on the TALF loan.

Clarification for Hedging Transactions

The FRBNY clarified that under TALF, a primary dealer may enter into an interest rate swap with an ABS trust to provide a floating-rate security based off of fixed-rate receivables, so long as the swap agreement is entered into at a fair price.

New and Revised TALF Forms

In addition to revised Terms and Conditions and Frequently Asked Questions documents, to date, the FRBNY has released the following TALF forms and documents: TALF Master Loan and Security Agreement, Form of Certification as to TALF Eligibility, TALF Auditor Attestation Form, the Guidance for Accounting Firms in Determining TALF Collateral Eligibility, the Form of Undertaking in Connection with SBA ABS, Conflicts of Interest Guidance for Primary Dealers Participating in TALF, and TALF Borrower Eligibility and New York Fed Due Diligence Policy.

To read the press release from the FRBNY regarding the initial results of first round of TALF loan requests, visit <http://www.newyorkfed.org/newsevents/news/markets/2009/ma090319.html>.

For the TALF Operations press release from the FRBNY regarding the final loan rates for the first TALF financing, visit http://www.newyorkfed.org/markets/talf_operations.html.

To read the revised "Terms and Conditions" released by the FRBNY on March 19, 2009, visit http://www.newyorkfed.org/markets/talf_terms.html.

For the revised "Frequently Asked Questions" released by the FRBNY on March 19, 2009, please visit http://www.newyorkfed.org/markets/talf_faq.html.

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