

April 21, 2009

UPDATE - U.S. Treasury Initiative Term Asset-Backed Securities Loan Facility ("TALF")

Special Client Note

Overview – On April 21, 2009, changes and clarifications of the TALF program were issued by the Federal Reserve Bank of New York.¹ This Client Note describes these changes and potential implications for participants.²

Changes to the Program – Effective on and after May 2009, the benchmarks for fixed rate TALF loans secured with ABS backed by autos, credit cards, equipment, floorplan or residential mortgage servicing advances with weighted average lives less than 2 years were changed to reflect tenors that more closely matched the weighted average lives of the assets securing the TALF loan.

For fixed rate TALF loans with weighted average lives less than 1 year, the pricing benchmark will be the 1 year LIBOR swap rate. For fixed rate TALF loans with weighted average lives from 1 year to less than 2 years, the benchmark will be the 2 year LIBOR swap rate. For all other fixed rate loans, the benchmark will remain the 3 year LIBOR swap rate. Shown below is a table illustrating the complete pricing matrix for new loans funded under the TALF:

Table 1 – Revised TALF Loan Pricing

Sector	Subsector	Fixed Rate (Weighted Average Life in Years)			Floating Rate
		<1	1 to <2	2+	
Auto		1 Yr LIBOR Swap + 100 bps	2 Year LIBOR Swap + 100 bps	3 Year LIBOR Swap + 100 bps	1 Month LIBOR + 100 bps
Credit Card		1 Yr LIBOR Swap + 100 bps	2 Year LIBOR Swap + 100 bps	3 Year LIBOR Swap + 100 bps	1 Month LIBOR + 100 bps
Equipment		1 Yr LIBOR Swap + 100 bps	2 Year LIBOR Swap + 100 bps	3 Year LIBOR Swap + 100 bps	1 Month LIBOR + 100 bps
Floorplan		1 Yr LIBOR Swap + 100 bps	2 Year LIBOR Swap + 100 bps	3 Year LIBOR Swap + 100 bps	1 Month LIBOR + 100 bps
Svcg Advances		1 Yr LIBOR Swap + 100 bps	2 Year LIBOR Swap + 100 bps	3 Year LIBOR Swap + 100 bps	1 Month LIBOR + 100 bps
Small Business	SBA 7(a)	N/A	N/A	N/A	Fed Funds Target + 75 bps
Small Business	SBA 504	N/A	N/A	3 Year LIBOR Swap + 50 bps	N/A
Student Loan	Private	N/A	N/A	N/A	1 Month LIBOR + 100 bps
Student Loan	Gov't Guaranteed	N/A	N/A	N/A	1 Month LIBOR + 50 bps

New Category
New Category

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¹ As described on the Federal Reserve Bank of New York's website April 21, 2009: http://www.newyorkfed.org/markets/talf_terms.html

² For more detailed information on how the TALF program works and its effectiveness to date, please see FalconBridge's Special Client Note dated April 9, 2009 "U.S. Treasury Initiative – Term Asset-Backed Securities Loan Facility ("TALF")" available on our website, www.falconbridgecap.com

Clarifications to the TALF – The New York Federal Reserve also issued the following clarifications to the TALF on April 21, 2009³:

- Clarified that for eligible ABS ... “underlying credit exposures must not include exposures that are themselves cash **ABS** or synthetic ABS”.
- Confirmed that under the TALF terms and conditions, “U.S. domiciled obligors” includes obligors:
 - Domiciled in a U.S. political subdivision, and
 - Domiciled in a U.S. territory
- Closed a potential loophole by clarifying that zero coupon ABS are not eligible as TALF collateral.
- Revised timing of delivery of certain documentation:
 - Excluded the requirement that an accountant’s report must be delivered to the custodian by 12 noon three business days prior to the applicable TALF loan settlement date.
 - Further clarified that the final prospectus / offering documents be provided to the custodian by 12 noon three **business** days prior to settlement, instead of three days, as previously described in the TALF Frequently Asked Questions.
 - Added that assertions made in the Issuer and Sponsor Certification shall be made as of the date of the final (“black”) prospectus or offering document. In the event that it is not feasible to make these assertions as of the date of the final offering document, it is acceptable that the assertions be made as of the “red” prospectus or offering document. The opinion in the Auditor Attestation shall be made as of the same date as the issuer and sponsor make their assertions in the Issuer and Sponsor Certification. Each of the Issuer and Sponsor Certification (and accompanying Indemnity Undertaking) and the Auditor Attestation shall only be submitted to the FRBNY once per CUSIP.
- Clarified the haircut used for TALF loans secured by prime credit card ABS in certain circumstances. Previously, the “subprime” haircut had to be used for credit card trusts where a weighted average FICO score was not disclosed. Under current guidance, the subprime haircut schedule will apply to credit card trusts where the *percentage* of receivables *with* a FICO score *greater than 660* is not disclosed.
- Changed the required prepayment amount of a TALF loan secured by ABS with a premium dollar price as of the TALF loan date by eliminating the ability to utilize an approximation for WAL where the actual WAL is not available.

Implication of TALF Changes and Clarifications – Overall, the changes and clarifications introduced are relatively minor. Three revisions could potentially impact the program’s economics:

- **First**, changes to the pricing benchmarks for fixed-rate TALF loans backed by ABS with short WAL’s are beneficial to issuers. By ensuring that ABS price relative to a benchmark with a tenor similar to that used for a TALF loan, investors can achieve their desired return while issuers can issue securities with a lower coupon,
- **Second**, the clarification disallowing zero coupon securities eliminates a potential loophole which could allow investors to arbitrage government financing, and
- **Third**, the requirement that subprime haircuts be used for credit card trusts where the percentage of FICO scores above 660 are not disclosed should incent issuers to provide more information if, in doing so, the trust will be deemed prime for the purpose of TALF haircuts.

³ As described in the TALF Frequently Asked Questions as of April 21, 2009 http://www.newyorkfed.org/markets/talf_faq.html.