

March 6, 2009

## TALF is Launched with Revised Terms

The Department of Treasury and the Federal Reserve announced this week the launch of the Term Asset-Backed Securities Loan Facility ("TALF") which is intended to jump-start lending markets by providing loans to investors who purchase qualifying asset-backed securities ("ABS"). In addition, the Federal Reserve Bank of New York (the "New York Fed") published revised terms and conditions for TALF loans and a revised draft of the Master Loan and Security Agreement ("MLSA").

The revised terms and conditions for the first TALF fundings differ from the previously published terms and conditions in ways that may be interesting to investors. We have highlighted some key revisions below:

- **Key dates announced:** Annex 1 shows key dates for the first and second TALF fundings. Annex 2 contains an indicative timeline for TALF fundings based upon the procedures set forth in the MLSA.
- **Collateral for first TALF loan subscriptions announced:** The first TALF loans may be collateralized by certain AAA-rated ABS backed by newly and recently originated auto loans, credit card loans, student loans and loans guaranteed by the U.S. Small Business Administration.
- **Additional collateral for subsequent TALF loan subscriptions being considered:** The announcement noted that the terms and conditions for accepting commercial mortgage-backed securities for subsequent TALF loan subscription and closing dates are being analyzed by teams from the Treasury Department and the Federal Reserve. In addition, eligible ABS may be expanded to private label residential mortgages and other asset classes, although it does not appear that a decision has been made.
- **Executive compensation restrictions removed:** The executive compensation restrictions that were applicable to ABS sponsors have been removed. The revised frequently asked questions ("FAQs") that were published by the New York Fed stated that the executive compensation restrictions will not be applied to TALF sponsors, underwriters and borrowers as a result of their participation in TALF.
- **Reduced margins and haircuts on certain collateral:** The interest rate margins and haircuts for TALF loans secured by certain collateral have been reduced.
  - **Government guaranteed student loans:** Interest rate margin has been reduced in certain cases to 50 basis points over 1-month LIBOR and the haircuts have been reduced in certain cases by 1-3% depending upon the average life of the pledged ABS.

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- **SBA pool certificates:** The interest rate margin has been reduced in certain cases to 75 basis points over the federal funds target rate and the haircuts have been reduced in certain cases by 1-2% depending upon the average life of the pledged ABS.
- **SBA development company participation certificates:** The interest rate margin has been reduced in certain cases to 50 basis points over the 3-year LIBOR swap rate and the haircuts have been reduced in certain cases by 1-2% depending upon the average life of the pledged ABS.
- **Increased market value cap of pledged collateral:** Under TALF, the New York Fed will lend to eligible borrowers an amount equal to the lesser of the par or market value of the pledged ABS minus the applicable haircut. If the pledged ABS has a market value above 100% of par, the New York Fed will lend an amount equal to the market value (up to a cap of 110% of par) minus the applicable haircut with a requirement that the borrower prepay such loan periodically. The previous MLSA capped the market value of collateral at 100% of par.
- **Eligible borrowers can request an unlimited amount of loans on each TALF subscription date:** The FAQs indicate that eligible borrowers are entitled to request an unlimited amount of loans on each TALF subscription date. Previously, eligible borrowers were entitled to request only one fixed rate loan and one floating rate loan on each TALF subscription date.

\* \* \* \*

We have been following these issues closely and have spoken with many of you about them. To see our recent memorandum about TALF, please go to <http://www.paulweiss.com/financialcrisisresources>.

We will continue to provide you with further updates as details emerge about the TALF loan program and other related U.S. Government programs.

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. If you have any questions, or would like to discuss any of the foregoing in further detail, please feel free to call any of the following Paul, Weiss Financing Group lawyers:

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KEY DATES<sup>1</sup>**First TALF Funding**

<u>Date</u>	<u>Announcement/Event</u>
March 3, 2009	TALF launch
March 17, 2009	Subscriptions for first funding of TALF to be recorded
March 25, 2009	First funds from TALF to be disbursed

**Second TALF Funding**

<u>Date</u>	<u>Announcement/Event</u>
March 24, 2009	Announcement of details for second TALF funding
April 7, 2009	Subscriptions for second funding of TALF to be recorded
April 14, 2009	Second funds from TALF to be disbursed

<sup>1</sup> According to the FAQs, going forward monthly subscriptions will be scheduled on the first Tuesday of every month. The New York Fed will cease making loans under TALF on December 31, 2009 unless the Board of Governors of the Federal Reserve extends the facility.

## Indicative TALF Borrowing Timeline

