

Term Asset-Backed Securities Loan Facility (TALF) Frequently Asked Questions

Why is the Federal Reserve establishing the TALF?

The asset-backed securities (ABS) market has been under strain for some months. This strain accelerated in the third quarter of 2008 and the market came to a near-complete halt in October. At the same time, interest rate spreads on AAA-rated tranches of ABS rose to levels well outside the range of historical experience, reflecting unusually high risk premiums. The ABS markets historically have funded a substantial share of consumer credit and U.S. Small Business Administration (SBA)-guaranteed small business loans. Continued disruption of these markets could significantly limit the availability of credit to households and small businesses and thereby contribute to further weakening of U.S. economic activity. The TALF is designed to increase credit availability and support economic activity by facilitating renewed issuance of consumer and small business ABS at more normal interest rate spreads.

How will the TALF work?

Under the TALF, the Federal Reserve Bank of New York (FRBNY) will provide non-recourse funding to any eligible borrower owning eligible collateral. On a fixed day each month, borrowers will be able to request one or more three-year TALF loans. Loan proceeds will be disbursed to the borrower, contingent on receipt by the FRBNY's custodian bank (custodian) of the eligible collateral, an administrative fee, and margin, if applicable. As the loan is non-recourse, if the borrower does not repay the loan, the FRBNY will enforce its rights in the collateral and sell the collateral to a special purpose vehicle (SPV) established specifically for the purpose of managing such assets. The FRBNY has published a Master Loan and Security Agreement ([MLSA](#)), which provides further details on the terms that will apply to borrowings under the TALF. The TALF loan is non-recourse except for breaches of representations, warranties and covenants, as further specified in the MLSA.

Eligible Borrowers

Who may borrow under the TALF?

Any U.S. company that owns eligible collateral may borrow from the TALF provided the company maintains an account relationship with a primary dealer. An entity is a U.S. company if it is (i) a business entity or institution that is organized under the laws of the United States or a political subdivision or territory thereof (U.S.-organized) and conducts significant operations or activities in the United States (regardless of whether any such an entity has a parent company that is not U.S.-organized), including any U.S.-organized subsidiary of such an entity; (ii) a U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank; or (iii) an investment fund that is U.S.-organized and managed by an investment manager that has its principal place of business in the United States. Notwithstanding the foregoing, a U.S. company excludes any entity that is controlled by a foreign government or is managed by an investment manager controlled by a foreign government.

May a U.S. subsidiary of a foreign entity borrow from the TALF?

A U.S.-organized operating subsidiary of a foreign entity may borrow from the TALF so long as (i) the U.S. subsidiary conducts significant operations or activities in the United States and (ii) the U.S. subsidiary is not directly or indirectly controlled by a foreign government. A U.S.-organized investment fund subsidiary of a foreign entity may borrow from the TALF so long as (i) the U.S. subsidiary is managed by an investment manager that has its principal place of business in the United States; (ii) the U.S. subsidiary is not directly or indirectly controlled by a foreign

government; and (iii) the investment manager of the U.S. subsidiary is not directly or indirectly controlled by a foreign government.

What is an “investment fund” for purposes of the TALF eligible borrower definition?

An investment fund is any type of pooled investment vehicle, including a hedge fund, a private equity fund, and a mutual fund, or a vehicle that primarily or exclusively invests in eligible collateral and borrows from the TALF.

What types of investment funds are eligible borrowers?

Investment funds that are organized in the United States and managed by an investment manager that has its principal place of business located in the United States are eligible borrowers for purposes of the TALF. However, any investment fund that is controlled by a foreign government or is managed by an investment manager controlled by a foreign government is not an eligible borrower for purposes of the TALF.

Example

InvestcoBermuda is a “master” investment fund organized in Bermuda that makes joint investments on behalf of InvestcoUS, a U.S.-organized investment fund, and InvestcoCayman, a Cayman Islands-organized investment fund. InvestcoBermuda, InvestcoUS, and InvestcoCayman are all managed by an investment manager with its principal place of business in the United States. Only InvestcoUS is an eligible borrower because it is the only investment fund that is U.S.-organized. If, however, InvestcoBermuda establishes Newco, a subsidiary investment fund, in the United States and hires its U.S.-based investment manager to manage Newco, Newco would be an eligible borrower for purposes of the TALF.

To be considered an eligible borrower, does an investment fund need to primarily or exclusively invest in TALF eligible ABS or can it be a multi-strategy fund?

An eligible investment fund includes funds that only invest in TALF eligible ABS and only borrow from the TALF, as well as funds that invest in a mix of TALF eligible ABS and other assets.

What is the definition of “controlled” for purposes of the eligible borrower definition?

For purposes of the eligible borrower definition, a foreign government controls a company if, among other things, the foreign government owns, controls, or holds with power to vote 25 percent or more of a class of voting securities of the company.

Can a newly formed investment fund borrow from the TALF?

Yes, so long as it satisfies all the eligible borrower requirements set forth above.

Eligible Collateral

What types of ABS are eligible collateral under the TALF?

Eligible collateral (eligible ABS) will include U.S. dollar-denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or short-term investment-grade rating category from two or more major nationally recognized statistical rating organizations (NRSROs) and do not have a credit rating below the highest investment-grade rating category from a major NRSRO. Eligible small business ABS also will include U.S. dollar-denominated cash ABS that are, or for which all of the underlying credit exposures are, fully guaranteed as to principal and interest by the full faith and credit of the U.S. government.

All or substantially all of the credit exposures underlying eligible ABS must be exposures to U.S.-domiciled obligors. The underlying credit exposures of eligible ABS must be auto loans, student loans, credit card loans, or small business loans fully guaranteed as to principal and interest by the SBA. The set of permissible underlying credit exposures of eligible ABS may be expanded over time. The underlying credit exposures must not include exposures that are themselves cash or synthetic ABS. The average life for credit card or auto loan ABS cannot be greater than five years.

Eligible ABS must be cleared through the Depository Trust Company and, except for SBA Pool Certificates or Development Company Participation Certificates, must be issued on or after January 1, 2009. All or substantially all of the credit exposures underlying eligible auto loan ABS (except auto dealer floorplan ABS) must have been originated on or after October 1, 2007. All or substantially all of the credit exposures underlying eligible student loan ABS must have had a first disbursement date on or after May 1, 2007. SBA Pool Certificates and Development Company Participation Certificates must have been issued on or after January 1, 2008, regardless of the dates of the underlying loans or debentures. The SBA-guaranteed credit exposures underlying all other eligible small business ABS must have been originated on or after January 1, 2008. Eligible credit card and auto dealer floorplan ABS must be issued to refinance existing credit card and auto dealer floorplan ABS, respectively, maturing in 2009 and must be issued in amounts no greater than the amount of the maturing ABS.

Which rating agencies are considered major nationally recognized statistical rating organizations (NRSROs) for purposes of the TALF?

The major NRSROs for purposes of determining TALF-eligible ABS are Fitch Ratings, Moody's Investors Service, and Standard & Poor's. The FRBNY will periodically review its use of NRSROs, for the purpose of determining TALF-eligible ABS.

What level of assurance will be required from the sponsor's accountants that the ABS is TALF eligible?

An accounting firm retained by the sponsor must provide a certification indicating that the ABS is TALF eligible. The accounting firm must be a nationally recognized certified public accounting firm that is registered with the Public Company Accounting Oversight Board. The form of the certification is at <http://www.ny.frb.org/markets/TALFAuditorAttestationForm.pdf>.

What information must the issuer and sponsor include in the prospectus or other offering document of an ABS in order to represent that the ABS is eligible collateral for a TALF loan?

In addition to information required by applicable laws, the issuer and sponsor must ensure that the information included in a prospectus or other offering document of an ABS they represent as eligible collateral under the TALF includes a signed certification indicating, among other items, that (a) the ABS is TALF eligible, (b) an accounting firm retained by the sponsor has provided an accountant's report, in a form acceptable to the FRBNY, that the ABS is TALF eligible, and (c) the sponsor (or, if the sponsor is a special purpose vehicle, the sponsor's direct or indirect ultimate parent) has executed and delivered an undertaking to the FRBNY indemnifying it from any losses it may suffer if such certifications are untrue. Such Indemnity Undertaking shall be delivered to the FRBNY no later than four days prior to the TALF loan settlement date. The certification form is at: http://www.ny.frb.org/markets/Form_Certification_TALF_Eligibility.pdf

What entity is the "issuer" that must sign the Issuer Certification?

The "issuer" for purposes of the Issuer Certification, in both public and private offerings of TALF eligible ABS, will be the legal entity that issues the ABS.

What types of receivables are TALF eligible?

Auto-related receivables will include retail loans and leases relating to cars, light trucks, motorcycles and recreational vehicles (RVs), and will also include auto dealer floorplan loans. Commercial, government and rental fleet leases of cars, trucks and light trucks will not be eligible.

For TALF purposes, eligible credit card receivables include both consumer and corporate credit card receivables. Student loan receivables include federally guaranteed student loans (including consolidation loans) and private student loans. SBA loans include loans, debentures, or pools originated under the SBA's 7(a) and 504 programs, provided they are fully guaranteed as to principal and interest by the full faith and credit of the U.S. government and meet all other TALF eligibility requirements.

What does "all or substantially all" mean in the context of determining whether the credit exposures underlying an ABS meet the U.S.-domiciled obligors criteria?

"All or substantially all" in this context means 95 percent or more of the dollar amount of the credit exposures underlying the ABS.

What does "all or substantially all" mean in the context of determining whether the credit exposures underlying an ABS meet the date of origination criteria?

"All or substantially all" in this context means 85 percent or more of the dollar amount of the credit exposures underlying the ABS.

Is there a minimum or maximum maturity limit for ABS that can collateralize TALF loans?

There is no minimum limit. If an ABS's maturity is shorter than the three-year maturity of the TALF loan, the TALF loan will mature upon maturity of the ABS collateral for that loan. The average life for credit card or auto loan ABS cannot be greater than five years.

What happens if an ABS that was eligible for TALF financing is downgraded by an NRSRO?

Nothing happens to existing TALF loans secured by that ABS. However, the ABS may not be used as collateral for any new TALF loans until it regains its status as eligible collateral.

Why are there no loan origination date restrictions for credit card and dealer floorplan ABS?

Unlike auto, SBA and student loan ABS, which are backed by a fixed pool of loans, credit card and dealer floorplan ABS are backed by dynamic pools of receivables that constantly change as customers and vehicle dealerships draw on and repay their credit lines. The pools include both seasoned and recently originated receivables. Due to the quick turnover and revolving nature of the underlying pools, the refinancing of existing credit card and dealer floorplan ABS largely fund newly originated receivables, consistent with the policy goal of the TALF.

Are ABS that are rated in the highest investment grade rating category but are on review or watch for downgrade TALF eligible?

No, eligible ABS cannot be on review or watch for downgrade.

Are privately placed ABS eligible collateral for a TALF loan, provided they meet all of the eligibility requirements?

Yes.

Are AAA credit ratings achieved using a third-party guarantee applicable for TALF eligibility?

No, an eligible ABS must obtain the necessary highest investment grade ratings without the benefit of a third-party guarantee.

Does the requirement that eligible auto dealer floorplan and credit card ABS be issued to refinance existing ABS maturing in 2009 apply at the individual master trust level or at the issuer level?

The refinancing limitation applies at the issuer level rather than the individual trust level. For example, if an issuer has four master trusts with a total of \$20 billion in ABS maturing in 2009, the maximum amount of TALF-eligible ABS the issuer could issue in 2009 is \$20 billion; it may issue that \$20 billion in ABS from one trust or from multiple trusts.

How are variable funding notes treated in the calculation of the amount of an issuer's credit card or auto dealer floorplan ABS maturing in 2009?

For TALF purposes, a VFN's maturity date is its commitment termination date and its amount is its maximum contractual principal balance.

For ABS with controlled amortization periods, what amount counts toward an issuer's limit?

For ABS in controlled amortization periods, only the amount that amortizes in 2009 counts toward the limit.

Do ABS in controlled accumulation periods with bullet maturities after 2009 count toward an issuer's limit?

No. For TALF purposes, ABS maturities are defined as dates on which principal payments are due.

Must a credit card or auto dealer floorplan ABS issuer issue eligible ABS concurrent with the maturation of the ABS the eligible ABS is refinancing?

No. Issuers may pre-fund their maturing ABS with eligible ABS up to three months in advance. Issuers also have the option to refinance ABS that matured in 2009 in bulk on any date up to December 31, 2009. Issuers may not, however, pre-fund ABS that mature in 2010 with eligible ABS.

How will the issuance limits on credit card ABS and auto dealer floorplan ABS be enforced?

Issuers of credit card ABS and auto dealer floorplan ABS must state in their prospectuses that the aggregate amount of eligible ABS they have issued does not exceed the amount of their 2009 ABS maturities. Issuers may issue ABS in excess of their 2009 maturities; however, these excess amounts will not be eligible collateral for TALF loans.

For ABS backed by SBA loans, are explicit credit ratings required?

U.S. dollar-denominated cash ABS backed by loans, debentures, or pools under the SBA's 7(a) and 504 programs will be eligible as long as all of the underlying credit exposures, or the ABS themselves, are fully guaranteed as to principal and interest by the full faith and credit of the U.S. government. These securities do not require an explicit credit rating.

Can a company that originates loans securitize them, acquire the AAA-rated tranche of the securitization, and finance it using the TALF?

No, eligible collateral for a particular borrower must not be backed by loans originated or securitized by the borrower or by an affiliate of the borrower.

How is "affiliate of the borrower" defined for purposes of determining eligible collateral?

An affiliate of a borrower means any company that controls, is controlled by, or is under common control with the borrower. For this purpose, a person or company controls a company if, among other things, it (1) owns, controls, or holds with power to vote 25 percent or more of a class of voting securities of the company; or (2) consolidates the company for financial reporting purposes.

May investors borrow against ABS they already own?

Yes, an investor may borrow against any eligible ABS. Eligible ABS must be issued on or after January 1, 2009, but need not be issued on the same day the investor borrows from the TALF. SBA Pool Certificates and Development Company Participation Certificates must have been issued on or after January 1, 2008.

Operational Mechanics

How does an entity participate in the TALF program?

An eligible borrower must be a customer of a primary dealer and must have executed a customer agreement authorizing the primary dealer, among other things, to execute the master loan and security agreement (MLSA) as agent for the borrower and to perform all actions required on their behalf. The MLSA will provide further details on the requirements that will apply to the entities seeking to borrow from the FRBNY under the TALF.

What is the TALF process from subscription to settlement?

Prior to each subscription date, each primary dealer will collect from prospective eligible borrowers the amount of each borrower's loan request(s), the interest rate format corresponding to the type of collateral pledged (that is, fixed or floating), the CUSIPs of the ABS the borrower expects to deliver and pledge to the FRBNY, and the prospectuses and/or offering documents of the ABS expected to be pledged. On the subscription date, each primary dealer will submit this information to the FRBNY's custodial agent for review and will also submit to the FRBNY the aggregate loans request amount for all its customers by rate type and asset class.

No fewer than two business days before the loan settlement date, the custodian will send a confirmation to the primary dealer listing each borrower's loan amount and the ABS expected to be delivered on the loan settlement date. The confirmation will also include the administrative fee and margin (the dollar amount of the haircut), if applicable, to be collected by the primary dealer and paid on the loan settlement date.

On the loan settlement date, the borrower or its agent will deliver against payment the ABS collateral, administrative fee and applicable margin to the FRBNY's settlement account at the custodian.

How will the process work if a new ABS issue closes on the same day as the TALF loan settlement date?

The borrower of a TALF loan must identify the counterparty expected to deliver the new issue ABS to be pledged as collateral at the time of the loan subscription. When the borrower's primary dealer who submitted the loan request receives the confirmation of the loan and its details from the custodian two days prior to the loan settlement date, the primary dealer can extract the

pertinent information to generate and forward a trade confirmation to the borrower's delivering counterparty. The delivering counterparty can be the lead underwriter or co-manager of the new ABS security issue, other syndicate member, or the primary dealer agent of the borrower. The borrower must always remit the margin to their agent primary dealer who submitted the loan request. If the primary dealer is not the delivering counterparty, the primary dealer will forward the margin to FRBNY's cash custody account at the custodian in order for the issuer to receive the full purchase price of the security issue. The delivering counterparty will deliver the ABS collateral to FRBNY's custodian against payment. Upon settlement, the custodian will reflect the loan and collateral pledged on its books.

The MLSA requires the primary dealer to deliver, among other things, a sales confirmation in connection with collateral that is newly issued. What form of sales confirmation is acceptable?

A Rule 10b-10 confirmation is satisfactory. Other written sales confirmations, including e-mail confirmations that contain the required pricing information and are customarily provided by many broker-dealers prior to mailing of a Rule 10b-10 confirmation, will also be acceptable.

Do issuers need to publish a final prospectus by the subscription date, or can borrowers subscribe for a loan based on the "red" prospectus, and deliver the final prospectus at a later date?

On the subscription date, the primary dealer must provide the custodian with the CUSIP numbers and prospectuses/offering documents of all collateral expected to be pledged against the TALF loans. If the CUSIP number corresponds to a new issuance, the prospectus/offering documents submitted on subscription date may be preliminary, but the final prospectus/offering documents (including the corresponding accountant's report) must be provided to the custodian no later than four days prior to the TALF loan settlement date.

Must an eligible borrower own the ABS it plans to pledge as collateral for a TALF loan at the time it subscribes for the loan?

An eligible borrower need not own the ABS on the subscription date. However, in order for the primary dealer and custodian to perform their due diligence, the borrower must inform the primary dealer by the subscription date of the CUSIP of the ABS it intends to deliver as collateral on the loan settlement date. If the borrower is allocated less than expected of the new ABS issue, the borrower must inform FRBNY and its custodian, through its primary dealer, no less than four days prior to the loan settlement date so that an adjustment may be made to the margin and administrative fee prior to the loan settlement date.

Is there a penalty if an investor fails to provide a security on settlement date?

No, although the FRBNY expects the ABS collateral identified by CUSIP in the confirmation sent to the primary dealer by the custodian to be delivered on the loan settlement date. Should any portion of expected ABS collateral not be received on settlement date, that portion of the loan will be cancelled and the administrative fee will not be refunded.

When will the TALF become operational?

The initial TALF subscription date will be Tuesday, March 17, 2009 and the loan settlement date will be Wednesday, March 25, 2009. Going forward monthly subscriptions will be scheduled on the first Tuesday of every month.

What will be the length of time between the announcement of terms and subscription date?

Based on experience with the initial subscription, the Federal Reserve will review the term announcement and loan settlement timeframes and announce a more detailed future TALF schedule.

Over what time period will the TALF operate?

The facility will cease making loans on December 31, 2009, unless the Board of Governors extends the facility.

Will there be a limit on how many loans a borrower may request?

No, an eligible borrower may request an unlimited number of loans at each monthly subscription.

May borrowers request loans through multiple primary dealers?

Yes. If a borrower requests loans through multiple primary dealers, it must deliver the collateral for each loan through the respective primary dealer, unless the collateral is a new issuance delivered by the underwriter/other syndicate desk.

What is the minimum TALF loan amount?

A borrower must request a minimum of \$10 million for each loan.

Is there a maximum TALF loan amount?

No.

What is the maturity of a TALF loan?

TALF loans have a three-year maturity.

If the ABS matures in four years and the TALF loan matures in three years, is the borrower responsible for selling the collateral and repaying the loan at the end of the third year?

At the end of the three-year period the loan must be repaid. The borrower may (1) repay the loan, at which time the FRBNY will release the collateral, or (2) arrange for the sale of the collateral and instruct the FRBNY to deliver the ABS to the counterparty against payment. The settlement amount of the sales transaction must either be equal to, or greater than, the loan amount outstanding, or the borrower must make up any shortfall to repay the loan in full, including accrued interest, before the FRBNY will deliver the ABS. Any excess sale proceeds will be remitted back to the borrower. At maturity, a borrower may surrender the collateral to the FRBNY, in lieu of repaying the outstanding principal or interest on a TALF loan, by delivering a Collateral Surrender and Acceptance Notice with respect to such loan by the maturity date.

May a borrower pledge more than one security as collateral for a single loan?

Yes, a borrower may pledge any combination of eligible ABS as collateral for a single TALF loan. However, a fixed rate ABS must be pledged against a fixed rate loan and a floating rate ABS against a floating rate loan.

May a borrower revise its original loan request?

The borrower's original loan request, submitted via its primary dealer on the subscription date, may later be adjusted only if the borrower is allocated less than the expected amount of a new ABS issue. A borrower may not adjust its loan request to obtain a larger amount of TALF loans than originally requested.

Will prepayment of the loan be permitted?

Yes. A borrower may prepay a TALF loan in full or in part at any time. If a borrower makes a partial prepayment, collateral securing its loan will be released on a pro-rata basis, taking into consideration minimum ABS denominations.

Are there any penalties associated with prepayment of a TALF loan?

No.

May a borrower substitute collateral during the term of its loan?

No, a borrower may not substitute collateral, unless the collateral is discovered to fail any of the eligible collateral criteria in effect at the time when the loan was made. In this case the FRBNY will require the borrower to replace the collateral or repay the loan.

If the ABS collateral supporting a TALF loan is sold, can the TALF loan be transferred with that collateral?

A borrower may assign all of its obligations with respect to a TALF loan to another eligible borrower with the prior consent of the FRBNY. The FRBNY will assess the eligibility of the assignee as a borrower at the time of the transfer and confirm that the assignee has executed all the requisite documentation for the facility.

No assignments will be consented to after the termination date for making new loans, which is December 31, 2009 unless extended by the Board.

How are principal payments on eligible collateral allocated between the borrower and repayment of principal on the TALF loan?

Any remittance of principal on eligible collateral must be used immediately to reduce the principal amount of the TALF loan in proportion to the original loan-to-value ratio. For example, if the original loan-to-value ratio was 90 percent, 90 percent of any remittance of principal on the ABS must immediately be repaid to the FRBNY.

If a TALF-financed ABS incurs a principal loss, would the loss be allocated between the borrower's haircut and the TALF loan?

No. The borrower is responsible for all interest and principal payments on a TALF loan. If the borrower does not make these payments, the FRBNY will enforce its rights to the collateral and the borrower will forfeit its haircut amount.

What happens if a borrower does not repay its loan?

In lieu of repaying the outstanding principal or interest on a TALF loan, a borrower may surrender the collateral to the FRBNY by delivering a Collateral Surrender and Acceptance Notice with respect to the TALF loan. If a borrower fails to deliver the Collateral Surrender and Acceptance Notice by the maturity date, the FRBNY may exercise recourse rights against the borrower and require it to repay the TALF loan.

Is there a grace period associated with a borrower's obligation to pay interest on a TALF loan?

Yes, a borrower has a grace period of 30 days during which to pay interest on a TALF loan if the net interest on the pledged ABS is not sufficient to cover the interest payment associated with the loan. After the grace period, if the loan remains delinquent, the FRBNY will enforce its rights to the TALF loan collateral.

When a borrower elects to surrender the collateral in satisfaction of a loan, can it do so by surrendering specific collateral or is the entire pool of collateral surrendered?

All of the ABS that secure an individual loan must be surrendered. A borrower that desires to effect a collateral surrender must make a request through its primary dealer.

Will there be a separate facility for each ABS asset class?

No. Borrowers with eligible ABS of all asset types will receive loans from the same facility.

What fees are associated with the TALF?

On each loan's settlement date, the borrower must pay to the FRBNY's settlement account an administrative fee equal to 5 basis points of the loan amount, which will cover the FRBNY's fees associated with the facility.

Haircuts and Rates

To what values will the haircuts be applied to determine the maximum loan amount?

Under the TALF, the FRBNY will lend to each borrower an amount equal to the lesser of the par or market value of the pledged ABS minus a haircut. Alternatively, when the pledged ABS has a market value above par, the FRBNY will lend an amount equal to the market value -- subject to a cap of 110 percent of par value -- minus a haircut, and the borrower will periodically prepay a portion of the loan. The prepayments will be calculated to adjust for the expected reversion of market value toward par value as the ABS matures.¹

What is the initial haircut schedule for each asset type?

Initial collateral haircuts are as follows:

Sector	Subsector	ABS Average 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	Floorplan	12%	13%	14%	15%	16%		
Auto	RV/motorcycle	7%	8%	9%	10%	11%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%
Small Business	SBA loans	5%	5%	5%	5%	5%	6%	6%

¹ The amount of prepayment in dollars is determined by the following formula:

$$Par * (1-h) * (\min(Price, 1.10 * Par) / (Par-1)) / (b * WAL)$$

Par is the par value of the bond.

h is the haircut from the above table corresponding to the expected life and asset class of the bond.

Price is the price of the bond.

WAL is the weighted average life of the bond measured in years and calculated at the prepayment assumption used to compute expected life above. If the WAL is not available, half of the weighted average life to maturity (WALM) may be used as an approximation.

b is equal to 12, 4, or 2 for securities with a remittance frequency of monthly, quarterly, or semi-annually, respectively.

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.

How is average life defined for the purposes of the haircut table?

For ABS with bullet maturities (credit cards, auto dealer floorplans), average life is determined by the expected principal payment date. For amortizing ABS (auto retail loans and leases, student loans and SBA loans), average life is defined as the weighted average life to maturity based on the prepayment assumptions and market conventions listed below.

Sector	Subsector	Prepayment Assumption
Auto	Prime auto retail lease	75% of prepayment curve
Auto	Prime auto retail loan	1.3% ABS
Auto	Subprime retail loan	1.5% ABS
Auto	Motorcycle	1.5% ABS
Auto	RV	18% CPR
Student Loan	Student Loan Private	4% CPR
Student Loan	Student Loan FFELP	6% CPR
Student Loan	Student Loan Consolidation	50% of CLR curve
Small Business	SBA 7a	14% CPR
Small Business	SBA 504	5% CPR

CPR (Conditional Payment Rate) represents the proportion of the principal of a pool of loans that is assumed to be paid off prematurely in each period.

ABS (Absolute Prepayment Speed) represents the percentage of the original number of loans that prepay during a given period.

Where will an ABS security’s average life be published?

The issuer is expected to publish the security’s average life in the prospectus. For amortizing assets the issuer should calculate the weighted average life to maturity based on the above prepayment assumptions and make a representation in the prospectus that the weighted average life to maturity for each AAA-rated tranche was calculated in accordance with the TALF prepayment assumptions. In addition, issuers are encouraged to base weighted average life to maturity calculations on a loan-by-loan analysis. However, if the analysis is based on representative pools, the pools must fairly and accurately model the actual collateral characteristics underlying TALF-eligible securities. Issuers should understand that such representations of weighted average life to maturity in the prospectus are material to the FRBNY's determination of the haircuts for TALF loans and the representation as to accuracy of the offering document contained in the issuer certification would be breached if the weighted average life calculations incorrectly apply the prepayment assumptions listed above or are based on assumptions that are not representative of the actual collateral characteristics underlying TALF-eligible securities.

How are subprime versus prime defined for auto loan and credit card ABS?

Auto loan and lease ABS are considered prime if the weighted average FICO score is 680 or greater. Those receivables without a FICO score are assigned a 0 for this calculation. For auto

loan deals where a weighted average FICO score is not disclosed, the subprime haircut schedule will apply.

Credit card ABS are considered prime if at least 70 percent or more of the receivables have a FICO score greater than 660. FICO scores must reflect performance data within the last 120 days. For credit card trusts where a weighted average FICO score is not disclosed, the subprime haircut schedule will apply.

Will the haircuts be the same for all borrowers for the same assets?

Haircuts will vary across asset classes and securities' average lives, but not across borrowers.

What spreads will be offered on the TALF loans on the first subscription date?

Borrowers will be able to choose either a fixed or a floating rate on each TALF loan. In general, the interest rate on floating-rate loans will be 100 basis points over 1-month LIBOR and the interest rate on fixed-rate loans will be 100 basis points over the three-year LIBOR swap rate.

However, the interest rate spread on TALF loans backed by collateral benefitting from a government guarantee -- that is, FFELP ABS, SBA 7(a) ABS, and SBA 504 ABS -- will be 50 basis points. That spread is over the federal funds target rate (or the top of the federal funds target range) plus 25 basis points for SBA 7(a) ABS, over one-month LIBOR for FFELP ABS and over the three-year LIBOR swap rate for SBA 504 ABS. Interest rates will be set on the subscription date.

Sector	Subsector	Fixed	Floating
Auto		3-year LIBOR swap rate + 100 bps	1-month LIBOR + 100 bps
Credit Card		3-year LIBOR swap rate + 100 bps	1-month LIBOR + 100 bps
Student Loan	Private	NA	1-month LIBOR + 100 bps
Student Loan	Gov't guaranteed	NA	1-month LIBOR + 50 bps
Small Business	SBA loans 7(a)	NA	Fed Funds Target + 75 bps
Small Business	SBA loans 504	3-year LIBOR swap rate + 50 bps	NA

How are the interest rates on TALF loans determined?

The interest rates on TALF loans are set with a view to providing borrowers an incentive to purchase newly issued eligible ABS at yield spreads higher than in more normal market conditions but lower than in the highly illiquid market conditions that have prevailed during the recent credit market turmoil.

Will the interest rate spread and haircuts change from month to month?

The Federal Reserve will periodically review and, if appropriate, adjust the TALF interest rate spread and haircuts for new loans, consistent with the policy objectives of the TALF.

Why are the spreads on the loans backed by collateral benefitting from government guarantees lower?

The lower credit risk of these ABS merits a lower risk premium on the TALF loans.

Other

What is the primary dealer's role?

The MLSA will specify a primary dealer's roles and responsibilities, including the agency functions to be performed on behalf of its customers. Among other duties, the primary dealer shall:

Collect from its customers the amount of each borrower's loan requests, the CUSIPs of the ABS the borrower expects to deliver and pledge against the loan, and the prospectuses and/or offering documents of the ABS expected to be pledged;

Submit aggregate loan request amounts on behalf of its customers in the form and manner specified by the FRBNY;

On the subscription date, submit a file to the custodian containing a detailed breakdown of the loan requests, which will include the identity of the individual borrowers, the amount of each borrower's loan request, and the material information collected above;

Work with its customers to resolve any discrepancies identified by the custodian;

Collect from its customers and deliver to the custodian the administrative fee and any applicable margin required to be delivered to the custodian on the loan settlement date;

Periodically receive from the custodian the portion of the distributions on the collateral that are to be paid to its customers and disburse such payments in accordance with the instruction of its customers and provide any applicable tax report to its customers; and

Receive, or forward, notices on behalf of its customers.

In addition, a primary dealer will be required to apply its internal customer identification program and due diligence procedures ("Know Your Customer" program) to each borrower and represent that each borrower is eligible. A primary dealer will be required to provide the FRBNY with information sufficient to describe the dealer's customer risk assessment methodology. All primary dealers planning to participate in the TALF must contact the FRBNY Compliance Function at talf.compliance@ny.frb.org for further guidance.

What are the tax reporting and withholding responsibilities of primary dealers that participate in the TALF?

The primary dealers are responsible for managing any tax withholding and reporting obligations for their customers. Primary dealers should consult with tax counsel to understand tax implications and requirements of primary dealers for the specific tasks performed on behalf of customers in connection with TALF.

What information will the primary dealer receive from the custodian to assist in reconciling and distributing aggregate monthly interest payments to investors?

With each payment distribution, the primary dealer will receive information regarding the gross principal and interest amount paid by the ABS collateral, as well as the principal and interest amount to be remitted to the borrower. Should an interest deficiency exist, the net interest and/or principal will be used to offset that deficiency, in which case the primary dealer will be informed.

Are there any bankruptcy protections for the borrower if the primary dealer should declare bankruptcy following its receipt of principal and interest from the custodian, but prior to disbursement to the borrower?

Once funds or collateral are transferred by the custodian to a primary dealer or at the direction of the primary dealer, neither the custodian/administrator nor the FRBNY has any obligation to account for whether the funds or collateral are transferred to the borrower.

Will the Securities and Exchange Commission (SEC) be providing an exemption from Section 11(d)(1) of the Securities Exchange Act of 1934 to permit primary dealers to arrange TALF financing from the FRBNY on new issues for which they may be underwriters?

The SEC has granted a limited exemption from the prohibition on arranging certain credit under Section 11(d)(1) for those primary dealers arranging TALF financing from the FRBNY on new issues of non-exempted securities where such dealers may have been within the preceding 30 days a "member of a selling syndicate or group" in respect of the distribution of the new issue. This exemption is limited to the arranging prohibitions of Section 11(d)(1), and does not relieve primary dealers from any applicable limitations on direct extensions of credit by them. Please refer to the SEC's letter to the FRBNY on this matter, which is available at <http://www.sec.gov/divisions/marketreg/mr-noaction/2009/frbny021709.pdf>.

May a primary dealer that underwrites or sells an issuance and acts as an agent to arrange financing for a TALF borrower enter into transactions with or on behalf of the borrower intended to insure, in whole or in part, against losses on securities purchased with TALF financing?

In Appendix I to the MLSA, each primary dealer will agree that it and its affiliates will not acquire collateral from a borrower that it underwrites at a price designed to reduce or eliminate any loss that such borrower would realize on sale "or enter into any other agreement or consummate any other transaction intended to have the same effect." This contractual provision prohibits hedges since these hedges are "other agreements" or "other transactions" intended to protect the borrower against loss. As a result, in the circumstances described above, a primary dealer will not be permitted to enter into any transaction that is designed to hedge against losses specific to securities purchased with TALF financing. This prohibition extends to both direct hedges, such as credit default swaps, and correlative hedges, such as short-selling the ABX index. However, the prohibition does not extend to hedges on a borrower's broader portfolio, which may include securities purchased with TALF loans.

May an issuer or sponsor enter into a transaction with or on behalf of the borrower intended to insure, in whole or in part, against losses on TALF collateral securitized by the issuer or sponsor?

To ensure an independent assessment of risk by investors, issuers and sponsors and their affiliates are prohibited from entering into a transaction designed to hedge against an investor's losses on ABS purchased by the investor with TALF financing and securitized by such issuer or sponsor.

What executive compensation restrictions will apply to sponsors, underwriters, and borrowers under the TALF program?

The goal of the TALF program is to encourage securitization of privately originated loans in important asset classes to consumers and small businesses. The TALF provides support to ABS sponsors, who are providing credit to consumers and businesses, and to ABS investors, who are bringing new capital to this frozen market. The success of the program is important to halting the destructive credit cycle and to restarting credit formation.

Executive compensation restrictions are targeted towards ensuring that executives of institutions that receive government support are not unjustly enriched at the taxpayers' expense. Given the goals of the TALF and the desire to encourage market participants to stimulate credit formation

and utilize the facility, the restrictions will not be applied to TALF sponsors, underwriters, and borrowers as a result of their participation in the TALF.

What is the legal basis for the TALF?

The TALF is authorized under section 13(3) of the Federal Reserve Act, which permits the Federal Reserve Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations that are unable to obtain adequate credit accommodations.

What is Treasury's role in the TALF?

The U.S. Treasury's Troubled Assets Relief Program (TARP) will purchase \$20 billion of subordinated debt in an SPV created by the FRBNY. The SPV will purchase and manage any assets received by the FRBNY in connection with any TALF loans. Residual returns from the SPV will be shared between the FRBNY and the U.S. Treasury.

How will the Federal Reserve report lending under the TALF?

Balance sheet items related to the TALF will be reported on the H.4.1 weekly statistical release entitled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks." There will be an explanatory cover note on the release when items are added. In addition, the value of the collateral pledged to the FRBNY to secure TALF loans will be reported on the Federal Reserve Board's website at <http://www.federalreserve.gov/monetarypolicy>

What measures have been put in place to protect the TALF against credit losses and fraud?

The Federal Reserve and the Treasury have structured the TALF to minimize credit risk for the U.S. government to the greatest extent possible, consistent with achieving the program's purpose of encouraging lending to consumers and small businesses. Examples of the structural features of the TALF that minimize credit risk include the following: (i) investors are required to supply risk capital in the form of haircuts; (ii) the TALF haircut methodology is risk sensitive across asset class and maturity; and (iii) the TALF only accepts collateral that has received two credit ratings in the highest investment-grade rating category or that is fully U.S. government-guaranteed.

The FRBNY also has designed a number of measures to discourage fraudulent activity associated with the TALF. The FRBNY has established a compliance framework that includes a borrower acceptance standard, an assurance program related to borrower eligibility requirements, on-site inspection rights over borrowers, and the right to reject a borrower for any reason. The FRBNY has also retained the right to review all loan files held by the custodian pertaining to each borrower. Furthermore, the FRBNY is establishing a telephone and internet-based hotline for reporting of fraudulent conduct or activity associated with the TALF.

In addition, an ABS issuer must provide a certification in connection with the prospectus that the ABS is TALF eligible, that a nationally recognized certified independent accounting firm has certified that the ABS is TALF eligible, and that the issuer has not made any untrue statements of material fact to an NRSRO to obtain the credit rating of the ABS. If the collateral provided for a TALF loan or a borrower who has participated in the program is found to be ineligible, the non-recourse feature of the loan becomes inapplicable. If the collateral is ineligible, the borrower must either replace the collateral with other eligible collateral or repay the loan. If the borrower is ineligible, the borrower must repay the loan. Moreover, as indicated above, to assist the FRBNY in screening borrowers, primary dealers are required to apply their internal customer identification program and due diligence procedures to each borrower and escalate information relating to those borrowers assessed as high risk to the FRBNY.

Where should questions regarding the TALF be directed?

Questions should be directed to the FRBNY's Public Affairs department: 212-720-6130 or via email to TALF@ny.frb.org.

How may I receive updates regarding changes to TALF documents?

Please sign up for an email alert at the following link:

https://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_86.