TALF LLC

(A Special Purpose Vehicle Consolidated by the Federal Reserve Bank of New York)

Financial Statements as of and for the Year Ended December 31, 2010, and for the Period February 4, 2009 to December 31, 2009, and Independent Auditors' Report

TALF LLC

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FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Management's Report on Internal Control Over Financial Reporting

March 22, 2011

To the Board of Directors of the
Federal Reserve Bank of New York:

The management of the TALF LLC (LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition, Statements of Income, and Statements of Cash Flows as of December 31, 2010 (the Financial Statements). The Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

The management of the LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with GAAP. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the LLC assessed its internal control over financial reporting reflected in the Financial Statements, based upon the criteria established in the *"Internal Control -- Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the LLC maintained effective internal control over financial reporting as it relates to the Financial Statements.

William C. Dudley	Christine M. Cumming	Edward F. Murphy
William C. Dudley	Christine M. Cumming	Edward F. Murphy
President	First Vice President	Principal Financial Officer

Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Managing Member of
TALF LLC:

We have audited the accompanying statements of financial condition of TALF LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC") as of December 31, 2010 and 2009, and the related statements of income and cash flows for the year ended December 31, 2010 and the period ended February 4, 2009 to December 31, 2009. We also have audited the LLC's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report of Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the LLC's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The LLC's internal control over financial reporting is a process designed by, or under the supervision of, the LLC's principal executive and principal financial officers, or persons performing similar functions, and effected by the LLC's Managing Member to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The LLC's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the LLC; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the LLC are being made only in accordance with authorizations of the Managing Member; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, such financial statements present fairly, in all material respects, the financial position of TALF LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the year ended December 31, 2010 and the period ended February 4, 2009 to December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 22, 2011

TALF LLC

Statements of Financial Condition

As of December 31, 2010 and 2009
(Amounts in thousands, except contributed capital data)

	2010	2009
Assets		
Cash and cash equivalents	$ 580,433	$ 213,224
Short-term investments, at fair value (amortized cost of $84,648 and $84,255, respectively)	84,917	84,539
Put option, at fair value	134,169	581,324
Total assets	$ 799,519	$ 879,087
Liabilities and Member's Equity		
Subordinated Loan, at fair value	$ 730,071	$ 801,335
FRBNY Contingent Interest, at fair value	69,343	77,639
Other liabilities	105	113
Total liabilities	799,519	879,087
Member's equity (contributed capital of $10)	-	-
Total liabilities and member's equity	$ 799,519	$ 879,087

The accompanying notes are an integral part of these financial statements.

TALF LLC

Statements of Income

For the year ended December 31, 2010 and for the period February 4, 2009 to December 31, 2009
(Amounts in thousands)

	For the Year Ended December 31, 2010	For the Period February 4, 2009 to December 31, 2009
Revenues		
Interest income	$ 712	$ 321
Realized gains on put option	356,488	222,385
Unrealized gains (losses) on put option	(436,045)	557,057
Total revenues (losses)	(78,845)	779,763
Expenses		
Loan interest expense	3,397	2,586
Professional fees	715	789
Total expenses	4,112	3,375
Net operating income (losses)	(82,957)	776,388
Non-operating gains (losses)		
Unrealized gains (losses) on Subordinated Loan	74,661	(698,749)
Unrealized gains (losses) on FRBNY Contingent Interest	8,296	(77,639)
Total non-operating gains (losses)	82,957	(776,388)
Net income	$ -	$ -

The accompanying notes are an integral part of these financial statements.

TALF LLC

Statements of Cash Flows

For the year ended December 31, 2010 and for the period February 4, 2009 to December 31, 2009
(Amounts in thousands)

	For the Year Ended December 31, 2010	For the Period February 4, 2009 to December 31, 2009
Cash flows from operating activities		
Net income	$ -	$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gains on put option	(356,488)	(222,385)
Proceeds from put option	367,598	198,118
Accretion of discounts on short-term investments	(378)	(284)
Unrealized (gains) losses on put option	436,045	(557,057)
Unrealized (gains) losses on Subordinated Loan	(74,661)	698,749
Unrealized (gains) losses on FRBNY Contingent Interest	(8,296)	77,639
Increase in accrued and compounded interest on Subordinated Loan	3,397	2,586
Increase (decrease) in other liabilities	(8)	113
Net cash flow provided by operating activities	367,209	197,479
Cash flows from investing activities		
Purchases of short-term investments	(84,648)	(84,255)
Proceeds from maturities of short-term investments	84,648	-
Net cash flow used in investing activities	-	(84,255)
Cash flows from financing activities		
Proceeds from issuance of member's equity	-	-
Proceeds from Subordinated Loan	-	100,000
Net cash flow provided by financing activities	-	100,000
Net increase in cash and cash equivalents	367,209	213,224
Beginning cash and cash equivalents	213,224	-
Ending cash and cash equivalents	$ 580,433	$ 213,224
Supplemental non-cash operating and financing activities:		
Accrued and compounded interest on Subordinated Loan	$ 3,397	$ 2,586

The accompanying notes are an integral part of these financial statements.

1. Organization and Nature of Business

TALF LLC (the "LLC"), a special purpose vehicle consolidated by the Federal Reserve Bank of New York ("FRBNY" or "Managing Member"), is a single member Delaware limited liability company that was formed on February 4, 2009 in connection with the implementation of the Term Asset-Backed Securities Loan Facility (the "TALF program"). The LLC was established for the limited purpose of purchasing (a) any asset-backed securities ("ABS") and commercial mortgage-backed securities ("CMBS") that might be surrendered to FRBNY by borrowers under the TALF program as described in more detail below or (b) in certain limited circumstances, TALF program loans. FRBNY is the sole and managing member of the LLC. FRBNY is the controlling party of the assets of the LLC and will remain as such as long as its loan commitment and/or its loan is outstanding.

The TALF program loans are extended by FRBNY on a non-recourse basis against eligible ABS and CMBS collateral. A TALF borrower has the option of surrendering the collateral to FRBNY in full satisfaction of the TALF program loan at any point in time. The LLC has written a put option to FRBNY that permits FRBNY, upon such surrender or when it otherwise gets possession of the collateral, to sell (put) the collateral to the LLC at a price equal to the principal amount outstanding on the TALF program loan plus accrued but unpaid interest. FRBNY pays the LLC a monthly fee based on the principal balances of each outstanding TALF program loan ("put option fee"). As of December 31, 2009, the termination date of the put option was January 31, 2015 and the latest final maturity date for any outstanding TALF program loan was December 22, 2014. Effective March 22, 2010, the termination date of the put option was extended by FRBNY, with the consent of the U.S. Department of the Treasury (the "Treasury"), to July 31, 2015 following an extension of the lending phase for TALF program loans, which extension resulted in the possibility that the latest maturity date for any TALF program loan would be June 30, 2015. The actual latest maturity date for any TALF program loan is March 30, 2015.

If the LLC is required to purchase surrendered assets from FRBNY under the put option, funding for such purchases is derived first through the put option fees that have accumulated and any interest earned on the LLC's cash equivalents and short-term investments described further in the paragraph below. In the event that such funding proves insufficient for the asset purchases by the LLC, the Treasury, through the Troubled Asset Relief Program (TARP), had initially committed to lend to the LLC up to $20 billion at a rate of one-month London interbank offered rate ("Libor") plus 300 basis points, $100 million of which was funded at the initiation of the TALF program. FRBNY had initially agreed to lend up to $180 billion to the LLC at a rate of one-month Libor plus 100 basis points, provided that the Treasury has fully funded its commitment. To date, FRBNY has not extended funding to the LLC under the provisions of the credit agreement. As of December 31, 2009, the funding commitments by FRBNY and the Treasury were $180 billion and $20 billion, respectively, to cover the maximum $200 billion of TALF lending that had been authorized by the Federal Reserve, and were set to expire on January 31, 2015. Effective March 22, 2010, the termination date of the funding commitments was extended by FRBNY, with the consent of the Treasury, to July 31, 2015. On July 19, 2010, the Treasury and FRBNY reduced their funding commitments to $4.3 billion and $38.7 billion, respectively, which equaled the actual amount of loans outstanding at the close of the TALF program's lending phase on June 30, 2010. If and when funding by FRBNY is extended, the Treasury's loan to the LLC will be subordinate to FRBNY's loan to the LLC. Any loans extended by the Treasury and FRBNY to the LLC will mature on March 3, 2019, unless such maturity date is extended by FRBNY with the consent of the Treasury. FRBNY's loan to the LLC, if and when funded, and the Treasury's loan to the LLC are collateralized by all the assets of the LLC through a pledge account at the Bank of New York Mellon ("BNYM") as collateral agent.

Cash receipts resulting from the put option fees paid to the LLC by FRBNY and proceeds from the funded portion of the Treasury commitment (the "Subordinated Loan") are invested in the following types of U.S. dollar-denominated short-term investments and cash equivalents eligible for purchase by the LLC: (1) U.S. Treasury securities, (2) Federal agency securities that are senior, negotiable debt obligations of the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Banks (FHLB), and Federal Farm Credit Banks (FFCB), which have a fixed rate of interest, (3) repurchase agreements that are collateralized by U.S. Treasury and Federal agency securities and fixed-rate agency mortgage-backed securities, and (4) money market mutual funds registered with the Securities and Exchange Commission and regulated under Rule 2a-7 of the Investment Company Act that invest exclusively in U.S. Treasury and Federal agency securities. Cash may also be invested in a demand interest-bearing account held at BNYM.

All proceeds of the LLC's portfolio holdings will be used to pay its obligations pursuant to the order of priority described in Note 4. Any residual cash flows will be shared between FRBNY, which will receive ten percent (the "FRBNY Contingent Interest"), and the Treasury, which will receive ninety percent (the "Treasury Contingent Interest").

BNYM provides administrative and custodial services and serves as collateral agent under multi-year contracts with FRBNY and the LLC that include provisions governing termination.

The LLC does not have any employees and therefore does not bear any employee-related costs.

2. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP"), which require the Managing Member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant estimates include the fair value of the put option, the Subordinated Loan (including the Treasury Contingent Interest), and the FRBNY Contingent Interest. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies followed by the LLC:

A. Cash and Cash Equivalents

The LLC defines highly liquid investments with maturities of three months or less, when acquired, as cash equivalents. Cash and cash equivalents consist of balances held in demand interest-bearing accounts and other liquid investments that are carried at amortized cost, which approximates fair value.

B. Short-term Investments

The LLC defines short-term investments to be highly liquid investments with maturities of greater than three months and less than one year, when acquired. The LLC elected the fair value option in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 825 ("ASC 825") *Financial Instruments* for its short-term investments portfolio, which requires the short-term investments to be recorded at fair value in accordance with FASB ASC Topic 820 ("ASC 820") *Fair Value Measurements & Disclosures* in the LLC's Statements of Financial Condition with changes in fair value recorded in the Statements of Income. The Managing Member believes that accounting for the short-term investments at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. All short-term investment transactions are accounted for at trade date. Interest income, which includes the accretion of discounts, is recorded when earned as "Interest income" in the Statements of Income.

C. Put Option Agreement with FRBNY

The put option agreement between the LLC and FRBNY is accounted for by the LLC as a derivative in accordance with FASB ASC Topic 815 ("ASC 815") *Derivatives and Hedging* and is recorded at fair value in accordance with ASC 820 in the LLC's financial statements. The changes in fair value are recorded in the Statements of Income. The fair value includes the accrued put option fees expected to be received by the LLC from the FRBNY.

D. Accounting for the Subordinated Loan and Treasury Contingent Interest

The LLC elected the fair value option in accordance with ASC 825 for the Subordinated Loan (including accrued and compounded interest and for these purposes, the Treasury Contingent Interest), which is recorded at fair value in the LLC's financial statements in accordance with ASC 820. The Managing Member believes that accounting for the Subordinated Loan at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. The fair value of the Subordinated Loan is determined based on the LLC's proceeds available for distribution pursuant to the order of priority described in Note 4 and includes the fair value of the Treasury Contingent Interest. The Subordinated Loan and Treasury Contingent Interest are recorded together as "Subordinated Loan, at fair value" in the Statements of Financial Condition and changes in fair value are recorded as "Unrealized gains (losses) on Subordinated Loan" in the Statements of Income.

E. Accounting for the FRBNY Contingent Interest

The LLC elected the fair value option in accordance with ASC 825 for the FRBNY Contingent Interest, which is recorded at fair value in the LLC's financial statements in accordance with ASC 820. The Managing Member believes that accounting for the FRBNY Contingent Interest at fair value appropriately reflects the LLC's purpose and intent with respect to its financial assets and liabilities and most closely reflects the LLC's obligations. FRBNY's Contingent interest in the LLC is determined based on the LLC's proceeds available for distribution pursuant to the order of priority described in Note 4. The FRBNY Contingent Interest is recorded as "FRBNY Contingent Interest, at fair value" in the Statements of Financial Condition and changes in fair value are recorded as "Unrealized gains (losses) on FRBNY Contingent Interest" in the Statements of Income.

Fair Value Hierarchy

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the LLC's assumptions developed using the best information available in the circumstances (unobservable inputs).

The three levels established by ASC 820 are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on inputs from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the LLC's estimates of assumptions that market participants would use in pricing the asset and liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodology used for valuing the financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

F. Professional Fees

Professional fees are primarily comprised of the fees charged by BNYM and independent auditors. Organization and closing costs of $424 thousand, associated with the formation of the LLC, were expensed when incurred in 2009.

G. Income Taxes

The LLC is a single member limited liability company and was structured as a disregarded entity for U.S. Federal, state and local income tax purposes. Accordingly, no provision for income taxes is made in the LLC's financial statements.

H. Recently Issued Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140,* (codified in ASC 860). The new standard revises the criteria for recognizing transfers of financial assets as sales and clarifies that the transferor must consider all arrangements when determining if the transferor has surrendered control. The adoption of this accounting guidance was effective for the LLC for the year beginning on January 1, 2010, and did not have a material effect on the LLC's financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (Topic 820). New requirements for disclosure of information about transfers among the hierarchy's classification and the level of disaggregation of classes of assets were effective for the LLC for the year beginning on January 1, 2010, and the required disclosures are included in Note 5. Other requirements, including the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements are effective for the LLC in 2011 and are not expected to have a material effect on the LLC's financial statements.

In March 2010, the FASB issued Accounting Standards Update 2010-11, *Derivatives and Hedging,* (Topic 815), which clarifies embedded credit derivatives that are subject to the FASB's guidance on derivatives and hedging and defines the embedded credit derivatives that are required to be evaluated for bifurcation and separate accounting. The adoption of this accounting guidance was effective for the LLC on July 1, 2010 and did not have a material effect on the LLC's financial statements.

3. Subordinated Loan

Interest on the Subordinated Loan accrues daily and is compounded quarterly. Additionally, the Treasury is entitled to receive the Treasury Contingent Interest in amounts equal to 90 percent of the proceeds that are available for distribution pursuant to the order of priority described in Note 4.

Repayment of the Subordinated Loan will be made monthly, subject to availability of funds in the LLC's BNYM collateral account and pursuant to the order of priority described in Note 4. For the year ended December 31, 2010, the LLC had not made any repayment of this subordinated loan. Amounts paid on account of the principal of the Subordinated Loan may not be reborrowed. Any loans extended by the Treasury and FRBNY to the LLC will mature on March 3, 2019, unless such maturity date is extended by FRBNY with the consent of the Treasury.

The following table presents a reconciliation of the Subordinated Loan and the Treasury Contingent Interest as of December 31, 2010 and 2009 (in thousands):

		Subordinated Loan [1]
Beginning principal balance, February 4, 2009	$	-
2009 Activity:		
Funding, March 25, 2009		100,000
Accrued and compounded interest		2,586
Unrealized losses [2]		698,749
Fair value, December 31, 2009	$	801,335
2010 Activity:		
Accrued and compounded interest		3,397
Unrealized gains [3]		(74,661)
Fair value, December 31, 2010	$	730,071

[1] The outstanding principal and accrued and compounded interest balance of the Subordinated Loan was $105,983 (principal of $100,000 and interest of $5,983) and $102,586 (principal of $100,000 and interest of $2,586) as of December 31, 2010 and 2009, respectively.

[2] Recorded as "Unrealized losses on Subordinated Loan" in the 2009 Statements of Income.

[3] Recorded as "Unrealized gains on Subordinated Loan" in the 2010 Statements of Income.

The weighted average interest rate on the Subordinated Loan for the year ended December 31, 2010 was 3.27 percent, and for the period March 25, 2009 to December 31, 2009, was 3.33 percent.

4. Distribution of Proceeds

In accordance with the Security and Intercreditor Agreement, amounts available in the accounts of the LLC as of the first business day of each calendar month shall be distributed on the fourth business day, or such other day as specified by FRBNY in the following order of priority:

first, to pay any costs, fees, and expenses of the LLC then due and payable;

second, to fund the Expense Reimbursement Account until the balance thereof is equal to an amount as may be specified by FRBNY and the Treasury ($15 million as of December 31, 2010 and December 31, 2009);

third, to pay the outstanding principal amount of loans funded by FRBNY as the senior lender, until such outstanding principal amount shall have been paid in full;

fourth, until such time as FRBNY’s funding commitment expires, to fund the Cash Collateral Account until the balance thereof is equal to the amount of the available Senior Loan Commitment, or other lesser amount as may be specified by FRBNY;

fifth, to pay the outstanding principal amount of the Subordinated Loan until such outstanding principal amount shall have been paid in full;

sixth, to pay the accrued but unpaid interest outstanding on loans funded by FRBNY as the senior lender, until such accrued but unpaid interest shall have been paid in full;

seventh, to pay the accrued but unpaid interest outstanding on the Subordinated Loan, until such accrued but unpaid interest shall have been paid in full;

eighth, to pay any other secured obligations then outstanding;

ninth, to pay ninety percent of all remaining amounts to the Treasury as Contingent Interest, and ten percent of all remaining amounts to FRBNY as Contingent Interest.

5. Fair Value Measurements

The LLC measures the put option at fair value in accordance with ASC 815. The LLC elected the fair value option in accordance with ASC 825 for its short-term investments, the Subordinated Loan (including the Treasury Contingent Interest), and the FRBNY Contingent Interest, which are recorded at fair value in accordance with ASC 820.

Valuation Methodologies for Level 3 Assets and Liabilities

The LLC determines the fair value of the put option by estimating the value of future streams of option premium income and estimated fair value losses associated with assets that might be put to the LLC. The LLC uses a valuation model that takes into account a range of outcomes on TALF loan repayments and prepayments, the market prices of related securities, risk premiums estimated using market prices, call options in certain securities and the volatilities of market risk factors. However, not all of these model parameters and assumptions are market observable and some are therefore estimated. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty.

Because of the uncertainty inherent in determining the fair value of the put option, the fair value may differ significantly from the value that would have been used had a readily available fair value existed for this financial instrument and may differ materially from the value that may ultimately be realized and paid.

The fair values of the Subordinated Loan (including the Treasury Contingent Interest) and the FRBNY Contingent Interest are determined based on the fair value of the underlying assets held by the LLC and the allocation of the LLC’s gains and losses as described in Note 4.

The following table presents the assets and liabilities recorded at fair value as of December 31, 2010, by the fair value hierarchy (in thousands):

	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 580,433	$ -	$ -	$ 580,433
Short-term investments	84,917	-	-	84,917
Put option	-	-	134,169	134,169
Total assets	$ 665,350	$ -	$ 134,169	$ 799,519
Liabilities:				
Subordinated Loan	$ -	$ -	$ (730,071)	$ (730,071)
FRBNY Contingent Interest	-	-	(69,343)	(69,343)
Total liabilities	$ -	$ -	$ (799,414)	$ (799,414)

The following table presents the assets and liabilities recorded at fair value as of December 31, 2009, by the fair value hierarchy (in thousands):

	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 71,075	$ 142,149	$ -	$ 213,224
Short-term investments	-	84,539	-	84,539
Put option	-	-	581,324	581,324
Total assets	$ 71,075	$ 226,688	$ 581,324	$ 879,087
Liabilities:				
Subordinated Loan	$ -	$ -	$ (801,335)	$ (801,335)
FRBNY Contingent Interest	-	-	(77,639)	(77,639)
Total liabilities	$ -	$ -	$ (878,974)	$ (878,974)

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2010, including unrealized gains (losses) (in thousands):

	Fair value at January 1, 2010	Net purchases, sales and settlements	Net realized / unrealized gains (losses)	Net transfers in or (out)[2]	Fair value at December 31, 2010	Change in unrealized gains (losses) related to financial instruments held at December 31, 2010
Assets:						
Put option	$ 581,324	$ (367,598)	$ (79,557)	$ -	$ 134,169	$ (436,045)
Liabilities:						
Subordinated Loan	$ (801,335)	$ (3,397) [1]	$ 74,661	$ -	$ (730,071)	$ 74,661
FRBNY Contingent Interest	(77,639)	-	8,296	-	(69,343)	8,296
Total liabilities	$ (878,974)	$ (3,397)	$ 82,957	$ -	$ (799,414)	$ 82,957

[1] Includes $3,397 of accrued and compounded interest.

[2] There were no transfers between Level 2 and Level 3 during the year ended December 31, 2010.

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the period February 4, 2009 to December 31, 2009, including unrealized gains (losses) (in thousands):

	Fair value at February 4, 2009	Net purchases, sales and settlements	Net realized / unrealized gains (losses)	Net transfers in or (out)	Fair value at December 31, 2009	Change in unrealized gains (losses) related to financial instruments held at December 31, 2009
Assets:						
Put option	$ -	$ (198,118)	$ 779,442	$ -	$ 581,324	$ 557,057
Liabilities:						
Subordinated Loan	$ -	$ (102,586) [1]	$ (698,749)	$ -	$ (801,335)	$ (698,749)
FRBNY Contingent Interest	-	-	(77,639)	-	(77,639)	(77,639)
Total liabilities	$ -	$ (102,586)	$ (776,388)	$ -	$ (878,974)	$ (776,388)

[1] Includes $2,586 of accrued and compounded interest.

6. Investment and Risk Profile

Through the written put option, the LLC is exposed to credit and interest rate risk from the underlying ABS or CMBS that collateralize TALF program loans. Credit losses far in excess of expectations in the loan and receivables pools collateralizing the ABS or CMBS may result in write-downs of the ABS and CMBS, or in the interest paid by the ABS or CMBS falling short of the interest charged on the TALF loan. An increase in interest rates would lower the market values of the securities. If the losses due to these credit and market risk factors exceed the margin, the borrower may settle the loan by surrendering the ABS or CMBS, occasioning a purchase of the ABS or CMBS by the LLC. As of December 31, 2010, there had been no exercise of the put option by the FRBNY.

The following table presents the maximum potential payout (notional balance) and fair value of the put option as of December 31, 2010 and 2009 (in thousands):

December 31, 2010	Notional amount	Fair value
Put option	$ 24,731,860	$ 134,169

December 31, 2009	Notional amount	Fair value
Put option	$ 47,625,944	$ 581,324

The fair value of the put option is evaluated and recorded as "Put option, at fair value" in the Statements of Financial Condition. The changes in fair value are recorded as "Unrealized gains (losses) on put option" in the Statements of Income and were losses of $436,045 thousand for the year ended December 31, 2010 and gains of $557,057 thousand for the period ended December 31, 2009. The put option fees, as received and accrued, are recorded as "Realized gains on put option" in the Statements of Income and were $356,488 thousand for the year ended December 31, 2010 and $222,385 thousand for the period ended December 31, 2009.

7. Contingencies

The LLC agrees to pay the reasonable out-of-pocket costs and expenses of its service providers incurred in connection with its duties under the respective agreements and to indemnify its service providers for any losses, claims, damages, liabilities and related expenses etc., which may arise out of the respective agreements unless they result from the service provider's bad faith, gross negligence, fraudulent actions or willful misconduct. The indemnity, which is provided solely by the LLC, survives termination of the respective agreements. The LLC has not had any prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

8. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2010. Subsequent events were evaluated through March 22, 2011, which is the date the LLC issued the financial statements.