TALF LLC

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

Financial Statements as of and for the Years Ended December 31, 2013 and 2012, 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 14, 2014

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

The management of TALF LLC (the LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition as of December 31, 2013 and 2012, and the Statements of Income and Statements of Cash Flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with generally accepted accounting principles 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. The LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. The LLC's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the LLC's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the LLC's receipts and expenditures are being made only in accordance with authorizations of its management; and (iii) 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 its financial statements.

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 based upon the criteria established in the *Internal Control – Integrated Framework (1992)* 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.

William C Dudley	*Christine M. Cumming*	*M. Strine*
William C. Dudley	Christine M. Cumming	Michael Strine
President	First Vice President	Principal Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Managing Member of
TALF LLC:

We have audited the accompanying financial statements of TALF LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC"), which are comprised of the statements of financial condition, as of December 31, 2013 and 2012, and the related statements of income and cash flows for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The LLC's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement. An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the LLC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control. Accordingly, we express no such opinion. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 14, 2014

TALF LLC

Statements of Financial Condition

As of December 31, 2013 and 2012
(Amounts in thousands, except contributed capital data)

	2013		2012	
Assets				
Cash and cash equivalents	$	108,588	$	417,795
Short-term investments, at fair value (cost of $0 and $438,397, respectively)		-		438,589
Put option, at fair value		579		3,764
Total assets	$	109,167	$	860,148
Liabilities and member's equity				
Subordinated Loan, at fair value	$	98,182	$	785,336
FRBNY Contingent Interest, at fair value		10,909		74,698
Other liabilities		76		114
Total liabilities		109,167		860,148
Member's equity (contributed capital of $10)		-		-
Total liabilities and member's equity	$	109,167	$	860,148

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

TALF LLC

Statements of Income

For the years ended December 31, 2013 and 2012
(Amounts in thousands)

	2013	2012
Revenues		
Interest income	$ 162	$ 672
Realized gains on put option	2,640	41,332
Unrealized losses on put option	(3,004)	(33,637)
Total net revenues	(202)	8,367
Expenses		
Loan interest expense	358	3,600
Professional fees	411	566
Total expenses	769	4,166
Net operating (loss) income	(971)	4,201
Non-operating gains (losses)		
Realized losses on Subordinated Loan	(573,230)	-
Unrealized gains (losses) on Subordinated Loan, net	574,104	(3,781)
Realized losses on FRBNY Contingent Interest	(63,692)	-
Unrealized gains (losses) on FRBNY Contingent Interest, net	63,789	(420)
Total non-operating gains (losses)	971	(4,201)
Net income	$ -	$ -

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

TALF LLC

Statements of Cash Flows

For the years ended December 31, 2013 and 2012
(Amounts in thousands)

	2013	2012
Cash flows from operating activities		
Net income	$ -	$ -
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Realized gains on put option	(2,640)	(41,332)
Proceeds from put option	2,821	45,682
Accretion of discounts on short-term investments	(104)	(448)
Unrealized losses on put option	3,004	33,637
Unrealized (gains) losses on Subordinated Loan, net	(574,104)	3,781
Unrealized (gains) losses on FRBNY Contingent Interest, net	(63,789)	420
(Decrease) increase in accrued and compounded interest on Subordinated Loan	(13,050)	3,600
Decrease in other liabilities	(38)	(77)
Realized losses on Subordinated Loan	573,230	-
Realized losses on FRBNY Contingent Interest	63,692	-
Net cash flow (used in) provided by operating activities	(10,978)	45,263
Cash flows from investing activities		
Purchases of short-term investments	-	(1,144,468)
Proceeds from maturities of short-term investments	438,693	1,080,160
Net cash flow provided by (used in) investing activities	438,693	(64,308)
Cash flows from financing activities		
Repayments of Subordinated Loan	(100,000)	-
Payments of Treasury Contingent Interest	(573,230)	-
Payments of FRBNY Contingent Interest	(63,692)	-
Net cash flow used in financing activities	(736,922)	-
Net decrease in cash and cash equivalents	(309,207)	(19,045)
Beginning cash and cash equivalents	417,795	436,840
Ending cash and cash equivalents	$ 108,588	$ 417,795
Supplemental disclosures		
Non-cash operating and financing activities:		
Accrued and compounded interest on Subordinated Loan	$ 358	$ 3,600
Cash paid during the year for:		
Interest	$ 13,408	$ -

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.

The TALF program loans were extended by FRBNY on a non-recourse basis against eligible ABS and CMBS collateral. A TALF program 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, 2013, the termination date of the put option was July 31, 2015, and the latest final maturity date for any outstanding TALF program loan was March 11, 2015.

If the LLC is required to purchase surrendered assets from FRBNY under the put option, funding for such purchases is derived 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. At the initiation of the TALF program, in the event that such funding proved insufficient for the asset purchases by the LLC, the Treasury had committed through the Troubled Asset Relief Program (TARP) 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 also 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 had fully funded its commitment. The termination date of the funding commitments of the Treasury and FRBNY was originally July 31, 2015, and any loans extended by the Treasury and FRBNY to the LLC would have originally matured on March 3, 2019.

On June 28, 2012, the Treasury and FRBNY reduced their funding commitments to $1.4 billion and $2.6 billion, respectively, which, taken in the aggregate along with the net assets of the LLC, equaled the actual amount of TALF program loans outstanding as of that date.

On January 15, 2013, the Treasury and FRBNY eliminated the Treasury's and FRBNY's funding commitments to the LLC. These commitments were no longer deemed necessary because the cash equivalents and short-term investments held by the LLC exceeded the amount of TALF program loans then outstanding. Additionally, the LLC repaid in full the then outstanding principal and accrued interest on the Treasury loan, which had been collateralized by all the assets of the LLC through a pledge account at The Bank of New York Mellon ("BNYM") as collateral agent. At the time of extinguishment of the Treasury's and FRBNY's funding commitments to the LLC, FRBNY had not extended funding to the LLC under the provisions of the credit agreement. If funding by FRBNY had been extended, the Treasury's loan to the LLC would have been subordinate to FRBNY's loan to the LLC.

Cash receipts resulting from the put option fees paid to the LLC by FRBNY 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. Proceeds from the funded portion of the Treasury commitment ("the Subordinated Loan") were also invested in these short-term investments and cash equivalents until the outstanding principal on the Subordinated Loan was repaid in full as described in the paragraph above.

All proceeds of the LLC's portfolio holdings and accumulated put option fees 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"). In February 2013, following updates to the Security and Intercreditor Agreement as described in Note 4 and the full repayment of the Subordinated Loan plus accrued interest, the LLC began making distributions to FRBNY and the Treasury as FRBNY Contingent Interest and Treasury Contingent Interest, respectively. For the year ended December 31, 2013, the LLC distributed $573 million of Treasury Contingent Interest and $64 million of FRBNY Contingent Interest in accordance with the order of priority described in Note 4.

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 cash and cash equivalents as cash, money market funds, and other short-term, highly liquid investments with maturities of three months or less when acquired. Money market funds and other short-term investments are carried at fair value based on quoted prices in active markets for identical assets. All cash equivalents are classified as Level 1 under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 ("ASC 820"), *Fair Value Measurement*. Refer to Note 5 for more information. As of December 31, 2013, the LLC's cash equivalents consisted of approximately $109 million in money market funds. As of December 31, 2012, the LLC's cash equivalents consisted of approximately $418 million in overnight repurchase agreements.

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 FASB 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 ASC 820 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. As of December 31, 2013, the LLC held no short-term investments. As of December 31, 2012, the LLC's short-term investments consisted of approximately $203 million in US Treasury bills and $235 million in Federal agency securities.

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 that were earned and expected to be received by the LLC from 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 the 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, net" in the Statements of Income. Distributions of Treasury Contingent Interest are recorded as "Realized 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, net" in the Statements of Income. Distributions of FRBNY Contingent Interest are recorded as "Realized 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 model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the LLC's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies 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 the independent auditors.

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.

3. Subordinated Loan (including Treasury Contingent Interest)

The Subordinated Loan had a fixed term maturing on March 3, 2019, unless such maturity date was extended by FRBNY with the consent of the Treasury. Interest on the Subordinated Loan accrued daily and was compounded quarterly. Additionally, the Treasury is entitled to receive the Treasury Contingent Interest in amounts equal to ninety percent of the proceeds that are available for distribution pursuant to the order of priority described in Note 4.

In February 2013, the LLC repaid in full the outstanding principal and accrued interest (other than Treasury Contingent Interest) on the Subordinated Loan. Furthermore, during the year ended December 31, 2013, additional distributions totaling $573 million were made to the Treasury as Treasury Contingent Interest.

The following table presents a reconciliation of the Subordinated Loan (including the Treasury Contingent Interest) as of December 31, 2013 and 2012 (in thousands):

	Subordinated Loan [2]
Fair value, December 31, 2011	$ 777,955
2012 Activity:	
Accrued and compounded interest	3,600
Unrealized losses	3,781
Fair value, December 31, 2012	785,336
2013 Activity:	
Accrued and compounded interest	358
Payments [1]	(686,638)
Unrealized gains	(574,104)
Realized losses	573,230
Fair value, December 31, 2013	$ 98,182

[1] Includes payments on the Subordinated Loan for $100,000 of principal, $13,408 of accrued interest, and $573,230 of Treasury Contingent Interest.

[2] The outstanding principal and accrued and compounded interest balances of the Subordinated Loan were $0 and $113,050 (principal of $100,000 and interest of $13,050) as of December 31, 2013 and 2012, respectively.

The weighted average interest rate on the Subordinated Loan for the years ended December 31, 2013 and 2012 was 3.21 percent and 3.24 percent, respectively.

4. Distribution of Proceeds

Prior to January 15, 2013, in accordance with the Security and Intercreditor Agreement, amounts available in the accounts of the LLC were distributed monthly 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 ($10 million and $15 million as of December 31, 2013 and 2012, respectively);

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.

On January 15, 2013, the *fourth* priority in the Security and Intercreditor Agreement was amended to limit funding of the cash collateral account to an amount equal to the outstanding principal plus accrued interest of all TALF program loans as of the payment determination date. All accumulated funding in excess of that amount would then be distributed according to the *fifth* through *ninth* distribution priorities described above.

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.

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.

Valuation Methodologies for Level 3 Assets and Liabilities

The LLC determines the fair value of the put option as the sum of two estimated components: the present discounted value of expected future option premium payments and the liability associated with the option to put collateral assets to the LLC in lieu of a TALF program loan repayment. The LLC uses a valuation model that takes into account a range of outcomes on TALF program 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 an estimate or approximation of a value that cannot be determined with certainty. Key unobservable inputs are explained in more detail in the table below.

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.

Inputs for Level 3 Assets and Liabilities

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair value of the LLC's Level 3 asset as of December 31, 2013 (in thousands, except for input values):

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average [3]
Put option	$ 579	Discounted cash flows	TALF program borrower prepayment rate [1]	6% - 7%	7%
			Discount spread for TALF program loan cash flows	2%	2%
		Option pricing	ABS / CMBS spread volatility	3%	3%
			Collateral prepayment rate [2]	6%	6%
			Constant default rate	5%	5%
			Loss severity	80%	80%
			Idiosyncratic risk multiplier	130%	130%
			Volatility risk premium	120%	120%

[1] The primary rate referenced for the TALF program borrower prepayment rate is single monthly mortality (SMM).
[2] The primary rate referenced for the collateral prepayment rate is constant prepayment rate (CPR).
[3] Weighted averages are calculated based on the outstanding balance on the respective underlying TALF program loans.

The following table presents the valuation techniques and ranges of significant unobservable inputs generally used to determine the fair value of the LLC's Level 3 asset as of December 31, 2012 (in thousands, except for input values):

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average [2]
Put option	$ 3,764	Discounted cash flows	TALF program borrower prepayment rate [1]	4% - 8%	6%
			Discount spread for TALF program loan cash flows	2%	2%
		Option pricing	ABS / CMBS spread volatility	3%	3%
			Collateral prepayment rate [1]	0% - 20%	2%
			Constant default rate	0% - 5%	5%
			Loss severity	50% - 90%	82%
			Idiosyncratic risk multiplier	130%	130%
			Volatility risk premium	124%	124%

[1] The primary rate referenced for all prepayment rates is single monthly mortality (SMM).
[2] Weighted averages are calculated based on the outstanding balance on the respective underlying TALF program loans.

Sensitivity of Level 3 Fair Value Measurements to Changes in Unobservable Inputs

In general, an increase in the TALF program borrower prepayment rate, constant default rate, collateral prepayment rate, and loss severity would have an uncertain effect on the overall fair value measurement of the put option. This is because, in general, these rates control the speed at which TALF program loans amortize. Faster loan amortization, reduces the put option liability, while also reducing the present value of expected loan payments. If loans amortize more slowly, the inverse would also generally apply.

Increases in the discount spread and the spread volatility would cause the fair value measurement of the put option to decrease. Similarly, increases in the idiosyncratic risk multiplier, which is a scaling factor used to estimate the spread volatility for individual assets relative to the spread volatility for an asset class as a whole, and the volatility risk premium, which is an estimate of the market price volatility risk, would also cause the fair value measurement of the put option to decrease. The inverse would also generally apply to these relationships.

The following table presents the assets and liabilities recorded at fair value as of December 31, 2013, by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			
	Level 1 [1]	Level 2 [1]	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 108,588	$ -	$ -	$ 108,588
Put option	-	-	579	579
Total assets	$ 108,588	$ -	$ 579	$ 109,167
Liabilities:				
Subordinated Loan	$ -	$ (98,182)	$ -	$ (98,182)
FRBNY Contingent Interest	-	(10,909)	-	(10,909)
Total liabilities	$ -	$ (109,091)	$ -	$ (109,091)

[1] There were no transfers between Level 1 and Level 2 during the year ended December 31, 2013.

The following table presents the assets and liabilities recorded at fair value as of December 31, 2012, by the ASC 820 hierarchy (in thousands):

	ASC 820 hierarchy			
	Level 1 [1]	Level 2 [1]	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 417,795	$ -	$ -	$ 417,795
Short-term investments	203,456	235,133	-	438,589
Put option	-	-	3,764	3,764
Total assets	$ 621,251	$ 235,133	$ 3,764	$ 860,148
Liabilities:				
Subordinated Loan	$ -	$ (785,336)	$ -	$ (785,336)
FRBNY Contingent Interest	-	(74,698)	-	(74,698)
Total liabilities	$ -	$ (860,034)	$ -	$ (860,034)

[1] There were no transfers between Level 1 and Level 2 during the year ended December 31, 2012.

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, 2013, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2012	Purchases, sales, issuances, and settlements, net [1]	Net realized / unrealized gains (losses)	Gross transfers in	Gross transfers out	Fair value at December 31, 2013	Change in unrealized gains (losses) related to financial instruments held at December 31, 2013
Assets:							
Put option	$ 3,764	$ (2,821)	$ (364)	$ -	$ -	$ 579	$ (3,004)

[1] Represents $2,821 of settlements for the put option for the year ended December 31, 2013.

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, 2012, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2011	Purchases, sales, issuances, and settlements, net [1]	Net realized / unrealized gains (losses)	Gross transfers in	Gross transfers out [2,3]	Fair value at December 31, 2012	Change in unrealized gains (losses) related to financial instruments held at December 31, 2012
Assets:							
Put option	$ 41,751	$ (45,682)	$ 7,695	$ -	$ -	$ 3,764	$ (33,637)
Liabilities:							
Subordinated Loan	$ (777,955)	$ -	$ -	$ -	$ 777,955	$ -	$ -
FRBNY Contingent	(74,278)	-	-	-	74,278	-	-
Total liabilities	$ (852,233)	$ -	$ -	$ -	$ 852,233	$ -	$ -

[1] Represents $45,682 of settlements for the put option and no activity for the Subordinated Loan and FRBNY Contingent Interest for the year ended December 31, 2012.

[2] The Subordinated Loan and the FRBNY Contingent Interest, with December 31, 2011 fair values of $(777,955) and $(74,278), respectively, were transferred from Level 3 to Level 2 because they are valued at December 31, 2012 based on model-based techniques for which all significant inputs are observable (Level 2). These instruments were valued in the prior year based on non-observable inputs (Level 3).

[3] The amount of transfers is based on the fair values of the transferred liabilities at the beginning of the reporting period.

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 program 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, 2013, there had been no exercise of the put option by FRBNY.

The following table presents the maximum potential payout (notional amount) and fair value of the put option as of December 31, 2013 and 2012 (in thousands):

December 31, 2013	Notional amount	Fair value
Put option	$ 97,410	$ 579

December 31, 2012	Notional amount	Fair value
Put option	$ 556,051	$ 3,764

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 losses on put option" in the Statements of Income and were losses of $3,004 thousand and $33,637 thousand for the years ended December 31, 2013 and 2012, respectively. The put option fees, as received and accrued, are recorded as "Realized gains on put option" in the Statements of Income and were gains of $2,640 thousand and $41,332 thousand for the years ended December 31, 2013 and 2012, respectively.

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, 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, 2013. Subsequent events were evaluated through March 14, 2014, which is the date that the financial statements were available to be issued.