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General

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 credit to consumers and businesses. Continued disruption of these markets could significantly limit the availability of credit to households and businesses of all sizes 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 business ABS at more normal interest rate spreads.

How will the TALF work?

Under the TALF, the New York Fed will provide non-recourse funding to any eligible borrower owning eligible collateral. On fixed days each month, borrowers will be able to request one or more three-year or, in certain cases, five-year TALF loans. Loan proceeds will be disbursed to the borrower, contingent on receipt by the New York Fed'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 New York Fed will enforce its rights in the collateral and sell the

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collateral to a special purpose vehicle (SPV) established specifically for the purpose of managing such assets. The New York Fed 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.

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.

Where should questions regarding the TALF be directed?

Questions should be directed to the New York Fed'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?

[Sign up for email alerts.](#)

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GOVERNANCE AND REPORTING

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 New York Fed. The SPV will purchase and manage any assets received by the New York Fed in connection with any TALF loans. Residual returns from the SPV will be shared between the New

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York Fed 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 New York Fed to secure TALF loans will be reported on the Federal Reserve Board's website.

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POLICY AND REGULATION

Is there a unique regulatory capital treatment for TALF-financed ABS held by a depository institution or bank holding company?

The regulatory capital requirements for securities financed by a TALF loan are the same as those for securities that are not financed by a TALF loan.

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 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.

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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.

How does the Employ American Workers Act (EAWA) provision related to hiring new employees who are in H-1B nonimmigrant status apply to borrowers for purposes of the TALF?

The EAWA applies to all borrowers under the TALF. In addition, if the eligible borrower is an investment fund, the EAWA also applies to any entity that owns or controls 25% or more of the total equity of the investment fund. Please see the "Borrower Eligibility" FAQs for the definition of "control." For more information on how the EAWA applies to Federal Reserve lending facilities, see [Employ American Workers Act: FAQs](#).  PDF  OFFSITE

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Borrower Eligibility

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 (1) 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, including any U.S.-organized subsidiary of such an entity; (2) a U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank; (3) a U.S. insured depository institution; or (4) 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. An entity that satisfies any one of the requirements above is a U.S. company regardless of whether it is controlled by, or managed by, a company that is not U.S.-

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organized. Notwithstanding the foregoing, a U.S. company excludes any entity, other than those described in clauses (2) and (3) above, that is controlled by a foreign government or is managed by an investment manager, other than those described in clauses (2) and (3) above, that is controlled by a foreign government.

What types of business entities and institutions may borrow from the TALF?

Eligible business entities or institutions include entities organized as limited liability companies, partnerships, banks, corporations, and business or other non-personal trusts.

Is the TALF designed to provide loans directly to businesses or consumers?

No, the TALF is designed to increase credit availability for businesses and consumers by facilitating renewed issuance of ABS backed by loans to consumers and businesses at more normal interest rate spreads. The \$10 million minimum loan size and requirement that all loans be secured by eligible collateral will likely make direct borrowing from the TALF infeasible for businesses and consumers.

How is “controlled” defined for purposes of determining eligible borrowers and the applicability of the EAWA?

An entity controls a company if, among other things, the entity owns, controls, or holds with power to vote 25 percent or more of a class of voting securities, or total equity of, the company.

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INVESTMENT FUNDS

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

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purposes of the TALF. However, any investment fund which is not a U.S. company in accordance with the last sentence of the first FAQ in the “Borrower Eligibility” section 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.

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

An investment fund includes (1) any type of pooled investment vehicle that is organized as a business entity or institution, including a hedge fund, a private equity fund, and a mutual fund, and (2) any type of single-investor vehicle that is organized as a business entity or institution.

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.

Can a newly formed investment fund borrow from the TALF?

Yes, so long as it satisfies all the eligible borrower requirements

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set forth above.

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Collateral Eligibility

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, for which underlying credit exposures must be auto loans, student loans, credit card loans, equipment loans, floorplan loans, insurance premium finance loans, small business loans fully guaranteed as to principal and interest by the U.S. Small Business Association, receivables related to residential mortgage servicing advances (servicing advance receivables) or commercial mortgage loans. All or substantially all of the credit exposures underlying eligible ABS must be exposures that are (1) for newly issued ABS, originated by U.S.-organized entities or institutions or U.S. branches or agencies of foreign banks and (2) for all ABS, made to U.S.-domiciled obligors or with respect to real property located in the United States or one of its territories.

The underlying credit exposures must not include exposures that are themselves cash ABS or synthetic ABS. Eligible ABS must be cleared through the Depository Trust Company. Eligible ABS must be issued on or after January 1, 2009, except for SBA Pool Certificates or Development Company Participation Certificates, which must be issued on or after January 1, 2008 and commercial mortgage pass-through securities which must have been issued before January 1, 2009 (legacy CMBS). Any ABS that are not legacy CMBS are referred to as "newly issued ABS".

Further eligibility requirements for each category of ABS are provided in the TALF Terms and Conditions and the FAQs.

Can a company that originates loans securitize them, acquire the AAA-rated tranche of the securitization, and

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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.

A borrower, however, is not restricted from using an SBA Pool Certificate or Development Company Participation Certificate as collateral for its TALF loan even if the underlying loans backing the SBA ABS were originated by such borrower or its affiliates, provided that the borrower has no knowledge that the loans were originated by it or its affiliates. A borrower, in all cases, is not permitted to collateralize a TALF loan with ABS that was 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.

Can a borrower under a commercial mortgage loan that backs a CMBS, or an affiliate of such a borrower, borrow from the TALF and pledge the same CMBS as collateral?

A CMBS will not be eligible collateral for a particular borrower if the borrower is, or is an affiliate of, a borrower under a mortgage loan backing the CMBS, unless that loan, and each other mortgage loan in the CMBS mortgage pool made to an affiliate of the TALF borrower, together constitute no more than 5% of the aggregate principal balance of the mortgage loans in the pool as of the subscription date. For purposes of this requirement, the definition of "affiliate" shall be as set forth in the MLSA.

Can a borrower under a floorplan loan or a lessee under a fleet lease that backs an ABS, or an affiliate of such a

borrower or lessee, borrow from the TALF and pledge the same ABS as collateral?

An ABS will not be eligible collateral for a particular borrower if the borrower is, or is an affiliate of, an obligor under a floorplan loan or a fleet lease backing the ABS, unless that loan or lease, and each other loan or lease in the ABS pool made to the borrower or its affiliate, together constitute no more than 10% of the aggregate principal balance of all of the loans or leases in the pool as of the subscription date. For purposes of this requirement, the definition of "affiliate" shall be as set forth in the MLSA. In the case of leases, the term "aggregate principal balance" refers to the securitization value of the leases in the pool.

Can a manufacturer, producer or seller of a product, or the provider of a service, the sale, provision or lease of which is financed by the loans or leases in a pool supporting an ABS, borrow from the TALF and pledge the same ABS as collateral?

An ABS will not be eligible collateral for a particular borrower if the borrower, or any of its affiliates, is the manufacturer, producer or seller of any products, or the provider of any services, the sale, provision, or lease of which is financed by the loans or leases in the pool supporting that ABS unless the loans or leases relating to such products or services together constitute no more than 10% of the aggregate principal balance of the loans and leases in the pool supporting such ABS as of the issuance date of such ABS. For purposes of this requirement, products include financial products such as insurance, and services include education, and the definition of "affiliate" shall be as set forth in the MLSA. In the case of leases, the term "aggregate principal balance" refers to the securitization value of the leases in the pool.

May investors borrow against ABS they already own?

An investor may borrow against any eligible ABS. Eligible ABS

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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. All other eligible ABS, except for legacy CMBS, must be issued on or after January 1, 2009. Legacy CMBS must be acquired in secondary market transactions and must have been issued before January 1, 2009.

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

There is no minimum maturity limit. If an ABS's maturity is shorter than the three-year or five- 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, auto, equipment, floorplan, premium finance, or servicing advance receivable loan ABS cannot be greater than five years. The average life for a CMBS cannot be greater than ten years.

Are zero coupon ABSs eligible as collateral for the TALF?

No. Zero coupon ABS are not eligible as TALF collateral.

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

Yes.

If the issuer of a ABS has an option to redeem such ABS prior to the maturity date (other than pursuant to a customary clean-up call), is the ABS eligible to secure a TALF loan?

In rare cases the New York Fed may consider accepting newly issued ABS where the issuer has an option to redeem such ABS (other than pursuant to a customary clean-up call) if, in its judgment, the option does not increase risks to the New York Fed and the ABS otherwise meets the collateral eligibility criteria. No borrower may pledge a newly issued ABS with a redemption option (other than pursuant to a customary clean-up call) unless, based on its review of the applicable prospectuses/offering

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documents, the borrower confirms that the ABS issuer has received acceptance of such redemption option from the New York Fed. For these purposes, a “customary clean-up call” with respect to a sponsor and its securitization refers to the clean-up call which is exercisable by the servicer or the depositor when the remaining balance of the assets or the liabilities of the issuer is not more than 10% (or a higher percentage customarily used by the sponsor in its securitizations that were offered before the TALF program was established) of the original balance of such assets or liabilities.

A sponsor or an issuer interested in issuing a TALF-eligible ABS with a redemption option (other than pursuant to a customary clean-up call) should contact the New York Fed via the TALF mailbox (talf@ny.frb.org, placing “redemption option” in the subject line) as soon as possible to get information on the New York Fed’s requirements. A sponsor or an issuer must provide the New York Fed with the relevant documents, including the relevant contractual provisions that will apply to the redemption option, at least three weeks prior to the relevant subscription date. However, depending on the volume of proposals, the New York Fed may not be able to complete its review in time for the relevant subscription date.

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NON-MORTGAGE-BACKED ABS

What types of non-mortgage-backed ABS are eligible collateral under the TALF?

Please refer to the TALF Terms and Conditions for full eligibility requirements.

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ELIGIBLE RECEIVABLES FOR NON-MORTGAGE-BACKED ABS

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What types of non-mortgage receivables are TALF eligible?

Auto-related receivables will include retail loans and leases relating to cars, light trucks, motorcycles and other recreational vehicles; commercial and government fleet leases; and commercial loans secured by vehicles and the related fleet leases of such vehicles to rental car companies. Other recreational vehicles include loans and leases for all recreational vehicle types designed for consumer use that have collateralized ABS transactions in the past, such as recreational vehicles (RVs), boats, trailers and sports vehicles. Commercial, government and rental fleet ABS may include loans and/or leases related to any type of vehicle that have collateralized fleet securitizations in the past. Retail (non-fleet) leases to commercial obligors in amounts not to exceed 15% of the total pool of leases may also collateralize prime auto retail lease ABS.

Eligible credit card receivables will 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.

Eligible equipment-related receivables will include loans and leases relating to business, industrial, and farm equipment. Such equipment includes, but is not limited to, agricultural, construction, or manufacturing equipment; trucks other than light trucks; smaller ticket items such as communications, office, and medical equipment, computers, copiers and security systems; and equipment types (other than aircraft) that have collateralized ~~securitized receivable~~equipment ABS in the past. The credit exposures underlying an eligible equipment ABS may include a mixture of loans and leases on a mixture of types of equipment.

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Eligible floorplan receivables will include revolving lines of credit used to finance dealers' inventories of items including, but not limited to, vehicles such as cars, trucks, recreational vehicles, trailers, boats and sports vehicles; agricultural, construction, or manufacturing equipment; manufactured housing; large appliances; and electronic equipment. These revolving lines of credit may be collateralized by a mixed type of inventory, including any type of inventory that has collateralized securitized floorplan loans in the past. Auto floorplan receivables will include revolving lines of credit to finance dealer inventories of cars and light trucks. Receivables that finance medium- and heavy-duty trucks may be included in an auto floorplan receivables securitization, but only to the extent that the medium- and heavy-duty truck receivables do not exceed 5 percent of the total pool of receivables in that securitization.

Eligible premium finance receivables will include loans used to finance premiums for property and casualty insurance but will not include deferred payment obligations acquired from insurance companies. The issuer of the ABS must acquire ownership of each premium finance loan in its entirety (as opposed to merely a participation or beneficial interest). The securitization must include a back-up servicer obligated to service the loans upon the resignation or termination of the initial servicer.

Eligible servicing advance receivables must be related to residential mortgage loan securitizations that grant the servicer first priority in any insurance or liquidation proceeds from a loan, and, if those proceeds are insufficient, grants the servicer a first priority to general collections of the related securitization. The related servicing agreement to every trust must give the servicer the right to assign, transfer or pledge its rights to be reimbursed, and must provide that all advances are reimbursed on a "first-in first-out" basis.

Are both operating and financing leases acceptable underlying receivables?

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Yes.

Are servicing advance receivables relating to commercial real estate eligible collateral?

No.

What does “all or substantially all” mean in the context of determining whether the credit exposures underlying an ABS are originated by U.S.-organized entities or institutions or U.S. branches or agencies of foreign banks and are made to U.S.-domiciled obligors or with respect to real property located in the United States or one of its territories?

For non-mortgage-backed ABS, 95 percent or more of the dollar amount of the credit exposures underlying the ABS must be exposures that are both (1) originated by U.S.-organized entities or institutions or U.S. branches or agencies of foreign banks and (2) made to U.S.-domiciled obligors or with respect to real property located in the United States or one of its territories.

Do U.S.-domiciled obligors in the TALF terms and conditions include those who are domiciled in a U.S. political subdivision or territory?

Yes. U.S.-domiciled obligors are those domiciled in the United States, or a political subdivision or territory thereof.

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.

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

Auto loan and lease ABS are considered prime if the weighted average FICO score of the receivables is 680 or greater.

Receivables without a FICO score are assigned the minimum FICO

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score of 300 for this calculation. Commercial receivables can be excluded from this calculation if historic cumulative net losses on these accounts have been the same or lower than those on receivables to individual obligors and this information is available in the prospectus. In addition, the percentage of commercial receivables in a trust must not exceed 15 percent. For auto 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 the percentage of receivables with a FICO score of greater than 660 is not disclosed, the subprime haircut schedule will apply.

How will a borrower know if an ABS is considered prime or subprime?

Issuers will publish in the prospectus whether the deal is prime or subprime according to TALF criteria. If this is not published in the prospectus, the deal will be considered subprime. Such representations in the prospectus are material to the New York Fed's determination of the haircuts for TALF loans and are considered a component of the representation as to the accuracy of the offering document.

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CMBS-GENERAL

Do CMBS (e.g., Class A-2) that receive principal later than the other most senior CMBS classes (e.g., Class A-1) but are otherwise *pari passu* with such other senior CMBS, qualify for TALF financing?

Yes, the exclusion of "junior" CMBS in the Terms and Conditions is a reference to subordination for credit support, not to a later position in the time tranche sequence.

NEWLY ISSUED CMBS

What types of newly issued CMBS are eligible collateral under TALF?

Please refer to the TALF Terms and Conditions for eligibility requirements relating to CMBS issued on or after January 1, 2009 (“newly issued CMBS”).

On what basis will the New York Fed decide whether or not to accept a newly issued CMBS or a specific loan in a newly issued CMBS pool?

The New York Fed may reject a newly issued CMBS pool, or a specific loan in a newly issued CMBS pool based on factors including, but not limited to, the following:

- The newly issued CMBS or the individual loans do not meet the explicit requirements stated in the Terms and Conditions. While pools containing loans from a single borrower or limited to a single asset class are not ineligible per se, they will be subject to a higher level of scrutiny and to the expectation that the increased concentration of the pool will be reflected in the higher creditworthiness of the pool collateral and/or in the level of credit support. If the collateral composition or the level of credit support does not satisfy the New York Fed, the pool will be rejected.
- Unacceptable concentrations. Newly issued CMBS that represent interests in pools that, alone or considered together with loan pools backing other TALF-financed CMBS, possess one or more concentrations (such as borrower sponsorship, property type and geographic region) considered unacceptable to the New York Fed may be rejected.
- One or more of the loans in the pool is defaulted, delinquent

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in payment, or in special servicing.

The New York Fed may accept the pool upon changes in the collateral composition or level of credit support. The New York Fed will utilize the services of one or more agents in connection with the review of newly issued CMBS and the loan pools that back them. For further information, see the FAQs under “Collateral Monitor” below.

Who will determine the timing of appraisals for purposes of calculating “appraisal reduction amounts” for newly issued CMBS collateral?

CMBS pooling and servicing agreements generally require that the special servicer obtain an appraisal within a specified period following the occurrence of a “servicing transfer event” (that is, an event that requires a problem loan to be placed in special servicing) with respect to the related loan. Under some CMBS arrangements, other interested parties (for example, the holder of a subordinate note serviced under the pooling and servicing agreement but not held by the CMBS trust fund) were permitted to obtain competing appraisals, and there existed arbitration-like mechanisms to determine the appraised value that would be used to calculate the “appraisal reduction amount”. The Terms and Conditions require that newly issued CMBS arrangements not provide for such multi-appraisal arrangements.

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LEGACY CMBS

What types of legacy CMBS are eligible collateral under TALF?

Please refer to the TALF Terms and Conditions for eligibility requirements relating to CMBS issued before January 1, 2009 (“legacy CMBS”).

On what basis will the New York Fed decide whether or not

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to accept a legacy CMBS?

The New York Fed may reject a legacy CMBS based on factors including, but not limited to, the following:

- The legacy CMBS does not meet the explicit requirements stated in the Terms and Conditions.
- Unacceptable performance of the mortgage loan pool. Legacy CMBS that represent interests in pools with high cumulative losses, a high percentage of delinquent loans, loans in special servicing or loans on servicer watch lists or a high percentage of subordinate-priority loans may be rejected. The New York Fed may consider in its decisions forecasts of pool level losses under various stress scenarios.
- Unacceptable concentrations. Legacy CMBS that represent interests in pools that, alone or considered together with loan pools backing other TALF-financed CMBS, possess one or more concentrations (such as borrower sponsorship, property type and geographic region) considered unacceptable to the New York Fed may be rejected.

The New York Fed will utilize the services of one or more agents in connection with the review of legacy CMBS and the loan pools that back them. For further information, see the FAQs under “Collateral Monitor” below.

What is the process for price validation of a secondary market transaction for the legacy CMBS program?

In order to validate the reasonableness of the price of any secondary market transaction, the price reflected on the sales confirmation for the secondary market transaction will be compared to various market data with respect to the existing market prices on the date of such transaction (trade date). The New York Fed will reject a loan request with respect to a legacy CMBS with a purchase price that does not reflect then-prevailing

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market prices.

In addition to the price validation process will the New York Fed perform a valuation of legacy CMBS in deciding whether to fund a TALF loan?

Yes. The New York Fed will utilize the services of one or more of its agents to perform a valuation of each legacy CMBS under various stress scenarios. The New York Fed reserves the right to reject the TALF loan request if the requested TALF loan amount is greater than the stress valuation.

For purposes of determining the loan amount to fund a TALF loan secured by a legacy CMBS loan, what is the method to determine the applicable price?

The applicable price will be the lesser of the purchase price on trade date or the market price as of subscription date of the CMBS.

The New York Fed, with the assistance of one or more of its agents, will determine the market price of the legacy CMBS as of subscription date on the basis of information provided by pricing services, unless that information is determined by the New York Fed and its agents not to be representative of market conditions prevailing at that time. If the pricing information with respect to legacy CMBS is not available or if the pricing information is determined not to be representative of market conditions, then the New York Fed, through its agents, will use its reasonable efforts to secure price quotations from at least three broker-dealers and the market price will be the arithmetic average of the broker quotations received. If the New York Fed and its agents are unable to obtain these quotations or it is determined that one or more of the quotations may not accurately reflect the market price of such legacy CMBS, then the market price will be determined by the New York Fed and its agents.

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CREDIT RATINGS

Which nationally recognized statistical rating organizations (NRSROs) are eligible rating agencies under the TALF?

For ABS other than CMBS, the TALF-eligible rating agencies are Fitch Ratings, Moody's Investors Service and Standard & Poor's.

For CMBS, the TALF CMBS-Eligible rating agencies are DBRS, Inc., Fitch Ratings, Moody's Investors Service, Realpoint LLC and Standard & Poor's.

The Federal Reserve will periodically review its use of NRSROs for the purpose of determining TALF-eligible ABS.

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. If a legacy CMBS is downgraded or placed on review or watch for downgrade after the subscription date for a loan with respect to such legacy CMBS, the legacy CMBS will not lose its status as eligible collateral for such loan request solely for that reason.

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, except as specifically described above.

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.

When must the final credit rating letters for newly issued ABS be received by the New York Fed?

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The issuer/sponsor must submit to talfreports@ny.frb.org the final credit rating letters from each of the relevant NRSROs for newly issued ABS no later than 10 a.m. on the applicable TALF loan settlement date.

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.

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ISSUER CERTIFICATIONS, AUDITOR ASSURANCES AND SBA DOCUMENTATION FOR NEWLY ISSUED ABS

What information must the issuer and sponsor include in the prospectus or other offering document of a newly issued non-SBA 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 a sponsor (as described below) 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 (1) the ABS is TALF eligible and (2) 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 New York Fed indemnifying it from any losses it may suffer if such certifications are untrue.

Such indemnity undertaking shall be delivered to the New York Fed in the case of non-mortgage-backed ABS, no later than four business days prior to the TALF loan settlement date, and in the

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case of newly issued CMBS, no later than five business days prior to the TALF loan settlement date. The form of certification and indemnity for non-mortgage-backed ABS is available [here](#). The form of certification and indemnity for newly issued CMBS is available [here](#).

What entity is the “issuer” that must sign the Issuer Certification?

The "issuer" for purposes of the issuer certification for non-mortgage-backed ABS, in both public and private offerings of TALF eligible non-mortgage-backed ABS, will be the legal entity that issues the ABS. The “issuer” for purposes of the issuer certification for newly issued CMBS, in both public and private offerings of newly issued CMBS, will be the legal entity that serves as the depositor in the CMBS issuance.

What documentation is required for SBA 7(a) Pool Certificates and 504 Development Company Participation Certificates?

With respect to SBA 7(a) Pool Certificates, no issuer certification, indemnity or offering document is required. However, ~~the an SBA-~~ [approved](#) pool assembler ~~that assembled the pool~~ must execute an [undertaking](#) in connection with each SBA Pool Certificate CUSIP.— [Such pool assembler may be either the entity that assembled the pool, or the pool assembler that is the seller in a TALF-financed transaction. For pools assembled jointly between two or more pool assemblers, any one of them may execute the undertaking.](#) An undertaking must be delivered to the New York Fed for each CUSIP no later than four business days prior to the TALF loan settlement date in order for a borrower to pledge that CUSIP as collateral for a TALF loan. Without an undertaking, the CUSIP cannot be used as collateral for a TALF loan regardless of whether it meets other TALF eligibility requirements. [Contact information](#) for SBA pool assemblers is available on the SBA's website.  OFFSITE

With respect to SBA 504 Development Company Participation

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Certificates, no issuer certification, indemnity or undertaking is required. However, offering documents that contain either the security's weighted average life or includes a supplement disclosing the security's weighted average life must be delivered to the New York Fed's custodian for the TALF program on subscription day. If the CUSIP number corresponds to a new issuance, the offering document(s) submitted on subscription date may be preliminary, but the final offering document(s) must be provided to the custodian no later than 12 p.m. (New York time) three business days prior to the applicable TALF loan settlement date.

What entity is the “sponsor” that must sign the Issuer Certification and the Indemnity Undertaking?

The “sponsor” for purposes of the issuer certification and indemnity undertaking for non-mortgage-backed ABS, in both public and private offerings for TALF eligible non-mortgage-backed ABS, will be the legal entity that is the sponsor of the ABS issuance. The “sponsor” for purposes of the issuer certification and indemnity undertaking for newly issued CMBS, in both public and private offerings for newly issued TALF eligible CMBS, will be the legal entity that is a sponsor of the CMBS issuance and affiliated with the depositor. For both non-mortgage-backed ABS and newly issued CMBS, if the sponsor is a special purpose vehicle, the sponsor's direct or indirect ultimate parent must also execute the indemnity undertaking.

What information relating to TALF eligible SBA ABS will be available from the SBA?

The SBA will post on its website the CUSIPs of all TALF-eligible [SBA Pool Certificates and Development Company Participation Certificates](#).  OFFSITE

What level of assurance will be required from the sponsor's accountants that a non-mortgage-backed ABS is TALF eligible?

As a condition of the disbursement of the TALF loan, an

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accounting firm retained by the sponsor must provide an attestation indicating that the ABS is TALF eligible. The accounting firm providing the attestation must be a nationally recognized certified public accounting firm that is registered with the Public Company Accounting Oversight Board. The form of the attestation is available [here](#). SBA Pool Certificates and Development Company Participation Certificates need not be accompanied by an auditor attestation.

What level of assurance will be required from the sponsor's accountants in connection with a newly issued CMBS?

As a condition of the disbursement of the TALF loan, an accounting firm retained by the sponsor must provide a report on Agreed Upon Procedures on factual matters related to various eligibility criteria for newly issued CMBS (the "AUP Report (TALF)"). The accounting firm providing the report must be a nationally recognized certified public accounting firm that is registered with the Public Company Accounting Oversight Board. The AUP Report (TALF) is required to be issued in connection with the preliminary prospectus or offering document and for any pre-pricing supplement to the preliminary prospectus or offering document. The form of the AUP Report (TALF) is available [here](#). The New York Fed acknowledges the sufficiency of the procedures set forth in the AUP Report (TALF) for its purposes. In addition, as a condition of the disbursement of the TALF loan, the accounting firm must provide to the New York Fed a copy of the report on Agreed Upon Procedures, including any updates to such report, that it delivers to the sponsor and the underwriter or initial purchaser in connection with the newly issued CMBS issuance (the "AUP Report (Industry)"). Additional guidance with respect to AUP Reports (Industry) is available [here](#).

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MASTER TRUST REQUIREMENTS

Why are there no loan origination date restrictions for

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credit card ABS, floorplan ABS, premium finance ABS, and auto ABS issued to refinance a maturing ABS issued out of a master trust?

Unlike other TALF-eligible loan categories of ABS, which are backed by a fixed pool of loans, credit card ABS, floorplan ABS, premium finance ABS, and some auto ABS are backed by dynamic pools of receivables that constantly change as consumers and businesses 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 ABS, floorplan ABS, premium finance ABS, and some auto ABS largely fund newly originated receivables, consistent with the policy goal of the TALF.

How is the date of origination of a credit exposure underlying an ABS determined in the case of revolving extension of credit arrangements?

For underlying credit exposures that are in the form of loans drawn under an existing arrangement to extend credit (*e.g.*, draws under a floorplan line of credit or new fundings under a loan secured by leases to a rental car company), the origination date of the underlying credit exposure is the date on which the loan was drawn or funded and not the date on which the arrangement for the extension of credit (*e.g.*, the floorplan line of credit or the revolving loan arrangement) was put in place.

Does the requirement that eligible floorplan, credit card, premium finance, and auto ABS (issued by a master trust) 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.

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How are variable funding notes (VFNs) with commitment termination dates in 2009 treated in the calculation of the amount of an issuer's credit card, floorplan, premium finance, or auto ABS (issued by a master trust) 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, regardless of whether the VFN is renewed.

How are VFNs that (1) had commitment termination dates prior to 2009 and (2) have controlled amortization periods in 2009 treated in the calculation of the amount of an issuer's credit card, floorplan, premium finance, or auto ABS (issued by a master trust) maturing in 2009?

For VFNs in controlled amortization periods, only the amount that amortizes in 2009 counts toward the amount of an issuer's credit card, floorplan, premium finance, or auto ABS maturing in 2009.

For a VFN with a commitment termination date after 2009, (1) if a collateral or other event causes the revolving period of the VFN to end in 2009, or (2) if the VFN is amended to move its commitment termination date to 2009, will the maximum contractual principal balance of the VFN be included in the calculation of the amount of credit card, floorplan, premium finance, or auto ABS (issued by a master trust) maturing in 2009?

No.

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

For ABS with 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, non-VFN ABS maturities are defined as dates on which principal payments are due.

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Must eligible ABS that refinance maturing ABS issued by a master trust be issued concurrently with the maturing ABS?

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, floorplan, premium finance, and auto ABS (issued by a master trust) be enforced?

Issuers of credit card, floorplan, premium finance, and auto 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 unless they are issued out of an existing or newly established master trust for floorplan, premium finance or auto ABS in which all or substantially all of the underlying exposures were originated on or after January 1, 2009.

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HAIRCUTS AND RATES

HAIRCUTS

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

Under the TALF, the New York Fed 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, except with respect to legacy CMBS, if the pledged ABS has a market value above par, the New York Fed 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.

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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 haircut schedule for each ABS asset type?

Collateral haircuts for non-mortgage-backed ABS collateral 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	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%		
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		

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Floorplan	Non-Auto	11%	12%	13%	14%	15%		
Premium Finance	Property and casualty	5%	6%	7%	8%	9%		
Servicing Advances	Residential mortgages	12%	13%	14%	15%	16%		
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%

For ABS benefitting from a substantial government guarantee with average lives of five years and beyond, haircuts will increase by one percentage point for every two additional years (or portion thereof) of average life at or beyond five years. For all other ABS with average lives of five years and beyond, haircuts will increase by one percentage point for each additional year (or portion thereof) of average life at or beyond five years.

The collateral haircut for each newly issued CMBS with an average life of five years or less will be 15%. For newly issued CMBS with average lives beyond five years, collateral haircuts will increase by one percentage point for each additional year (or portion thereof) of average life beyond five years. No CMBS may have an average life beyond ten years.

The TALF loan amount for each legacy CMBS will be the lesser of the dollar purchase price on trade date or the market price as of subscription date of the CMBS less, in either case, the base dollar haircut (from par) indicated below. A legacy CMBS will not be eligible collateral for a TALF loan if either its dollar purchase price or market price as of subscription date is less than its base dollar

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haircut. The base dollar haircut for each legacy CMBS with an average life of five years or less will be 15% of par. For legacy CMBS with an average life beyond five years, base dollar haircuts will increase by one percentage point of par for each additional year (or portion thereof) of average life beyond five years.

How will the par-based haircuts be applied to the current prices of the legacy CMBS?

The maximum size of a TALF loan secured by a legacy CMBS would be the lesser of the dollar purchase price on trade date or the market price as of subscription date of the CMBS less, in either case, the base dollar haircut. This is the equivalent of a collateral haircut equal to the base dollar haircut divided by the applicable price. For example, assuming a legacy CMBS with a par value of 100 and a seven-year weighted average life, with a base dollar haircut of 17 percent of par:

- If the applicable price is 75% of par, the loan amount is 58 (75-17) and the collateral haircut is 23% (17/75) of the applicable price.
- If the applicable price is 50% of par, the loan amount is 33 (50-17) and the collateral haircut is 34% (17/50) of the applicable price.

Under this formulation, the size of the haircut increases with the size of the price's discount from par, reflecting a recognition that large discounts from par generally indicate credit concerns.

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.

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AVERAGE LIFE

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How is average life defined?

For ABS with bullet maturities, average life is determined by the expected principal payment date. For amortizing ABS, average life is defined as the weighted average life to maturity based on the prepayment assumptions and market conventions listed below. These prepayment assumptions will be revisited periodically. For auto rental fleets, the average life is the length of any revolving period plus 6 months, and for mortgage servicing advances, the average life is the length of any revolving period plus 2 years.

The weighted average life for CMBS is based on the assumption that each loan amortizes according to its amortization schedule and pays in full on its maturity date, without prepayment.

Sector	Subsector	Prepayment Assumption
Auto	Prime retail lease	75% of prepayment curve
Auto	Prime retail loan	1.3% ABS
Auto	Subprime	1.5% ABS
Auto	Motorcycle/other recreational vehicles	1.5% ABS
Auto	Commercial and government fleets	100% of prepayment curve
Commercial Mortgage		0% CPR
Equipment	Loans and leases	8% CPR
Small Business	SBA 7a	14% CPR
Small	SBA 504	5% CPR

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Business		
Student Loan	Student Loan Private	4% CPR
Student Loan	Student Loan FFELP	4% CPR
Student Loan	Student Loan Consolidation	50% of CLR curve
<p>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.</p> <p>ABS (Absolute Prepayment Speed) represents the percentage of the original number of loans that prepay during a given period.</p>		

Where will a newly issued ABS security's average life be published?

The issuer is expected to publish the security's average life in the prospectus or offering document. 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 or offering document 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 or offering document are material to the New York Fed's determination of the haircuts for TALF loans and the representation as to accuracy of the prospectus or offering document contained in the issuer certification would be breached

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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 will a newly issued ABS security's average life be calculated if the ABS is pledged subsequent to its issuance date?

For an ABS security that is transferred to the New York Fed's custodian as TALF collateral on a date subsequent to the date the security was issued, the following formulas will be used:

Adjusted Average Life for bullet maturities = Original Average Life – [1 X ((Upcoming TALF Loan Closing Date – Original Closing Date of Security)/360)]

Adjusted Average Life for amortizing assets = Original Average Life – [1/2 X ((Upcoming TALF Loan Closing Date – Original Closing Date of Security)/360)]

Except for SBA Pool Certificates, the Original Average Life is the average life reported in the final prospectus/offering document. The Original Average Life for SBA Pool Certificates is the average life reported in the undertaking.

How is weighted average life determined for purposes of haircuts on legacy CMBS?

The weighted average life of a legacy CMBS will be calculated on the basis of (1) the current composition of the mortgage pool, as reflected in recent servicer and trustee reports, (2) the entitlement of the legacy CMBS to distributions (including, if applicable, its position in a time-tranched sequence of classes), (3) the assumption that "anticipated repayment dates" are maturity dates, and (4) a 0% CPR and the absence of future defaults. For this purpose, loans in default or special servicing will be considered as if they had not defaulted, and previously-

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modified loans will be considered according to their terms as modified.

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INTEREST RATES

What interest rates are offered under the TALF?

The loan rate is determined by the type of collateral securing the loan.

For TALF loans secured by private student loan ABS bearing a prime-based coupon, the interest rate will be the higher of 1 percent and the rate equal to “Prime Rate” (as defined in the MLSA) minus 175 basis points. For other TALF loans backed by collateral not benefitting from a government guarantee, the interest rate on floating-rate loans will be 100 basis points over 1-month LIBOR. For fixed-rate three-year loans, the interest rate will be 100 basis points over the 1-year LIBOR swap rate for securities with a weighted average life less than one year, 100 basis points over the 2-year LIBOR swap rate for securities with a weighted average life greater than or equal to one year and less than two years, or 100 basis points over the 3-year LIBOR swap rate for securities with a weighted average life of two years or greater. [For TALF loans backed by SBA 504 Development Company Participation Certificates and commercial mortgage ABS, fixed rate three-year loans will only be granted with an interest rate of 50 and 100 basis points, respectively, over the 3-year LIBOR swap rate.](#) For fixed-rate five-year loans, the interest rate will be the five-year LIBOR swap rate plus 100 basis points.

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 an additional 25 basis points for SBA 7(a) ABS, over one-month LIBOR for FFELP ABS and over the

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three- or five-year LIBOR swap rate for SBA 504 ABS.

Interest rates will be set on ~~the~~ one day prior to the subscription date.

Sector	Subsector		Fixed 3 year loan (Average Life, in years)			Fixed 5 year loan	Floating
			<1	1-<2	>=2		
Auto			1- year LIBOR swap rate + 100 bps	2- year LIBOR swap rate + 100 bps	3- year LIBOR swap rate + 100 bps	N/A	1-month LIBOR + 100 bps
Commercial mortgage		N/A N/A	3-year LIBOR swap rate + 100 bps			5- year LIBOR swap rate + 100 bps	N/A
Credit Card			1- year LIBOR swap rate + 100 bps	2- year LIBOR swap rate + 100 bps	3- year LIBOR swap rate + 100 bps	N/A	1-month LIBOR + 100 bps
Equipment			1- year LIBOR swap	2- year LIBOR swap	3- year LIBOR swap	N/A	1-month LIBOR + 100 bps

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				rate + 100 bps	rate + 100 bps	rate + 100 bps		
Floorplan				1- year LIBOR swap rate + 100 bps	2- year LIBOR swap rate + 100 bps	3- year LIBOR swap rate + 100 bps	N/A	1-month LIBOR + 100 bps
Premium Finance	Property and casualty			1- year LIBOR swap rate + 100 bps	2- year LIBOR swap rate + 100 bps	3- year LIBOR swap rate + 100 bps	N/A	1-month LIBOR + 100 bps
Servicing Advances	Residential mortgages			1- year LIBOR swap rate + 100 bps	2- year LIBOR swap rate + 100 bps	3- year LIBOR swap rate + 100 bps	N/A	1-month LIBOR + 100 bps
Small Business	SBA loans 7(a)			N/A	N/A	N/A	N/A	Fed Funds Target + 75 bps
Small Business	SBA loans 504	N/A	N/A	3-year LIBOR swap rate + 50 bps			5- year LIBOR swap rate + 50	N/A

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						bps	
Student Loan	Private with coupon tied to Prime	N/A	N/A	N/A	N/A	N/A	Higher of (Prime rate-175 bps) and 1%
Student Loan	Other Private	N/A	N/A	N/A	N/A	N/A	1-month LIBOR + 100 bps
Student Loan	Gov't guaranteed	N/A	N/A	N/A	N/A	N/A	1-month LIBOR + 50 bps

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 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.

What fees are associated with the TALF?

On each loan's settlement date, the borrower must pay to the New York Fed's settlement account an administrative fee equal to

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510 basis points of the loan amount for non-mortgaged-backed ABS collateral, and 20 basis points for CMBS collateral, which will cover the New York Fed's fees associated with the facility.

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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 MLSA as agent for the borrower and to perform all actions required on their behalf. The MLSA provides further details on the requirements that apply to the entities seeking to borrow from the New York Fed under the TALF.

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

No. Borrowers with eligible ABS of all asset types will receive loans from the same TALF facility. However, non-mortgage-backed ABS and CMBS will have separate subscription dates.

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Collateral Monitor

Is there an agent that the New York Fed has selected to be collateral monitor for TALF as it relates to CMBS?

Trepp, LLC ("Trepp") has been selected to serve as a collateral monitor for the New York Fed for CMBS. Trepp will assist the New York Fed by providing valuation, modeling, analytics and reporting, as well as advising on these matters. Trepp will not establish policies or make decisions for the New York Fed, including decisions whether to reject a CMBS as collateral for a TALF loan or exclude loans from mortgage pools.

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Will the New York Fed be adding other collateral monitors?

The New York Fed may use the services of one or more collateral monitors in connection with TALF.

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Issuer Considerations For Newly Issued ABS

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

On the applicable subscription date for non-mortgage-backed ABS or newly issued CMBS, 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 must be provided to the custodian no later than 12:00 p.m. (New York time) three business days prior to the applicable TALF loan settlement date. Prospectuses/offering documents are not required for SBA Pool Certificates.

For non-mortgage-backed ABS, should the assertions made in the Issuer and Sponsor Certification be made as of the date the ABS is priced, or can such assertions be made as of an earlier date? When must Auditor Attestations be made?

The assertions as to TALF eligibility of the ABS made by the issuer and sponsor shall be made as of the date of the final ("black") prospectus or offering document. In the event it is not feasible that such assertions be made as of the date of the final offering document, it is acceptable that the assertions be made as of the date of the preliminary ("red") prospectus or offering document.

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The opinion in the Auditor Attestation shall be made as of the same date as the issuer and sponsor make their assertions in the Issuer and Sponsor Certification. Each of the Issuer and Sponsor Certification (and accompanying Indemnity Undertaking) and the Auditor Attestation shall only be submitted to the New York Fed once per CUSIP.

For newly issued CMBS, should the assertions made in the Issuer and Sponsor Certification be made as of the date the CMBS is priced, or can such assertions be made as of an earlier date? When must AUP Reports be dated?

The assertions as to TALF eligibility of the newly issued CMBS made by the issuer and sponsor shall be made as of the date of the final ("black") prospectus or offering document. In the event it is not feasible that such assertions be made as of the date of the final offering document, it is acceptable that the assertions be made as of the later of the date of the preliminary ("red") prospectus or offering document or the final supplement thereto. Each of the Issuer and Sponsor Certification (and accompanying Indemnity Undertaking) shall only be submitted to the New York Fed once per CUSIP. An AUP Report (TALF) must be furnished with respect to, and dated the date of, the preliminary prospectus or offering document, and each supplement thereto, and the final prospectus or offering document, and each supplement thereto. An AUP Report (Industry) must be furnished with respect to, and dated the date of, the preliminary prospectus or offering document, and an update thereof must be furnished with respect to, and dated the date of, each supplement to the preliminary prospectus or offering document. An AUP Report (Industry) must also be furnished with respect to, and dated the date of, the final prospectus or offering document.

Will issuers be able to reserve TALF funding capacity for new issue deals that will take several months to assemble and bring to market?

The New York Fed is considering a process to permit interested

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issuers, through a process to be determined, to reserve prospective funding of TALF loans secured by newly issued CMBS. The New York Fed expects that each potential issuer to which such a reservation is awarded will pay a monthly reservation fee, assessed as a fraction of the amount reserved, while the reservation is outstanding. All of the requirements of the TALF program relating to eligible collateral and eligible borrowers will continue to apply if a reservation is awarded. No reservation will extend beyond the last CMBS subscription. A decision on the implementation and details of this process will be announced shortly.

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LOAN SUBSCRIPTION AND CLOSING

What is the date upon which the New York Fed will set the initial benchmark rates for a TALF subscription?

The New York Fed will set the initial benchmark rates for a TALF subscription one business day prior to subscription date.

Submission of loan requests will still occur on subscription date.

The first month in which this shall be implemented is August.

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 stated maturity date of the loan, the CUSIPs of the ABS the borrower expects to deliver and pledge to the New York Fed and, except for SBA Pool Certificates and legacy CMBS, 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 New York Fed's custodial agent for review and will also submit to the New York Fed the aggregate loans request amount for all its customers by rate type and asset class.

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

What are the requirements relating to secondary market transactions in which a prospective TALF borrower may acquire a legacy CMBS?

~~For the first legacy CMBS subscription, the trade date for the TALF borrower's agreement to purchase the legacy CMBS must be after July 2, 2009. For subsequent legacy CMBS subscription dates, the TALF borrower may purchase the~~A TALF borrower may purchase a legacy CMBS at any time following the prior month's legacy CMBS subscription date, but in any event, the borrower must ~~settle its purchase~~enter into a transaction with a settlement date on or before the current subscription date for legacy CMBS. In all cases, the borrower's agreement to purchase the legacy CMBS must also be made on an arm's-length basis, as specified in the MLSA. The New York Fed also must receive a copy of the sales confirmation for the borrower's purchase.

Do the representations by the TALF borrower required under Sections 10.1(e)(vi)(3) and (5) of the MLSA prohibit the TALF borrower from financing a legacy CMBS from the time of settlement of such CMBS until the time of the closing of the TALF loan relating to such legacy CMBS?

No. The representations contained in Sections 10.1(e)(vi)(3) and (5) of the MLSA do not prohibit a potential TALF borrower from obtaining financing for a legacy CMBS, including financing obtained from the Market Intermediary that sold such legacy CMBS to the applicable TALF borrower, so long as any such financing arrangements are terminated in their entirety at the time of the closing of the TALF loan relating to such legacy CMBS.

How will the process work if a newly issued ABS closes on

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the same day as the TALF loan settlement date?

The borrower of a TALF loan must identify the counterparty expected to deliver the newly issued 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 newly issued ABS, 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 New York Fed'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 New York Fed's custodian against payment. Upon settlement, the custodian will reflect the loan and collateral pledged on its books.

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.

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Is there a maximum TALF loan amount?

No.

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 newly issued ABS. A borrower may not adjust its loan request to obtain a larger amount of TALF loans than originally requested.

How does a borrower know that its loan request will be funded?

If an eligible borrower posts eligible non-mortgage-backed ABS collateral, there should be every expectation of financing. The New York Fed reserves the right not to fund in exceptional cases, such as upon revelation of materially adverse information about the borrower prior to settlement, but those cases are expected to be isolated and rare. To enhance certainty of TALF financing, the New York Fed has developed procedures for pre-certification of certain classes of borrowers. The pre-certification policy is available in the [Term Asset-Backed Securities Loan Facility Pre-Certification Process](#) document.  PDF

Note: the pre-certification process will not in any way exempt a primary dealer from its responsibility to determine borrower eligibility or from conducting its KYC obligations with respect to any potential TALF borrower as required by applicable laws and regulations and the TALF Borrower Eligibility and New York Fed Due Diligence Policy.

With respect to CMBS, however, the New York Fed will retain the right to reject any CMBS as TALF loan collateral based on its risk assessment.

In the isolated and unlikely occurrence that a borrower is

deemed ineligible between the subscription date and the settlement date, is a primary dealer who acts as underwriter and agent for the borrower allowed to finance the failed subscription by borrowing under the TALF facility?

If a borrower is deemed ineligible between the subscription date and the settlement date, the primary dealer may borrow from the Primary Dealer Credit Facility (PDCF) using the underwritten securities as collateral subject to the existing terms and conditions for PDCF borrowing. A primary dealer may also borrow under the TALF facility provided that: 1) the amount borrowed is equal to the loan amount that the ineligible borrower requested on the subscription date; and 2) the borrowing is not used for a transaction underwritten by the primary dealer that contains assets that the primary dealer, any of its affiliates, or any entities under direct or indirect control of the primary dealer, originated. The primary dealer must indicate its intent to borrow within two hours of receiving notification regarding a borrower's ineligibility. In such circumstances the primary dealer will not be required to submit a conflict of interest identification and remediation plan to the New York Fed.

The MLSA requires the primary dealer to deliver on behalf of the borrower, among other things, a sales confirmation. 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.

Must an eligible borrower own newly issued 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

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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 New York Fed 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 New York Fed 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.

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

No. Except in the case of SBA (7a) Pool Certificates, a borrower may pledge only a single eligible ABS as collateral for a single TALF loan. In the case of SBA (7a) Pool Certificates, a borrower may pledge more than one Certificate as collateral for a single loan; however, each Certificate must have the same weighted average life.

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POST-CLOSING ISSUES

What is the maturity of a TALF loan?

Each TALF loan will have a three-year maturity, except that TALF loans secured by SBA Pool Certificates, SBA Development Company Participation Certificates, or ABS backed by student loans or commercial mortgages will have a five-year maturity if the borrower so elects.

If the ABS matures after the TALF loan matures, is the borrower responsible for selling the collateral and repaying the loan at the end of the loan's maturity? [For example, if an 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?]

The loan must be repaid upon the loan's maturity. The borrower may (1) repay the loan, at which time the New York Fed will release the collateral, or (2) arrange for the sale of the collateral and instruct the New York Fed to deliver the ABS to the counterparty promptly after the New York Fed's receipt of payment in an amount sufficient for the repayment of the loan. In the latter case, 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 New York Fed 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 New York Fed, 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.

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

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loan?

No, a borrower may not substitute collateral.

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 New York Fed. The New York Fed 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 payments on eligible collateral allocated between the borrower and repayment of principal on the TALF loan?

Unless otherwise provided in the MLSA, any remittance of principal on eligible collateral must be used immediately to reduce the principal amount of the TALF loan in proportion to the haircut. For example, if the original haircut was 10 percent, 90 percent of any remittance of principal on the ABS must immediately be repaid to the New York Fed.

For a five-year TALF loan, which is available for certain ABS categories, the excess of interest and any other distributions (excluding principal distributions) on the ABS over TALF loan interest payable (such amount, "net carry") will be remitted to the TALF borrower only until net carry equals 25% per annum of the original haircut amount in the first three loan years, 10% in the fourth loan year, and 5% in the fifth loan year, and the remainder of such net carry will be applied to the TALF loan principal, as described more fully below. For a three-year TALF loan for legacy CMBS, such net carry will be remitted to the borrower in each loan year until it equals 30% per annum of the original haircut

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amount, with the remainder applied to loan principal, as described more fully below.

On what periodic basis is net carry on a TALF loan determined?

Net carry is determined with the same frequency as principal and interest is remitted on the TALF loan collateral (that is, monthly, quarterly or semi-annually).

Is the amount of net carry diverted to early TALF loan repayment calculated on a cumulative or periodic basis?

The amount of net carry to be applied towards early TALF loan repayment is determined on the same periodic basis as is used to determine net carry and is independent of whether any net carry has been diverted to principal repayments previously for the loan. Since the net carry limit declines in years four and five for five year loans, in some cases, net carry for five year loans may only be diverted in years four and/or five.

Example

A 5 year TALF loan is issued to an investor with an original haircut of \$1,000,000.

Assume the following:

The ABS collateral remits principal and interest on a monthly basis.

The TALF loan has been outstanding for 37 months and 31 days have passed since the last determination of net carry.

The net carry is \$20,000 for the current period.

In this example, the amount of net carry diverted to early TALF loan prepayment is \$11,507².

Are the thresholds beyond which net carry is diverted toward early TALF repayment calculated using original or current haircut amount?

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The thresholds are calculated based on the dollar amount of the original haircut. Variations in haircut amount over time, for instance because of principal amortization or early TALF loan repayment, do not change the thresholds.

How do scheduled payments on collateral purchased above par affect the calculation of whether interest carry will be diverted?

The calculation of the amount of interest carry that is diverted is independent of any scheduled payments on collateral purchased above par, as further explained in the MLSA.

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 New York Fed will enforce its rights to the collateral and the borrower will forfeit its haircut amount.

Are there other events that may affect the portion of current cash flow on ABS collateral that is applied to a borrower's TALF loan obligations?

Yes. If one or more specified circumstances exist with respect to a particular ABS pledged as collateral for a TALF loan, then all cash flow received on such ABS while the circumstance exists must be applied to the payment of the accrued interest on and outstanding principal amount of the TALF loan. The specified circumstances consist of:

- in the case of any ABS with a revolving (or master) trust, the occurrence of an early amortization event (or an event by another name, such as early redemption event, that has the same effect), if principal payments on such ABS commence because of such occurrence or, if principal payments have already commenced due to the termination

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of the revolving period, the amount of such principal payments is adjusted because of such occurrence;

- in the case of any ABS that is not a CMBS, the occurrence and continuation of an event or circumstance that constitutes an event of default under the governing agreements for such ABS (to the extent the event or circumstance is not waived in accordance with those governing agreements); and
- in the case of any CMBS, the depletion of credit support for such CMBS, a circumstance that will be deemed to exist if (and for as long as) the aggregate outstanding principal balance of the classes of securities that provide credit support to such CMBS, minus the aggregate amount of “appraisal reduction amounts” in effect with respect to the assets that back such CMBS, is less than or equal to zero.

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 New York Fed 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 New York Fed 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 New York Fed 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

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collateral or is the entire pool of collateral surrendered?

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

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Risk Management and Compliance

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 businesses. Examples of the structural features of the TALF that minimize credit risk include the following: (1) investors are required to supply risk capital in the form of haircuts; (2) the TALF haircut methodology is risk sensitive across asset class and maturity; and (3) the TALF only accepts collateral that has received two credit ratings in the highest investment-grade rating category or the principal and interest of which is fully U.S. government-guaranteed.

The New York Fed also has designed a number of measures to discourage fraudulent activity associated with the TALF. The New York Fed has established a compliance framework that includes a borrower acceptance standard, an assurance program related to borrower eligibility requirements that includes the New York Fed's due diligence policy, conflicts of interest guidance for primary dealers participating in TALF, an issuer due diligence program, and an on-site inspection program that is currently under development. The New York Fed has also established a 24-hour telephone and internet-based hotline for reporting of fraudulent conduct or activity associated with the TALF. The hotline can be reached at 1-866-976-TALF (8253) or www.TALFhotline.com.

In addition, except for SBA Pool Certificates or Development

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Company Participation Certificates and legacy CMBS, an ABS issuer and sponsor must provide a certification in connection with the prospectus or offering document 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 is found to be ineligible, the New York Fed has the right of indemnity against the sponsor in the event damages are suffered in relation to the collateral and further remedy is available if there is evidence of fraudulent activity. Additionally, if a borrower who has participated in the program is found to be ineligible or is found to have knowingly breached a representation related to the eligibility of the collateral, the non-recourse feature of the loan becomes inapplicable and the borrower must thereupon repay the loan in full upon demand. Moreover, as indicated above, to assist the New York Fed 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 New York Fed.

As a condition to the disbursement of a TALF loan to be secured by a newly issued ABS, the New York Fed requires that an accounting firm retained by the sponsor of the ABS provide (1) in the case of a non-mortgage-backed ABS, an attestation indicating that the ABS is TALF eligible or (2) in the case of a newly issued CMBS, a report on agreed upon procedures with respect to factual matters related to various TALF eligibility criteria for newly issued CMBS.

In connection with a legacy CMBS, the New York Fed will review existing market prices and reject a TALF loan request that does not reflect then-prevailing market prices, and reserves the right to reject a TALF loan request if the requested loan amount is greater than a stress valuation. In any case, the TALF loan amount for a legacy CMBS will not exceed the lesser of the purchase price on the borrower's trade date or the market price

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as of the subscription date, as determined under the provisions described above. Furthermore, a borrower must settle its purchase of a legacy CMBS on or before the subscription date for a TALF loan to be secured by such CMBS. The borrower must also represent that the transaction took place on an arm's-length basis.

Finally, the New York Fed will conduct due diligence on the major participants in CMBS transactions, including issuers, loan sellers, and sponsors of mortgage borrowers and reserves the right to reject any legacy or newly issued CMBS based on its assessment of fraud exposure or other risks.

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Primary Dealers

What is the primary dealer's role?

The MLSA specifies 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 newly issued ABS expected to be pledged;
- Submit aggregate loan request amounts on behalf of its customers in the form and manner specified by the New York Fed;
- On the subscription date, submit a file to the custodian containing a detailed breakdown of the loan requests, which will, among other things, include the identity of the individual borrowers, the amount of each borrower's loan request and the material information collected above;

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- 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 New York Fed with information sufficient to describe the dealer’s customer risk assessment methodology prior to participation in the program. In addition, the New York Fed is developing an on-site inspection program to carry out its inspection rights under the MLSA.

All primary dealers planning to participate in the TALF should review the [TALF Borrower Eligibility and New York Fed Due Diligence Policy](#) and should contact the New York Fed Compliance Function at talf.compliance@ny.frb.org for further guidance.

What additional responsibilities does a primary dealer that is an underwriter of an issue of asset-backed securities have under section 10.1(d) of the MLSA?

While primary dealers generally do not have responsibility for the accuracy of disclosure contained in the offering materials, section 10.1(d) of the MLSA makes an exception for primary dealers acting as underwriters. Under section 10.1(d), a primary dealer

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that acts as underwriter for an ABS issue represents that no information contained in the ABS' offering materials furnished by it is untrue as to any material fact, or omits any material fact. The intention is that the underwriter's representation under Section 10.1(d) of the MLSA as to the offering materials, taken together with the "reasonable care" standard of liability under Section 17.0, would impose a duty as to this disclosure coextensive with the underwriter's legal obligations under the federal securities laws. If, on the date offering materials were delivered to the New York Fed or its custodian, the issuance and distribution of the securities have been completed so that the primary dealer is no longer acting as underwriter of the issuance, section 10.1(d) imposes no incremental duty on the primary dealer to "bring down" the underwriter's due diligence to such date.

What constitutes "reasonable care" on the part of a primary dealer in confirming the accuracy of the representation as to eligibility of collateral for TALF loans?

The primary dealer is expected to have reviewed the relevant offering materials (including the certifications contained therein) and, except in the case of SBA collateral (as defined in the MLSA), separately confirmed that the ratings currently applicable to the collateral meet the eligibility criteria.

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 the 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

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information regarding the gross principal, interest and other distribution amounts paid on the ABS collateral, as well as the principal, interest and other distribution amounts 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 New York Fed 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 New York Fed 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 New York Fed 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 New York Fed on this matter.

May a primary dealer that underwrites or sells an issuance and acts as an agent to arrange financing for a TALF

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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.

Would the restrictions on hedging transactions prohibit a primary dealer from entering into an interest rate swap with an ABS trust, if it is intended solely to create a floating-rate security based off of fixed-rate receivables?

In the case of ABS other than CMBS, provided that the swap agreement is entered into at a fair price, such an arrangement

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would not be prohibited, as the potential borrower is not a party to the swap agreement.

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

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

Par is the par value of the bond.

h is the haircut from the above table corresponding to the average 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 average life above. b is equal to 12, 4, or 2 for securities with a remittance frequency of monthly, quarterly, or semi-annually, respectively.

²The amount of net carry diverted to early TALF loan repayment in dollars is determined by the following formula:

$$\text{NC} - (H * Y * D / A)$$

NC is the net carry for the current period.

H is the original haircut amount in dollars.

Y is the threshold percentage beyond which net carry is diverted based on the length of time the TALF loan has been outstanding.

D is the number of days that have passed since the last determination of net carry.

A is the actual days in the year.

$$\$20,000 - (\$1,000,000 * 10\% * 31/365) = \$11,507$$