

## Term Asset-Backed Securities Loan Facility: Terms and Conditions<sup>1</sup>

Effective ~~November 13, 2009~~ *November 13, 2009*

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### General Terms and Conditions

#### Facility

The TALF is a Federal Reserve credit facility authorized under section 13(3) of the Federal Reserve Act. The TALF is intended to make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

#### ▲ General Terms and Conditions

The Federal Reserve Bank of New York (New York Fed) will make up to \$200 billion of loans under the TALF. TALF loans will have a term of three years or, in certain cases, five years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The U.S. Treasury Department ~~will originally committed to~~ provide \$20 billion of credit protection to the Federal Reserve in connection with the TALF, as described below. ~~This commitment was later reduced to \$4.3 billion after the program closed to new lending on June 30, 2010 with \$43 billion in loans outstanding.~~

#### Eligible Collateral

Eligible collateral will include U.S. dollar-denominated cash (that is, not synthetic) ABS that are issued on or after January 1, 2009 (except for SBA Pool Certificates or Development Company Participation Certificates, which must have been issued on or after January 1, 2008 and commercial mortgage pass-through securities issued before January 1, 2009 (legacy CMBS)). Any ABS that are not legacy CMBS are referred to as "newly issued ABS". Eligible collateral will include only ABS that are cleared through the Depository Trust Company.

All or substantially all of the credit exposures underlying eligible ABS must

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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 of eligible ABS 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 Administration, receivables related to residential mortgage servicing advances (servicing advance receivables) or commercial mortgage loans.

The set of permissible underlying credit exposures of eligible ABS may be expanded later to include non-Agency residential mortgages and/or other asset classes.

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.

A CMBS will not be eligible collateral for a particular borrower if that borrower, or any of its affiliates, is 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.

An ABS backed by commercial and government fleet leases, rental fleet leases or floorplan loans will not be eligible collateral for a particular borrower, if that borrower, or any of its affiliates, is an obligor under a loan or lease backing the ABS, unless the aggregate principal balance of the loans or leases made to the TALF borrower and each of its affiliates in

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the pool backing the ABS together constitute no more than 10% of the aggregate principal balance of all of the loans and leases in the pool as of the subscription date. In the case of leases, the term "aggregate principal balance" refers to the securitization value of the leases in the pool.

An ABS will not be eligible collateral for a particular borrower if that 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 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. In the case of leases, the term "aggregate principal balance" refers to the securitization value of the leases in the pool.

A newly issued ABS with a redemption option (other than pursuant to a customary clean-up call) is not eligible as collateral unless the ABS issuer has received acceptance of such redemption option from the New York Fed.

As of the TALF loan closing date for newly issued ABS (including newly issued CMBS) and as of the TALF loan subscription date for legacy CMBS, the ABS must have a credit rating in the highest long-term or, in the case of non-mortgage-backed ABS, the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (NRSROs) and must not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. Eligible collateral will not include an ABS that obtains such credit ratings based on the benefit of a third-party guarantee or an ABS that an eligible NRSRO has placed on review or watch for downgrade. See the "Frequently Asked Questions" under "Credit Ratings" for further information regarding eligible NRSROs.

Eligible small business ABS include ABS that are, or for which all of the underlying credit exposures are, fully guaranteed by the full faith and

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credit of the U.S. government and are exempt from the rating agency requirements described above.

Further information on eligibility requirements for each category of ABS is provided below.

### **Risk Assessment**

The New York Fed will perform a risk assessment of any ABS proposed as collateral for a TALF loan and will retain the right to reject any ABS, including CMBS, as TALF loan collateral based on this risk assessment. Further information on the risk assessment process for each type of ABS is provided below.

Any determination by the New York Fed, following its risk assessment, that proposed TALF-eligible collateral is acceptable is not investment advice, a recommendation to purchase securities or a guarantee of credit quality, and does not reflect any view by the New York Fed as to the value of such security. No potential TALF borrower should rely on such determination in connection with its purchase of any ABS. Further, the determination that an ABS meets the eligibility requirements of the TALF program continues to be the responsibility of the borrower and the TALF agent.

### **Eligible Borrowers**

Any U.S. company that owns eligible collateral may borrow from the TALF provided the company maintains an account relationship with a TALF Agent. 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

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company that is not U.S.-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.

A financing subsidiary of a Public-Private Investment Fund (PPIF) established pursuant to the Legacy Securities Public-Private Investment Program may be an eligible borrower (an "Eligible PPIF Borrower") only with respect to legacy CMBS and only if the PPIF is receiving Treasury-supplied debt financing equal to or less than 50 percent of the PPIF's total equity (including private and Treasury-supplied equity) and satisfies all other borrower eligibility requirements.

### **Transaction Structure and Pricing**

Credit extensions under the TALF will be in the form of non-recourse loans secured by eligible collateral. 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 mortgage loans will have a five-year maturity if the borrower so elects. Interest on TALF loans will be payable monthly. TALF loans will not be subject to mark-to-market or re-margining requirements.

TALF loans will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed. Unless otherwise provided in the Master Loan and Security Agreement (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 loan's original haircut (e.g., if the original haircut was 10 percent, 90 percent of any remittance of principal must immediately be repaid to the New York Fed). In addition, for collateral priced at a premium to par the borrower will make an additional principal payment calculated to adjust for the average reversion of market value toward par value as the ABS matures. Also, for five-year TALF loans (which will be available for loans secured by SBA ABS or ABS backed by student loans or commercial mortgage loans), the excess of interest and any other distributions (excluding principal distributions) on

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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 TALF loan principal. 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 amount, with the remainder applied to loan principal. The New York Fed will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for non-mortgage-backed ABS collateral, and 20 basis points for CMBS collateral.

Further information on transaction structure and pricing for TALF loans secured by each category of ABS is provided below and in the MLSA.

### **Voting**

A TALF borrower must agree not to exercise or refrain from exercising any voting, consent or waiver rights, or any rights to direct, initiate, recommend or approve any action, under an ABS without the consent of the New York Fed.

### **Allocation**

The New York Fed will announce monthly TALF loan subscription and settlement dates for TALF loans to be secured by each category of ABS. On each subscription date, borrowers will be able to request one or more floating-rate and one or more fixed-rate TALF loans by indicating for each loan the eligible ABS collateral they expect to pledge, the desired loan amount, the desired interest rate format (fixed or floating), and desired loan maturity, subject to any limitations on the types of interest rates or loan maturities specified in the eligibility requirements for each category of ABS. Loan proceeds will be disbursed to the borrower, contingent on receipt by the New York Fed's custodian bank of the eligible ABS collateral. The minimum size for each TALF loan will be \$10 million.

The New York Fed reserves the right to reject any request for a loan, in whole or in part, in its discretion.

### **Roles of TALF Agents and Custodian Bank**

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Each borrower must use a TALF Agent, which will act as agent for the borrower, to access the TALF and must deliver eligible collateral to the New York Fed's custodian bank.

### **Role of the U.S. Treasury Department**

The New York Fed will create a special purpose vehicle (SPV) to purchase and manage any assets received by the New York Fed in connection with any TALF loans. The New York Fed will enter into a forward purchase agreement with the SPV under which the SPV will commit, for a fee, to purchase all assets securing a TALF loan that are received by the New York Fed at a price equal to the TALF loan amount plus accrued but unpaid interest. The U.S. Treasury's Troubled Asset Relief Program (TARP) will purchase subordinated debt issued by the SPV to finance the first \$204.3 billion of asset purchases. If more than \$204.3 billion in assets are purchased by the SPV, the New York Fed will lend additional funds to the SPV to finance such additional purchases. The New York Fed's loan to the SPV will be senior to the TARP subordinated loan and secured by all the assets of the SPV.

### **Termination Date**

The facility will cease making TALF loans collateralized by newly issued CMBS on June 30, 2010, and TALF loans collateralized by other TALF-eligible newly issued and legacy ABS on March 31, 2010, unless the Board of Governors extends the facility.

### **NON-MORTGAGE-BACKED ABS**

Terms and conditions specific to newly issued non-mortgage-backed ABS follow below. This category of ABS includes securities backed by 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 Administration, and receivables related to residential mortgage servicing advances (servicing advance receivables).

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### **Eligible Collateral**

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates.

The underlying credit exposures of eligible ABS 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 Administration, or receivables related to residential mortgage servicing advances (servicing advance receivables). For these purposes:

- Auto loans 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 and subleases of such vehicles to rental car companies. All or substantially all of the credit exposures underlying eligible auto loan ABS issued by a non-revolving trust must have been originated on or after October 1, 2007. Eligible auto ABS issued by a revolving (or master) trust must be issued to refinance existing auto ABS maturing in 2009 or the first quarter of 2010 and must be issued in amounts no greater than the amount of the maturing ABS. Eligible auto ABS may also be issued out of an existing or newly established master trust in which all or substantially all of the underlying exposures were originated on or after January 1, 2009. Eligible auto loan ABS must have an average life of no more than five years.
- Student loans will include federally guaranteed student loans (including consolidation loans) and private student loans. All or substantially all of the credit exposures underlying eligible student loan ABS must have had a first disbursement date on or after May 1, 2007.
- Credit card receivables will include both consumer and corporate credit card receivables. Eligible credit card ABS



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issued by a revolving (or master) trust must be issued to refinance existing credit card ABS maturing in 2009 or the first quarter of 2010 and must be issued in amounts no greater than the amount of the maturing ABS. Eligible credit card ABS must have an average life of no more than five years.

- Equipment loans will include retail loans and leases relating to business equipment. All or substantially all of the credit exposures underlying eligible equipment loan ABS must have been originated on or after October 1, 2007. Eligible equipment loan ABS must have an average life of no more than five years.
- Floorplan loans will include revolving lines of credit to finance dealer inventories. Eligible floorplan ABS issued by a revolving (or master) trust must be issued to refinance existing floorplan ABS maturing in 2009 or the first quarter of 2010 and must be issued in amounts no greater than the amount of the maturing ABS. Eligible floorplan ABS may also be issued out of an existing or newly established master trust in which all or substantially all of the underlying exposures were originated on or after January 1, 2009. Eligible floorplan ABS must have an average life of no more than five years.
- Insurance premium finance loans will include loans originated for the purposes of paying premiums on 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 premium finance ABS issued by a revolving (or master) trust must be issued to refinance existing premium finance ABS maturing in 2009 or the first quarter of 2010 and must be issued in amounts no greater than the amount of the maturing ABS. Eligible premium finance ABS may also be issued out of an existing or newly

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established master trust in which all or substantially all of the underlying exposures were originated on or after January 1, 2009. Eligible premium finance ABS must have an average life of no more than five years.

- Small business 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. SBA Pool Certificates and Development Company Participation Certificates must have been issued on or after January 1, 2008, regardless of the dates of the underlying loans or debentures. The SBA-guaranteed credit exposures underlying all other eligible small business ABS must have been originated on or after January 1, 2008.
- Eligible servicing advance receivables will include receivables created by principal and interest, tax and insurance, and corporate advances made by Fannie Mae- or Freddie Mac-approved residential mortgage servicers under pooling and servicing agreements or similar servicing agreements. All or substantially all such mortgage servicing advances must have been advanced on or after January 1, 2007. Eligible servicing advance receivable ABS must have an average life of no more than five years.

The underlying credit exposures must not include exposures that are themselves cash ABS or synthetic ABS. For credit card, auto lease, floorplan and equipment lease securitizations, the underlying exposures may include financial assets that represent an interest in or the right to payments or cash flows from another asset pool (intermediate securities) created in the normal course of business solely to facilitate the issuance of an ABS. In such cases, for purposes of determining whether the exposures underlying an ABS meet the eligibility requirements for TALF collateral, the credit exposures underlying the intermediate securities are considered to be the underlying exposures of the ABS itself.

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### Transaction Structure and Pricing

The interest rate on TALF loans secured by ABS backed by federally guaranteed student loans will be 50 basis points over 1-month LIBOR. The interest rate on TALF loans secured by SBA Pool Certificates will be the federal funds target rate plus 75 basis points. The interest rate on TALF loans secured by SBA Development Company Participation Certificates will be 50 basis points over the 3-year LIBOR swap rate for three-year TALF loans and 50 basis points over the 5-year LIBOR swap rate for five-year TALF loans. For three-year TALF loans secured by other eligible fixed-rate ABS, 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 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 secured by other eligible floating-rate ABS, the interest rate will be 100 basis points over 1-month LIBOR.

### Haircuts

Collateral haircuts are as follows:

| Sector | Subsector            | ABS Average Life (years) |          |          |          |          |          |          |
|--------|----------------------|--------------------------|----------|----------|----------|----------|----------|----------|
|        |                      | 0-<br><1                 | 1-<br><2 | 2-<br><3 | 3-<br><4 | 4-<br><5 | 5-<br><6 | 6-<br><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     | 7%                       | 8%       | 9%       | 10%      | 11%      |          |          |

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|                    |                                  |     |     |     |     |     |     |     |
|--------------------|----------------------------------|-----|-----|-----|-----|-----|-----|-----|
|                    | recreational vehicles            |     |     |     |     |     |     |     |
| 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% |     |     |
| Floorplan          | Non-auto                         | 11% | 12% | 13% | 14% | 15% |     |     |
| Premium Finance    | Property and casualty            | 5%  | 6%  | 7%  | 8%  | 9%  |     |     |
| Servicing Advances | Residential mortgage             | 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 benefiting from a 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.

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## **Risk Assessment**

Beginning with the November non-mortgage-backed ABS subscription, the New York Fed will perform a risk assessment of non-mortgage-backed ABS proposed as TALF-eligible loan collateral. To facilitate this review, sponsors or issuers of proposed TALF-eligible ABS must provide to the New York Fed, at least three weeks in advance of the applicable TALF subscription date, all data on the ABS or its underlying exposures that the sponsor or issuer has provided to any NRSRO. The New York Fed reserves the right to request further information from the sponsor or issuer in connection with performing its review and expects issuers to provide any additional data provided to any NRSRO to also be promptly provided to the New York Fed.

In addition, a proposed TALF-eligible ABS will only be reviewed by the New York Fed if the sponsor or issuer has provided its written waiver or consent in a form acceptable to the New York Fed to every NRSRO to which such sponsor or issuer provided data on the ABS or its underlying exposures permitting such NRSRO to share its view of the credit quality of the ABS and its underlying exposures with the New York Fed, and a copy of such written waiver or consent is also delivered to the New York Fed at least three weeks in advance of the applicable subscription date. The requirement that a sponsor or issuer provide such written waiver or consent applies regardless of whether any such NRSRO is a TALF-eligible rating agency or whether such NRSRO actually issues a rating on the ABS. The New York Fed may utilize the services of one or more of its collateral monitors to assist in this review process.

The New York Fed will also perform a risk assessment of non-mortgage-backed eligible ABS that have already been pledged as TALF-eligible collateral, although the issuers of such ABS will not be required to provide the information described in the preceding paragraph.

Eligible small business ABS are exempt from the risk assessment requirements.

## Newly Issued CMBS

Terms and conditions specific to newly issued CMBS follow below.

### ▲ [Newly Issued CMBS](#)

#### **Eligible Collateral**

Eligible collateral for a TALF loan will include U.S. dollar-denominated, cash (that is, not synthetic) commercial mortgage-backed pass-through securities issued on or after January 1, 2009 (each a "newly issued CMBS") as to which all of the following conditions are satisfied as of its date of issuance (except as the context otherwise requires).

- **Assets:** The assets underlying the newly issued CMBS must satisfy the conditions described under "Qualifying Assets" below.
- **Pooling and Servicing Agreements:** The pooling and servicing agreement and other agreements governing the issuance of the newly issued CMBS and the servicing of its assets must satisfy the conditions described under "Pooling and Servicing Agreements" below.
- **Payment Terms:** The newly issued CMBS must entitle its holders to payments of principal and interest (that is, must not be an interest-only or principal-only security). The newly issued CMBS must bear interest at a pass-through rate that is fixed or based on the weighted average of the underlying fixed mortgage rates. The newly issued CMBS must not be junior to other securities with claims on the same pool of loans.
- **Issuer:** The issuer of the newly issued CMBS must not be an agency or instrumentality of the United States or a government-sponsored enterprise.

## Qualifying Assets

- **Asset Types:** Each newly issued CMBS must evidence an interest in a trust fund consisting of fully-funded, first-priority mortgage loans that are current in payment at the time of securitization, and not other CMBS, other securities or interest rate swap or cap instruments or other hedging instruments. A participation or other ownership interest in such a loan will be considered a mortgage loan and not a CMBS or other security if, following a loan default, the ownership interest is senior to or pari passu with all other interests in the same loan in right of payment of principal and interest. All mortgage loans must be fixed-rate loans. No mortgage loan may provide for interest-only payments during any part of its remaining term.
- **Property Types:** The security for each mortgage loan must include a mortgage or similar instrument on a fee or leasehold interest in one or more income-generating commercial properties. Each property must be located in the United States or one of its territories.
- **U.S. Origination:** 95 percent or more of the dollar amount of the credit exposures underlying the newly issued CMBS must be exposures that are originated by U.S.-organized entities or institutions or U.S. branches or agencies of foreign banks.
- **Origination Dates:** All mortgage loans must have been originated on or after July 1, 2008.
- **In-Place Underwriting:** All mortgage loans must have been underwritten or re-underwritten recently prior to the issuance of the newly issued CMBS, generally on the basis of then-current in-place, stabilized and recurring net operating income and then-current property appraisals.

## Pooling and Servicing Agreements

The pooling and servicing agreement and other agreements governing the issuance of the newly issued CMBS and the servicing

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of its assets must contain provisions to the following effects.

- If the class of the newly issued CMBS is one of two or more time-tranched classes of the same distribution priority, distributions of principal must be made on a pro rata basis to all such classes once the credit support is reduced to zero as a result of both actual realized losses and “appraisal reduction amounts”.
- Control over the servicing of the assets, whether through approval, consultation or servicer appointment rights, must not be held by investors in a subordinate class of CMBS once the principal balance of that class is reduced to less than 25% of its initial principal balance as a result of both actual realized losses and “appraisal reduction amounts”.
- A post-securitization property appraisal may not be recognized for any purpose under such agreements if the appraisal was obtained at the demand or request of any person other than the servicer for the related mortgage loan or the trustee.
- The mortgage loan seller must represent that, upon the origination of each mortgage loan, the improvements at each related property were in material compliance with applicable law.

### **Loan Terms, Haircuts and Other Provisions**

The general terms and conditions of the TALF program described above apply to TALF loans that are secured by a newly issued CMBS, except as modified by the following terms and conditions:

- The New York Fed has engaged collateral monitors and other agents and will reserve the right, until the issuance of the newly issued CMBS, to exclude specific loans from each pool.
- The New York Fed expects the agreements governing the issuance of each newly issued CMBS and the servicing of its assets, and the terms and conditions of its underlying loans, to



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permit, and to provide in effect for, reporting that is sufficient to enable the New York Fed to monitor and evaluate its position as secured lender.

- Each TALF loan secured by a newly issued CMBS will have a three-year maturity or five-year maturity, at the election of the borrower. A three-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the 3-year Libor swap rate. A five-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the 5-year Libor swap rate.
- 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 newly issued CMBS may have an average life beyond ten years.
- The average life of a newly issued CMBS will be the remainder of the original weighted average life determined by its issuer employing industry-standard assumptions.

## Legacy CMBS

Terms and conditions specific to legacy CMBS follow below.

### ▲ Legacy CMBS

#### **Eligible Collateral**

Eligible collateral for a TALF loan will include U.S. dollar-denominated, cash (that is, not synthetic) CMBS issued before January 1, 2009 (each a "legacy CMBS") as to which all of the following conditions are satisfied.

- **Assets:** The assets underlying the legacy CMBS must satisfy

the conditions described under "Qualifying Assets" below.

- **Original Seniority:** Upon issuance, the legacy CMBS must not have been junior to other securities with claims on the same pool of loans.
- **Payment Terms:** The legacy CMBS must entitle its holders to payments of principal and interest (that is, must not be an interest-only or principal-only security). Each legacy CMBS must bear interest at a pass-through rate that is fixed or based on the weighted average of the underlying fixed mortgage rates.
- **Issuer:** The issuer of the legacy CMBS must not be an agency or instrumentality of the United States or a government-sponsored enterprise.

### Qualifying Assets

- **Asset Types:** Each legacy CMBS must evidence an interest in a trust fund consisting of fully-funded mortgage loans and not other CMBS, other securities or interest rate swap or cap instruments or other hedging instruments. A participation or other ownership interest in such a loan will be considered a mortgage loan and not a CMBS or other security if, following a loan default, the ownership interest is senior to or pari passu with all other interests in the same loan in right of payment of principal and interest.
- **Property Types:** The security for each mortgage loan must include (or, if payments due under the loan have been defeased, the security for the loan or its predecessor must have previously included) a mortgage or similar instrument on a fee or leasehold interest in one or more income-generating commercial properties. As of the TALF loan subscription date, at least 95 percent of the properties, by related loan principal balance, must be located in the United States or one of its

territories.

### **Loan Terms, Haircuts and Other Conditions**

The general terms and conditions of the TALF program described above apply to TALF loans that are secured by a legacy CMBS, except as modified by the following terms and conditions:

- As part of its risk assessment, the New York Fed has engaged collateral monitors and will pay particular attention to legacy CMBS mortgage pools with large historical losses, concentrations of loans that are delinquent, in special servicing or on servicer watch lists or concentrations of subordinate-priority mortgage loans, and legacy CMBS mortgage pools that are not diversified with respect to loan size, geography, property type, borrower sponsorship and other characteristics.
- Each TALF loan secured by a legacy CMBS will have a three-year maturity or five-year maturity, at the election of the borrower. A three-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the 3-year Libor swap rate. A five-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the 5-year Libor swap rate.
- The TALF loan amount for each legacy CMBS (if the borrower is not an Eligible PPIF Borrower) will be the lesser of the dollar purchase price on trade date, the market price as of subscription date, or a value based on the New York Fed's risk assessment, less the base dollar haircut (from par). 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 average lives 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. If the borrower is an Eligible PPIF Borrower, the TALF loan amount for each legacy CMBS will be the lesser of the dollar purchase price, market price, or a value based on the New York Fed's risk assessment,

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Marked to show changes from November 13, 2009

less the base dollar haircut indicated above multiplied by 150 percent. 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 haircut (or if the borrower of the applicable TALF loan is an Eligible PPIF Borrower, its base dollar haircut multiplied by 150 percent).

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

TALF loans for legacy CMBS will be required to fund recent secondary market transactions between unaffiliated parties that are executed on an arm's length basis at prevailing market prices.

<sup>1</sup> The Federal Reserve reserves the right to review and make adjustments to these terms and conditions-including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements-consistent with the policy objectives of the TALF.