

# ***TALF LLC***

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

*Financial Statements as of and for the Years Ended  
December 31, 2011 and 2010,  
and Independent Auditors' Report*

# TALF LLC

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# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

## Management's Report on Internal Control over Financial Reporting

March 20, 2012

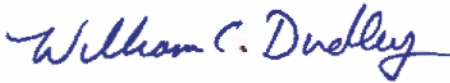
To the Board of Directors of the  
Federal Reserve Bank of New York

The management of the TALF LLC (LLC) is responsible for the preparation and fair presentation of the Statements of Financial Condition as of December 31, 2011 and 2010, and the Statements of Income, and Statements of Cash Flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

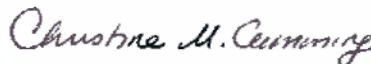
The management of the LLC is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. The LLC's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the LLC's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the LLC's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the LLC's assets that could have a material effect on its financial statements.

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

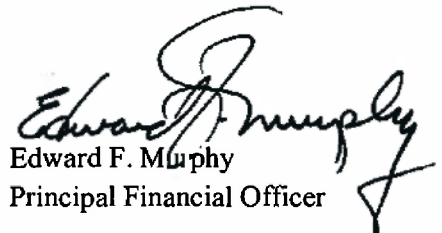
The management of the LLC assessed its internal control over financial reporting based upon the criteria established in the "*Internal Control - Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the LLC maintained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



William C. Dudley  
President



Christine M. Cumming  
First Vice President



Edward F. Murphy  
Principal Financial Officer

## INDEPENDENT AUDITORS' REPORT

To the Managing Member of  
TALF LLC:

We have audited the accompanying Statements of Financial Condition of TALF LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) (the "LLC") as of December 31, 2011 and 2010, and the related Statements of Income, and Cash Flows for the years then ended. We also have audited the LLC's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these Financial Statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these Financial Statements and an opinion on the LLC's internal control over financial reporting based on our audits.

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

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

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

In our opinion, such Financial Statements present fairly, in all material respects, the financial position of TALF LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of New York) as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 20, 2012

# TALF LLC

## Statements of Financial Condition

As of December 31, 2011 and 2010

(Amounts in thousands, except contributed capital data)

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 436,840	\$ 580,433
Short-term investments, at fair value (amortized cost of \$373,688 and \$84,648, respectively)	373,833	84,917
Put option, at fair value	41,751	134,169
Total assets	<u>\$ 852,424</u>	<u>\$ 799,519</u>
<b>Liabilities and Member's Equity</b>		
Subordinated Loan, at fair value	\$ 777,955	\$ 730,071
FRBNY Contingent Interest, at fair value	74,278	69,343
Other liabilities	191	105
Total liabilities	<u>852,424</u>	<u>799,519</u>
Member's equity (contributed capital of \$10)	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 852,424</u>	<u>\$ 799,519</u>

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

# TALF LLC

## Statements of Income

For the years ended December 31, 2011 and 2010

(Amounts in thousands)

	2011	2010
<b>Revenues</b>		
Interest income	\$ 353	\$ 712
Realized gains on put option	136,961	356,488
Unrealized losses on put option	(83,835)	(436,045)
Total revenues (losses)	<u>53,479</u>	<u>(78,845)</u>
<b>Expenses</b>		
Loan interest expense	3,467	3,397
Professional fees	660	715
Total expenses	<u>4,127</u>	<u>4,112</u>
Net operating income (losses)	<u>49,352</u>	<u>(82,957)</u>
<b>Non-operating (losses) gains</b>		
Unrealized (losses) gains on Subordinated Loan	(44,417)	74,661
Unrealized (losses) gains on FRBNY Contingent Interest	(4,935)	8,296
Total non-operating (losses) gains	<u>(49,352)</u>	<u>82,957</u>
<b>Net income</b>	<u>\$ -</u>	<u>\$ -</u>

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

# TALF LLC

## Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(Amounts in thousands)

	2011	2010
<b>Cash flows from operating activities</b>		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gains on put option	(136,961)	(356,488)
Proceeds from put option	145,544	367,598
Accretion of discounts on short-term investments	(238)	(378)
Unrealized losses on put option	83,835	436,045
Unrealized losses (gains) on Subordinated Loan	44,417	(74,661)
Unrealized losses (gains) on FRBNY Contingent Interest	4,935	(8,296)
Increase in accrued and compounded interest on Subordinated Loan	3,467	3,397
Increase (decrease) in other liabilities	86	(8)
Net cash flow provided by operating activities	<u>145,085</u>	<u>367,209</u>
<b>Cash flows from investing activities</b>		
Purchases of short-term investments	(373,688)	(84,648)
Proceeds from maturities of short-term investments	85,010	84,648
Net cash flow used in investing activities	<u>(288,678)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(143,593)	367,209
Beginning cash and cash equivalents	580,433	213,224
Ending cash and cash equivalents	<u>\$ 436,840</u>	<u>\$ 580,433</u>
<b>Supplemental non-cash operating and financing activities:</b>		
Accrued and compounded interest on Subordinated Loan	<u>\$ 3,467</u>	<u>\$ 3,397</u>

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



# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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### 1. Organization and Nature of Business

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

The TALF program loans were extended by FRBNY on a non-recourse basis against eligible ABS and CMBS collateral. A TALF borrower has the option of surrendering the collateral to FRBNY in full satisfaction of the TALF program loan at any point in time. The LLC has written a put option to FRBNY that permits FRBNY, upon such surrender or when it otherwise gets possession of the collateral, to sell (put) the collateral to the LLC at a price equal to the principal amount outstanding on the TALF program loan plus accrued but unpaid interest. FRBNY pays the LLC a monthly fee based on the principal balances of each outstanding TALF program loan (“put option fee”). As of December 31, 2011, the termination date of the put option was July 31, 2015 and the latest final maturity date for any outstanding TALF program loan was March 30, 2015.

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

Cash receipts resulting from the put option fees paid to the LLC by FRBNY and proceeds from the funded portion of the Treasury commitment (the “Subordinated Loan”) may be invested in the following types of U.S. dollar-denominated short-term investments and cash equivalents eligible for purchase by the LLC: (1) U.S. Treasury securities, (2) Federal agency securities that are senior, negotiable debt obligations of the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Banks (FHLB), and Federal Farm Credit Banks (FFCB), which have a fixed rate

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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of interest, (3) repurchase agreements that are collateralized by U.S. Treasury and Federal agency securities and fixed-rate agency mortgage-backed securities, and (4) money market mutual funds registered with the Securities and Exchange Commission and regulated under Rule 2a-7 of the Investment Company Act that invest exclusively in U.S. Treasury and Federal agency securities. Cash may also be invested in a demand interest-bearing account held at BNYM.

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

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

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

## 2. Summary of Significant Accounting Policies

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

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

### A. Cash and Cash Equivalents

The LLC defines cash and cash equivalents as cash, money market funds and other short-term, highly liquid investments with maturities of three months or less when acquired. Money market funds and other short-term investments are carried at fair value based on quoted prices in active markets for identical assets. All cash equivalents are classified as Level 1 under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820 ("ASC 820"), *Fair Value Measurement*. Refer to Note 5 for more information.

### B. Short-term Investments

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

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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### *C. Put Option Agreement with FRBNY*

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

### *D. Accounting for the Subordinated Loan and Treasury Contingent Interest*

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

### *E. Accounting for the FRBNY Contingent Interest*

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

### *Fair Value Hierarchy*

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

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect the LLC’s estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

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

### *F. Professional Fees*

Professional fees are primarily comprised of the fees charged by BNYM and the independent auditors.

### *G. Income Taxes*

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

### *H. Recently Issued Accounting Standards*

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. New requirements for disclosure of information about transfers among the hierarchy’s classification and the level of disaggregation of classes of assets were effective for the LLC for the year beginning on January 1, 2010, and the required disclosures are included in Note 5. Other required disclosures include the gross presentation of purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements, which were effective for the LLC for the year beginning on January 1, 2011 and are included in Note 5.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update will result in common fair value measurement and disclosure requirements for GAAP and International Financial Reporting Standards. In addition, this update requires additional disclosures for fair value measurements categorized as Level 3, including quantitative information about the unobservable inputs and assumptions used in the fair value measurement, a description of the valuation policies and procedures, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, disclosure of the amounts and reasons for all transfers in and out of Level 1 and Level 2 will be required. The adoption of this update is effective for the LLC for the year ending December 31, 2012, and is not expected to have a material effect on the LLC’s financial statements.

## **3. Subordinated Loan**

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

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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Repayment of the Subordinated Loan will be made monthly, subject to availability of funds in the LLC's BNYM collateral account and pursuant to the order of priority described in Note 4. For the years ended December 31, 2011 and 2010, the LLC had not made any repayment of this Subordinated Loan. Amounts paid on account of the principal of the Subordinated Loan may not be reborrowed. Any loans extended by the Treasury and FRBNY to the LLC will mature on March 3, 2019, unless such maturity date is extended by FRBNY with the consent of the Treasury.

The following table presents a reconciliation of the Subordinated Loan (including the Treasury Contingent Interest) as of December 31, 2011 and 2010 (in thousands):

	Subordinated Loan <sup>1</sup>
Fair Value, January 1, 2010	\$ 801,335
<i>2010 Activity:</i>	
Accrued and compounded interest	3,397
Unrealized gains <sup>2</sup>	(74,661)
Fair value, December 31, 2010	<u>730,071</u>
<i>2011 Activity:</i>	
Accrued and compounded interest	3,467
Unrealized losses <sup>2</sup>	44,417
Fair value, December 31, 2011	<u><u>\$ 777,955</u></u>

<sup>1</sup> The outstanding principal and accrued and compounded interest balances of the Subordinated Loan were \$109,450 (principal of \$100,000 and interest of \$9,450) and \$105,983 (principal of \$100,000 and interest of \$5,983) as of December 31, 2011 and 2010, respectively.

<sup>2</sup> Recorded as "Unrealized (losses) gains on Subordinated Loan" in the Statements of Income.

The weighted average interest rate on the Subordinated Loan for the years ended December 31, 2011 and 2010 was 3.23 percent and 3.27 percent, respectively.

#### 4. Distribution of Proceeds

In accordance with the Security and Intercreditor Agreement, amounts available in the accounts of the LLC are distributed monthly in the following order of priority:

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

*second*, to fund the expense reimbursement account until the balance thereof is equal to an amount as may be specified by FRBNY and the Treasury (\$15 million as of December 31, 2011 and 2010);

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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

*fourth*, until such time as FRBNY's funding commitment expires, to fund the cash collateral account until the balance thereof is equal to the amount of the available Senior Loan Commitment, or other lesser amount as may be specified by FRBNY;

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

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

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

*eighth*, to pay any other secured obligations then outstanding;

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

### 5. Fair Value Measurements

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

#### Valuation Methodologies for Level 3 Assets and Liabilities

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

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

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

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

The following table presents the assets and liabilities recorded at fair value as of December 31, 2011, by the fair value hierarchy (in thousands):

	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Assets:				
Cash and cash equivalents	\$ 436,840	\$ -	\$ -	\$ 436,840
Short-term investments	373,833	-	-	373,833
Put option	-	-	41,751	41,751
Total assets	<u>\$ 810,673</u>	<u>\$ -</u>	<u>\$ 41,751</u>	<u>\$ 852,424</u>
Liabilities:				
Subordinated Loan	\$ -	\$ -	\$ (777,955)	\$ (777,955)
FRBNY Contingent Interest	-	-	(74,278)	(74,278)
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (852,233)</u>	<u>\$ (852,233)</u>

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

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

# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

The following table presents a reconciliation of all assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2011, including net realized and unrealized gains (losses) (in thousands):

	Fair value at December 31, 2010	Purchases, sales, issuances, and settlements, net <sup>1</sup>	Net realized / unrealized gains (losses)	Gross transfers in	Gross transfers out	Fair value at December 31, 2011	Change in unrealized gains (losses) related to financial instruments held at December 31, 2011
<b>Assets:</b>							
Put option	\$ 134,169	\$ (145,544)	\$ 53,126	\$ -	\$ -	\$ 41,751	\$ (83,835)
<b>Liabilities:</b>							
Subordinated Loan	\$ (730,071)	\$ (3,467)	\$ (44,417)	\$ -	\$ -	\$ (777,955)	\$ (44,417)
FRBNY Contingent Interest	(69,343)	-	(4,935)	-	-	(74,278)	(4,935)
Total liabilities	\$ (799,414)	\$ (3,467)	\$ (49,352)	\$ -	\$ -	\$ (852,233)	\$ (49,352)

<sup>1</sup> Represents \$ 145,544 of settlements for the put option, \$3,467 of purchases for the Subordinated Loan, and no activity for the FRBNY Contingent Interest for the year ended December 31, 2011.

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

	Fair value at December 31, 2009	Purchases, sales, issuances, and settlements, net <sup>1</sup>	Net realized / unrealized gains (losses)	Gross transfers in	Gross transfers out	Fair value at December 31, 2010	Change in unrealized gains (losses) related to financial instruments held at December 31, 2010
<b>Assets:</b>							
Put option	\$ 581,324	\$ (367,598)	\$ (79,557)	\$ -	\$ -	\$ 134,169	\$ (436,045)
<b>Liabilities:</b>							
Subordinated Loan	\$ (801,335)	\$ (3,397)	\$ 74,661	\$ -	\$ -	\$ (730,071)	\$ 74,661
FRBNY Contingent Interest	(77,639)	-	8,296	-	-	(69,343)	8,296
Total liabilities	\$ (878,974)	\$ (3,397)	\$ 82,957	\$ -	\$ -	\$ (799,414)	\$ 82,957

<sup>1</sup> Represents \$367,598 of settlements for the put option, \$3,397 of purchases for the Subordinated Loan, and no activity for the FRBNY Contingent Interest for the year ended December 31, 2010.



# TALF LLC

## Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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### 6. Investment and Risk Profile

Through the written put option, the LLC is exposed to credit and interest rate risk from the underlying ABS or CMBS that collateralize TALF program loans. Credit losses far in excess of expectations in the loan and receivables pools collateralizing the ABS or CMBS may result in write-downs of the ABS and CMBS, or in the interest paid by the ABS or CMBS falling short of the interest charged on the TALF loan. An increase in interest rates would lower the market values of the securities. If the losses due to these credit and market risk factors exceed the margin, the borrower may settle the loan by surrendering the ABS or CMBS, occasioning a purchase of the ABS or CMBS by the LLC. As of December 31, 2011, there had been no exercise of the put option by the FRBNY.

The following table presents the maximum potential payout (notional balance) and fair value of the put option as of December 31, 2011 and 2010 (in thousands):

<i>December 31, 2011</i>	<u>Notional amount</u>	<u>Fair value</u>
Put option	<u>\$ 9,021,768</u>	<u>\$ 41,751</u>
<i>December 31, 2010</i>	<u>Notional amount</u>	<u>Fair value</u>
Put option	<u>\$ 24,731,860</u>	<u>\$ 134,169</u>

The fair value of the put option is evaluated and recorded as “Put option, at fair value” in the Statements of Financial Condition. The changes in fair value are recorded as “Unrealized losses on put option” in the Statements of Income and were losses of \$83,835 thousand and \$436,045 thousand for the years ended December 31, 2011 and 2010, respectively. The put option fees, as received and accrued, are recorded as “Realized gains on put option” in the Statements of Income and were \$136,961 thousand and \$356,488 thousand for the years ended December 31, 2011 and 2010, respectively.

### 7. Contingencies

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

### 8. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2011. Subsequent events were evaluated through March 20, 2012, which is the date the LLC issued the financial statements.