# *TALF LLC*

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

*Financial Statements for the Period February 4, 2009 to December 31, 2009 and Independent Auditors' Report*

# TALF LLC

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FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

# Management's Report on Internal Control over Financial Reporting

April 21, 2010

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 Statement of Financial Condition, Statement of Income, and Statement of Cash Flows as of December 31, 2009 (the "Financial Statements"). The Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with GAAP and include all disclosures necessary for such fair presentation.

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

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

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

William C. Dudley
William C. Dudley
President

Christine M. Cumming
Christine M. Cumming
First Vice President

Edward F. Murphy
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## INDEPENDENT AUDITORS' REPORT

To the Managing Member of TALF LLC:

We have audited the accompanying statement 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, 2009, and the related statements of income and cash flows for the period February 4, 2009 to December 31, 2009. We also have audited the LLC's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The LLC's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report of Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the LLC's internal control over financial reporting based on our audits.

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

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

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

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

Deloitte & Touche LLP

April 21, 2010

# TALF LLC

**Statement of Financial Condition**
As of December 31, 2009
(Amounts in thousands, except contributed capital data)

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 213,224 |
| Short-term investments, at fair value (cost of $84,255) | | 84,539 |
| Put option, at fair value | | 581,324 |
| Total assets | $ | 879,087 |
| | | |
| **Liabilities and Member's Equity** | | |
| Subordinated Loan, at fair value | $ | 801,335 |
| FRBNY Contingent Interest, at fair value | | 77,639 |
| Other liabilities | | 113 |
| Total liabilities | | 879,087 |
| | | |
| Member's equity (contributed capital of $10) | | - |
| | | |
| Total liabilities and member's equity | $ | 879,087 |

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

# TALF LLC

## Statement of Income
For the period February 4, 2009 to December 31, 2009
(Amounts in thousands)

| | |
|---|---|
| **Revenues** | |
| Interest income | $ 321 |
| Realized gains on put option | 222,385 |
| Unrealized gains on put option | 557,057 |
| Total revenues | 779,763 |
| **Expenses** | |
| Loan interest expense | 2,586 |
| Professional fees | 789 |
| Total expenses | 3,375 |
| Net operating income | 776,388 |
| **Non-operating losses** | |
| Unrealized losses on Subordinated Loan | (698,749) |
| Unrealized losses on FRBNY Contingent Interest | (77,639) |
| Total non-operating losses | (776,388) |
| **Net income** | $ - |

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

# TALF LLC

## Statement of Cash Flows

For the period February 4, 2009 to December 31, 2009
(Amounts in thousands)

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ | - |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Realized gains on put option | | (222,385) |
| Proceeds from put option | | 198,118 |
| Accretion of discounts on short-term investments | | (284) |
| Unrealized gains on put option | | (557,057) |
| Unrealized losses on Subordinated Loan | | 698,749 |
| Unrealized losses on FRBNY Contingent Interest | | 77,639 |
| Increase in accrued and compounded interest on Subordinated Loan | | 2,586 |
| Increase in other liabilities | | 113 |
| Net cash flow provided by operating activities | | 197,479 |
| **Cash flows from investing activities** | | |
| Payments for purchases of short-term investments | | (84,255) |
| Net cash flow used in investing activities | | (84,255) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of member's equity | | - |
| Proceeds from Subordinated Loan | | 100,000 |
| Net cash flow provided by financing activities | | 100,000 |
| Net increase in cash and cash equivalents | | 213,224 |
| Beginning cash and cash equivalents | | - |
| Ending cash and cash equivalents | $ | 213,224 |
| **Supplemental non-cash operating and financing activities:** | | |
| Accrued and compounded interest on Subordinated Loan | $ | 2,586 |
| **Supplemental cash-flow disclosure:** | | |
| Cash paid for interest | $ | - |

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

### 1. Organization and Nature of Business

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

The TALF program loans are extended by FRBNY on a non-recourse basis against eligible ABS and CMBS collateral. In addition, 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 interest. FRBNY pays the LLC a monthly fee (i.e. put option premium) based on the principal balances of each outstanding TALF program loan ("put option fee"). As of December 31, 2009, the termination date of the put option was January 31, 2015 and the latest final maturity date for any outstanding TALF program loan was December 22, 2014. Effective March 22, 2010, the termination date of the put option was extended by FRBNY, with the consent of the U.S. Department of the Treasury (the "Treasury"), to July 31, 2015. For more information on the TALF program, refer to the FRBNY Consolidated Financial Statements.

If the LLC is required to purchase assets from FRBNY under the put option, such purchases will be funded 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 has committed to lend up to $20 billion to the LLC at a rate of one-month LIBOR plus 300 basis points, $100 million of which was funded at the initiation of the TALF program. FRBNY has 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 set to expire on January 31, 2015. Effective March 22, 2010, the termination date of the funding commitments were extended by FRBNY, with the consent of the Treasury, to July 31, 2015. 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 the collateral agent.

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

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

BNYM has been hired to provide administrative and custodial services and appointed to serve as collateral agent under multi-year contracts with FRBNY that includes provisions governing termination of the contract.

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 policies followed by the LLC:

*A. Cash and Cash Equivalents*

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

*B. Short-term Investments*

The LLC defines short-term investments to be highly liquid investments with maturities between three months and one year, when acquired. Short-term investments held by the LLC have been designated as available-for-sale under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320 (ASC 320), *Investments – Debt and Equity Securities* (previously Statement of Financial Accounting Standard ("SFAS") 115). The LLC elected the fair value option under FASB ASC Topic 825 (ASC 825), *Financial Instruments* (previously SFAS 159) for the short-term investments portfolio, which require the short-term investments to be recorded at fair value in the LLC's Statement of Financial Condition with changes in fair value recorded in the Statement 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 Statement of Income.

*C. Put Option Agreement with FRBNY*

The put option agreement between the LLC and FRBNY is accounted for by the LLC as a derivative in accordance with FASB ASC Topic 815 (ASC 815), *Derivatives and Hedging* (previously SFAS 133) and is recorded at fair value in accordance with FASB ASC Topic (ASC 820), Fair Value Measurements and Disclosures (previously SFAS 157), in the LLC's financial statements. The changes in fair value are recorded in the Statement of Income. The fair value includes the accrued put option fees expected to be received by the LLC from the FRBNY in the following month.

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

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

*E. Accounting for the FRBNY Contingent Interest*

The LLC elected the fair value option under 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 Statement of Financial Condition and changes in fair value are recorded as "Unrealized losses on FRBNY Contingent Interest" in the Statement of Income.

*F. Professional Fees*

Professional fees are comprised of the fees charged by the BNYM, attorneys, as well as organization and closing costs of $424 thousand associated with the formation of the LLC.

*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 February 2008, FASB issued FASB Staff Position ("FSP") SFAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (codified in FASB ASC Topic 860 (ASC 860), *Transfers and Servicing*). ASC 860 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met. The provisions of ASC 860, which are effective for the LLC's financial statements for the year ended December 31, 2009, have not had a material effect on the LLC's financial statements.

In March 2008, FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133,* (codified in ASC 815), which requires expanded qualitative, quantitative, and credit-risk disclosures about derivatives and hedging activities and their effects on the LLC's financial position, financial performance and cash flows. The provisions of ASC 815 are effective for the LLC's financial statements for the year ended December 31, 2009 and the required disclosures are reflected in Note 6.

In April 2009, FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are Not Orderly*, (codified in ASC 820), which provides additional guidance for estimating fair value when the value and level of market activity for an asset or liability have significantly decreased. The standard also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of ASC 820, which are effective for the LLC's financial statements for the year ended December 31, 2009, were considered in determining the valuation of assets and liabilities that are measured at fair value and have not had a material effect on the LLC's financial statements.

In May 2009, FASB issued SFAS 165, *Subsequent Events*, (codified in FASB Topic 855 (ASC 855) *Subsequent Events)*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The LLC adopted ASC 855 for the year ended December 31, 2009 and the required disclosures are reflected in Note 8.

In June 2009, FASB issued SFAS 166, *Accounting for Transfers of Financial Assets – an amendment to FASB Statement No. 140* (codified in ASC 860). The new guidance modifies existing guidance to eliminate the scope exception for qualifying special purpose entities and clarifies that the transferor must consider all arrangements of the transfer of financial assets when determining if the transferor has surrendered control. These provisions of ASC 860 are effective for the LLC's financial statements for the year beginning on January 1, 2010, and earlier adoption is prohibited. The provisions of ASC 860 are not expected to have a material effect on the LLC's financial statements.

In June 2009, FASB issued SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles"* (codified in FASB Topic 105 (ASC 105), which establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. ASC 105 is effective for financial statements issued for periods ending after September 15, 2009. As a result, both the ASC and the legacy standards are referenced in the LLC's financial statements and footnotes.

In January 2010, FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (ASC 820) – *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures related to fair value measurements. This update is effective for the LLC's financial statements for the year beginning on January 1, 2010 and early adoption is prohibited. The adoption of this update is not expected to have a material effect on the LLC's financial statements.

### 3. Subordinated Loan

On March 25, 2009, the Treasury funded $100 million of its $20 billion ten-year loan commitment. The Subordinated Loan bears interest at a rate per annum equal to LIBOR plus 300 basis points. Interest on the Subordinated Loan accrues daily and is compounded quarterly. Additionally, the Treasury is entitled to receive the Treasury Contingent Interest in amounts equal to 90 percent of any proceeds of the collateral that are available for distribution pursuant to the order of priority described in Note 4. The Subordinated Loan and Treasury Contingent Interest are recorded together as "Subordinated Loan, at fair value" in the Statement of Financial Condition.

Repayment of the Subordinated Loan will be made monthly, subject to availability of funds in the LLC's collateral account and pursuant to the order of priority described in Note 4. 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 table below presents a reconciliation of the Subordinated Loan and the Treasury Contingent Interest as of December 31, 2009 (in thousands):

| | Subordinated Loan [1] |
|---|---|
| Beginning principal balance, February 4, 2009 | $ - |
| Funding, March 25, 2009 | 100,000 |
| Accrued and compounded interest | 2,586 |
| Unrealized losses [2] | 698,749 |
| Fair value, December 31, 2009 | $ 801,335 |

[1] The outstanding principal and accrued and compounded interest balance of the Subordinated Loan was $102,586 as of December 31, 2009.

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

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

### 4. Distribution of Proceeds

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

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

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

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

*fourth,* until such time as FRBNY's funding commitment expires, to fund the Cash Collateral Account until the balance thereof is equal to the amount of the available Senior Loan Commitment, or other 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 to measure short-term investments, the Subordinated Loan (including the Treasury Contingent Interest), and the FRBNY Contingent Interest at fair value under ASC 825.

*Fair Value Hierarchy*

ASC 820 establishes a three-level fair value hierarchy that distinguishes between market participant assumptions developed using market data obtained from independent sources (observable inputs) and the LLC's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The three levels established by ASC 820 are described below:

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

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

*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, the market prices of related securities, risk premiums estimated using market prices, 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.

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

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

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

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

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

| | Fair Value at February 4, 2009 | Net Purchases, Sales and Settlements | Net Realized / Unrealized Gains (Losses) | Net Transfers In or (Out) | Fair Value at December 31, 2009 | Net Unrealized Gains (Losses) |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Put option | $ - | $ (198,118) | $ 779,442 | $ - | $ 581,324 | $ 557,057 |
| Liabilities: | | | | | | |
| Subordinated Loan | $ - | $ (102,586) [1] | $ (698,749) | $ - | $ (801,335) | $ (698,749) |
| FRBNY Contingent Interest | - | - | (77,639) | - | (77,639) | (77,639) |
| Total liabilities | $ - | $ (102,586) | $ (776,388) | $ - | $ (878,974) | $ (776,388) |

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

### 6. Investment and Risk Profile

Through the written put option, the LLC is exposed to credit and interest rate risk from the underlying ABS or CMBS that collateralize TALF program loans. Credit losses far in excess of expectations in the loan and receivables pools collateralizing the ABS or CMBS may result in write-downs of the ABS and CMBS, or in the interest paid by the ABS or CMBS falling short of the interest charged on the TALF loan. An increase in interest rates would lower the market values of the securities. If the losses due to these credit and market risk factors exceed the haircut, the borrower may settle the loan by surrendering the ABS or CMBS, occasioning a purchase of the ABS or CMBS by the LLC.

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

| | Notional amount | Fair value |
|---|---|---|
| Put option | $ 47,625,944 | $ 581,324 |

The fair value of the put option is evaluated and recorded as “Put option, at fair value” in the Statement of Financial Condition. The changes in fair value are recorded as “Unrealized gains on put option” in the Statement of Income and were $557,057 for the period ended December 31, 2009. The put option fees, as received and accrued, are recorded as “Realized gains on put option” in the Statement of Income and were $222,385 for the period ending December 31, 2009.

### 7. Contingencies

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

## 8. Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through April 21, 2010, which is the date the LLC issued the financial statements.