Term Asset-Backed Securities Loan Facility (TALF)
Terms and Conditions[1]

Facility

The TALF will be 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 small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

The Federal Reserve Bank of New York (FRBNY) will make up to $200 billion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The U.S. Treasury Department will provide $20 billion of credit protection to the Federal Reserve in connection with the TALF, as described below.

Eligible Collateral

Eligible collateral will include U.S. dollar-denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or short-term investment-grade rating category from two or more major nationally recognized statistical rating organizations (NRSROs) and do not have a credit rating below the highest investment-grade rating category from a major NRSRO. Eligible collateral will not include ABS that obtain such credit ratings based on the benefit of a third-party guarantee or ABS that a major NRSRO has placed on review or watch for downgrade. Eligible small business loan ABS also will include U.S. dollar-denominated cash ABS that are, or for which all of the underlying credit exposures are, fully guaranteed as to principal and interest by the full faith and credit of the U.S. government. 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 be exposures to U.S.-domiciled obligors. The underlying credit exposures of eligible ABS initially must be auto loans, student loans, credit card loans, or small business loans fully guaranteed as to principal and interest by the U.S. Small Business Administration. For these purposes, auto loans will include retail loans and leases relating to cars, light trucks, recreational vehicles, or motorcycles, and will include

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[1] 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.

auto dealer floorplan loans; student loans will include federally guaranteed student loans (including consolidation loans) and private student loans. The set of permissible underlying credit exposures of eligible ABS may be expanded later to include commercial mortgages, non-Agency residential mortgages, and/or other asset classes. The underlying credit exposures must not include exposures that are themselves cash or synthetic ABS.

Except for SBA Pool Certificates or Development Company Participation Certificates, eligible ABS must be issued on or after January 1, 2009. All or substantially all of the credit exposures underlying eligible auto loan ABS (except auto dealer floorplan ABS) must have been originated on or after October 1, 2007. 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. 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 credit card and auto dealer floorplan ABS must be issued to refinance existing credit card and auto dealer floorplan ABS, respectively, maturing in 2009 and must be issued in amounts no greater than the amount of the maturing ABS.

Eligible auto loan ABS and credit card ABS must have an average life of no more than five years.

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.

Eligible Borrowers

Any U.S. company that owns eligible collateral may borrow from the TALF, provided the company maintains an account relationship with a primary dealer. An entity is a U.S. company for purposes of the TALF if it is (i) 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 (regardless of whether any such entity has a parent company that is not U.S.-organized), including any U.S.-organized subsidiary of such an entity; (ii) a U.S. branch or agency of a foreign bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank; or (iii) 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. Notwithstanding the foregoing, a U.S. company excludes any entity that is controlled by a foreign government or is managed by an investment manager controlled by a foreign government.

Transaction Structure and Pricing

Credit extensions under the TALF will be in the form of non-recourse loans secured by eligible collateral. TALF loans will have a three-year term, with interest 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. 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 loan-to-value ratio (e.g., if the original loan-to-value ratio was 90 percent, 90 percent of any remittance of principal must immediately be repaid to the FRBNY).

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 TALF loans secured by other eligible fixed-rate ABS, the interest rate will be 100 basis points over the 3-year Libor swap rate. For TALF loans secured by other eligible floating-rate ABS, the interest rate will be 100 basis points over 1-month Libor. The FRBNY also will assess an administrative fee equal to 5 basis points of the loan amount on the settlement date of each loan transaction.

For collateral priced at a premium to par the borrower will make an additional principal payment calculated to adjust for the expected reversion of market value toward par value as the ABS matures.

Haircuts

Initial collateral haircuts are as follows:

		ABS Average Life (years)						
Sector	**Subsector**	**0-1**	**>1-2**	**>2-3**	**>3-4**	**>4-5**	**>5-6**	**>6-7**
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		

Auto	Floorplan	12%	13%	14%	15%	16%		
Auto	RV/motorcycle	7%	8%	9%	10%	11%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%
Small Business	SBA loans	5%	5%	5%	5%	5%	6%	6%

For ABS benefiting from a government guarantee with average lives beyond five years, haircuts will increase by one percentage point for every two additional years of average life beyond five years. For all other ABS with average lives beyond five years, haircuts will increase by one percentage point for each additional year of average life beyond five years.

Allocation

The FRBNY will announce monthly TALF loan subscription and settlement dates. 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, and the desired interest rate format (fixed or floating). Loan proceeds will be disbursed to the borrower, contingent on receipt by the FRBNY's custodian bank of the eligible ABS collateral. The minimum size for each TALF loan will be $10 million.

The FRBNY will reserve the right to reject any request for a loan, in whole or in part, in its discretion. In this regard, the FRBNY will develop and implement procedures to identify for further scrutiny potentially high-risk ABS that a borrower proposes to pledge to the FRBNY under the TALF.

Roles of Primary Dealers and Custodian Bank

Each borrower must use a primary dealer, which will act as agent for the borrower, to access the TALF and must deliver eligible collateral to the FRBNY's custodian bank.

Role of the U.S. Treasury Department

The FRBNY will create a special purpose vehicle (SPV) to purchase and manage any assets received by the FRBNY in connection with any TALF loans. The FRBNY 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 FRBNY at a price equal to the TALF loan amount plus accrued but unpaid interest. The U.S. Treasury's Troubled Assets Relief Program (TARP) will purchase subordinated debt issued by the SPV to finance the first $20 billion of asset purchases. If more than $20 billion in assets are purchased by the SPV, the FRBNY will lend additional funds to the SPV to finance such additional purchases. The FRBNY'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 new loans on December 31, 2009, unless the Board extends the facility.