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Client**Advisory**

December 23, 2008

Federal Reserve Announces Revised TALF Terms

On December 19, the Federal Reserve Board announced revised terms for the Term Asset-Backed Securities Loan Facility (TALF). The TALF was originally announced on November 25 and is intended to help consumers and small businesses obtain credit by promoting the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card receivables and certain small business loans. The facility eventually may be expanded to include securities backed by commercial mortgage loans, non-agency residential mortgage loans or other assets, but at this time such assets are not covered. The first TALF loans are expected to be disbursed in February 2009.

Highlights of New TALF Terms

The following are highlights of the changes and clarifications to the TALF announced on December 19:

- TALF loan terms have been extended from one year to three years.
- TALF loans will be distributed without using auctions and haircuts and pricing will be set by the Federal Bank of New York (FRBNY) in advance of each monthly loan subscription date.
- Borrowers must maintain an account relationship with a primary dealer.
- Eligible ABS must have been issued on or after January 1, 2009, and:
  - underlying auto loans must have been originated on or after October 1, 2007;
  - underlying SBA-guaranteed loans must have been originated on or after January 1, 2008; and
  - underlying student loans must have had a first disbursement date on or after May 1, 2007.
- "Auto loans" means retail loans and leases relating to cars, light trucks or motorcycles, including auto dealer floorplan loans.
- "Student loans" means federally guaranteed student loans (including consolidation loans) and private student loans.
- The minimum TALF loan size will be $10 million.

Summary of Revised Program

Under the TALF, the FRBNY will lend up to $200 billion on a non-recourse basis to holders of certain "eligible collateral" (as defined below). On a fixed day each month, borrowers will be able to request one or more non-recourse three-year TALF loans. The principal amount of each TALF loan will be equal to the market value of the eligible collateral pledged minus a haircut established for each class of eligible collateral and based on the price volatility for that class of collateral. Borrowers will be able to request either fixed rate or floating rate loans (based on a spread over LIBOR) and the interest rates will be set by the FRBNY and announced in advance of each monthly subscription date.

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TALF loans will be prepayable by the borrower, but substitution of collateral will not be permitted. Interest will be payable monthly and any principal or interest remitted on the eligible collateral will be used immediately to pay interest on and reduce the principal of the TALF loan. TALF loans will not be subject to mark-to-market or re-margining requirements. The FRBNY is expected to begin making loans in February 2009 and will stop making new loans on December 31, 2009, unless the Federal Reserve Board agrees to extend the facility.

Eligible Collateral/Eligible Borrowers

TALF loans may only be secured by "eligible collateral," which are ABS that are:

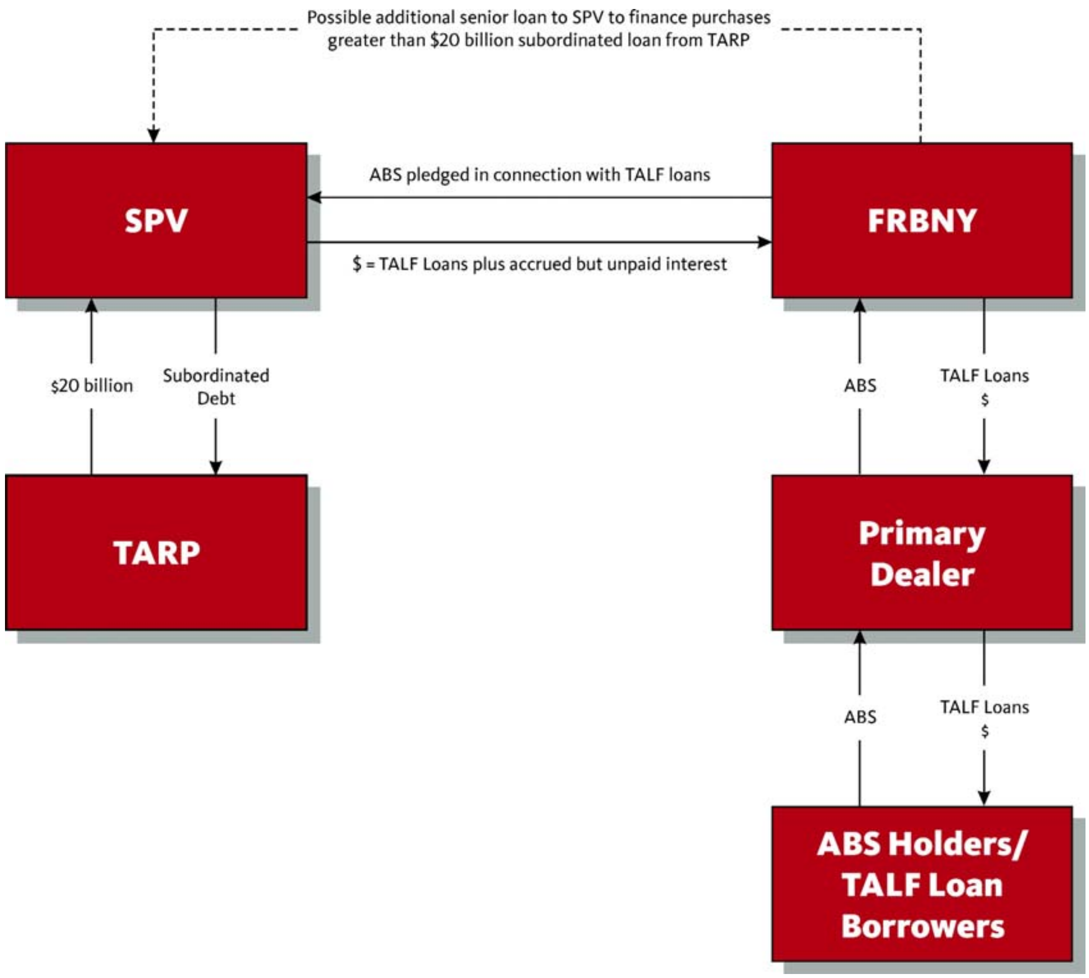
- U.S. dollar-denominated cash (not synthetic) ABS with a long-term credit rating of AAA or its equivalent from two or more nationally recognized statistical rating organizations (NRSROs) and which do not have a long-term rating below AAA or its equivalent from any NRSRO;
- originated on or after January 1, 2009, and can be either credit card ABS issued to refinance existing credit card ABS maturing in 2009 in amounts no greater than the amount of maturing ABS, or backed by:
  - retail loans or leases relating to cars, light trucks or motorcycles, including auto dealer floorplan loans, in each case originated on or after October 1, 2007;
  - federally guaranteed student loans (including consolidation loans) or private student loans with a first disbursement date on or after May 1, 2007; or
  - small business loans guaranteed by the U.S. Small Business Administration originated on or after January 1, 2008;
- backed by underlying credit exposure to U.S. domiciled obligors;
- backed by underlying credit exposures that include exposures that are themselves cash or synthetic ABS (i.e., no re-securitizations or CDOs); and
- for any particular borrower, not backed by loans originated or securitized by that borrower or any of its affiliates.

TALF loans may be obtained by any U.S. persons that own eligible collateral and that have an account relationship with a primary dealer. A "U.S. person" is defined as a natural person that is a U.S. citizen, a business entity that is organized under the laws of the United States or a political subdivision or territory thereof (including if such an entity has a non-U.S. parent company), or a U.S. branch or agency of a foreign bank.

Treasury Department Credit Enhancement of TALF Loans Through TARP-Funded SPV

The U.S. Treasury Department, under the Troubled Asset Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, will provide $20 billion of credit protection to the FRBNY in connection with the TALF. As depicted in the flow chart below, the FRBNY will create a special purpose vehicle (SPV) to purchase and manage assets received by the FRBNY in connection with any TALF loans. Pursuant to a forward purchase agreement with the FRBNY, the SPV will commit 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 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 TARP's investment in the SPV will provide $20 billion of credit enhancement for any potential losses on the TALF loans because the FRBNY's loan to the SPV will be secured by all assets of the SPV and will be senior to the TARP subordinated loan. All cash flows from SPV assets will be used first to repay principal and interest on the FRBNY loan until the loan is repaid in full. Next, cash flows from assets will be used to repay principal and interest on the TARP loan until the loan is repaid in full. Residual returns from the SPV will be shared between the FRBNY and the U.S. Treasury.



Executive Compensation

Originators of the credit exposures underlying eligible ABS (or, in the case of SBA-guaranteed loans, the ABS sponsor) must have agreed to comply with the executive compensation requirements in section 111(b) of the Emergency Economic Stabilization Act of 2008. The standards specified under EESA apply to the originator's "senior executive officers" (i.e., the chief executive officer, chief financial officer and the next three most highly compensated executive officers) and generally include: (i) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (ii) requiring repayment or "clawback" provisions for any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (iii) prohibiting the originator from making any "golden parachute" payment to a senior executive officer; and (iv) disallowing tax deductions for compensation paid to each senior executive officer in excess of $500,000 per year. These requirements may require modification or waivers of existing contracts and severance arrangements.

Katten's TARP Task Force

Katten Muchin Rosenman LLP's multidisciplinary TARP Task Force advises clients on the U.S. Treasury's Troubled Asset Relief Program created under the Emergency Economic Stabilization Act of 2008. Katten's TARP Task Force can advise clients on obtaining TALF loans, determining how the executive compensation rules apply to them, and structuring their compensation arrangements appropriately. Katten's TARP Task Force also can advise clients with respect to all aspects of other TARP-related programs, such as the Capital Purchase Program whereby the U.S. Treasury is purchasing preferred shares in certain publicly traded and privately held financial institutions.

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