LEARNING CURVE®

The Term Asset-Backed Securities Loan Facility

On Nov. 25, the **Federal Reserve Board** announced the creation of the Term Asset-Backed Securities Loan Facility, which is intended to help consumers and small businesses obtain credit by promoting the issuance of asset-backed securities 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.

Program Terms

Under the TALF, the **Federal Reserve Bank of New York** will lend up to $200 billion on a non-recourse basis to holders of certain eligible collateral, as defined below. The FRBNY will offer a fixed amount of TALF loans on a monthly basis that will be awarded based on a competitive sealed bid auction process. 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. The interest rate for each TALF loan will be set based on the auction process with prospective borrowers submitting bids for desired interest rate spreads over one-year OIS and will be subject to minimum spreads set by the FRBNY for each auction.

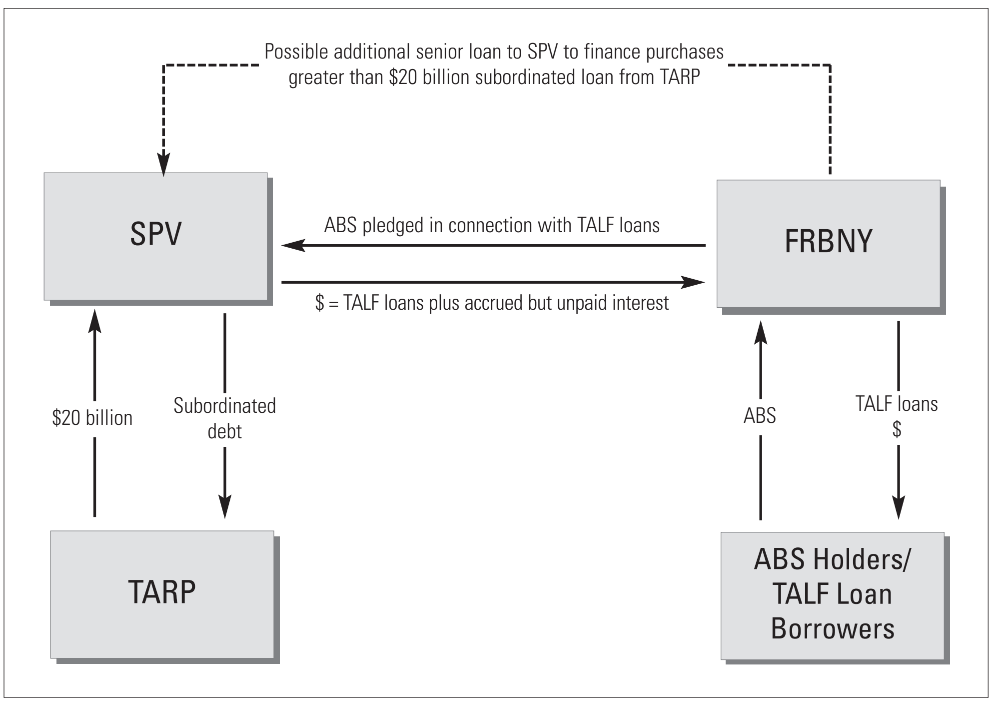
TALF loans will be nonrecourse with a one-year term, which may be lengthened if appropriate, and will be secured by the eligible collateral. Substitution of collateral will not be permitted. Interest will be payable monthly and any principal or interest remitted on the eligible collateral will be used 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 will stop making new loans on Dec. 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. The collateral must also not have a long-term rating below AAA or its equivalent from any NRSRO;
- backed by newly or recently originated auto loans, student loans, credit card loans or small business loans guaranteed by the U.S. **Small Business Administration**, in each case, to U.S. domiciled obligors;
- backed by underlying credit exposures that do include exposures that are themselves cash or synthetic ABS (i.e., no resecuritizations or CDOs);
- for any particular borrower, not backed by loans originated by that borrower or any of its affiliates.

TALF loans may be obtained by any U.S. persons that own eligible collateral. 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



Total Securitization is now accepting submissions from industry professionals for the Learning Curve® section. For details and guidelines on writing a Learning Curve®, please call **Olivia Thetgyi** at (212) 224-3273.

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.

Credit Enhancement Of TALF Loans Through TARP-Funded SPV

The **U.S. Treasury Department**, under the Troubled Asset Relief Program 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, the FRBNY will create a special purpose vehicle 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 purchasing 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 the EESA apply to the qualifying financial institution'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 qualifying financial institution 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.

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.

Eric Adams

*This week's Learning Curve was written by **Eric Adams** and **Hays Ellisen**, co-chairs of **Katten Muchin Rosenman**'s TARP Task Force.*

Hays Ellisen