



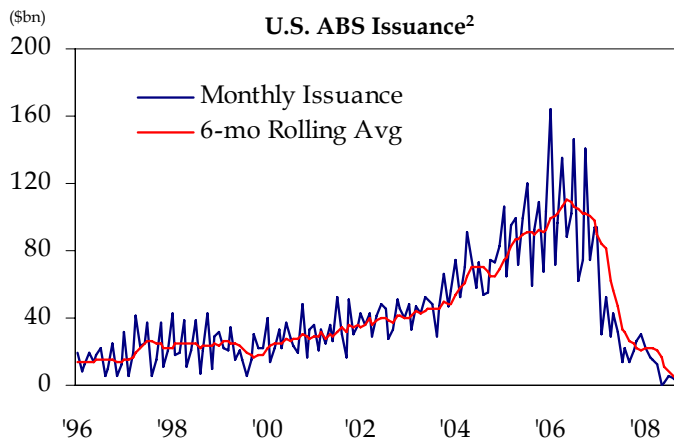
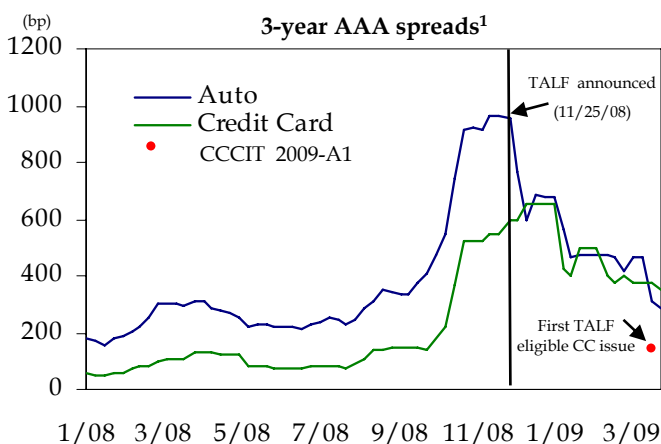
## Term Asset-Backed Securities Loan Facility ("TALF") Public-Private Investment Partnership ("PPIP")

### TALF

- ▶ The NY Fed will make up to \$200 billion of loans available for certain AAA-rated Asset-Backed Securities (ABS) sectors:
  - ▶ Eligible sectors include SBAs, Auto, Credit Card, Equipment, Floorplan, and Servicing ABS
  - ▶ Expected to grow to \$1 trillion upon the planned inclusion of additional asset classes (non-agencies and CMBS)
- ▶ Loans can be fixed or floating, are offered once a month, have maturities of up to three years, and are devoid of margin calls
- ▶ Loans are secured by the pledged ABS securities and are non-recourse
- ▶ TALF designed to incentivize:
  - ▶ Issuers to offer, underwrite, and securitize new consumer loans at economically viable funding levels
  - ▶ Investors to purchase newly issued AAA-rated ABS at attractive spreads and guaranteed financing terms
- ▶ TALF will cease making loans on 12/31/09 unless the program is extended by the Federal Reserve

### Going Forward

- ▶ Many expect significantly tighter spreads on new issue ABS as high ROE% should attract non-traditional leveraged buyers
- ▶ ABS new issuance supply, which had ground to a halt in the Fall of 2008, should resume to more normal levels
- ▶ Auto issuers are likely to be the most active under TALF, due to short average lives and lack of alternative financing options



### PPIP

- ▶ Two main facets of the Partnership:
  - ▶ Legacy Loan program is designed to relieve commercial banks of bad loans through an auction process which incentivizes participation from private investment funds with up to 6:1 leverage through FDIC guaranteed debt
  - ▶ Legacy Securities program is designed to incentivize private investment capital to purchase AAA-rated CMBS and originally rated AAA non-agencies through matching Treasury equity and an additional 50-100% debt leverage at the fund level
    - ▶ Treasury will choose the managers to run these funds by May 15<sup>th</sup> via a stringent application screening process
    - ▶ Pre-screened managers are expected to raise approximately \$500 million in private equity capital:
      - ▶ Managers ideally have at least \$10 billion in market value of CMBS and non-agencies
      - ▶ Managers must be headquartered in the United States and have track-record of raising capital
      - ▶ All funds are locked up for a minimum of three years and a maximum of ten years
    - ▶ Manager can add additional leverage at the security level via TALF (TALF loans are senior to all other financing)
    - ▶ EESA (Emergency Economic Stabilization Act) requires that the Treasury issue warrants in conjunction with their equity investment such that any future proceeds received by the fund be consistent with the interests of taxpayers

### Going Forward

- ▶ Skeptics of the Legacy Loan program believe that banks may be resistant to sell loans at distressed prices because it would require them to realize losses on the sales which could jeopardize their solvency ratios
- ▶ The securities program has been well-received and two large managers have already announced their intent to apply
- ▶ Creating substantial demand for CMBS and senior non-agencies would reduce illiquidity and decrease transaction costs - two important factors in stabilizing these markets and determining "real" fundamental value

<sup>1</sup>Barclays Capital as of 3/31/09; <sup>2</sup>Bloomberg Monthly ABS issuance 6/30/96-3/31/09  
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