

Client Alert

Economic Crisis Response Group

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Term Asset-Backed Securities Loan Facility: Recent Developments

This Client Alert focuses on recent announcements and updates involving the Term Asset-Backed Securities Loan Facility (“TALF”) as of March 20, 2009.

For prior TALF client alerts please see:

[Federal Reserve Modifies TALF Terms; Extends Subscription Deadline
\(March 18, 2009\)](#)

[Further TALF Clarification \(March 11, 2009\)](#)

[Further TALF Developments \(March 4, 2009\)](#)

[Fed Unveils New TALF Proposals to Jumpstart Securitization \(February 13, 2009\)](#)

[New York Fed Releases Initial Results of First Round of TALF Loan Requests](#). On March 19, 2009, the Federal Reserve Bank of New York (“New York Fed”) released the results of the first round of loan requests from the TALF funding operation conducted from March 17 through March 19. Investors subscribed for loans in the aggregate amount of \$4.7 billion, \$2.8 billion of which were backed by credit card ABS and \$1.9 billion of which were backed by auto loans.

At least four issuers participated in the March funding. Nissan, Ford and Huntington National Bank issued securities backed by auto loans and Citigroup issued securities backed by credit card receivables.

Funds for the loans will be disbursed on March 25. Subscriptions for the April funding must be submitted by April 7, with an expected settlement date of April 14. The New York Fed is expected to release additional details with respect to the April funding on March 24.

Interest rates applicable to loans issued during the March TALF funding are set forth in the table below:

Sector	Subsector	Fixed	Floating
Auto		2.733	1.523
Credit Card		2.733	1.523
Student Loan	Private	NA	1.523
Student Loan	Gov't guaranteed	NA	1.023
Small Business	SBA loans 7(a)	NA	1.000
Small Business	SBA loans 504	2.233	NA

The administrative fee for TALF loans is 5 basis points. The New York Fed will post the interest rates payable on TALF loans on each new subscription date.

Four ABS Categories Are Added to Eligible Collateral. On March 19, 2009, the Federal Reserve Board announced four additional categories of asset-backed securities (ABS) that will be eligible for loans under the TALF:

1. ABS backed by mortgage servicing advances;
2. ABS backed by loans or leases relating to business equipment;
3. ABS backed by leases of vehicle fleets; and
4. ABS backed by floorplan loans.

Mortgage servicing advances are loans extended by residential mortgage servicers to cover payments missed by homeowners. The availability of TALF funding for these advances is intended to improve mortgage servicers' ability to work with homeowners to prevent avoidable foreclosures.

These four additional categories of collateral will be eligible for the April TALF funding.

Updated TALF FAQs Released. Concurrently with its announcement regarding the additions to TALF eligible collateral, the New York Fed released revised [terms and conditions](#) and updated [frequently-asked-questions \("FAQs"\)](#).

- *Auto Loans:* Eligible auto loans now include retail loans and leases relating to cars, light trucks, motorcycles and other recreational vehicles, and commercial, government and rental fleet leases. The origination date of underlying credit exposures of an auto loan ABS issued by a non-revolving trust is on or after October 1, 2007. Eligible auto ABS issued by a revolving trust must be issued to refinance existing auto ABS

maturing in 2009 and must be issued in amounts no greater than the amount of maturing ABS. A revolving trust may also issue eligible ABS in which all or substantially all of the underlying exposures were originated on or after January 1, 2009.

- *Credit Card Receivables:* Eligible credit card receivables include consumer and corporate credit card receivables. Credit card ABS issued by a revolving trust must be issued to refinance existing credit card ABS maturing in 2009 and must be issued in amounts no greater than the amount of the maturing ABS.
- *Student Loans:* Eligible student loans include federally guaranteed and private student loans (including consolidation loans), the first disbursement date of substantially all of which must have been on or after May 1, 2007.
- *Equipment Loans:* Eligible equipment loans include retail loans and leases relating to business equipment and originated on or after October 1, 2007.
- *Floorplan Loans:* Floorplan loans will include revolving lines of credit to finance dealer inventories. Eligible floorplan ABS issued by a revolving trust must be issued to refinance existing floorplan ABS maturing in 2009 and must be issued in amounts no greater than the amount of the maturing ABS. Eligible floorplan ABS may also be issued out of an existing or newly established master trust in which all or substantially all of the underlying exposures were originated on or after January 1, 2009.
- *Small Business Loans:* Small business loans include loans, debentures or pools originated under the SBA's 7(a) and 504 programs, provided they are fully guaranteed as to principal and interest by the U.S. government. SBA Pool Certificates and Development Company Participation Certificates must have been issued on or after January 1, 2008. SBA-guaranteed credit exposures underlying all other eligible small business ABS must also have been originated on or after January 1, 2008. (SBA 7(a) loans are issued to small businesses and are guaranteed by the Small Business Administration subject to a maximum of 90% of the loan amount. SBA 504 loans are issued to finance community development projects and are secured by a debenture posted by the SBA.)
- *Service Advance Receivables:* Eligible servicing advance receivables will include receivables created by principal and interest, tax and insurance, and corporate advances made by residential mortgage servicers approved by Fannie Mae or Freddie Mac under pooling and servicing agreements. Mortgage servicer advances must have been originated on or after January 1, 2007. Servicing advance receivables for commercial real estate are not included in eligible collateral. The New York Fed is expected to release additional guidance with respect to any assurances required from a sponsor's accounting firm.

- *ABS Cut-Off Dates Unchanged.* Notwithstanding the additional categories of eligible ABS, the cut-off date for ABS issuance remains unchanged (on or after January 1, 2009, except for SBA Pool Certificates or Development Company Participation Certificates.)

The updated terms and conditions and FAQs also contained the following revisions unrelated to the additional categories of ABS collateral:

- *Expected Life Replaces Average Life.* For haircut purposes, expected life replaces average life.
- *Notice Period for Primary Dealers.* If a borrower is deemed ineligible and the primary dealer wants to replace the borrower and draw from the TALF, the primary dealer must notify the New York Fed of its intent to borrow within two hours of receiving notification regarding the borrower's ineligibility.

TALF May Be Further Expanded to Cover Distressed Assets. We understand the Treasury is considering further expansion of the TALF facility to include the purchase of distressed "legacy" assets in an effort to purge them from bank balance sheets. This expansion, if implemented, would mark the most significant change to the eligibility criteria of ABS collateral to date. Currently, the TALF is available only for AAA-rated ABS issued on or after January 1, 2009.

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This publication is a service to our clients and friends. It is designed only to give general information on the developments actually covered. It is not intended to be a comprehensive summary of recent developments in the law, treat exhaustively the subjects covered, provide legal advice, or render a legal opinion.

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