

TALF PROGRAM NEARS LAUNCH

March 3, 2009

To Our Clients and Friends:

Investors who want to take advantage of the Term Asset-Backed Securities Loan Facility (“TALF”) have only two weeks to submit their applications to receive the first loans, planned for disbursement on March 25, 2009. Under the TALF program, an original component of the TARP legislation, the Federal Reserve will lend \$200 billion on a non-recourse basis to purchasers of eligible AAA-rated asset-backed securities. The program presents a significant opportunity for investment funds to make highly leveraged investments (up to 95% of purchase price) in a narrow class of securities with cheap and ample credit.

PROGRAM BACKGROUND

The outlines of the TALF program, first sketched out on November 25, 2008, have evolved, like all matters relating to fixing our fiscal crisis. Under the original program, the Federal Reserve was to lend money to investors to purchase AAA-rated securities backed by assets consisting of auto loans, student loans, credit card loans or small business loans. More recently, the Federal Reserve announced a possible expansion of TALF to \$1 trillion from its original \$200 billion and the inclusion of additional TALF-eligible securities asset classes.

The Federal Reserve announced today that the first round of TALF lending would be limited to \$200 billion and would apply only to the original securities categories. However, it noted that new rounds of loans will be made monthly, and the Federal Reserve anticipates including securities backed by vehicle fleet leases and equipment loans and leases in the future, as well as potentially those backed by certain residential mortgages and mortgage-servicer advances.

ELIGIBLE BORROWERS

Eligible TALF borrowers must be U.S. entities. Entities owned or controlled by foreign governments are prohibited from being TALF borrowers, as are off-shore funds (though off-shore funds may establish eligible United States entities, provided they are managed by U.S.-based investment managers).

While the Federal Reserve has indicated that it may fund all eligible loans, it has reserved the right to deny loan requests at its discretion and is developing procedures to identify high-risk securities.

LOAN TERMS

Start Date	March 25, 2009, and monthly thereafter through the remainder of 2009.
Term	The loans will have three-year terms.
Interest	Variable, depending on nature of asset-backed security serving as collateral. With certain exceptions for small business loans, ranging from a floating rate of one-month LIBOR plus 50 basis points to one-month LIBOR plus 100 basis points for floating rate securities and, for fixed rate securities, three-year LIBOR swap rate plus 100 basis points.
Administration Fees	A one-time administration fee equal to five basis points on the loan amount.
Debt to Value Ratios	Depending on the term and type of security serving as collateral, the loans may range from 84% to 95% of the purchase price of the collateral (or market price if the collateral is already owned).
Non-Recourse	The loans are non-recourse to the borrowers, and borrowers at any time may surrender the collateral backing the loan without further liability.

ELIGIBLE COLLATERAL

TALF loans will only be available to purchase securities made to U.S. borrowers, originated, depending on the type of security, no earlier than 2007, and having, at the time of purchase, a AAA rating. These securities may not be backed by loans originated or securitized by the TALF borrower itself. Confirmation of the eligibility of TALF securities is made by the financial institutions packaging such securities, not the borrower, through a certification; in addition, an auditor must provide an attestation to the Federal Reserve confirming the eligibility of the underlying obligations.

CONCLUSION

The TALF program, after several months of delay, is now poised to launch. Significant questions remain, however, regarding whether financial institutions will package a significant supply of TALF-eligible securities, if AAA ratings will be available and how the market will

price such securities. In addition, though the Federal Reserve has announced a proposed expansion of the TALF program, it remains to be seen exactly how and when the expansion will occur. A final hurdle for potential borrowers is the potential mismatch between the maturity of the TALF loans and the securities serving as collateral, possibly forcing borrowers to sell the securities if suitable refinancing for the TALF loans is not available.

If you have any questions or would like further information, please feel free to contact us or the Debevoise lawyer whom you normally consult.

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