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Clients&Friends Alert

Federal Reserve Announces Details on the Expansion of TALF to Cover New-Issue CMBS

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This afternoon the Federal Reserve released details on its much anticipated expansion of its Term Asset-Backed Securities Loan Facility (TALF) to cover commercial mortgage-backed securities (CMBS). Commencing in June 2009, investors will be able to borrow from TALF for a term of 3 or 5 years. A three-year TALF loan will bear interest at 100 basis points over the 3-year Libor swap rate; a five-year TALF loan is expected to bear interest at 100 basis points over the 5-year LIBOR swap rate. The collateral haircut for each CMBS with an average life of 5 years or less will be 15%. CMBS with longer average lives will have higher haircuts (up to 20% for average life of 10 years).

Additional highlights include:

- Underlying loans must have been originated on or after July 1, 2008.
- Eligible CMBS must have been issued on or after January 1, 2009.
- Eligible CMBS must be rated AAA. Information on which rating agencies are eligible to rate TALF CMBS and how many ratings are required will be published shortly.
- Eligible CMBS must have an average life of less than 10 years.
- Eligible CMBS must pay interest at a fixed rate or a rate that is based on the weighted average rate of the underlying loans.
- Eligible CMBS must pay principal and interest (principal-only and interest-only CMBS are excluded).
- Underlying loans must pay interest at a fixed rate.
- Underlying loans may not provide for interest-only period during any part of its remaining term.

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- Underlying mortgage loans are expected to be a diverse pool, but non-diversified collateral (i.e., single-asset or single-borrower CMBS) will be considered on a case-by-case basis.

- 5-year TALF loans will have a "turbo" feature, requiring a disproportionate amortization of the TALF loan by application of certain CMBS interest proceeds to amortize TALF borrowings.

- New York Fed will employ a collateral monitor and will reserve the right to review collateral pools and remove loans from the pool.

- New York Fed will retain the right to reject any CMBS as TALF loan collateral based on its risk assessment.

Cadwalader is preparing a Clients & Friends memo, to be distributed shortly, that will provide more detail on this important industry development.

The terms and conditions and FAQ's released by the Federal Reserve can be viewed online as follows:

Terms and Conditions: http://www.newyorkfed.org/markets/talf_cmbs_terms.html

FAQ's: http://www.newyorkfed.org/markets/talf_cmbs_faq.html

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Please feel free to contact any of the following if you have any questions about this memorandum.

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