

To: MetWest Clients & Constituents  
From: Tad Rivelle  
Date: April 1, 2009  
Re: TALF Executive Summary

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The Term Asset-Backed Securities Loan Facility (TALF) program is one of a number of continuing governmental initiatives whose purpose is to enhance the flow of credit through the capital markets. The TALF program is structured such that private investors are called on to place a "down payment" (generally in the 5-16% range) on the purchase of some notional amount of a 2009 originated asset-backed security. The Fed, in turn, will lend monies to the investor on a non-recourse basis to facilitate the purchase of the remaining notional value of the security. The Fed has indicated that the loan terms will be up to three years and at a rate of between LIBOR + 50 bps and LIBOR + 100 bps.

The financial proposition for the investor, then, is to purchase say \$100 million in some AAA ABS with an initial "deposit" of perhaps \$10 million and the balance financed via a loan from the Fed. The AAA ABS will be drawn from the asset categories of securitized auto loans (including motorcycle and recreational vehicles, and government and commercial fleets), student loans, credit card receivables, equipment loans, assorted floor plan financings, small business loans and mortgage servicing advances. Various tranches of RMBS and CMBS are being contemplated and may be included as the spectrum of eligible assets expands. As such, the investor earns the spread between the yield on the AAA asset (say LIBOR + 250 bps) and the cost of the loan (say LIBOR +50). Thus, an investor purchasing a \$100 million position earning a spread of 2% receives \$2 million in interest above and beyond that of the Fed loan. Importantly, since the investor has only put up \$10 million of capital, the \$2 million he earns annually equates to a 20% cash on cash return.

In effect, the Fed is attempting to provide compelling economic motivation for investors to participate in the new issue market for the aforementioned ABS asset types. In turn, the presumed expectation is that issuers will find a ready market for the kinds of consumer loans that financial institutions might choose to underwrite. In this way, the financial system need not rely on the use of the precious resource of balance sheet in order to restart the flow of new loans; rather, the financial system will rely upon private capital enhanced by asset based loans secured directly from the Fed.

Importantly, since the financing is done on a non-recourse basis and is termed to the life of the asset, the investor need not be concerned that marking to market volatility might cause him to face margin calls or indeed be vulnerable to any mechanism that might compromise his ability to hold the position throughout the life of the asset. Since the loans are non-recourse, the only capital that the borrower/investor places at risk is his initial "deposit", i.e. his equity in the position.

In constructing a program that is so investor friendly, we can only surmise that the Fed hopes to witness a compression in the spread of ABS and therefore a concomitant decrease in the cost of loans to consumers. Indeed, if the program demonstrates that it is successful, we would expect that the range of asset classes and perhaps permissible range within the capital structure will be expanded. As it stands, some \$200 billion has been "allocated" to the program with an understanding that the program may grow to as large as \$1 trillion. Hence, we would expect this program to be with us for a considerable period while maintaining excellent incentives for the investor to participate.

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