

Term Asset-Backed Securities Loan Facility

Effective ~~April 9~~ May 12, 2020¹

Facility: The TALF is a credit facility authorized under section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and businesses by facilitating the issuance of asset-backed securities (“ABS”) and improving the market conditions for ABS more generally. The TALF will serve as a funding backstop to facilitate the issuance of eligible ABS on or after March 23, 2020.

Under the TALF, the Federal Reserve Bank of New York (“Reserve Bank”) will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis. The Department of the Treasury ~~will make an equity investment, using funds appropriated to the Exchange Stabilization Fund under section 4027 of \$10 billion in the SPV, as described below~~ Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), will make an equity investment of \$10 billion in the SPV.

The TALF SPV initially will make up to \$100 billion of loans available. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS.

Eligible Borrowers: ~~All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. For the purpose of this document, a U.S. company is defined as a business that is~~ Eligible borrowers include businesses that (a) are created or organized in the United States or under the laws of the United States ~~and that has,~~ (b) have significant operations in and a majority of ~~its~~ their employees based in the United States, and (c) maintain an account relationship with a primary dealer.

Eligible Collateral: Eligible collateral includes U.S. dollar denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or, ~~in the case of non-mortgage backed ABS if no long-term rating is available,~~ the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (“NRSROs”) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. ~~All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company, and the issuer of eligible collateral must be a U.S. company.~~ With the exception of commercial mortgage-backed securities (“CMBS”), SBA Pool Certificates, and Development Company Participation Certificates, eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. ~~For CMBS, SBA Pool Certificates or Development Company Participation Certificates must be issued on or after January 1, 2019.~~

To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued, except for CMBS.

All or substantially all of the underlying credit exposures must be underlying the eligible ABS must (1) for newly issued ABS, except for collateralized loan obligations (CLOs), be originated by U.S.-organized entities (including U.S. branches or agencies of foreign banks), (2) for CLOs, have a lead or a co-lead arranger that is a U.S.-organized entity (including a U.S. branch or agency of a foreign bank), and (3) for all ABS (including CLOs and CMBS), be to U.S.-domiciled obligors or with respect to real property located in the United States or one of its territories.

Eligible collateral must be ABS where the underlying credit exposures are one of the following:

- 1) Auto loans and leases;
- 2) Student loans;
- 3) Credit card receivables (both consumer and corporate);
- 4) Equipment loans and leases;
- 5) Floorplan loans;
- 6) ~~Insurance premium~~ Premium finance loans for property and casualty insurance;
- 7) Certain small business loans that are guaranteed by the Small Business Administration;

¹ The Board of Governors of the Federal Reserve System (“Board”) and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board’s website.

- 8) Leveraged loans; or
- 9) Commercial mortgages.²

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.

~~To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued, except for legacy CMBS.~~

The feasibility of adding other asset classes to the facility or expanding the scope of existing asset classes will be considered in the future.

Conflicts of interest: Eligible borrowers ~~and issuers of eligible collateral~~ will be subject to the conflicts of interest requirements of section 4019 of the CARES Act.

Restriction on single-asset single-borrower CMBS (“SASB” ~~CMBS~~) and commercial real estate collateralized loan obligations CLOs (“CRE CLOs”): SASB CMBS and CRE CLOs will not be eligible collateral.

Restrictions on CLO loan substitution: Only static CLOs will be eligible collateral.

Collateral Valuation: Haircut schedule is below. The haircut schedule is consistent with the haircut scheduled used for the TALF established in 2008.

Pricing: For CLOs, the interest rate will be 150 basis points over the 30-day average secured overnight financing rate (“SOFR”). For SBA Pool Certificates (7(a) loans), the interest rate will be the top of the federal funds target range plus 75 basis points. For SBA Development Company Participation Certificates (504 loans), the interest rate will be 75 basis points over the 3-year fed funds overnight index swap (“OIS”) rate.

For all other eligible ABS ~~with underlying credit exposures that do not have a government guarantee~~, the interest rate will be 125 basis points over the 2-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the 3-year OIS rate for securities with a weighted average life of two years or greater. ~~The pricing for other eligible ABS will be set forth in the detailed terms and conditions.~~

Fees: The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

Maturity: Each loan provided under this facility will have a maturity of three years.

~~**Investment by the Department of the Treasury:** The Department of the Treasury, using the Exchange Stabilization Fund, will make an equity investment of \$10 billion in the SPV.~~

Non-Recourse: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.

Prepayment: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.

Program Termination: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Board of Governors of the Federal Reserve System and the Department of the Treasury.

~~**Other Terms and Conditions:** More detailed terms and conditions will be provided at a later date, primarily based off of the terms and conditions used for the 2008 TALF. In addition, the Federal Reserve reserves the right to review and make adjustments to these terms and conditions — including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements — consistent with the policy objectives of the TALF.~~

² ~~The detailed terms and conditions will further define the eligible underlying credit exposures for purposes of the TALF. The definitions are expected to be broadly consistent with the defined terms used for purposes of the TALF established in 2008.~~

Haircut Schedule:

| Sector | Subsector | ABS Average Life (years)* | | | | | | |
|----------------------|--|---------------------------|------|------|------|------|------|------|
| | | 0-<1 | 1-<2 | 2-<3 | 3-<4 | 4-<5 | 5-<6 | 6-<7 |
| Auto | Prime retail lease | 10% | 11% | 12% | 13% | 14% | | |
| Auto | Prime retail loan | 6% | 7% | 8% | 9% | 10% | | |
| Auto | Subprime retail loan | 9% | 10% | 11% | 12% | 13% | | |
| Auto | Motorcycle/ other recreational vehicles | 7% | 8% | 9% | 10% | 11% | | |
| Auto | Commercial and government fleets | 9% | 10% | 11% | 12% | 13% | | |
| Auto | Rental fleets | 12% | 13% | 14% | 15% | 16% | | |
| Credit Card | Prime | 5% | 5% | 6% | 7% | 8% | | |
| Credit Card | Subprime | 6% | 7% | 8% | 9% | 10% | | |
| Equipment | Loans and Leases | 5% | 6% | 7% | 8% | 9% | | |
| Floorplan | Auto | 12% | 13% | 14% | 15% | 16% | | |
| Floorplan | Non-Auto | 11% | 12% | 13% | 14% | 15% | | |
| Premium Finance | Property and casualty | 5% | 6% | 7% | 8% | 9% | | |
| Small Business | SBA Loans | 5% | 5% | 5% | 5% | 5% | 6% | 6% |
| Student Loan | Private | 8% | 9% | 10% | 11% | 12% | 13% | 14% |
| Leveraged Loans | Static | 20% | 20% | 20% | 20% | 20% | 21% | 22% |
| Commercial Mortgages | Legacy, Conduit | 15% | 15% | 15% | 15% | 15% | 16% | 17% |

* For auto, credit card, equipment, floorplan, and premium finance ABS, the weighted average life must be five years or less. For other new-issue eligible collateral, haircuts will increase by one percentage point for each additional year (or portion thereof) of average life beyond five years. For legacy CMBS with average lives beyond five years, base dollar haircuts will increase by one percentage point of par for each additional year (or portion thereof) of average life beyond five years. No securitization may have an average life beyond ten years.